

## What adds value?

- Add a good sized room onto a 2-bed property & raise value by 10%+
- Extra bathroom can add c10%
- 34% premium for period living

### Headlines

| Gross Value Added - % | Adding a third bedroom of 140 SqFt to a 2 bed property | Adding a second Bathroom | Adding Full Central Heating |
|-----------------------|--------------------------------------------------------|--------------------------|-----------------------------|
| UK                    | 10.8%                                                  | 9.7%                     | 13.2%                       |
| London                | 13.1%                                                  | 15.6%                    | 8.3%                        |
| East Midlands         | 11.9%                                                  | 6.7%                     | 11.7%                       |
| North West            | 12.2%                                                  | 10.3%                    | 19.4%                       |

Source: Nationwide. Figures relate to approximate uplifts in property valuations of a typical house with the above characteristics compared to a property without these characteristics.

### Commenting on the figures Alex Bannister, Nationwide's Group Economist, said:

“Although real take home pay and interest rates are the drivers of house prices at the national level, a myriad of factors are important in influencing the price of a property. We have extended the research we did for our 1999 What Adds Value article to take a closer look at our house price index to determine which factors hold the key to value.

“We have assessed alterations which can add value to a property. As the table shows, extending a property with a decent sized bedroom can increase the price by around 11%. Adding a bedroom may also negate the need to move up the property ladder - saving moving costs of £4-5,000 and almost certainly higher mortgage payments. However, improvements must be appropriate - adding a 4th bathroom to a 2-bed property is unlikely to boost value significantly. Other works such as a kitchen refit or aesthetic styling such as painting and landscaping of gardens are also likely to help sell a home more quickly. However, quantifying the effect of these objectively is impossible. Our research suggests that the best investments are those which raise the property up to a higher price level - these include adding central heating, a garage or an extra room.

“We have also identified the most important 'fixed' factors in determining property prices - i.e. those which are generally beyond alteration. In the cliché-ridden world of property it is no surprise that location is key. This is largely because of regional economic performance. Uprooting a Northern Irish property and placing it into London would increase its value by 2.6 times. However, the make up of neighbourhoods and the distance from amenities and travel links also influence prices in a significant way. Properties in the 'best' neighbourhoods can command premiums of over 100%.

“Of course property type and age are also important. Detached bungalows are much sought after and can be worth up to 20% more than a similarly featured semi-detached house.

“Older properties are also typically worth more, with a Jacobean property worth c30% more than one built in the fifties. New properties also attract a premium, typically between 5-10%, although this is considerably less than the 25%+ seen during the eighties.”

## INTRODUCTION

In considering what adds value to a property, we have considered two groups of factors. The first are changes that could actually be made to an existing property, such as adding a bedroom, bathroom, garage or installing central heating. The second are a range of factors that tend to be fixed, such as the region that the property is in, its size and age, which provide an insight into price differentiation between properties. The analysis is presented in two sections according to each group of factors.

## SECTION I: Changes that can add value to a property

### More room to bed down?

Is it really worth getting the builders in to turn that space above the garage or in the loft into an extra bedroom? Our analysis shows that converting existing space into an extra bedroom in a mid-size 2 bed semi-detached property adds around 4% to the overall value of the property. However, if the size of the property also increased because of the extra bedroom, by, say, 140 sq ft then the extra room could increase the property price by around 11%. In other words, adding an extra bedroom to the average 2-bedroom semi-detached (typically worth £120,000) will pay for itself as long as the work costs £13,000 or less.

One of the key advantages of extending rather than moving is that the one-off costs to moving are saved. This can amount to at least £4,000 plus increased mortgage payments for years to come. Consider moving from a 2 to a 3-bed property: This would necessitate an additional mortgage of at least £25,000 equating to around £1,500 per year in increased mortgage payments. In addition, the up front costs of moving house are around £4,000, including stamp duty, solicitors fees, estate agency fees and removal costs. Overall, moving house could cost around £5,500, although these costs rise in accordance with the value of the property as legal fees, stamp duty and to some extent removal costs are all proportional to the value of a property. This is money that could have gone towards adding an extra bedroom to an existing property.

