Annex B

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

Final report for Homes for London

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Table of Contents

Executive summary

The project: The team was asked to look at four main research questions:

- What proportion of new residential units in London is bought by overseas buyers?
- What proportion of these units is left empty?
- To what extent do the funding models of London residential developers rely on off-plan sales to overseas buyers?
- What is the role of major overseas investors (such as pension funds, sovereign wealth, debt providers, shareholdings) in the residential development process in London?

Methods: Our approach included secondary data analysis; individual sales data from agents; and interviews with developers, agents, managers and other stakeholders. The sales data covered approximately 10% of new private units for sale during a two-year period, April 214 to March 2016 and we interviewed the developers involved with over 50% of new units. There were many issues around definitions and data availability which means our findings should be seen as an (incomplete) jigsaw rather than a definitive picture.

The proportion of new residential units in London bought by overseas buyers: About a third of the sales handled by certain international estate agents between April 2014 and April 2016 were to overseas buyers, rising to over 50% in central London (where the number of new units is small). Information from developers is consistent with this in particular parts of the market. However many developers hardly sell any units to overseas residents so the *overall* proportion of new market units sold to overseas buyers is undoubtedly much lower; the York University analysis suggests around 13% of new market housing was sold to overseas residents across London as a whole in the two years to March 2016.

The proportion of new units sold to buyers resident overseas declines with distance from the centre. Related to this, the higher the unit prices, the higher the proportion of overseas buyers.

Overseas buyers, most of whom come from Asia and the Middle East, purchase London property for three main reasons: as an investment to let out; to accommodate family (notably students or sometimes returning expats); and/or as a London home to be used for work-related or vacation visits. The evidence from agents and developers suggested that 70% or more of sales were for letting purposes with a maximum of 30% in the other two categories.

The proportion of units left empty: Developers estimated occupancy rates for individual schemes were generally up to 95%. There was almost no evidence of units being left entirely empty - certainly less than 1%. Units bought to be let out appear to have very high occupancy rates and indeed some are 'over-occupied' e.g. by students. However for those units bought as second homes, occupancy could be as little as a few weeks a year. Many such second home sales are to UK residents, not overseas buyers.

The importance of pre-sales to London residential developers: Except for housing associations, developers almost all said they needed pre-sales to ensure a pipeline of development. Some banks and other debt finance institutions required pre-sales before lending, but more importantly developers needed pre-sales to reduce the risks associated with market volatility and the lumpiness of completions in apartment blocks. Off-plan sales were usually to overseas buyers as they had more experience buying this way and were not constrained by UK mortgage offers.

Domestic pre-sales were also important to developers but occurred somewhat later in the development process. Developers usually aimed to have little or no unsold stock by the time schemes were complete, as this tied up capital and slowed production. This was seen to disadvantage first-time buyers; in response some developers held some units back for them, while others said they would sell to UK buyers who could show that in principle they could get a mortgage.

The role of major overseas investors in the residential development process in London: Almost all London's very large residential development sites have used overseas investment to get them started and speed up development. In addition, many Build to Rent schemes (large-scale purpose-built PRS) have benefited from overseas funding during the development process, and/or are owned by foreign institutions. The very large increase in Build to Rent output in 2015/16 stems significantly from increased international investment.

Additionality: On reasonable, conservative assumptions Londoners may be excluded as tenants or owners from perhaps 6% of private new-build units. This cost is offset by the effect of overseas sales and investment on developers' decisions to build and the speed of delivery. The pattern after 2010, when the effects of the financial crisis were at their worst, suggests that overseas investment since then has had a positive net effect on the availability to Londoners of new housing, both private and affordable.

In summary:

- Our project was limited to four specific questions around overseas buyers and investors in the new housing market. It should not be seen as a full cost benefit analysis.
- Quite large proportions of new build units are bought by overseas residents. The proportion is highest in central London but total numbers there are small;
- A substantial majority of the units bought by overseas investors are let out to Londoners;
- Others are being used by family members, children in education, or returning expats and are fully occupied;
- A small, but highly visible, subset of new build market housing is lived in only occasionally. Yet even owners of 'London homes' who come to London relatively rarely often contribute significant benefits to the London economy;
- Sales to overseas buyers accelerate development through their impact on developers' decisions to build and thus make more market and affordable housing available- especially given that affordable housing is currently largely a by-product of market development;
- International investment and finance have helped bring stalled sites into use and speed up development especially on larger sites. They have also been key to creating a UK Build to Rent sector.

I The research questions

LSE London, a research centre at the London School of Economics, has undertaken research on behalf of the Greater London Authority (GLA) better to understand the role of overseas investors in the London new-build residential market. The findings will help inform the development of policy in this area.

The team was asked to look at four main research questions:

- What proportion of new residential units in London is bought by overseas buyers?
- What proportion of these units is left empty?
- To what extent do the funding models of London residential developers rely on off-plan sales to overseas buyers?
- What is the role of major overseas investors (such as pension funds, sovereign wealth, debt providers, shareholdings) in the residential development process in London?

The research looked not only at how many units are sold to overseas buyers and how these units are used, but also at the potential importance of these buyers in enabling new supply, including the supply of affordable housing and the direct involvement of overseas investors in supporting new development. Detailed sub-questions, as agreed with the GLA, can be found in Appendix 1. Many of the questions are couched in quantitative terms, but the evidence available is relatively limited, often partial, and sometimes difficult to interpret. The research process was therefore rather like assembling a jigsaw using both quantitative and qualitative elements. Inevitably the results include some important gaps.

It is important to stress that the research covered only newly built private sector homes. It did not address the role of international investors in the much larger market for existing homes. Moreover, the definition of 'overseas buyer' is someone whose main residential address at the time of property purchase was outside the UK, regardless of their nationality. This means that a UK expat living in Dubai would be classed as an overseas buyer, whereas a French national living in Kensington (or indeed in Edinburgh) would be regarded as a UK buyer.

Approach

This report brings together evidence from three main sources:

- A literature review which looked at academic and other research, ephemeral and grey literature, market commentaries and web-based materials;
- Quantitative data, mainly from three sources:
    - major international estate agencies that market London homes overseas
    - Molior, a commercial organisation that tracks new residential development in London
    - Real Capital Analytics, an international firm that logs major investments in the property market, including existing buildings and development sites in London
- Interview and survey material
    - more than 30 semi-structured interviews with informed stakeholders involved at all stages of the development, finance, marketing and management processes. Some of the responses have included quantitative elements.
    - Written survey of members of the London group of the House Builders Federation.

II Background: characterising the market

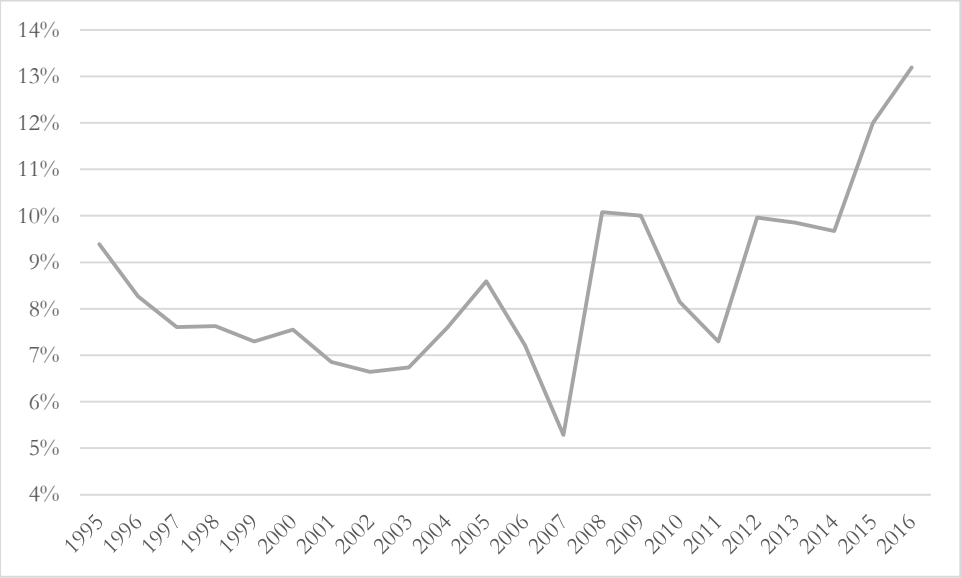
Here we look at the scale of new build in London and the importance of new homes relative to all residential transactions. We then set out how various commentators categorise London residential markets.

