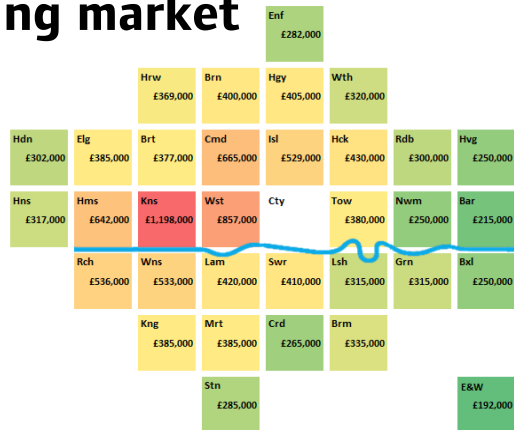


An economic analysis of London's housing market

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GLA Economics

15th December 2015

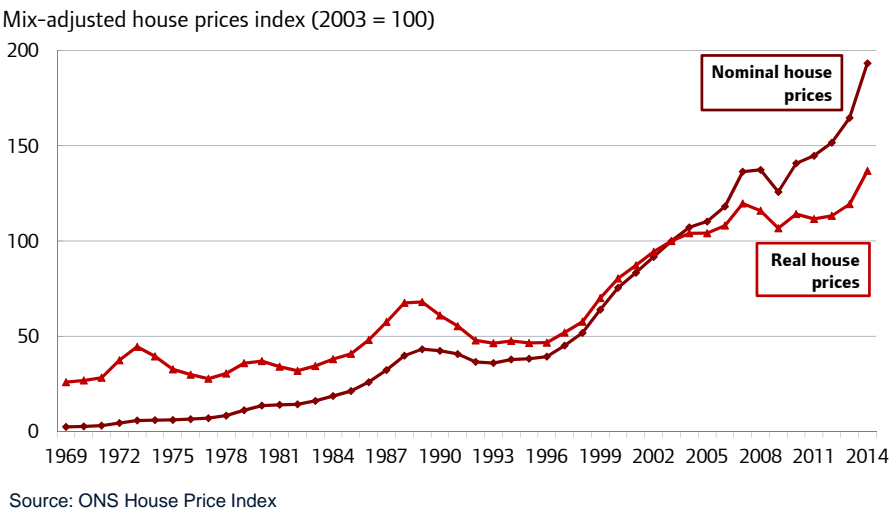


Outline

1. Rising house prices in London
2. Measures of housing affordability
3. Drivers of house price growth in London

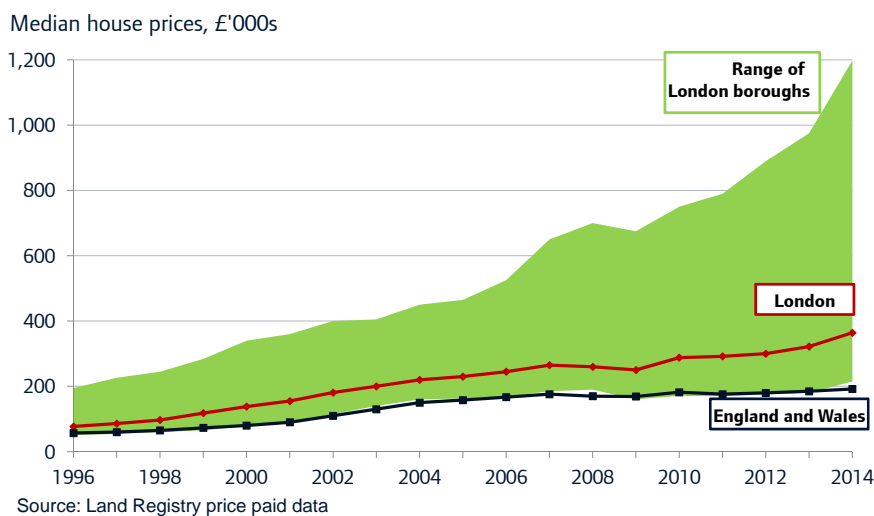
Source: ONS 2011 Census

London's house prices have increased strongly over the longer term ...