Table 1: The change in price resulting from adding an extra bedroom to a property through converting existing space and by adding extra floor space to a property.

|               | 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            | 4.3%                     | 2.5%           | 10.8%              | 9.0%           |
| London        | 5.3%                     | 1.6%           | 13.1%              | 9.1%           |
| East Midlands | 5.0%                     | 4.6%           | 11.9%              | 11.5%          |
| North West    | 5.1%                     | 3.0%           | 12.2%              | 10.0%          |

The table above gives the regional picture, showing both the change in price from converting an existing room into an extra bedroom and also the extra benefit from increasing the size of the property to add the extra room. As expected the premium for merely adding an extra bedroom is smaller. This is because people value good-sized rooms. In general, adding a bedroom by subsidising existing rooms adds little value. However, this will of course vary from area to area and from property type to property type. For example, adding a third bedroom in an area popular with families could open up the property to a whole new range of prospective buyers.

### The growth of the smallest room

An extra bathroom will add around 10% to the price of a comparable property with just one bathroom. Of course, the exact amount an extra bathroom will contribute will vary from property to property. For instance, there will be a greater benefit from adding an extra bathroom to a five bedroom house with just one bathroom compared to a one bed flat which already has a bathroom.

Our research also reveals just how popular multiple bathrooms are becoming. Seven years ago 93% of properties had just one bathroom with remaining 7% having one or more. At the end of 2002 almost 1 in 5 properties had 2 or more bathrooms. This rises to almost 3 in every 4 new homes and 10% of new properties are being built with 3 or more bathrooms.

Table 2: The average difference in price between similar properties with one bathroom compared to two

|               | <b>'2 bathroom premium'</b> |
|---------------|-----------------------------|
| UK            | 9.7%                        |
| London        | 15.6%                       |
| East Midlands | 6.7%                        |
| North West    | 10.3%                       |

Table 2, above, gives some indication of the regional split in 'bathroom premium'. It shows the difference in price for properties similar in all respects except for number of bathrooms. The table reveals a mixed regional picture with properties in West Midlands only rising by 7% when a second bathroom is added compared to over 15% in London. The difference in price may partly be attributable to quality issues, which are difficult to capture in our survey. For instance many London properties with one full size bathroom and an en-suite bathroom will also include luxury fixtures and fittings, expensive kitchens, etc. which will account for part of the price differential.

### Central Heating

Our latest figures show around 7.5% of properties have no central heating - half the proportion seen in the early 1990's. Since we last looked at it back in 1999, the premium attached to central heating has fallen slightly: to 5.8% from 7.0% for part central heating; and to 14.7% from 15.0% for full central heating. It is likely that properties with no central heating may also be in need of other modernisation (including new electrical wiring). Nevertheless, central heating appears to be a very successful investment. The installation of full gas or oil heating will cost around £5,000 (electric c£2,500) while the likely boost to a property will be around 15% or perhaps £15,000.

Table 3: Value added to property price by adding central heating

|    | Central Heating |       |
|----|-----------------|-------|
|    | Part            | Full  |
| UK | 5.8%            | 13.2% |

### Garages and parking

The potential increase in value to a property from a garage or double garage has remained constant over the last few years. A parking space with the property would typically add around 8% to the value of a property, whilst a single garage would add a further 3% and a double garage a further 9% to the value of a property. A typical property with a double garage is likely to also benefit from other features which are not easily captured such as a large garden or a driveway.

Table 4: Value added to property price by adding a garage

|    | Parking Space | Single Garage | Double Garage |
|----|---------------|---------------|---------------|
| UK | 8.1%          | 11.1%         | 20.4%         |

## SECTION II: 'Fixed' factors that affect property price

### Regional differences

Table 1 shows the wide variation in house prices across the UK. It compares what a £200,000 house in London would be worth if it were to up foundations and relocate to another UK region. For reference, we present our results from 1999. The biggest difference is between London and Northern Ireland, where one London property is worth 2.6 properties in Northern Ireland. This relative gap has closed since 1999 when one £150,000 house in London was worth 3.7 Northern Irish properties. Scotland has slipped further from 6<sup>th</sup> to 9<sup>th</sup> with London properties now equivalent to 2.2 Scottish properties. It should still be noted that although the cost of London property relative to other regions has come down in absolute terms, London has still seen the largest absolute increase in price.

