

Local housing market volatility

Findings
Informing change

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Over the last housing market cycle, large differences in house price increases emerged among different parts of the UK. Local housing market volatility may be more important than the national picture because of its implications for housing equity and population and labour-market mobility.

Key points

- Volatility has long been a feature of the housing market. Before the most recent cycle, prices across the UK tended to move in line with the national average. But this link weakened in the 1980s, and since then regional growth has varied from the national average.
- Although the long recent period of unbroken economic growth was accompanied by growth in the UK housing market, its effects and timing differed across the country.
- In the late 1990s, growth in London and the south of England contrasted with falling prices and widespread low demand in parts of the north of England, Wales and Scotland.
- By the mid-2000s, prices were also rising throughout the north of England, Wales and Scotland, while the market remained buoyant in the south of England.
- This house price 'ripple' (crudely, moving out from south to north) benefited many parts of the country, but only briefly.
- Macroeconomic policy and planning reforms have aimed to even out peaks and troughs in the housing market cycle through supply-side interventions (e.g. planning de-restrictions, incentives). Local housing market restructuring has also focused on supply (e.g. stimulating house-building).
- However, the authors conclude that wide demand-side disparities (jobs, economic change, migration patterns) more satisfactorily explain divergent fortunes in housing markets. Policies for tackling long-term volatility need to recognise this.

The research

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Background

The UK housing market is highly volatile, and creates ‘winners and losers’. JRF’s Housing Market Taskforce is particularly concerned that housing market instability unfairly affects people living in poverty and disadvantage, and serves to widen inequalities.

Volatility also affects some regions more than others and at different times during housing market cycles. This study examined the unequal geography of housing market volatility across the UK. It concluded that recent housing market cycles have led to highly unequal outcomes throughout the country. Moreover, patterns of population mobility may ‘lock in’ disadvantage.

The national picture

High and low-demand markets both cause problems. In areas of high prices and rapid growth, low-income groups are priced out of their local area or where they need to be to find work. In low-demand areas, low and sometimes falling prices affect homeowners’ ability to move elsewhere and discourage new residents from moving in.

Before the global financial crisis and housing market downturn, the main policy concern was affordability. Volatility was seen as a national problem with its roots in an unresponsive supply side: housebuilding was at a historic low despite a buoyant market. The solution was felt to be to stimulate more housebuilding throughout the country (through targets and planning reforms) and for macroeconomic policy to moderate the market’s ‘boom and bust’ nature.

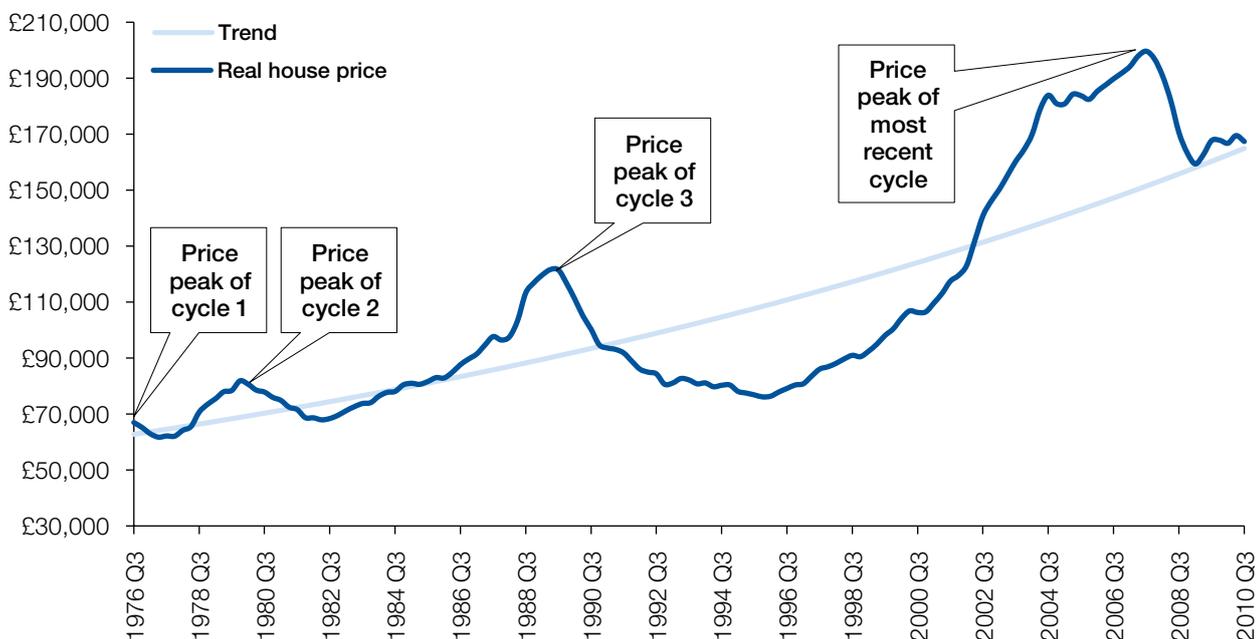
The most recent housing market cycle lasted around 18 years (see Figure 1). In real price terms, the previous peak was in the late 1980s and the most recent peak in 2007. This latest cycle was far longer than previous ones. Political and economic stability were important factors underpinning the growth of the housing market.