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... faster than in the rest of the country

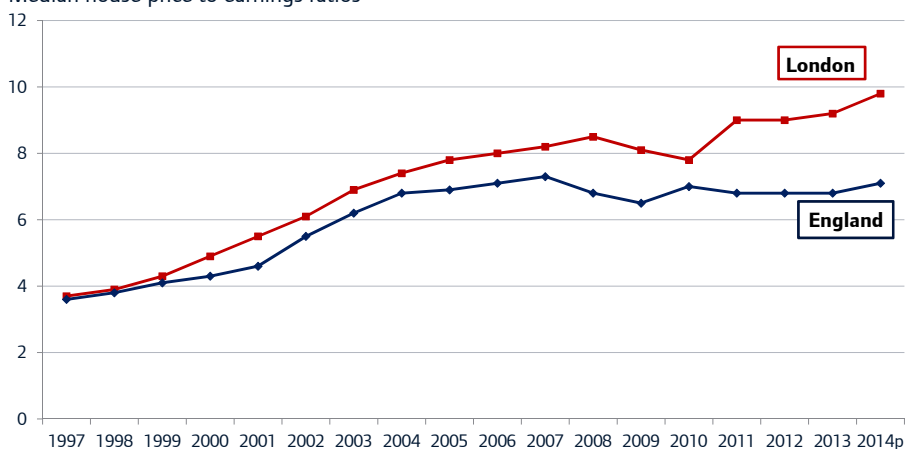


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... and faster than the growth in earnings

...

Median house price to earnings ratios

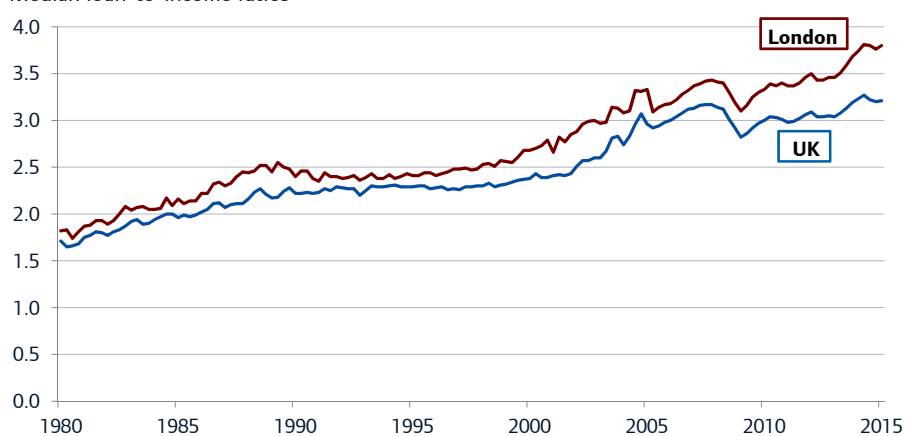


Sources: Land Registry prices paid data, ONS Annual Survey for Hours and Earnings (ASHE)

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... while loan to income multiples have also been rising.

Median loan-to-income ratios



Sources: Council of Mortgage Lenders (CML) quarterly data

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Foreign buyers have increased on some measures, particularly in 'prime' areas.



2005: 23%
2014: 40%

International buyers (re-sales)

2013: 28%



Overseas resident buyers



2014: 3%

Foreign purchases

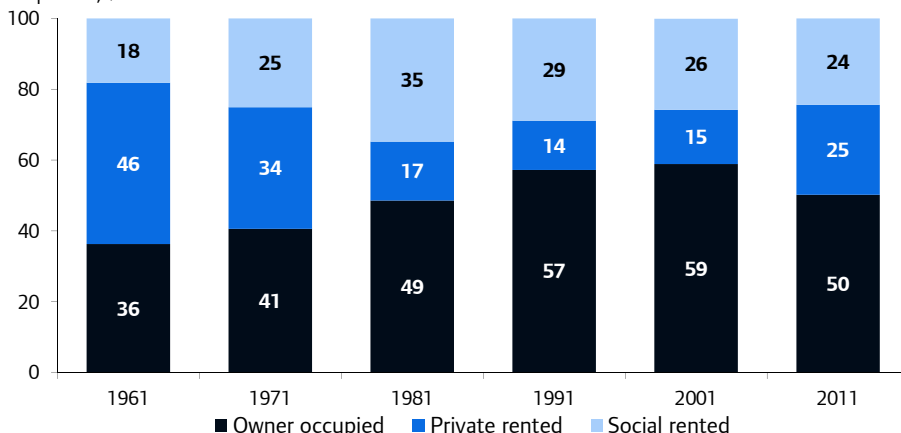
Source: Savills, Knight Frank and Bank of England

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Buy-to-let has increased but the private rented sector is below 1960 levels.