Table 1: Relative house values for a typical UK house but in different parts of the UK

| Region           | Price versus<br>benchmark<br>£200,000<br>London<br>property | Number of<br>properties<br>for one<br>London<br>property | Rank<br>in 2003 | Price versus<br>benchmark<br>£150,000<br>London<br>property | Number of<br>properties<br>for one<br>London<br>property | Rank<br>in 1999 |
|------------------|-------------------------------------------------------------|----------------------------------------------------------|-----------------|-------------------------------------------------------------|----------------------------------------------------------|-----------------|
| London           | £200,000                                                    | 1.0                                                      | 1               | £150,000                                                    | 1.0                                                      | 1               |
| Outer Met        | £166,006                                                    | 1.2                                                      | 2               | £126,109                                                    | 1.2                                                      | 2               |
| Outer South East | £137,757                                                    | 1.5                                                      | 3               | £99,326                                                     | 1.5                                                      | 3               |
| South West       | £124,603                                                    | 1.6                                                      | 4               | £87,814                                                     | 1.7                                                      | 4               |
| West Midlands    | £108,772                                                    | 1.8                                                      | 5               | £80,147                                                     | 1.9                                                      | 5               |
| East Anglia      | £107,976                                                    | 1.9                                                      | 6               | £70,600                                                     | 2.1                                                      | 7               |
| East Midlands    | £95,898                                                     | 2.1                                                      | 7               | £61,693                                                     | 2.4                                                      | 9               |
| North West       | £95,243                                                     | 2.1                                                      | 8               | £68,958                                                     | 2.2                                                      | 8               |
| Scotland         | £92,456                                                     | 2.2                                                      | 9               | £75,746                                                     | 2.0                                                      | 6               |
| Yorks & Humbs    | £90,260                                                     | 2.2                                                      | 10              | £61,677                                                     | 2.4                                                      | 10              |
| Northern         | £85,213                                                     | 2.3                                                      | 11              | £58,266                                                     | 2.6                                                      | 11              |
| Wales            | £85,153                                                     | 2.3                                                      | 12              | £53,623                                                     | 2.8                                                      | 12              |
| Northern Ireland | £76,096                                                     | 2.6                                                      | 13              | £40,913                                                     | 3.7                                                      | 13              |

**Notes:** The second column shows the relative prices now compared to a £200,000 London property, the third column shows the number of properties in that region required to be of the same value as a London property, and the fourth column shows the rank now. The last three columns are the results from the 1999 study comparing with a £150,000 property.

The above results will be different to our mix adjusted series as published on our web-site since the above assumes an identical house for all regions whereas our mix-adjusted series considers a typical house for the region being measured.

