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# Development in London:

The value of overseas investment in  
building the capital's new homes



the voice of the home  
building industry

## INTRODUCTION

The subject of foreign investment in the London residential property market has been the focus of intense scrutiny in recent months. Much of the attention has been on the number of overseas buyers in the new build market with some commentary suggesting that domestic purchasers are being frozen out of the market. Some unrepresentative central London luxury developments have been cited as examples showing that international buyers are largely leaving properties empty for most of the year.

Whilst such stark observations do not reflect the reality, the house building industry is concerned that a perception that developers are favouring foreign buyers over domestic may lead to government placing an unnecessary and onerous burden on individuals investing in new homes and actively contributing to economic growth in the capital

The 'Development in London' survey conducted by the Home Builders Federation in November 2013 to inform this paper supports previous research which found that the extent of foreign involvement in the London housing market is often exaggerated but that the level of investment is extremely significant in sustaining economic growth, providing employment, generating tax receipts, funding important services and ultimately ensuring developments go ahead, including the construction of many thousands of affordable homes.

This paper sets out the background to the issue, lays out some of the key facts and outlines a new industry commitment to ensure that all buyers have equal opportunity to purchase new properties in London.

## METHODOLOGY

The following paper sets out the background to the issue, addresses the concerns expressed over recent months and years and presents a new way forward. To inform this, we have reviewed existing research and commissioned a survey of eight of the most significant developers in London responsible for delivering around half of the total new build units completed in 2012/13.

### KEY FINDINGS FROM HBF'S DEVELOPMENT IN LONDON SURVEY

- **Survey returns were provided by eight companies responsible for:**
  - **44% of all new homes constructed in the capital last year**
  - **10,808 sales of homes last year**
  - **Permissioned land for 28,218 homes on which construction is expected to commence in 2014 or 2015**
- **Only a small number of developments, accounting for around 11% of sales, were offered abroad before they were marketed in the UK**
- **Across all sites under construction or shortly to start, house builders will provide around 14,000 affordable homes, pay £365m in Section 106 payments and a further £49m in lieu of affordable housing provision**
- **3,289 overseas buyers of new build properties paid £129m in Stamp Duty in the last year – an average of £39,000 per transaction**
- **Our survey results support existing research that occupancy rates in new build homes in Prime areas of London are around 85%, rising to more than 90% for properties outside of these high value areas**

### SUMMARY OF KEY POINTS FROM EXISTING RESEARCH

- Overseas buyers account for 6.5% of total sales by value– the same percentage as in 1990
- New build accounts for 10-15% of sales seen each year in the capital, rising to 22% in Prime areas
- London is a global city in which more than a third of residents were born outside the UK

## BACKGROUND

### Setting the context

The phenomenon of individuals and companies from abroad investing in London property is not a new one. The proportion of total housing purchases in London that were made by foreign buyers was the same in 2012 as in 1990. In the case of new build purchases, overseas investors are more prominent. This will often be because purchasing new homes, free of a 'chain' will usually be simpler than is experienced in the second hand market, the homes will come with a guarantee and may be easier to rent out.

Research by Savills estimates that 85% of new build sales to overseas buyers in the most expensive Prime areas are used as primary residences or are let out.<sup>1</sup> Based on estimates provided by the companies surveyed, we consider this to be a sound estimate with the London-wide occupancy figure being considerably higher.

London is a global city in an increasingly globalised world and therefore attracts workers from all over the world. Under EU and international laws many of these are legally able to work, reside and indeed buy properties in the capital and it would not be legally possible to prevent such sales even if policy makers or house building companies chose to do so.

### House building in London

House building in London is a very complex process. The scarcity of land for development and the bureaucratic regulatory environment drives up costs and risks. Developers often need to secure significant up-front investment to enable projects to go ahead. Securing sales in advance creates a viable business proposal that investors and banks are more likely to support and invest in - enabling the project to move ahead. This is confirmed by HBF's survey which shows that on average developers are selling homes both at home and abroad up to 21 months in advance. However, most standard UK mortgage offers are only valid for six months. For this reason a typical domestic buyer requiring a mortgage can find it difficult to purchase off plan in advance of completion in a way that investors - be they domestic or international - are usually better able to.

### Wider benefits of development

For the reasons stated above, whilst developers may have to rely on funding from international and domestic investors to get developments off the ground, doing so ultimately results in significant benefits to the UK economy and for Londoners. From the 'Development in London' survey carried out by HBF we estimate that such developments;

- Directly bring sales receipts of more than £2bn from abroad into British based house builders and the UK economy.
- Result in £129m being paid direct to Government in stamp duty – an average of £39,000 per transaction

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<sup>1</sup> *The World in London*, Savills

- Create 16,000 jobs

In addition, the delivery of affordable housing is inextricably linked to the sale of private houses/flats. We estimate that private housing developments by the surveyed developers currently in construction or due to start shortly will provide around 14,000 affordable homes for Londoners. These are developments supported by overseas buyers and which may otherwise either not go ahead or be reduced in scale without such investment.

It is also estimated that as a result of these developments going ahead £365m has, or will be, paid direct to the London Boroughs to be used for local infrastructure and amenities through Section 106 agreements.

## The lights are on in London

HBF's 'Development in London' survey also dispels the 'Lights out' myth that has been widely reported. Again, influenced by one or two high profile but unrepresentative developments. Our survey results support previous research by Savills which showed that 85% of foreign buyers in Prime areas bought the properties either to live in themselves or to rent out therefore contributing to the significant private rented sector in the capital. This rises considerably for other parts of the capital.

## Marketing

Most of the house builders surveyed reported that they routinely market homes in the UK at the same time as or before they are offered abroad. Of the 10,808 properties sold by eight of the leading house builders in London last year, only a small number of developments were first marketed overseas. In terms of the number of properties overall, these developments accounted for 11% of the total.

## CONCLUSIONS

It is quite clear from the survey conducted by HBF that foreign investment in London is bringing significant benefits to the capital.

The purchase of new build housing by overseas buyers is:

- Allowing new housing projects to go ahead
- Delivering desperately needed homes – of all types and tenures – for Londoners
- Bringing significant investment into the UK

We acknowledge the Chancellor's Autumn Statement comments regarding Capital Gains Tax, in this regard we recognise the underlying fairness principle. However, threatening investment, by, as has been suggested, imposing fiscal penalties on overseas buyers who already pay around £39,000 in Stamp Duty when purchasing new homes in London will certainly not result in more homes for UK buyers. It does however increase development risk so could lead to a reduction threatening London's position as world leading city by reducing its ability to house its population – whilst removing the significant investment benefits detailed above.

London is already facing an acute housing crisis. Just 18,000 new homes were built last year.<sup>2</sup> The Mayor recently stated his intention to build 42,000 homes a year.

The consequences for the capital of this continued undersupply are stark.

- 380,000 households are now on housing waiting lists in London boroughs
- Private rental costs are more than half of average wages in two-thirds of London boroughs
- Purchasing a typical starter home without government support would likely require a deposit of £63,500 and an annual household salary of £85,000 making the market inaccessible to the average airline pilot, medical practitioner or IT Director.
- Housing is now the second most important infrastructure issue for businesses affecting investment decisions, according to CBI London

The implications for London of this growing housing crisis are clear. As the economic power house of the UK it needs to be able to attract and house people who will undertake the broad range of jobs required to keep such a city going. Failure to do so can only be detrimental to the city's development.

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<sup>2</sup> DCLG Live Table 253, total for London boroughs, 2012/13

## About HBF

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. The HBF's members account for around 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from multi-national, household names through regionally based businesses to small local companies.

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