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Overseas investors and London's housing market

The role of overseas investors in the London new-build residential market

LSE London has just completed a study of the role of overseas investors in the London residential market for the GLA. (Click **here** to access the final report). We looked at the proportion of new homes sold to buyers who live abroad and at the proportion of those homes left empty; we also examined the contribution of overseas sales and finance to new development [1]. We found that:

- Significant proportions of new units are bought by overseas residents. The percentage is highest in central London but the total number there is small;
- A clear majority of units bought by overseas investors are let out to Londoners;

- A small but highly visible subset is lived in only occasionally. However, there was almost no evidence of homes being left permanently empty;
- Pre-sales to overseas buyers enable developers to build faster and thus make more market and affordable housing available than would otherwise have been the case;
- International investment and finance have helped bring stalled sites into use and speed up development on larger sites. They have also been key to creating our Build to Rent sector.

How many new homes are sold to overseas buyers?

Greenwich Peninsula, © Ulises Moreno-Tabarez

The LSE research, based on information provided by developers and major international estate agents, suggested that across London overseas buyers accounted for fewer than 20% of sales of new-build units. Sales were proportionately higher in central London than in the rest of the capital, but few new homes are built in the centre so in absolute terms there are more sales further out.

The LSE research was based on data from certain estate agents who concentrate on overseas buyers; detailed discussion with developers of all types working in London; building managers and concierges; and specialists in finance and the land market. In a separate, complementary project the University of York carried out detailed analysis of Land Registry data on individual transactions (Click **here** to access their final report). They found that around 13% of private market sales included). Our figures, while not directly comparable for various technical reasons, were rather higher but in the same ballpark.

Overseas buyers, most from Asia and the Middle East, purchase London property for three main reasons: as investments to let out; to accommodate family (notably students or sometimes returning expats); and/or as London homes to be used for work-related or vacation visits. The evidence from agents and developers suggested more than 70% were bought to let out – by definition to Londoners. Again, the pattern differed across the capital: the further from the centre, the higher the proportion of units rented out.

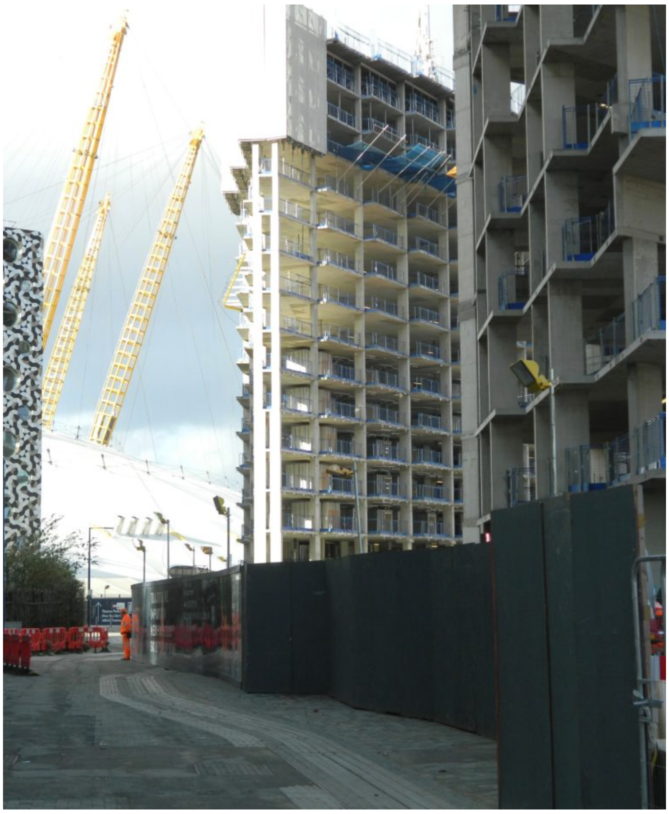
Occupancy rates

There was almost no evidence of 'buy to leave'– certainly less than 1% of new homes bought by overseas buyers were left entirely empty. Those units that are rented out have very high occupancy rates and indeed some are 'over-occupied' e.g. by students. Some second homes, on the other hand, may be occupied for only a few weeks a year, although most are used more frequently. In between, many units are lived in by owners' family members, especially students, who may occupy them for most of the year.

Pre-sales

Pre-sales play an important role in facilitating development. Except for housing associations building market housing, developers almost all rely on pre-sales to reduce risk from market volatility and the lumpiness of completions in apartment blocks. Off-plan sales, which often take place two or more years before completion, are usually to overseas buyers: such customers are accustomed to buying this way and are not constrained by UK mortgage offers. There are pre-sales to local buyers but they tend to happen somewhat later in the development process.