New-build homes for sale

In this project we looked specifically at overseas investors' role in the market for *new* homes in the capital. In 2015-2016, 24,180 new dwellings were completed in London (DCLG Live Table 253, 2016) of which just over 17,000 were in the private sector. This was considerably more than in the previous four years when the figures were 20,000 or fewer in total and 12,000 or fewer in the private sector. Importantly, annual additions add less than 1% to London's housing stock (BPF, 2014, p. 5).

New-build homes have made up less than 10% of London's housing transactions for most of the period since 1995 (Figure 1). In the last four years the proportion has risen to something over 13%.

Figure 1: New-build home sales as a proportion of all London sales since 1995



Source: HM Land Registry

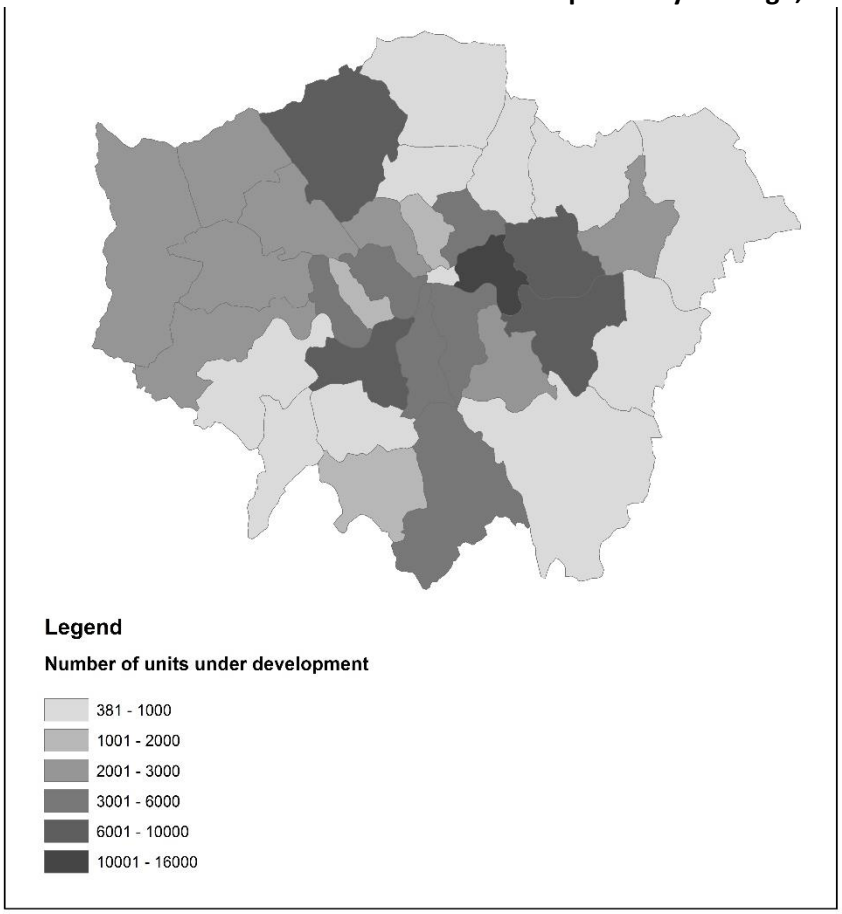
Amount of new-build currently for private sale across London

In January 2017 Molior listed 610 residential development schemes with 20 or more units *consented for private sale* in London, including housing-association developments, for sale. Some 93 of these schemes were complete but not yet fully sold; the rest were partly or entirely under construction. As of January 2017 these schemes had a total of 97,500 units at some stage of construction, or complete but not sold. There were a total of 925 units still for sale in developments that were physically complete. The schemes with high proportions of unsold units tended to be smaller developments, and a very small number had phases that were complete but not yet launched.

Looking at the spatial distribution of development, as of the beginning of 2017, of the units under development only 5% were in central London, with around 57% in inner London and 38% in outer London, even though outer London covers a much larger area. As at the beginning of 2017, of the units under development, Tower Hamlets, Greenwich and Wandsworth were the boroughs with the

highest numbers of units being developed (Figure 2). These are all in inner London and together accounted for nearly a third of overall London numbers. By contrast ten London boroughs each had fewer than 1000 units under development; together they accounted for just 6% of London private housing output on this measure (see Annex B).

Figure 2: Number of residential units under development by borough, January 2017



From Molior Data, Fanny Blanc, LSE London

Segmentation of the London residential market

Market actors describe London's residential submarkets in a variety of ways. The main international agents typically distinguish between 'prime' London and the mainstream market, with 'prime' generally encompassing parts of several central London boroughs (usually Westminster, Kensington and Chelsea, Camden and Southwark). Other, parallel designations of prime status rely on property value, with prime properties defined as those costing over £2m (Table 1). The vast majority of these will be in the areas identified above. Rising prices have led to new sub-classifications such as Super Prime (e.g. over £15m) and Intermediate Prime (e.g. £5m to £15m).

Table 1: One categorisation of the London property market

Property value	Market category	
More than £15 m	Prime	Super Prime
£5m to £15m		Intermediate Prime
£2m to £5m		Prime
Less than £2m	Core market	

Source: Ramidus 2014, p.4

Much of the analysis of overseas purchases of London property focuses on demand for prime and super-prime units, although these account for very small numbers. According to one report, '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%' (London First undated p. 4). More generally 'Prime London' accounts for only 8% of residential sales in the capital (Murphy and Barton, 2016, p. 1). The vast majority of these will be existing units.

Local and central government more often classify London into groups of boroughs--usually inner and outer London, or central, inner and outer. Sometimes they split inner London into north and south of the river. Developers and buyers, including overseas buyers, often use Transport for London fare zones as a shorthand for location. Asian buyers in particular are said to pay close attention to public transport access when considering a London property purchase.

III Question 1: the proportion of overseas buyers in the market

Context

Several of the developers we interviewed said they had been selling to overseas buyers for twenty years and more—and in fact, overseas buyers have invested in London property for centuries. The main countries of origin have included at various times the USA, Arab countries, Russia, continental Europe, Africa and latterly the Far East. The flows reflect international economic conditions (e.g. exchange rates, oil prices), domestic political and economic contexts in buyers' countries of origin, and purchasers' understanding of and prior experience in the UK.

There have been a number of reports on the activity of overseas or foreign buyers in the London residential market. Many contain useful information but they must be regarded with care. Those produced by the major estate agencies often concentrate on the prime central London market, which can give a misleading impression if the figures are applied to the capital as a whole.

In its 2013 'Buyers in London' report, Knight Frank for instance reported that

> 'Over the 12 months to June 2013, 49% of all £1m+ sales in prime central London went to foreign buyers by nationality. However only 28% of buyers were non-resident in the UK. Over the two years to June 2013 51% of new-build purchases in the prime central London market were by UK residents. Across the remainder of inner London the proportion was 80% and across outer London 93% of sales were to UK residents. Our estimate is that over the past two years 85% to 90% of all new-build purchases in Greater London have been to UK residents.' (Knight Frank, 2013b, p. 2)

At the other extreme London Property Partners reported that in 2012 only 15% of Prime London properties were purchased by UK buyers (Green and Bentley, 2014, p. 6). The difference between the numbers from Knight Frank (49% overseas buyers in 2013) and London Property Partners (85% in 2012) is striking and highlights the difficulties in defining prime central London and in collecting information about where buyers normally reside .

