

What adds value to your home?

- Location remains the key to house values
- Bedrooms and bathrooms add more than 5% to property values
- New build premium falls to 6%
- Lack of central heating reduces prices most in the North

	Bedroom	Bathroom	Loft Conversion	No Central Heating	Parking	Good Location
Value added	6.0%	5.2%	20.9%	-6.8%	6.5%	35.9%

Commenting on the figures Fionnuala Earley, Nationwide's Group Economist said:

"Rather than just waiting for the general rise in prices, there are a number of ways to add value to property. Nationwide research shows that an extra bedroom can add 6% to the price of a property and an extra bathroom more than 5%. Building a loft extension to combine the two rather than moving, could make a family £24,000 better off after taking moving costs into account. But location is still the most important factor. A house in the best neighbourhood can command a price more than a third higher than a similar house in an 'average' area."



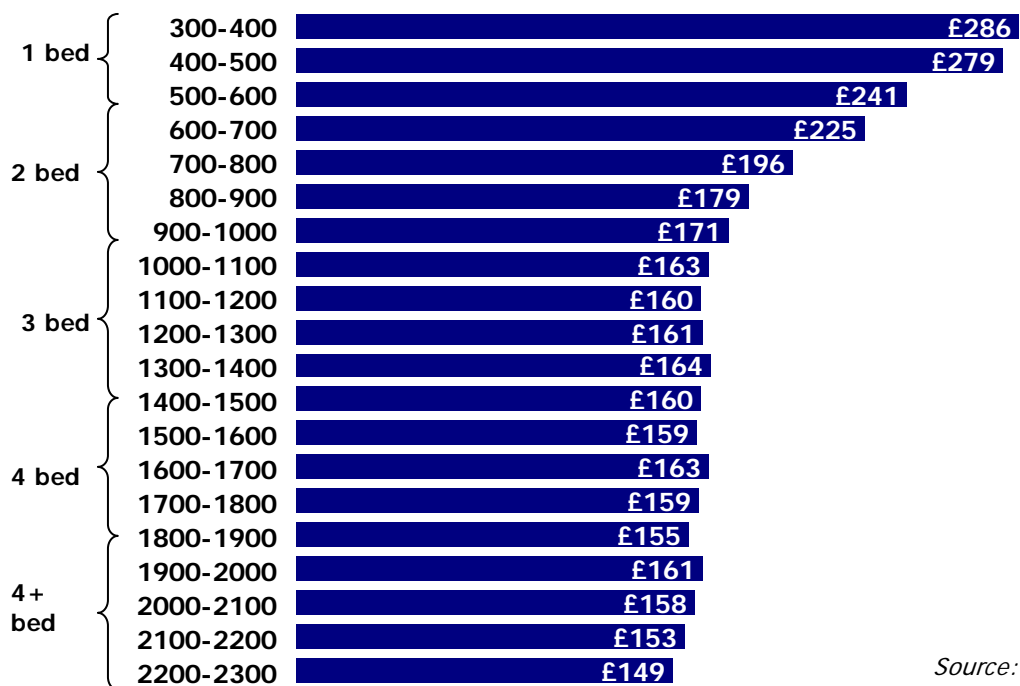
Even when house prices are rising, every homeowner is keen to increase or at least maintain the value of their home. So what are the factors that can really make a difference to the value of people's homes? In addition to the estate agent's mantra of 'location, location, location', we have looked at our house price index to identify the physical property characteristics that add, and sometimes take away, value from property. Nationwide research shows that size and numbers of rooms matter, but only up to a point and that other factor such as age, off street parking and central heating attract a smaller premium than they have in the past.¹

Size matters

While larger properties cost more to buy, smaller ones command the highest price per square foot. Small one bedroom flats cost over £285 per square foot, compared to around only £149 in a large four or five bedroom house. The marginal cost per square foot falls largely because it is relatively cheaper to build larger properties.

However, just because smaller properties are most expensive by floor area doesn't mean that adding floor space isn't a good investment. This is still a good way to add value to a house since effectively turning a small house into a larger one means it appeals to a greater number of potential buyers. In addition there is evidence that in spite of the trend towards smaller households there is an increase in the amount of space people prefer to have per person resulting from rising incomes and living standards and expanding owner occupation¹.

