

Impact case study (REF3)

| | | |
|--|----------------------------------|--|
| Institution: King's College London | | |
| Unit of Assessment: 17 Business and Management Studies | | |
| Title of case study: Influencing Housing Policy: Addressing the Effects of Foreign Investment on UK House Prices and Home Ownership | | |
| Period when the underpinning research was undertaken: 2013 – 2019 | | |
| Details of staff conducting the underpinning research from the submitting unit: | | |
| Name(s): | Role(s) (e.g. job title): | Period(s) employed by submitting HEI: |
| Dr Filipa Sá | Senior Lecturer | From 01/06/2013 |
| Period when the claimed impact occurred: Jan 2018 – July 2020 | | |
| Is this case study continued from a case study submitted in 2014? N | | |
| 1. Summary of the impact | | |
| <p>Average house prices in England and Wales have tripled in the last two decades, causing affordability problems and homelessness, and raising questions about the likely causes. Research at King's Business School led by Dr Filipa Sá investigated the effect of inflows of foreign capital on house prices. The findings showed that foreign investment considerably inflates house prices and reduces home ownership. These findings were the catalyst for the introduction by the UK government of a 2% stamp duty surcharge on non-UK resident home buyers; the revenue generated is to be used to tackle rough sleeping.</p> | | |
| 2. Underpinning research | | |
| <p>House prices in the UK have increased significantly since the late 1990s, with average house prices in England and Wales almost tripling from just over GBP70,000 in 1999 to about GBP230,000 in 2020. Research conducted at King's Business School has explored the factors that underlie this upward trend in house prices.</p> <p>While a great deal is known about how supply constraints raise house prices – namely, that limited housing stock due to lack of available land for construction and regulatory constraints, such as planning delays and restrictions, contribute to house price inflation – little is known about demand factors such as foreign capital investment on house prices.</p> <p>Government policies in several countries and cities around the world have begun to restrict the impact of foreign ownership on house price appreciation (eg Australia, Switzerland, Vancouver). As such, it is essential for research to understand the specific circumstances of the country when examining policies. Guided by expertise on UK policy and housing market characteristics, King's research has made important contributions to the understanding of the effects of foreign capital investment on house prices.</p> <p>Foreign capital investment</p> <p>King's research analysed 2016 Land Registry data for England and Wales using an innovative statistical model that accounts for heterogeneous price effects across the distribution of house prices and incorporates additional variables (including the shares of vacant homes and home ownership). This analysis found that foreign investment increases house prices and reduces the rate of home ownership [1].</p> <p>The research identified, for the first time, effects at a local level, with findings discerning, for example, a pattern of Chinese investment in the city of Salford. At the aggregate level, it showed that foreign investment not only raises the prices of the most expensive houses but, surprisingly, also has a ripple effect on all house prices further down the distribution of housing stock. Moreover, by analysing the relationship between the level of foreign investment and the volume of housing stock, the research debunks the idea that foreign capital investment encourages construction of new housing.</p> | | |

King's research has also analysed more aggregated data for the United States and for a sample of OECD countries to estimate the effect of foreign capital investment on housing activity in other countries [2]. King's research shows that, for example, in the United States, growth in foreign capital investment (driven by a glut of savings in oil exporting and emerging Asian economies) had a larger effect on house prices than monetary policy holding interest rates at a relatively low level [2]. These findings have important consequences for macroeconomic policy efforts to prevent a repeat of the financial crisis of 2008 which began with a boom in the housing market in the United States.

This single-country analysis of the United States was extended to a panel of OECD countries [3] in order to better understand the heterogeneous country context of mortgage markets and the degree of securitization across countries. It found that house prices increase more strongly in response to foreign capital investment in countries with more developed mortgage markets (including the UK) and in countries where securitization is allowed.

3. References to the research

Reference [1] is part of a peer-reviewed Centre for Macro Economics Discussion Paper series that publishes high-quality research in macroeconomics for impact and visibility in research and policy communities. References [2] and [3] are published in leading journals and were subject to rigorous peer review.

- [1] Sá, F. (2016). The Effect of Foreign Investors on Local Housing Markets: Evidence from the UK. *CEPR Discussion Paper*, DP11658.
- [2] Sá, F., & Wieladek, T. (2015). Capital Inflows and the US Housing Boom, *Journal of Money, Credit and Banking*, 47(S1), 221–256. DOI: 10.1111/jmcb.12200
- [3] Sá, F., Towbin, P., & Wieladek, T. (2014). Capital Inflows, Financial Structure, and Housing Booms. *Journal of the European Economic Association*, 12(2), 522–546. DOI: 10.1111/jeea.12047

4. Details of the impact

House prices in England and Wales have increased rapidly in the last two decades at considerable cost to society, reducing affordability and leading to homelessness. Research at King's Business School has shown that foreign investment has been a major contributing factor to this increase.

Dr Filipa Sá disseminated these research findings through a variety of routes to ensure a wider public understanding of the issues involved. For example, on 15 May 2018 she was interviewed on her research [1] by VoxEU, a portal connecting research-based policy analysis to the wider public [A]. This sparked media attention and Sá was invited to give an interview in April 2018 with BBC Radio 4 [B] to discuss how foreign investment has increased house prices and reduced home ownership, and the potential policy implications of her research – specifically the need to relax constraints on housing supply. Consequently, the research was also reported by other national news outlets and cited by journalists when covering the policy discussions around a stamp duty surcharge for foreign investment [C].

