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Magnetic London

London's continued expansion

16th January 2015, words by Neal Hudson

As the political and economic capital, it is no surprise that London exerts a large amount of influence and pressure on the rest of the country. This is particularly the case for the housing market where new delivery has consistently failed to meet required levels.

London, by attracting the largest proportion of international migrants and with a high birth rate, has the fastest growing population of any region and is due to overtake its 1939 peak population this year. However, London's housing stock only grew in line with the England average between 2001 and 2007 (5 per cent growth) and just out-performed the national average in following the six years (4.9 per cent versus 4.3 per cent).

By failing to offer the quantity and type of housing needed at an affordable pace, large numbers of London's workers commute from outside the region to work. The 'iron filing' map below shows the general direction and number of commuters in each middle super output area across the south of England. From it and the underlying purple map, we can see that the general commuting trend towards London reaches far beyond the capital's administrative boundary.

With increasing pressure on the housing stock, between 2001 and 2011 the number of people commuting into London increased from 724k to 793k. Looking at those commuting into inner London shows a larger shift with 186k more commuters but with 118k fewer people commuting into outer London. However, both of these trends are dwarfed by the 680k additional people living in the capital and working in innner London. Overspill demand from London may be driving house price

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	London's share
Land Area	1%
Population	13%
Employment	14%
No. of Homes	12%
Public Spending	14%
Tax Receipts	19%
GVA	22%
Median Earnings (premium)	39%
House Price (premium)	115%

Source: ONS, DCLG, HM Treasury, Oxford Economics Nationwide

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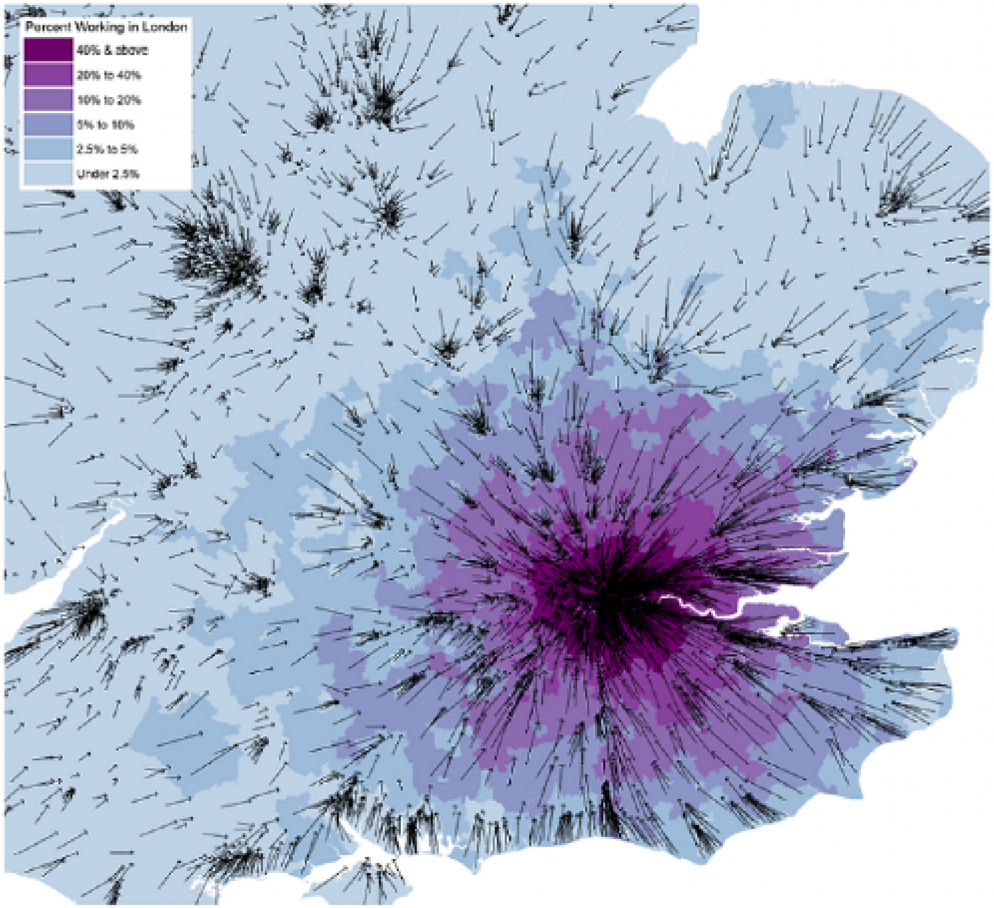
growth across the south of England but the largest pressures remain in the city where growing numbers of people are living, working and studying.