Chart 1: Average Price per square foot



Source: Nationwide

Notes: Approximate number of bedrooms to square footage

And so to bed

Looking at square feet is precise, but isn't the conventional way of categorising property in the UK. Estate agents and buyers tend to talk in terms of the number of bedrooms. Adding an extra bedroom to a property is a good way to increase value – and it adds more than it did in the past.

If the floor area of the property is increased to accommodate an extra bedroom, for example by extending over a garage, this helps to maximise the return. Adding a bedroom of 140sqft (about the

¹ King and Hayden (2005) Room to Move? Household Formation, Tenure and Housing Consumption *House Builders Federation*

size of a double bedroom) to a two bedroom house increases its value by 12%. Adding the same to a three bedroom house increases its value by 8%. The third bedroom premium has increased from 10.8% in 2003, but the fourth bedroom premium has dipped slightly from 9%.

Adding an extra bedroom by converting existing space also adds value, but by less than if there is extra space. The amount it adds has also increased in the last three years. In 2003 an extra bedroom in a two bedroom house added around 4.3% to the overall value of the property, compared to around 6% now. The premium for adding an extra bedroom to a three bedroom house, again without adding floor area, is much less at 2.3%, about the same as it was three years ago. While buyers are willing to pay for extra rooms, adding an extra bedroom by cannibalising existing space generally adds less value. It is clear that people do therefore value good-sized rooms.

Interestingly the premium attracted by an extra bedroom, either adding extra floor space or not, differs across the regions. The highest premium for adding a third bedroom is in the North West. In general there are higher premiums for adding a third bedroom in the Northern regions of the UK. In Scotland, adding a fourth bedroom without adding any extra floor space leads to a loss of value of 0.7%. This suggests that the Scots value bigger room sizes more highly. This could be explained by past planning regulations which imposed minimum standards for room sizes in Scotland.

Table 1: Value added by extra bedrooms & floor space

	No change in floor space		Adding floor space	
	2 bed to 3 bed	3 bed to 4 bed	2 bed to 3 bed	3 bed to 4 bed
UK	6.0%	2.3%	12.0%	8.0%
North	8.6%	1.8%	15.1%	7.8%
West Midlands	6.6%	0.8%	13.6%	7.4%
London	4.8%	1.6%	11.8%	8.3%
Outer South East	3.3%	1.0%	9.4%	7.0%
Scotland	6.9%	-0.7%	13.9%	5.7%

Source: Nationwide

Three's company, four's a crowd?

The fourth bedroom premium is lower than the premium for adding a third, whether or not this includes extra floor space. The fourth bedroom premium has fallen since 2003 in all parts of the UK². However, the third bedroom premium increased in the last three years from 4.3% to 6% even without adding any extra space, and from 10.8% to 12% if a 140sq ft room is added. This is true across most of the regions of the UK too, with the exception of London, the Outer South East and East Anglia.

This could be explained by the fact that four bedroom properties are more common than they were. While the proportion of 4 bedroom properties being built has come down over the last five years, even now they account for 25% of newly built property and have thus been adding to the stock of larger properties. However it is more likely to be explained by the rapid increase in prices in the last three years. Prices are now one third higher than in April 2003 which may mean that people are less able to afford the fourth bedroom and hence the premium has come down.

The only way is up?

In periods of rapidly rising prices, not only does the cost of the house go up, but so too do the costs associated with moving. Improving rather than moving saves stamp duty, legal fees, removal costs, as well as the hassle of both selling your property and finding another one.

A growing family living in a typical three bedroom house but wanting an extra bedroom and bathroom, would have to spend £196,000 to move up the ladder. While their own home would fetch about £162,000, they would also face estate agents fees of around £2,500, solicitors' fees of around £3,000 and stamp duty of almost £2,000 – a total of about £7,500 even without other removal costs,

² With the exception of the South West, where the premium for an extra 4th bedroom without adding floor space increased from 1.5% to 2%

time off work etc. And if they are borrowing a high percentage of the value, some lenders even impose a high lending charge.

For such a family a home improvement project such as a loft conversion could be the answer, providing both the accommodation and adding considerable value, but avoiding some of the transactions costs. Converting the loft to add 300sqft foot of floor space incorporating the extra bedroom and bathroom would add about 21% to the value of the property - around £34,000. Estimates of the cost of such a loft conversion are around £17,500³. Overall this hypothetical family would be around £24,000 better off by extending rather than moving house.