Overseas buyers: definitions

The invitation to tender defined 'overseas buyer' as any purchaser who is resident overseas. This definition corresponds with the focus of the project but does not necessarily align well with the way that information about property transactions is collected. Data about nationality are good because agents and developers are required to record passport information under anti-money-laundering regulations. However the information about country of residence is less uniform. Developers and agents need to be able to contact buyers so they do record address information but in some cases it may be the buyer's UK business address, or that of an attorney or agent. The location where the property transaction takes place (whether abroad or in the UK) may also impact on what information is collected.

A further issue is that a not insignificant number of new properties are purchased through overseas-registered companies. This is thought to be more common in higher-priced developments. There is no necessary link between country of residence and country of business registration, and UK as well as foreign residents can buy through overseas companies.

Some individuals do not have a single main address but split their time between several residences, although the information we collected is not nuanced enough to identify those individuals with

multiple residences. HMRC classifies landlords who live abroad for six or more months of the year as 'non-resident landlords.'

Sales to overseas buyers

The sales process

Some agents and developers have permanent offices in major overseas markets (notably Hong Kong and China); more run exhibitions and sales events overseas - not just in the Far East but also in the Middle East, Russia and indeed Europe. Not all buyers at such events are necessarily permanent overseas residents--some may be moving to the UK or are indeed UK residents. Equally, overseas buyers often view homes and buy while visiting London. Small and medium-sized builders, housing associations and local authority joint ventures are more likely to market in this country only, although they may still sell to overseas buyers.

The developers in our sample all stated that they market initially in the UK and most will only try to sell a proportion of schemes, and indeed types of unit, overseas. Most units will be sold off-plan (see question 3 below). The typical procedure is for buyers to put down a small reservation fee (often £2,000) followed by 10% or somewhat more (including the reservation fee) at exchange of contracts, which may be within a few days or weeks of reservation. Thereafter there may be one or more staged payments before the final payment on completion. Re-selling the property (flipping) before completion, while normal in the Hong Kong and Chinese markets, is not common and developers normally retain a charge over the first buyer.

Proportion of sales to overseas buyers

A briefing paper for Parliament written at the time that this project was announced brings together estimates of the proportion of overseas buyers in the London residential market (Murphy and Barton, 2016). The review makes it clear that the proportion of overseas buyers is highest in the central London Prime market and declines rapidly with distance from the centre. It also shows that the proportion is higher for new build than for existing units. It also clarifies how difficult it is to compare like with like because of different definitions and data availability.

Our own research involved interviews with developers and other stakeholders, together with a small survey and quantitative analysis of data from agents whose business is relatively concentrated in areas where overseas sales are likely to be highest. These approaches taken together can give clear indications of the relative importance of sales to overseas buyers and their price point and spatial patterns but not absolute numbers.

Our interviews involved discussion with *developers* producing well over half of the development taking place in London. They developed across the whole of London but with some concentration in central and inner London. Many developers do not typically analyse raw information about their buyers to determine the proportion from overseas. Others only have information about overseas buyers for schemes that were marketed abroad, which gives an upward bias to the statistics. Qualitative evidence from a wide range of developers suggests that the vast majority of sales to overseas buyers are in zone 1, zone 2 and accessible inner parts of zone 3. There are a few schemes outside these areas which appeal to and are marketed to overseas investors. There is also evidence that some overseas buyers will look outside London to highly accessible locations such as Milton Keynes, but little to suggest that overseas demand has shifted within London to zone 3 and beyond.

Table 2 gives some stylised facts based on our interviews with developers. We found very considerable variation in terms of their business models and product ranges. Interviewees also stressed that only some types of scheme will sell overseas. Given that the cost of marketing abroad is not negligible, such marketing is mainly undertaken to reduce risks on larger sites.

Table 2: Developer sales: stylised facts

Type of developer	Location of sites	Price points	Percentage of market sales to overseas buyers	Attitude to market
Larger	Across London	From c. £500 to £2,500/ft^2 for private sales	Around 30% overall	Pre-sales are critical; from either UK or overseas
Larger	Across London	Central London up to £2,000/ft^2 Outer under £650,000	Across London around 25%. Central London up to 85% in some blocks Outer up to 10% for an appealing site but normally at most a few units	Would rather sell to UK, buyers, but for central sites not possible
Larger	Across London	Mostly less than £650/ft^2	25% plus in 2015 but considerably lower in 2016	Contributes to viability and therefore more housing
Mid-size	Mainly zones 2 and 3	Less than £1,000/ft^2	Up to 65%	Overseas necessary to maintain throughput and permit contribution to affordable housing
Mid-size	Mainly zone 3 and beyond	£300 - £800/ft^2	10 - 15% maximum - in 2009/10 was nearer a third	Want London/local buyers first
Large	Across London	Full range	20% of sales in last two years 30% of these in zones 1 and 2	Needs pre-sales and access to all markets
Housing association as market developer	Has been mainly East and SE London	£1,000/ft^2 getting difficult; moving to £450 - £700/ft^2 further out	Overseas buyers a very small proportion. Mostly come via London marketing suite/local agents. One or two sales to Malaysia and Hong Kong	Wants to maximise capacity to cross -subsidise affordable housing
Housing association as market developer	Mainly zones 3 - 6	£300 - £700/ft^2	Sells only to those who come through the door - do not monitor the number with overseas passports but very small	Aim is to provide for local households and to cross-subsidise affordable housing
Mid-size	Mainly zones 2 and 4	Under £1,000/ft^2	29% overseas residents - all from Hong Kong	Wants strong UK pre-sales market
Smaller	Across London	£300+/sq ft^2	None	Looking to provide for local residents
Mid-size	Zones 2 and 3	£300 - £800/ft^2	Around one third	Domestic off-plan important to reduce risk

Source: LSE developer interviews

Some developers have offices overseas or regularly attend marketing events. Those developers who sold abroad tended to concentrate first on Hong Kong and then on China and sometimes Singapore. Some are more specialised in the Middle East and only a few are directly involved in Russia. They note that demand from individual countries waxes and wanes depending on the political situations and on changes in tax and regulations. Demand from Singapore for instance has fallen in the last few years in part because the government has toughened up on leveraged investment; the Chinese government has also put stronger capital controls in place with some effect on prices paid; and sales to buyers from Turkey (and earlier Greece) reflected political and economic events there (see also Badarinza and Ramadorai 2016).

Some a*gents* have offices overseas and overseas sales are a major element in their business. Local agents on the other hand tend only to deal with overseas sales that 'come through the door'. We have evidence from three major agents that specialise in marketing UK property overseas. They had information on sales in almost all central and inner London boroughs over a two-year period, but reported no sales in 60% of outer London boroughs (annex B).

These agents provided information about 7664 transactions that took place over the two-year period from April 2014 - March 2016; the relevant date was exchange of contracts. Of these, 5214 contained information about the purchaser's country of residence. The following discussion relates to this subset of 5214 unless otherwise indicated. According to the London Development Database, there were 47,726 new market-price homes completed in London during this period. Our information relates mainly to a later period because they are mainly pre-sales but on this basis it is reasonable to assume that the dataset in which 38% went to overseas buyers covers about 10% of the market - remembering both that this 10% is where overseas buyers are likely to be particularly concentrated and that overseas buyers are defined as those living outside the UK at the time of exchange of contracts, *not* foreign nationals. Table 3 breaks down these sales to overseas and UK buyers by area. The transactions represent more than 70 London schemes.

