

The impact of inward investment on the London housing market

London First



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Questions have been raised about the number of newly built London homes that are sold to overseas purchasers when London has a housing shortage.

London certainly is building too few homes, but this would only be exacerbated by restricting inward investment which finances the supply of market housing, funds the provision of social housing and supports jobs and growth in London.

This briefing note seeks to put the concerns over the number of overseas purchases in context. It provides some background as to why London's housing market attracts inward investment and how this investment helps to increase overall housing supply for Londoners.

1. London is an international business city

London is a – perhaps the – **international business city**. Its economic success, which delivers jobs and prosperity for Londoners and the country as a whole, has been built on international trade, in past centuries primarily in goods and now principally in a range of services. If London is to continue to thrive the city must be open to housing those who come here to do business.

2. Londoners are international in their origins

Partly as a result of London's success as a global city, **Londoners are international in their origins**. 25 of the 33 London Boroughs have more than 30% of their residents born outside of the United Kingdom, and in four of them - including Westminster and Kensington & Chelsea - over half of residents are from outside the UK¹.

It is unsurprising that these foreign-born Londoners and their families wish to buy homes in London, and that some of these purchases are made overseas.

3. London's housing investment is partially financed by selling properties overseas

Some residential developers market and sell properties before they are built, as these 'off plan' purchases bring in immediate cash and guarantee future investment in the development. This increased certainty can be vital to securing constrained debt finance and **supports swifter investment in further development**. This is particularly important in complex development schemes where development takes place in phases.

Off plan sales are typically more attractive to international than domestic purchasers, partly as locals usually wish to view a range of properties before purchase; but also because typical UK mortgage offers are not designed for pre-construction purchase as they have a completion date of six months. Research by Jones Lang LaSalle shows that the £3 billion of cash brought into the new build London market by overseas purchasers in 2012 was critical to underpinning the market as a whole².

4. Inward investment delivers affordable homes and wider social benefits

When property developers build housing for sale they are generally required, through planning agreements, to deliver affordable housing (housing that is sold or rented at below market rates). Overall, affordable housing constituted 38% of the net new homes built in London in 2011/12 - a percentage that has been stable over the last three years³. The contribution of private sector schemes will vary by development, but typically is around one-third of the total homes built and in total, between 2008/09 and 2011/12 35,721 affordable homes were delivered in London through planning agreements (s.106 agreements). A recent, higher, example is Land Securities' development of 59 market homes at Wellington House next to St James' Park, which funded the building of 25 affordable homes at Wilton Plaza near Victoria.

New housing development also typically provides wider social benefits, including employment, for local people – through a combination of the Community Infrastructure Levy payments (which help fund council expenditure and the Mayor's investment in Crossrail) and further planning agreements which provide for site specific local improvements such as roads, schools or healthcare facilities, as well as attracting funding from the New Homes Bonus for local communities.

Constraining inward investment would reduce the total investment into London housing and thus the investment into social housing and the wider social benefits that housing brings.

1. The World in London, Savills - http://www.savills.co.uk/research_articles/141285/168751-0

2. Jones Lang LaSalle; Savills estimate that £9 billion went into the whole London residential market from international buyers (most of whom were buying their main residence) and £7 billion of this went into prime London (new build and resales)

3. GLA: London Plan Annual Monitoring Report 9, 2011/12, March 2013

5. Inward investors rent, or live in, their homes in the vast majority of cases

Perhaps the biggest concern expressed about overseas purchases of flats and houses in London is that they are left empty. True, there are some very rich people who own multiple homes across the globe and visit them infrequently; it is difficult to demonstrate conclusively residence patterns in an open society with freedom of movement. But what is known from research undertaken by a number of London First members is that most homes bought by overseas investors are bought either as their primary residence or as an investment which is let to local tenants.

International buyers are drawn to high-value properties. Data on Prime London⁴ – an area where private purchase has long been out of reach of the vast majority of working Londoners – shows that most purchases of new build flats are by international buyers but **the overwhelming majority go on to rent their property**. The data also shows that this isn't a new phenomenon: 38% of Prime London buyers were from overseas in 2012/13, the same percentage as in 1990⁵.

Of the Prime London new build homes purchased by overseas investors in 2012⁶:

- 58% bought the property to rent it out
- 27% bought it to live in
- 15% bought it as a second home⁷.

