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NEGATIVE EQUITY: THE NATURE AND INCIDENCE OF BRITAIN'S LATEST HOUSING CRISIS

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Introduction

In Britain we seem to lurch from one housing crisis to another. In the owner-occupied sector problems of affordability in the 1980s have been transformed into problems of negative equity in the 1990s. Houses suddenly shifted from being too expensive to being too cheap in a matter of months. What is presented here is merely part of a larger story about how the failure of a market system is causing people misery, preventing the efficient use of a resource we all need, but appear unable to manage sensibly - housing.

Negative equity is the situation which occurs when the market price of a property falls below the value of the original mortgage the owner occupier secured against that property (Bank of England, 1992). The extent of negative equity is the excess of that mortgage above the current property's market price. Whether an individual household holds negative equity will depend on two factors: the current value of their home and the size of mortgage outstanding to purchase that home. Secondary mortgages and other loans secured against the home are not included in the definition of negative equity used in this chapter.

There has long been a suspicion that housing in Britain was over-valued in comparison with the rest of Europe (*The Economist*, 1992), and that Britain may be becoming over reliant on the owner-

occupied sector. The British experience could then serve as a useful warning to other parts of Europe, particularly in the light of the liberalisation of European housing finance.

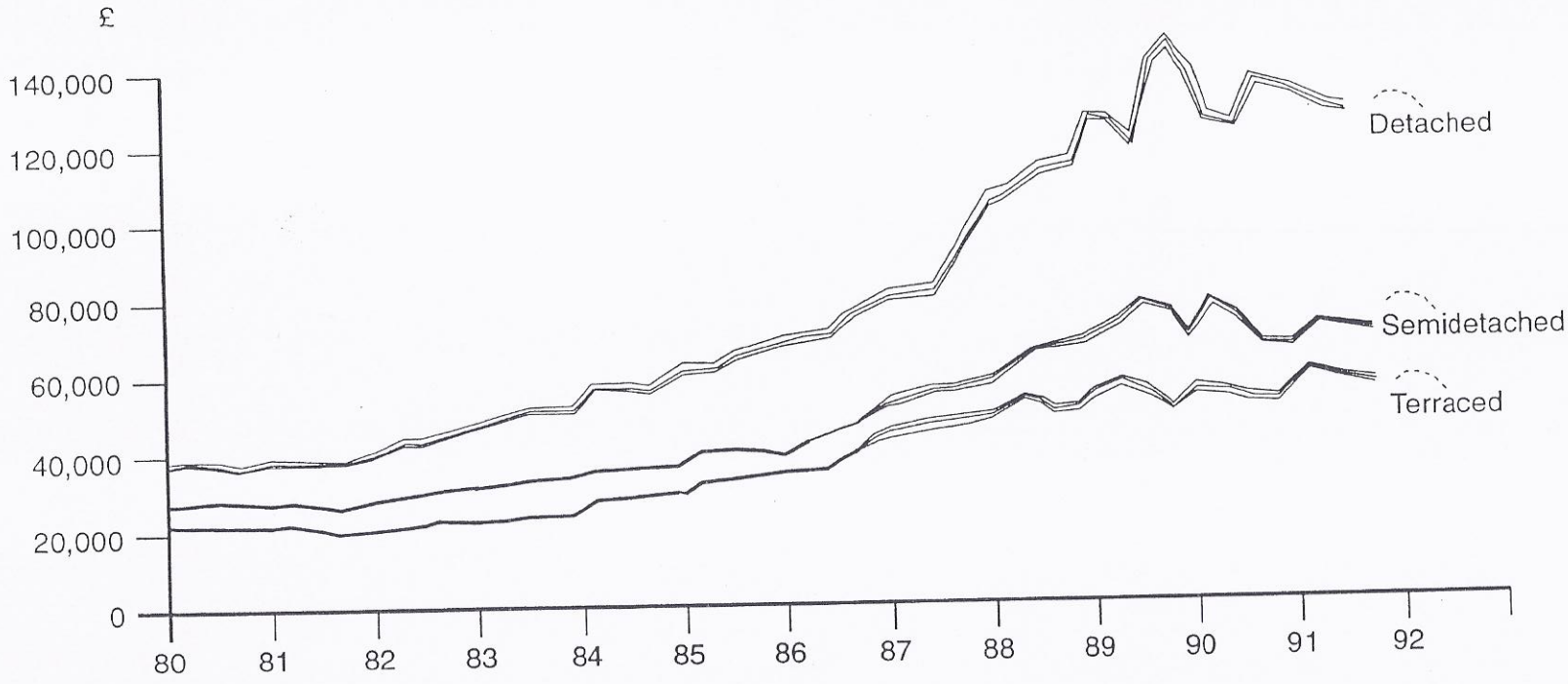
To Britain, the crisis is of great economic importance as negative equity is a significant component of the debt overhang from the 1980s. The rise of negative equity is now preventing individuals from spending, and reducing the mobility of skilled labour. It has halted the widespread use of homes as assets upon which capital can be raised for investment. It is preventing people from moving house when they need to. Freedom of movement - freedom to choose where to live - is being eroded by the dysfunctional operation of the supposedly free market.

