
**HOUSING WEALTH AND SMALL BUSINESS
START- UP INDICATORS**

FEBRUARY 2007

By

Angela Gallant
Peter Sturman
Kadhem Jallab

Reference: EP 07/1

Price: £20

TYNE & WEAR RESEARCH AND INFORMATION
1st Floor Provincial House
Northumberland Street
Newcastle upon Tyne
NE1 7DQ

Tel: (0191) 277 1912, Fax: (0191) 277 1911
E-MAIL: twri@tyne-wear-research.gov.uk

CONTENTS

Key Points	1
1.0 Introduction	3
1.1 Drivers of change in the formation of new businesses	3
1.2 Tyne & Wear Housing Wealth Estimate	3
1.3 Methodology	4
2.0 Key Findings on Housing Wealth and Start-Up Indicators	6
2.1 Tyne & Wear Yardsticks	6
2.2 Housing Wealth	6
2.3 Interactions between Housing Wealth and Start-Up Indicators	6
Appendix – Tyne & Wear District Maps	8

KEY FINDINGS

Drivers of change in small business creation

Growth in small business numbers is driven by¹:

- **Population growth**

The UK population grew every year between 1983 and 2005, whilst in Tyne & Wear; it has fallen [except 1992-1993, 2002-03 and 2005]. The change in business stock in Tyne & Wear followed a similar pattern to the UK over this period, although Tyne & Wear underperformed the UK. It may well be that Tyne & Wear's declining population dragged down the performance of its business base.

- **Housing wealth**

Housing wealth is the main collateral for new small businesses. During the early 1990s, house price inflation was very weak in Tyne & Wear and the UK. The stock of businesses in Tyne & Wear and the UK fell most years between 1990 and 1995. In the latter 1990s house prices began to grow again (in Tyne & Wear and the UK) and business stock improved (more so in the UK than in Tyne & Wear). 2003 saw huge rises in Tyne & Wear house prices (up 22.7%). This is likely to result in stronger rises in the business base in future years.

- **Professional & managerial experience**

Housing Wealth

- TWRI estimates Tyne & Wear's housing wealth in 2001 to have been about £12-13bn [as a proportion of the UK's £1,988bn].
- Tyne & Wear's average housing wealth was about £27,300 per household. TWRI estimated housing wealth at LSOA level, based on Dorling's 'simple methodology.' The total housing wealth for Tyne & Wear, as calculated by TWRI, sums to £12.6bn (based on HMLR and Census 2001 data).
- Generally, the highest levels of housing wealth in Tyne & Wear were in Newcastle and North Tyneside. In Newcastle, two LSOAs [in Jesmond Ward and South Gosforth Ward] had average levels of housing wealth above £140,000.
- The maps presented in this report [see Appendix] show a strong positive correlation both between
 - a) housing wealth and self-employment, and
 - b) housing wealth and professional & managerial experience.

Self-Employment

- Tyne & Wear's self-employment rate [the proportion of 16-74 year olds in employment and self-employed] is 8.8% (Census 2001).
- Of the 442 LSOAs with housing wealth below the Tyne & Wear average (£27,300), 83.3% also had self-employment rates below the Tyne & Wear.

¹ Source: Cambridge University's 1994 analysis of the drivers of small business (VAT registrations), based upon 1980s county-level data (by Keeble and Walker, published in *Regional Studies*)

Professional & Managerial Experience

- Tyne & Wear's proportion of people [in employment] with professional & managerial experience (PME) is 21.7% (Census 2001).
- Of the 442 LSOAs (61% of all LSOAs) with housing wealth below the Tyne & Wear average, 88.6% also had PME rates below the Tyne & Wear 21.0% average.

Note: the wards shown are Census 2001 wards. This is necessary to make use of the Census data on self-employment and professional & managerial experience.

1 INTRODUCTION

This TWRI report presents its experimental maps and data on housing wealth correlations with small business start-up indicators:

- 1) Housing wealth and self-employment [rates] (i.e. 16-74, as a proportion of all in employment)
- 2) Housing wealth and professional & managerial experience (the proportion of all people 16-74 in employment working in professional & managerial occupations).

1.1 Drivers of change in the formation of new businesses include²:

- **Housing Wealth**

Housing wealth (measured by house prices) is the main collateral for new small businesses. The huge rise in house prices in 1989 in Tyne & Wear (up 43%), helps to explain why the stock of businesses rose in 1989 and 1990. During the early 1990s, house price inflation (and thus housing wealth) was very weak in Tyne & Wear and the UK. The stock of businesses in Tyne & Wear and the UK fell most years between 1990 and 1995. In the latter 1990s house prices began to grow again (in Tyne & Wear and the UK) and business stock improved (more so in the UK than in Tyne & Wear).

Although housing wealth rose slowly (approx 5% p.a. nationally) in 2005 and 2006, growth was faster in Tyne & Wear. During 2005, Tyne & Wear's business base³ grew by 2.2% (compared with growth of 1.5% in 2004). UK growth of the business base was comparatively slow at 1.4% in 2005, and 1.1% in 2004.

- **Population Change**

The UK population grew every year between 1983 and 2005, whilst in Tyne & Wear; it has fallen every year, except 1992-1993, 2002-03 and 2005. The change in business stock in Tyne & Wear followed a similar pattern to the UK over this period, although on the whole, Tyne & Wear underperformed the UK. It may well be that the declining population in Tyne & Wear dragged down the performance of its business base.

