Who buys new homes in London and why?

Prepared for the British Property Federation by Molior London Limited

BPF
BRITISH PROPERTY FEDERATION

Executive Summary

The question of who buys new homes in London is a matter of ongoing speculation in the media. The activity of investors, particularly from overseas, has become the subject of intense interest – and sometimes criticism.

This study aims to identify who buys new homes in London and why.

Having reconciled disparate sources of information on the subject, the following picture emerges of who bought new homes in London in 2013:

- Buy to Let investors: 48%
- Buy to Sell investors (speculators): 5%
- Build to Let investors: 8%
- Owner occupiers – outright purchase: 32%
- The final 7% of units are those homes that were originally permitted as market sale units, but end up as affordable units usually to be delivered as shared ownership homes.

So, the various forms of investor acquire 61% of new homes built in London while owner occupiers acquire the remaining 39%. This split between investor and owner occupier varies with price band, and therefore location:

- The sub £450 per square foot price band contains the greatest proportion of owner occupier purchases – 80%. Relevant developments can be found in Outer London.
- The £1,000 to £1,500 per square foot band contains the greatest proportion of investor purchases – 70%. Relevant developments can be found in Inner and Prime Central London.
- Owner occupiers dominate again in the £2,000+ per square foot band where 70% of buyers are classified as owner occupiers –in many cases the homes will be held as one of several pied-à-terres around the world.

This report defines overseas buyers as **those who normally reside overseas**. This is an important distinction from buyers who were born overseas but normally reside in the UK – as is the case for 37% of people who normally live in London according to the 2011 census.

On this basis overseas buyers, who normally buy with investment motives foremost in mind, account for 15% of new homes purchases London wide. This is equivalent to almost a third of Buy to Let purchases. Such figures may seem low compared to some newspaper headlines. However:

- Very few, if any, major developments are marketed exclusively overseas.
- Overseas marketing efforts will tend to focus on the earlier sales releases only.
- Some of the larger house builders will only market selected developments overseas whilst others are marketed exclusively in the UK.

Detailed research by Knight Frank's research team indicates that overseas buyer activity varies with location as follows:

- In Prime Central London 49% of sales go to overseas buyers.
- In Inner London the figure is 20%.
- Outer London trails with 7%.

Following the 2008 recession, weaknesses in the domestic market combined with funding restrictions mean that these overseas investors have been instrumental in maintaining a level of housing development in London, together with the employment that this generates. Without a high level of overseas purchases secured prior to construction start, financiers would simply not have released the cash needed for development to go ahead, and the associated developments would have been stalled.

However, 2013 has seen rapid evolution in the new homes market driven by positive economic forces and the introduction of Government incentive schemes for first time buyers. Developers have dramatically increased output to keep pace with rising sales – 13,000 units sold in 2012 rising to 21,300 in 2013. Furthermore, renewed confidence appears to be easing funding conditions to the extent that the largest builders are starting to both launch developments in the UK and retain more units for sale later in the development process.

Consequently some industry figures have commented that the split between investors and owner occupiers may be moving closer towards parity.

However, many factors remain uncertain, and there is some doubt whether the industry has the capacity to generate significant further additional output.

Investors, and overseas investors in particular, have their critics who point to the following potential disadvantages of heavy investor involvement:

- A reduced choice of accommodation is available for owner occupiers.
- The fragmented nature of the lettings market can lead to bad neighbour issues in poorly managed blocks – the industry recognises and is tending to address lettings and management issues.
- Some investors buy to sell on or prior to completion – an activity that can lead to increased volatility.
- New homes are priced beyond the means of first time buyers and 'normal Londoners'.
- Investors can buy homes simply as 'cash dump' leaving them empty in a time of housing crisis.

The last assertion is pure conjecture. There is no evidence that a significant number of homes are being left empty.

The other points are, however, debatable and it must be emphasised that investors play a number of positive market roles:

- Taking market risk thereby helping to maintain the will to build – in both good and poor market conditions.
- Increasing demand to enable developers to progress larger schemes, leading to higher levels of s106 affordable housing provision and financial contributions.
- Expanding the private rented sector to help house London's increasingly flexible workforce. In particular, the emerging
- Build to Let industry has the potential to raise the status of the private rented sector to being a tenure of choice, rather than a tenure of default for affordability reasons.

London is a global city. It would be unreasonable to take for granted all the benefits that this provides without there being a high level of overseas investment interest in new market homes.

This report concludes that undersupply is the greatest barrier to housing availability and affordability in London. It is not just for the private housing building industry to solve this conundrum. There are avenues being progressed, but yet to be fully resolved, by the Government relating to the planning system, the use of publicly owned land and the encouragement of involvement by the largest financial institutions.

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1 Introduction

1.1 Purpose of the report

The purpose of this research project is to investigate the types of buyers of new market homes in London. The following points are addressed:

- How many homes are bought by each type of buyer?
- What factors affect owner occupiers?
- What are the types of investors, how many homes do they buy and what are the reasons for their investment?
- What impact do overseas buyers have on the market and why are they attracted to London?
- How does location affect buyer preferences and the balance between owner occupiers and investors?
- How are current market trends affecting the different categories of buyer?
- What are the consequences of investors' activity on meeting housing need and demand, creating sustainable communities, and the number of empty homes?

1.2 Context

New build housing adds less than 1% to London's housing stock each year. It is important to remember that, in terms of choice of homes to buy, buyers can choose second hand homes, but new build has particular significance in terms of increasing housing supply and regenerating neighbourhoods.

1.3 Investor definition

An investor is considered to be any buyer of a home whose intention is not owner occupation. An investor can be a person or a company.

Second homes that are not let in the private rented sector are treated by this report as owner occupied rather than as investments.

There are problems in identifying investors:

- A developer or sales agent does not always know what the purchaser's intention is when a home is sold.
- Sometimes neither does the purchaser.
- In addition, when buying off plan, a purchaser's intention may alter between making the purchase decision and taking possession of the home.
- A distinction needs to be drawn between the investor buying with the intention of long-term rental, and the wholesaler buying with the intention of selling on before the home is occupied.