The house price crash

To understand the nature of negative equity we need to understand the nature of the house price crash which partly brought it about (although as Gentle, 1993, claims the underlying reason is more probably mortgage finance deregulation). Figure 1 shows a graph of house prices from 1981 to 1991 based upon a sample of just over 1,000,000 mortgage records. These records were made available for research purposes by a major building society. The peak in national house price rises can be seen around 1990, though nationally prices actually first fell in 1988 after which the pattern became very erratic as slight recoveries failed to sustain themselves in the 1990s and what used to be called 'seasonal fluctuations' oscillated wildly.

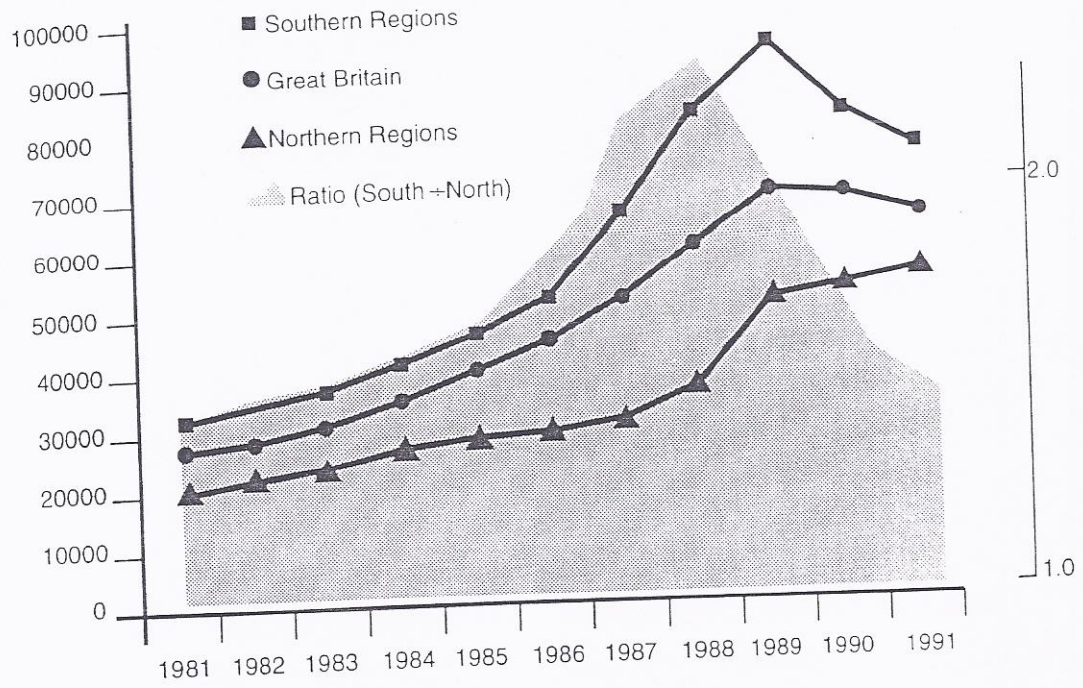
More dramatic is the impression given by Figure 2, which shows how the widening gap in house prices between southern and northern England from 1981 to 1988 narrowed rapidly from 1988 to 1991, prices falling relatively (between regions) more than twice as fast as they rose. This figure is based upon house prices calculated by using an average of different housing types to allow for the different mix of housing between the regions (Brunsdon et al, 1991). This method can also be used for comparing local areas, even when transaction rates are low. Figure 2 emphasises the point that absolute house prices fell substantially after 1989 in the south of England.