In 2005 however, Tyne & Wear's population grew by 0.9% in 2005, faster than both the North East (0.5%) and England & Wales (0.6%),⁴ and Tyne & Wear experienced a net increase in population through natural change (increase of 233)⁵. As outlined above, in 2005 Tyne & Wear's business base grew by 2.2%, out performing the UK (1.4%).

1.2 Tyne & Wear Housing Wealth Estimate

ONS publishes data on the composition of the net wealth of the household sector, from which it is possible to calculate [UK] housing wealth. TWRI has calculated UK housing wealth for 2001 at £1,988bn.

² As identified by Keeble and Walker in 'New Firms, Old Firms and Dead Firms', *Regional Studies*, 1994, V.28 (4), pp. 411-427.

³ Number of VAT-registered businesses

⁴ Mid-Year estimates for 2005, Office for National Statistics.

⁵ Source: Vital Statistics I, Office for National Statistics.

Table 1.1: Calculation of Housing Wealth, UK (1991, 1996, 2000, 2001, 2002) £billions

	1991	1996	2000	2001	2002
Non Financial Assets	1,897	1,651	2,463	2,586	3,078
Loans Secured on Dwellings	424	458	555	598	669
Housing Wealth¹	1,473	1,193	1,908	1,988	2,409

¹ Non Financial Assets less Loans Secured on Dwellings

Source: Social Trends 34

Based on this national indication of housing wealth, TWRI estimates Tyne & Wear’s housing wealth in 2001 to have been about £12-13bn [as a proportion of the UK’s £1,988bn]. This estimate gives a yardstick from which to test our calculation of housing wealth at LSOA level.

1.3 Methodology

Note: all TWRI calculations at lower super output area level (LSOA)

TWRI’s methodology for these experimental calculations of housing wealth is based on Dorling & Thomas’⁶ [2004] ‘simple ratio’ calculation of housing wealth:

“The assumption we made in estimating the proportion of buyers’ housing wealth was that in areas with high levels of outright ownership, buyers would be close to the end of their mortgages. Conversely, in areas with low proportions of households owning their properties outright, buyers would tend to be in the early stages of buying their property... Therefore the amount of housing wealth we have estimated for buyers in each area is based on the simple ratio of outright owners to buyers.”

(Dorling & Thomas, 2004, p 20)

Step-by-step methodology:

The example used throughout is LSOA E01008437.

TWRI used two data sources for the maps produced in this report:

- **Address level data** from the **Land Registry** (HMLR) - all transactions made between April 2000 and March 2001 to be consistent with Census data below
- **Census 2001** – Tenure from KS018 on household tenure
- Census 2001 – Self Employment – from KS009 on Economic Activity
- Census 2001 – Professional and Managerial Experience – from KS012 on Occupation

Step 1 – Calculate the average house price for each TW LSOA

Sum prices for all transactions January 2000 – January 2001. For LSOA E01008437 this was £518,400 (16 transactions). Calculate the average price (£518,400/16 = £32,400)

⁶ Shelter Investigation Report, ‘Know Your Place: Housing Wealth and Inequality in Great Britain 1980-2003 and Beyond,’ Dorling, D and Thomas, B [26 November 2004], from the Shelter Policy Library, www.shelter.org.uk. Dorling’s other work on housing wealth was also referred to by TWRI; ‘A New Social Atlas of Britain,’ 1995.

Step 2 – Calculate owner occupation proportions

From Census table KS018, take the number of all households that own their own home (102 households for LSOA E01008437). Calculate the proportion that own their home outright, and the proportion with a mortgage (21.7% and 78.3% respectively for LSOA E01008437).

Step 3 – Calculate housing wealth of households owning home outright

Multiply the number of households owned outright (32 households) by the average sale price (£32,400). This gives housing wealth of all households owned outright of £583,200.

Step 4 – Calculate housing wealth of households owning home with mortgage

Multiply the proportion of households owning outright (21.7%) by the average sale price (£32,400) to give £7,027. Multiply this by the number of households owning with a mortgage (65 households) to get the total housing wealth of households owning with a mortgage (£456,723).

Step 5 – Calculate total housing wealth for the LSOA

Sum the housing wealth figures for owned outright and with a mortgage (£1,039,923).

For TW as a whole the total housing wealth sums to £12.6bn (in 2001). This is consistent with TWRI's estimation of £12-13bn, thus validating the calculation.

The following LSOA maps [see Appendix] show housing wealth at LSOA level in a series of thematic maps for Tyne & Wear Districts. Plotted over these housing wealth data are a series of data points for each LSOA, to allow for analysis of correlation.

The first five district maps show housing wealth with the proportion of people of working age (PWA - 16-74) that are self-employed plotted as a series of dots in ascending size by self-employment rate.

The final five maps show the same housing wealth data, with the proportion of PWA (16-74) in employment working in professional or managerial occupations.

2 KEY FINDINGS ON HOUSING WEALTH AND START-UP INDICATORS

2.1 Tyne & Wear yardsticks:

- Tyne & Wear's average housing wealth was about £27,300 per household (HMLR address-level file and Census 2001).
- The self-employment rate [proportion 16-74 in employment and self-employed] is 8.8% (Census 2001) (E&W 13.7%).
- Tyne & Wear's proportion of people [in employment] with professional & managerial experience is 21.7% (Census 2001) (E&W 30.0%).

