

**Brief: Overseas investors in the London residential property market project****1 Summary**

- 1.1 London is open to people and investment from around the world. We welcome people from all countries who want to make London their home, and we welcome investment from around the world in building new homes.
- 1.2 At the same time, there are public concerns about the role that overseas money plays in London's property market. The GLA wants to ensure any discussion of policy responses is underpinned by clear evidence and understanding, and so it wishes to commission a piece of work to review the scale and nature of overseas investment into London's residential property market.
- 1.3 Specifically, this work will look at the proportion of new homes that are bought by overseas buyers, the extent to which those homes are occupied or kept empty, the reliance of development viability on overseas sales of new homes, and the contribution of overseas financing of development toward housing supply.
- 1.4 This will be the most thorough research on this matter ever undertaken in Britain. This research is not expected to suggest policy solutions to address issues around overseas buyers, but rather is intended to be an extensive piece of research that will act as an evidence base to underpin the Mayor's policy development on the issue.
- 1.5 In addition to this research, the GLA is drawing together other sources of information that may be of use in developing policy, including planning and legal advice, and international comparisons of how other world cities are responding to similar public concerns. The GLA is also working with the Government on their research into the transparency of foreign ownership of property.
- 1.6 The GLA is aware that the issue of overseas buyers is a contentious one, and so wants the research to be as independent as possible. It may therefore be the case that it should be led by a university or independent research organisation, utilising support and expertise from an industry body to enhance data gathering and analysis.

**2 Background and policy context**

- 2.1 The issue of overseas buyers buying London homes has received an increasing amount of media attention in recent years. For example, there have been several press reports about the scale and nature of overseas buyers, often in high profile developments or locations such as One Hyde Park<sup>1</sup>, Nine Elms<sup>2</sup>, St George's Tower<sup>3</sup> and Bishops Avenue<sup>4</sup>, and often suggesting that homes are bought and deliberately kept empty

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<sup>1</sup> <https://www.theguardian.com/money/2013/sep/27/one-hyde-park-sold-but-unoccupied>

<sup>2</sup> <http://www.thisismoney.co.uk/money/mortgageshome/article-2340858/85-homes-Central-London-sold-overseas-buyers.html>

<sup>3</sup> <https://www.theguardian.com/society/2016/may/24/revealed-foreign-buyers-own-two-thirds-of-tower-st-george-wharf-london>

<sup>4</sup> <http://www.standard.co.uk/news/london/londons-3bn-ghost-mansions-foreign-investors-are-using-capital-s-finest-homes-as-real-life-monopoly-9128782.html>

(the so-called 'Buy to Leave' phenomenon). However, much of the existing research into overseas buyers tends to be limited and increasingly historic in nature.<sup>5</sup>

- 2.2 The limited available evidence suggests that sales to overseas buyers are highly localised, with 'prime central London' accounting for a relatively high proportion of such purchases.<sup>6</sup> Knight Frank has suggested that almost half of new build sales in 'prime central' London in 2012 were to buyers resident overseas.<sup>7</sup> Savills reported that, in 2012, of all sales in prime central London, 46% were to people born overseas (however, it is not clear whether they were resident overseas or in London).<sup>8</sup>
- 2.3 Set against concerns over empty homes and a predominance of overseas buyers in localised markets are reports of the positive role that overseas buyers play in enabling developments to go ahead. They are much more likely to be cash buyers and willing and able to reserve or buy homes off-plan well in advance of domestic buyers reliant on mortgage finance. These off-plan sales are an important part of development viability: industry bodies report that that development finance can be difficult to obtain until 40% of units have been reserved, and that most developers will not start construction on a development until a third of its units have been pre-sold.
- 2.4 The Mayor is committed to improving access to new and affordable homes for Londoners and various different policy options are being looked at to address this. On 30 September, the Mayor announced that he wanted to commission the "most thorough research on this matter ever undertaken in Britain", saying that there were "real concerns" over the number of homes bought by overseas buyers in London.<sup>9</sup>
- 2.5 Given the importance of overseas buyers in development, and given the uncertainty in the housing market following a number of taxation changes and the recent vote to leave the European Union, it is vital that any policy that seeks to support Londoners' access to new homes has a robust evidence base and is developed with a clear understanding of the role overseas investment plays in development viability. This research will form the core part of that evidence base.