Figure 1: National house price trends in Britain 1980-92 by quarter showing 95% confidence limits



Source: Unadjusted published building society mortgage records from 1980-91 and Halifax Building Society standardised estimates of national house prices during 1992

Figure2: The north/south divide - regional average house price changes 1981-91



Note: The southern regions are the south east, south west and East Anglia; the northern regions are the north, north west and Yorkshire and Humberside

Source: Weighted average unpublished building society mortgage record prices

One advantage of having access to many individual mortgage records is that analysis does not have to be concentrated at the national or regional levels. Indeed, analysis using large areas can be misleading; some published house price figures might make one assume the house price crash began, right across southern England, in the third quarter of 1989 (see the Halifax standardised indices of house prices). The available sample of mortgage records has been linked to local government wards, of which there are over 10,000.

When we examine the data at this level, the pattern is of a stark north/south divide running along the traditional geographical line, but there are many local variations that stand out against this

pattern; relatively cheap housing in some parts of Inner London and relatively expensive prices in parts of North Yorkshire, for instance.

Analysis at this very local level is particularly useful for identifying where price falls started. For example, would it have been possible to have predicted this major fall after 1989 from the declines in Inner London which were already apparent in the previous year? Similar pictures of house price inflation between 1983 and 1987 show the London area as having the highest rates of inflation previously (Dorling, 1991).

Whether or not it was possible to foresee the housing market crash, it came as a great surprise to many people who believed that houses would continue to increase in monetary value indefinitely. With rates of inflation in local areas as high as 30% to 50% in many areas, people came to see private housing as a worthwhile speculative gamble rather than a secure form of investment. The housing market crash has made many rethink the nature and purpose of private housing in Britain. Many now see it as neither a worthwhile gamble nor a secure investment, despite most houses being much less expensive now than a few years ago and the overall cost of home buying being at its lowest level 'in real terms' since 1971 (Nationwide, 1993).

Calculating negative equity

Negative equity is not a completely new phenomenon. In the mid 1980s it occurred in Aberdeen as a result of sharp falls in house prices there (Hunter, 1986), but that period was short lived and quickly written off as a 'fluke'. At the ward level small groups of areas could be seen throughout the 1980s to be experiencing actual house price drops. However, as they most frequently occurred in clusters, in inner city areas, they were attributed to the places (where other people lived) going downhill. However, it was not until the house price crash made the reality a national one, that it began to be studied as a serious problem.

Housing market: the debt trap (Wrigglesworth, 1992a) was one of the first attempts to assess the extent of negative equity. Published in June 1992 it claimed that 1.5 million householders in the UK had negative equity. The estimate was based on regional house price falls reported by the Halifax Building Society, numbers of house buying transactions provided by the government, and figures for the distribution of first time buyer's loan-to-price ratios

produced by the Council for Mortgage Lenders. The greatest advantage of this approach is that all the information used is publicly available and has been standardised to take into account known biases. A disadvantage of the method is that it relies on a number of assumptions, such as the distribution of price falls being uniform within regions and across housing types, the proportion of house buying transactions which involve mortgages being known and, most importantly, that the size of a first time buyer's loan-to-price ratio is independent (in statistical terms) of the price of the house it is being used to finance.

The Bank of England (1992) employed a model derived from that above, but with some subtle alterations, including a change in the number of house buying transactions which were assumed to involve a mortgage. This caused the estimated number of people with negative equity to be revised to be closer to 1,000,000 by the summer of that year. However, the model was known to follow conservative assumptions, the implication being that a more reasonable figure would indeed be higher. Slight changes of assumptions can greatly affect the final figure of both the numbers holding and the extent of negative equity.

Two colleagues and myself first became interested in trying to estimate the extent of negative equity at the time that these reports were being published (Dorling, Gentle and Cornford, 1992a). We chose to adopt a very different approach to these methods because we were interested in the effect of the problem on particular individuals rather than the national economy as a whole. An obvious way of calculating negative equity is to take a sample of individual households and compare the current market value of each one's property against the value of the mortgage used to buy it. If the sample is truly representative and the estimates of current market value accurate, then an unbiased estimate of the extent and distribution of negative equity can be made.

