

# Spotlight **A Housing Market Divided**

January 2014

**Understanding What  
Drives House Prices  
at a Local Level**



## A HOUSING MARKET DIVIDED

### House Prices

The disparate nature of house prices across the different regions of England and Wales is illustrated in Table 1 below.

For example, it shows that in the lowest value wards of North East England, the average sale price of housing in the year to the end of June 2013 was marginally above £70,000, whilst in the most expensive markets of that region the average sale price was just below £250,000.

By contrast, the average sale price in the least expensive areas of London was just over £190,000 and in the highest value areas over £1.1m.

The disparity between the highest value housing markets of London and the rest of the country is huge. Even in the most expensive markets of the South East the average

sale price is 45% lower than the equivalent markets in the capital at around £650,000.

The gap between the most and next most expensive markets of London is similarly wide reflecting a prime London housing market where pricing is set by a different set of factors to the rest of the market.

What are the key factors that explain this? Size of housing, its type, the basis of occupation or the socio-economic profile of the inhabitants? How is this changing the way we occupy property?

Our key findings are summarised in the next section, followed by a more detailed analysis of key drivers.



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## METHODOLOGY

Within the document we have looked at the disparity between house prices in each of the regions of England and Wales and the reasons why those disparities exist having regard to:

- the size and type of housing;
- the basis upon which that housing is occupied; and
- the characteristics of the occupiers of that housing.

To do this, we have analysed house prices at a ward level, dividing each region into 10 equal sized groups by reference to the average sale price of housing sold in the year to the end of June 2013.

We have then aggregated Census data for the wards within each group, in order to build up a picture of their different characteristics.

TABLE 1

**House Prices:** Illustrating the disparate nature of house prices across the different regions of England and Wales

|                     | London    | South East | East    | South West | East Mids | West Mids | Wales   | North West | Y & H   | North East |
|---------------------|-----------|------------|---------|------------|-----------|-----------|---------|------------|---------|------------|
| 10% most expensive  | 1,184,807 | 649,832    | 493,377 | 415,680    | 323,472   | 351,322   | 264,607 | 318,610    | 330,776 | 249,577    |
| 20%                 | 612,079   | 447,226    | 344,657 | 329,143    | 244,475   | 266,376   | 207,349 | 228,216    | 249,286 | 185,872    |
| 30%                 | 477,014   | 375,061    | 292,424 | 289,410    | 207,476   | 236,143   | 184,601 | 193,880    | 212,804 | 153,571    |
| 40%                 | 403,208   | 327,937    | 256,180 | 261,658    | 182,106   | 206,929   | 166,800 | 168,370    | 185,916 | 140,032    |
| 50%                 | 356,093   | 289,691    | 237,346 | 238,651    | 165,961   | 179,858   | 148,422 | 148,843    | 162,668 | 124,655    |
| 60%                 | 316,530   | 257,837    | 215,109 | 213,756    | 148,905   | 161,971   | 140,168 | 133,111    | 143,030 | 116,607    |
| 70%                 | 277,315   | 232,390    | 194,317 | 194,973    | 138,894   | 145,260   | 126,269 | 120,784    | 129,212 | 109,881    |
| 80%                 | 246,804   | 210,168    | 174,125 | 180,634    | 126,620   | 131,330   | 115,020 | 105,801    | 113,165 | 98,643     |
| 90%                 | 223,736   | 185,451    | 157,062 | 165,357    | 113,481   | 112,407   | 98,148  | 93,527     | 101,675 | 87,958     |
| 10% least expensive | 191,244   | 148,697    | 130,069 | 140,613    | 94,798    | 96,280    | 74,363  | 73,688     | 81,873  | 70,050     |

Source: Savills Research

## SUMMARY OF KEY FINDINGS

■ Price differentials across the regional housing markets of England and Wales can partly be put down to the nature and size of housing stock in local markets. This is reflected in the relationship between the amount of detached and terraced housing stock in particular.

■ In the highest value housing markets of each region, detached housing makes up 39% of all housing, with the average house having 6.5 rooms. In the lowest value markets of each region, the figures fall to 9% detached housing and 5.0 rooms per property.

■ However, even accounting for these factors, there are big variations in prices between different tiers of the market in each region. Nowhere is this more evident than in London, where the relationship between house type, size and corresponding value is much less clear than elsewhere.

■ In London the average value in the most expensive markets equates to over £262,000 per room, whilst in the lowest value markets it is below £43,000 per room. By contrast, in the North East the highest value housing markets have an average house price equivalent to £39,000 per room, whilst the lower value markets average under £15,000 per room.

■ Cost per household member shows a similarly wide range, varying from £31,500 to £106,000 in the North East and £63,000 to £264,000 in the South East. In the most expensive parts of London the average cost per household member is over £560,000.

■ These differentials in the localised value of privately owned housing are driven by the relative attractiveness of an area to different socio-economic groups and those employed in high earning employment sectors.

■ These factors, together with the availability of social housing, can dictate the ability of lower earning families from lower socio-economic groups to live within different areas and the basis upon which they occupy housing when they do so.

■ In the most expensive markets of each region, 47% of workers are employed in managerial, professional and administrative functions, whilst in the lowest value housing markets 35% are employed in routine or semi routine jobs.

■ This is also reflected in the dominant sectors of employment. Those in professional, scientific & technical industries, information & communication sectors, education and financial & insurance services are all increasingly important in high value markets.

■ However, the dominance of financial and insurance service workers in the highest value markets of London, means that levels of those employed in education, in the capital peak, in mid-tier markets. A similar trend is seen by those in public administration across the other regions.

■ In the most expensive markets of London those in the professional, scientific & technical and financial & insurance services sector make up 34% of all those economically active, much more than in other high value areas across the country.

■ Generally, household composition does not change dramatically across different tiers of the market, though there are higher proportions of single person households and couples without children in higher value markets. In London this trend is much more pronounced.

■ This means, in more affluent markets there are higher numbers of rooms per household member. On the one hand, this means households are more able to meet their requirement for space, but on the other, it will reflect higher levels of under-occupation. Across London this much less evident, there being much less space per household member.

■ In the most expensive regional markets there are 2.8 rooms per household member, a figure which falls to 2.1 rooms per household member in the least expensive markets. Figures in London range from 2.1 rooms per household member to 1.7.

■ In most regions, higher value markets have higher levels of owner-occupation, whilst lower value markets have higher values of both social and private renting.

■ However, in London higher value markets have considerably higher levels of private renting. This reflects historically high levels of investor activity in these markets, the →



“Cost per household member shows a wide range varying from £31,500 to £106,000 in the North East and £63,000 to £264,000 in the South East”

Lucian Cook, Savills Residential Research



➔ presence of households for whom private renting is the tenure of choice and the prohibitive cost of home ownership for middle tier households.