### **3 Scope of the project**

- 3.1 The research will consider four broad questions, each with a series of sub-questions underneath:
  - i. What proportion of new homes is sold to buyers who are resident overseas?
  - ii. What proportion of new homes is kept empty and how many of these are owned by foreign buyers?
  - iii. How reliant is development viability on sales to overseas buyers?
  - iv. How does overseas financing of development contribute to housing supply?
- 3.2 The intention of the research is not simply to map the nationality of property ownership in London. Rather it is to assess the extent to which homes bought in London are owned by people not normally resident in the city. Therefore, for the purposes of this research, 'overseas buyers' would ideally be defined as people whose principal residence is outside of the UK. This will therefore include UK nationals living

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<sup>5</sup> For example: 'Savills World Spotlight: The World in London 2013'; 'Creating the Conditions for Growth', LSE, 2013; 'International Buyers in London', Knight Frank, 2013; 'Who Buys New Homes in London and Why?', Moliar/BPF, 2014

<sup>6</sup> Different estate agencies tend to use different definitions of what constitutes 'prime central' London, but it generally means London west of the City, east of Fulham, north of Nine Elms and south of Regent's Park.

<sup>7</sup> Knight Frank, (October 2013), 'International Buyers in London'

<sup>8</sup> 'A World in London', Savills 2013

<sup>9</sup> <https://www.theguardian.com/cities/2016/sep/29/london-mayor-sadiq-khan-inquiry-foreign-property-ownership>

abroad for a period of time but exclude foreign nationals who are normally resident in London. We are asking research organisations to propose a definition, based on available evidence they intend to use for the research, which will be agreed at an early stage of the project.

- 3.3 The research should focus on sales and occupancy of new homes.
- 3.4 The Mayor has long called for greater transparency in London's property market and has said he does not want homes to be bought with "dirty money" by overseas purchasers, including those who use the London property market as a means to avoid taxes or to launder funds.<sup>10</sup> Government is currently researching options and developing measures to ensure that all property in England and Wales owned by companies registered overseas is subject to the same level of transparency as property owned by UK-registered companies, meeting a key demand of the Mayor's. GLA officers will arrange for meetings between the successful bidder and the relevant civil servants to discuss the respective research projects, and it is expected that the successful bidder will reference this work in their final report. The bidder will not be expected undertake any separate and potentially duplicative research on the transparency of property ownership.
- 3.5 Many countries and cities around the world have policies relating to the issue of overseas investment in local property markets. Research into this is being carried out separately by the GLA and so the research being commissioned by this paper should not review the efficacy or otherwise of these policies or approaches, except insofar as they may inform the research methodologies used in this commission.
- 3.6 The GLA is also open to other value-adding information that the research organisation is able to provide. If there is such information that could be provided this should be detailed along with any additional cost that may be associated with gathering it.
- i) *What proportion of new homes is sold to buyers who are resident overseas?*
- 3.7 There is limited public information regarding the origin or current residency of purchasers of homes in London. Reports referenced in paragraphs 2.1 and 2.2 set out some data on sales of new homes in central London, but these are limited in scope – mapping only parts of 'prime' central London – and reflect the property market in 2013 at a different point in the development cycle.
- 3.8 The research will build up a thorough evidence base recording the proportion of new build homes in London sold to buyers resident overseas. Ideally, it should determine:
- The proportion of new build homes in London sold to buyers with overseas addresses;
  - The country/region of origin of purchasers;
  - The locations of the homes sold to overseas buyers, especially any recent trends, such as increases in such sales in outer London;
  - The price points at which homes are sold – i.e. whether sales are concentrated in higher value areas or property types;
  - The intentions behind the purchases – e.g. to rent out, for family use, or to keep empty purely for investment purposes.
- ii) *What proportion of new homes is kept empty and how many of these are owned by foreign buyers?*

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<sup>10</sup> Ibid.

