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British Property Federation's response to Combined Autumn Statement and Spending Review

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Significant funding for housebuilding has been announced in the Spending Review. Ian Fletcher considers the impact this might have on the mortgage market, and the potential risks involved.

Much of the focus on the government's house building plans has been on the how and where the new homes, that are mainly for sale, will be built. With a focus on home-ownership, however, there is another side to this expansion that has not really been talked about much the growth in the mortgage market to service such home owners.

Delivery of 400,000 additional homes for sale over five years, at an average house price of £200,000, will require the mortgage market to expand rapidly – somewhere between £10bn and £20bn of additional debt a year, which is almost unprecedented. Much of that debt will be at higher risk end of the spectrum, lent to people who by definition have limited credit history and, in most cases, no history of servicing a mortgage at all.

It is possible to suggest that the risks of such lending can be mitigated. The 20% discount on Starter Homes will provide some cushion against negative equity, although most of that would be wiped out by a fall in house prices similar to 2008, when even in London prices were 20% down (one good reason for ensuring that the valuation of discounts on these homes is accurate). Government could argue that that Help to Buy will take some of the strain in the event of falling house prices, through the government guaranteeing part of the debt, but the implication there is that we taxpayers will take that risk. The Bank of England is also watching mortgage application criteria these days, which is a lot tougher than pre-crash.

Risks in mortgage market are undoubtedly at the forefront of the Bank of England's mind these days. It is vocal and takes action where it sees undue risks building up in the lending market. Just this week, for example, its Chief Economist has been expressing concerns about the buy-to-let market and general household debt. How will the Bank view this significant year-on-year expansion of the mortgage market to first time-buyers? Surprisingly, we don't really know. The Governor of the Bank of England has expressed a need to expand housebuilding and so may support the end, if not the means.

Of course, a less risky and more sustainable way to expand the housing market, whilst not taking on some of these risks of debt, would be to deliver at least some of this housing expansion as new homes for rent.