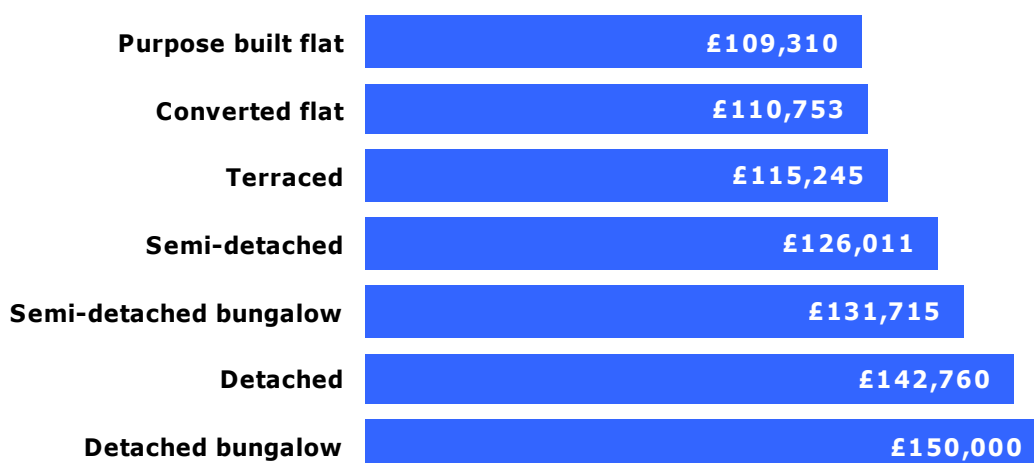
### Everybody needs good neighbours

Whilst a multitude of individual factors will weigh on the mind of a prospective buyer, none will have a greater impact than the neighbourhood the property is located in. This can be illustrated using the ACORN™ categorisation of neighbourhoods. For example, these tell us that houses in areas categorised as "Prosperous Enclaves with Highly Qualified Executives" command a premium of up to 44% when compared to identical houses in the typical ACORN™ neighbourhood of "Home owning family areas". A property in the typical neighbourhood in turn will be worth nearly 60% more than an area with 'overcrowding and high unemployment'. The gulf between the most sought after, affluent areas and the most deprived areas can mean that properties in the former sell for 130% more than the value of similar properties in the latter.

### Attached to detached?

In 1999, the biggest premium was reserved for detached bungalows, 4 years on this still remains true with detached bungalows commanding an extra 19% when compared to the UK's most popular house type which is the semi-detached. A possible explanation for this premium is the popularity of bungalows among the elderly who tend to favour single-floor living given that mobility can be an issue. This is unlikely to change over the next few years. We estimate that the stock of bungalows has remained more or less constant over past 10 years at around 1.2m, however, the number of people aged 70 or over in the UK has risen to 6.74m, according to the latest census figures, up from around 6.27m in 1991. This group is also expected to see further growth in coming years.

Chart 1: The potential value of a property if only the property type is changed

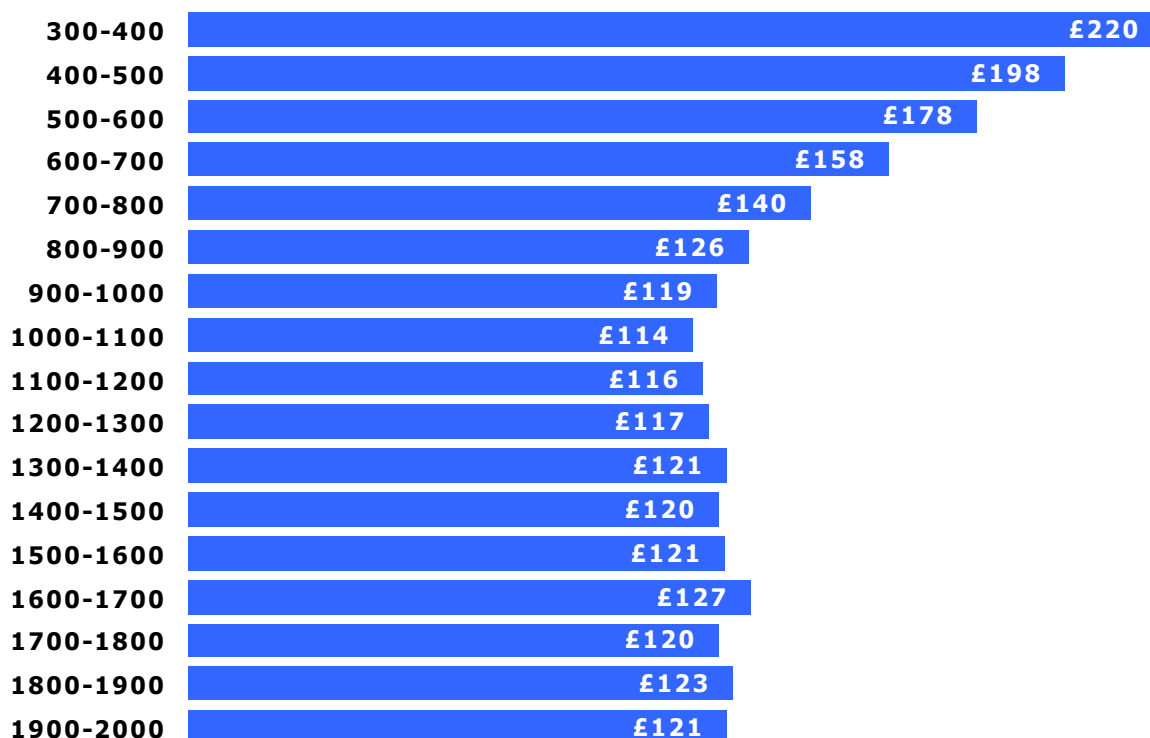


**Notes:** All prices in this example are relative to a £150,000 detached bungalow assuming other variables such as location, size, number of rooms, etc, remain the same.

