Property Millionaires: The Growing Housing Divide

By Paul Cheshire
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Introduction

The term 'millionaire' has long been reserved for those considered to have extreme wealth. A distant aspiration that was unattainable for the vast majority of the UK, but is this still the case and if so, for how much longer?

As house prices continue to climb, the million pound marker becomes less of a pipe dream for many of those nearing the top of the ladder and this unthinkable price tag is increasingly associated with 'modestly priced' homes.

Fast-forward five, ten or even fifteen years and this trend is even more prevalent, but so are a number of more concerning issues. Affordability, particularly amongst those on lower incomes worsens and the divide between the property rich and the property poor is severe.

Despite this, the cost of borrowing hovers around record lows. Conditions might be tough, but with the right support, those that want to get on the ladder can.

The purpose of this report is to take a forward look at Britain's property market in 2020 and 2030, to get a clearer understanding of how the market might evolve. How many £1Million properties are there likely to be and where will they be concentrated? How affordable will buying a property have become and how realistic will getting on the property ladder be for those who aspire to buy?

Understanding the market

The irony of house price increases is that it benefits existing owners but is potentially damaging for those who have yet to buy. In addition, if house prices rise faster than real incomes (incomes adjusted for inflation) - as they persistently have over the past fifty years - then the quality of housing buyers can afford also falls. New home owners have to make do with smaller houses in less convenient locations – maybe further from their jobs, friends and family and a good local school, meaning the need to compromise increases.

The latest English Housing Survey highlighted this paradox. It showed a continuing rise in age for first time buyers and that the proportion of 25 to 34 year olds who were owner-occupiers had fallen from over half (59%) to just over a third (36%) in ten years. For the first time ever, more owner-occupiers did not have mortgages than did. In other words we are witnessing a concentration of housing wealth in older, long standing property owners: the silver-haired millionaires. With the young increasingly priced off the housing ladder altogether.

Our methodology

Economists can only forecast the future on the basis of past behaviour, so all forecasts assume the future will in some sense look like the past. With this in mind, we have estimated what we believe to be the main factors driving house prices since 1961, which are real incomes, changes in population, house construction and interest rates. We have then estimated the influence and future values of those variables to forecast future house prices and affordability.

Real incomes are by far the most influential of the variables mentioned. Rising population – widely cited as explaining house prices or housing shortages – has remarkably little influence on property prices. This seems to be because as people get richer, they try to buy bigger and better houses; and on average most people have been getting richer over the past fifty years. Real incomes are up by a factor of more than three since the early 1960s.

Property market forecasts
The UK as a whole

Our underlying forecasts suggest that property prices will rise 23% by 2020 and 97% by 2030. An averagely priced home costing £280,000 today, would therefore cost around £344,000 five years from now and over half a million in fifteen years' time.
Demand for housing rises as the economy does better or when borrowing is cheaper and falls when the opposite is the case.
But since the number of houses we build hardly changes, these fluctuations in demand are expressed mainly as price changes.

As all the professionals who operate in the housing market know: this is the housing market cycle. How much prices will rise by 2020 or 2030 is, therefore, going to be influenced very strongly by where in the cycle we are today. House prices could collapse in 2019. But that would not mean that the long run trend had stopped going up. Equally they could boom right through to 2022.

Regional differences

While the overall UK trend in property prices is expected to be one of growth, these increases are unlikely to be uniform. The biggest price increase is expected to be in London and the smallest in Northern Ireland, closely followed by the two northern regions of England.