2.2 Housing Wealth

Generally, the highest levels of housing wealth in Tyne & Wear were in Newcastle and North Tyneside. In Newcastle, two LSOAs [in Jesmond Ward and South Gosforth Ward] had levels of housing wealth above £140,001, the highest band shown on these maps. Households in Woolsington Ward and the South East of Castle Ward had housing wealth of £90,000-£140,000 [shown in maroon].

Generally, LSOAs in the West End of Newcastle, and in the East End area of Walker, Byker and Walkergate Wards, had household housing wealth levels below £15,000 [the lowest levels are shown in yellow on the maps].

In North Tyneside, there is a clear divide in levels of housing wealth. Very high housing wealth is present along the North Tyneside coast, in St Mary's Ward and Tynemouth Ward in particular. Conversely, housing wealth is very low throughout most of the West of North Tyneside.

In Gateshead, only one LSOA in Whickham South had a level of housing wealth well above the Tyne & Wear average (at just over £90,000). Clustering of the lowest levels of housing wealth was present in East Gateshead, where most LSOAs had households with housing wealth below £15,000, and about half of these were below £7,000.

Similarly, levels in Sunderland were low, with the exception of only three LSOAs, one in the South of Washington South, and two in Fullwell and St Peter's Wards [£90,000-£140,000]. There was also a cluster of LSOAs with housing wealth between £60,000 and £90,000 in St Michael's Ward and St Chad's Ward.

In South Tyneside housing wealth was relatively high in Cleadon & East Boldon and parts of Cleadon Park and Harton Wards. Very low levels were generally present along the Hebburn and Jarrow riverside to the North West of the District (in Hebburn, Simonside, Rekendyke, Bede and Monkton).

2.3 Interactions Between Housing Wealth and Start-Up Indicators

• Housing Wealth and Self-Employment

The housing wealth and self-employment (SE) maps for Tyne & Wear generally show a strong positive correlation between the two variables.

Of the 442 LSOAs (61% of all LSOAs) with housing wealth below the Tyne & Wear average (£27,300), 83.3% also had self-employment rates below the Tyne & Wear 8.8% average. Of the

277 LSOAs with housing wealth above the TW average, 73.0% also had SE rates above the TW 8.8% average.

The top five LSOAs for self-employment had rates ranging from 23.3% - 31.6% of all people 16-74 in employment. All five were in Newcastle [in Jesmond and Gosforth, with one in Castle Ward] and had housing wealth over £100,000.

Of the 447 LSOAs with self-employment rates below the Tyne & Wear average (8.8%), 60% had households with housing wealth below £15,000. The bottom five LSOAs for self-employment had rates between 3.1% and 3.9% with housing wealth below £10,000 [In Teams and Pelaw Wards in Gateshead, Washington in Sunderland and All Saints in North Tyneside].

- **Housing Wealth and Professional and Managerial Experience**

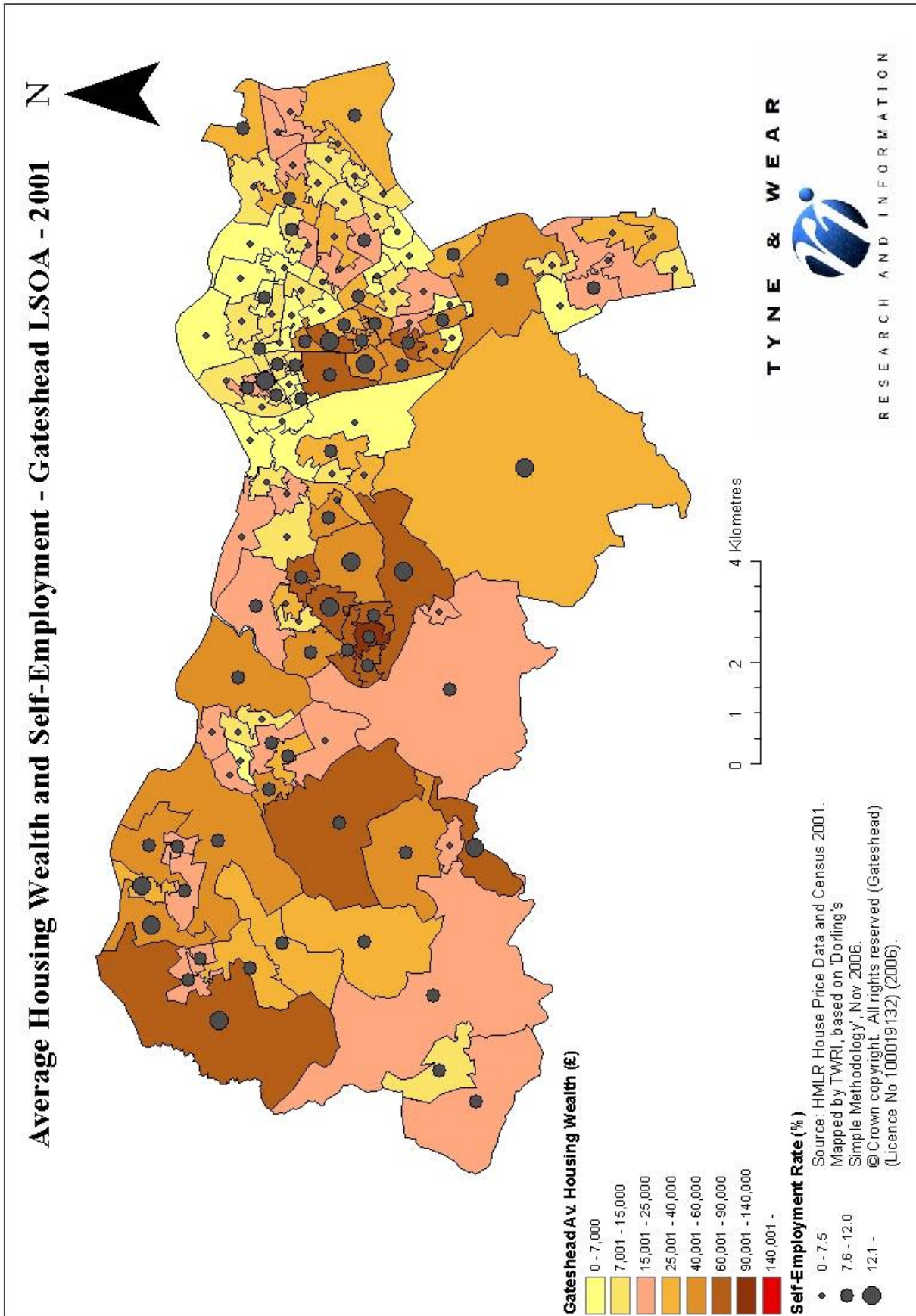
Again, the housing wealth and professional & managerial experience (PME) maps show a strong positive correlation between the two variables.