Figure 1 – Commuting Patterns in the South of England Point Towards London



Source: Savills Research using 2011 Census

Importing the Young, Exporting the Old

Fairly frequently a journalist decides that they have tired of life in London and so write a piece on how the capital has changed and they plan to move out. What the story typically fails to mention is that the journalist is just following a decades' long trend: London imports the young and exports the old. Young people come from across the UK and the world for study and jobs. As they get older, possibly have children,

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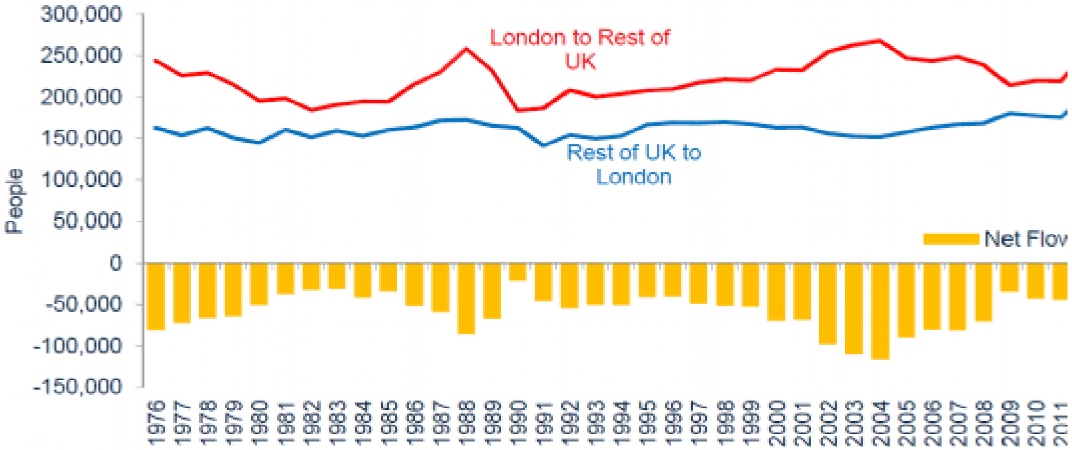
want more space or their own home, many will jump across the greenbelt and move out of London.

The recent increase in housing market activity and price growth, driving London house prices to a record premium to the rest of the country (figure 3 below), has led to an increase in the number of people leaving London. This in turn has helped to drive house price growth across the rest of the country with the south of England and Midlands now above their 2007/08 house price peak according to the ONS.

Figure 2 – London Domestic Migration Flows



Source: ONS

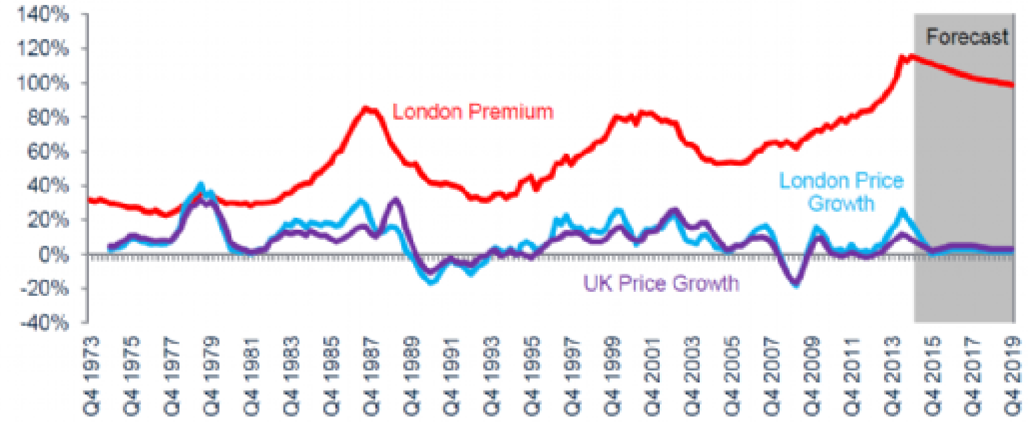
Over the last 37 years (and probably since the war) London has consistently seen a net out-flow of people to the rest of the UK. The strength of the net flow tends to be driven by the housing market and wider economic conditions. The recent recession reduced the outflow to its lowest level since 1990.

Savills Research is forecasting the London price premium to ease over the next five years. Recent price growth, affordability constraints and possible interest rate rises will limit the capacity for growth in London and so Savills forecasts are for it to under-perform all other regions over the next five years. This is a marked difference to some other forecasts for the period (table below).

Since the 1970s there have been two periods when the premium eased. The first was during the late 1980s/early 1990s when prices boomed and then crashed. Of more relevance is the 2001-05 period when house prices in other regions ‘caught up’ with London. However, the capacity for this ‘catch-up’ will be more limited this time due to tighter mortgage lending and economic conditions.

London House Price Forecasts to end 2019	
Savills	10%
Knight Frank	26%
JLL	29%
CBRE	30%

Figure 3 – London House Prices at a Record Premium to UK Prices



Source: Nationwide, Savills

London house prices reached a record premium above UK average prices in the second quarter of 2014 according to Nationwide. The London premium hit 115% in 2014, compared to 83% in 2001 and 85% in 1987.

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