An economic analysis of London’s housing market

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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 …

![Chart showing nominal and real house prices index (2003 = 100).](chart1)

Source: ONS House Price Index

… faster than in the rest of the country …

![Chart showing median house prices, £'000s.](chart2)

Source: Land Registry price paid data
... 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)

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

Median loan-to-income ratios

Sources: Council of Mortgage Lenders (CML) quarterly data
Foreign buyers have increased on some measures, particularly in ‘prime’ areas.

- **International buyers (re-sales):**
  - 2005: 23%
  - 2014: 40%
  - 2013: 28%

- **Overseas resident buyers:**
  - 2014: 3%

Source: Savills, Knight Frank and Bank of England

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, %**
  - Owner occupied
  - Private rented
  - Social rented

Sources: GLA analysis of historical Census data.
London’s population has been growing …

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

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

Source: Compiled by the GLA from various sources.
... 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

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.
... 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.

... 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:

- 3 pp
- 2 pp
- 1 pp

Source: GLA calculations based on CML quarterly data.
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.