Most investors buy with the intention to keep the home for rent – their goal may be to hold a portfolio of rented stock. A minority of investment sales are to financial speculators aiming to arbitrage the market – either acting as wholesalers or simply buying to sell on a contract for capital gain. Some observers may view these practices in a poor light but the activity is beneficial both in terms of market making and risk bearing.

1.4 Research methodology

Systematic data on the marketplace is held privately by developers and agents and is neither in the public domain, nor held in a consistent or reconcilable format. To produce this report the authors drew information from two sources – telephone interviews with development industry participants and, separately, the analysis of data on individual development schemes using the Molior database.

We are extremely grateful for the following organisations that have been particularly helpful to us in compiling this:

- Barratt Homes
- Chesterton Global
- Countryside Properties
- Fairview New Homes
- Foxtons
- Galliard Homes
- Hamptons International
- Hurford Salvi Carr
- Jones Lang Lasalle
- Knight Frank
- Preston Bennett
- Savills
- Site Sales
- Strutt and Parker
- Telford Homes

2 Purchases by buyer type

2.1 Sources of information

Table 1 shows a breakdown of the number of different buyer types, their number of purchasers and associated percentages of the total.

There is no complete new homes sales database for London. A number of organisations do, however, hold data for their own purposes and, as far as possible, the interview process has been used to reconcile these. The considerable experience of a number of professionals has also been useful in providing a 'reality check' of the outcome.

The Molior database contains details of numbers of units sold in developments with 20 or more private units in the 33 London boroughs. The following data has been taken directly from the database:

- London total
- Build to Let / PRS
- 'Market delivered as affordable'

The units described as 'Market delivered as affordable' are those that were allowed to be market sale units by the relevant planning permissions, but have eventually been delivered as affordable units – predominantly as shared ownership stock. This usually only happens where the developer is a Registered Provider of affordable housing as described in more detail in Section 3. These numbers do not include shared ownership units that were described as shared ownership in the relevant planning permissions.

The remaining numbers have been split following the interview process and should therefore be considered as a broad-brush consensus view. The figures are, however, broadly comparable with data originating from the Residential Development Sales department of Savills, which sells homes in all market sectors in London.
The various categories are described in detail in Sections 3 and 4.

2.2 The buyers of new homes in London

The headline findings shown in Table 1 are as follows.

- Owner occupiers acquire 39% of all units, either outright (32%) or as shared ownership (7%).
- Investors acquire 61%.
- Buy to Let investors acquire 48%.
- Buy to Sell investors acquire 5%, and most of these end as Buy to Let stock.
- Build to Let or Private Rented Sector (PRS) specialists from both the private and social sectors account for the remaining 8%.

Very few private developers or agents deal in all these market segments. Most commonly deal with private individual buyers rather than any form of bulk investor or shared ownership scheme. With this in mind it is worth noting that Table 1 estimates that 16,300 market sale homes were sold to private individuals, comprising:

- 6,800 (42%) were sold to owner occupiers.
- 9,400 (58%) were sold to investors.

Two importation caveats must be made regarding these general London-wide figures.

1. They are subject to significant variation according to location, as described in Section 6.
2. They are intended to represent a relatively long-term view, from 2010 onwards. The new homes market is continually evolving, which is having an impact as described in Section 7.

Table 1: Homes sold in London by type of buyer

Category	Sub category	Buyers in London	Purchases in 2013	Percentage of total purchases
Buy to Let	Private individuals –1 or 2 homes	4,200	6,250	29%
	Private individuals – larger portfolios	320	3,150	15%
	Private block purchasers	15	750	4%
	Buy to Let total	4,535	10,150	48%
Buy to Sell	Buy to Sell total	10	1,050	5%
Build to Let / PRS	Private	5	650	3%
	Registered Provider	5	1,000	5%
	Build to Let total	10	1,650	8%
Owner occupiers	Market	6,700	6,800	32%
	Market delivered as affordable	1,550	1,550	7%
	Owner occupier total	8,250	8,350	39%
London total		**12,805**	**21,300**	**100%**

3 Owner occupiers

3.1 Definition

Owner occupiers buy homes with the intention to live in them either as their principal or part time residence. The units are not bought with the intention of being let, although this sometimes will happen, partly or fully, as circumstances change.

3.2 Motivations to buy

It is widely acknowledged that, while affordability is now a major issue, most people in the UK aspire to owning their own home. This is for well documented cultural and social reasons, as well as for investment motives – a principal residence remains a capital gains tax free store of wealth and house prices have a history of long term growth in the UK that is perceived to compare favourably with other forms of investment.

3.3 Forms of ownership

The buyers may be first time buyers or looking to move from other homes and units can be bought in two forms of tenure:

- Outright market sale, with no form of restriction on the type of owner detailed in the planning permission.
- Shared ownership, where a share of the equity in the home is acquired by the purchaser. The remaining equity is retained by the developer who is usually a registered provider of affordable housing. The purchaser usually pays some form of rent relating to the equity retained by the registered provider and there is usually a 'stair-casing mechanism' that enables the acquisition of full ownership in due course.

Normally the s106 agreements that accompany planning permissions specify a number or proportion of units within each development that must be provided as shared ownership as well as other forms of affordable housing. There are various restrictions on the acquisition of shared ownership homes, one of which is normally that buyers must be registered on the relevant local authority's waiting list.

Table 1 in Section 2 does not provide any account of shared ownership units specified in s106 agreements as these are never destined for exposure to the wider market, at least until the purchasers have stair-cased to full ownership over time. Table 1 does, however, provide data for the significant minority of units that were permitted to be outright market sale units but where the developer chose to provide them as shared ownership units.

The initial cash receipt for developers of shared ownership units will be less than for outright sale units. However, in some cases it has proven expedient for registered providers to re-allocate permitted outright market sale units as shared ownership. This can help to:

- Reduce market risk in borderline locations – thereby enabling regeneration.
- Enable full occupancy on project completion following to adverse changes in market conditions - as happened in a number of examples following the credit crunch.
- Better fit corporate mission objectives.
- For other ad-hoc reasons.

