

# MAYOR OF LONDON

**Rt Hon Philip Hammond MP**

Chancellor of the Exchequer  
HM Treasury  
Horse Guards Road  
London SW1A 2HQ

Date: 30 APR 2019

Dear Philip,

As we do all we can to help tackle London's housing crisis, it is unacceptable that homes in the capital are bought for the purposes of investment, status, and convenience, rather than as places for people to live.

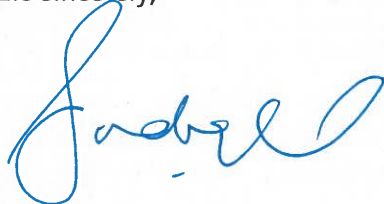
I therefore welcomed the Prime Minister's announcement last year that a surcharge would be introduced to disincentivise this kind of activity, and that the proceeds would be set aside to tackle homelessness. I and many others in London have long argued for this kind of action.

However, the proposals set out in the consultation document fall far short of what is needed. At one per cent, the proposed surcharge is likely to be too low to have any meaningful impact on London house prices. Based on current average house prices in London this would equal £4,722 – a small fraction of the average house price increase in the capital of nearly £220,000 seen over the last decade.

I was also concerned that the Prime Minister's commitment to set aside proceeds to tackle homelessness appears to have been watered-down. Furthermore, I was disappointed that the scope of the proposals does not cover reform of the dysfunctional Council Tax premium, nor alternative options, such as devolution of this and other property taxes.

In short, this is a missed opportunity for the Government to demonstrate to Londoners that it is willing to take bold action to tackle the housing crisis. My detailed comments are contained in the attached document. Please ask your team to contact Deborah Halling, by email at [Deborah.halling@london.gov.uk](mailto:Deborah.halling@london.gov.uk), if they would like to discuss this further.

Yours sincerely,



**Sadiq Khan**  
Mayor of London

Att.

Cc: Rt Hon Nick Hurd MP, Minister for London  
Gavin Barwell, Chief of Staff, 10 Downing Street

## Greater London Authority (GLA) response to the Government's consultation on Stamp Duty Land Tax: non-UK resident surcharge

### Introduction

1. The Mayor believes those not resident in the UK should be deterred from buying homes here primarily for investment, status, and convenience, rather than as places to live.
2. First, as the consultation document recognises, the additional demand created by overseas buyers is contributing to the house price inflation that has made home ownership inaccessible to most ordinary Londoners. In 2016, Dr Filipa Sa, a Senior Economist at Kings College London, carried out work that concluded overseas investment in homes in the UK reduces home ownership among UK nationals and contributes to house price inflation across the spectrum of properties, not just for the highest value homes. Specifically, Sa found that with no foreign investment in the housing market in England and Wales between 2000 and 2014, 2016 house prices would have been 19 per cent lower than was the case<sup>1</sup>.
3. Second, ground-breaking research by the LSE, commissioned by the GLA, demonstrated that overseas buyers account for 13 per cent of all new build property sales in London, and that about 30 per cent of these (four per cent of all purchases) are potentially not regularly occupied, but rather used for part of the time – for example, by students, or for occasional business or leisure use, or left entirely empty<sup>2</sup>. Accompanying research by the University of York used an innovative methodology to conclude that higher rates of vacancy are found in prime London locations, amongst expensive homes (particularly those worth more than £5 million), and homes bought by overseas buyers<sup>3</sup>.
4. Third, research by Transparency International suggests that property in the UK, especially in London, can attract investment from corrupt individuals. For example, its 2017 analysis assessed that property in London with a value of over £4.2 billion had been bought with suspicious wealth, with a particular risk of money laundering attached<sup>4</sup>.
5. Given the above, it is unsurprising that survey data consistently shows that the impacts of overseas buyers purchasing homes in the capital is of real concern to Londoners. For example, in a 2014 poll, 60 per cent of Londoners supported a proposal to 'make it more difficult for foreign investors to buy London property'<sup>5</sup>. In 2017, a poll commissioned by the GLA asked Londoners which interventions they would support to increase housing supply; the most popular was to restrict the purchase of all new homes worth up to £350,000 to Londoners first ahead of overseas buyers<sup>6</sup>. In 2018, a further poll found that 51 per cent of Londoners would support an outright ban on non-residents buying property here<sup>7</sup>.