Figure 1 shows the current and expected property prices at a regional level, while Figure 2 (overleaf) highlights the smallest and largest increases in percentage terms.
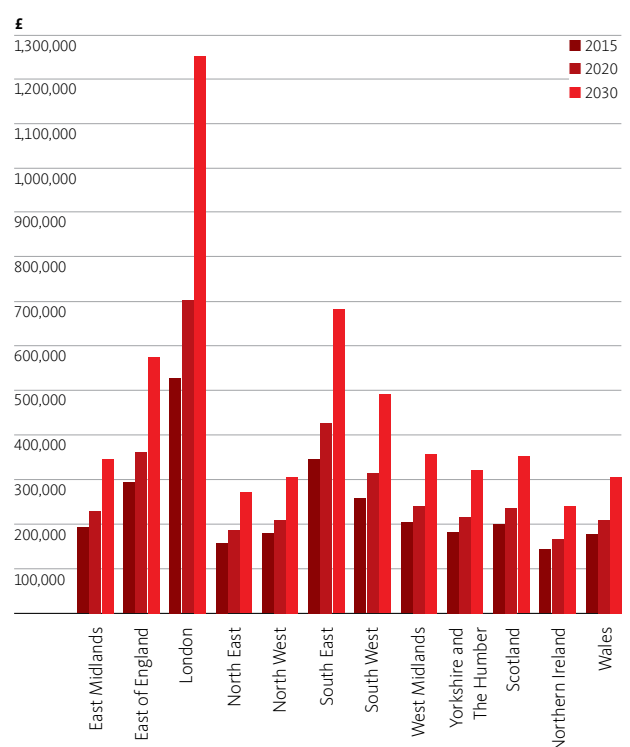
Affordability

We mentioned previously that property price inflation benefits owners but damages the chances of those who have yet to buy, and this is best understood by comparing incomes with property prices.

Buying a home will become less affordable over time, as prices rise and incomes fail to keep pace in real terms. Again the worst deterioration is expected to be in London and the decline in affordability is expected to be more acute for the poorest 25% of households relative to the cheapest 25% of houses. Northern Ireland is expected to remain the most affordable region. Here, people on mean incomes trying to buy average priced houses will see little change in affordability at all.

For the poorest 25%, affordability is expected to get worse in all regions, with the price of a house in the lowest quartile of all prices being some 17 times the income of a person earning the lowest quartile wage in London by 2030.

Figure 1: Current and expected property prices by region

Property Millionaires

So the overall trend is of rising prices and worsening affordability, particularly for poorer people and those in London and the South East. However this is good news for many existing owners, particularly those at the top end of the market, occupying more expensive properties.

As a symbolic threshold of 'expensive' we have looked to see how many houses our forecasts imply will have market prices of £1Million or more by 2020 and 2030 and where these £1Million+ houses will be concentrated.

Figure 2: Percentage increase in property prices by region

Region	Price Change%	
	2015-2020	2015-2030
East Midlands	+19%	+79%
East of England	+23%	+96%
London	+33%	+137%
North East	+17%	+72%
North West	+17%	+71%
South East	+23%	+97%
South West	+22%	+91%
West Midlands	+18%	+76%
Yorkshire and The Humber	+18%	+77%
Wales	+18%	+76%
Scotland	+18%	+76%
Northern Ireland	+16%	+68%
UK	+23%	+97%

Overall, the number of UK properties worth at least £1Million is expected to more than triple between now and 2030. Almost half a million homes in the UK - representing 1.77 per cent of the total housing stock - are currently valued at £1Million or more. By 2020, this is set to rise to almost 689,000 (2.37 per cent), and by 2030, this is expected to reach 1.6 million or 5.14 per cent.

Not surprisingly these really expensive £1Million+ houses are concentrated in London and the South East of England. By 2030 the forecast is that some 25% of London's housing stock will be priced at a £1Million or more, with about 7% of the stock in the South East at that same level. In stark contrast – underlying the increasing difficulty of anyone moving from lower price regions to London and the South East and remaining a house owner - in Northern Ireland we expect only 0.28% of the housing stock will be priced at more than £1Million by 2030 and under 1% in the North East, Yorkshire and The Humber, North West, Wales, Scotland and East Midlands. By 2030 the UK will be even more starkly divided into the housing wealthy and the housing poor than it is now.

Figure 3 (overleaf) breaks these forecasts down into smaller areas, demonstrating the striking divide.

