

Summary: 26 September 2013

International Rescue or the Downside of Winning

1. Introduction by Adam Challis, Jones Lang LaSalle

Adam explained that JLL was heavily involved in the introduction of foreign investors and invited the Forum to vote on whether “international investment was a bad thing for London?”. The underlying issue was the overall situation of London’s housing market but there were sharp differences between the prime (very central area) and mainstream housing markets in London. The mainstream housing market provided entry level housing, whereas the prime housing market is usually considered as “empty housing” due to buyer profile: Buyers there had typically been wealthy foreign individuals with property in several locations internationally both serving their lifestyles and used as a store of wealth; they were not interested in the income potential.

New capital was coming from Asia including international financial centres such as Singapore and Hong Kong. These buyers were successful middle class professionals and business men using the investment as a pension fund and eventually requiring income. Other factors included restrictions on the internal investment in Hong Kong.

Up to 85% of new build housing has been sold for renting. The demand from such investors supported the access to development finance and had enabled London to maintain a reasonable build volume compared to other cities. This in turn had supported the supply of affordable housing through section 106 agreement.

London was now the pre-eminent financial centre as the Asia market grew. With its historical role as a trading centre London now had a truly international population (up to a third). The downside was that home ownership has become less affordable. Arguably there was not a right to home ownership but to decent housing (with home ownership remaining as an aspiration). Investment from whatever source at least drove supply.

2. Key points made in discussion

- Affordability was crucial: International investment had pushed housing costs to 50% of income rather than the more typical 35% of net income. The upside was that the investors held property long term and had driven the supply response due to demand expectations - arguably a "government success".
- Asian investors can buy property off plan as an investment; local buyers cannot do so because mortgage offers only last 3-6 months. Were financial institutions likely to change to support the domestic buyer?
- Up to 85% of new build purchases had been overseas investors but this did not necessarily drive prices across the whole of the housing market as new build was only a small fraction of the total.
- The debate is now highly politicised but that is killing the wider public understanding and engagement. For example Simon Hughes has argued that the Lend Lease development at the Elephant & Castle should limit the proportion of overseas purchases. Elsewhere there were concerns that properties were marketed first overseas.
- Londoners do not have an absolute right to live in areas only a mile from the most expensive real estate in the world. However we should retain an aspiration to home ownership and make good use of social housing. People should contribute to the London economy in order to live in London. But long commutes for those on low incomes was crazy.
- It was extraordinary that investors are seen as more important than Londoners, especially as public costs (transport and environment) arise in making new properties liveable and secure the investors' return. The quality of the investor driven building was poor. This might improve as investors understood the need to meet renters' needs.
- Land activity was responding to demand but might not be sustainable over 5 years. The prospect of a price bubble would be countered if there was a supply response.
- Overseas investors might not have a good understanding of the different markets across London and have the wool pulled over their eyes.
- This was largely a London debate. Perhaps it was part of the price of being a world city. Whether all the pressures could be met in London and how this might help a better balanced housing market remained uncertain