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Why people are no longer downsizing

For many, moving to a smaller home does not make financial sense, says Jessie Hewitson

It is a property truth universally acknowledged that people don't downsize because of stamp duty and a lack of suitable homes.

There is another more compelling reason why people aren't moving from larger to smaller houses in the present market, and it comes down to basic mathematics. Homeowners often think they can gain more equity from their homes than the market allows.

"Larger properties with higher price tags are harder hit on their value in down markets," says Marlon Lloyd Malcolm of Lurot Brand, an estate agency. "You will take a large discount on what you are selling and a smaller discount on what you are buying. The net result is not favourable; throw in stamp duty and the whole process becomes a large loss of equity."

If the property market were stronger, sellers could maximise the value of their larger home — and this is a key reason why many people who aren't being forced to downsize are choosing to wait.

Louis Winterbourne of the Cobham office of Savills estate agency says: "Undoubtedly one of the biggest factors for this group of sellers is present market conditions. For people who have owned the same house for decades, their view is, 'Why sell now, at a time of real uncertainty?', especially as they tend not to be in a need-to-move situation. It is their one chance to sell and maximise their asset, so downsizers are possibly the most likely group to be sitting on their hands and seeing what plays out. Waiting a couple of months or a year is unlikely to make a difference to their life plans."

Paul Cosgrove, the director of Finlay Brewer, an estate agency based in west London, says: "Overall, many end up concluding that downsizing would produce an insufficient net difference and is not worth the hassle and adjustment, compared with staying put."

Analysis by Savills underlines the point that some of the amounts people are freeing up can be relatively small.

People moving from a four-bedroom home in the North East of England to a three-bedroom property are freeing up an average of £100,000, but if they go from a three-bedroom home to two bedrooms, it's only £40,000. In outer London the difference is £235,050 and £109,950 respectively, and in the South West it is about £129,950 and £70,000.

The much-maligned bungalow is having the last laugh compared with the terraced house in terms of prices per square foot in many parts of the country. Bungalows can achieve a "significant premium", says Louise Riding of Stacks Property Search, a buying agency, "because they often have a large footprint on a decent-sized plot and can be knocked down and replaced with four-bedroom houses, and because older people appreciate their lack of stairs."

They may be derided, but bungalows are what many older buyers want. According to McCarthy & Stone, a retirement housing developer, 60 per cent of the over-65s it surveyed — equivalent to 7.2 million people in the country — would consider moving to a bungalow. Yet Savills' data shows there are only about 2 million bungalows in the UK, and only 6,326 were built last year, 2.5 per cent of all new homes.

"As our population ages, high-end bungalows are the asset class of the future, so you must expect to pay a dividend," Riding says. "The days of getting a cheap bungalow because it isn't a great beauty are sadly long gone.

"When we're buying for older clients who are downsizing, we automatically take into consideration access, particularly to upper floors. I'm a great fan of the bungalow and think it's sad that so many are bulldozed and replaced with houses. The supply is certainly diminishing. Many bungalows are extended vertically, so they're no longer technically bungalows. If it doesn't compromise the plot, it makes much more sense to extend bungalows laterally. And improvements can often be made if they're lacking in the aesthetics department."

Once people do sell, research shows that, increasingly, they are moving from rural areas to towns and cities. This means they aren't as reliant on cars and

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have activities on their doorstop, but it also minimises the equity they will gain because properties are often relatively more expensive in towns.

Carol Peet, a property finder in west Wales, says that when clients say they want to downsize, they often don't want to move from a five-bedroom house to a two-bedroom one. "When you show them a two-bedroom home, they immediately say the house is too small. If there are only two bedrooms it means the size of the living room and kitchen is likely to be smaller than they are used to. What they are envisaging — and what they are unlikely to find — is the same size living area as their present house, with fewer bedrooms."

Often people in this situation get discouraged and give up. However, some opt to downsize financially, but not in the size of the home. "They may be buying the same size house, so not technically downsizing, but downsizing the price by moving from London and the South East to west Wales."

This refurbished two-bedroom cottage in Moreton-in-Marsh, Gloucestershire, is on sale for £365,000 through Strutt & Parker

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How the numbers stack up

	Equity released when downsizing from a three to a two-bedroom home	Equity released when downsizing from a four to a three-bedroom home
Inner London	£135,000	£400,000
Outer London	£109,950	£235,050
South East	£89,950	£175,050
East of England	£65,000	£150,000
South West	£70,000	£129,950
West Midlands	£50,000	£145,000
East Midlands	£45,050	£115,000
Yorkshire and the Humber	£37,950	£122,000
Wales	£30,000	£115,050
North West	£49,950	£145,050
North East	£40,000	£100,000

Source: Savills

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This three-bedroom house in Loose, Kent, is on sale for £675,000 through Knight Frank. Below left: in Apperley, Gloucestershire, this four-bedroom beamed house is on sale for £575,000 through Savills. On the cover A three-bedroom grade II listed Tudor cottage in Shalbourne, Wiltshire, is on sale for £725,000 through Savills