Of the 442 LSOAs (61% of all LSOAs) with housing wealth below the Tyne & Wear average (£27,300), 88.6% also had PME rates below the Tyne & Wear 21.0% average. Of the 277 LSOAs with housing wealth above the TW average, 70.8% also had PME rates above the TW 21.0% average.

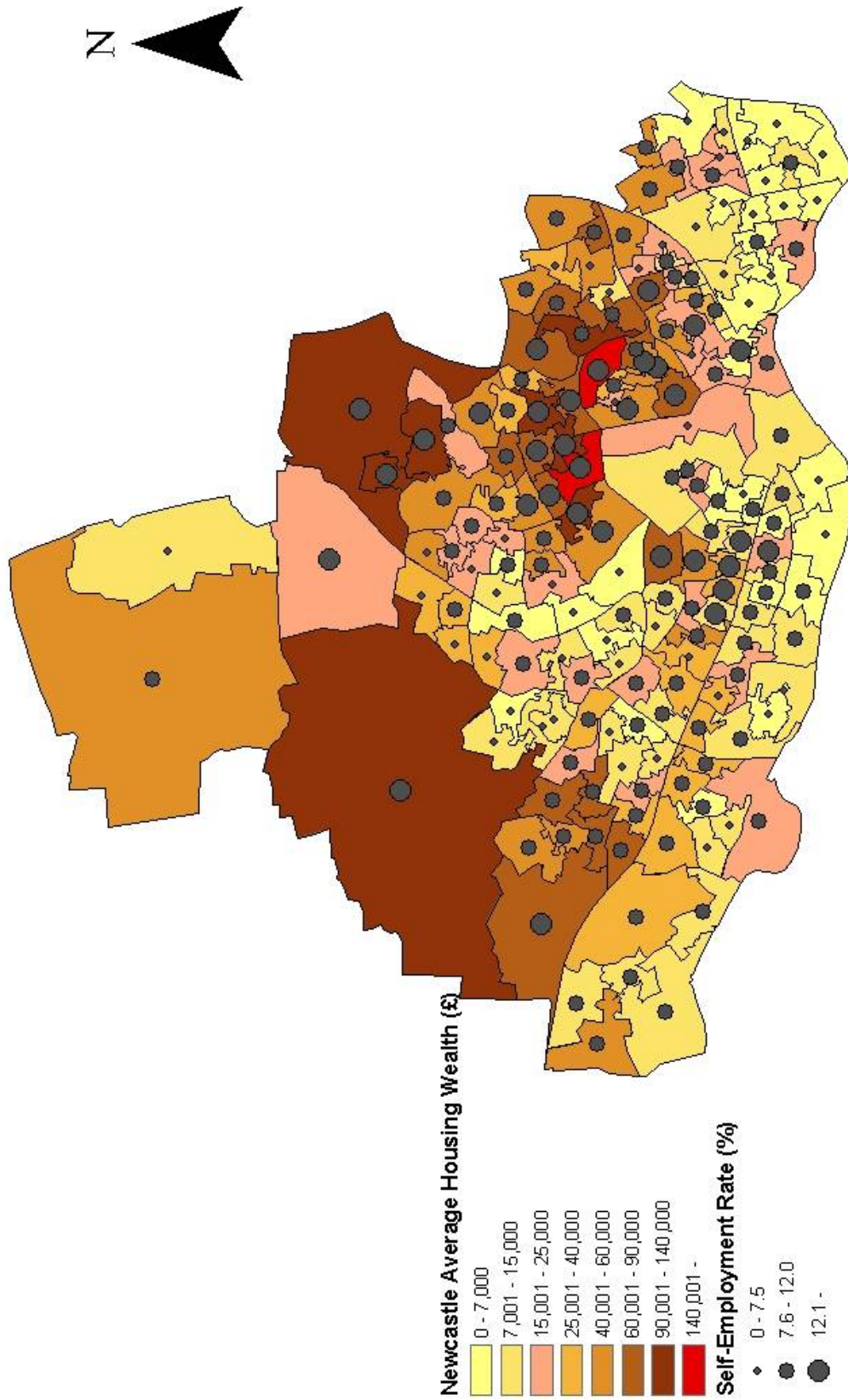
The top five LSOAs for PME had rates ranging from 60.4% - 67.2% of all people 16-74 in employment. Again, all five were in Newcastle [in Jesmond and Gosforth] and had housing wealth over £70,000.