- 3.9 There is limited information on the number of empty homes in London. The data usually records long term empty homes that are derelict, rather than new homes that are barely lived in. The former is recorded by London Boroughs and reported by central government, and shows that the number of empty homes in London has fallen by more than 30% since 2004, from 87,000 to 60,000 homes, and that the number of long term empty homes (unoccupied for more than six months) has fallen by 50%, from 42,000 to 21,000 homes.<sup>11</sup>
- 3.10 However, some organisations have suggested that these figures do not accurately account for the scale of ‘buy-to-leave’ as these homes will tend to be occupied for at least part of the time and are less likely to be reported to the local authority as vacant.<sup>12</sup> Similarly, there are some media reports with anecdotal evidence of central areas of London where the local permanent resident population is felt to have fallen<sup>13</sup>, but there is no comprehensive assessment of the extent of the phenomenon.
- 3.11 The most recent research in London on the issue of ‘buy-to-leave’ was undertaken by Islington as part of the evidence base for their 2015 Supplementary Planning Document (SPD) ‘Preventing Wasted Housing Supply’, which introduced an occupancy requirement on new developments as a condition of planning permission.<sup>14</sup> The council cross-referenced electoral roll data with Council Tax records and Land Registry data to identify the levels of ‘unexplained’ non-registration on the electoral roll in market sector properties, and used this data as a proxy for vacancy. The SPD acknowledges that some of the developments that had no-one registered to vote living in them may have been nonetheless occupied.
- 3.12 The research undertaken for the SPD was focused on the borough of Islington. Research with the same objective will need to be undertaken over a much broader sample of homes across London to build up a picture of the extent to which new homes bought by overseas buyers are not occupied.
- 3.13 Ideally, the information that research will need to ascertain is:
- The extent of non-occupancy of new homes;
  - The locations of those homes;
  - The extent to which those homes are owned by overseas buyers;
  - The reasons why those homes are left empty.
- iii) *How reliant is development viability on sales to overseas buyers?’*
- 3.14 Set against the issues around foreign ownership of London property and ‘buy-to-leave’ is evidence suggesting that overseas buyers form an important source of finance for new homes – particularly ‘off-plan’ sales that help to make schemes viable. There is some evidence (cited above) on the extent of overseas purchasing in London, but less on how this contributes to development overall. We need to understand the benefits to new housing supply of sales of new homes overseas.
- 3.15 The research will need to ascertain how important overseas purchasers are to developers’ business models, and whether this varies by location/type of development,

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<sup>11</sup> DCLG Table 615

<sup>12</sup> Empty Homes, ‘Empty Homes in England’, 2015

<sup>13</sup> <https://www.theguardian.com/uk-news/2015/jan/25/its-like-a-ghost-town-lights-go-out-as-foreign-owners-desert-london-homes>

<sup>14</sup> London Borough of Islington, ‘Preventing wasted Housing Supply’ 2015

and what the likely impacts on these models would be of policies designed to restrict overseas investment in the housing market.

- 3.16 The research should ideally seek to answer the following specific sub-questions:
- How important are pre-sales to development viability, especially in relation to securing development finance?
  - How does this compare with other sources of demand?
  - Does this vary by location, typology and price point?
  - What proportion of units is normally sold off-plan?
  - What proportion of new homes is marketed overseas?
  - What is the location and price point of homes marketed overseas?
  - What proportion of pre-sold units are bought by owner occupiers?
  - What are any barriers to owner occupiers buying off-plan, particularly those who need a mortgage?

iv) *How does overseas financing of development contribute to housing supply?*

- 3.17 Distinct from the issue of overseas ownership of individual dwellings, we are also interested in understanding the wider impact of institutional and corporate investment from overseas in developing new homes in London. We are looking for proposals that, ideally, seek to assess and quantify this investment in building homes in terms of sterling amounts and number of homes in the pipeline. Evidence on the extent to which this investment is additional or merely displaces domestic investment would also be helpful as well as observations on anything which makes such developments distinct from those financed domestically.

