GLAINTELLIGENCE

The Wealth Gap in London

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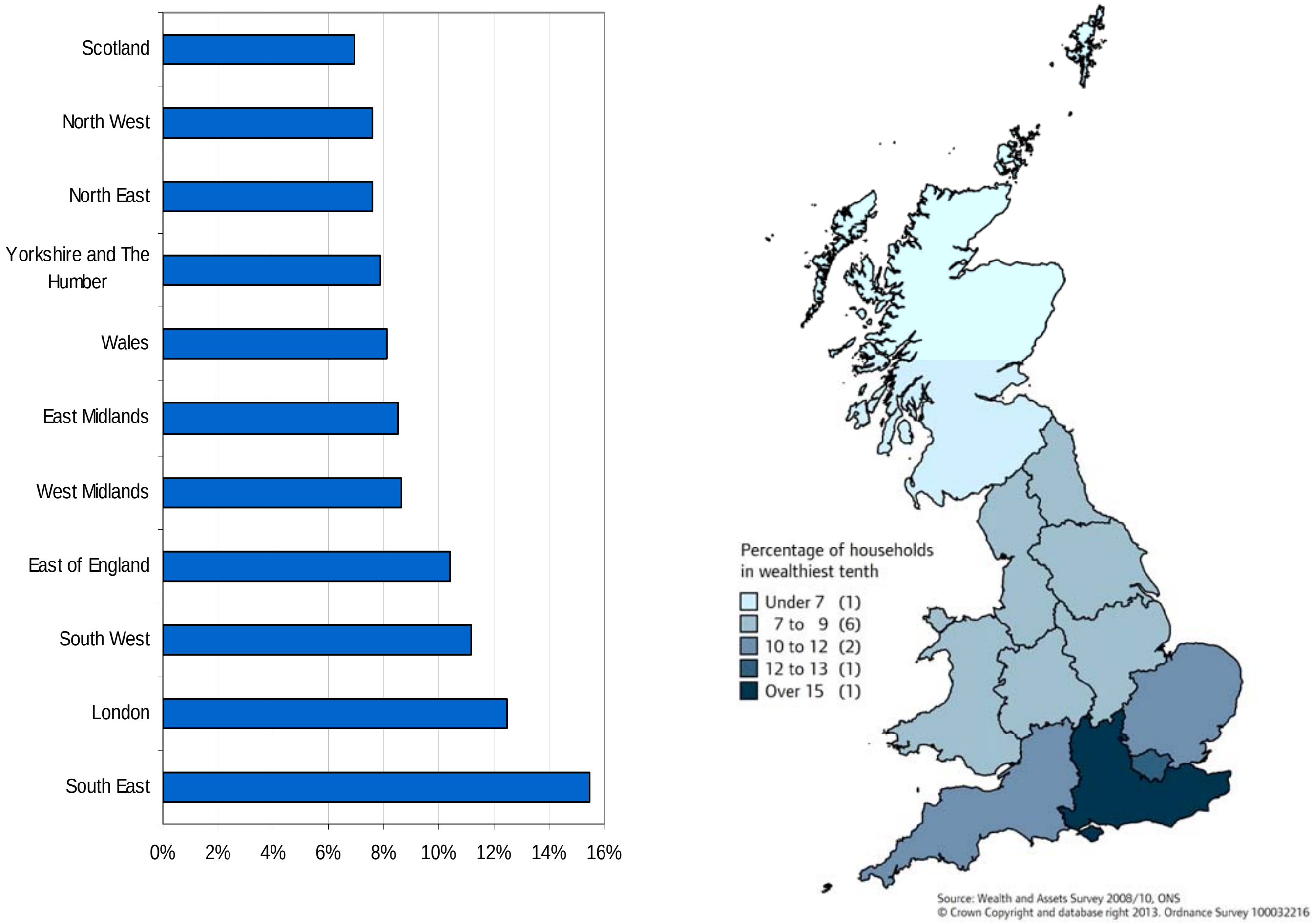
Key Findings

- There is a significant gap between the rich and poor in London, both in terms of their wealth and their income.
- A higher proportion of the wealthiest households are in the South East of England than in London.
- Pension wealth accounts for more than half the wealth of the richest ten per cent of the population.
- Property ownership rates are lower for Londoners than elsewhere, but the net property wealth is higher.
- Among the poorest ten per cent of households, debt outweighed their financial assets by four to one on average.
- In London, the tenth of the population with the highest income have weekly income after housing costs of over £1,000 while people in the lowest tenth have under £94 per week.
- The gap between rich and poor is growing, with the difference between the average income for the second highest tenth and second lowest tenth growing around 14 per cent more than inflation since 2003.