Unfortunately a truly random sample of householder mortgage and property details was not available, but all the anonymised records of a large building society were. These were used to make various estimates of the current distribution of the problem over time, over space and between different people buying different types of home. The most important disadvantage of this method is that the particular building society may not be typical of all mortgage lenders, and we had no access to any other lender's records to assess the degree by which they might differ. We also did not have access to which mortgages were no longer current, and

so have had to make the assumption that negative equity has been passed on in transactions which have occurred since 1987. On the whole, however, our assumptions have been very conservative in nature.

The national rise over time

The most difficult element in estimating a householder's level of negative equity is the current market value of their home. During a housing market crash estimates of house prices become less reliable as houses become harder to sell. Nevertheless it is possible to make an estimate. To do this we looked at the change in the average prices of similar properties which were bought at the same time and in the same place as the one whose current value we wished to estimate. Four categories of housing and 112 housing market areas were defined for the purpose of following price changes annually to the end of 1991 (Coombes and Dorling, 1993). To estimate the current market value at the end of 1991 of any home, its purchase price was multiplied by the average change which that type of housing in that place underwent.

Bringing this figure up to date is problematic because the sample of mortgages that was used did not extend beyond 1991. To overcome this the most detailed alternative source of information was employed - the Halifax Building Society's average county prices for each quarter in 1992. Each housing market falls approximately into a county and the average change from the third quarter of 1991 was used to estimate market values which were current in 1992. To give an example, if a household bought a three bedroom semi (with full central heating) in Oxford in 1988, it would be assumed to have fallen in price by 8.5% by the third quarter of 1991 (the average for that type of house in that place over that period). According to the Halifax list the average value of a house in Oxfordshire fell by a further 10.6% by the third quarter of 1992; ie at more than three times the annual rate in the previous four years.

Once we can assess the current market value of a property in the sample of mortgage records, we are in a position to estimate the extent of negative equity for each buyer in the sample. We can then estimate the proportion of mortgage holders with negative equity and the extent of this in terms of total mortgage lending. Factoring up by the nationally reported levels of mortgage lending

in each year we arrived at an estimate of total negative equity in Britain in October 1991 of £1.20 billion (see Table 1). Assuming prices had shifted nationally according to the shifts reported by the Halifax county list, then by October 1992 this figure had risen to £2.68 billion (for further details see Dorling, Gentle and Cornford, 1992b). Due to the conservative nature of the assumptions made these figures may well be underestimates of the real extent of the problem, but the rise of 120% from third quarter 1991 to third quarter 1992 gives a fair impression of how quickly negative equity was rising nationally.

When house prices fall more buyers who purchased in earlier and later years are pulled into the debt trap as the table below shows: each row in the table gives the proportion of people who bought in each year who now have negative equity. The estimated national total for each cohort, is summed to the totals referred to above. The total percentage is of recent buyers only (1988-1991). It can be seen that literally nobody who purchased before 1987 was estimated to have negative equity in either 1991 or 1992 but that the total proportion of recent buyers doubled from roughly 1 in 20 to 1 in 10. Almost nobody who purchased in 1991 had negative equity that year (as it is assumed that they bought at the market price), but by October 1992, 20% of these purchasers saw the value of their new homes fall below the size of their mortgage.

Table 1: Estimates of levels of unsecured mortgage debt in Britain in October 1991 and October 1992 by year of house purchase

Year of purchase	By October 1991		By October 1992	
	Borrowers	Equity	Borrowers	Equity
1986	0%	£0m	0%	£-0m
1987	0.1%	£-1m	1.6%	£-19m
1988	13%	£-335m	18%	£-769m
1989	12%	£-445m	15%	£-707m
1990	19%	£-418m	30%	£-929m
1991	0.1%	£-1m	20%	£-256m
Total (1988-91)	11%	£-1,200m	21%	£-2,680m

Source: Unpublished building society records and the third quarter Halifax price estimates

The spread over space

Of equal importance to the national rise is the geographical spread of negative equity. Although total home lending figures are not published for areas below the national level, the proportions of buyers in the sample holding negative equity can still be estimated. To achieve this, the ward location of each mortgage record was used to assign it to the area for which the estimate was desired. The current value of the house was still calculated using housing market areas (for which, by design, statistically significant changes can be reported) but the proportions of buyers were estimated for reporting areas which can be independent of these.

