The Telegraph

House prices: gap between London and the rest of the UK 'widest in 40 years'

The average home in London is worth more than twice the average home outside the capital - a difference approaching £200,000

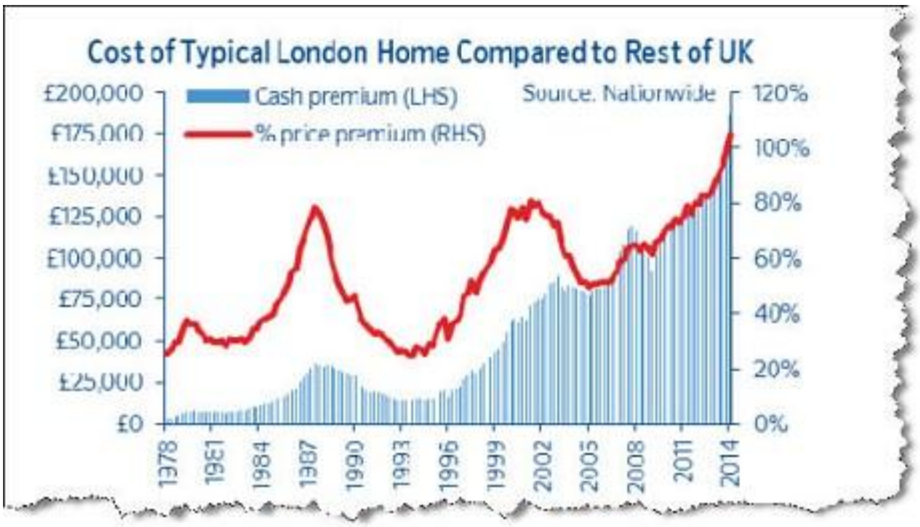
London property now costs 100pc more than property elsewhere in Britain. In pounds and pence the difference in price between the average home in and outside London is now £183,000, according to data from the UK's largest building society.

The gulf has never been as great since detailed data began to be collated in the late 1970s. Although London prices have always been at a premium, in that initial period - between 1978 and 1984 - the gap between the capital and elsewhere was less than 40 per cent.

And in the housing slump of the early 1990s, London lost its edge as the premuim between prices in the capital and elsewhere dropped again to around 30pc.

Only from the early 2000s did London prices truly detach from those elsewhere, in a trend which accelerated sharply in the years since the banking collapses of 2008-2009, and the financial and eurozone crises.

The figures emerge in the latest index from Nationwide, the building society, the provider of one of the most authoritative price indices.



Source: Nationwide. Both lines track the difference between London prices and those in the wider UK market

Nationwide's latest data said London prices were up 18pc on a year earlier, around twice the rate of inflation experienced in the wider market.

The surge, an extension of a pattern which has been evident in data from many sources for some time, now means London's prices are 20pc higher than at the last, pre-crisis market peak in 2007 (see the graph below).

Only two other regions are higher than their 2007 level: the "outer metropolitan" area around the capital, which is around 5pc higher than in 2007; and the "Outer South East" region, which also benefits from the London "heat effect", now around 2pc higher than in 2007.

All other regions remain below their previous peak, Nationwide said, with Northern Ireland prices faring by far the worst - at 49pc below their 2007 summit.

Scotland saw a 2.3pc seasonally adjusted price rise in the first quarter of the year, resulting in a pick-up in the annual growth rate from 3.7pc to 7.6pc, with Aberdeen as the best performing city and South Lanarkshire, the worst. By comparison values in Wales edged up just 1.1pc in the three month period of January to March.

Nationwide's economist Robert Gardner said: "London house prices were up 18pc, taking the price of a typical home in the capital to £362,699 – more than twice the level prevailing in the rest of the UK when London is excluded. The gap between house prices in London and the rest of the UK is the widest it's ever been, both in cash and percentage terms."

Across the piece Nationwide's data suggested house price growth might be moderating, with a monthly increase of 0.4pc in March compared to February's 0.7pc. "There are some tentative signs of moderation," Mr Gardner said. "Nevertheless, viewed in annual terms, price growth is continuing to run at a robust pace, with the price of a typical home 9.5pc higher than in March 2013."

Lucian Cook, head of residential research at Savills, said: "People are becoming priced out of London and the South East as affordability is stretched. There are political issues around this as it becomes too expensive to attract some workers, impacting the Capital's ability to do business. But on the other hand, it is also a catalyst to drive employees and businesses to other major cities, rebalancing the regional economies."

Commentators used the data to warn of the potential consequences of borrowing too much while mortgage rates remain at record lows. Jonathan Samuels, of Dragonfly Property Finance, said: "Overall, the slight moderation in UK house price growth is no bad thing. While people are more confident about their jobs and the economy, and are more likely to get mortgage finance, it does feel that confidence is sometimes tipping into over-confidence. There is a real risk that many buyers in the current market will be exposed."

In London the symptoms of an over-heated market, where supply is limited and buyers increasingly desperate, has been observed for some time.

Rory Penn, of London estate agent VanHan, said the surge in London prices was causing homeowners there to "stay put rather than make the natural progression out to the countryside, fearful that they will never afford to buy in London again."

This trend, he said, was "further contributing to the shortage of stock for sale in the capital."

He added: "In some areas the shortage of decent property for sale is creating a frenzy, with packed open houses, sealed bids and gazumping."

While the housebuilders are on track to deliver 28,000 homes this year in London and the south east, according to Savills, it is widely felt that the region needs 50,000 units built in 2014.

But new figures from property consultants Jones Lang La Salle have shown that developers reacted to the lack of homes and the number of new units in central London last year was up 97pc on 2012. There were 13,500 starts last year and there are now more than 20,700 units under construction in the Capital's core. This too could put the brakes on London's rapid house price growth.

Source: Nationwide