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Spatial Economics Research Centre

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Local mortgage schemes and affordability

Interesting piece from the Guardian talking about [local mortgage schemes to address affordable housing problems](#). The article highlight the Manchester scheme which "will underwrite up to 20% of the mortgage [for first time buyers]. The process allows the buyer to obtain a 95% mortgage on similar terms to a 75% mortgage – but without the need to provide the substantial deposit usually required."

A crucial question, of course, is whether such schemes help with affordability. If the problem is that there are lots of empty homes in desirable parts of city but no mortgage finance available, then such a scheme should help. Unfortunately, it's not apparent that this is often the case - as the article points out house prices are high relative to incomes for many parts of Manchester and housing is in short supply in many areas. This suggests that a big part of the problem is on the supply side of the market. If that's the case, then these kind of demand side measures will only truly help with affordability to the extent that they generate a supply response. In the absence of a supply response, [demand side measures simply increase house prices further](#) tend to exacerbate problems of affordability (for those not lucky enough to be covered by the scheme)

[Disclosure: I contributed to the Manchester Independent Economic Review and sit on the Manchester Economic Advisory Panel]

Posted by [Prof Henry G. Overman](#) on [Thursday, April 05, 2012](#)

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