The proportion of sales to overseas buyers rises to 53% for central London. It is important to note though, that central London accounts for only around 10% of overall residential development in London, and one-third of units in larger developments is currently concentrated in Tower Hamlets, Wandsworth and Greenwich.

While Table 3 shows 38% of transactions in the sample of maybe 10% plus of the total were with buyers from overseas, that does not mean 38% of *all* London's privately built new homes were bought by overseas residents. The agents that provided data all specialise in selling to overseas buyers, so our information covers only the segment of the new-build market most attractive to such purchasers. Importantly these tend also to be larger developments which have been accounting for up to half of all new developments in London. Most new London developments are never marketed abroad and will have much lower proportions of overseas buyers; many will have none at all. There is therefore a strong upward bias to these statistics.

We thus have two sources of evidence on proportions sold to overseas buyers (overseas residents from agents and a mix of overseas nationals and residents from developers). The data from agents come from those who concentrate mainly on developments where overseas buyers are most likely to be involved; the data from developers include a high proportion of those who concentrate on large sites and pre-sales: the smaller developers included sell far less to overseas buyers. The agent evidence shows that 38% of their sales in the period April 2014 - Mar 2016 were to overseas buyers. Most of these will be pre-sold and may not be ready for occupation for up to three years or more. The developers were commenting on their recent experience and suggest a range from 0% to around 50% sold to overseas owners with the average among the large developers across London of

around 25%. Smaller sites (accounting for perhaps nearly half of total market output) clearly have much lower proportions. Taking account of the biases towards larger sites, central and inner London and the business models of particular agents and developers suggests a sales figure below 20%, and maybe well below, in part dependent on the particular time period examined.

Parallel research into the question of overseas investors and vacant homes was carried out by the University of York using quantitative analytical techniques (preliminary findings are available in Wallace et al, 2017). Based on an analysis of Land Registry data they estimated that 13% of London new-build units sold between April 2014 and March 2016 were bought by overseas buyers (excluding properties sold for less than £200,000 and including those sold to overseas companies). The highest *number* of such transactions was found in what they called 'areas of new growth' (Camden, Greenwich, Lambeth, Newham, Southwark and Tower Hamlets). The highest *proportion* of overseas transactions—36% - was in central London (City, Westminster and Kensington & Chelsea).

These figures suggest similar levels of overseas buyer involvement to our lower estimates but cannot be directly compared. In particular our quantitative information relates to the point of exchange while the York data relates to when the sale is completed - this may be up to three years or more later.

Table 3: Sales* through three international agents: Geographical breakdown of demand where buyer residence and unit location are known

	Approximate number** of sites/ Postcodes	Sales where buyer residence known	Of which to overseas buyers	% of all	Units sold to buyers from China/Pacific Asia		Units sold to buyers from Middle East/North Africa	
					Number	% of overseas	Number	% of overseas
Central	25	**750**	400	53%	180	45%	93	23%
Inner N	19	**1834**	705	38%	519	74%	84	12%
Inner S	18	**1530**	544	36%	302	56%	162	30%
Outer	12	**1100**	334	30%	208	62%	56	17%
Total	**74**	**5214**	**1983**	**38%**	**1209**	**61%**	**395**	**20%**

Source: LSE London analysis of data from three London estate agencies

*Records that did not include the location of the unit and/or the country of residence of the purchaser were excluded from the analysis

**The records cover transactions on at least this number of sites and possibly more. The format of the data did not allow us to determine precise numbers.

Looking at regions of residence, residents of China and Pacific Asia bought about half of the units purchased by overseas buyers in the period in question. The next most common region of origin was North Africa and the Middle East (23%). Together these two regions accounted for more than three-quarters of units bought by overseas residents.

This is consistent with an earlier Knight Frank analysis which found that 40% of new-built property purchasers in Central London were from Singapore and Hong Kong (2013a). Other reports identified mainland China, Indonesia, Malaysia, Middle East, Europe, Russia and North America as major sources of demand for London residential property (BPF, 2014, p. 17).

It is also generally consistent with the York research which suggested buyers from Hong Kong, Singapore, Malaysia and China accounted for about three-fifths of overseas sales.

Prices paid by overseas residents

Table 4 compares prices paid by purchasers from the UK and overseas by area of London, based on records of 5091 transactions. These reflect the general pattern of new-build prices in the capital, with the highest prices in the centre and the lowest in outer London. The true averages in central London were higher: for confidentiality reasons the prices of the most expensive units were not disclosed, and most of these units were in central London.

Table 4: Average prices paid by UK and overseas resident buyers, by borough group
London new-build transactions April 2014 – March 2016

Price per unit. Base: 5091 units

	Average prices paid	
Borough group	**By UK residents**	**By overseas residents**
Central	£ 3,585,209*	£3,088,849*
Inner London N of river	£988,480	£992,037
Inner London S of river	£1,028,840	£ 1,063,591
Outer London	£562,382	£531,407

*understates true average as price data not available for most costly units
Source: LSE London analysis of data from three London estate agencies

The prices paid by overseas buyers and those paid by UK residents were on average not hugely different. More detailed analysis shows that in some boroughs and some price ranges the units bought by overseas buyers were on average more expensive than those bought by UK residents; in other cases they were on average cheaper. Importantly however the evidence on spatial patterns of sales to overseas buyers implies that they are far more active than UK buyers at the high end of the market.

IV Question 2: The proportion of new residential units bought and left vacant

Definitions of occupancy and vacancy

There are many ways of defining whether a property is vacant or occupied. Annex C clarifies the main possibilities (see especially table c1). The two main variables are:

1. Whether the property is fit and ready for occupation - whether it is physically complete, has utilities and is furnished; and
2. For how long/what proportion of time there is no-one living in the property.

How the property is used clearly has a bearing on what proportion of time it is occupied. An owner may use a unit as a primary or secondary home; it may house family/staff/friends, a legal tenant, or even possibly an irregular occupier.

Occupancy and its relationship to reasons for buying

There are many reasons for buying a property apart from using it as a main home, and overseas investors will often have more than one motivation. The main drivers are:

- Making a rate of return based on rental/total yield (or related measure)
- The potential for capital gains
- Portfolio diversification in terms of asset class and/or country
- To meet business/family housing requirements in London
- To place money in a safe haven

The scale of investment, price points and types of unit, location and time horizon (among other issues) will all depend on investors' motivations. Motivation also affects occupancy: where rental yield is the goal the units will normally be occupied. Equally the types of unit purchased for these reasons are likely to be ones expected to appeal to the local rental market.

Purchases for business/family reasons are often with the intention of housing children in education, in which case the property will be occupied (and indeed may be over-occupied) during the education period. However outside this period there are other options, including selling the property, letting it out or using it for occasional family visits.

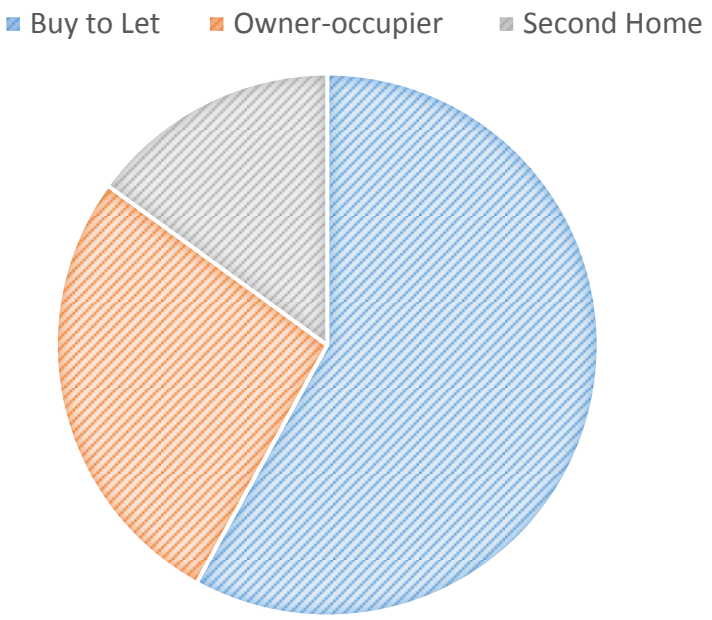
A significant proportion of high end sales are thought to be to business people or simply rich people, whether based in the UK or overseas, who see the property as their London home and may visit on a regular basis multiple times a year or be less regular and more limited in terms of occupancy.