The practice of selling units before they are complete favours investors (whether from the UK or overseas) and puts first-time buyers at a disadvantage. This is really an issue about the financing structure of London's housing development rather than about overseas buyers per se. Some developers reserve units for FTBs, while others said they were happy to sell to UK buyers who could demonstrate



Greenwich Peninsula, © Ulises Moreno-Tabarez

Other effects on the housing market

Overseas purchases do impose a cost on Londoners: on reasonable, conservative assumptions, Londoners are unable to access maybe 6% of private new-build units as either owners or tenants. But this cost is more than offset by the positive impact of pre-sales on the speed and volume of new construction of both private and affordable new housing. In terms of the number of new homes built, Londoners therefore benefit from overseas buyers.

However, demand from overseas buyers for new property has impacts beyond just the number of homes built. While beyond the remit of LSE's research, they should not be ignored. First, the built form of new housing may reflect overseas buyers' preferences – e.g., in terms of the use of glass and indeed the size of units and numbers of bedrooms. Second, their involvement may affect the tenure split in the capital, as it increases the likelihood that Londoners will live in these units as tenants rather than owners (although that is equally the case if units are bought by UK-based investors). Finally, there is the issue of price. The direct impact on the price of London housing is clearly limited as new build is such a small proportion of overall transactions. However, their interest has probably meant that more apartments have been delivered at higher price points, so average prices have been affected by the change in mix.

Overseas investment in development

Finally, overseas investors are involved in almost all London's very large residential development sites. In addition, many Build to Rent schemes (large-scale purposeoutput in 2015/16 stems directly from increased international investment.

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[1] The research looked at four questions:

- 1) What proportion of new homes is sold to buyers who are resident overseas?
- 2) What proportion of new homes is kept empty and how many of these are owned by foreign buyers?
- 3) How reliant is development viability on sales to overseas buyers?
- 4) How does overseas financing of development contribute to housing supply?

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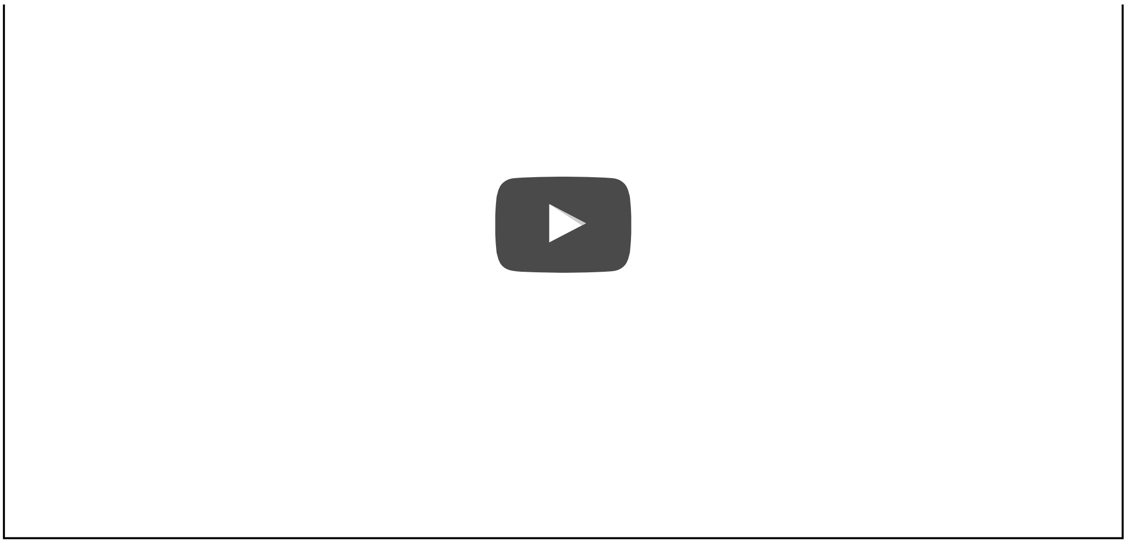
Related research outputs

For more research outputs on the theme of **The Role of Foreign Money**, please click **here**.

Matthew Taylor and Robert Booth have covered the story for **The Guardian**. Click **here** to read their article.

We also produced a video that addresses some of the questions and debates on the topic. On the 27th of February 2015, a group of researchers and housing stakeholders visited the Greenwich Peninsula to learn more about the role of foreign investment in accelerating new residential development in London. The site visit was organised as part of LSE London's knowledge exchange project, **Housing in London: addressing the supply crisis**.

This film captures the lessons from the site visit about the opportunities of this kind of development and the barriers faced by international investors and developers looking to build housing in London.



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