



# FOREIGN LEGIONS

With London house prices rising 10% this month and increasing alarm that more people than ever are being priced out of home ownership, pressure is growing on politicians to clamp down on foreign investors. But could that hit developers, asks **Joey Gardiner**

The asking price for a home in London leapt by more than 10% in the last month, taking the average asking price to more than £1m in four London boroughs. But these figures, from Rightmove, are just the most recent shocking data demonstrating what's happening to a London housing market where a property is on average worth 8.5 times its resident's annual income - and 27 times income in Kensington and Chelsea.

And while this growth may be good news for landowners and existing homeowners, it is bad news for anyone on average wages looking to buy a home - and is fast becoming a serious headache for national and local politicians trying to address what the Labour Party is dubbing the UK's "cost of living crisis". The most politically explosive part of the equation is the impact that foreign buyers are having: anecdotal reports blame much of the increase on Asian buyers paying over-the-odds for homes that nobody ever lives in.

The caricature is of "lights out London" - a city so expensive that nobody who works in it,

THE TALK OF THE MANSION TAX IS ALREADY CAUSING BEHAVIOURAL CHANGES. IF YOU STIFLE THAT DEMAND, PROPERTIES WILL BE LEFT UNSOLD. AD HOC CHANGES ARE STOPPING INVESTMENT

**ROB PERRINS, BERKELEY GROUP**

beyond hedge fund millionaires, can afford to live there. Schemes such as the redevelopment of Battersea (main picture) where 95% of the 866-home first phase was sold to foreign investors have underlined this concern. All of which would be merely dinner party chatter for housebuilders were it not for the growing fear that the issue is so severe politicians may intervene to curb this foreign investment.

Speaking last week, planning minister Nick

Boles accepted the perception that London property was now being used by a global elite as a kind of global reserve currency in which to park their cash, but nevertheless made clear he was reluctant to consider interventions which might deter them. "I am very very nervous about the practical effects of any policy intervention, and the messages it might send out to foreign investors."

But there is a growing cadre of largely London-based politicians across the political spectrum who are now calling for action. Think tanks and academics are lending their support, with the left-leaning Smith Institute publishing a policy paper earlier this year promoting the introduction of a property speculation tax. While these views are still far from being government policy, any decision on this could have a major impact on the London market, potentially putting developers' business models at serious risk.

**The impact of foreign buyers**

The question of how worried developers need to

be about this is complicated by the fact it is very difficult to pin down the exact impact foreign buyers are having. The latest figures from Knight Frank, for example, show that in prime (sales above £1m) central London, a staggering 69% of new build transactions are with foreigners, with about half - 49% - of total sales to foreign nationals. But outside of central London the impact very quickly decreases, with Knight Frank estimating only 10-15% of new build purchases in Greater London as a whole were by foreign nationals. In addition, Knight Frank's research suggests the majority of the "foreigners" purchasing are actually UK residents - not the stereotypical absentee Far Eastern investor. For example, only just over half of the "foreign" buyers of prime central London homes are overseas residents. Likewise, a majority of new-build buyers are UK resident.

Certainly one part of this issue has been overdone: the "lights out London" caricature, where homes bought by wealthy foreign oligarchs sit empty for most of the year. Research indicates that the vast majority of

overseas purchasers either intend to rent the houses out, or buy for themselves or a family member to live in permanently. Savills estimates just 15% of foreign-bought new build houses in prime London are bought as second homes, which equates to just 2.5% of all prime London sales.

Liam Bailey, partner at Knight Frank, says: "No doubt there is an element of second home purchase, but when our agents talk to purchasers, they say their first question is always 'what's the [rental] yield?' These people need the income return. At Battersea, for example, I'd be very surprised if the vast majority of those investors aren't going to be letting those homes out."

**Benefits of foreign sales**

Furthermore, developers argue that foreign sales actually benefit London home buyers, by pump-priming large developments that otherwise wouldn't get off the ground. With banks requiring a large volume of pre-sales before agreeing to issue development finance,

many schemes would be unable to proceed without "off-plan" purchases. So while overseas buyers may be buying up property, developers maintain many of these houses are then rented out to Londoners, and the developments enabled by these purchases themselves produce affordable housing that otherwise would not get built.

Last week an independent report by LSE academics Christine Whitehead and Tony Travers, commissioned by London housebuilder Berkeley Group, agreed with this conclusion, finding "[international investor growth] has undoubtedly been the most important factor in enabling residential investment in central London to increase rapidly [...] International investment is often the difference that makes it possible for a project to go ahead."

Speaking at the launch of the research, Whitehead said that despite the controversy, international buyers had actually been "almost an unalloyed good for London," particularly in providing demand for large-scale building during a period when domestic demand had dried up. For developers, then, any move to restrict these purchasers would present a genuine threat.

But while foreign purchases do trigger some construction of affordable homes, it is the effect on house prices for domestic purchasers that most concerns politicians. According to Savills, £7.1bn of what it calls "international equity" was pumped into London homes in 2012, the rate more than doubling since 2009. To put it in context, this dwarfs the £1.8bn estimated to have been put in by that other culprit of rising

prices in the popular imagination: corporate bonuses. It also dwarfs the £4.5bn spent by the government on affordable housing over five years across the entire UK. According to research by the Smith Institute, this £7.1bn figure is equivalent to 39% of the value of all mortgages advanced in the capital in 2012.