### Small is beautiful, but expensive

Chart 2, below, shows that the average price per square foot for smaller properties can be as high as £225 per square foot for properties of 300-400 square feet. However as properties increase in size the average cost/area ratio steadily falls to around £114 per square foot. The average property is 1,082 square feet in size and typically any increase in size is priced at around £120 per square foot. The best value properties in terms of price per area are those in the 1,000 to 1,100 square foot band where each square foot costs just £114.

Chart 2: Price per square foot distributed by total floor space of property



The lower price of properties over 900sq feet is largely down to the lower cost of building larger properties. The higher cost for smaller properties is also probably due to the higher price of flats. This is especially true in areas such as Manchester where there has been a renaissance in the urban housing market. It is also true of many parts of London, where developments of relatively small properties often have plum locations and higher standard of fittings which reflect the fact that they are sold at premium price.

### Rolling back the years

We have examined the role age plays in determining a property's price. To do this we have compared the prices of properties "identical" except for the era in which they were built. We present the results relative to the Post War (1945-1959) period.

Chart 3: The premium paid for a property according to the year of construction

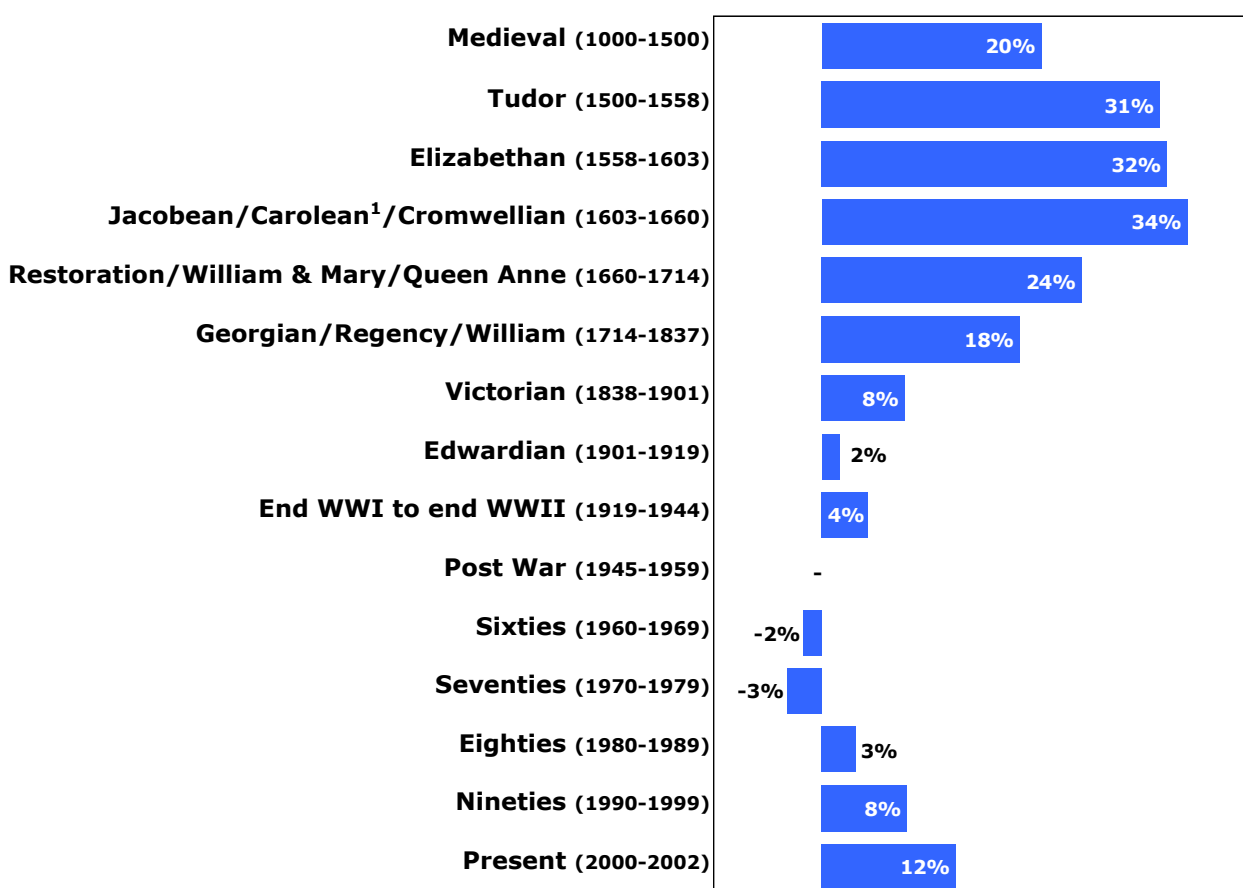


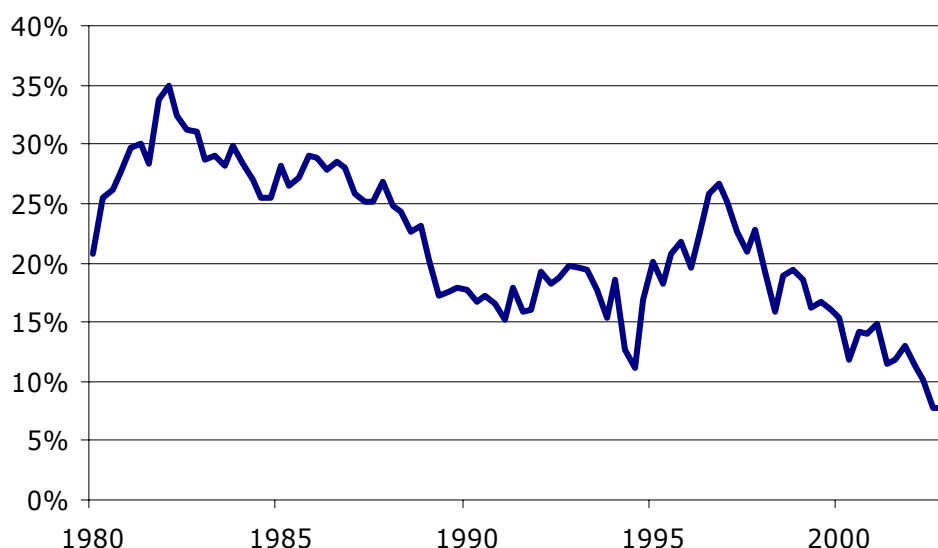
Chart 3, above, shows that the properties carrying the highest premiums were built between 1603 and 1660, during the Jacobean, Carolean and Cromwellian periods. Many of the houses dating this far back are likely to be unique in character and therefore difficult to compare to an 'average' house. Nevertheless, properties from this period will be sold for around 34% more than an "identical" Post War property. The premium will reflect the rarity of such properties whose supply is obviously fixed, as well as the prestige of owning a piece of history in the form of a listed building.