The Wealth Gap

The wealth gap, that is the gap between rich and poor, can be viewed either in terms of financial assets or incomes, since these two are generally closely related. In Great Britain, the richest ten per cent of the population own nearly 45 per cent of the country's total private household wealth, whereas at the other end of the spectrum, half of the population own less than ten per cent of the household wealth between them[i]. Households in the richest ten per cent have at least £967,000 total wealth, with 12.5 per cent of London households falling into this category, behind 15.5 per cent in the South East of England. Only regions in the south of England have more than ten per cent of their households in the wealthiest ten per cent nationally. For the bottom ten per cent of the population, when ordered in terms of wealth, their total net wealth, after taking debts and borrowings into account, is no more than £13,000.

Figure 1: Percentage of households with total wealth more than £967,000 by region, 2008/10



Source: Wealth and Assets Survey 2008/10, ONS

Property (housing) wealth, net of mortgage debt, is the single biggest category of wealth for the bottom half of the population, making up over a third of the total wealth, even accounting for the fact that many in this category do not own a property. Around 70 per cent of British residents own property of some sort, but this is lower for Londoners, at 60 per cent[1]. While the ownership rate is lower in London, the value of property means that the net property wealth[2] of London households is higher than in other regions at around £290,000, over £30,000 higher than in the South East. However, it is the value of pension wealth that characterises the very richest, with this accounting for over half the total wealth of the richest ten per cent of the population.

Of those households in London living in debt[3], half owed more than £3,000, but the average debt was nearer to £8,000. Only half of households did not view this as a burden, while for one in six, this debt was a heavy burden. Among the ten per cent of households with the lowest total wealth, their total debt was more

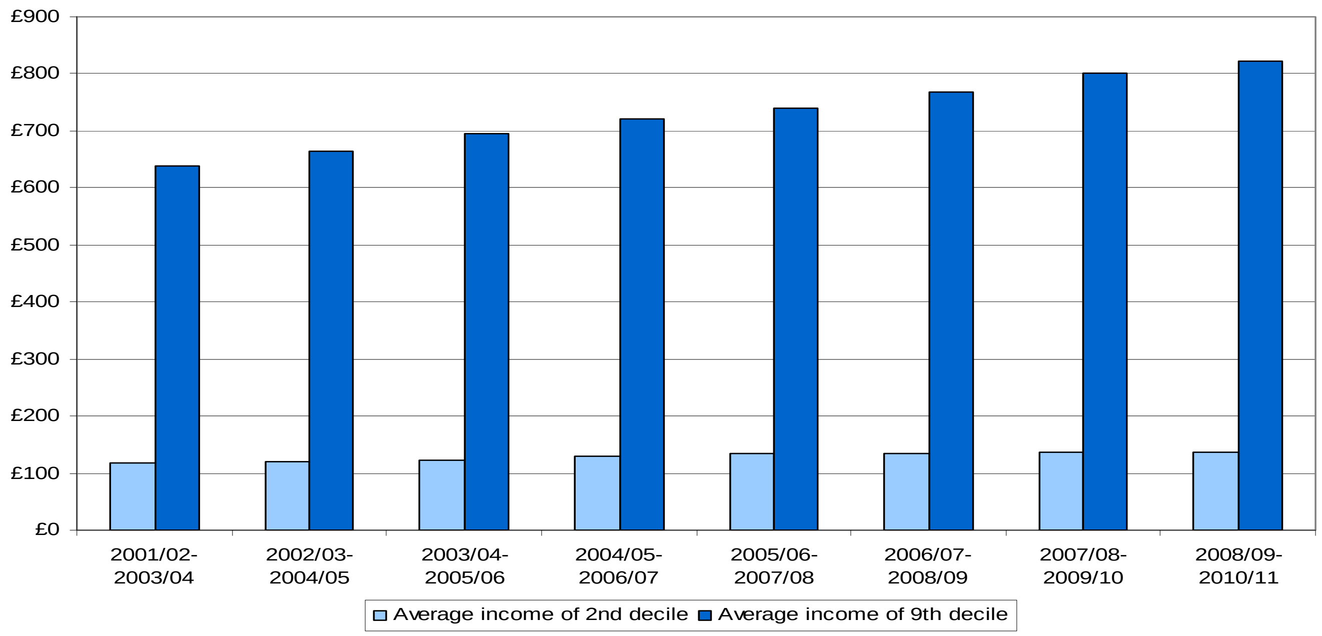
[1] Census 2011 figures show that 50 per cent of London residents own their home in the capital, so some renters in London own property elsewhere.
[2] Value of the property, including property elsewhere, less any outstanding mortgages.
[3] Excluding mortgages, but including other loans, overdrafts and credit/store cards that are not paid off each month.