However, given the high profile of the issue, surprisingly little research has been done as to what impact this has. Knight Frank's Autumn 2013 London Residential Review analysed the moving patterns of people leaving central London, to see if they are moving to other parts of the capital where they might be boosting prices. It finds little evidence of this ripple effect in demand, saying: "This pattern of migration makes it difficult to equate price rises in outer boroughs, such as Merton or Barking and Dagenham, to the performance of prime central London prices."

Whitehead points to work done in 2008 by New Labour's National Housing and Planning Advisory Unit on the price »



*The majority of apartments at One Hyde Park, worth up to £100m, are reported to be second homes*

» impact of all buy-to-let purchases – which obviously included overseas investment buys. This work found the total impact of all buy-to-let sales on general house prices was relatively modest, pushing prices up by just 7% across the UK. However, despite the subsequent ballooning of foreign investment this work has never been updated, and the work made no attempt to analyse whether the price impact might be much higher in certain “hot” markets such as London.

So while the economic modelling may not have been done, Smith Institute report author, and editor of Housing Finance International Andrew Heywood says it beggars belief this wall of money is not the principle cause of the London price bubble. “It is very hard to argue it has no impact. If you’re trying to find a reason why the London market has continued to outperform the rest of the country, that is the one single factor you can point to. It is not as if the capital has fallen behind on housing supply. But much more work is needed in this area.”

With Heywood’s view shared by many outside the development industry, the threat to developers of politicians wading in with attempts to make foreign sales harder is real and growing. The chancellor George Osborne has already used recent Budgets to raise stamp duty rates for high-value purchases (to 7% for £2m homes) and to a punitive level for those using company structures to buy them, demonstrating politicians’ weakness for introducing populist property taxes.

Likewise, Labour’s shadow London minister Sadiq Khan says his party is considering what measures could be introduced to force foreign buyers to rent out properties or ensure the

## CURBING FOREIGN BUYERS – HOW COULD IT BE DONE?

### ■ Banning foreigners from buying London homes

Liberal Democrat MP Simon Hughes is calling for this measure, saying the London mayor should have to authorise all purchases. Most mainstream politicians, including London mayor Boris Johnson and communities secretary Eric Pickles have ruled this out as too draconian

### ■ Introduce tax or charge on unoccupied homes owned by foreign buyers

A number of commentators have speculated on the possibility of levying a charge on non-UK-resident owners who keep homes empty (including Tory Westminster MP Mark Field). However, the GLA is thought to be concerned as to how any such scheme might be enforced in practice

### ■ Bring in Property Speculation Tax

Proposed by the left-leaning Smith Institute earlier this year, property speculation taxes exist in many countries across the world, including Germany, and work by penalising investor owners that sell homes within

certain prescribed timeframes. The Smith Institute claims the tax, which aims to change behaviour rather than simply raise revenue, could reduce volatility in prices during market booms

### ■ Reform Stamp Duty Land Tax

This is part of a proposal by the London Finance Commission, also chaired by Tony Travers, which raises the possibility of London being allowed to keep its receipts from stamp duty sales in the capital. After a phased introduction, it would then be able to amend how the tax works to help London property buyers

### ■ Reform suite of property taxation

Introduce reform of property taxation that tackles the thorny problem of council tax revaluation – so far avoided by successive governments because of the likelihood it would penalise those whose properties have risen in value. According to Berkeley’s Creating the Conditions for Growth document written by Travers, tackling the problem in the round would allow London residents to reduce their exposure without damaging investor appetite

investment is directed into affordable housing, citing employers struggling to recruit staff because of high housing costs. He points to Camden council’s proposal to increase council tax on unoccupied second homes. “It’s great we’re attracting investment from abroad. But the impact is that it has broken the link between supply and prices. For Londoners it is simply unsustainable.”

Tory MP Mark Field has made similar noises, calling for consideration of more taxes on empty properties, and extra capital gains tax on property purchases by non-UK residents. However, the Lib Dems’ Simon Hughes has gone much further, saying housing in London should only be available to domestic purchasers, calling for a change in the law to make foreign purchases require express permission from London’s mayor.

Asked about these potential changes, as well as those already on the way, Berkeley Group chief executive Rob Perrins says: “Yes, we are worried about it. The talk of the mansion tax is already causing behavioural changes. If you stifle that demand, then you’ll have properties left unsold. Ad hoc changes are stopping investment, and changes could reduce the number of homes we build.”

However, Perrins maintains that the research produced by Travers and Whitehead

does hold out hope for some common ground. In it Travers proposes an end-to-end review of property taxation, carried out on a cross-party basis. The aim would be to ensure that the current regime in which owners of multimillion-pound properties in the capital pay just a few pounds a week in council tax is reformed so that the tax bills are more fairly distributed. Taken in the round, including inheritance tax, capital gains tax and stamp duty, Travers and Whitehead maintain a structure can be found that keeps London competitive for foreign investors, thereby maintaining the development flow, while easing property costs on many London residents. Travers says: “We want a solution that allows developers and investors to work in a predictable environment.”

But clearly there are a huge number of difficulties in implementing this – not least that any review that involved a re-rating of council tax would be hugely controversial. This means policy would have to be developed on a cross-party basis, which is particularly difficult in the run-up to an election.

Ultimately all sides agree that the best long-term way to tackle the price problem without damaging foreign investment flows is through building more homes. The problem will be if short-term political expediency makes that goal harder, not easier.