## 4 Key partners

- 4.1 The key partners for this project are listed below, with an outline of their role:
- **GLA** – the GLA is London’s strategic housing and planning authority, with responsibility for drawing London’s spatial development plan and ensuring that policies are put in place to support delivery of housing to meet London’s housing requirements and the well-being of Londoners;
  - **Housing developers** – responsible for delivering the majority of London’s housing. Larger developers account for the majority of overseas sales, and will have the greatest awareness of impact of overseas buyers on development viability;
  - **Local authorities** – responsible for implementing local planning policies, aware of local areas that may have high numbers of overseas buyers, directly accountable for addressing local amenity impacts of empty properties. They also hold data such as Electoral Roll and Council Tax databases that may help determine whether homes are kept empty;
  - **Industry bodies, e.g. Home Builders Federation** – represent the private development sector and may help in developing knowledge of industry practice;
  - **Sales consultancies, e.g. Hometrack, Molior** – gather data on industry practice and sales prices and trends, and may help developing knowledge of industry practice.

## 5 Methodology

- 5.1 It is for consultants to propose what they consider to be the most effective methodology for addressing the objectives of the study. However, it is recognised that a number of research reports already exist in this subject, and the role of this project is not to repeat or duplicate any of these (although it will be useful to draw on them for reference and to include a summary of them in a literature review).
- 5.2 The work required in answering the four research questions will be a mixture of literature review, evidence gathering and data analysis. It is therefore envisaged that a number of different skill sets will be required. We will expect bids to show a commitment to working across disciplines. **Bids that propose partnership working as part of a joint team of organisations with different strengths and backgrounds are therefore strongly encouraged.**
- 5.3 All the data collected in answering the research questions should be collected by geographical area, ideally at a borough level, to aid cross-tabulation of results across the four areas of research. Ideally the data would be a time series for the last five years if this is achievable within the budget available. If not, it should at least cover the previous two years to give a snapshot image of the scale of the issue in London.
- 5.4 In responding to this brief, there are a number of ways that researchers could gather the evidence needed to answer the four questions above. However, in answering each of the questions, the successful bidder should first undertake a desk-based review of existing evidence and seek to identify new sources evidence for analysis. Initial findings should be tested with key stakeholders in the sector, to be agreed with the GLA in advance.
- 5.5 Below we set out some of the data sources and methodologies that could be used, though we welcome and encourage the inclusion of any other innovative sources of direct or proxy data to inform the research.
- i) *What proportion of new homes is sold to buyers who are resident overseas?*
- 5.6 To find out the proportion of homes sold to buyers registered overseas, the required data could be collected using a sample of Land Registry records for recent sales and/or through access to sales databases for estate agencies and/or developers, where they monitor data. The sample should be representative of Greater London's new homes market as a whole. Reports produced on the subject by Knight Frank and Savills use a sampling methodology combined with access to sales data, and this method may be replicated if possible. Consultancies such as Moliar also collect data on sale of private developments of over 20 units, and consultants may wish to draw on this database.
- ii) *What proportion of new homes is kept empty and how many of these are owned by foreign buyers?*
- 5.7 To understand the nature of the 'buy-to-leave' phenomenon, datasets such as those discussed in paragraph 3.11 could be used, and a sample of developments could be taken in selected areas across the whole of London to build up a representative picture of the scale of the issue across the whole city. It is envisaged that this research would yield two datasets – one showing the proportion of empty homes in new developments, and another showing the proportion of these that are owned by buyers registered overseas.