than four times as much as their total financial wealth[4]. Around 40 per cent of this group felt their debt was a heavy burden, but a quarter did not see it as a problem.

In terms of incomes, the difference between the top and the bottom of the income range is also vast, with people in the top ten per cent of households having at least four times the income of those in the bottom ten per cent[ii]. Within London, the differences are even greater, with the equivalent ratio at more than 5.5. After taking housing costs into account, the difference rises to over ten times the disposable income for people in households with incomes in the top ten per cent of the range, compared with the lowest ten per cent. London households in the ten per cent of the population with the lowest incomes[5] have £94 per week or less using the after housing costs measure, whereas Londoners in the ten per cent of the population with the highest income have over £1,000 per week.

Incomes, however, are generally more volatile than wealth, with some people reporting negative incomes and at the other end of the spectrum a small number of households with extremely high incomes. Therefore an alternative comparison between "rich" and "poor" in terms of income is to consider the difference between the second highest ten per cent and the second lowest ten per cent. The latest figures for London show that on average the second highest group have incomes after housing costs that are six times more than the income for those in the second lowest group (£821 per week compared with £136[iii]). Furthermore, the gap between rich and poor has been increasing. The ratio of the average income for these two groups has increased from 5.4 in 2001/02-2003/04 to 6.0 in 2008/09-2010/11, with the actual difference growing from £519 to £685, around 14 per cent more than inflation over the period.

Figure 2: Average equivalised weekly household income after housing costs of the 2nd and 9th inter-decile groups, London 2001/02-2010/11



Source: Households Below Average Income, 2001/02- 2010/11, DWP

[4] Cash or money held in bank accounts and other financial assets etc.
[5] Equivalised, so adjusted to take account of household size and composition to allow for comparison of living standards

Glossary of key terms:

Wealth

Total wealth is made from four categories of wealth – pension wealth (the value of any pension funds), property wealth (the estimated value of any land or property, including overseas property), physical wealth (household possessions etc) and financial wealth (money held in cash or bank accounts, stocks, shares etc) less any amounts owing on mortgages, other bank loans, overdrafts, other loans, credit or store cards etc)

Income

The income data used here is weekly income from all sources taken from the Family Resources Survey. It includes earnings, all social security benefits, pensions, maintenance payments, educational grants and cash value of payments in kind such as free school meals for all members of the household, less income tax, national insurance, pension contributions and maintenance or support payments made to people outside the household and certain housing costs (see below). This net income figure is equivalised (see below) to aid comparability between households.

Equivalisation

Income equivalisation takes into account variations in the size and composition of the families in which children live. This reflects the common sense notion that, in order to enjoy a comparable standard of living, a family with say three children will need a higher income than a single person living alone.

Housing Costs

The After Housing Costs income measure is derived by deducting certain housing costs from the net income (gross less taxes etc, see above). The housing costs include rent, mortgage interest payments, water charges and structural insurance premiums.

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[i] Wealth and Assets Survey 2008/10, ONS

[ii] Family Resources Survey 2010/11, DWP

[iii] Three year average, Family Resources Survey 2008/09-2010/11, DWP

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