The Institutional-Behavioural Lock-in Theory of Housing Supply Failure: A Comprehensive Framework for Affordable Housing Policy

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Abstract:

Despite decades of policy intervention, affordable housing crises persist across emerging economies, exposing a critical gap in understanding the behavioural drivers of market volatility. The central research dilemma is why conventional economic models, focused on supply-and-demand fundamentals, consistently fail to predict or prevent cyclical housing bubbles and liquidity crunches. This paper addresses this puzzle by introducing the Institutional-Behavioural Lock-in Theory of Housing Supply Failure, a framework that synthesises prospect theory, loss aversion, leverage dynamics, and liquidity constraints. Empirical validation draws from Kenya's Affordable Housing Agenda and comparative international cases. The model reveals a destructive four-phase cycle—overconfidence and herding during booms, transitioning via loss aversion to forced sales and liquidity crises in downturns—anchored on five core constructs and twelve testable propositions. Applicable under conditions of information asymmetry, weak regulation, and rapid urbanisation, the theory informs counter-cyclical loan-to-value ratios, financial literacy reforms, and behavioural expectation stabilisation. By bridging behavioural economics with housing market analysis, this framework advances both scholarly discourse and pragmatic policy, offering an integrated diagnostic-interventive-evaluative toolkit supported by evidence from Kenya, Hong Kong, the US, Germany, the Netherlands, and Taiwan, ultimately reorienting regulation toward root-cause mitigation. (188 Words)

Keywords:

Institutional-Behavioural Lock-in Theory, Housing Supply Failure, Affordable Housing, Loss Aversion, Over-Leverage, Liquidity, Prospect Theory, Housing Policy.

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