■ In the most expensive markets across the regions, 39% of all housing is unmortgaged owner-occupied stock with just 10% of housing in the social rented sector.

■ By contrast, in the least expensive markets only 22% of all housing is held by owner-occupiers without a mortgage, whilst social housing makes up 27% of the housing stock.

■ Critically, the socio-demographic make-up in different tiers of each regional housing market impacts on the amount of housing equity attracted to different tiers.

■ This is reflected in the relationship between unmortgaged and mortgaged stock within the owner-occupied sector. Across all regional housing markets, higher value wards have much higher levels of mortgage free home ownership relative to mortgaged home ownership.

■ Across all of the regions there is 30% more unmortgaged owner-occupied stock than mortgaged owner-occupied stock, whilst in the lowest value markets there is 22% less.

■ The results indicate the highest proportionate levels of housing equity in South West England, where transaction levels in this market are highest relative to their pre-crunch norm. They also indicate lower proportionate but higher absolute levels of housing equity in London in all but the highest tier of the housing market.

■ Over the past 10 years the shift towards private renting and away from mortgaged owner-occupation has been greatest in the lowest value tiers of the market, where households have struggled to access home ownership on the one hand without any visible social housing provision on the other.

■ Levels of private renting doubled in the lowest tier of the regional markets, increasing by over 90% in the bottom 50% of ward groups in 10 years. Even in the most valuable regional markets it has risen by 40% in the period 2001 to 2011.

■ This tenure shifts, together with trends on transactions and changes in the average sale price in the period post-credit crunch indicate that the housing divide is widening.

■ In the bottom tier of the market across all of the regions, transaction levels remain 58% below the five years pre-crunch. In the lowest value segment, namely the lowest tier of the market of the North East, they have struggled to rise above one third of their pre-crunch level.

■ The average sale price in the most valuable wards of London has increased by some 65% since the run up to the credit crunch. At the other extreme, the average sale price in the lowest tier of the market of North East England is currently some 19% below its pre-downturn level.

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# PROPERTY TYPE & SIZE IMPLICATIONS

It will come as little surprise that the nature and size of housing stock contributes to its average value. As an average across the regions, more expensive areas have progressively higher proportions of detached housing stock. While there is variation in the proportion of flats and semi-detached housing in each group, this is typically at the expense of terraced housing which is increasingly prevalent in lower value markets.

In the most valuable housing markets of each region, detached housing takes up 39% of the housing stock on average. This is four times the proportion in the least expensive markets. By contrast, terraced housing accounts for 14% of housing stock in the most expensive markets but as much as 40% in the least expensive.

This pattern is fairly consistent across each of the regions though, for example, in the affluent South East, detached housing makes up more than half of the housing stock in the most valuable housing markets. In this region, flats and terraced housing make up two-thirds of the housing stock in the least valuable areas.

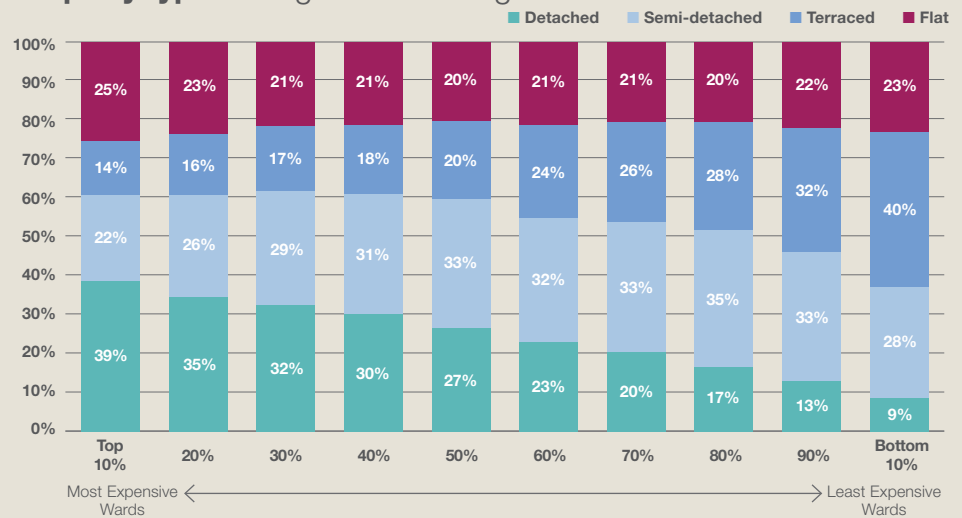
## London bucks the trend

The most valuable housing markets in London are dominated by flats, which become less prevalent in lower value markets where terraced housing becomes increasingly common.

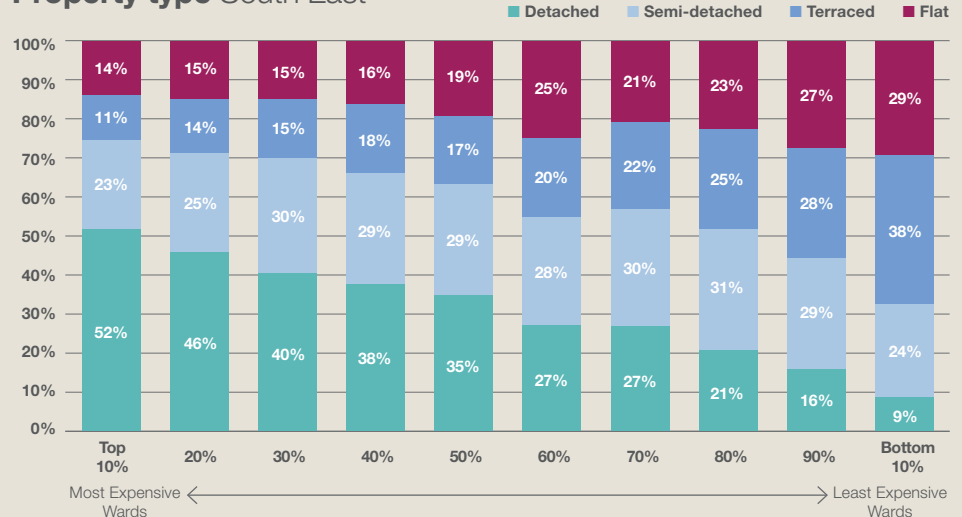
Taking the regions together, the average size of property (measured by the total number of rooms) falls as prices become less expensive. In the most valuable markets across the regions of England and Wales, on average there are over 6.5 rooms in each house, a figure which falls to below 5.0 rooms in the least expensive areas of each region on average.

