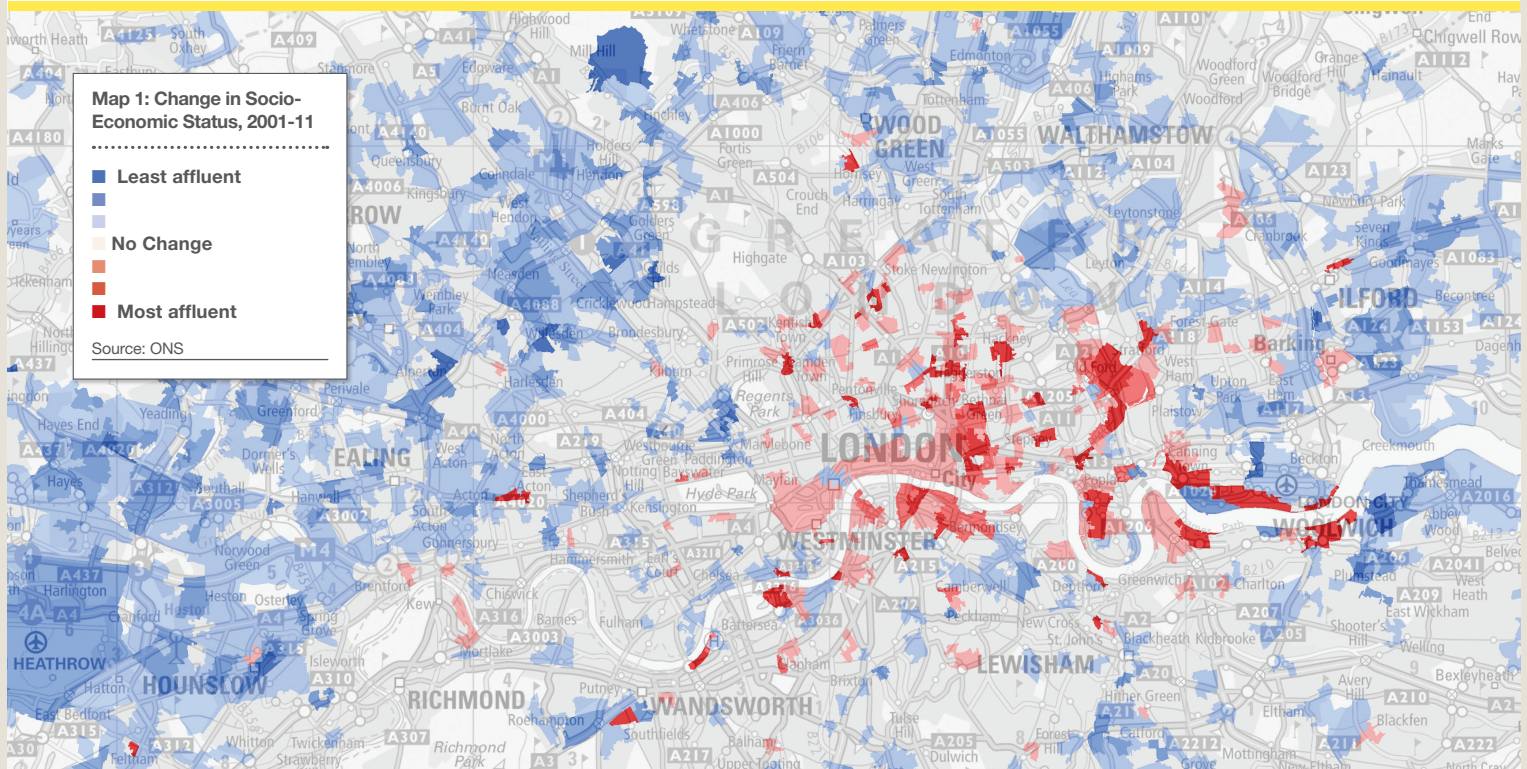


# Spotlight The Demographic Pressures of a Growing Population

January 2014



## OVERVIEW

London's central and regeneration areas have seen biggest rise of affluent residents

■ London's neighbourhoods have seen significant social changes over the last decade. The movement of socio-economic groups around the capital has altered the profile of various areas and had an impact on property markets around the city.

