

## Appendix A2 Further property price information

# A2

### A2.1 Introduction

This Chapter provides further detail in support of the housing market analysis set out in Chapter 5. It contains information on prices obtained from the analysis of Land Registry property price data, and explains the methodology and approach used in our survey of local estate agents.

The estate agent survey is a key step in assessing minimum and average property prices in Kensington and Chelsea but only provides limited information concerning price difference within the Borough, and doesn't shed light on the prices relative to other Local Authorities in the region.

We can look at the wider context of prices in the surrounding areas, and also the differences between areas within Kensington and Chelsea, using information available from the Land Registry. This data is valuable in giving further background to the local housing market, although it does not displace the need for the estate agent information.

### A2.2 Reasons for housing market study

The level of market prices and rents is a key factor in this study for two main reasons:

- (i) Market prices and rents indicate the cost of market housing in Kensington and Chelsea. A major reason for government interest in prices is to address the needs of households that cannot afford this cost. Hence the existence of social rented housing and low-cost home ownership options, which represent partial ownership. Thus it is important to establish the entry levels to both home ownership and private renting.
- (ii) The price/rent information indicates the contours of the housing market in Kensington and Chelsea. This is important for the Council when considering not only the level of subsidy required to produce new social rented and other non-market priced housing, but also the degree to which it should attempt to manage the new-build market in accordance with government guidance.

This chapter is devoted to identifying the first of the above elements: the cost of housing.

### A2.3 Background to housing market analysis

As a preliminary to the present phase of the work it is desirable to draw attention to some key features of housing markets:

- (i) **Housing markets are quite complex.** Housing markets can be defined, at the larger scale, by such features as journey to work areas. In the case of free-standing market towns these may appear as fairly neat circular areas. In most of Britain, however, the high density of population means that housing market areas overlap.

In the extreme case of London, its market area extends for some purposes as far away as York, Milton Keynes, Bristol and the South Coast. At the same time there are well defined market areas within London (east v west; north v south of the river).

- (ii) **Property prices vary within market areas.** Depending on the attractiveness of the area, property prices may vary considerably within a few miles or even, in large cities, within a few hundred yards. This is due to the history of the area and the nature of the housing stock. These variations are important from the point of view of housing cost analysis, which underpins the study of subsidised forms of housing. It is important to know what the entry level costs of housing are. These can only be established by close study of detailed local price variations.

- (iii) **Newbuild is only a small fraction of the market.** In almost all parts of Britain, newbuild is a small fraction of the total housing market. The majority of all sales and lettings are second-hand. The important point to note in this is that second-hand housing is normally much cheaper than newbuild. Only at the luxury end of the market is this not true: some extensively refurbished properties will have higher values than new build, especially in some parts of the Royal Borough. However, entry level housing will normally be second-hand.

Although Government guidance refers to some forms of newbuild as 'affordable' very little newbuild is anything like as affordable as existing second-hand housing.

These features of the housing market are worth bearing in mind when considering the detailed evidence produced in the following subsections of this chapter.

## A2.4 Government guidance on the study of housing markets

The Guide makes several references to market studies:

<b>ODPM Guide</b>	<p><i>'The relevance of data on private sector housing costs stems primarily from the role of such data in facilitating analyses of affordability, which are central to most local housing needs assessment models. The essential feature of such models is that they measure the extent to which a given group of households can afford to meet their housing needs through the private market. Generally, most attention is focused on the price of properties for sale. However, some models also take account of private sector rent levels'. [Section 7.3 (page 94)]</i></p> <p><i>'Typically, local authorities can draw on two or three sources of house price information. These include; direct contacts with local estate agents; county-wide monitoring by county councils; local or regional data available in published or unpublished form from the major national mortgage lenders (particularly Halifax and Nationwide); and data from the Land Registry'. [Section 7.3 (page 95)]</i></p> <p><i>'An alternative approach to defining current threshold prices is to derive appropriate figures in consultation with local estate agents. Although it appears more subjective, this latter approach has a number of advantages. Firstly, it enables properties in poor condition to be screened out. Secondly, it is better able to reflect the whole market rather than being limited to the market share of the mortgage lender concerned. Lastly and most importantly, the properties can be specified in terms of size and type, matched to particular household types'. [Section 4.3 (page 58)]</i></p>
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These extracts say, in summary:

- (i) Housing market information is essential to the assessment of affordability.
- (ii) There are various secondary and primary sources for such information.
- (iii) There are some advantages to the primary data route: obtaining information directly from estate agents, since that reflects the true entry cost of housing, and is not particular to one mortgage source.