Clean up by adding a bathroom

An extra bathroom is still a desirable feature and would add around 5% to the price of a similar property with just one bathroom. Interestingly the premium for an extra bathroom has been falling over time, perhaps as they become more of a common feature. Three years ago an extra bathroom would have added almost 10%.

Table 2: Premium for having two bathrooms compared to a similar property with one

	2+ Bathroom premium
UK	5.2%

Source: Nationwide

However, whilst these figures suggest it would be worthwhile installing an en-suite bathroom, it is important that this isn't at the expense of a bedroom. Converting the third bedroom of a three bedroom house into a second bathroom would actually knock 1% off the property value, in addition to the cost of the conversion.

A big chill takes the price down

Most properties that are bought and sold now have full central heating, but adding central heating will still add around 7% to house values. The installation of full gas heating system costs around £5,000⁴ whilst the added value will be around £10,000. In addition, a new energy efficient system can save money on utility bills.

Terraces and older properties tend to command a greater premium for central heating. A full central heating system can add as much to 10% to the value of pre-1945 houses, although this may partly capture other modernisation benefits.

Given that most properties now have central heating it is interesting to look at how much not having it takes away from the value of a property. Not having central heating detracts from the value by about 6.8% across the UK, but there is an interesting, if not surprising regional differentiation. In the more northerly regions of the UK, with the exception of Northern Ireland, having no central heating takes more off the value of a house than it does in the South. In Scotland and the North West, not having central heating detracts more than 12% from the house value, while in the South West it detracts less than 5%.

Table 3: Value detracted from property from not having central heating

	Loss of value due to no central heating
UK	6.8%
Scotland	12.1%
Yorkshire and Humber	8.2%
London	6.4%
South West	4.6%

Source: Nationwide

³ www.loftshop.co.uk 09/05/2006

⁴ www.whatprice.co.uk 09/05/2006

No Parking

Having somewhere to park the car is desirable, particularly in heavily populated areas, but the premium for parking has fallen. Three years ago having a parking space added 8.1% and a double garage more than 20%. Today a parking space will add 6.5% and a double garage 14.5%

Table 4: Value added to property price by adding parking / garage

	Parking Space	Single Garage	Double Garage
UK	6.5%	7.7%	14.5%

Source: Nationwide

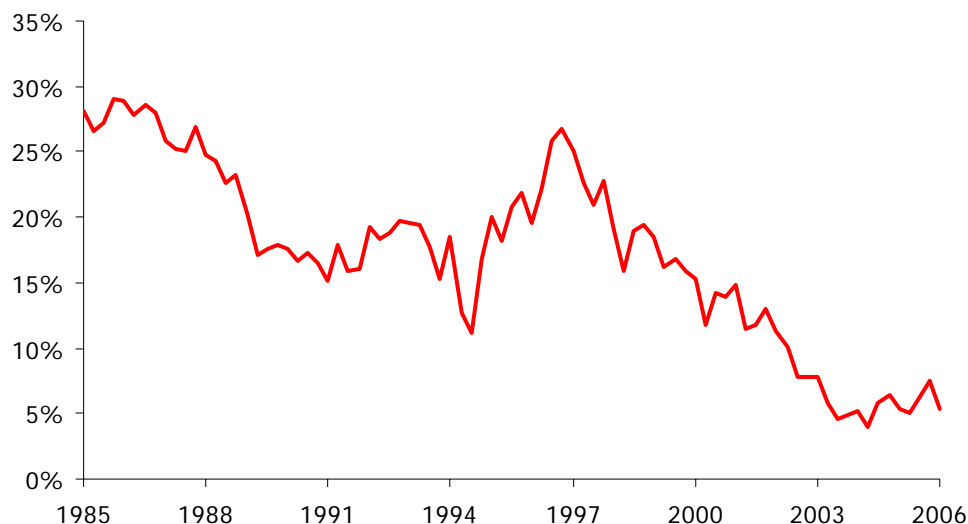
Less than a quarter of properties traded in the last year have no parking space, although may have access to on street parking. On a like for like basis, having no off street parking detracts about 6% from the property price.

New, but not quite so shiny

Historically new builds have attracted premium prices due factors such as the 'never lived in' novelty, no on-going chain, building guarantees and energy efficiency. However, the premium paid for new build property has fallen considerably over the last ten years. In the late 1990s a brand new house would have cost 15-20% more than a similar second hand one. This premium has steadily fallen through the 2000s to a current level of around 6%. This is likely to reflect, at least in part, the improved quality of the older housing stock over time, but may also reflect the changing nature of housing development. Planners and developers have interpreted government planning policy guidance⁵ as encouraging higher density through smaller plot and unit sizes and have responded accordingly. It is possible that the reduction of the new build premium results, at least in part, from these changes.