■ Census data shows that central and eastern areas of London attracted higher concentrations of more affluent people while the outer suburbs saw a rise in the concentration of less affluent people between 2001 and 2011.

■ Regeneration and building activity has played a clear part in drawing more affluent residents. This is noticeable in Stratford, Canary Wharf, Bermondsey and City Fringe.

■ A fast growing population and increasing pressures on a limited housing supply underpin these social changes as the less well off seek cheaper housing in more peripheral areas.

■ Improved transport links and shorter travel times are also factors contributing to changes in local housing markets.

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 "The movement of socio-economic groups around the capital has had an impact on property markets around the city" Neal Hudson, Savills Research  
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➔ **Movement of people**

Comparing Census data allow us to identify and track the changes to the social make up in different locations. More specifically, the 2001 and 2011 Census contain a socio-economic measure that has been constructed to classify people by their employment and occupational situation.

It consists of eight categories ranging from '1. Higher managerial, admin and professional occupations' to 8. 'Never worked & long-term unemployed'. By creating an average score for both 2001 and 2011, we can see how the demographic profile of a local market has changed during the ten year period in the map.

The darker red area on Map 1, the greater the increase in more affluent residents while the darker blue areas have increased their share of less affluent residents.

It is important to note that in many areas, the number of people in all categories has increased but the colour shows which socio-economic groups have increased the most.

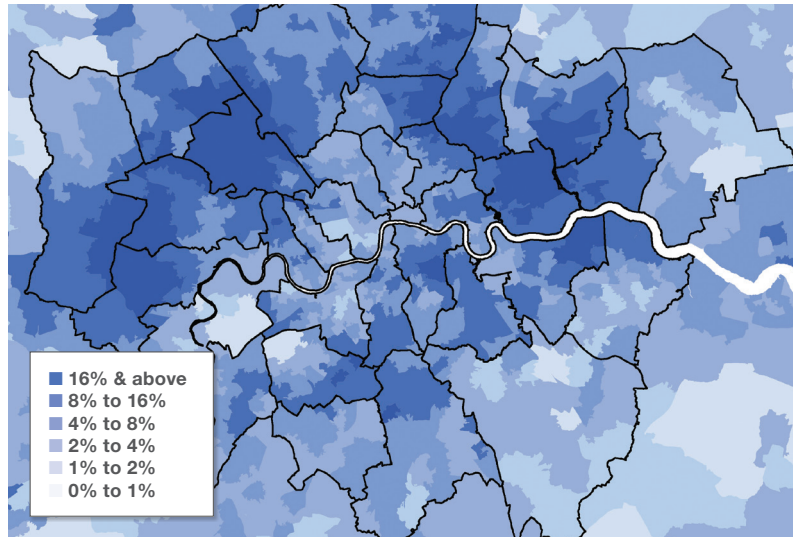
**Regeneration effect**

Many of the areas that saw the steepest rise in concentration of more affluent residents (darkest red) are those that have also seen a large amount of regeneration.

Many areas of substantial new build activity have been located in places with very few existing residents and so the positive regenerating effects of the new build development have been considerable. These include areas such as Stratford, Canary Wharf, Bermondsey and the City Fringe.

MAP 2

**Percentage of households in private rented sector with more than one person per room**



Source: Census, Savills Research

The most expensive and hence wealthiest housing markets have tended to see the greatest house price growth. However the pressures on London's housing stock lead many to look for more affordable areas to live and so there are also signs of a shift towards affluence in existing markets such as Stoke Newington, Hackney and many areas of south London.

As result, the borough of Hackney, which has been at the forefront of this trend, has seen price growth in excess of similarly priced markets during the 2001 to 2011 period.

**Outer suburbs**

Conversely, the areas that have seen an increase in less-affluent residents

tend to be found in the suburbs. Ranging from Hounslow, Ealing, Wembley and Harrow in the west to parts of Wood Green, Walthamstow and Ilford to the north and east. They also include areas of blue around Kingston upon Thames and Croydon to the south.

