

The Coalition of Inflation, Bureaucracy, and Banking: A Critique of the Structural Mechanisms of Rising Housing Prices and the Undermining of Production in Iran



Amir Hossein Shirdel¹

Faezeh Asadpour^{2*}

1. Department of Architecture, Faculty of Architecture and Urban Planning, Shahid Beheshti University, Tehran, Iran

2. Department of Civil Engineering, University of Science and Technology of Mazandaran, Behshahr, Mazandaran, Iran

Abstract

Housing prices in Iranian metropolises, particularly Tehran, are not merely driven by conventional supply and demand variables; rather, they are the outcome of complex institutional mechanisms encompassing administrative bureaucracy and the allocation of resources and credit within the banking system. Employing a critical and analytical approach, this study investigates the drivers behind escalating construction costs at the nexus of licensing bottlenecks, heightened uncertainty, production expenses, and banking credit allocation patterns. A critical analysis of these prevailing mechanisms reveals that “housing inflation” and “production stagnation” are not two distinct phenomena, but rather the intertwined consequences of interacting economic and institutional mechanisms. The synergy of these mechanisms—by escalating production costs and risks, undermining the economic viability of productive activities, and reinforcing capital flight toward unproductive sectors—has reproduced spatial inequality and severely hindered access to affordable housing for middle- and lower-income classes. In fact, deficiencies in macro-level policymaking, while eroding housing capacities, have jeopardized the social sustainability of cities. From this perspective, critiquing the status quo requires transcending mere price-level analyses to concurrently examine the nexus among economic structures, institutional decision-making, and their physical-spatial ramifications—structures that impose exorbitant costs onto both the production sector and citizens. The perpetuation of this pattern impedes the realization of spatial justice, accentuating the urgent imperative for a fundamental reconsideration of the ties among the monetary system, urban management, and the private sector. Re-evaluating these economic-institutional interlinkages and their spatial outcomes can lay the groundwork for policy formulation aimed at reducing production costs, bolstering affordable housing, and transitioning toward an equitable paradigm in the urban residential and construction system.

Keywords: Affordable Housing, Bureaucracy, Inflation Generation, Banking System, Productive Economy, Spatial Justice.

The fundamental question of this study is: How do interconnected bureaucratic, financial, and speculative mechanisms impose an economic burden on producers and citizens by escalating housing production costs, risks, and uncertainties, and in what ways do the outcomes of these mechanisms reproduce inequality and weaken spatial justice?

Extended Abstract

Background and Objectives: The housing crisis in Iranian metropolises, particularly Tehran, is a chronic, structural phenomenon whose root causes cannot be explained by conventional supply-and-demand models. This study critically analyzes the nexus between institutional constraints, financing mechanisms, and physical-spatial ramifications to demonstrate how policy deficiencies drive up final construction costs and undermine productive output.

Methods and Conceptual Framework: Drawing upon the political economy of housing and institutional analysis, this study systematically examines three interconnected mechanisms: “bureaucratic friction and regulatory capture,” “the credit orientation of the banking system,” and “spatial inequality and segregation.”

Findings: The findings indicate that, first, the complexity and protracted nature of the permitting process—beyond amplifying uncertainty and transaction costs—transform building permits into a scarce, rent-seeking commodity, shifting capital-idle costs onto the final price of housing. Second, allocating a substantial share of bank facilities to asset-backed and land-centric activities reduces the economic viability of productive output, channeling capital toward speculative activities and escalating financing costs for genuine developers. Third, the spillover of these artificial costs into the market erodes housing affordability for low-income deciles, redirects construction toward luxury developments, and drives the involuntary displacement of disadvantaged populations to urban peripheries, ultimately cementing inequality within the urban fabric.

Conclusion and Policy Implications: Housing price inflation and construction stagnation are the twin outcomes of a unified mechanism governing the asymmetric distribution of costs and risks among market actors. Overcoming this impasse necessitates an integrated policy package encompassing administrative reforms (single-window systems and binding permit timelines), the realignment of bank credit toward productive housing, and targeted regulatory taxation on stagnant land and assets. Reclaiming spatial justice fundamentally relies on redefining housing from an “investment asset” to the “right to housing” and safeguarding urban social sustainability.

Iran's housing challenge extends beyond supply-and-demand fluctuations, stemming from institutional links between administrative procedures and banking credit allocation. Regulatory frictions and credit allocation to land-centric activities create an asymmetric distribution of costs and risks among market actors. By escalating production costs and restricting low-income access to affordable housing, this mechanism discourages productive output and deepens urban spatial inequality. Consequently, resolving this crisis requires streamlining licensing processes, directing bank credit toward housing production, and employing tax instruments to curb unproductive speculation in the land and housing market.

COPYRIGHTS

Copyright for this article is retained by the authors with publication rights granted to Journal of Critical Reviews (JCR); The Iranian Journal of Critical Studies in Place. This is an open access article distributed under the terms and conditions of the Creative Commons Attribution License (<https://creativecommons.org/version4/>)