The areas still most widely used in housing analyses are counties, standard regions and (in the south east) regional subdivisions and so these have been used here as they are likely to be of most interest. Table 2 shows the proportion of recent buyers (1988-1991) estimated to have had negative equity by the end of the third quarter in 1991 and 1992. The average amount of negative equity for all the households who hold negative equity in each region is also shown.

The regional concentration of negative equity at this point in time is stark and obviously follows the geography of the house price crash (at this spatial scale); the 'south' of Britain had rates varying from 24% to 41% by October 1992 whereas rates in all regions in the 'north' were less than 9%. The change in negative equity over the year followed a similar pattern: London and the East Midlands led the rise with increases of 22 and 18 more new buyers holding negative equity for every 100 who bought between 1988 and 1991. The rest of the south east and the south west both saw increases of over 10 percentage points, whereas the north experienced only one more new buyer in every 100 holding negative equity, and Scotland actually saw its proportion halve from 2.1% to 1.1% during that period (because house prices were reported to be rising there).

As explained above, the method by which we estimated negative equity did not restrict us to using standard regions. However, it must be remembered that during 1992 the most accurate information we had on house price movements was provided at the county level.

Table 2: Estimates of levels of unsecured mortgage debt in Britain amongst 1988-91 buyers by region

Region of purchase	By October 1991:		By October 1992:	
	Borrowers	Mean equity	Borrowers	Mean equity
Northern Region	2%	£-2,054	2%	£-1,312
Yorks and Humberside	2%	£-2,495	5%	£-1,657
East Midlands	11%	£-2,988	29%	£-3,565
East Anglia	17%	£-3,779	24%	£-4,076
Greater London	19%	£-3,273	41%	£-5,468
Outer Metropolitan	14%	£-4,254	26%	£-4,996
Outer South East	21%	£-3,821	31%	£-4,202
South West	14%	£-4,098	26%	£-4,347
West Midlands	3%	£-2,031	8%	£-2,076
North West	1%	£-2,750	6%	£-1,246
Wales	3%	£-2,327	8%	£-2,194
Scotland	2%	£-1,748	1%	£-2,249

Source: Unpublished building society records and the third quarter Halifax price estimates

One of the most interesting sets of areas to use when trying to gauge the possible impact of the problem is parliamentary constituencies. There are over 600 of these in Britain, and so they provide a level of detail at the local scale which shows us other spatial influences on negative equity as well as the regional geography of the housing market collapse.

The house price changes are clearly reflected in the detailed distribution of negative equity. Cambridgeshire and Wiltshire, for instance, can be seen as areas where reported house price falls have been less severe and consequently the proportion of recent buyers holding negative equity in these places is lower. However obvious patterns can be seen within these counties. South east Cambridgeshire and Salisbury have levels below 5% and 10% respectively. The western crescent around London - Chesham and Amersham, Beaconsfield and Windsor and Maidenhead - stands out as having lower levels than its immediate geographical neighbours, as does the city of Bath. Moving north it can be seen that it is generally the more affluent suburbs in which the problem is least

acute; while in the north east only Redcar and Middlesborough have levels of above 10% - some of the least affluent parts of the Teesside conurbation. We estimate that, nationally, seven constituencies had more than 60% of their recent buyers holding negative equity in October 1992. These were (in alphabetical order) Basildon, Leyton, Luton South, Newham North East, Newham North West, Newham South and Southend East. Within the differential regional effects of house price falls the geographical pattern shows negative equity to be highest in areas traditionally seen as less affluent. Outside the south east it is a similar story, St Ives, Northampton South, Leicester East, Bristol East and Corby all having rates of over 50%. In individual constituencies local factors, such as a large number of houses coming onto the market just before the crash, might have a part to play. But in general there is a systematic pattern to the local distribution of negative equity which can only be caused directly by one thing - high rates of borrowing and hence low rates of deposit. The areas most affected were characterised by high proportions of moderate income first-time buyers.