Again London bucks the trend, with fewer rooms per property in each of the 10 price bands. This is particularly true in the most expensive areas which have the smallest number of beds of any of the tiers of any of the regions – an average around 4.5 rooms per dwelling. →

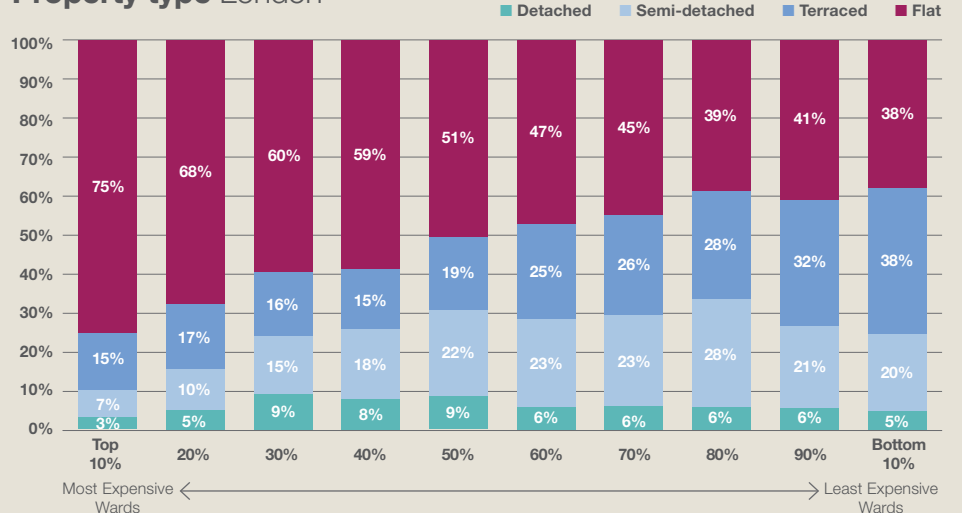
GRAPH 1 Property type Average across all regions



GRAPH 2 Property type South East



GRAPH 3 Property type London



All graphs, source: Savills Research

“The value per room is generally less accentuated than simple average house price” Sophie Chick, Savills Residential Research

→ This reflects a prime London market where value is heavily driven by location. Here, limited levels of large family housing that come at a high cost, underpins a flow of housing wealth to less expensive suburban and commuter markets which offer more space at a substantially lower cost.

These trends mean that the value per room is generally less accentuated than simple average house prices. However, a significant price gap still exists.

For example, the average price per room varies from £16,000 to £48,000 in Yorkshire & the Humber and from £30,000 to £94,000 in the South East. In London it varies from £42,000 to a staggering £262,000.

Cost per household member shows a similarly wide range varying from £31,500 to £106,000 in the North East and £63,000 to £264,000 in the South East.

In the most expensive parts of London the average cost per household member is over £560,000.



GRAPH 4 Average room numbers

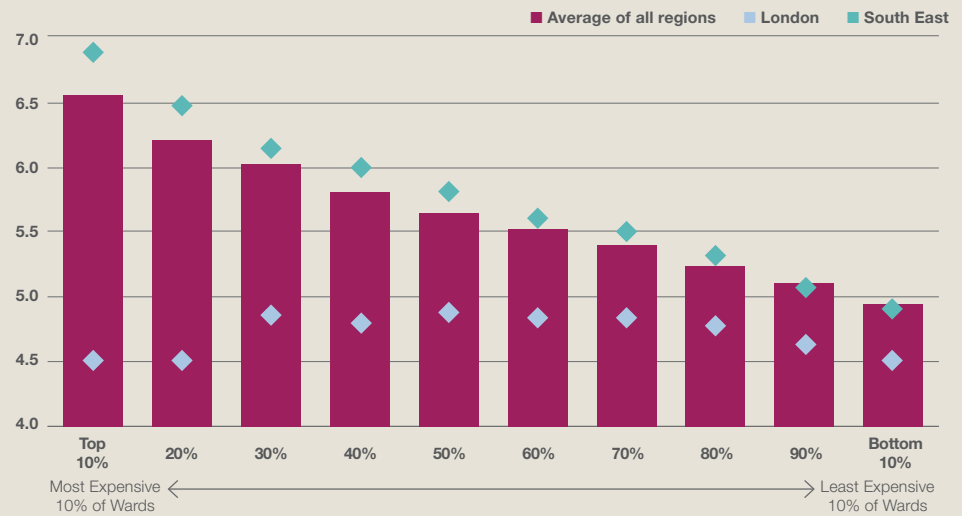


TABLE 2 Cost per room

|                     | London  | South East | East   | South West | East Mids | West Mids | Wales  | North West | Y & H  | North East |
|---------------------|---------|------------|--------|------------|-----------|-----------|--------|------------|--------|------------|
| 10% most expensive  | 262,642 | 94,782     | 75,415 | 62,765     | 47,141    | 51,283    | 39,947 | 48,519     | 48,863 | 38,927     |
| 20%                 | 135,869 | 68,797     | 54,905 | 51,688     | 37,887    | 41,101    | 32,572 | 36,546     | 40,010 | 31,247     |
| 30%                 | 99,572  | 60,357     | 47,661 | 46,495     | 33,027    | 37,688    | 29,802 | 32,465     | 35,858 | 27,678     |
| 40%                 | 84,815  | 54,382     | 42,392 | 42,915     | 30,159    | 34,234    | 27,874 | 29,271     | 32,500 | 25,603     |
| 50%                 | 73,232  | 49,677     | 40,775 | 40,894     | 27,885    | 31,383    | 25,550 | 26,316     | 29,391 | 23,170     |
| 60%                 | 65,575  | 46,333     | 37,811 | 38,017     | 26,016    | 28,945    | 24,833 | 24,821     | 26,219 | 22,121     |
| 70%                 | 57,300  | 42,284     | 35,079 | 35,092     | 25,269    | 26,411    | 22,751 | 22,878     | 24,550 | 21,405     |
| 80%                 | 51,218  | 39,459     | 31,859 | 33,457     | 23,710    | 24,837    | 21,144 | 20,602     | 22,039 | 19,717     |
| 90%                 | 48,388  | 36,373     | 29,169 | 31,339     | 22,042    | 22,058    | 18,408 | 18,542     | 19,873 | 17,581     |
| 10% least expensive | 42,249  | 30,123     | 25,775 | 27,816     | 18,751    | 19,287    | 14,154 | 14,880     | 16,567 | 14,345     |