To give some further examples, at the top end of the spectrum, two London Boroughs are expected to have more than 70% of their houses priced at £1 Million+ and another three to have more than half their houses at that level. In contrast, many areas in the UK are expected to have a negligible number of such expensive houses and one, Torfaen in Wales, home now to over 90,000 people, none at all. Outside London only three of the Home Counties - Buckinghamshire, Hertfordshire and Surrey - are in double figures in percentage terms together with Windsor and Maidenhead.
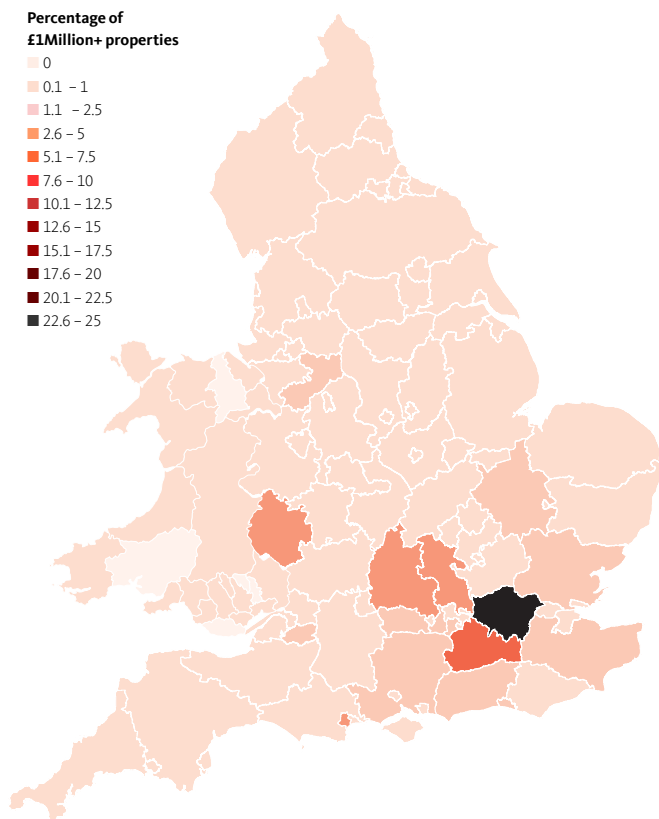
Figure 3: Proportion of £1Million+ properties in 2015 vs 2030
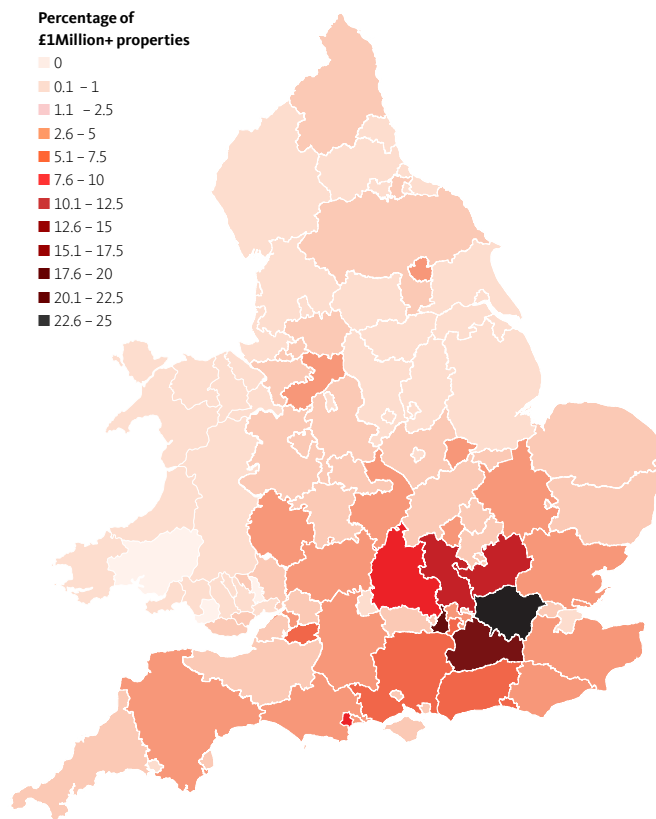
2015