Long term trend in London household tenure, 1961 to 2011

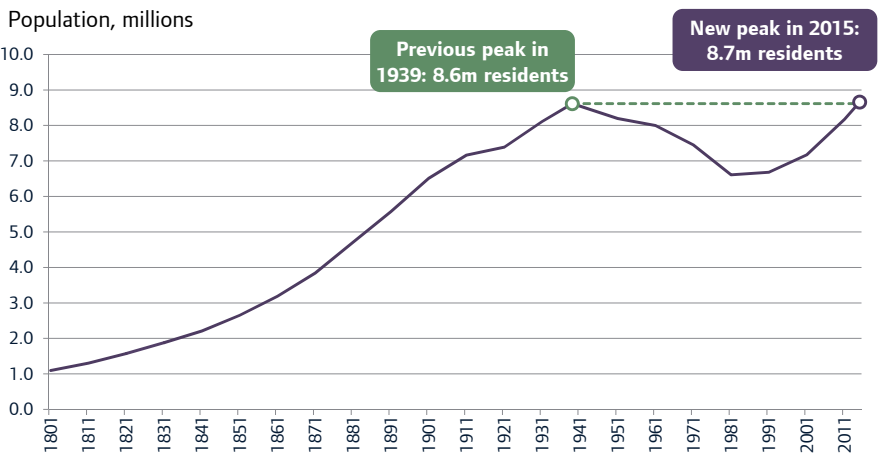
Proportion, %



Sources: GLA analysis of historical Census data.

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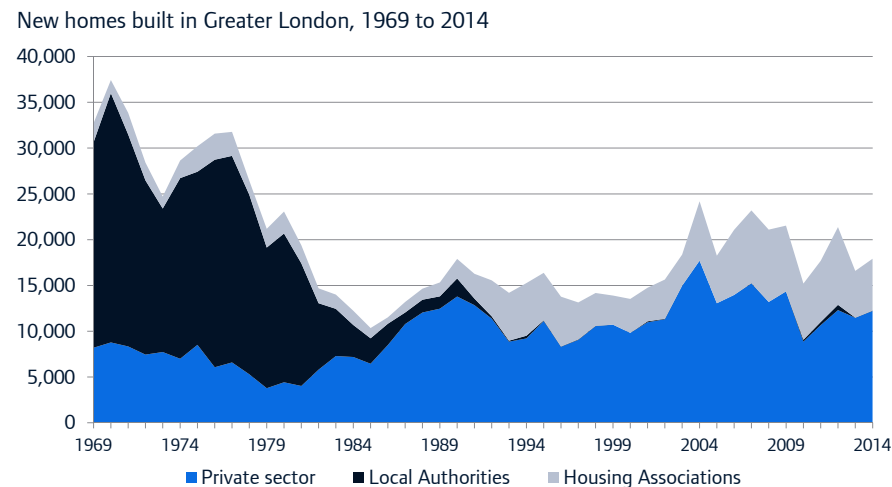
London's population has been growing ...



Source: 1911-1951 Census; 1951 on ONS mid-year estimates

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... but gross housing starts have not kept up ...

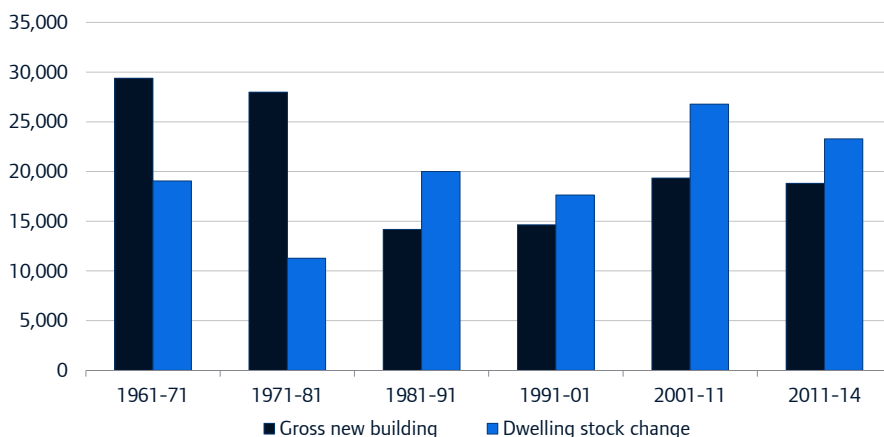


Source: Compiled by the GLA from various sources.

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... although the picture is better for the net change in dwelling stock.