The buyers of shared ownership units are nearly always required to be first time buyers reliant on mortgage finance. The prevalence of first time buyers for normal market units is highly price dependent as affordability is a major issue for them. They can account for 90% of purchases in some peripheral developments or 0% in the most expensive – as is the case for much of Prime Central London. This is explored further in Section 6.

3.4 Sources of funding

Households usually use one or several sources of finance to acquire new homes:

- Savings and equity in existing homes – some of the bigger house builders offer part exchange deals.
- Parents – some reports have indicated that as many as two thirds of first time buyers are reliant on parents to fund deposits.
- Government incentive schemes including Help to Buy and First Buy.
- Mortgage finance. Figures vary depending on segment of the market, with agents in Inner London reporting that 40-50% of their buyers used mortgage finance rising to up to 80% in more peripheral locations where first time buyers predominate.

4 Investors

4.1 Buy to Let investors

Buy to Let investors fall in to three sub categories:

- Private individuals who own just one or two properties.
- Private individuals who own larger portfolios.
- Private block purchasers who could be wealthy individuals or companies that acquire whole blocks. These can end up in large portfolios, but we exclude blocks that are to be owned and operated by customer facing private rented sector specialists, and these have a separate category below.

Buy to Let – private individuals with small holdings

The biggest buying category – almost two thirds of Buy to Let purchases – is private individuals with small portfolios – usually just one or two homes. Most of these buyers, whether based in the UK or overseas, tend to be first time investors buying their first investment property. They can be bright or very naïve – they can understand the market intricately, or they can simply be motivated by house price headlines and will rent completed units out to cover costs as much as to take a yield. In a minority of cases units will simply be sold on construction completion.

Buy to Let – private individuals with larger holdings

Sometimes these investors 'get the bug' and build a larger portfolio, typically 10-50 flats. They usually carry on with their jobs and run the property portfolio in parallel. As buyers they are informed and 'in the market', taking a view of total returns rather than just headline prices. Some will carry out a mixture of Buy to Let and Buy to Sell, but the latter activity is done by very few and only then for a good reason. This category accounts for almost a third of Buy to Let purchases.

Buy to Let – private block purchasers

In addition to the private individuals in the Buy to Let market there is a set of wealthy individuals, often operating through investment vehicles, who will acquire entire blocks. These buyers or their agents usually make investment-based decisions based on detailed market knowledge and research, although opportunistic buying does occur. They can buy big (40+ homes), seek but do not always get a genuine discount (up to 20% if they can) and work hard to find the deals. Success at this level is taken very seriously, and the portfolios are managed well.

This is a select group of buyers but we understand that, as the London residential market gains prominence, many domestic and international investors who have previously dealt mainly with large commercial properties are increasingly looking to residential property to diversify existing portfolios.
It is not possible to obtain exact information about the number and size of transactions involved in this secretive market segment but we are reliably informed that hundreds, rather than thousands, of units are involved.

Funding for Buy to Let

Typically two thirds of Buy to Let purchases by private individuals, either with smaller or larger holdings, are funded through mortgage finance rather than cash. Some cash purchasers subsequently go on to finance their purchases to release funds for further acquisitions.

4.2 Buy to Sell investors

Buy to Sell investors look to buy from a developer in bulk with the undisguised intention of selling on all the homes individually, usually to Buy to Let investors, often overseas but occasionally to owner occupiers. These firms are wholesalers and acting as an intermediary between producer and end user.

To succeed in Buy to Sell one has to be a knowledgeable player – knowing both who is building and what their financial needs are over time. An understanding of some of the investment tools, such as assignable contracts, is also important. A willingness to bear price and sales rate risk goes without saying.

The business model of Buy to Sell is fairly simple. It is a purely financial analysis: does the deal stack up?
Much Buy to Sell activity is highly speculative – investors enter into contracts to buy apartments, aiming to sell on (re-assign) those contracts during the construction period. They make their money by buying at a discount (for quantity and at a time when the developer has a particular need for a bulk sale) and selling after 12-24 months of capital appreciation. It is a risky business but offers rewards for the best decision making.

A significant number of 'investment clubs', companies and individuals used to fill this role. However, the recession, changes to Council of Mortgage Lenders rules, and the fact that the large agencies now operate around the world has diminished the role these players play. The recent strength of the residential market also means that developers are starting to become less reliant on early bulk sales to secure development finance. Consequently the number of associated players has reduced from 30-40 prior to the recession to about 10 now.

However, this role remains useful for facilitating developments by smaller builders for whom it is still hard to raise development finance. There is also a possible niche to play in the registered provider sector as these organisations are driven down increasingly entrepreneurial routes to cross-subsidise core social housing activities whilst also having to retain a risk-averse ethos that would welcome forward sales.

4.3 Build to Let / private rented sector investors

Build to Let investors develop or forward purchase unbroken blocks to let in the private rented sector (PRS), often through a customer facing brand rather than anonymously through an agent. These can be both private companies and registered providers.

Much has previously been written about the potential benefits to the UK economy that a strong PRS would bring. However, to date there has been little in the way of deliberate PRS development – to create unbroken blocks, purpose designed and built to be managed by customer facing landlords. Institutional investment, as encouraged by the Government to support such development, is also still very limited.

This prompts some old-hands to draw humorous analogies regarding the sector and its increasing coverage in the media. However, the same people usually concede the key point that a new type of market place does seem to be emerging, with London being the focal point of much of the activity.

To say that a 'perfect storm' is approaching might be a bit strong, but the birth of this emerging market is attributed to several interrelated factors:

- Housing demand is not being satisfied by other means, as is well reported elsewhere.
- Limitations on traditional development funding models in both private and social sectors mean that the PRS has recently been of greater interest to developers than before.
- At the same time concerted action by the Government, the GLA and some local authorities is helping to bring previously uninterested parties to the table.
- Other property asset classes have been lacklustre in recent years.