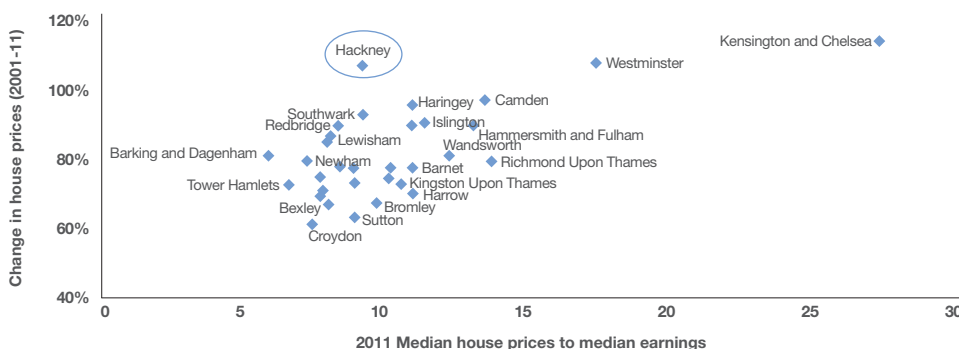
For many less affluent and typically younger people moving to London the cheapest way to live is in a shared house in the private rented sector. The housing stock in more central locations tends to be smaller and more expensive and so doesn't offer the same economies of scales as a suburban house.

It is also in these blue areas that we can find over-crowding (or hutching up) in the private rented sector. The map above shows the location of overcrowding in the private rented sector and the largest concentrations are found in a suburban ring around central London.

Underlying the trend in gentrification has been a rapid rise in London's population and a severe undersupply of new housing. London's population actually shrank during the post-war period and only began to recover again in the 1990's.

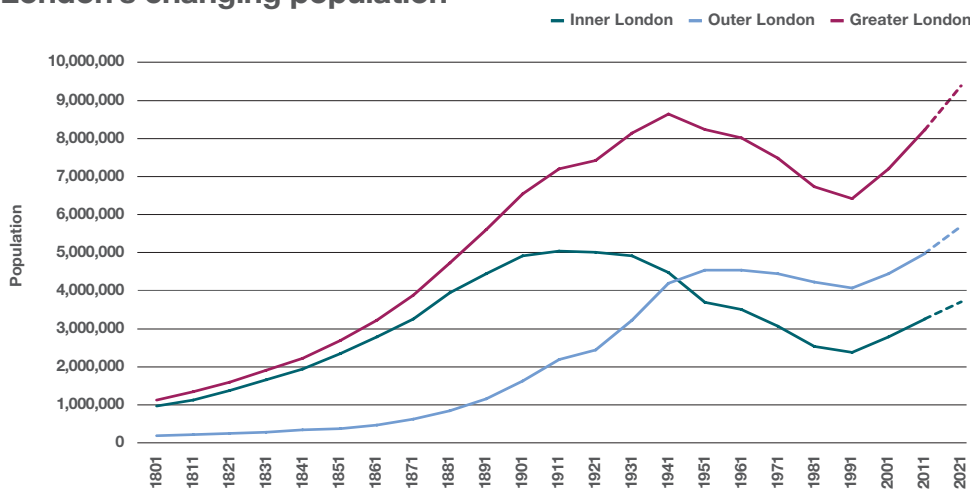
There are now more than eight million people living in London. Projections

GRAPH 1 **Stronger price growth in Hackney than trend**



Source: HM Land Registry, CLG

GRAPH 2  
London's changing population



Source: Census & ONS Projections

➔ show that by 2021, the population is set to rise by another million, the fastest rate of growth ever.

With a strong economy attracting people from across the country and around the world, London is an extreme example of the issues facing our use of housing stock.

Our recent report 'London Demand' identified a substantial undersupply of new homes, particularly in lower value markets. We expect to see the delivery of new homes average 28,500 a year over the next five years and we estimate a need for at least 50,000 a year to meet economic growth forecasts.

This leaves a shortfall of 21,500 units a year and the majority, 70%, of this at the lower and more affordable end of the market. This will prove a challenge in the current development environment and will require new models to begin to solve these problems.