Percentage of £1Million+ properties
- 0
- 0.1 – 1
- 1.1 – 2.5
- 2.6 – 5
- 5.1 – 7.5
- 7.6 – 10
- 10.1 – 12.5
- 12.6 – 15
- 15.1 – 17.5
- 17.6 – 20
- 20.1 – 22.5
- 22.6 – 25

2030

Percentage of £1Million+ properties
- 0
- 0.1 – 1
- 1.1 – 2.5
- 2.6 – 5
- 5.1 – 7.5
- 7.6 – 10
- 10.1 – 12.5
- 12.6 – 15
- 15.1 – 17.5
- 17.6 – 20
- 20.1 – 22.5
- 22.6 – 25

Conclusion

The fact that property prices will increase in the next five to fifteen years comes as no surprise, but by focusing on certain price points like the £1Million marker, we can see how rapid these changes will come about and where in the UK they will be. For the majority of property owners, this inflation will be good news, pushing more and more owners into the £1Million+ price bracket. For those who still aspire to buy a home, it will make taking that step on to the ladder increasingly difficult.

There are a host of new, meaningful schemes, readily available advice and product offerings designed especially to enable first time buyers onto the property ladder. Coupled with this, lenders recognise the important role this tranche of the market plays in maintaining a strong housing eco-system. Potential buyers should not be deterred from entering the market, nor should existing owners be complacent. Today's buoyant market could be sluggish or soaring by tomorrow and there will be winners and losers in both situations.

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Report Sources:
OBR Price inflation prediction 2016-2030
OBR Real Average Income Prediction 2016-2030
ONS log real house prices (simple average, £) UK & Regions 1961-2015
ONS House price index UK & Regions 1961-2015
ONS Household income (£) UK 1961-2015
ONS population & net addition to population UK & Regions 1961-2015
ONS log of real gross household income per capita (£) UK & Regions 2004-2014
ONS NUTS1&3 LAU1 Boundaries, Names and Codes 2015
Bank of England CPI 1961-2015
Bank of England Credit costs (pc) 1961-2015
DCLG dwelling stock & net addition to dwelling stock (house units) UK & Regions 1961- 2015
Land Registry, House prices ENG + WAL 1995-2015
Land Registry No of sales,
Registers of Scotland, House price & No of sales 2005-2015
Northern Ireland Statistics and Research Agency, House price & No of sales
HMRC SPI Lower quartile income / Mean 1999-2015