TABLE 3 Cost per household member

|                     | London  | South East | East    | South West | East Mids | West Mids | Wales   | North West | Y & H   | North East |
|---------------------|---------|------------|---------|------------|-----------|-----------|---------|------------|---------|------------|
| 10% most expensive  | 560,382 | 264,072    | 199,919 | 179,763    | 136,054   | 147,056   | 114,032 | 137,561    | 140,208 | 106,268    |
| 20%                 | 280,096 | 184,487    | 143,825 | 144,289    | 103,512   | 113,156   | 89,270  | 98,496     | 108,578 | 80,915     |
| 30%                 | 201,777 | 155,536    | 122,493 | 125,061    | 87,888    | 99,933    | 80,182  | 83,476     | 92,442  | 67,020     |
| 40%                 | 166,135 | 136,221    | 107,772 | 113,350    | 77,105    | 88,513    | 72,236  | 72,968     | 80,547  | 62,160     |
| 50%                 | 142,526 | 122,277    | 100,223 | 104,793    | 70,202    | 77,291    | 64,467  | 64,353     | 71,486  | 54,605     |
| 60%                 | 123,937 | 109,466    | 90,833  | 93,978     | 64,364    | 69,186    | 61,367  | 58,579     | 62,077  | 51,531     |
| 70%                 | 106,400 | 97,704     | 83,619  | 84,599     | 59,833    | 61,145    | 54,764  | 52,319     | 55,490  | 49,139     |
| 80%                 | 89,544  | 88,162     | 74,703  | 78,763     | 54,546    | 54,940    | 49,616  | 46,567     | 48,941  | 44,664     |
| 90%                 | 83,060  | 78,792     | 66,629  | 72,131     | 49,851    | 46,084    | 42,547  | 40,683     | 42,912  | 39,519     |
| 10% least expensive | 72,768  | 63,284     | 55,585  | 61,236     | 40,881    | 39,959    | 32,347  | 31,485     | 34,114  | 31,523     |

All graphs and tables, source: Savills Research



## SOCIO ECONOMIC TRENDS

The analysis shows disparity between the socio-economic profile of residents across high and low value housing markets, with the attractiveness of an area to more affluent buyers having a significant impact on value.

In the most expensive markets of each region 47% of adults are employed in managerial, administrative & professional positions, over five and half times the number in routine or semi routine occupations.

By contrast, in the lowest value housing markets those in routine and semi routine occupations are 40% higher in number compared those in the two highest socio-economic groups. In these locations 9% of inhabitants are long term unemployed.

These trends are also reflected in the qualifications held by inhabitants with 44% having level 4 qualifications in the highest value markets across the regions and 31% having no qualification in the lowest value markets.

Across the regions the patterns are broadly consistent though. As would be expected, the proportions of higher socio-economic groups are greater across all tiers of the London market in comparison to, say, the North East.

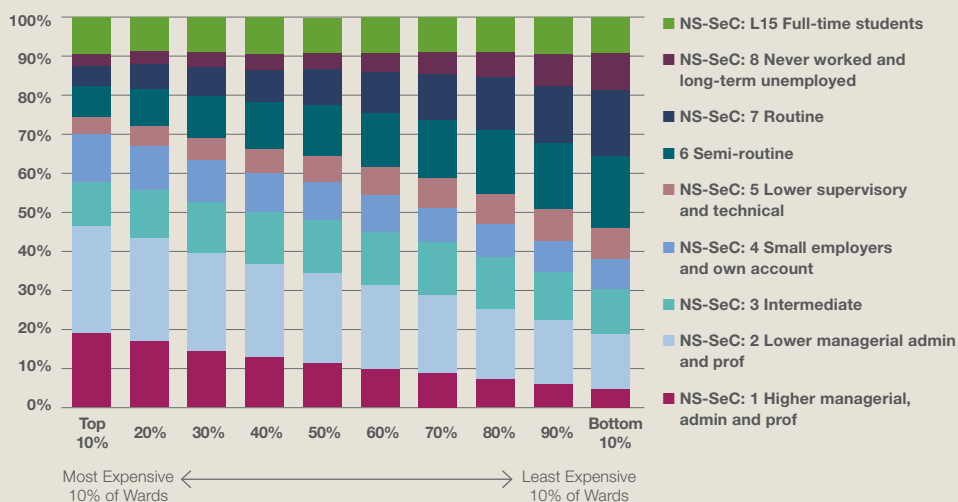
These patterns are reflected in the employment industries that dominate each tier of the market.

High value employment markets such as professional, scientific & technical industries, information & communication industries, education and the financial & insurance services all become increasingly important in higher value markets.

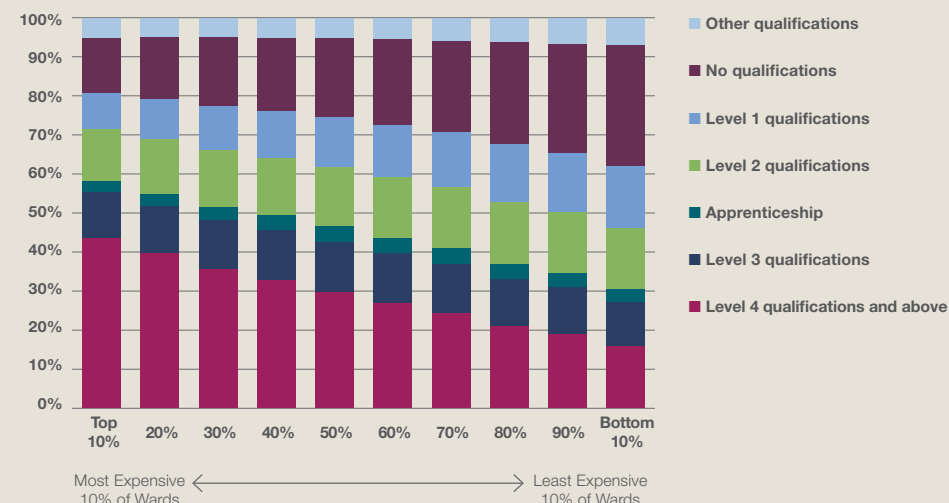
By contrast, those employed in wholesale & retail trade, human health & social work and construction & manufacturing become much less so.

The category of public administration is largely unique in the context. It peaks in the middle value markets, with this cohort being priced out of high value markets without being confined to low value markets. →

