



Spatial Economics Research Centre

Thursday, 21 August 2014

Foreign buyers and property markets

[Posted by Prof Henry G. Overman]

In May last year, I did some back of the envelope numbers on the role of [foreign buyers in driving the London property market](#). On the basis of a very quick calculation I concluded that "domestic sources of demand (including from first time buyers) are much more important in understanding the overall London property market than a small number of rich foreigners."

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The rich countries are not about to be taken over by the poor countries, which would have to get much richer to do anything of the kind, and that will take many more decades.

What then, is the source of this fear, this feeling of dispossession, which is partly irrational? Part of the reason is no doubt the universal tendency to look elsewhere for the source of domestic difficulties. For example, many people in France believe that rich foreign buyers are responsible for the skyrocketing price of Paris real estate. When one looks closely at who is buying what type of apartment, however, one finds that the increase in the number of foreign (or foreign-resident) buyers can explain barely 3 percent of the price increase. In other words, 97 percent of today's very high real estate prices are due to the fact that there are enough French buyers residing in France who are prosperous enough to pay such large amounts for property.

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This is certainly in line with my priors but I'd love to see similar calculations for London.

[The source for the precise 3% figure is a [PhD thesis](#) that proved to be beyond my (miserable) French - I'm not aware of anything similar for London].

Posted by [Prof Henry G. Overman](#) on [Thursday, August 21, 2014](#)

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1 comment:

Michael Bach said...

Most of the material in the public domain is of two types - anecdotal/xenophobic or by apologists. The problem is that the first group is trying to talk up the issue, whilst the latter are trying to suggest the problem is minimal. For example, Savills and Boris Johnson (probably quoting Savills) say that foreign buyers only account for 7% of all sales in Greater London - so it is not a problem! In practice their share of the new-build market in Inner/Central London is a totally different story!

I don't think you are denying the impact of either buy-to-leave, bought purely as investments and occasional use as "second" homes, and buy-to-rent, often bought off plan in the Far East, all put pressure on the prices in the new-build market.

The large injection of money being "dumped" in the Central London housing market is having a ripple effect outwards - the issue is whether the impact is merely a ripple in a millpond or tsunami.

We need some less biased research, to find out what is happening, not seeking to prove a point or act as an apologist.

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