The distribution in society

The primary reason why individuals will have negative equity is because they bought their (often first) house at the wrong time, between 1988 and 1991. The most obvious reason for this will be that they were born at the wrong time - something it is difficult to avoid! The second most important reason why individuals will have negative equity is that they bought a house in the wrong place, initially in the south of England. They bought it where house prices were about to fall, again something that was very difficult to avoid. The third most important reason why one purchaser might hold negative equity while another does not is that they borrowed too much to buy their house (again at the wrong time in the wrong place). But how were people to know they were doing that, particularly given the advertising and expectations of the time? How much was too much to borrow?

Table 3 shows that if you bought a house anywhere in Britain since 1988 with a 100% loan you were more than likely to hold negative equity by the third quarter of 1992. This is not a particularly surprising statistic. What is interesting is how quickly an individual's likelihood of holding negative equity diminishes as

their mortgage-to-price ratio falls below 85%. This means (again rather obviously in retrospect) that negative equity is likely to be lowest in areas where people tend to buy their second or subsequent homes (and hence usually have a deposit from the 'profit' on the sale of their former home), or have larger than average deposits to put down on their first home. By contrast, areas with many first-time buyer estates, or where people tend not to be able to save (or inherit) a large deposit are those where we see the highest levels of negative equity.

Table 3: The distribution of negative equity by mortgage advance proportion

Mortgage advance as a proportion of purchase price	Proportion of recent buyers (88-91) with negative equity	
	October '91	October '92
Less than 70%	0.02%	0.1%
70% or more but less than 75%	0.6%	2%
75% or more but less than 80%	2%	5%
80% or more but less than 85%	4%	9%
85% or more but less than 90%	8%	21%
90% or more but less than 95%	15%	36%
95% or more but less than 100%	25%	43%
100%	37%	64%

Source: Unpublished building society records and the third quarter Halifax price estimates

The importance of these findings is that it is not the conventional image of the 'unlucky yuppy' which we should be thinking of when we consider the social impact of the rise of negative equity; but more likely the households who are suffering are people who have never made any money out of housing, do not live in particularly affluent areas, have bought their first house and may now be wanting to move again with growing families, and are less likely (than on average) to have the resources to escape the mortgage debt trap - whether these be savings, rich parents or whatever. Negative equity may be as concentrated socially in the wrong type of people, as it is in the wrong times and wrong places. As the table above

shows these probabilities have roughly doubled over the course of the year.

The point that is being made is that people could not foresee the housing market crash. Experienced analysts failed to do that, even if we do argue now as to whether, with new techniques, it would have been predictable. People do not choose when and where they are born. They are encouraged by a consumer-led society, and by the lack of suitable supply in alternative tenures, to buy houses at a certain age and to borrow a great deal of money in the process. To blame these individuals for the plight that they are in would be invidious, as the majority have done just what they were encouraged to do. However, these people may have one factor in their favour. That is that - being the 'type' of people that they generally are, living in the places that they do and being of the ages that they are - electorally they could be far more important than average voters. This is a potentially fruitful area for future research.

Fourth quarter of 1992

During the fourth quarter of 1992, new figures were released showing one of the largest quarterly falls in British house prices ever reported. The Halifax Building Society house prices showed an average decline in the quarter of 4.3%, while the Nationwide Building Society figures recorded an average fall of 4.6%. Both societies urged caution over the interpretation of these figures, being due partly to temporary suspension of the transaction tax, Stamp Duty, in August and being based upon an extremely low number of transactions. Nevertheless these falls are in line with the expectations of people in the industry (Wrigglesworth, 1992b), and represent the most up-to-date picture of the housing market to which we have access.

Comparing the average regional prices shown by the Halifax third and fourth quarter bulletins, the largest quarterly falls were in the East Midlands (7.3%), the South West (6.7%), Scotland (5.6%) and Yorkshire and Humberside (4.3%). The lowest falls being in Wales (2.5%), the West Midlands (2.3%), the North West (1.5%) and East Anglia (0.7%). The average price for all the houses being given mortgages by the Halifax Building Society in London actually rose (by 3%) in the quarter, although their standardised price which attempts to take account of the nature of the properties

being sold fell by 3.3%. At the county level the range was even more extreme, with our example of Oxfordshire recording a fall of 12.1% in just these three months, ie more than three times the rate in the previous four quarters (which themselves saw declines of more than three times the rate in the previous four years). Obviously with the crash accelerating at rates such as these, the figures become very hard to believe and must indeed reflect the quality of the properties being sold and the desperation of those selling them.