Interestingly, there is a wide variation in the premium across property types. Indeed, a new detached house would actually cost slightly less than a second-hand detached house with similar characteristics. This could be due to the density issue, but is more likely to reflect preferences for older character properties in more mature areas.

Chart 2: New Property Premium



Source: Nationwide

⁵ Room to Move. House Builders Federation March 2005

Regional Differences

Differences in regional incomes and economic performance mean that otherwise identical properties can cost more (or less) to buy in different regions. Using London as a benchmark the cost of an identical house in the same type of area in the North West would be a third lower.

Whilst the biggest difference in the price of a like for like property is still between London and Northern Ireland, the relative gap is closing as prices in Northern Ireland are growing more than three and a half times the UK average. One London property is now worth 2.1 Northern Irish properties, compared to 2.6 in 2003 and 3.7 in 1999. Indeed the gap across all regions and London has narrowed, reflecting the relatively weak performance of the London market compared to the UK average over most of the period.

Table 5: Relative house values for a typical UK House in different regions

	2006			2003		
	Property Price	Number of properties per London property	Rank	Property Price	Number of properties per London property	Rank
London	£250,000	1.0	1	£200,000	1.0	1
Outer Met	£227,606	1.1	2	£166,006	1.2	2
Outer South East	£200,122	1.2	3	£137,757	1.5	3
South West	£189,497	1.3	4	£124,603	1.6	4
West Midlands	£170,433	1.5	5	£108,772	1.8	5
East Anglia	£166,891	1.5	6	£107,976	1.9	6
North West	£167,900	1.5	7	£95,243	2.1	8
Yorks & Humber	£158,426	1.6	8	£90,260	2.2	10
North	£156,053	1.6	9	£85,213	2.3	11
East Midlands	£155,599	1.6	10	£95,898	2.1	7
Wales	£149,245	1.7	11	£85,153	2.3	12
Scotland	£136,846	1.8	12	£92,456	2.2	9
Northern Ireland	£118,180	2.1	13	£76,096	2.6	13

Source: Nationwide

Note: The above results will be different to our published mix-adjusted series since the above assumes an identical house for all regions whereas our mix-adjusted series consider a typical house for the region being measured.

Location, Location, Location

Location is still the most important factors influencing property price, and saleability. Nationwide research⁶ reveals that on a like for like basis there is up to a 90% price premium on properties in the most affluent and prosperous areas compared to those in the most deprived areas. Making comparisons with the 'average' area is however more realistic. Compared to an average area, with residents who are 'comfortably off' prices in the less well off areas can cost almost a quarter less as a result of location alone. At the other extreme prices in the most affluent areas cost more than a third more.

Table 6: Premium relative to similar property in 'average' area

	Hard Pressed	Moderate Means	Urban Prosperity	Wealthy achievers
UK	-20.9%	-16.4%	30.5%	35.9%

Source: Nationwide

Notes: 'Average' area is defined as CACI ACORN classification "Secure Families". Other ACORN classifications are as follows: Hard Pressed = Burdened Singles; Moderate Means = Blue Collar Roots; Urban prosperity = Educated Urbanites; Wealthy Achievers = Wealthy Executives

⁶ Based on ACORN categorisation

While a number of factors together add up to the way a particular neighbourhood 'feels', certain characteristics can be identified. In areas where the residents are happy with their local authority there is a difference in house prices of 3%, about £5,500, compared to areas where residents are unhappy. Equally a similar comparison suggests a 3% price difference on the basis of street cleanliness.

Fionnuala Earley
Group Economist
Tel: 01793 656370
fionnuala.earley@ nationwide.co.uk

Jennifer Williams
Media Relations Manager
Tel: 01793 655203
jennifer.williams@nationwide.co.uk

ⁱ Our analysis does not take into account gardens, nor can it adjust for other aspects which are often, by their nature, subjective. Features such as interior design, garden landscaping and fitted kitchens may add value and enhance a property's saleability, but while one designer's makeover will add value for some buyers, the same design may detract from the price for others. Improvements finished to a higher standard will be more attractive than 'bodged' jobs, but there is a trade off in the cost spent on refurbishment and the price someone else is prepared to pay for it.