Spatial Economics Research Centre

Friday, 24 May 2013

Foreign Buyers and the London Property Market

I'm increasingly puzzled by reporting of the London housing market and the role of foreign buyers. Is it true that London's house price growth is being driven by demand from foreigners attracted to the market by the low value of the pound?

There seem to be two versions of this story going around.

1) The low value of the pound is encouraging foreigners to buy lots of prime London property (i.e. housing worth more than £2m) driving up prices acr London as a whole. The first part of this argument appears to be underpinned by the data - foreigners are behind half of the £2m+ home sales in Lond But let's put these figures in to perspective using numbers from the land registry (taken from p. 13 of the latest HPI report). In January 2013 there were 77 houses worth more than £2m+ sold in London. Foreigners are buying a little more than half of these - let's say 40 to be generous.The total volume house sales in January 2013 was 6,465. I am not an expert on housing markets, but I struggle to understand how around a half of 1% of London housi sales are driving the entire market. Once we look at increases, note that foreigners already accounted for nearly 50% last year so we are talking about perhaps 8 additional purchases per month. In contrast, Council of Mortgage Lender numbers show a 15% increase in first time buyers in London in 20 That's an additional 6,000 buyers per year. Even with less money, you'd expect those 6,000 to be a much more important source of demand than the new foreign buyers. In short, I can see how foreigners are driving prime, but I'm not so sure that this drives the rest of the market. Which brings us to t next version of the story ...

2) It's not prime buyers, but total foreign demand that is pushing up prices. The data suggest that foreign buyers bought around £3bn worth of property the London housing market last year. That's an increase of 25% from 2011 or around £0.75bn. This sounds more substantial until you think about the *total* value of property transactions in London. With average prices around £350,000 and average monthly sales around 7,500 a back of the envelope suggests total value of around £31bn. So the increase in foreign sales amounted to around 2.5% (0.75/31) which might make more difference than the prime property numbers (although presumably it includes them). That said, those extra 6,000 first time buyers mentioned above accounted for around £1.2bn (assuming an average first time sales price in London of around 200k - CML reports those numbers a little confusingly). And, of course, first tim buyers aren't the only source of domestic demand.

In short, if I had to put my money anywhere, I'm inclined to think 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.

[NB - I confess to pulling together these back of the envelope numbers pretty quickly; I have to say that they fit with my priors but I'd be very happy for pointers to a more careful analysis]

Posted by Prof Henry G. Overman on Friday, May 24, 2013

6 comments:

Jim said...

As far as I know (can't find a reference at the moment) the CML definition of 'first time buyers' includes overseas buyers, in which case much of that £1.2bn increase in first time buyers could comprise overseas buyers.

27 May 2013 at 19:03

Prof Henry G. Overman said...

This comment has been removed by the author.

28 May 2013 at 11:26

Prof Henry G. Overman said...

Jim,

CML figures come from UK residential mortgages - the vast bulk of which will have a residency requirement. So while you are right in principle, I don't expect that to matter to much in practice.

That said, your comment made me realize that I should have been a little more precise - what I was considering here was the role of non-resident overseas buyers rather than 'foreign' buyers per se. If, for example, one of my LSE colleagues from the EU bought a flat using a UK mortgage provider this WOULD be counted in first time buyers

28 May 2013 at 11:28

Matt said...

Three points:

a) We don't know the extent of foreign buyers in the London market, as no data is collected by government and we are reliant on survey data from market actors - usually estate agents, who have reasons both for overplaying (talking the market up) and downplaying (persuading the Chancellor not to do anything to tax high end property).

b) The one interesting piece of work that has recently come out was from Molior (a research body for developers with good links to the industry) commissioned by the GLA. They thought that a third of all new build was now pre bought by foreign buyers (raising to 75% in 'prime' London). A good thing for supply in the short term - but they also highlighted that these buyers were driving prices (and therefore land) way above fundamentals, which makes future development much more speculative and unviable. London development seems to be both a) very toppy and b) vulnerable to capital flight (and one doesn't need a phd in the East Asian crisis to realise that hot capital flows into real estate can disappear very quicky). If the market collapses we'll then by back to 2009 with lots of busted developers who've overbought on land again - or things will simply grind to a halt.
http://www.london.gov.uk/priorities/planning/publications/barriers-to-housing-delivery

3) The housing market does have some unique factors - esp at the moment. There isn't much trading as a percentage of total stock, there is little pressure on sellers to sell, whilst sales are easy to bid up to the buyer who has the most money. Prices are set on the margins, ratchet up easily, but are much stickier on the downside.

In this context it is easy to see how relatively small amounts of foreign capital inflows (not just prime Russians, but less monied eurozone flight and Singapore investment fair fodder) can bid prices far above local incomes - particularly if the reasons for buying (a hedge against political risk, money laundering, safe haven status) are a far greater consideration to the buyer than yield or long term price metrics.

So it may not be liberal to point out, but that dynamic is not going to create either a healthy market (or resulting political) dynamic.

29 May 2013 at 18:57

Matt said...

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And these dynamic are not going to create either a healthy market (or resulting political) pressures.

29 May 2013 at 18:58

Anonymous said...

Echoing Matt's comments,
I rent a flat in a new build development in North London and speaking to other tenants in the complex I am yet to find a building owned by a British Landlord.

These are 1, 2,3 bed properties the £250,000 to £700,000 range.

Yes maybe the impact of foreign buyers is over hyped but I am seeing the first hand impact on it, as these are properties that FTB would generally move into. The prices of the development have sky-rocketed even in the space of one years!

As a result you will have a generation of Londoners renting from foreign Landlords, while their income tax funds the infrastructure that keeps the pries rising. Crazy situation and one socially dangerous one.

30 May 2013 at 10:08

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