Table 1: £1Million+ Houses by Counties & Unitary Authorities

County	£1Million+ House (Numbers)				£1Million+ House Percent			
	2010	2015	2020	2030	2010	2015	2020	2030
Bath and N.E. Somerset	1,044	1,643	2,346	5,455	1.5	2.1	2.9	6.3
Bedford	75	237	448	1,749	0.1	0.3	0.6	2.2
Blackburn with Darwen	0	179	199	405	0	0.3	0.3	0.6
Blackpool	0	72	72	133	0	0.1	0.1	0.2
Blaenau Gwent	0	0	0	24	0	0	0	0.1
Bournemouth	45	544	766	3,079	0.1	0.6	0.8	3.1
Bracknell Forest	237	698	931	2,900	0.5	1.4	1.9	5.5
Bridgend	0	0	0	24	0	0	0	0
Brighton and Hove	534	1,738	3,028	9,527	0.4	1.4	2.3	6.9
Buckinghamshire	5,606	9,974	13,662	28,917	2.8	4.7	6.2	12.3
Caerphilly	0	117	117	214	0	0.1	0.1	0.3
Cambridgeshire	1,311	2,868	4,169	12,874	0.5	1.1	1.5	4.3
Cardiff	30	820	868	2,560	0	0.5	0.6	1.6
Carmarthenshire	0	0	0	24	0	0	0	0
Central Bedfordshire	217	433	626	2,684	0.2	0.4	0.5	2.1
Ceredigion	0	78	78	223	0	0.2	0.2	0.6
Cheshire East	968	1,819	2,395	5,910	0.5	1.1	1.4	3.3
Cheshire West and Chester	162	686	912	2,187	0.1	0.5	0.6	1.4
City of Bristol	186	1,606	2,401	7,879	0.1	0.8	1.2	3.6
City of Derby	0	60	96	132	0	0.1	0.1	0.1
City of Kingston upon Hull	0	242	262	303	0	0.2	0.2	0.2
City of Nottingham	110	678	714	1,002	0.1	0.5	0.5	0.7
City of Peterborough	58	379	467	1,258	0.1	0.5	0.6	1.4
City of Plymouth	57	243	317	1,039	0.1	0.2	0.3	0.8
Conwy	0	117	117	238	0	0.2	0.2	0.4
Cornwall	1,077	1,660	2,160	6,730	0.5	0.6	0.8	2.3
County Durham	34	465	488	670	0	0.2	0.2	0.3
Cumbria	275	579	661	1,545	0.1	0.2	0.3	0.6
Darlington	0	153	153	244	0	0.3	0.3	0.5
Denbighshire	0	0	24	145	0	0	0.1	0.3
Derbyshire	240	457	709	2,654	0.1	0.1	0.2	0.7
Devon	1,248	1,890	2,907	11,753	0.4	0.5	0.8	2.9
Dorset	401	1,173	1,950	6,909	0.2	0.6	0.9	3.1
East Riding of Yorks	107	249	290	695	0.1	0.2	0.2	0.4
East Sussex	1,153	2,095	3,635	10,475	0.5	0.8	1.4	3.8
Essex	3,288	6,524	9,935	30,037	0.6	1.1	1.6	4.4
Flintshire	0	273	345	442	0	0.4	0.5	0.6
Gloucestershire	1,308	2,290	3,548	9,248	0.5	0.8	1.2	3
Greater London	138,593	307,433	426,225	947,606	4.2	8.9	11.9	24.8
Greater Manchester	1,817	5,554	7,302	13,202	0.2	0.5	0.6	1
Gwynedd	0	117	141	383	0	0.2	0.2	0.6
Halton	0	179	220	343	0	0.3	0.4	0.6
Hampshire	2,886	7,176	11,187	32,404	0.5	1.2	1.9	5.1
Hartlepool	0	191	191	214	0	0.4	0.4	0.5
Herefordshire	102	310	436	2,359	0.1	0.4	0.5	2.6
Hertfordshire	7,663	14,976	21,905	56,374	1.6	3.1	4.4	10.6
Isle of Anglesey	0	78	102	223	0	0.2	0.3	0.6
Isle of Wight	101	159	231	822	0.2	0.2	0.3	1.1
Isles of Scilly	0	1	1	1	0	0.1	0.1	0.1
Kent	4,116	7,254	10,835	29,348	0.7	1.1	1.6	4.1
Lancashire	244	1,038	1,305	3,176	0	0.2	0.2	0.6
Leicester	0	392	482	788	0	0.3	0.4	0.6