Comparison with the figures reported by the Nationwide Building Society for the same period underline the uncertainty. Although recording a very similar national fall to the Halifax, the regional pattern they report is very different. The largest quarterly (standardised) fall was in East Anglia (7.9%) which was the lowest (unstandardised) fall recorded by the Halifax, whereas their lowest fall was recorded in the East Midlands (2.1%) which had the highest reported fall according to the mean prices given as regional averages by the Halifax! In Greater London the Nationwide recorded a quarterly decline of 5.8%. We have never been so uncertain as to what is actually happening to house prices as we are today. Nevertheless households are actually selling at these very low prices and building societies are reporting such sales, so existing owner occupiers will see these figures as representative of the state of the market no matter how many caveats are applied. Negative equity is as much an imaginary quantity as a reality, for until an individual actually comes to try to sell their property, they will not really discover whether they have a significant problem or not. If the house price falls that have just been reported are sustained, however, the problem will become more real for more people. It is with this scenario in mind that I have updated the figures presented in the tables above, using exactly the same methodology as described there (but using the fourth quarter figures), to give an idea of how the picture seemed to be changing at the end of 1992.

What the figures in Table 4 show is that (if the reported house price falls are to be believed) our estimate of the national extent of negative equity rose by 38% in just three months, up from £2.68 billion in October 1992 to stand at £3.7 billion at the year end. Again it should be stressed that this static figure is probably an underestimate of the true scale of the problem. The number of all recent buyers who hold negative equity rose by 27% to stand at 27%, implying that the average amount of negative equity held also

rose. What is most interesting is the change breakdown by year of purchase which shows how the problem is becoming more widespread in terms of time of purchase. The number of people who bought in 1987 or 1991 who now have negative equity increased by more than half over the last quarter of 1992, while the amount of negative equity held by people who bought in 1991 doubled during that same three month period.

Table 4: Estimates of levels of unsecured mortgage debt in Britain updated

Year of purchase	By December 1992		Change from October 1992	
	Borrowers	Mean equity	Borrowers	Mean equity
1986	0%	£0m	-	-
1987	3%	£-35m	+59%	+84%
1988	20%	£-982m	+9%	+28%
1989	18%	£-842m	+6%	+19%
1990	37%	£-1,334m	+23%	+44%
1991	32%	£-514m	+58%	+101%
Total(88-91)	27%	£-3,707m	+27%	+38%

Source: Unpublished building society records and the fourth quarter Halifax price estimates

So negative equity is spreading out from just those who bought at the peak of the house price boom to entrap purchasers from both earlier and later periods. The most significant rises are occurring for people who only bought just over a year ago when the headlines in the newspapers read 'now is the time to buy'. No wonder buyers are so wary today. It must be stressed, however, that our estimates of current house prices depend upon the Halifax Building Society Bulletin which has recently diverged from the pattern reported by the Nationwide Building Society. We continue to use this source to maintain compatibility with our previous findings as it is the estimates of change which are most interesting.

How then have the last three months seen negative equity spread over space? This is shown in Table 5. The largest percentage increases have been in Scotland and the Northern Region, where

the numbers of recent purchasers holding negative equity have increased by 40 and 30 times respectively over the quarter. This was predominantly because these two regions had the lowest rates of negative equity in October and have only just begun to see significant absolute house price falls since then. At the other end of the scale our estimate for the number of recent borrowers with negative equity in Greater London has remained unchanged because the average county house price has been static.