The emerging market has so far largely been occupied by institutional investors from overseas, often doing business with the small number of experienced UK specialists and usually buying tidy or stabilised standing stock. However, in the last couple of years the PRS has seen a growing wave of:

- Old hands like Grainger, Dorrington and Residential Land successfully attracting overseas institutional investment and increasingly looking to development as another means to growing their businesses.
- New PRS development ventures being formed like Essential Land, Fizzy Living (a private company associated with Thames Valley Housing Association) and be:here.
- Increasing interest from existing developers and house builders, many of whom might not be involved without the Government's Build to Rent Fund.
- Social housing providers systematically moving in to the PRS to subsidise their traditional social housing activities, many of whom have also submitted bids for the Build to Rent Fund.
- Institutions looking to get involved in new development, albeit that the bulk of interest seems to be from overseas so far.

Molior is tracking the emerging PRS development pipeline which currently contains:

Sites pre-planning	1,140 units	2 schemes
Planning applications	938 units	5 schemes
Permitted developments	1,634 units	8 schemes
Under construction	2,363 units	26 schemes

Many of the units under construction have been forward purchased from developers but the aspiration of most players is to build purpose built stock.

4.4 The effects of investor activity

Purchase price, yield and ease of management tend to lead to an investor preference for smaller units, particularly in inner and central locations where the highest proportion of units are sold to investors as described in Section 6.

This is a preference reinforced at every opportunity by letting agents, who advise that larger units often entail sharing tenants, sometimes sharing couples, and must be equipped accordingly to maximise rental returns, minimise void periods and withstand usage by more people.

4.5 Tenant demand

Molior has contacted relevant lettings agents for each of the 107 developments in London where 50+ private units have completed in the 12 months ending June 2013. We aimed to contact three agents for every scheme to gain feedback regarding the letting performance.

There were no examples where tenant demand was considered low and in most cases agents were confident that vacant 1-bed flats would let within a matter days and 2-bed flats would rent within a fortnight. Only larger flats were considered to be more problematic and considerably more price sensitive.

However, competition is a key factor in the market:

- Between new developments and older stock in the area:
  Some new developments rent at a 50% premium over decent older stock. Such premiums are not a given and have to be earned by good furniture, on-site facilities, impeccable management and excellent accessibility. The mark of success

for many agents is that a development can attract corporate lettings. Overseas students, with rents often paid 12 months up-front are also prized tenants for developments with easy access to top higher educational establishments. The new build rental premium for a development without top-notch facilities can erode in as little as two years.

- Between several new developments in the same area:
  Lettings agents naturally rank nearby developments, presumably with a view to which ones will generate fees quicker. Even nearby schemes by the same developer can fair differently depending on which one has the better facilities and internal environment – for these reasons large schemes with gyms, concierges and gardens often perform better.

- Competition between units within the same development:
  Commonly a high proportion of units are let out in every scheme via a number of different letting agents. In larger schemes the competition can be intense – to the extent that minor variations in aspect, layout and kitchen specification between phases can make a significant difference to the speed at which units let. Internal competition also highlights the management problems of individual landlords and we suspect that lettings agents soon rank their clients in the same way as they do competing developments.

4.6 Rents in new developments

The lettings agents' interviews described above also yielded a set of rental data for new developments.
Table 2 summarises the results by providing average typical rental data for the developments in each borough for 1-bed and 2-bed units. All rents are quoted in £ per month.

- The London-wide average rent for 1-bed units is £1,314 per month, and for 2-bed units is £1,677 per month.
- The cheapest borough is Bexley where the average rent for 1-bed units is £748 per month and for 2-bed units is £955 per month.
- Excluding Camden, which only has one development - Triton Square, Westminster is most expensive where the average rent for 1-bed units is £2,456 per month and for 2-bed units is £3,645 per month.

Five boroughs are not represented in the table: City of London, Enfield, Kingston-upon-Thames, Redbridge and Waltham Forest. These omissions are simply a result of a lack of relevant schemes in the boroughs concerned.

Table 2: Average rents by borough

Local Authority	Developments	1 bedrooms	2 bedrooms
Barking & Dagenham	2	£949	£1,101
Barnet	5	£1,053	£1,342
Bexley	4	£748	£955
Brent	4	£1,277	£1,717
Bromley	4	£971	£1,125
Camden	1	£2,547	£3,735
City of London	0		
Croydon	3	£959	£1,222
Ealing	4	£1,302	£1,576
Enfield	0		
Greenwich	5	£1,177	£1,523
Hackney	8	£1,421	£1,902
Hammersmith & Fulham	1	£1,950	£2,743
Haringey	1	£949	£1,317
Harrow	2	£1,092	£1,334
Havering	1	£817	£1,083
Hillingdon	6	£983	£1,275
Hounslow	2	£1,200	£1,865
Islington	6	£1,594	£2,051
Kensington & Chelsea	1	£1,775	£2,200
Kingston-upon-Thames	0		
Lambeth	4	£1,457	£1,807
Lewisham	4	£1,201	£1,481
Merton	4	£884	£1,231
Newham	5	£1,149	£1,373
Redbridge	0		
Richmond-upon-Thames	2	£1,235	£1,646
Southwark	3	£1,706	£2,363
Sutton	2	£780	£1,013
Tower Hamlets	15	£1,410	£1,762
Waltham Forest	0		
Wandsworth	5	£1,466	£1,984
Westminster	3	£2,456	£3,645
Total	**107**	**£1,314**	**£1,677**

5 Overseas based purchasers

5.1 Definition

There has been considerable media interest in the activity of overseas buyers in the new homes market as well as considerable speculation on the impact that they have on the lives of 'normal' Londoners.

Such impacts are often portrayed as negative. Therefore, before embarking on any further commentary on the subject it seems important to choose the most appropriate definition of 'overseas buyer'.

London is an increasingly international city. The 2011 census data indicates that 37% of London's residents were born overseas, which is a 54% increase on levels recorded in the 2001 census.
With these points in mind it seems important to define overseas purchasers as those who are not normally resident in the UK.

5.2 Reasons for selling to overseas buyers

Developments in London have been marketed overseas for a long time and now the biggest UK agencies all have a presence on a number of continents, particularly in Asia where many economies continued to grow rapidly during the recession that affected much of the rest of the world. Two of the largest builders, the Berkeley Group and Barratt Homes, have also gone as far as opening offices in Hong Kong and Beijing respectively.