### Improving transport links

Underlying demographic pressures and new build development are not the only factor contributing to gentrification. Travel time to central London is a key driver of house prices across the capital and therefore any infrastructure improvements could have a significant impact on local housing markets.

With Crossrail currently under construction, there has been

widespread interest in its potential effect on property values. Inevitably, an improvement in travel time will help to increase the value of the underlying housing market but it can be difficult to extract the effect from the wider market noise.

The East London Line offers an opportunity to examine the effects of improving transport links on house prices at a smaller scale. The line was connected into the TFL Overground network in 2010/11.

However, since 2007 the London housing market has seen boom, bust and more recently boom again. Most recently, price growth has been concentrated in central London and so identifying the effects by price growth alone are unlikely to yield any results.

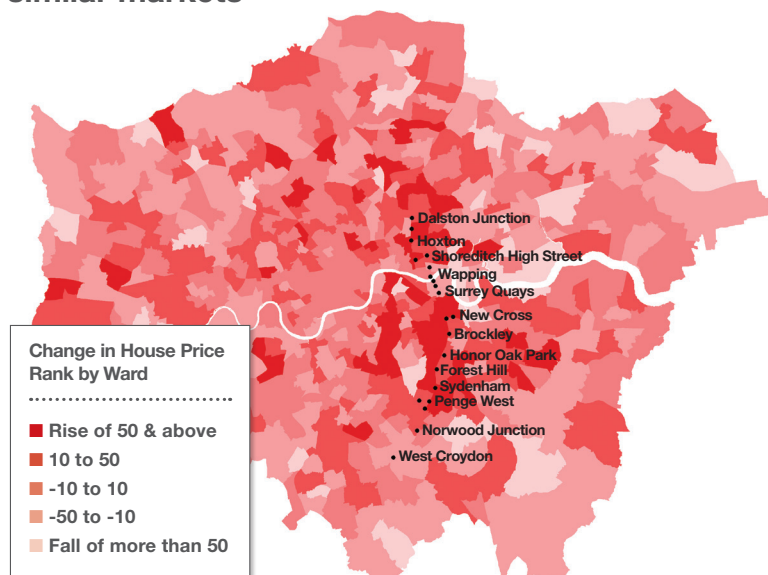
Instead, we have ranked the 630 wards in London by house price in 2007 and again in 2012. By comparing the two ranks we can see how different markets have moved relative to the wider market.

Although correlation doesn't imply causation, there is clear link between the East London Line and markets that improved their ranking over the period. Many of the markets in close proximity to East London Line stations have risen up the rankings by 50 or more places. ➔

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"Travel time to central London is a key driver of house prices across the capital"

Neal Hudson,  
Savills Research  
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MAP 3  
East London's live stations outperformed similar markets



Source: HM Land Registry

## Not Just London

### Population boom not confined to the capital

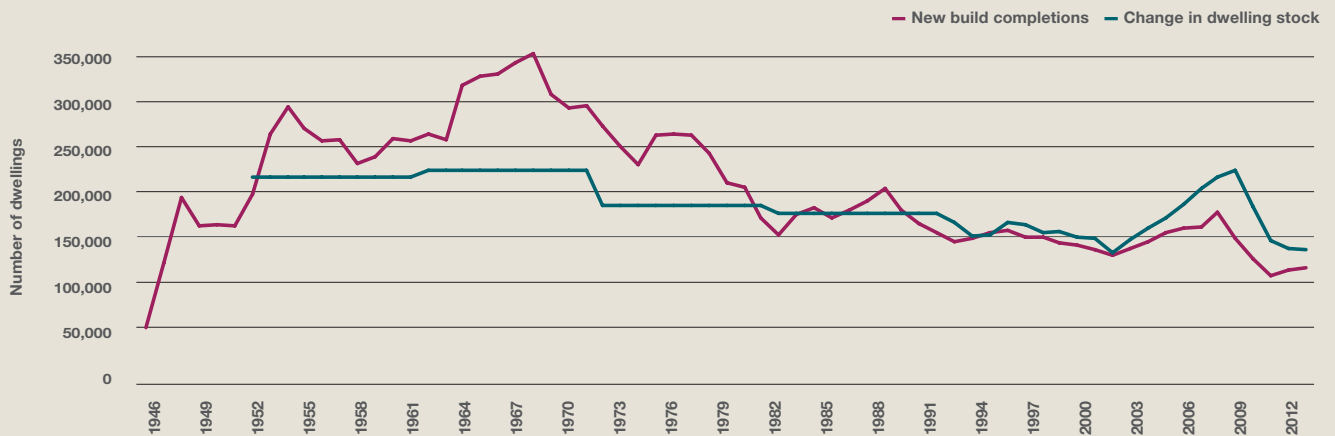
The UK's population is projected to increase by 4.3 million people over the next ten years, having grown by 4.1 million over the last ten. As the population has grown we have seen a massive change in how we use our housing stock. During this credit fuelled period property owners have seen their wealth increase substantially and many used it