GRAPH 5 Socio-economic classification Average across all regions



GRAPH 6 Qualifications Average across all regions

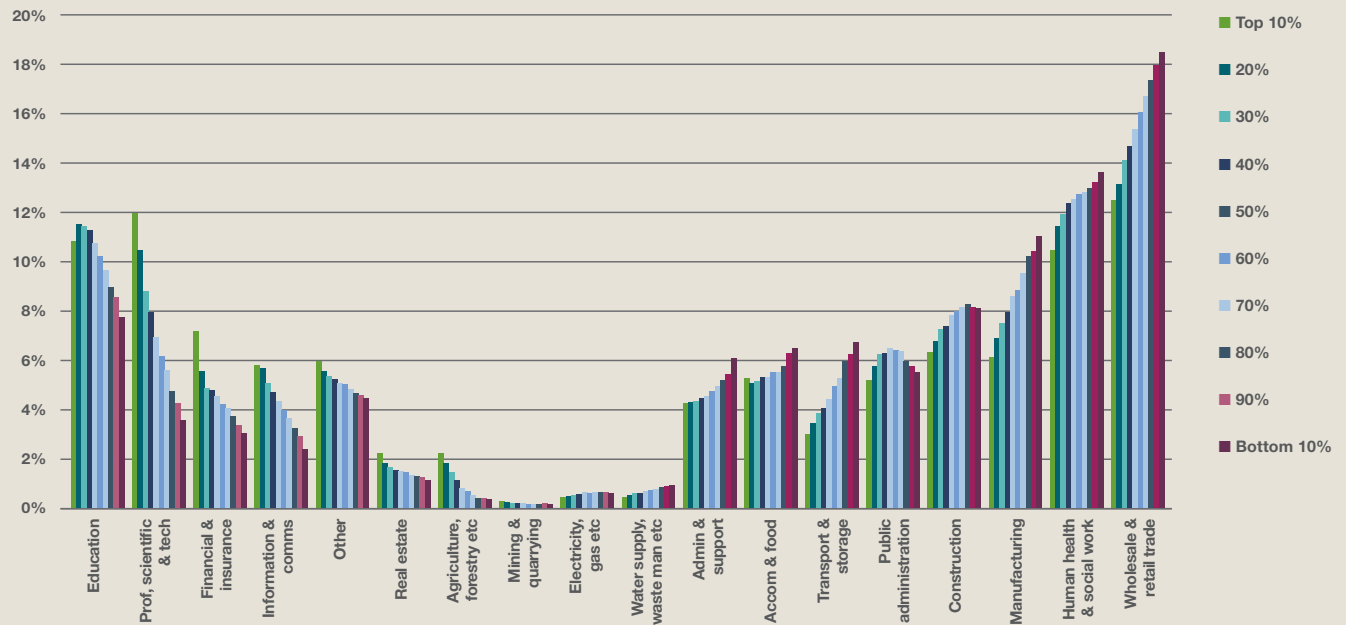


GRAPH 7 Socio-economic classification in highest and lowest housing markets



All graphs, source: Savills Research

GRAPH 8  
**Employment industry** England and Wales



Source: Savills Research

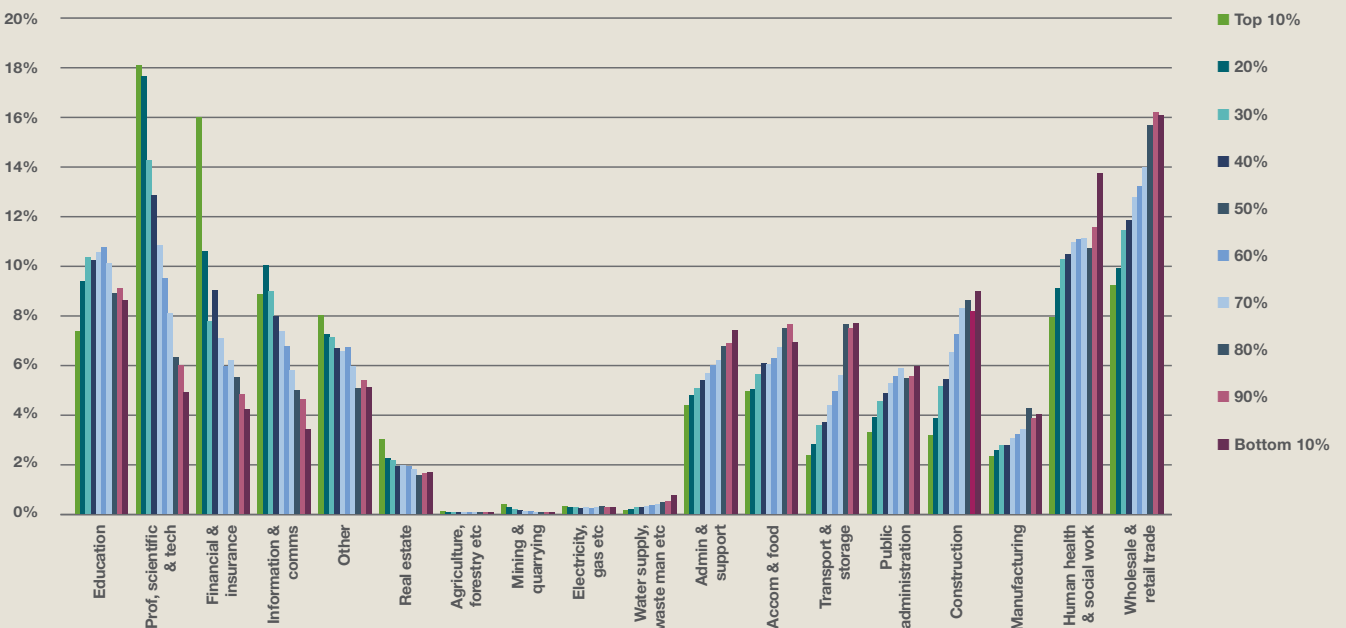
→ London differs in a number of critical ways being more polarised than other regions. The very high prices in the upper tiers of the market are supported by very high levels of employment in the professional, scientific & technical industries, information & communication

industries, and the financial & insurance services sector.

In London, these professions account for 43% of those economically active in the most valuable areas (compared to an average 25% in the highest value

markets across all regions). Those in public administration are represented in the capital's lower value markets, while those employed in education (who elsewhere are dominant in higher value markets) are concentrated in the middle tiers of the London market.

GRAPH 9  
**Employment industry** London



Source: Savills Research



# HOUSEHOLD COMPOSITION

Despite these variations, the profile of household composition does not generally differ dramatically across the different tiers of the market.

More affluent markets tend to have slightly higher percentages of single person households and couples without children.

Given that these higher value areas tend to have a higher proportion of larger properties, in more affluent markets households are far more able to meet their requirements for space. This is reflected by the fact that they have with higher numbers of rooms per resident. But this can also point to greater inefficiencies in the occupation of housing in such areas, with higher levels of under-occupation.

By contrast, in the lower value markets there is a much greater tendency for households to be over-occupied.

In London the household composition trends are more pronounced. Households with dependent children account for 31% of households in the lowest value markets, compared to 18% in the highest value markets.

