Workshop: Is foreign money necessary for accelerating housing development in London?

On February 19th – Chinese New Year – LSE London held a workshop on the potential role of international money in accelerating housing development in London. The conclusion was that foreign money can definitely help to bring forward development and in current conditions may well be the only way to achieve ambitious housing targets in London. However there are barriers to expanding their involvement, not least public attitudes to foreign buyers and political uncertainties around regulation and affordable housing requirements.

Foreign money is already accelerating housing completions by providing up-front funding for large scale regeneration projects and bringing with that money an ethos of speedy completion. Much of this funding comes as equity or sovereign debt and involves very low returns in the early years – a model which cannot work with bank finance. Most foreign investors are acting in partnership or contracting with UK developers, and as a result are mobilising high quality management and logistical skills. Workshop attendees discussed a number of sites which had proved impossible to deliver in the past but were now moving ahead rapidly as a result of foreign investment.
more traditional international funders, for example from North America and the Netherlands, are concerned by the fact that UK institutions are not prepared to provide equity funding for new development. Some workshop attendees suggested that if more domestic money were to come forward, a lot more long-term foreign money would follow. The big problem here is that UK funders continue to be risk averse and are still waiting for others to take the lead;

it might well be quicker and easier to build rapidly if single-owner private rented blocks were a real option. However potential landlords still expect a discount as compared to sales to individual owners, and developers see no reason to accept discounted sales in a buoyant market. In some instances however developers are happy to have a continuing ownership role providing private rental units, at least in the medium term, or they may form part of a housing association’s business plan to get involved in market rental. This diversification can help reduce risk on larger sites – but does not of itself justify either subsidy for private renting or substituting private for affordable homes. Covenants (where developments are required to remain in the private rented sector for a given length of time) may be some part of the answer;

many international investors view negotiated agreements with local authorities, such as those for affordable housing, as an unnecessary source of uncertainty. They generally look for consistency with respect to taxation, regulation and planning requirements. Setting a clearly defined tariff that would apply across London is seen as one option but has obvious downsides because market conditions vary so much across the capital;

shortages of building materials and of high quality labour are increasing the costs of construction and slowing down the development process. At the moment, even if large scale internationally funded developments can access these resources, other developments are excluded as a result. Hopefully this is a short term problem but it needs to be addressed more directly;

popular antipathy to international buyers based on their perceived effect on house prices, vacancy and the exclusion of local purchasers spills over into negative attitudes to foreign involvement in supply. Empirical evidence is generally much more positive than the popular discourse suggests, suggesting high levels of occupation outside a few wards in central boroughs and very
• Perhaps most fundamental for the electorate is that the units being built on these large sites – whether funded by international or domestic money – are often only suited to a narrow range of households and are usually in the more luxury end of the market. So, although they do provide a proportion of affordable housing and are helping to introduce higher quality services and management, they do not immediately address the needs of many London families.

Overall the feel of the discussion was that at the moment international money is a necessity in developing large sites – and that it can play a core role in making the step change to sustaining much higher output levels. But into the longer term, domestic demand and domestic money are also absolutely necessary to ensure high and stable levels of housing investment.

Even though international money is not directly aimed at addressing the affordability problem if it can provide significant additional finance, additional skills and most importantly additional housing -and it appears that it can – it has an important and continuing role in providing more homes for Londoners.

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