Leicestershire	250	937	1,171	3,206	0.1	0.3	0.4	1
Lincolnshire	0	815	977	2,057	0	0.2	0.3	0.6
Luton	0	361	414	625	0	0.5	0.5	0.7
Medway	25	417	435	990	0	0.4	0.4	0.8
Merseyside	148	1,654	1,942	3,895	0	0.3	0.3	0.6
Merthyr Tydfil	0	39	39	63	0	0.1	0.1	0.2
Middlesbrough	0	77	77	213	0	0.1	0.1	0.3
Milton Keynes	52	535	1,000	3,310	0.1	0.5	0.9	2.8
Monmouthshire	31	276	276	1,097	0.1	0.7	0.7	2.5
Neath Port Talbot	0	156	156	228	0	0.2	0.2	0.3
Newport	0	312	312	433	0	0.5	0.5	0.6
Norfolk	464	1,317	1,722	5,186	0.1	0.3	0.4	1.1
North east Lincolnshire	0	69	69	110	0	0.1	0.1	0.1
North Lincolnshire	0	242	242	242	0	0.3	0.3	0.3
North Somerset	96	440	551	2,198	0.1	0.5	0.6	2.1
North Yorkshire	610	1,373	2,021	5,789	0.2	0.5	0.7	1.9
Northamptonshire	340	1,302	1,626	5,352	0.1	0.4	0.5	1.6
Northumberland	204	306	488	1,601	0.1	0.2	0.3	1
Nottinghamshire	115	571	787	2,209	0	0.2	0.2	0.6
Oxfordshire	4,308	8,175	10,378	25,579	1.7	3	3.6	8.4
Pembrokeshire	0	117	117	455	0	0.2	0.2	0.7
Poole	903	1,978	2,755	5,753	1.3	2.9	3.9	7.6
Portsmouth	26	226	262	1,139	0	0.3	0.3	1.2
Powys	0	78	78	368	0	0.1	0.1	0.5
Reading	24	361	755	3,530	0	0.5	1.1	4.8
Redcar and Cleveland	0	38	61	106	0	0.1	0.1	0.2
Rhondda Cynon Taff	0	156	180	204	0	0.1	0.2	0.2
Rutland	140	130	184	616	0.8	0.8	1.1	3.4
Shropshire	118	407	618	1,970	0.1	0.3	0.4	1.3
Slough	0	330	366	1,709	0	0.6	0.7	2.9
Somerset	186	611	981	3,849	0.1	0.2	0.4	1.4
South Gloucestershire	52	466	503	1,817	0.1	0.4	0.4	1.4
South Yorkshire	177	1,953	2,216	4,059	0	0.3	0.4	0.6
Southampton	0	275	311	758	0	0.3	0.3	0.7
Southend-on-Sea	99	296	578	2,811	0.1	0.4	0.7	3.2
Staffordshire	380	1,460	1,819	4,418	0.1	0.4	0.5	1.1
Stockton-on-Tees	32	272	318	522	0	0.3	0.4	0.6
Stoke-on-Trent	0	285	306	327	0	0.3	0.3	0.3
Suffolk	632	1,838	2,506	7,747	0.2	0.5	0.7	2.1
Surrey	17,492	26,699	37,871	83,116	3.5	5.5	7.6	15.7
Swansea	76	448	569	907	0.1	0.4	0.5	0.8
Swindon	0	227	246	523	0	0.2	0.3	0.5
Vale of Glamorgan	87	236	357	1,203	0.1	0.4	0.6	2
Thurrock	0	111	164	322	0	0.2	0.2	0.4
Torbay	69	121	288	787	0.1	0.2	0.4	1.1
Torfaen	0	0	0	0	0	0	0	0
Tyne and Wear	255	1,707	1,957	3,547	0.1	0.3	0.4	0.7
Warrington	86	438	602	1,486	0.1	0.5	0.7	1.6
Warwickshire	921	1,872	2,675	8,126	0.3	0.8	1.1	3.1
West Berkshire	745	1,390	1,981	4,488	1.3	2.1	2.9	6.2
West Midlands	856	5,510	6,651	12,249	0.1	0.5	0.6	1
West Sussex	2,371	4,389	6,502	23,261	0.7	1.2	1.7	5.8
West Yorkshire	846	3,109	3,757	7,909	0.1	0.3	0.4	0.7
Wiltshire	665	1,573	2,516	7,809	0.4	0.8	1.2	3.3
Windsor and Maidenhead	2,796	4,103	5,822	12,590	4.6	6.6	9.1	18.5
Wokingham	313	934	1,525	6,574	0.5	1.5	2.3	9.4
Worcestershire	506	1,253	1,802	4,866	0.2	0.5	0.7	1.8
Wrekin	0	214	277	425	0	0.3	0.4	0.6
Wrexham	0	156	156	253	0	0.3	0.3	0.4
York	55	627	769	2,430	0.1	0.7	0.9	2.6