to purchase second homes or buy-to-let properties. Meanwhile those who don't have a stake in the market have been left behind by soaring house prices.

Underlying this situation is a significant under-delivery of new homes. The chart below shows that since the early 1990's, the number of homes in England has actually increased by more than

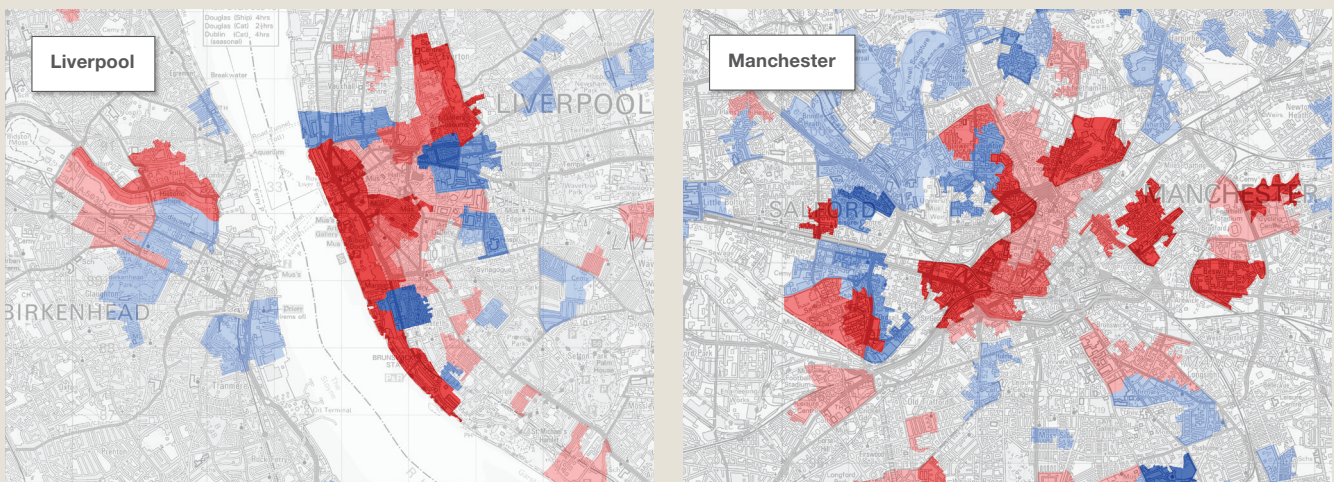
the number of new homes being built. As demand continued to grow, more housing stock has been brought back into residential use and larger homes have been converted into smaller ones. Given the pressures on existing dwelling stock, it is no surprise that the use of new build stock comes under such scrutiny.

GRAPH 3  
New build supply and the increase in dwelling stock, England



Source: CLG

MAP 4  
Change in Socio-Economic Status, 2001-11



Key: ■ Most affluent ■ No Change ■ Least affluent

Source: Savills Research

Markets such as Liverpool and Manchester saw substantial new build development during the boom period. With the wholesale regeneration of

areas in and around both city centres there has been a big increase in the proportion of more affluent people living there. This has had a positive impact on

the local economies but will have left some existing residents priced out of the local owner occupier market.



