

Will Osborne's tax changes burst the housing bubble?

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One of Nigel Lawson's great mistakes was the timing of the abolition of what was called Mortgage Interest Relief at Source for multiple owners of one property in, as I recall it, 1988. Lawson's plan was economically logical. It even had a supposed moral compass to it: it prevented an iniquity suffered by married couples compared to those who were cohabiting. But it had an unintended consequence. There was a massive rush by younger people to buy one and two bedded properties on which they might get relief for a little longer, with prices rising so rapidly that many believed that if they did not buy immediately they never would.

By 1989 the bubble was over. As the [Nationwide house price index shows](#), prices fell from 1989 and did not fully recover until 1998. The withdrawal of MIRAS relief did not create the recession of that era, but sure as heck helped create the housing bubble that burst during its course.

Lawson was right to get rid of mortgage interest relief. There is no doubt about that. But there is also little doubt that the timing was, at best, unfortunate.

I do wonder whether George Osborne might have made mistakes of not dissimilar style in recent changes to tax on let property. There are several of these.

At the top end of the market changes to stamp duty, holding property in offshore companies and rules to make sure capital gains tax are all in themselves welcome and to be applauded.

Likewise increasing the stamp duty rate on buy to let property from April this year to dampen speculative activity makes sense.

And reducing tax relief on interest paid on buy to let property loans to the basic rate of income tax also makes a lot of sense: there is an iniquity that owner buyers get no such relief.

So each measure is welcome. It's just the timing. The buy-to-let market was already

overheated. And now there is feverish activity to close deals before the new stamp duty deadline comes in. Will that be a market peak? The Nationwide data suggests it might be. That current peak looks unstable to me.

And will the interest deduction rules then give rise to an off loading of property? They might.

And there is at the very least a recessionary environment in the UK right now. In which case these tax law changes, right as they are, look like they will go down as a contributory factor if the housing bubble bursts.

One to watch.