However, the length and relative stability of the most recent housing market cycle may have contributed to its eventual undoing. While it extended high growth rates to many parts of the country and further consolidated the attractiveness of owner occupation, it also priced many people out of the market. It was a time of strong market ‘fundamentals’ – low supply, high levels of household growth, rising wealth – but also of low-cost finance and expansive credit.

During this sustained period of market growth:

- The regional gap in house prices widened. London led in the late 1990s while the north-east of England and other parts of the UK lagged behind. Crucially, these gaps were most acutely experienced in areas of deprivation.
- Growth in the housing market spread across the country in a ‘ripple’ effect, with London and the south of England leading the way. Consequently, price rises did not have a positive impact on longstanding structural inequalities in the market.
- By the time the ripple reached more deprived parts of the UK in the mid-2000s, the cycle was coming to an end, and these areas had insufficient time to catch up. Growth in deprived areas also started from a low base.
- ‘Affordability’ became a key concern. Although more extreme in London and the south of England, it also had negative impacts across the whole UK.

Figure 1: Real house prices, 1976-2010



Regional and local variations in the housing market

As well as the broad national picture of volatility, it is important to understand variations among and within regions. This is because certain parts of the country have become disengaged from the national market, and their experience of volatility now varies significantly (see Figure 2).

Analysis of demand-side data and house prices illuminates this. The drivers of market change at local level are not necessarily the same as those operating nationally. In particular, there are important spatial differences in the factors governing demand for housing:

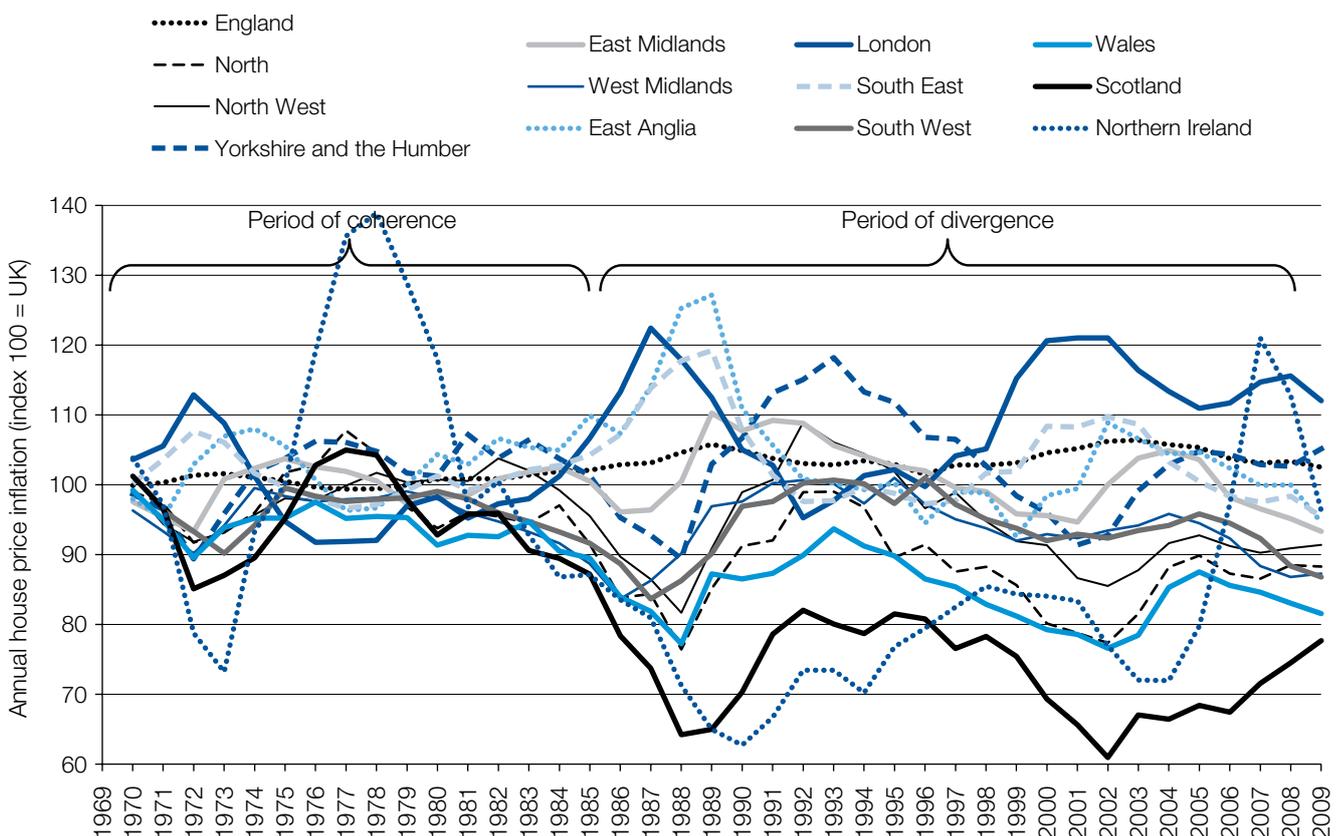
- Rates of growth in numbers of households have been consistently higher in London and the south than elsewhere in England.
- The size of the market varies – despite convergence, still fewer than two-thirds of households in Scotland and north-east England own their homes, in contrast to many parts of Wales, Northern Ireland and England.
- Household wealth has been increasing everywhere, but most quickly in London and the south of England.
- New immigrants have disproportionately favoured some parts of the UK – over 50 per cent of immigrants in 2008 moved to London, the south-east or East Anglia.