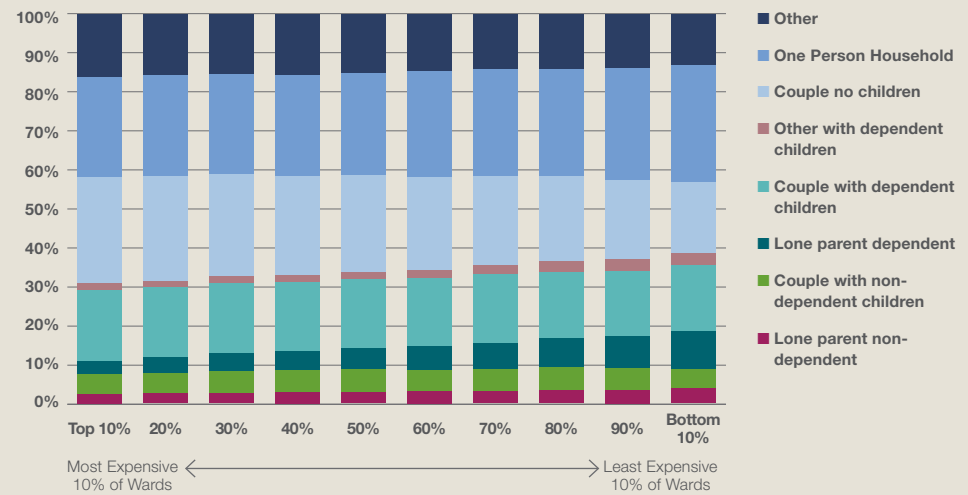
This means that in the highest value markets of London, single persons and couples without children account for 58% of all households.

However, across all tiers of the London market there is much greater pressure on space per resident with on average less than one bedroom per resident in each of the four lower tiers of the market.

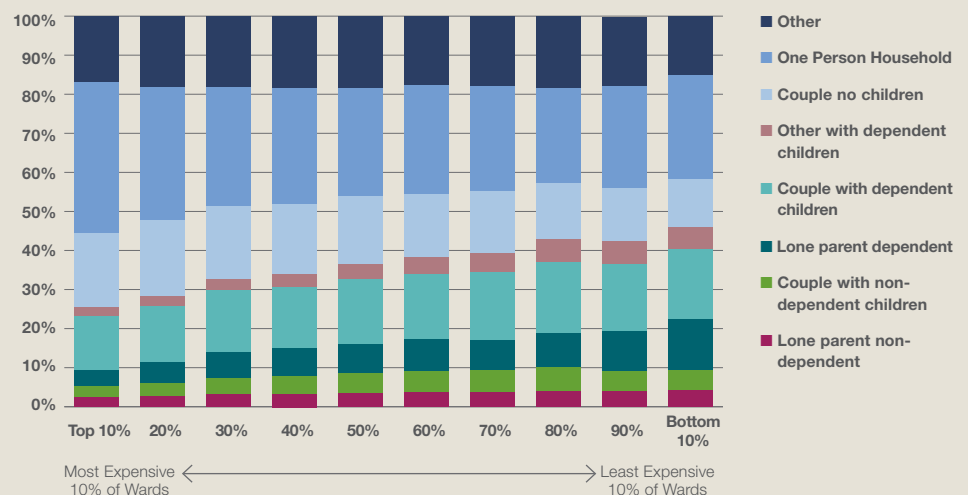
“The profile of household composition does not differ dramatically across the different tiers of the market”

Neal Hudson,  
Savills Residential Research

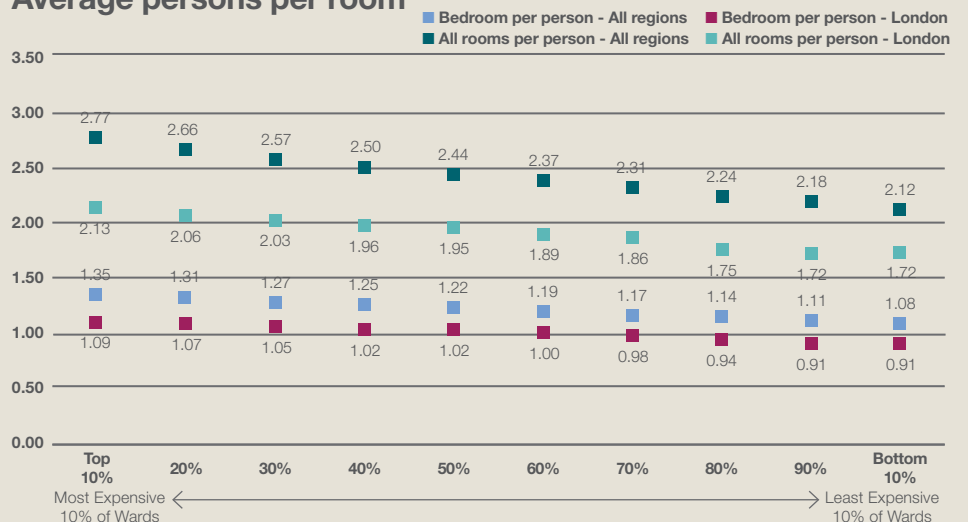
GRAPH 10 Household composition Average all regions



GRAPH 11 Household composition London



GRAPH 12 Average persons per room



All graphs, source: Savills Research

## INFLUENCE OF AND IMPACT UPON THE BASIS OF OCCUPATION

On average, across the regions, the more expensive markets tend to have high levels of home ownership and much lower levels of social housing.

In the most expensive equity rich markets, 39% of all housing is unmortgaged owner-occupied stock with just 10% of housing in the social rented sector. By contrast, in the least expensive markets only 22% of all housing is held by owner-occupiers without a mortgage, while social housing makes up 27% of the stock.

Compared to the average for all of the regions, levels of both social and private rented housing are lower in high value markets of the affluent South East. Equally, there are higher levels of owner-occupied housing, with owners holding high levels of housing equity.

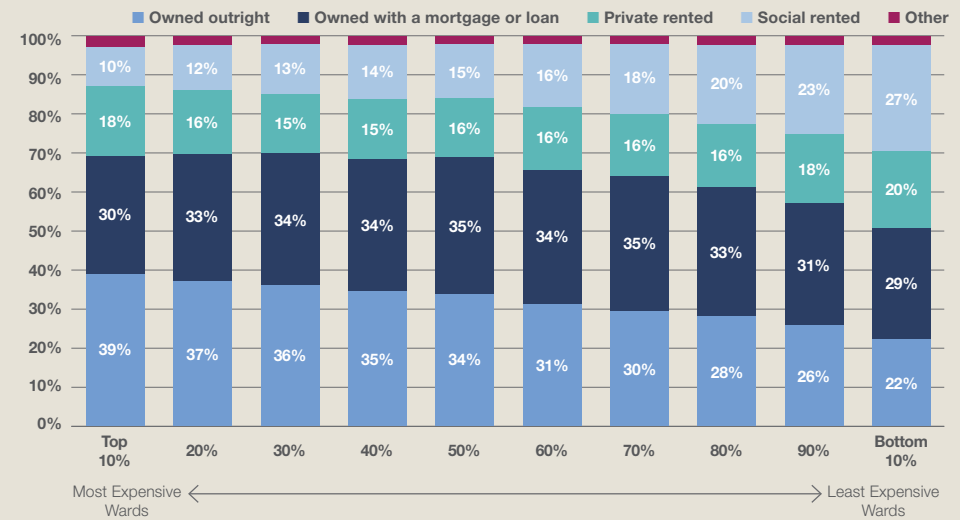
In London the picture is different. Levels of social housing are higher across the board. The big difference is that owner-occupation levels peak in the middle value bands. Investors own significant amounts of private rented stock in higher tiers of the market. Such stock is occupied by those either choosing to rent or being forced to because of home ownership costs.