5.8 It may also be possible for developers to undertake key job usage analysis of new developments. However, proposals should assume that they will solely be responsible for collecting data to support the research objectives.

iii) *How reliant is development viability on sales to overseas buyers?*

5.9 To understand the role of overseas buyers in underpinning developers' business models, researchers should consult with lenders and finance experts, and may want to consider convening a roundtable discussion with developers and others in the sector to understand any unique contribution that overseas purchasers make. We would welcome suggestions of data sources that would provide a robust analysis of this issue.

iv) *How does overseas financing of development contribute to housing supply?*

5.10 In order to assess the scale of overseas institutional investment in London's residential development industry, it is expected that the successful bidder will talk to businesses monitoring the sector, such as Moliar, to gather data on the level of institutional finance, which can then be aggregated to give an estimated total quantum of investment. We would welcome suggestions for other data sources that would answer this question.

## **6 Outputs**

6.1 The project will have the following outputs and indicative timetable (the exact timetable will be agreed with the successful bidder and will be subject to the timetables of associated internal GLA processes):

- An interim report, to be presented to the GLA setting out initial findings from the research [December 2016/ January 2017];
- A private discussion on emerging findings with a GLA convened expert group [January/ February 2017];
- A draft final report to be presented to the GLA for officers to review and comment upon [March/ April 2017];
- A final report, which may be made public, setting out the findings in answer to the four research questions [March/ April 2017].

6.2 Data and research findings should be presented in Excel or another format which enables cross-tabulation and interrogation after the research has been completed. All data, including that which is not used in the final report, will be made available to the GLA for retention and subsequent analysis.

6.3 Findings and recommendations should be set out in a report of publishable standard. This should be concise and written in plain English, and include the following: an executive summary, a description of the project methodology, assumptions and findings. The contractor will be required to provide robust evidence to support the findings.

## **7 Timetable**

7.1 A full response to this brief should be emailed to Dominic Curran (dominic.curran@london.gov.uk) at the Greater London Authority's City Hall by no later than midday on 15 November 2016.

- 7.2 Short-listed consultants will be invited to attend an interview on 24 November 2016. Respondents will be expected to give a short presentation, of no more than 20 minutes, showing how they would interpret the brief and add value to it.
- 7.3 Upon award of contract, the GLA will hold an inception meeting as soon as practicable and finalise the brief and other details of the project, including the timetable.
- 7.4 An indicative timetable is set out below:
- Stage 1 – Tenders submitted by: 15 November 2016
  - Stage 2 – Interviews: 24 November 2016
  - Stage 3 – Successful consultant appointed: 28 November 2016
  - Stage 4 – Inception meeting: project brief refined and agreed: 30 Nov 2016
  - Stage 5 – Interim report presented to the GLA: Dec 2016/Jan 2017
  - Stage 5 – Complete draft final report: March/April 2017
  - Stage 6 – Sign off of final report: March/April 2017
- 7.5 This timetable will be refined at the inception meeting and will be subject to the timetables of associated internal GLA processes. Bidders should hold the dates above in their diaries should they be selected for interview / awarded the brief.

## **8 Proposal submission requirements**

- 8.1 The submission, which should be no longer than 12 pages, must include the following:
- A proposal of your approach to the work to be undertaken, in particular the methods you propose to use to meet the aims of the review and any value added proposals;
  - A detailed project plan, identifying the elements of work, the number of days to be worked on each element and the key milestones, as well as:
    - The names, experience and grades of all the consultants who will work on the project, their individual responsibilities, their daily rate and a single named lead contact;
    - A completed pricing schedule setting out daily rates for each person involved in the project, the elements of the research each of them will work on and for how many days, and the total cost per work element. Staff costs, expenses and VAT should all be shown separately;
    - A proposed payment schedule setting out the stages of the project and the value attached to each stage. Note that before any payment is made the project manager will need to have signed off the project stage;
  - Evidence of:
    - an understanding of the aims and requirements of the research;
    - a track record of relevant previous experience of this kind of research and analysing evidence relevant to this work, and making well-argued and practicable recommendations;
    - experience of producing written reports of publishable standard; and
    - up-to-date knowledge of policy and housing issues in relation to delivering housing development and organisational capacity.