Gross new house building and change in dwelling stock in London, annual averages

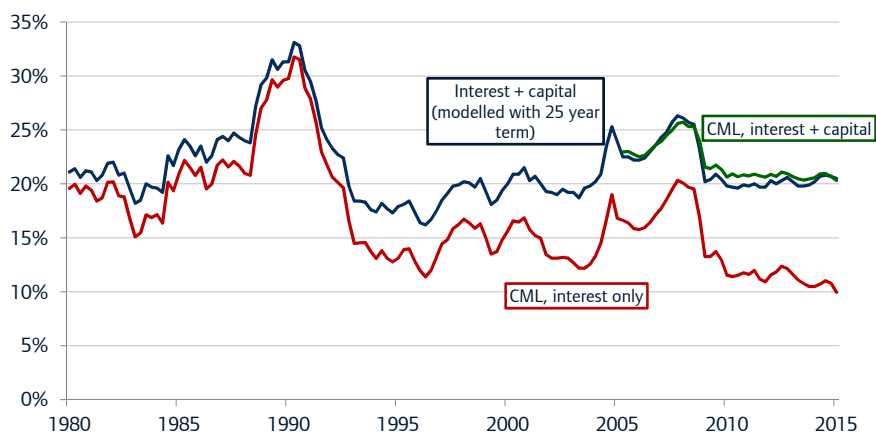


Sources: DCLG house building statistics, and Census data from 1961 to 2011

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Average mortgage payments have been at 'average' levels for some time ...

Average mortgage payments as a proportion of income, London

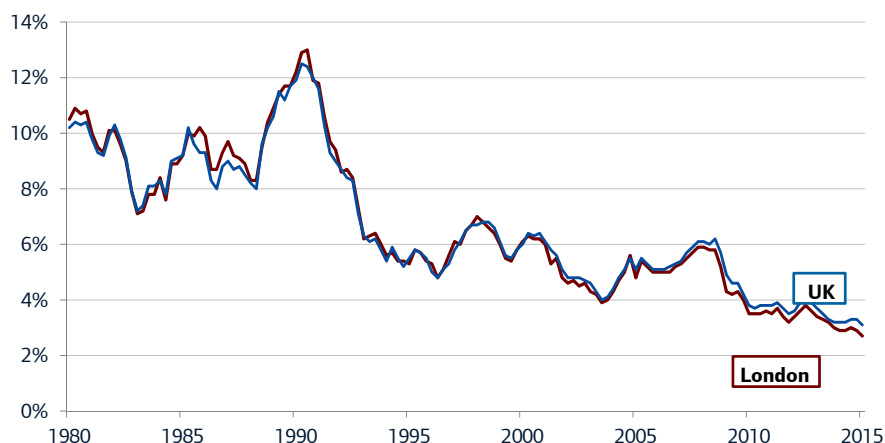


Source: GLA calculations based on CML quarterly data.

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... due to the very low levels of mortgage interest rates ...

Modelled interest rates based on median incomes and affordability ratios reported by CML



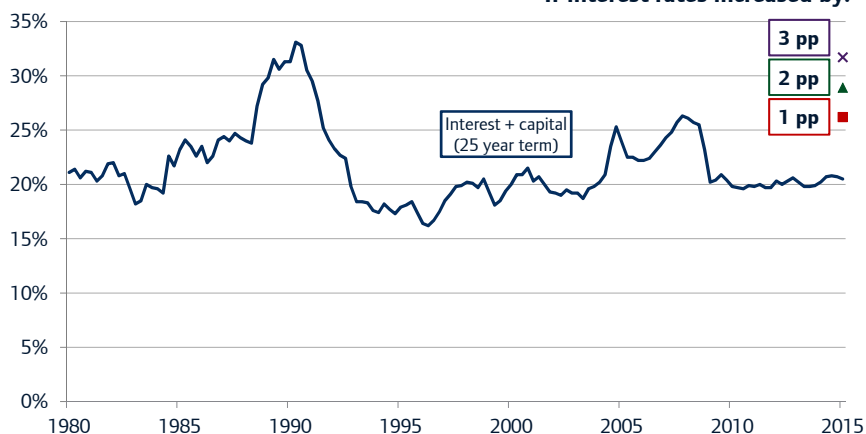
Source: GLA calculations based on CML quarterly data.

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... which means there is a potential risk to London if interest rates rise.

Average mortgage payments as % of income, London

If interest rates increased by:



Source: GLA calculations based on CML quarterly data.

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Conclusion

- House prices in London have grown significantly in the past couple of decades;
- Relative to incomes London's house prices are expensive;
- Foreign purchases, buy-to-let, population growth and low interest rates are likely to have contributed to increases in house prices;
- London's housing market may be particularly vulnerable to any future increases in the costs of borrowing;
- Demand pressures can be amplified by a lack of a timely, supply response.