In England, there have been different kinds of market intervention in low-demand areas in the north and high-demand areas in the south. In low-demand areas, housing market renewal programmes have attempted to combat wider structural changes which had undermined local housing demand. Factors such as declining population, weak local economies and poor housing stock were seen as problems requiring local intervention. In the south, the focus has been on unlocking new housing supply and providing infrastructure.

Supply-side interventions such as stimulating new housebuilding have not led to a more equitable housing market, especially in housing equity terms. No matter how areas are classified, differences among and within regions remain a stubbornly entrenched feature of the wider housing market. Overall, the study findings regarding market interventions suggest that:

- Housing market renewal in low-demand areas may have had some impact on price levels, but there was already evidence of an upward trajectory.
- Impacts on local supply in low-demand areas have been positive, but price differentials remain a problem.
- Despite the range of demand-side policies introduced to tackle the affordability issue, there are serious concerns about their effectiveness or sustainability during the downturn.

Figure 2: Regional house price increases – differences from UK average, 1969-2009



Residential mobility and the housing market

The extent of connections and disconnections between areas can contribute to volatility. Deprivation also correlates closely with areas of market volatility. By exploring the nature of connections between more and less deprived areas it is possible to understand the potential for transfer of housing wealth.

There is a clear pattern whereby areas of the same type remain more closely connected. The strength of this relationship is greater in both the most and least deprived districts, suggesting that the potential for housing wealth transfer is limited. There is some evidence that both ends of the housing market spectrum are isolated from the rest of the market. This is not surprising, but it raises important policy questions which have not yet been sufficiently addressed.

The study found that some of the poorest areas exhibited little diversity in relation to their connections with other places. For example, almost three-quarters of moves from a deprived district such as Knowsley were to similarly deprived areas. These patterns were strongest among the most deprived locations, suggesting a series of disconnected local housing markets. Overall, the study's main findings indicate that:

- Deprivation and market volatility go hand in hand.
- At both ends of the housing wealth spectrum, connections are strongest between areas of the same type. Imbalances in connections between areas of different types may contribute to localised volatility.
- Differential patterns of residential mobility in England result in moves of greater distance between more deprived locations than they do between less deprived locations. This can be seen as a kind of 'spatial volatility', which is not currently well understood.

Conclusion

The analysis points to important policy implications for dealing with housing market volatility. It could be argued that there are new areas of volatility which need to be recognised and that contemporary policies are not always sufficiently spatially aware of such areas. Specifically, it is suggested that:

- The 1990s and 2000s saw a move from a market of volatility over time to one of spatial volatility. This suggests that area-based market interventions are appropriate and that regional planning has an important role.
- The experience of volatility disproportionately affects more deprived areas. This lends support to an ongoing programme of market renewal in low-demand areas.
- There is a role for regional demand-side policies and a more sophisticated spatial understanding of the operation of the housing market.
- Processes of housing wealth transfer appear to be quite limited in some cases, particularly in more and less deprived areas.
- Policies on housing market restructuring, planning gain, the private rented sector, local taxation and improving local housing market analysis and planning policy all have a part to play.
- Ultimately, the factors driving local variations in volatility are on the demand side (jobs, economic change, migration patterns). Policies that seek to mitigate housing market volatility require high-level strategic co-ordination.

About the project

The researchers analysed a range of secondary data sources and undertook new analyses of postcoded data on house prices from the JRF Housing and Neighbourhoods Monitor (www.hnm.org.uk) and estimates of population mobility from the NHS central register.

For further information

The full report, **Local housing market volatility** by Ed Ferrari and Alasdair Rae, is published by the Joseph Rowntree Foundation. It is available as a free download from www.jrf.org.uk

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