Economics – house prices

Economics

There are many things that affect house prices. Some things have a short-term affect such as interest rates and unemployment rate, but others have long term affects such as Location of the house and access to basic amenities.

I will be exploring all the things that affect house prices as well as comparing two areas in Redbridge and comparing the price of houses in these areas along with the cost of living in these areas. I will also look and compare all the following things which I think affect house prices, these things can affect house prices in may ways and sometimes have knock on effects, for example interest rates go both ways, they can increase and decrease the price of houses as I will explain. Then I am going to concentrate on what affect unemployment has on house prices, because I think the major factor affecting house prices is Unemployment.

The main things that affect the price of a house are:

Unemployment

This affects the price of a house because as unemployment rises then less people will have the money to buy houses and therefore the demand for the house will be lower and the equilibrium price will fall. Also if there is an area with low unemployment then people will be attracted to the area because of the jobs, and there fore demand will rise and so will the equilibrium price.

Location

This affects the price of a house because if you for example take 2 houses in Ilford, both with 3 bedrooms and compare their prices, they can be different.

For example house A costs ï¿½103, 000 and has basic amenities nearby, house B also in Ilford but a little further away costs ï¿½133, 00 and has a park, train station and local amenities very close to it. Why is there such a big difference in price? Because of house B being in a better location and having much better amenities.

Income

This affects the price of a house because it has the opposite affect of what unemployment does. If more people are earning more money and have more to spend they will want to buy houses therefore the demand for houses would get higher and therefore the equilibrium price for houses would get higher.

Interest Rates

Interest rates are the amount of every ï¿½100 that one must pay for the use of another person's money. If interest rates are high, then this means that building societies and banks will be giving lots of profits for borrowing their customer's money. This affects the price of a house because as the person gets more money they can in some cases be saving up for houses and therefore this raises the demand of houses and raises the equilibrium price. But on the other hand because banks have higher interest rates on loans than savings, then the person will have to pay more interest on his/her mortgage, meaning people might be discouraged to buy houses because they will have to pay more money and to compensate for this the equilibrium price will fall and therefore meaning people, even though interest rates have risen, price of houses has gone down meaning people will pay the same as they would have before.

Supply Factors

This affects the price of a house because if there is little supply and the demand stays the same then less people can buy the good and so those people would be willing to pay more for the good and therefore the price would rise.

Crime Rate

This affects the price of a house because less people want to live in an area with a high crime rate as their home is at risk, meaning there is less demand for houses and therefore to clear the market the equilibrium price is pushed down.

So these are the main things that affect the price of a house, but I think that unemployment is the major factor affecting the price of a house.

I will now talk about why I think unemployment is the main thing that affects house prices, I will compare the price of house with the unemployment rate in general and how it they both change together, i. e., as the unemployment rate lowers the house prices higher, and vice-versa.

Unemployment

Unemployment affects the price of a house in three different ways; number one is as unemployment rises there will be more people who will be unable to afford to buy a house. This means that there will be less demand for houses if not as many people can buy one as before. Therefore demand for houses will fall and consequently the equilibrium price for houses will fall in general, whatever the type of house. Also if unemployment is low, then the price of certain types of housing might rise, for example more people will be willing to live in a flat and there will be more demand for flats and the equilibrium price for flats will rise.

Also the third way that unemployment affects house prices is that a area with low unemployment will attract people to it, meaning that people will move to that area, and there will be high demand for these houses and consequently the equilibrium price of house in that area will rise.

One can prove these 3 scenarios with statistics, if you look at the tables on the following pages you will see the house prices in different regions of the United Kingdom and then you can compare them with the unemployment rates in these regions of the United Kingdom. There is another table showing how in general across the country how when the unemployment fell the price of houses went up.

After this on the next few pages, you will see graphs comparing the unemployment rates with the house prices, on the graph you will see more clearly how when the unemployment rate changes then the price of houses changes.

All the data is from the year 1998.

From these statistics one can prove that unemployment is a major factor affecting house prices. Using these graphs we can see how across the country the unemployment affects house prices. The graphs show us that no matter what area you live in your house prices are still affected by the rate of unemployment, which shows how major unemployment is a factor in determining the price of a house.

Now that I have compared across the country , I am now going to compare two identical houses in terms of size of the house and garden etc. but the two houses will be in two different areas in Lodon. I will look at and explore all the things about these houses and especially I will talk about all the things which I said affect house prices including unemployment and then try to explain why I think that the price of the two houses, even though they will are identical in the size, will be very different.

This prove my statistics as well as show how two identical houses get affected in terms of price and then put that back to the big scale and see that each and every house in the United Kingdom is affected by house prices.

First I will describe the two houses I have chosen and tell you about the amenities and services they have and other good things about them, then after I have described both houses I will explain why there is a difference in price.