Even in these areas, values tend to be dictated by owner-occupiers and the level of equity they hold rather than the mortgage debt they require.

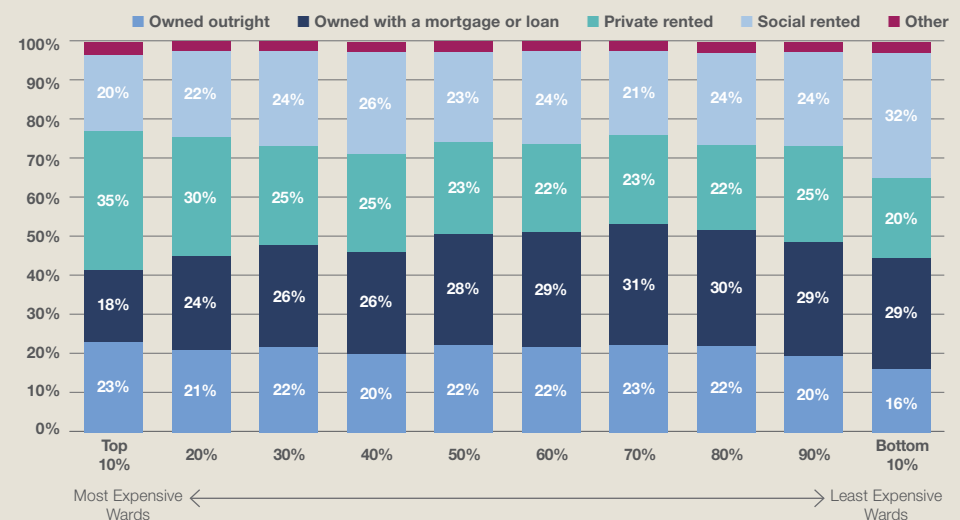
Among the wider owner-occupied market, the extent to which equity is dominant is reflected by the ratio between unmortgaged and mortgaged housing. This ratio is highest in the most valuable markets. Across the regions, unmortgaged owners outnumber mortgaged owners in the four most expensive price groups.

The South West generally has the highest ratio of unmortgaged to mortgaged owner-occupiers. In London, the ratio is well below other regions in all but the most expensive markets, indicating higher proportions of mortgage debt amongst owner-occupier households.

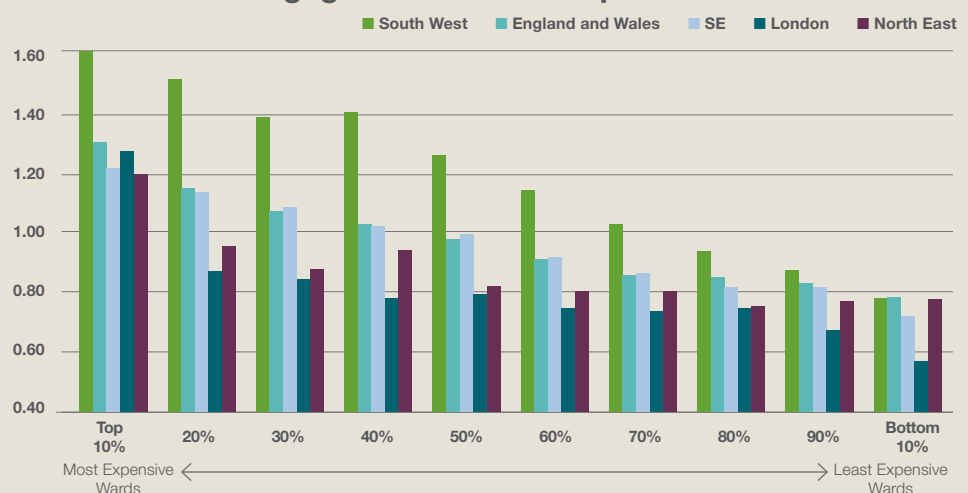
GRAPH 13 Tenure Average across all regions



GRAPH 14 Tenure London



GRAPH 15 Ratio of non-mortgaged to owner-occupied stock



All graphs, source: Savills Research

## SHIFT TO PRIVATE RENTING & POST-CRUNCH TRANSACTIONS

Over the 10 years between the 2001 & 2011 censuses, the biggest shift in tenure across the domestic housing market was from mortgaged owner-occupation towards private renting. Across England & Wales levels of private renting between 2001 and 2011, whilst levels of mortgaged owner-occupation fell by 9% (despite an 8% increase in the total number of households).

Levels of private renting doubled in the lowest tier of the regional markets, increasing by over 90% across each of the five lowest ward groups.

This reflects the difficulty faced by less affluent households in accessing home ownership on the one hand and no visible increase in the amount of social housing at the other.

In these markets, housing transactions have been hardest hit and slowest to recover, reflecting the profile of households and the amount of equity held in the owner-occupied segment of the market.

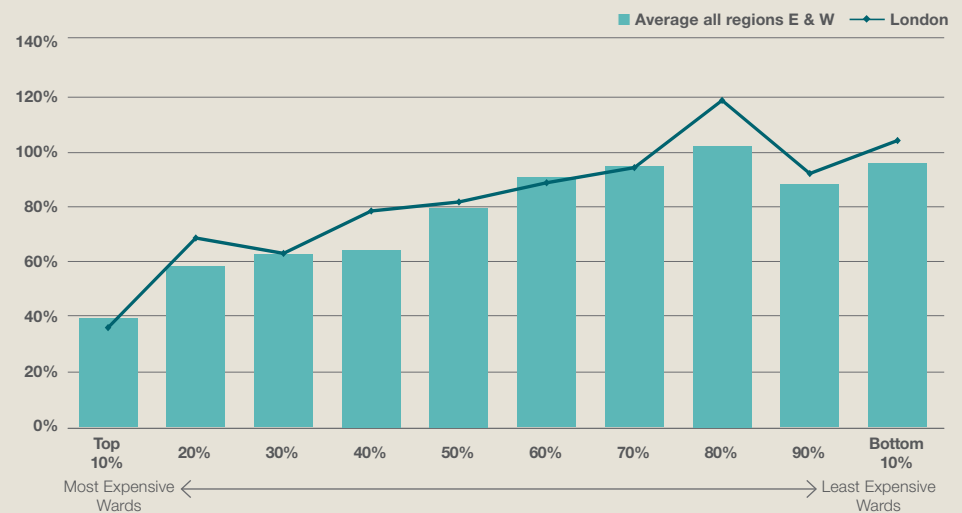
In the bottom tier of the market, across all of the regions, transaction levels remain 58% below the five years pre-crunch. In the lowest value segment, namely the lowest tier of the North East, they have struggled to rise above one-third of their pre-crunch level.