## 9 Budget

- 9.1 The GLA is seeking proposals up to and around the value of £40,000 excluding VAT. Bids with a higher value than this may be accepted but they should offer a detachable demonstrated added value over and above the core research aims and outputs detailed in this brief. The GLA reserves the right to reject bids that are above this value, so bidders should give options in their bids accordingly.

## 10 Selection criteria

- 10.1 As soon as possible following the deadline, the GLA will evaluate all written responses. The evaluation will be based on the entire submission. Specific attention, in no particular order, will be paid to the following:
- Your knowledge and understanding of the project area;
  - Demonstrable experience and track record of carrying out similar project(s) working with multiple stakeholders;
  - Identification of suitably qualified and experienced personnel who will be responsible for the delivery of the project (where sub-contractors are proposed details of their relevant experience should be provided);
  - Feasibility and efficiency of the methods/output proposed and suitability of the timetable and ability to meet it;
  - Value for money (competitive but realistic price for the task to be undertaken).
- 10.2 Responses will be rejected if they do not meet the budget requirements set out in 9.1.
- 10.3 You should address each of these in your proposal. All the criteria are considered important. Please note the weightings to be used in assessment.

<b>Requirement</b>	<b>Weighting</b>
Understanding the scope of service required	<b>20%</b>
Demonstrable experience and track record of carrying out similar project(s) working with multiple stakeholders and in the field	<b>30%</b>
Feasibility and efficiency of the methods/output proposed and suitability of the timetable and ability to meet it	<b>30%</b>
Value for money	<b>20%</b>

## 11 Project management

- 11.1 The Project Sponsor is the Executive Director for Housing and Land and the project will be managed on a day to day basis by Dominic Curran, Senior Housing Policy Officer. There will be at least four meetings with the appointed consultants at project inception, presentation of interim findings, draft final report, and final report stages.

- 11.2 In addition to these meetings, it is expected that the appointed consultants will maintain regular contact with the project manager, including through at least weekly telephone conversations/meetings as appropriate.
- 11.3 The research is being commissioned and managed by the GLA. It is expected that it will form the evidence base for the development of policy with regard to overseas buyers. This is likely to be considered by a Homes for Londoners (HfL) sub-group on overseas buyers. The interim and final research will therefore be presented to the HfL sub-group at relevant meeting dates in order for them to take it into account when making policy recommendations to the Mayor. Consultants should assume that they will be asked to present their findings to a group of stakeholders at least twice, and this should be included in the costs and project plan.

## **12 Announcement**

- 12.1 On receipt of a satisfactory proposal, the successful organisation will be contracted using the GLA's standard purchase order terms and conditions, which are non-negotiable.
- 12.2 The successful organisation shall not sub-contract any part of the work without the previous consent in writing of the Project Manager at the GLA. The GLA reserves the right to view sub-contracts before consenting to them being let.
- 12.3 The GLA reserves the right to pay for work on the basis that it is satisfactorily completed.
- 12.4 The tender submission must describe your approach to safeguarding confidential information including any policies/procedures for handling sensitive documents and for protecting sensitive computer files from unauthorised access. Results and data from the work should not be made public without the prior written consent of the Mayor's office. The GLA will own the intellectual property rights for this research and resulting report.

## **Contact**

Enquiries about any aspect of this project should be addressed to:

Dominic Curran  
Senior Policy Officer  
Housing and Land Directorate  
Greater London Authority  
City Hall  
The Queen's Walk  
London SE1 2AA  
E-mail: [dominic.curran@london.gov.uk](mailto:dominic.curran@london.gov.uk)  
Telephone: 020 7983 4382