Of the 473 LSOAs with PME rates below the Tyne & Wear average, 58.1% had households with housing wealth below £15,000. The bottom five LSOAs for PME had rates between 4.6% and 6.1% with housing wealth below £8,800 [in Thorney Close, Pallion and Washington Wards in Sunderland, Walker in Newcastle, Felling in Gateshead].

APPENDIX – TYNE & WEAR DISTRICT MAPS



Average Housing Wealth and Self-Employment - Newcastle LSOA - 2001



Newcastle Average Housing Wealth (£)

- 0 - 7,000
- 7,001 - 15,000
- 15,001 - 25,000
- 25,001 - 40,000
- 40,001 - 60,000
- 60,001 - 90,000
- 90,001 - 140,000
- 140,001 -

Self-Employment Rate (%)

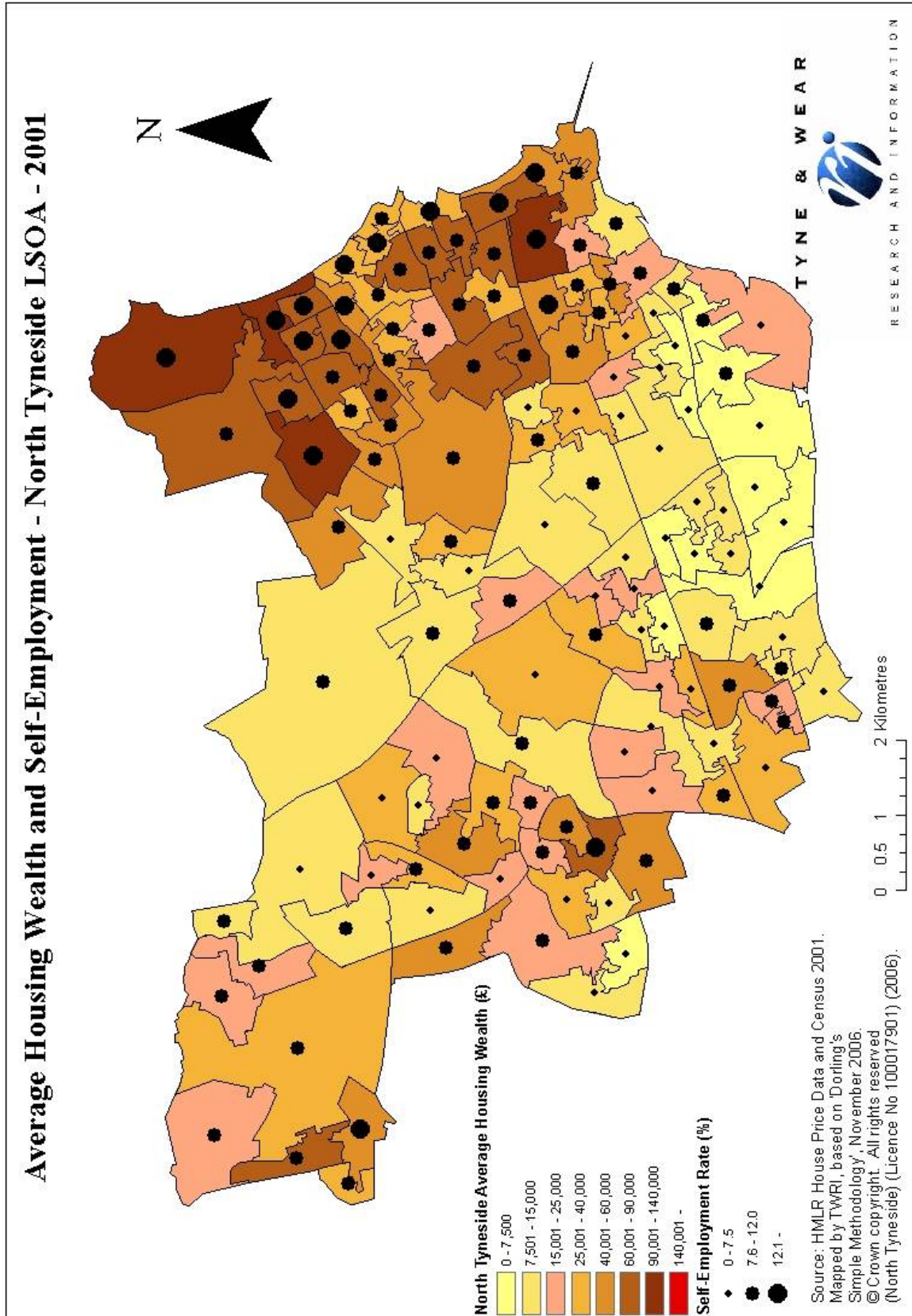
- 0 - 7.5
- 7.6 - 12.0
- 12.1 -

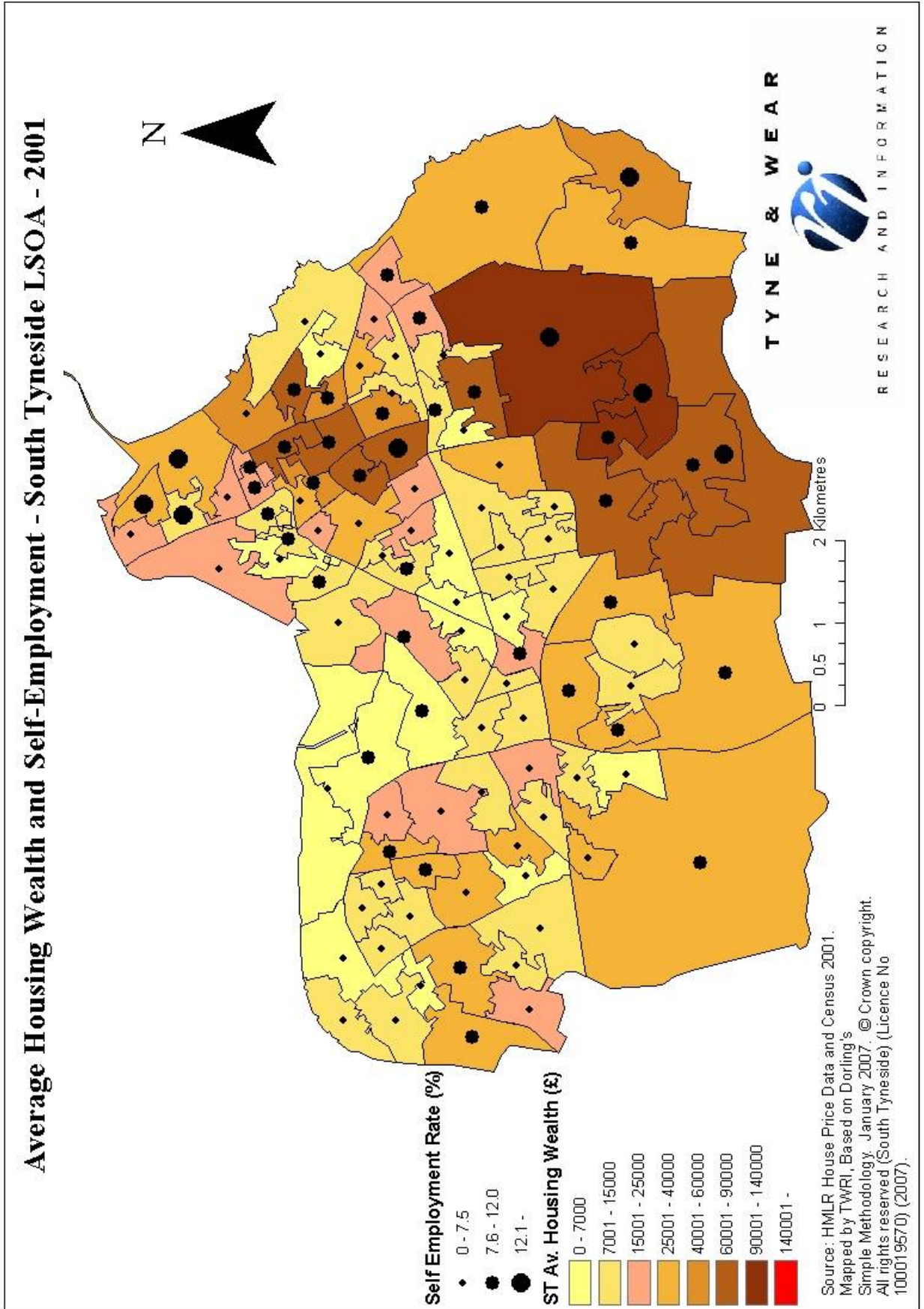
Source: HMLR House Price Data and Census 2001.
 Mapped by TWRI, based on Dorling's
 Simple Methodology, November 2006
 © Crown copyright. All rights reserved (Newcastle)
 (Licence No 100019589) (2006).