Evidence suggests that the dominant reasons for buying a property vary by region of origin. Buyers from China, Malaysia, Singapore and countries that buy in Singapore (eg Indonesia) tend to emphasise total yield. Buyers from Hong Kong and China also often look for accommodation for children at London universities, sometimes buying long before they are due to arrive (partly as a way of getting money out of China). Purchasers from the Middle East have traditionally invested for family reasons and may visit London for two or three months during the hottest part of the year and at other times. Greece, Turkey, Egypt, Cyprus and even Ireland are all countries where internal problems, both financial and political, have generated flows of investment into London property.

The literature points to renting out as the dominant rationale for overseas investment. Figure 3 shows the uses of Prime London new build homes by overseas investors in 2012, according to

London First research which suggested that 58% went to Buy to Let; 27% to owner-occupiers and 15% to second homes.

Figure 3: Use of Prime London new-build homes bought by overseas investors, 2012



Source: London First (undated)

This tends to be confirmed by agents' own research:

> 'The head of residential research at Jones Lang LaSalle [Adam Challis] argues that foreign investors help to ease the housing crisis by buying properties which are then let out. Their analysis, published in 2013, found that 85% of international buyers purchased properties as an investment and let them out' (Murphy and Barton, 2016, pp. 3-4).

Research findings about occupancy

Above we report some indicative figures for sales of new London housing to overseas buyers. However it was not possible to determine the occupancy of these particular units, or generally even of the schemes where they are located. The exceptions were when we interviewed concierges (Table 7) and when developers provided some more detailed evidence relating to their own developments (Table 6).

For confidentiality reasons agents did not provide precise address information for transactions, and in any case some of these units will not yet be ready to occupy—the transactions are mostly presales and those purchased in 2015 and 2016 may well still be under construction. We therefore conducted a more general investigation of occupancy levels in the kinds of development favoured by overseas buyers.

Data about buyer intentions, compiled by *agents* from in-house forms, filled in at the time of purchase about the intended use of properties, suggest that more overseas buyers regard their London properties as homes to rent out rather than as homes for their own use (Table 5). Unfortunately the data are patchy and probably reflect the care taken by the agents in each local sales office to fill in the question.

Table 5: Intended use* of property given by overseas-resident buyers

Base: 3221 transactions

	all owner occupation (including main residence, 2nd home, family use)	**Investment**
% of overseas owners specifying	30%	70%

*17 buyers (<1%) stated their intention to leave the property empty. Only one agent provided this option on their buyer questionnaire, so the figure is not included in the table.

Source: LSE London analysis of data from three London estate agencies

Evidence from *developer* interviews suggests that the reasons for purchase and thus the likelihood that the properties would be let out vary by location and by type and price of property. From zone 3 out, buying for rental and/or total returns is seen as dominant. Even education is rarely mentioned. This is reflected in qualitative evidence from agents, which suggested that over 90% and often 95% of units were occupied with the vast majority being tenanted. Most of the properties bought by overseas buyers in zone 3 and beyond have been smaller flats. This suggests that the most likely alternative buyers over the last few years would have been UK Buy to Let investors. However one or two developers said overseas buyers were increasingly interested in larger units so their university-age children could let the extra rooms to lodgers.

Developers say that overseas buyers in zones 1 and 2 - notably zone 1 – are also mostly buying for investment purposes and thus letting out the properties. However there were also many looking for second/London homes and at the limit for 'trophy properties' which might be occupied for relatively short periods each year. Higher priced units (costing over say £1,500/£2,000 per square foot) were most likely to be in this category. They also noted that by no means all purchasers of such homes were from overseas: in many high-price developments there were significant proportions of UK resident second home/weekday use buyers. On the other hand, the relatively small numbers of larger units were normally purchased by overseas buyers.

The limited evidence presented in table 4 suggests that average prices of sales to overseas buyers are somewhat lower in central London than those for UK buyers. This is probably a reflection of the wide range of prices reflected in the average, and the concentration of the rental return market in central London in smaller 'cheaper' units. Most importantly units in different types of development will be purchased for different purposes so the schemes will have very different mixes of occupants.

Table 6 gives some stylised facts on occupancy based on our discussions with developers and building managers. In this table, 'occupancy' covers all types of habitual use, from use as a permanent main residence to an occasional holiday home. The basis for their estimates ranges from calculation of utilities usage, through managers' detailed information on tenants, to more general assessments based on observation of residents' movements. Overall it is clear that a very high proportion of units are fully occupied but that in central and some parts of inner London there are significant numbers of 'second' or 'London' homes which may be occupied for anything from most weeks/most weekends or on a regular basis for weeks or months at a time, to irregular short visits.

Speaking about the schemes they knew well, developers, managers and concierges all said only a tiny number of units were completely empty or never occupied (examples mentioned included a block where an individual owned several penthouses, some of which were empty, and one case where the purchaser forgot they had bought three units rather than two—the 'forgotten' flat was occupied almost immediately after the owner realised).

Table 6: Developer/manager understanding of occupancy rates

Developer type	Location of developments	Average price points	Levels of occupancy*	Based on
Larger	Across London	£500 - £650/ft^2- though some luxury	95% plus occupancy	Detailed management information. Definition of 'occupied' includes owner-occupiers who visit regularly
Larger	Across London	All - average below £1,000/ft^2- average size 700ft^2	92% with little variation across sites	Detailed management and consultant information
Larger	Concentrated in zones 1 and 2 but sales across London	Around £1,000/ft^{2}in central London	Around 90% - 95%	Purpose stated at time of purchase overseas
Mid-sized	Mainly zone 2 but beginning to move further out	Average price around £500,000	Extremely high - and move in fast	Organises handover to tenants
Mid-sized	Mainly zones 3 -4	£300 - £800/ft^2	Occupancy very high	Overseas buyers used to account for around 30% now 10 - 15%
Housing association as market developer	Zones 1 - 4	Up to £1,000/ft^2 but now mainly £450 - £750/ft^2	Occupancy very high	Small proportion of overseas almost all purchasing in London
Large	Across London	Full range	No evidence	20% overseas buyers – but market 40% of schemes abroad at one time or another
Housing Association as market developer	Mainly zones 3 – 6	£300 - £800/ft^2	Around 85% owner-occupiers 15% investors - very high occupancy - especially among BtL units	Own management - direct evidence
Smaller	Across London	£300+ /sq ft^2	100% owner-occupiers	Requirements for eligibility
Mid-size	Zones 2 and 3	£300 - £800/ft^2	Around 90% occupied by family	6% second homes; 3% left empty for longer periods Detailed management information
Manager	Zone 1 Prime	Highest end of market	Average occupancy 190 days per year - almost entirely owner-occupiers	Mainly use the units as the owner's London home, making regular visits.
Mid-size	Zones 2 and 4	Mid-range	70% fully occupied either by tenants or family ; 30% as second home	Developer /manager information

*these apply site by site so include all types of owner

Source: LSE London interviews, developer surveys

Table 7 provides information from interviews with concierges or building managers of four developments completed in the last four years; all are in areas where overseas-buyer interest is high. All had substantial proportions of units owned by overseas residents. These developments all have concierge cover for at least twelve hours a day, and some have 24/7 staffing. Concierges were clear that they knew exactly who was living in their buildings and how often they were there. In each case the number of entirely unoccupied units was very low (zero for three of the developments).