Growth in private renting has also been seen in the more affluent tiers of the market. Even in the most valuable regional markets it has risen by 40% in the period 2001 to 2011.

In these markets, transaction levels post-credit crunch have been most robust, running at an average of two-thirds of pre-crunch levels, higher still in the most valuable parts of the London market.

Both transactions levels and the shift in private renting indicate that the gap between the different tiers of the market has widened. This is also reflected in the average sale price across the different tiers of the market. →

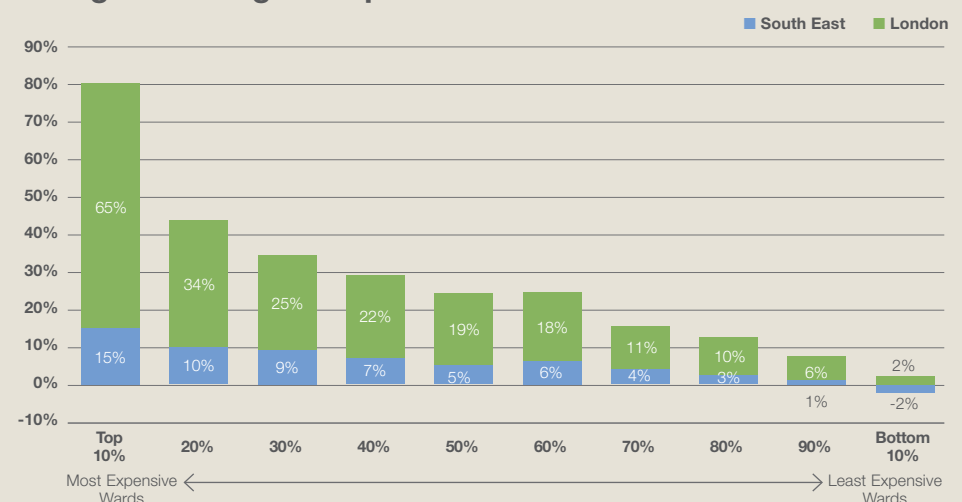
GRAPH 16 Change in levels of private renting 2001-2011



GRAPH 17 Transaction levels vs five years pre-crunch



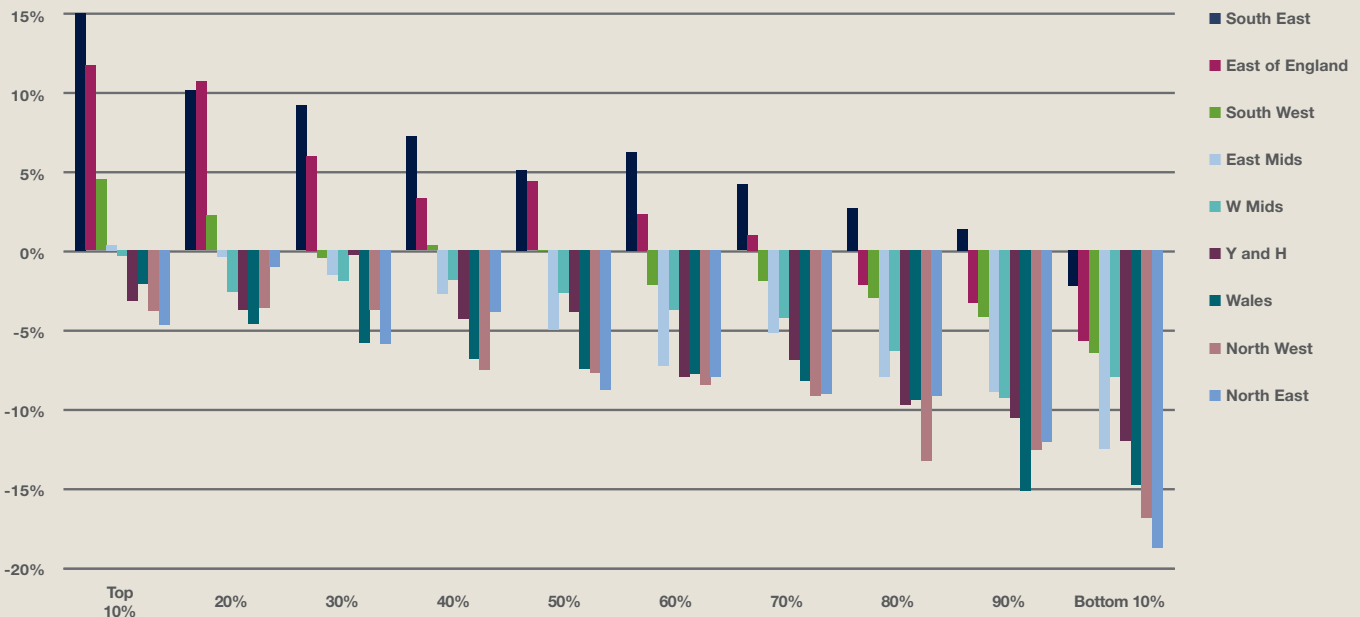
GRAPH 18 Change in average sale price Year to Q3 2013 vs Year to Q3 2007



All graphs, source: Savills Research



GRAPH 19  
**Change in average sale price** Year to Q3 2013 vs Year to Q3 2007



Source: Savills Research

➔ Because the nature of housing stock selling in the post-credit crunch environment has changed (with more expensive property in each tier of the market selling), it is not possible to accurately determine market led house price movements using the raw Land Registry data used in this analysis.

However, we are able to compare the average sale price across each tier of the market, accepting that this can be influenced by a shift in the nature of housing transactions.

This shows that the most valuable parts of the London market have

substantially outperformed any of the other tiers of the housing market, with the average sale price in the most valuable wards having increased by some 65% since the run up to the credit crunch.

More generally, across London the lower the value of an area, the lower the average increase in price. A less accentuated pattern is shown across the other regional housing markets.

At the extreme, the average sale price in the lowest tier of the market of North East England is currently some 19% below its pre-downturn level.

.....  
 "The most valuable parts of the London market have substantially outperformed any of the other tiers of the housing market"  
 .....

Lucian Cook, Savills Residential Research

.....  
 This highlights the extent to which an already fragmented UK housing market has become increasingly divided not just between regions but between the different tiers of the market within those regions. ■  
 .....

## Please contact us for further information

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