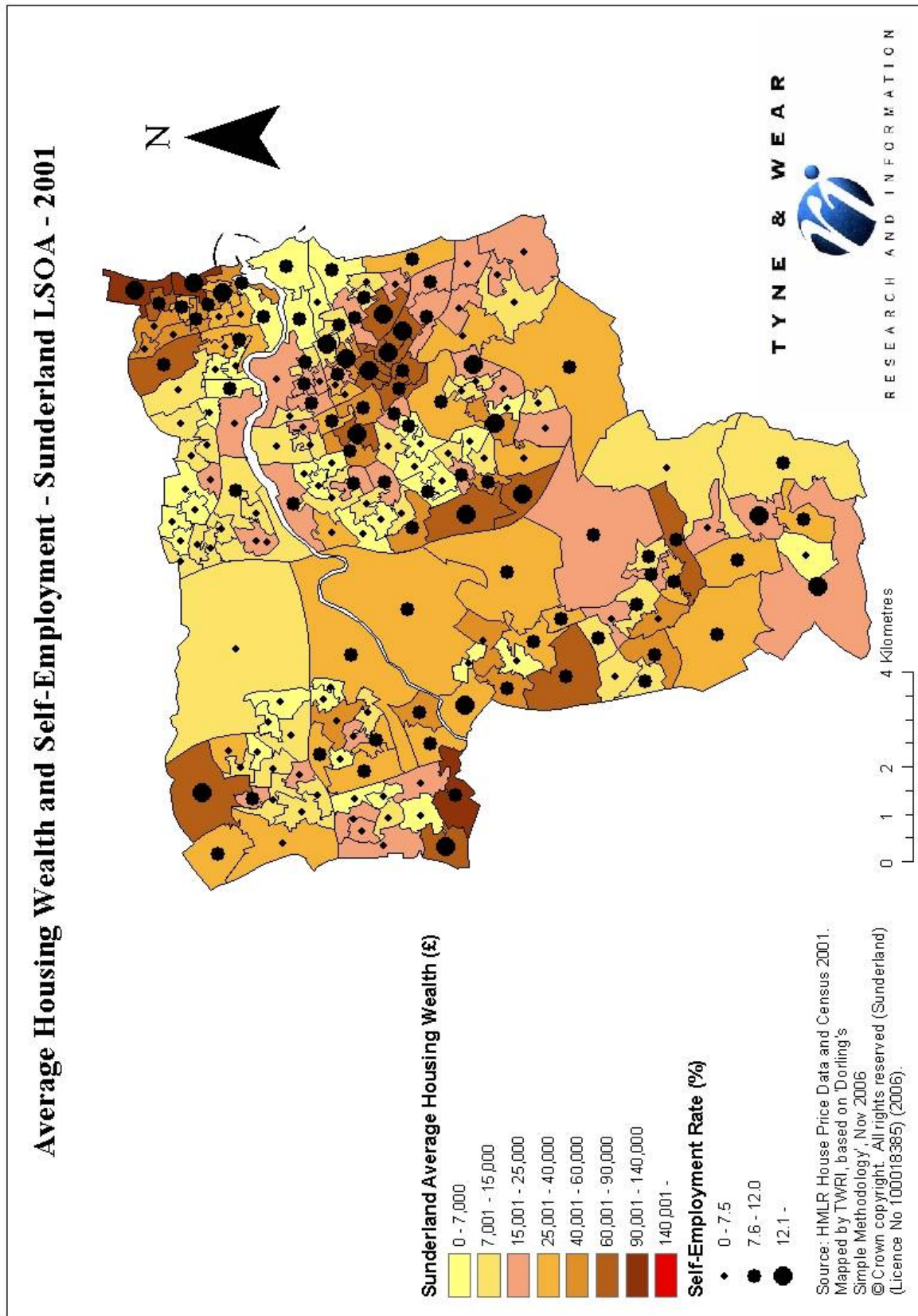
TYNE & WEAR

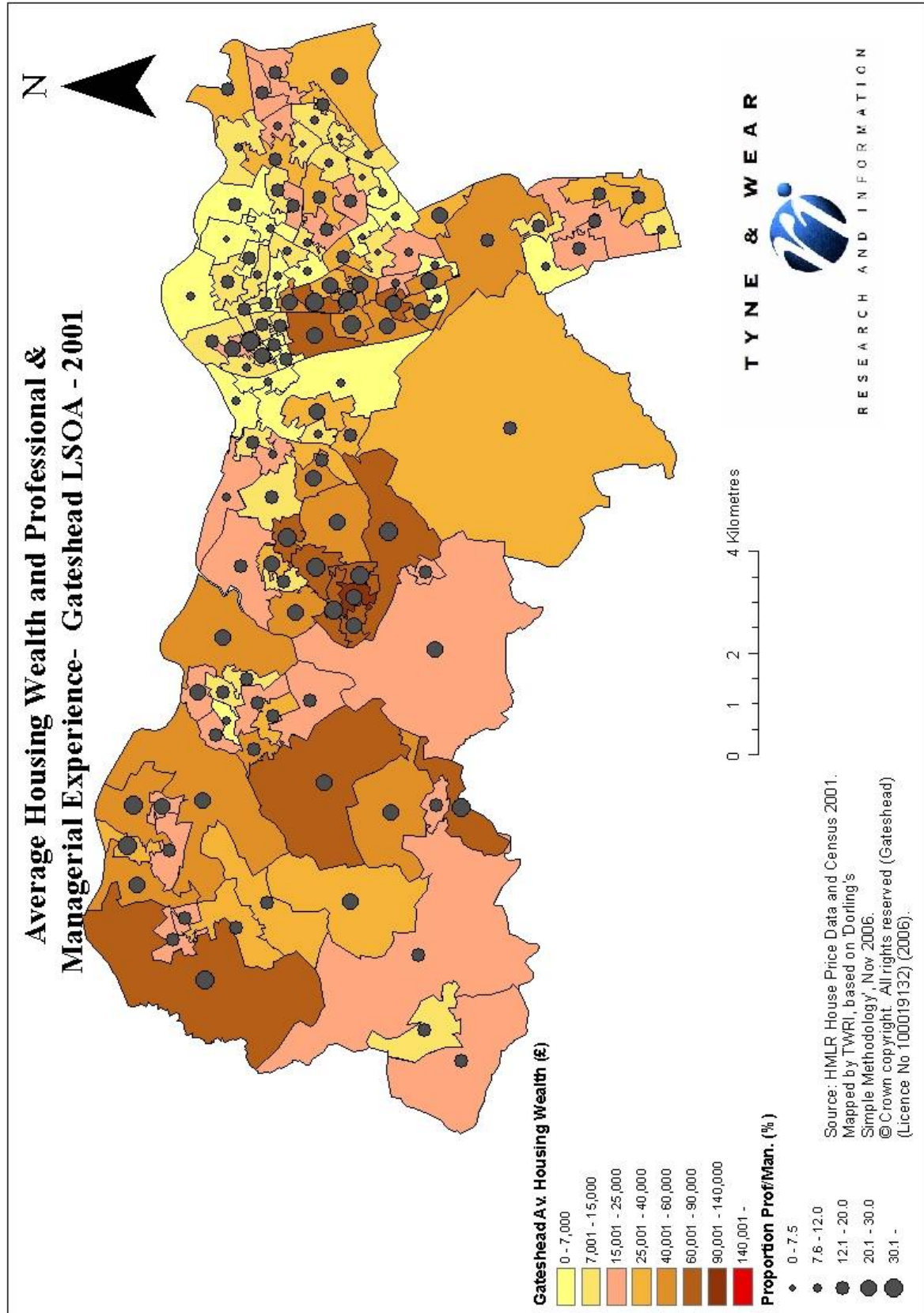


RESEARCH AND INFORMATION

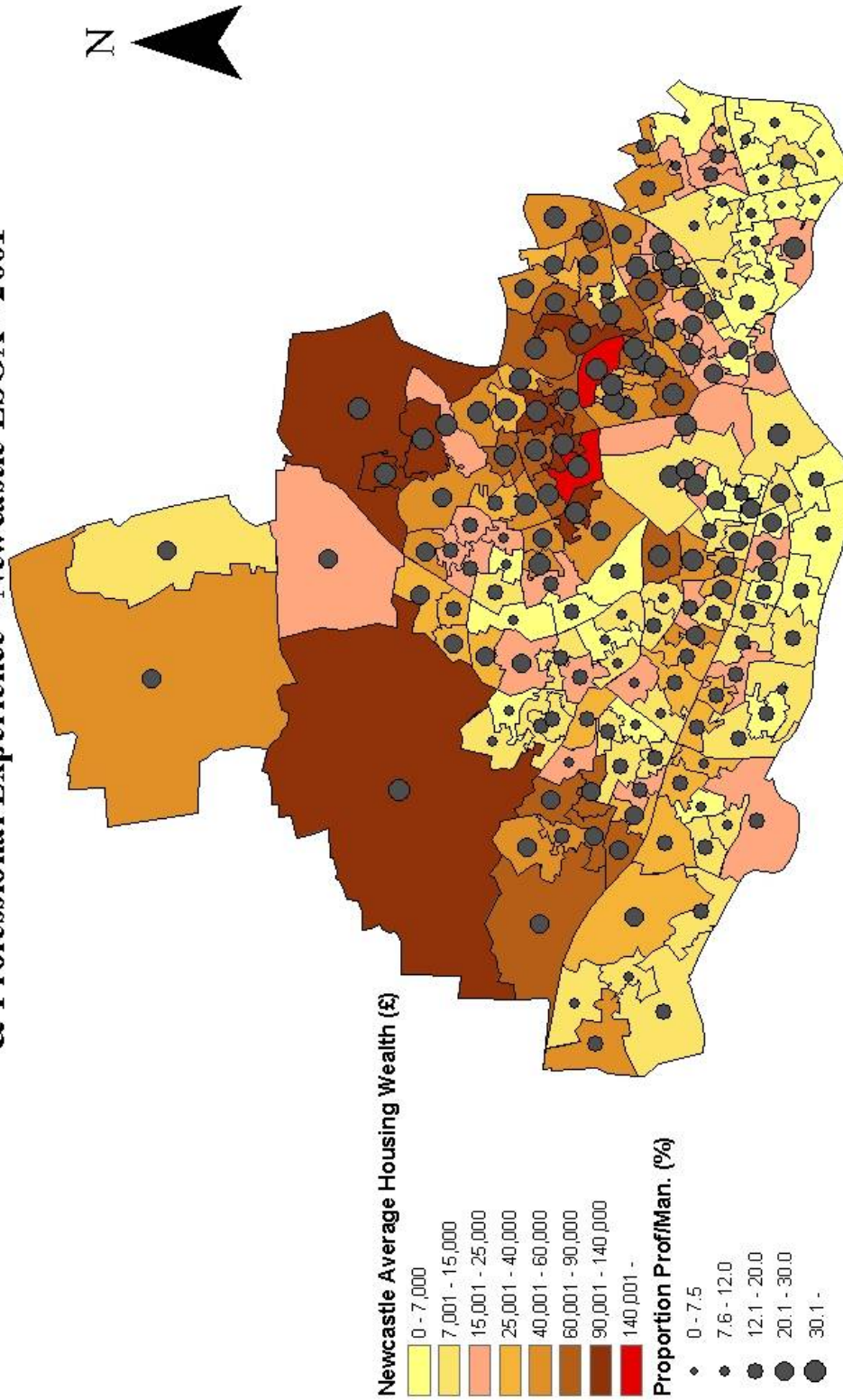








Average Housing Wealth and Managerial & Professional Experience - Newcastle LSOA - 2001



Newcastle Average Housing Wealth (£)

- 0 - 7,000
- 7,001 - 15,000
- 15,001 - 25,000
- 25,001 - 40,000
- 40,001 - 60,000
- 60,001 - 90,000
- 90,001 - 140,000
- 140,001 -

Proportion Prof/Man. (%)

- 0 - 7.5
- 7.6 - 12.0
- 12.1 - 20.0
- 20.1 - 30.0
- 30.1 -

Source: HMLR House Price Data and Census 2001.
 Mapped by TWRI, based on 'Dorling's
 Simple Methodology', November 2006
 © Crown copyright. All rights reserved (Newcastle)
 (Licence No 100019589) (2006).

TYNE & WEAR

 RESEARCH AND INFORMATION