Table 7: Concierges' understanding of occupancy rates

Location	*Number of units*	*When opened*	*Overseas ownership*		*Occupancy: Proportion of ALL units*		
			units owned by overseas residents	*from*	*rented out*	*occupied as second homes*	*entirely unoccupied*
Canary Wharf	160	2016	25%	Mostly China	50%	A few	0
Lambeth	104	2014	About 1/3	Mostly Asia	About half	About 12	2 (one currently for rent)
East London	257	2014	Many	Mostly Asia	About 70%	A few	0
East London	128	2014	Many	Mostly Asia	About 75%	A few. Many students.	0

Source: LSE London concierge interviews

It is clear from our interviews that the part of the market based on rental returns has very high levels of occupancy; indeed there is some (limited) evidence of 'over-occupancy' e.g. by students. In zones 2 and further out, overseas buyers who are owner-occupiers appear mainly now to be working in the capital with relatively small numbers of education/second-home units. In zone 1 a higher proportion are London/second homes. Most are visited, albeit irregularly in some cases, and a subset would count as vacant on some definitions. These are likely to be concentrated in a relatively small number of developments. Importantly, by no means all of these belong to overseas buyers. In developments at the very top end of the new build market the evidence suggests perhaps a quarter of owners are British citizens although not necessarily UK-based (Rhodium, 2016).

For some schemes we can predict that occupancy will be high because many units are bought by yield-seeking investors and because of strong demand from owner-occupiers already working in the area—for example in one major development some 30% of the first phase were sold to staff of a major local employer, while the rest went 50/50 to UK and overseas passport holders.

A number of respondents said perceived levels of vacancy in a block may be inaccurate, for two main reasons:

- local residents and passers-by may think units are vacant when they are actually not complete. In particular affordable units are often finished first and completion of the full block may take up to two years from when external features are in place. There are currently some major developments where the affordable housing is occupied but the market segments are not yet ready.
- it takes time for people to move into large developments, especially when some blocks are still under construction, so occupancy rates may not reach equilibrium for perhaps two years.

V Question 3: The role of pre-sales and off-plan sales

On average more than 85% of housing transactions in London involve existing stock and the purchaser can inspect the dwelling before buying it. The procedure is rather different in the case of new-build, as much of it is pre-sold—that is, sold before the building is completed. Pre-sales that occur before the construction process has even started are sometimes called 'off-plan' sales (i.e. based on the architectural plans), but most market actors use the terms pre-sales and off-plan sales interchangeably. Pre-sales, and particularly off-plan, sales have become an increasingly important part of the market especially since the global financial crisis. They were seen as a major reason why the new housing market in central London was able to recover (Whitehead et al, 2013).

Off-plan purchases usually transact at a discount to prices on completion, in part because prices generally increase as the nature of the development firms up. The use of off-plan and pre-sales is different to the traditional speculative-builder business model of 'sell one; build one'. This works for the traditional English built form of houses or low-rise flats. It does not work for larger apartment buildings and especially for towers and high-density blocks, where all the units are completed at once. Off-plan and pre-sales are the most obvious means of addressing the fact that large numbers of units come on stream together; developers' oft-stated objective is to have no (or few) completed units still for sale on the day the first residents move in.

Developers who *do not* rely strongly on pre-sales include:

(i) smaller firms on smaller sites, some of which will be custom built;
(ii) housing associations which generally sell the market output when properties are nearing completion or completed;
(iii) a few who wait until there is a show home available even if not on-site; and
(iv) companies who hold some units back for Help to Buy and other potential owner-occupiers who cannot buy early because of mortgage conditions.

These categories probably account for most of the 'completed not sold' stock, identified in Molior data as 13% of completions. Several developers did say that while two years ago they would have had very little completed stock for sale, now the amount (though still small) was increasing.

Developers gave two main reasons for using off-plan and pre-sales:

- to help secure finance; and
- to reduce risks, especially given market volatility.

Implicit in the second reason is the importance of built form: the more units are provided in large blocks the greater the risk of selling at the same time on completion. Another important method of de-risking is the inclusion of purpose-built private rented blocks, typically known as Build to Rent, where institutional purchasers are involved at an early stage.

Most banks will not lend on a scheme unless there are very considerable pre-sales (at the limit the small developer cannot start on a site until they have repaid the debt on the previous one). Developers who depend on debt finance said banks required 40% - 60% presales. If all developers operated on this basis some 50% of units under construction would be pre-sold. Molior evidence suggests that the proportion is currently closer to 60%, so pre-sales are undoubtedly a core part of London developers' business model. Our interviews suggest that larger developers almost always offer units for sale either off-plan or once the development has started but well before the units are available to live in.

However a significant proportion of developers now rely on equity rather than debt and for them risk reduction is the main reason for pre-sales. One not particularly large developer noted 'we are risking say £70 million for 2.5 to 3 years on a given site'. Pre-sales reduce or at the limit eliminate sales risk.

Do off-plan and pre-sales inherently mean that there must be overseas buyers? Historically, Travers and Whitehead (2013) found that after the financial crisis overseas buyers were the main purchasers of developments in central London, where residential investment recovered most rapidly. Since then the market has improved and there is some evidence that the proportion of overseas buyers have declined while the proportion of pre-sales almost certainly has not.

Table 8 summarises developer understanding of the importance of off-plan and pre-sales and their timing.

Table 8: The importance of off-plan and pre-sales in development

Developer type	Proportion of pre-sales	Proportion of market sales to overseas buyers	Comment
Larger	Around 50% off plan. Between 1 and 3.5 years before completion	40 – 45% overseas; higher proportion of off-plan private sales	Principally uses equity funding.
Larger	Everything pre-sold - tiny completed stock	25% 2015; considerably lower 2016	All high rise Only perhaps 35% of sites suitable for sale overseas
Larger	In central/inner London 30 - 40% presold before starting development; considerably higher for towers	Across London 25%; central London up to 85% in particular blocks	More London-based buyers in outer areas
Larger	3 phases - first launched in 2013 - 2 phases fully pre-sold	Phase 1: 50% excluding staff; phase 2: much smaller at 30%; phase 3: 60% but many units not yet on sale	None yet occupied - aim is to sell mainly to owner-occupiers
Mid-sized	70% off-plan and almost all sold before completion	40% - 50% overseas Launched first in England but mortgage issues	Has grown considerably - but could not do so without off-plan sales
Mid-sized	Only start selling once on site; almost all sold before completion	Currently 10 - 15% and declining	Has own scheme to help UK first-time buyers
Housing association as market developer	10% pre-sold	Very few	No third-party funders
Large	10 – 40% dependent on scheme	20%	Pre-sales very important to underpin investment but varies greatly between areas/schemes
Mid-size	100%	29%	Don't directly market abroad Need domestic pre-sales to reduce risks and maintain pipeline
Mid-size	100%	34%	Don't directly market abroad - need domestic pre-sales for pipeline

Housing association as private developer	Only in the final weeks after show house available	Almost none	Funding not dependent on pre-sales
Smaller	100%	None	Funding not dependent on pre-sales. Helps reduce risks also necessary given type of purchaser

Source: LSE London developer interviews

Most developers prefer to sell to UK buyers and only went overseas because there was inadequate pre-sales demand from UK residents. Developers and agents made it clear that overseas purchasers, particularly from the Far East, were more accustomed to buying off-plan than UK consumers and were also more prepared to take on risk (priced into the offer price). The other reason given, especially in outer London, was the difficulties faced by mortgagors in getting a mortgage offer more than six months in advance.