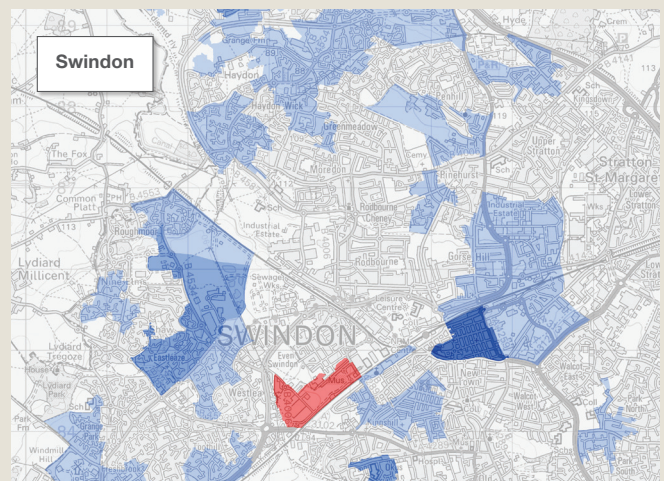
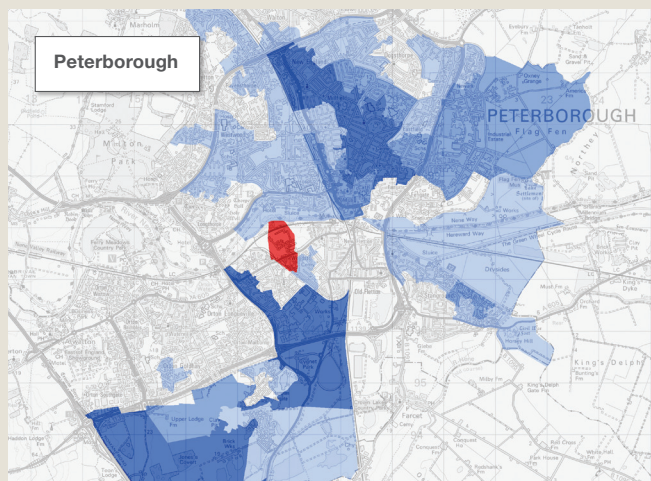
Areas of new build supply don't always attract more affluent households. Many cities have played a housing pressure valve role for London and the south of England. As an example, both Peterborough and Swindon have seen substantial new housing supply during the period prior to the credit crunch. Rather than attracting more affluent households, they have actually catered to less affluent households by delivering

a more affordable product in bulk and attracting people priced out of markets across the south of England.

The two cities have also featured in our recent report on households who are not participating in the housing market. Since the credit crunch, we estimate that 500,000 households a year have been prevented from moving onto or up the housing ladder. Both Peterborough and Swindon's housing markets have suffered

significantly given their dependence on less equity rich and mortgage dependent purchasers.

We need future housing delivery to meet all sectors of the market including finding ways to meet the needs of those who are currently excluded. Markets such as Peterborough and Swindon offer an example of how we can build large scale affordably priced homes without pricing out local people.



Key: ■ Most affluent ■ No Change ■ Least affluent

Source: Savills Research

### Looking ahead

London has seen substantial population growth and social change over the last decade. The movement of socio-economic groups around the capital has altered the profile of many areas and had an impact on property markets across the city.

The regeneration of brownfield sites in central and eastern locations has attracted higher concentrations of more affluent people.

Many of these locations had few existing residents and so the positive regenerating effects of the new build development have been considerable.

Meanwhile, a combination of factors including the undersupply of new homes and economic growth have led to a rise in the concentrations of less affluent people living in the outer suburbs. This looks set to continue while there remains an

under-supply of new homes at the lower end of the market.

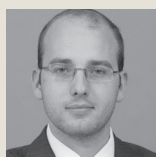
As the city continues to grow, the availability of large scale development sites will inevitably shrink and so developers will look to intensify existing areas of residential housing. It will be essential that, wherever this occurs, the new developments cater to both the

wider needs of London's growing population and the needs of the existing residents. ■

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 "As the city continues to grow, the availability of large scale development sites will shrink"  
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Neal Hudson, Savills Research

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