Table 5: Updating the regional distribution of unsecured mortgage debt

Region of purchase (1988-91)	By December 1992		Up from October 1992	
	Borrowers	Mean equity	Borrowers	Mean equity
Northern Region	10%	£-957	350%	-27%
Yorks and Humberside	10%	£-2,255	115%	36%
East Midlands	32%	£-3,724	11%	4%
East Anglia	26%	£-4,122	8%	1%
Greater London	41%	£-5,436	0%	-1%
Outer Metropolitan	37%	£-6,232	40%	25%
Outer South East	43%	£-5,829	37%	39%
South West	33%	£-5,287	24%	22%
West Midlands	12%	£-1,979	56%	-5%
North West	10%	£-1,372	63%	10%
Wales	14%	£-2,773	80%	26%
Scotland	6%	£-1,831	463%	-19%

Source: Unpublished building society records and the fourth quarter Halifax price estimates

The next five smallest increases in rates have been in East Anglia, the East Midlands, the South West, and the Outer South East and Outer Metropolitan sub-regions. After Scotland and the North, the highest increases have been in Yorkshire and Humberside (+115%), Wales (+80%), the North West (+63%) and the West Midlands (+56%). Negative equity is spreading out in space as well as time, to the more peripheral regions, with a vengeance.

The pattern of change in the average amount of negative equity held is less clear cut than that of its occurrence. The biggest drops in average amounts held have been in Scotland and the North; where the substantial widening of the base of householders holding negative equity has caused the average value per household to fall. The average amounts of negative equity held have increased by the largest percentages in the Outer South East and Yorkshire, but this has been due as much to the nature of the distribution of mortgage-to-price ratios in those areas as it has been affected by the price falls. The change in an individual householder's chance of holding negative equity given these ratios is shown in Table 6.

Table 6: Distribution of negative equity by mortgage advance proportion updated

Mortgage advance as a proportion of purchase price	Proportion of recent buyers (88-91) with negative equity	
	Dec 1992	3rd - 4th quarter change
Less than 70%	0.3%	+136%
70% or more but less than 75%	3%	+62%
75% or more but less than 80%	7%	+61%
80% or more but less than 85%	15%	+69%
85% or more but less than 90%	30%	+8%
90% or more but less than 95%	49%	+35%
95% or more but less than 100	52%	+21%
100%	75%	+17%

Source: Unpublished building society records and the fourth quarter Halifax price estimates

As might be expected the increases again suggest that the impact of negative equity is spreading to different types of borrowers. The biggest increase (of 136%) in those whose mortgages were less than 70% of the purchase price of their house is insignificant, as we still estimate that in this band only one householder in every 300-400 will hold any negative equity. The rises of over 60% in all the bands between 70% and 85% are significant as in 1991 almost nobody in these groups held negative equity (see Table 3), whereas now as many as one in six householders who bought between 1988

and 1991 nationally, with what would have been seen as 'safe' deposits of 15-20% of the price of their home, now hold negative equity (and appear to have 'lost' those deposits). In the higher ratio bands the increases diminish as there are fewer and fewer mortgage holders left to add. Three out of four people who purchased a house between 1988 and 1991, with a 100% mortgage, now have negative equity.

Future speculation

Given all this information, what is most likely to happen in the near future? As the discussion of fourth quarter 1992 house price changes shows, we now know less than we have ever done about the direction in which house prices are moving in different parts of Britain. For example, in February 1993 the Nationwide Building Society announced a 1.2% overall rise in January and the Halifax Building Society a 0.4% overall fall (Radio Four, 1993). I am intrigued, however, by the slight rises recorded by the Halifax Building Society in the arithmetic average prices for Greater London between both the second and third, and the third and fourth quarters of 1992. Their simple average county price has also stopped falling. The reason for my interest is that both the house price boom and crash began in London. The present crisis has been deepest in London and so could be expected to 'bottom out' there first. Unfortunately, until we are given the detailed mortgage records for 1992 we will be unable to check exactly what has been happening to prices inside the capital.

Even if we can begin to map the geography of the housing market recovery in the 1990s, the problem of negative equity is not going to disappear. Negative equity is a problem which needs to be addressed by government, not something they can hope will quickly disappear with a little inflation. The reason for this is that economic change is not uniform. It will not affect all places and groups of people equally and simultaneously. Just as the house price crash has taken five years to travel from London to Glasgow, so too the recovery - when it comes - may well take just as long to work its way across the country. We must not go back to thinking of negative equity as something that happens to other people in other places at other times. We must not be fooled into believing that when house prices rise again they will all rise at once. People and places will be left behind; that is the nature of the economic

and social geography of Britain. What is worrying is how important will these people and places be to those who are making the policy decisions of the future? Will the people with the 90% plus mortgages, living in the places where house prices have not yet risen, in the types of housing which are no longer so desirable, who bought way back in 1988, matter in 1996?

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