The role played by international buyers becomes less prominent when looking at all transactions rather than just new build; and when looking at London as a whole rather than some of the most expensive properties. But the focus on renting remains:

- within Prime London, three-quarters of new build properties priced at over £700 per square foot are purchased by international buyers while domestic buyers purchase over two-thirds of properties of new build properties priced at under £700 per square foot⁸;
- new build represents 12% of total transactions in the London market⁹;
- 80% of transactions are financed by a UK domestic mortgage – the remaining 20% represents UK cash and overseas purchases but the split is unknown¹⁰; and
- survey evidence shows that 85% of all new build off plan London properties purchased by international buyers are investments and rented out, with the balance being a mix of main residencies and second homes¹¹.

The private rented sector plays an increasingly important role in meeting London's housing needs. Those overseas purchasers who are not living in their property are typically renting it out, thus **their investment is providing a home for Londoners** (and helping constrain London's already high rental levels). And, of course, in time new build homes becomes part of the housing stock, through resale. At a time when the Government is seeking to stimulate institutional investment in the London private rented sector (PRS) to help boost overall supply, it would be odd to seek to restrict similar smaller scale investment.

6. London faces a more fundamental housing challenge

For the reasons set out in this note, inward investment into London's housing market has helped to boost overall house building. But the fact is that **London is still building too few homes**. The Mayor currently has a minimum target of building 32,210 new homes per annum - a target that London has not met since the 1970s - and the Mayor has announced his ambition to increase this to at least 40,000 in his Vision for London with some estimates suggesting it should be in excess of 50,000.

London needs a step change in house building, which requires government, the Mayor and the boroughs to **work together to create a new housing settlement for London**. Amongst other things, this requires a supportive planning system, releasing surplus public land and ensuring that the public sector fully utilises its assets to leverage in private investment. Over the coming months, London First will be considering this issue further, because without such a step change in housing provision London's competitiveness will be undermined.

4. The most expensive parts of central London, broadly the most desirable parts of the eight boroughs of Camden, the City of London, Hammersmith & Fulham, Islington, Kensington & Chelsea, Richmond, Wandsworth and Westminster

5. The World in London, Savills

6. 16% of all transactions in Prime London, The World in London, Savills

7. The World in London, Savills

8. The World in London, Savills

9. Jones Lang LaSalle and Annual Monitoring Review, GLA

10. Jones Lang LaSalle

11. Jones Lang LaSalle



Key facts: inward Investment in London Housing

London is a global city

- 25 of the 33 London Boroughs have more than 30% of their residents born outside of the United Kingdom, and in four of them - including Westminster and Kensington & Chelsea - over half of residents are from outside the UK¹.

Inward investment supports house building

- Inward investment into the London market - £3 billion in 2012² - underpins the market as a whole. For new build it de-risks development by providing cash before construction.
- Between 2008/09 and 2011/12 there were 35,721 affordable homes delivered in London through planning agreements (s.106 agreements)³.

Overseas investment is concentrated in high-value prime London

- In 2012, three quarters of new build homes in Prime London priced at over £700 per square foot were sold to international buyers; at prices below £700 over two-thirds of buyers were domestic⁴.

Homes bought by inward investors are overwhelmingly rented-out or used as a main residence

- Survey evidence shows that 85% of all new build off plan London properties purchased by international buyers are investments and rented out, with the balance being a mix of main residencies and second homes⁵.
- Of the Prime London new build homes purchased by overseas investors in 2012:
 - 58% bought the property to rent it out;
 - 27% bought it to live in; and
 - 15% bought it as a second home⁶.
- Only 750 of the 97,000 Greater London sales in 2012 were Prime London new build sales to international second home buyers - less than 1%⁷.

Jobs and investment

- Foreign investment in London's housing supports wider jobs and growth in London. For example:
 - A study for the Berkeley Group found that every home built in London in 2012 provided 4.5 jobs⁸; while
 - Research for London First showed that each 100 homes of central London residential development directly contributed £28 million to the economy and created 550 jobs⁹.

1. The World in London, Savills

2. Source: Jones Lang LaSalle

3. London Development Database, GLA

4. The world in London, Savills

5. Source: Jones Lang LaSalle

6. The World in London, Savills

7. The World in London, Savills

8. Berkeley Group, Economic Impact Assessment, Ernst and Young

9. Building London, Building Britain; London First