

Rethinking London's 'ripple effect' on house prices: other UK regions transmit shocks too



Contrary to what is often thought, it is not necessarily house price changes in London that are transmitted to the rest of the country, but the opposite appears to happen more frequently, explains [Nikolaos Antonakakis](#). He supports this argument using evidence from 13 UK regions for the period 1973-2014.

Many authors have emphasized the ripple effect in the UK housing market: the fact that house price changes occur initially in London and the South-East and are then transmitted to the rest of the country. This interpretation has led to the erroneous impression that the London housing market is a mere transmitter of innovations and that developments in other regions have no bearing on London.

In our recent study (published in [Urban Studies](#)) we show that London has been a substantial receiver of short-term house prices shocks from other UK regions, both contiguous and distant. In effect, without any intention to cast doubt on the process of the ripple effect, we shed additional light to some of the forces that help bring it about in the first place.

In particular, we consider a full sample of 13 regions for the period 1973-2014 and in turn employ an appropriate method which helps us deduce: 1. whether linkages among regions are strong or not; and 2. whether any region assumes either a receiving or a transmitting role in developments generated in the UK from house price changes. The dynamic framework of our analysis allows us to progressively investigate the different roles assumed by the same region across time – taken that any region may potentially assume either role interchangeably. What is more, this framework emphasizes the fact that an important source of *regional* house prices fluctuations is the fact that there exist *inter-regional* linkages directly observable through changes in house prices. In other words – and contrary to existing literature – we concentrate not as much on the discussion around the short-term or long-term factors that might help explain the relationship between the housing markets of different regions; but instead, we investigate directly the impact that house price changes in one region have on house price changes in other regions.

This framework of analysis is also useful for identifying regions within the UK that exhibit a strong transmitting character and can be used as a reference for price discovery purposes. A key finding of our study is the fact that such linkages (i.e. through house prices changes) among UK regions become stronger especially during recessions. In point of fact, these linkages appear to be very extreme-event dependent. We further show that throughout the sample-period, the UK regions of the South-West, Outer-South-East, East Midlands, as well as Northern Ireland act *mainly* as transmitters of house prices shocks. Thought-provokingly, for the most part of the sample-period, London appears to be receiving shocks from other UK regions.

Inevitably, we should eventually steer the discussion towards the idea that there are forces which affect house prices within UK regions unrelated to the ripple effect. Northern Ireland, for example, has very close economic links to the Republic of Ireland and although there is evidence in existing literature that a ripple effect stemming from London could reach Northern Ireland, we should not lightly dismiss the idea that developments in the Republic of Ireland will also affect respective developments within the region of Northern Ireland.

Intra-regional characteristics might be another important source responsible for house price changes. East Midlands, is the region with the highest share of jobs in the manufacturing sector. This will inevitably have an impact on the housing market as employees move in to the region to work. By contrast, West Midlands is a very poor region. Obviously, there are dynamics that go beyond the ripple effect process.

Turning to results about London, the capital appears to be a net receiver of short-term house price shocks from other regions for most of the sample-period. We strongly believe that these results provide support to our view that London is a global financial centre and as such, it receives feedback from various sources, both domestic and international, before its markets determine their prices. In this regard, short-term house price changes in other UK regions constitute valuable feedback for changes in house prices within the London region itself. Northern Ireland, for example, in the period right before and right after the *recession*, has exhibited both the largest increases and the largest decreases in house prices. It is also a region with increased levels of independence from the UK Government. It follows that, developments in this region will eventually – by some means – find a way to inform markets in London and affect developments therein.

The same is true for the South-West, which is a region with the highest employment rates and economic activity according to the ONS. The area around the M4 motorway is renowned for attracting firms which are in the forefront of high-technology endeavors. Ironically, London will eventually return the impact it receives from other regions in the form of the ripple effect. However, as our study suggests, we should not lose sight of the fact that explaining developments in the UK housing market is not as straightforward an exercise as it initially appears.

Note: the above draws on the author's [co-authored article](#) (with Ioannis Chatziantoniou, Christos Floros, and David Gabauer) in *Urban Studies*.

About the Author



Nikolaos Antonakakis is an Associate Professor of Economics and the Head of the Business and Management Department at Webster Vienna Private University and a Visiting Fellow at the University of Portsmouth.

All articles posted on this blog give the views of the author(s), and not the position of LSE British Politics and Policy, nor of the London School of Economics and Political Science. Featured image credit: [Pixabay](#)/Public Domain.