In the aftermath of the 2008 recession the reasons for selling overseas have been simple:

- Development finance has been hard to obtain and, once secured, has only been released if a significant number, often up to 40%, of units have been reserved.
- The domestic market was simply not able to provide either the required volume of sales or the willingness to invest in projects prior to construction starting.

Therefore without significant overseas sales up front many developments might simply not have commenced.

There are signs that conditions may be starting to ease as described in Section 7. However, most funders and finance directors still demand the higher level of confidence provided by a significant volume of early sales. Analysis of Molior's own data indicates that in 2013 33% of the units in developments that started construction across London were sold at the start of construction – either prior to start of piling or within the first three months of commencement.

5.3 Reasons for purchasing in London

London is seen as a good place to invest by overseas buyers for the following reasons:

- The UK has a benign and stable political environment that is broadly supportive of inward investment.
- There are no legal restrictions on property ownership by overseas parties.
- The UK economy has suffered during the western recession but is not perceived to be subject to the same Euro-zone related risks as other European countries.
- The UK housing market has a well publicised history of price growth in the long term.
- A range of currency and other market factors have been relevant to some buyer locations.
- London is the figure head of the UK economy and a global financial centre.
- Many investors from developed overseas centres have either lived in London themselves for a period or have friends and relatives working there.

Properties bought by overseas investors are used in the following ways:

- Most are bought specifically as a Buy to Let investment to be held for a number of years following completion.
- Some are sold prior to or soon after completion – usually to Buy to Let investors either in the UK or overseas.
- A significant number are used to accommodate offspring studying or working in London.
- Some are bought as a 'cash dump' – but are normally always let out.
- Units in the highest price bands, £2,000 per square foot plus, may be held as one of a number of homes around the world as a UK or European pied-à-terre.

Investment motives apply in all cases and the only overseas buyers who do not let their completed units out are those who require them to be vacant for their own use, or use by their families. Therefore only in the last case, where units are effectively held as a permanently available hotel suite, are units held unoccupied for any significant period of time.

5.4 Proportion of overseas buyers

There has been intense media speculation about the quantity of apartments sold overseas. However, Knight Frank has conducted detailed research on this matter, painstakingly acquiring and reading thousands of Land Registry title documents. In its October 2013 report International Buyers in London the agent estimates that:

- Across Greater London the average proportion of new build sales to buyers normally resident overseas lay between 10% and 15% over the 12 months to June 2013.
- Albeit that the range was significant – from 49% in Prime Central London, the most exclusive areas, through 20% in Inner London to less than 7% in outer London as described further in Section 7.

Based on these proportions, 3,180 or 15% of 21,300 sales recorded by Molior during 2013 were purchased by buyers normally resident overseas. This is equivalent to 31% of all Buy to Let purchases.

Such figures may seem low compared to some newspaper headlines. However, sales directors emphasise the following points:

- They could not think of any major developments that have been marketed exclusively overseas.
- Overseas marketing efforts will tend to focus on the earlier sales releases only.
- Some of the larger house builders will only market selected developments overseas. For example Barratt Homes marketed its Maple Quays development at Canada Water Station in Asia, but not the nearby Redwood Park scheme. Overall at Maple Quays, which is in Zone 1, only 14% of the units were taken by overseas buyers.

Finally, some readers will be interested to understand the impact of definitions on the percentage of buyers deemed to be from overseas. In this regard the best data source available only covers Prime Central London where Knight Frank's research indicates that 49% of purchases were by overseas residents while a further 20% were by UK residents of foreign nationality. Again, however, it is important to emphasise London's inherent diversity and to question the extent to which the nationality or residency status of buyers is an important consideration given the broad range of market impacts explored in Section 8.

5.5 Overseas buyer locations

Another common perception is that all overseas sales are made in Asia, particularly in Hong Kong and Singapore.
Exact percentages vary but the consensus among agents does seem to confirm that Asian investors do indeed dominate, particularly in the price bands between £700 and £1,500 per square foot. However, significant numbers of acquisitions are by buyers from other parts of Europe, the Middle East, Russia and neighbouring states and North America.

6 Location considerations

6.1 Reasons for location variations

Like all cities London has evolved such that regional variations inevitably occur in the housing and other property markets. In broad terms accessibility – to work and amenities – is the key common-denominator for renters, investors and owner occupiers (who are themselves investors) alike.

Buyers tend to prefer areas which already have high accessibility or, for those seeking value, where accessibility enhancements are underway – such as for regeneration areas.

The result is concisely illustrated by long term Land Registry house price data which shows that between 1996 and 2011 average house prices grew:

- By 3.7 times in Outer London, from an average of £90,959 to £332,909.
- By 4.1 times in Inner London, from an average of £131,652 to £542,608.

The two boroughs with the greatest growth were:

- Hackney, arguably subject to the most regeneration, where house prices grew by 4.7 times from an average of £76,157 to £358,425.
- Westminster, arguably the most accessible, where house prices grew by 4.9 times from an average of £194,698 to £954,159.

Superimposed on this is the issue of affordability, which often tends to be a more pressing issue for owner occupiers, particularly first time buyers, than pure investors, who by definition are using surplus resources.

At the opposite end of the spectrum, prestige can play an important role in any purchase decision – nothing exceeds like excess.

Under riding this is land availability. Table 3 (opposite) shows the number of new build sales by borough in the years 2009 to 2013 for schemes of 20+ private units. The data is taken from Molior's database.