The findings of [3] were also cited by the president and chief executive officer of the Federal Reserve Bank of San Francisco in an article about measuring the effect of monetary policy on house prices, widely circulated in their August 2015 Economic Newsletter [D].

Influencing the introduction of a stamp duty surcharge on foreign investment in the UK

As demonstrated by King's research [1], foreign investment increases house prices and reduces homeownership rates. To address this issue, in its Budget of October 2018, the UK government announced the introduction of a Stamp Duty Land Tax surcharge on non-UK residents purchasing residential property in England and Northern Ireland. The Spring Budget 2020 confirmed that the surcharge rate would be 2% and would come into effect from 1 April 2021 [E]. It also confirmed that “*money raised from a 2% non-UK resident Stamp Duty Land Tax surcharge will be used to help fund policies to reduce rough sleeping in England*” [E, p54]. The government believed that introducing the surcharge “*will help to control house price inflation, thereby assisting residents in*

getting onto the housing ladder in line with the government's wider objectives on homeownership." [F, p2].

The surcharge was first announced by then Prime Minister Theresa May at the Conservative Party conference on 29 September 2018, where she stated: *"Last year I made it my personal mission to fix another broken market: housing. We cannot make the case for capitalism if ordinary working people have no chance of owning capital. To put the dream of home ownership back within their reach, we scrapped stamp duty for most first-time buyers... and this week we have announced that we will charge a higher rate of stamp duty on those buying homes who do not live and pay taxes in the UK, to help level the playing field for British buyers. The money raised will go towards tackling the scourge of rough sleeping"* [G].

Speaking on the Andrew Marr show on 30 September 2018, Theresa May emphasised the impact of King's research explicitly, stating *"we're very concerned about the impact that actually foreign buyers have on the housing market and the impact they have on people who are living here who are trying to get onto the housing market. Because the evidence is, and this isn't from government, King's College London, for example, show that foreign buyers coming in actually push house prices up and lowers home ownership here in the UK. I want to ensure that people here in the UK are able to own their own homes. And the money we raise from this extra stamp duty on foreign buyers, people who are non-tax resident in the UK, is going to be spent on dealing with the issue of rough sleeping"* [H].

The government published a consultation in January 2019 on a surcharge of 2% for non-residents buying residential property in England and Northern Ireland [F]. This proposed surcharge went through a public consultation phase (11 February to 6 May 2019) and received 78 written responses from developers, estate agents, individuals and other organisations. The government also held 13 meetings with a variety of stakeholders to better understand their views on the proposed surcharge. The results of the consultation demonstrated that overall respondents welcomed the government's underlying policy objective of supporting home ownership, with a number believing that the surcharge would support this objective [I].

The culmination of these consultations came before the November 2019 general election, where the surcharge was mentioned in the Conservative Party's election manifesto [J]. Underpinning the desire to 'unleash Britain's potential', King's research [1] was again used in an official party press release to corroborate the argument that *"by adding significant amounts of demand to limited supply, there is evidence that non-resident purchases inflate house prices"* [K]. In particular, to support the introduction of the surcharge, the press release stated that *"a study by Kings College London estimated that a one percentage point rise in the volume share of residential transactions registered to overseas companies leads to an increase of about 2.1 per cent in house prices, and lowers the overall homeownership rate"* [K].

As such, King's research had clear impact in shaping the introduction of a new tax that is expected to benefit the UK population by reducing house price inflation, promoting home ownership and raising revenue to reduce rough sleeping.

5. Sources to corroborate the impact

[A] Sá, F. (2017). *The effect of foreign investors on local housing markets: Evidence from the UK*. Article for VoxEU, 4 January 2017, and subsequent interview for VoxEU, *Foreign buyers and increasing house prices*, 15 May 2018. Retrieved from: <https://voxeu.org/content/foreign-buyers-and-increasing-house-prices>

[B] Interview for the BBC Radio 4 You and Yours programme, *Self-checkouts, Leasehold regulator, Protein powder*, 4 April 2018. Retrieved from <https://www.bbc.co.uk/programmes/b09xcshj> (the relevant section starts at 18:00).

[C] Report of the media coverage of Sá's research, which includes coverage in: The Guardian, 25 Jan 2016; the Times, 26 March 2018; The Independent, 29 September 2018; Telegraph, 29 Sept 2018; Reuters, 29 Sept 2018; the BBC, 22 Nov 2019.

- [D] Williams, J. C. (2015). *Measuring Monetary Policy's Effect on House Prices*. Federal Reserve Bank of San Francisco, Economic Letter, 31 August 2015.
- [E] HM Treasury (2020). *Budget 2020: Delivering on our Promises to the British People*. 11 March 2020.
- [F] HM Treasury (2019). *Stamp Duty Land Tax surcharge: non-UK resident surcharge consultation*.
- [G] Transcript of Theresa May's speech at the 2018 Conservative Party Conference, 03 October 2018.
- [H] Interview with Theresa May on the Andrew Marr Show, 30 September 2018. Retrieved from: <https://www.bbc.co.uk/programmes/p06mkn51> (research is cited at 21:34).
- [I] HM Treasury (2020). *Non-UK resident Stamp Duty Land Tax surcharge: Summary of responses*.
- [J] Conservative Party (2019). *Conservative Party 2019 election manifesto*.
- [K] Conservative Party (2019). *Stamp Duty Land Tax surcharge for non-UK residents to make housing fairer*. 22 November 2019.