Developers used different ways to address this issue: one working mainly in zone 3 and beyond required UK buyers to obtain a mortgage offer, which made clear that they were eligible for a loan, and then to renew the offer when it ran out. Another had an in-house scheme to support first time buyers. The majority saw the length of mortgage offers as a major constraint.

Overall off-plan and pre-sales were seen as an essential way to enable high-density development to take place and a sensible approach to risk reduction and ensuring early occupation of completed properties. Developers saw such sales as a necessary way to maintain and expand their development pipelines. Overseas buyers are more used to the off-plan approach than UK households and will therefore buy earlier for a price. The growth in private renting also provides a more ready pre-sales market. Many UK buyers looking to become owner-occupiers face regulatory constraints in obtaining a mortgage as well as the 6-month limit. They also feel that an extended period before occupation is risky. The result has been high proportions of overseas sales, especially in the period after the financial crisis.

The 3% Stamp Duty Land Tax (SDLT) surcharge on top of previous rises in SDLT does not seem to have had much effect on overseas demand, largely because it has been offset by the fall in the value of sterling. Indeed tax changes may have actually increased the proportion of sales going to overseas investors as they have dampened domestic Buy to Let demand.

There is some evidence that the proportion of overseas sales has fallen as UK buyers (assisted, in zone 3 and beyond, by Help to Buy) pick up, but in central areas in particular overseas buyers are still a very significant element in overall demand. Equally, the growth in Build to Rent, which often involves large overseas investors employing models of development and ownership that are new to the UK, is helping to stabilise and expand the level of residential development in London (see section V below).

VI Question 4: The role of major overseas investors in the residential development process in London

The final question of the GLA's commission concerns the importance of overseas investment at scale in the supply of new housing and the extent to which such investment has enabled higher levels of output.

Investment at scale in London new-build residential property

Major at-scale investors

There are four main types of overseas investor active in London new-build residential development:

(i) Financial and investment institutions (including pension funds, insurance companies and banks)
(ii) Developers based in other countries
(iii) Sovereign wealth funds
(iv) Wealthy individuals (often known as Ultra-High Net Worth Individuals [UHNWIs]—those with investable assets of at least $30 million).

There are several ways that such investors may be involved. These include

- As developers (e.g. Malaysian firms at Battersea Power Station)
- As equity financiers providing forward funding or enabling forward commitments (often replaced by senior debt when pre-sales permit)
- As senior and mezzanine debt funders
- As purchasers of rented properties at scale (including in particular Build to Rent operators)
- As equity investors in UK house builders or related firms
- As buyers of housing association bonds

International investors play a number of roles which complement UK investment and help accelerate and increase supply. Perhaps the most obvious involves the development of large sites that have proved difficult to undertake with traditional sources of funds. International investors often exhibit different/higher appetites for risk and may use different techniques to speed up development, as they tend to measure performance using an internal rate of return measure.

Two important examples of large sites with major overseas involvement are

(i) the Greenwich Peninsula, where development of thousands of flats is funded by a UHNW individual from China. He is looking to build out as rapidly as possible but even so is making a very long-term commitment, as the project will take nearly two decades to complete
(ii) Battersea Power Station, where development is funded by Malaysian equity. The scheme will provide not just housing but commercial premises, infrastructure and community services as well as a catalyst for further development nearby.

Global investors are involved in the vast majority of high-risk London sites that are underway or in the pre-planning stage. These investors are involved in all geographies and types of investment. The provision of equity early in the planning and development process is seen as central for large, high-risk schemes, and much of this comes from international investors. Later in the development process this may be replaced by senior debt and mezzanine finance, often funnelled through debt funds organised by agents. Senior debt finance used to come mainly from the major UK banks but now is as likely to come from a range of international banks. One commentator argued that mezzanine

finance is not a very well developed part of the residential finance market so international investors can bring more sophisticated approaches.

Another important recent innovation has been the growth of Build to Rent. Over the last few years the sector has attracted an increasing amount of foreign investment, in part because this business model is more familiar in eg Canada and the USA than hitherto in Britain (Future of London 2017; British Property Federation 2017). The number of units delivered to date is in the low thousands but the pipeline is increasing rapidly, much of it backed at least partly by overseas money.

Overseas investors are also involved in the London new-build residential market through investment in listed UK housebuilders. Table D1 in annex D provides information from selected housebuilders' annual reports, and shows overseas investors with significant shareholdings (3% plus) in developers active in London. Though not comprehensive, it shows that much overseas investment is from (or channelled through) US institutions.

Finally a number of housing associations and corporations have issued bonds which are taken up by overseas investors and which support their market-based activities as well as their core social activities.

Large-scale investment from overseas institutions and individuals

The following analysis is based on data provided by Real Capital Analytics (RCA), which compiles information on major real-estate transactions in most developed markets globally. In the UK, RCA aims to capture all investment transactions of 5 million Euros or more, or involving ten or more residential units in a single transaction. They estimate that in London their database captures more than 90% of eligible transactions.

For this project RCA provided a bespoke report on transactions in London involving overseas capital sources (including as minority partners). The data covered transactions since 2001 for apartments (more than ten units in a single transaction—including both entire blocks of flats and forward-funding for consented schemes) and residential or mixed-use development sites, with greater detail on transactions since 2012.

Location and number of major transactions

RCA data show overseas investors' residential transactions in the UK to be heavily concentrated in London. Since 2012 their records show a total of 143 residential transactions nationwide (excluding student housing and retirement homes) that involved overseas investors. These included both sales of blocks or groups of flats, or forward-funded consented developments (90 transactions) and sites without forward funding in place (53 transactions). Of the total of 143, 106 were in London.

Value figures are indicative of orders of magnitude only, as no prices are recorded for a significant proportion of transactions (25% outside London, 30% in London). The figures do suggest that London transactions hugely outweigh non-London transactions in value terms. It also appears that in London overseas buyers spent more on transactions involving sites without forward funding than on existing or forward-funded blocks or groups of flats, while in the rest of the country the reverse was true.

Table 9: Residential transactions involving overseas investors, 1 Jan 2012 – March 2017

Entire residential blocks or other blocks for conversion, development sites and groups of flats
Value Euros 5m or more OR 10 or more residential units

	London	Outside London	Total UK
Number of transactions	106	37	143
Of which blocks/groups of flats or forward-funded sites	69	21	90
Of which development sites w/o forward funding	37	16	53
Value of transactions	>£5.8 bn	>£1.1 bn	>£6.9 bn
Of which blocks/groups of flats or forward-funded sites	>£2.2 bn	>£1.0 bn	>£3.0 bn
Of which development sites w/o forward funding	>£3.6 bn	>£67 mn	>£3.7 bn

Source: RCA Analytics, LSE London analysis

Financing residential development

In January 2017 Molior listed 610 residential development schemes with 20 or more units consented or underway in London. A lead lender was identified from the title documents for 177 of these (table 10). About three-quarters of the lead lenders were from the UK, with the rest largely from the EU, Middle East or Asia. US lenders were notable for their absence. However it should be emphasised that this table records only those lenders whose names were on the title deeds and therefore does not capture all types of investment. Also the information is only partial, as there was no lead lender identified for more than 70% of the schemes for which Molior provided information.

The picture is rather different for equity investment: the USA is the country that has provided the largest amount of investment in London residential since 2012, with Malaysia, Singapore, Canada and Australia making up the rest of the top five. However some large transactions are recorded in the name of an investment broker or manager, making it impossible to trace the ultimate origin of the funds. Many such intermediaries are based in the USA and this may skew the results.