Table 3: Units sold by borough

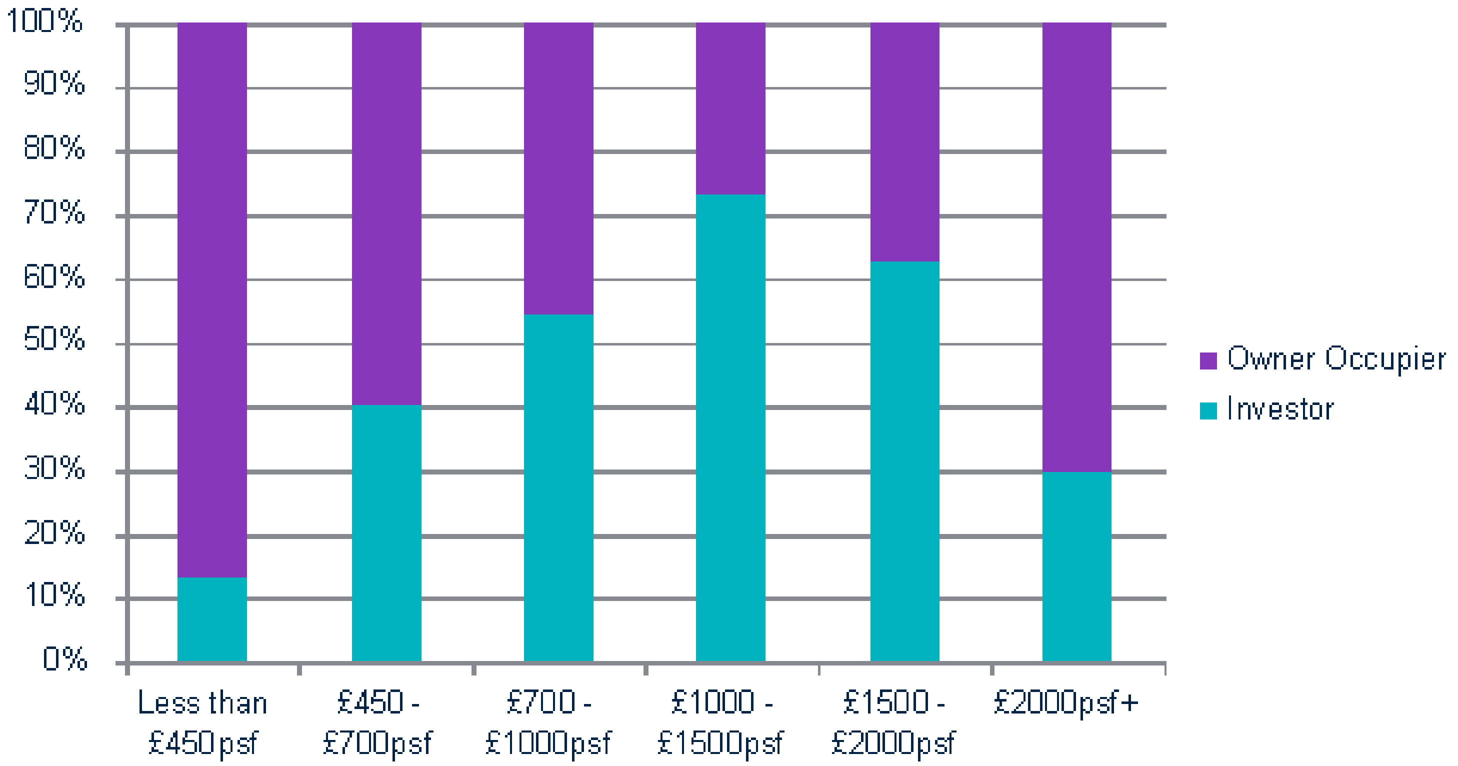
Local Authority	2009	2010	2011	2012	2013	Total
Barking & Dagenham	135	249	272	288	701	1,645
Barnet	268	354	548	653	806	2,629
Bexley	164	180	132	319	490	1,285
Brent	126	85	279	184	719	1,393
Bromley	242	90	231	377	447	1,387
Camden	23	180	126	189	321	839
City of London	29	179	127	84	125	544
Croydon	312	249	389	373	720	2,043
Ealing	128	195	269	353	674	1,619
Enfield	231	16	35	87	263	632
Greenwich	875	358	452	483	1,317	3,485
Hackney	512	584	529	652	870	3,147
Hammersmith & Fulham	271	186	83	245	502	1,287
Haringey	105	35	135	109	160	544
Harrow	208	134	240	191	375	1,148
Havering	58	83	132	249	586	1,108
Hillingdon	351	365	716	554	413	2,399
Hounslow	216	188	238	251	526	1,419
Islington	373	329	660	576	514	2,452
Kensington & Chelsea	61	64	207	196	259	787
Kingston-upon-Thames	17	49	92	118	313	589
Lambeth	187	322	209	249	531	1,498
Lewisham	289	482	557	410	601	2,339
Merton	89	240	244	231	238	1,042
Newham	516	226	1,719	1,046	652	4,159
Redbridge	253	175	283	46	186	943
Richmond-upon-Thames	-3	13	166	111	53	340
Southwark	458	523	502	932	1,312	3,727
Sutton	37	168	188	102	187	682
Tower Hamlets	-187	1,279	1,403	1,856	2,969	7,320
Waltham Forest	176	65	91	37	266	635
Wandsworth	329	468	605	823	2,490	4,715
Westminster	83	342	288	623	699	2,035
Total	**6,932**	**8,455**	**12,147**	**12,997**	**21,285**	**61,816**

6.2 Location effect on owner occupier / investor proportions

Figure 1 below illustrates the split between owner occupiers and investors for different price band over the years 2010 to 2013. The graph has been kindly provided by Savills whose Residential Development Sales team sells homes in all market sectors in London. The graph shows that:

- Owner occupiers dominate the bottom two price bands – almost 90% of purchases in the sub £450 per square foot price band were by owner occupiers, as were 60% of purchases in the £450 to £750 per square foot band.
- The proportion of investors rises through the price bands to peak above 70% in the £1,000 to £1,500 per square foot band.
- Owner occupiers dominate again in the £2,000+ per square foot band where 70% of buyers are classified as owner occupiers.

Figure 1: Owner occupier / investor splits, source: Savills



The price bands are not intended to be a proxy for location. However, the proportions do tie with the range of interview responses given by agents and developers:

- Outer London regeneration schemes: 10% - 30% investor, 70% - 90% Owner occupiers
- Outer London higher value areas: 30% - 50% investor, 50% - 70% Owner occupiers
- Inner London: 50% - 70% investor, 30% - 50% Owner occupiers
- The results in Prime Central London vary significantly between schemes – the most exclusive blocks might be owned by separate high net worth individuals on a pied-à-terre basis, or many could be owned as Buy to Let investments.

