More mortgages, less housing? On the paradoxical effects of housing financialization on housing supply and residential capital formation

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Abstract

This paper argues that the explosion of mortgage finance has not led to a proportional extension of housing supply across most of OECD countries in historical perspective. Based on a unique collection of long-run data of housing construction and residential investment across most OECD countries, it shows that the co-cyclical behavior of construction, prices and mortgage credit has been replaced since the 1980s by a decoupling of house-price-mortgage spirals from the underlying stagnating or declining construction. Mortgages have a hyperbolic effect on construction: positive until a threshold, negative thereafter. The paper argues that local anti-growth coalitions, budget austerity and concerns about bursting house price bubbles have impeded new construction from taking off. Private mortgage markets have thus been a less reliable policy alternative to traditional state-led housing construction policies.

Keywords: financialization, housing, construction, capital formation