Table 10: Regions of origin of lenders (where known) on London residential schemes under development as of January 2017

Lender's region of origin		Number of schemes with lender(s) from this region
UK		131
Overseas		46
Of which	EU	15
	Middle East	15
	Asia	14
	USA	2

Source: Molior, LSE London

Overall the picture suggests that overseas investors at scale play an important role in getting high-risk developments underway and in speeding up development. This in turn enables developers to expand output of both market and affordable housing. The two most obvious impacts are on (i) very large sites where it has in the past proved impossible to gain momentum and (ii) developing and operating Build to Rent properties. International investors also play a more general role in financing residential development.

VII Conclusions

The rationale for the research

The objectives of this research were to put together the available evidence on overseas purchases of newly built units in London, on the occupancy of these units, and on overseas involvement in funding new-build residential development. The brief responded to concerns about the numbers of overseas buyers and the extent to which they leave properties empty, negatively affecting neighbourhood life and the availability of housing for Londoners. On the positive side it recognised that overseas investment can contribute to expanding supply and overcoming constraints in the development process.

It should be stressed that the research was wholly about the new build market which accounts for between 10% and 15% of the overall market depending on market volatility. The importance of overseas buyers in the existing market is not addressed.

The overall picture

It is clear that overseas investors have played an important part both in buying new residential units and in funding development. It is also clear that on the demand side the impact has mainly been in central and inner London with relatively little activity in zone 3 and beyond. In proportionate terms overseas buyers dominate in some areas and on some schemes, but in numerical terms the overall impact is far smaller: the local authorities where new development has been concentrated are not in the main where overseas buyers are most active.

Overseas purchasers buy for a range of reasons, seeking rental or total returns on the one hand and wanting a London home for business, family and education reasons on the other. The first group will let out their properties to Londoners to achieve their return; many members of the second group will occupy their properties part time and some may come to London only occasionally and for short periods. Others, though, buy for their children's education, which may involve near full-time occupancy. A third group, whose main motivation is to find a safe haven for their money, are thought to behave more like yield-seeking investors.

Different nationalities tend to have different reasons for buying, with those from the Far East most likely to choose to let out their properties. This group makes up the largest proportion of overseas buyers, which tends to suggest that most overseas-owned units in most parts of London are let out. More generally, the quantitative and qualitative evidence point to average occupancy rates by scheme of well over 90% and often over 95%, except in a few specific locations.

Overseas owners who use their property as their London/second home are more likely to buy in central London, particularly in prime areas. The result is that some areas or blocks, especially at the top end of the market, have many units with irregular occupancy. This phenomenon is found in many major capital cities and has been the pattern in some local authorities/wards for decades if not centuries.

Off-plan and pre-sales are integral to high-rise/density development

Two distinct reasons are given for the use of off-plan and pre-sales: debt finance and risk reduction. Banks providing senior debt require developers to have a certain proportion of pre-sales before they

will fund a development. The funders set this proportion, which varies by type of scheme and market conditions and ranges from perhaps 40 to 60%. However even developers who do not borrow to fund development argue that they need pre-sales to reduce the very large risks involved in having so much equity tied up in individual schemes. Off-plan and pre-sales are especially important for tower blocks and other high-density schemes, particularly given housing market volatility, but they appear to be the model of choice for almost all major London developers. Importantly, overseas demand is affected by different drivers than local demand and so helps to smooth out volatility.

Specifically *overseas* buyers are attractive because of their perceived greater willingness to buy without seeing the property, to wait months or years for completion, and to assume the associated risk. They have an undoubted advantage over UK owner-occupiers who usually cannot obtain a mortgage more than 6 months before completion. The advantages of overseas buyers over UK buy-to-let cash investors are less clear—but UK purchasers also have a much wider choice in the existing market. Many overseas buyers also prefer new build in well-known accessible locations, meaning they represent a good market for developers and agents.

Contribution to affordable housing and infrastructure

If off-plan and pre-sales are integral to the UK development model, then by extension they are key to the affordable housing that such development supports. Section 106 agreements linked to private for-sale developments provide not only affordable housing but also infrastructure like the extension of the Northern Line. These things are expensive so to subsidise them developers need to sell large numbers of expensive homes.

Overseas investment in housing supply

Overseas investors have directly affected the supply of new housing in London in two important ways. First they have clearly enabled the development of certain large sites which would otherwise not have got off the ground. Overseas investors have different business models and appetites for risk from their UK counterparts, and have access to resources at the necessary scale. Second, overseas investors have been central to the growth of Build to Rent, which is expected to provide a significant amount of additional housing in London, to help stimulate wider improvements in the quality of the PRS generally and contribute to market stabilisation. Major international funders can diversify risks across a range of investments, and some have introduced innovations based on their experience in other countries.

Additionality

Arguably, the impact of overseas investment can best be assessed in terms of additionality—that is, we should ask whether the fact that overseas buyers purchase a proportion of new-build market properties has a positive or negative effect on housing opportunities for Londoners.

The answer to this question involves bringing together the jigsaw of information presented in this report including:

- the proportion of private new build units sold to overseas buyers;
- the proportion of such homes let out to Londoners;
- the extent to which sales to overseas buyers incentivise developers to build more housing more quickly and to build more affordable housing; and, finally,
- the effect of overseas investment in development on output levels.

While we cannot provide robust numbers for each factor, we can make careful estimates based on all the evidence presented in this report, remembering that different elements of the jigsaw cover different time periods and often different definitions of overseas buyer

Bringing together our estimates and those from the York university research based on Land Registry data suggests on a conservative estimate that overseas buyers account for less than 20% of total market new build output (this includes some areas of central London where sales are over 50% and some blocks where the proportion is over 85%):

- Within this total, 70%-plus are almost certainly let out to Londoners, suggesting this implies that at worst Londoners have no direct access to a maximum of 30% of overseas-owned homes. This implies that up to 6% of market new build may not accommodate Londoners.

- In 2010-11 this was equivalent to some 560 units; in 2011-12, 670 units; in 2013/14 perhaps 690 units; 2014-15 around 750 units; increasing in 2015/16 to some 1,200, reflecting how output rates have risen;

- While output increases are by no means wholly the outcome of the cash flows and reduced risks associated with overseas sales it is almost certain that development was accelerated by more than enough to offset the number of units not accessed by Londoners. There will also have been an increase in affordable housing as a result of S106 agreements on the additional sites brought forward;

- This calculation takes no account of other benefits to Londoners from sales to overseas owner-occupiers. However a proportion is used by students and other family members who live and work in London so this is an overestimate of the loss to Londoners. Moreover, a further proportion is owned by business people who contribute to the London economy.

Final conclusions

Overall, therefore, sales to overseas buyers almost certainly contributed to the net availability of housing to Londoners. The positive impact of overseas investment on the supply of new housing development is additional and complementary to that arising from these sales and is becoming increasingly important in speeding delivery, especially on large sites. One important implication of these findings is that there would be real costs to the London housing market if overseas investment either through purchasing new dwellings or supporting new developments began to feel unwelcome.

In conclusion, however, we should make it clear that there are both other costs and other benefits than the numbers. In particular it is clear that, within the limits determined by planning permissions, built form has been modified in line with the preferences of overseas buyers - e.g. in terms of the use of glass and indeed the size of units and numbers of bedrooms. Equally Londoners are renting from these buyers rather than having greater opportunity become owner-occupiers, although this is affected just as much by UK owned Buy-to-Let. Finally there is the issue of price: the direct impact on price is clearly limited simply because new build is such a small proportion of overall transactions which make up the market. However it is clear that more apartments have been delivered at higher price points so average prices have been affected by the change in mix.

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The analysis and conclusions in this report are ours alone and may not reflect their views.

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