<sup>1</sup> Charles I

### **‘New Build Premium’ crumbling**

The premium paid for new builds has gradually been falling in recent years as can be seen in chart 4. Typically, new build properties have achieved premium pricing because of the ‘never lived in’ factor as well as other benefits such as no-ongoing chain, NHBC guarantees, and the latest materials and building techniques. During the 1980’s the premium paid for a brand new house compared to a similar second-hand property was 30%. This fell back to 19% during the 1990’s and the latest figures, as at end of 2002, show that the premium has shrunk to just 8%. It is possible that the fall in the ‘new build premium’ is attributable to changes in planning regulations which mean that new developments have much higher densities, effectively squeezing more properties onto the same amount of land. Two other factors are likely to have a detrimental effect on the selling price of new properties. First, new rules have been introduced restricting the average number of parking spaces to 1.5 spaces per new property and second the growth of mixed use housing which can also have an impact on the selling price.

Chart 4: The premium paid for a new property relative to a similar ‘modern property’



### **CAVEATS**

Whilst our estimates provide a good idea of the most important factors which add value to your home, it should always be borne in mind that local housing market conditions and the 'quality' of property (which is difficult to quantify) will also have an impact. The article provides a guide to some of the features which add value to a notional typical property. Of course, local conditions will play an important part in determining how much importance is placed onto each of the factors listed above. The figures quoted should only be used as a guide, Nationwide is unable to produce individual property valuations on the basis of this data.