The best route to meeting these requirements is a combination of secondary data (the Land Registry, which covers all transactions) and estate agents survey.

In keeping with comments above, we concentrate upon price variations rather than the study of the whole market. This is because in terms of affordability of local housing, the important factor is its price, not its location relative to wider housing markets.

## **A2.5 The need for primary data**

There are four main reasons why Land Registry data cannot be used to calculate prices for use in the affordability model. These are:

- i) The information can only usefully give a guide to average prices. For a Housing Needs Survey we take the view that it is necessary to estimate the minimum price for which dwellings in satisfactory condition are available.
- ii) No information is available about the condition of the dwellings whose price is being obtained. Clearly a property which needs major repairs is unlikely to be suitable for a first-time buyer with a limited budget, even if the initial price is relatively low.
- iii) A more serious limitation of this source is that records are kept by property type (i.e. detached, semi-detached, terraced, flat) and not in terms of the numbers of bedrooms. This information is, in our view, essential to provide an accurate assessment of need.
- iv) The Land Registry data cannot produce information about rental levels, which again ought really to be considered in carrying out a satisfactory analysis of affordability. There may be a small, but significant, number of households who cannot afford to buy market housing but who could afford suitable private rented housing. The affordability of such households cannot be adequately considered using only sale price information.

Despite these drawbacks the information available is certainly of interest to give some feel to the local context of property prices, and more specifically to provide comparison between prices in different areas.

## **A2.6 Estate agents survey: Methodology**

The methodology employed to find purchase and rental prices takes the following steps:

- i) We establish the names and telephone numbers of local estate agents. This includes well known national estate agents as well as those operating specifically in the local area (allowing for good comparative measures of smaller and larger agencies). The estate agents selected are intended to be those dealing primarily with housing at the lower end of the market (e.g. not specialist agencies dealing with up-market properties)

- ii) These are then contacted by telephone and asked to give a brief overview of the housing market in the Borough - including highlighting areas of more and less expensive housing
- iii) The questioning takes a very simple form (this tends to improve efficiency without jeopardising results - people often lose interest when asked a series of detailed questions and quality of response is diminished). All agents are asked 'in their opinion'

*'What is the minimum and average price for a one bedroom dwelling in good condition (i.e. not needing any major repair) and with a reasonable supply (not one off properties occasionally coming onto the market)?'*

- iv) This process is repeated for 2, 3 & 4 bedroom dwellings
- v) The same questions are then asked about private rented accommodation
- vi) Once several estate and letting agencies have been contacted, the results are tabulated and averages calculated to give an accurate estimation of minimum and average purchase and rental prices in the Borough. Any outlying values are removed from calculations.
- vii) The estimated purchase and rental prices are then inserted into the analysis to estimate the numbers able to afford a dwelling depending on the minimum number of bedrooms that the household requires.

## **A2.7 Land Registry data**

The Land Registry compiles information on all residential land transactions. Analysis of this data is made available for recent quarterly periods, for geographical areas including Council areas, and more highly disaggregated data postcode areas, and by four main dwelling types.

This data is thus very versatile, and can potentially provide a valuable picture of housing market behaviour in quite specific detail. However, an eye needs to be kept on the size of sample when using disaggregated data for smaller areas and/or periods.

We used the data to provide several useful views of the housing market in and around Kensington and Chelsea. These are considered below.

## A2.8 Comparing prices in neighbouring areas

The Land Registry data can be used to show how prices in Kensington and Chelsea compared to those in nearby and adjoining local authority areas. The table below shows average sale prices for the Local Authorities adjoining Kensington and Chelsea.