As described in Section 3 the prevalence of first time buyers is highly price dependent. They are principally active in the two lowest price bands shown on Figure 1.

- About 80% of purchasers in the sub £450 per square foot band are first time buyers.
- The proportion drops to as low as 20% in developments in the £450 - £700 per square foot band.

Other agents have suggested that the proportion of sales to overseas based buyers is highest in the most exclusive developments – in the £2,000+ per square foot band where 70% of buyers are likely to live for most of the year in other parts of the world.

6.3 Location effect on buyer residence

Knight Frank's October 2013 report International Buyers in London indicates that in general terms the proportion of purchases by non-UK residents varies according to location as follows:

- In Prime Central London 49% of sales to buyers resident overseas.
- In Inner London 20% of sales to buyers resident overseas.
- In Outer London 7% of sales to buyers resident overseas.

Other agents have suggested that the proportion of sales to overseas based buyers is highest in the most exclusive developments – in the in the £2,000+ per square foot band where 70% of buyers are likely to live in other parts of the world for most of the year.

7 Current market considerations

So far we have attempted to paint a timely but relatively long-term picture. This is based on a view over the last three to four years rather than a current snapshot, which might generate a slightly different picture but could be coloured by transient factors. However, 2013 has been a remarkable year for the house building industry in London. The two principal positive market factors have been:

- Improving economic data leading to a new found confidence in the future – for individuals, businesses and the UK national brand on the world stage.
- The introduction of Government incentive schemes to aid first time buyers.

Balanced against these, developers and agents discuss three areas of uncertainty for purchasers:

- The next general election due in 2015.
- Interest rates.
- The direction of house prices.

For sales offices the net result has been an upswing in owner occupier demand, particularly as first time buyers take the view that 'it's now or never' – before house prices take off and anything resembling a cheap mortgage deal disappears.

Developers are responding to all these factors with increased confidence:

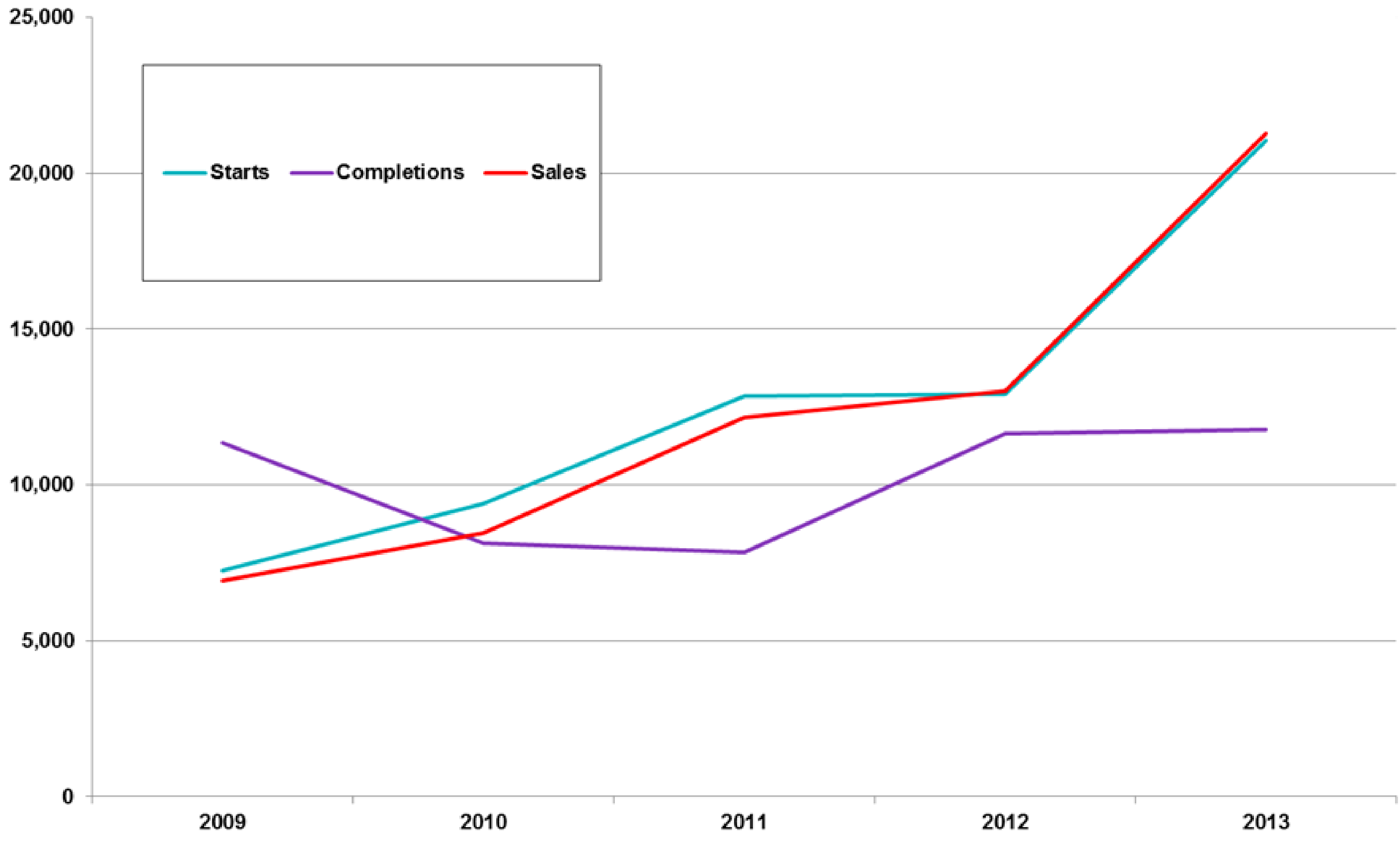
- Some are choosing to launch schemes that would have previously been exclusively launched overseas either jointly or exclusively in the UK. This is possibly not just a result of confidence in the domestic market but also the bullish view that London provides international market exposure without the need for international marketing efforts.
- A number of the larger developers are deliberately holding back units to ensure availability later in the development programme. This is possibly a sign of easing funding conditions and is not entirely positive for buyers as it introduces more scope for upward pricing adjustments over the build programme.