<b>Table A2.1 Average property prices by Local Authority (2nd quarter 2004)</b>									
<b>(number of sales in brackets)</b>									
Property type	Kensington and Chelsea	Wandsworth	Richmond -upon- Thames	Hammersmith and Fulham	Ealing	Brent	Camden	City of Westminster	Eng & Wales
Detached	£4,758,368 (3)	£1,101,313 (27)	£942,365 (82)	£625,666 (3)	£595,196 (40)	£500,632 (39)	£1,122,475 (20)	£1,731,375 (8)	£261,941 (66,865)
Semi-detached	£1,828,922 (13)	£579,021 (103)	£472,721 (250)	£798,292 (14)	£325,780 (274)	£305,698 (184)	£1,010,818 (40)	£1,285,847 (19)	£158,730 (84,707)
Terraced	£1,433,137 (158)	£421,155 (514)	£383,533 (425)	£561,865 (285)	£273,890 (461)	£293,715 (203)	£672,206 (100)	£942,841 (135)	£134,990 (98,086)
Flat/maisonette	£529,692 (831)	£268,652 (1,272)	£267,642 (474)	£299,987 (583)	£183,868 (533)	£191,482 (452)	£316,528 (702)	£456,092 (1,106)	£167,171 (50,328)
Overall average	£701,155 (1,005)	£337,982 (1,916)	£394,247 (1,231)	£393,307 (885)	£257,787 (878)	£252,787 (878)	£408,707 (862)	£528,394 (1,268)	£175,401 (299,986)

The overall average price figures for each Borough (e.g. Kensington and Chelsea at £701,155) show that in all Boroughs property prices are significantly more expensive than the England and Wales average of £175,401. There is a degree of variation amongst the prices in the area. Brent has the lowest (£252,787) and the City of Westminster has the highest (£528,394) average price after Kensington and Chelsea.

## A2.9 Historical results for Kensington and Chelsea

We will now examine in more detail information from the Land Registry for Kensington and Chelsea. The table below shows data for sales over the last five years. The data for each case is the 2<sup>nd</sup> quarter of the year.

<b>Table A2.2 Average property prices in Kensington and Chelsea – 1999 to 2004 (2<sup>nd</sup> quarters)</b>						
<b>(Number of sales in brackets)</b>						
Property type	1999	2000	2001	2002	2003	2004
Detached	£566,916 (12)	£2,323,600 (10)	£2,572,224 (6)	0 (0)	£4,065,833 (6)	£4,758,368 (3)
Semi-detached	£465,357 (14)	£1,348,663 (19)	£1,880,469 (22)	£2,303,895 (21)	£2,161,416 (3)	£1,828,922 (13)
Terraced	£502,567 (179)	£1,193,635 (213)	£1,117,960 (157)	£1,253,621 (207)	£1,444,779 (99)	£1,433,137 (158)
Flat/maisonette	£268,610 (1,133)	£387,413 (1,056)	£414,019 (959)	£461,531 (1,117)	£439,524 (551)	£529,692 (831)
<b>OVERALL</b>	<b>£304,643 (1,338)</b>	<b>£548,700 (1,298)</b>	<b>£550,147 (1,144)</b>	<b>£612,202 (1,345)</b>	<b>£631,396 (559)</b>	<b>£701,155 (1,005)</b>

Prices rose considerably over the 5 year period, for the most part occurring in the first year rather than in subsequent years. Those for detached and semi-detached houses have behaved more erratically, reflecting their small number of sales.

## A2.10 Differences within Kensington and Chelsea

### (i) General methodology

The general methodology is quite straightforward. We have drawn up a list of the main postcode sectors within the Borough, and mapped where these postcodes are. The table below gives a brief description of which postcodes apply to which areas of Kensington and Chelsea.

It should be noted that the Local Authority boundaries are not always coterminous with postcodes. Therefore some properties in a postcode may be outside the area; in addition it is possible that some parts of the Borough are in a postcode zone that is predominantly located outside the Local Authority area, and are therefore excluded from analysis.

This means that the data by sub-area is only a guide to actual variations within Kensington and Chelsea.