Several agents have commented that they would expect the London-wide ratio of owner occupiers to investors in the latter part of 2013 to be closer to 50:50, rather than the 42:58 reported in Section 2.

Outer London developments in particular have seen a large increase in first time buyer purchases. One developer with several schemes in outer boroughs around the capital commented that 42% of its purchasers in 2013 were making use of the Government's Help to Buy scheme, a number that rose to 70% for the month of January 2014.

However, it is unclear whether any such shift might be sustainable. Having increased construction starts as rapidly as illustrated in Figure 2 developers question whether further growth in capacity is available, prompting further questions regarding the balance of supply and demand.

Figure 2: Starts, completions and sales since 2009



8 Market impacts of high investor activity

Detractors of investment activity, involving domestic or overseas purchasers, often raise the following concerns:

- A reduced choice of accommodation is available for owner occupiers. High investor demand, and the fact that they buy earlier in the build programme than owner occupiers, means investors can get the first choice particularly of smaller units. This may sometimes be the case but developers usually take care to ensure that they release units in a balanced manner to ensure that they are not left with a number of larger units, which are harder to sell, at the end of the project.

- The fragmented nature of the lettings market can lead to bad neighbour issues in poorly managed blocks. A problem for both owner occupiers and investors alike which larger developers are addressing by ensuring that buyers have to comply with a range of relevant provisions detailed in their leases. For the largest schemes considerable care is taken to create an excellent investment product by including on-site facilities managed to an impeccable standard for the benefit of all residents. In some cases developers have taken steps to ensure lettings are also coordinated by a single 'preferred agent'.

- Some investors buy to sell on or prior to completion, an activity that can lead to increased volatility. These buyers specifically take on market risk for the duration of the build programme. Sometimes the players involved might not be financially robust enough to bear the consequences in a rapidly falling market leaving developers in a dire situation at the end of a project and occasionally leaving units empty until administration processes have run their course – the latter situation probably being of greater regret for most people. However, the role of this group of investors in the wake of a market collapse must not be underestimated, for these buyers can be the only reason that some developments get built on those occasions. In the current property cycle any negative effects of Buy to Sell activity have yet to be felt.

- New homes are priced beyond the means of first time buyers and 'normal Londoners'. A hard point to respond to because it is true that post-recession prices were often set by investors in overseas exhibition rooms for some time, particularly in Inner and Prime Central London. However, as has already been explained, many schemes would not start construction in the absence of early sales to those investors. The more important factor must be that excess demand from any source pushes up prices for everyone – investor and first time buyer alike. The simple fact is that more homes need to be built to redress the balance of supply and demand and that it is not just the role of the private house building industry to achieve this.

- Investors can buy homes simply as 'cash dump' leaving them empty in a time of housing crisis. There is simply no evidence that this happens on any significant scale.

We believe that there are five main beneficial consequences of investor activity:

- Investor demand leads to more new homes development in London, especially in emerging residential areas. Investors allow perceived development risk to be moved from the developer to the purchaser enabling housing starts in the less established residential areas of London and allowing large regeneration schemes to go ahead. Investors are also important in poor market conditions, as they step in and buy stock at a discount and thus iron out some of the volatility in the market.

- Investors allow larger schemes to be attempted by developers, leading to higher levels of s106 affordable housing provision. The largest developments in London provide affordable housing and financial contributions by way of s106 agreements. The more profitable these schemes are, the more cross subsidy is available to allow the viable provision of affordable housing. In the largest schemes, especially those that cannot be phased such as tall buildings, the necessary quantity of owner occupiers does not exist to buy these schemes before or at construction completion. Without investors, the development interest costs will be higher and the cross subsidy available for affordable housing will be lower.

- New homes, as a source of investment stock, provide an accessible investment vehicle for private individuals. The largest proportion of new homes buyers in London are people who might have bought heavily into the stock market 20 years ago. The combination of lower perceived volatility, personal management and a physical asset mean that residential property has real appeal as an alternative pension investment, the appeal being even higher for some ethnic groups.

- The expanded private rented sector provides important accommodation for London's increasingly flexible workforce helping it to fulfil its role as a global city. London is a world city that attracts workers and students from around the UK and the rest of the world. For many of these people, buying is not an option – they are here for a short period, perhaps just a few years – and they seek rented accommodation. Those on good salaries want to rent 'aspirational' space close to work, the new homes industry caters to this market and in part is responsible for the consequent benefits to London and the UK's economy.

- Deliberate Build to Let activity on a significant scale to create a strong, customer focused, private rented sector could play a vital role in the UK economy. The rental sector already plays the major role in providing homes for those that might otherwise be owner occupiers but for reasons of affordability. Consistently professional management of private rented accommodation on a significant scale is the norm in many countries and could be a key factor in ensuring that the PRS could be seen more as a desirable alternative to owner occupancy in the UK. Further encouragement of support by the mainstream institutions is, however, probably vital to ensuring that a positive tipping point is reached in the sector.

All the potential disadvantages described above have been ascribed in many quarters specifically as a problem relating to overseas investment in UK property.

However, London is a global city. It would be unreasonable to take for granted all the benefits that this provides without there being a high level of overseas investment interest in new residential property.
Such benefits were especially relevant in the wake of the last recession when the domestic market was simply unable to respond in a way that enabled development and associated regeneration to continue. Buyers based overseas took both the sales market risk off the developer and the post completion rental market risk. The alternative would have been to jeopardise the 63,482 private sale construction starts that have occurred since the start of 2009.

Our conclusions are twofold. First, that investors perform a useful role in the property development process a role which is often underestimated.

Second, that simple undersupply is probably a greater barrier to housing availability and affordability than investment activity.
It is not just for the private house building industry to solve this conundrum. There are avenues yet to be fully explored by the Government relating to the planning system, the use of publicly owned land and the encouragement of involvement by the largest financial institutions.

Notes

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