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<sup>1</sup> Filipa Sa, Centre for Macro Economics. 'The Effect of Foreign Investors on Local Housing Markets: Evidence from the UK'. 22 November 2016.

<sup>2</sup> Kath Scanlon, Christine Whitehead and Fanny Blanc, LSE. 'The role of overseas investors in the London new-build residential market'. May 2017.

<sup>3</sup> Alison Wallace, David Rhodes and Richard Webber, Centre for Housing Policy, University of York. 'Overseas Investors in London's New Build Housing Market'. June 2017.

<sup>4</sup> Transparency International. 'Faulty Towers: Understanding the impact of overseas corruption on the London property market'. March 2017.

<sup>5</sup> YouGov Survey Results. Sample size: 1209 London adults (aged 18+). Fieldwork: 7th - 9th April 2014.

<sup>6</sup> YouGov/GLA poll results. Available on the London Datastore at <https://data.london.gov.uk/gla-poll-results/2017-2/>

<sup>7</sup> YouGov poll results. Available at: <https://yougov.co.uk/opi/surveys/results#/survey/fd7345f2-a200-11e8-ac95-17ce72ba7029/question/242df9e4-a201-11e8-b125-575094b262be/region>

## Comments on the proposals

6. The Mayor considers that this specific proposal to levy additional Stamp Duty Land Tax (SDLT) on top of existing rates on non-resident buyers is a welcome step in the right direction but ultimately insufficient. The detail of his concerns are set out below, and they relate to: the need for the surcharge to be big enough to be effective; the need for proceeds raised from it in London to be ringfenced to the capital; and the need for it to be supported by other complementary policies. The Mayor believes that the best way to resolve these is to devolve control of property taxes to London.

### *Size of the surcharge*

7. It is unclear from the consultation document whether the Government has modelled the impact that a surcharge of one per cent will have on overseas buyers. The proposal therefore lacks evidence as to what impact the surcharge would have on the behaviour of overseas buyers and, consequently, on house price inflation.
8. In the absence of any such evidence, the Mayor is concerned that, much like the Council Tax premiums that local authorities are able to charge for empty homes, an additional charge of one per cent may be insufficient to deter non-resident buyers from buying homes in the capital that will not be used as places to live. One per cent of the current average price of a home in London would amount to £4,722<sup>8</sup>. This amounts to just over two per cent of the £219,137 uplift in the average price of a home in London seen over the course of the previous decade. Taxation at this level is therefore unlikely to erode the attractiveness of investing in London's housing market.
9. Other international cities that have grappled with the negative impacts of overseas investment in their housing markets charge far higher amounts, for example: Vancouver charges foreign buyers an additional 20 per cent of the purchase price of a home; Singapore a further 20 per cent stamp duty (up from ten per cent in 2013) on top on its standard rate of 12 per cent; and Hong Kong has additional stamp duties of at least double the basic rate and more for higher value properties.

### *Proceeds from the surcharge*

10. When the Prime Minister announced the surcharge, she confirmed that the proceeds would be used to help address homelessness. The Mayor agrees with this principle. However, given that it is in the capital that the negative impacts of non-resident buyers is most acutely felt, and where homelessness is at its most acute, the Mayor believes that the portion of proceeds that result from the sale of properties in London must be ringfenced to the GLA.

### *Relationship with other Government policies*

11. For the surcharge to help deliver the results the Government intends, it must be part of a wider package of interventions. This is especially important given the very modest levels of surcharge proposed, and the Mayor is keen to explore with the Government what complementary measures might be effective.

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<sup>8</sup> Office of National Statistics. UK House Price Index. January 2019.



12. As part of this the Mayor believes the Government must reconsider the Council Tax regime that currently makes it far too easy for homeowners, resident or not, to leave their properties empty. Within the current rules homeowners can avoid becoming liable for Council Tax premiums by keeping unoccupied homes fully or partially-furnished, so that they will not be classified as empty in the long term.
13. Even where homes are unoccupied and unfurnished, the very low fines typically imposed in cases of Council Tax fraud means there is no meaningful deterrent to ensure those with empty or second homes will declare them. Identifying such homes will therefore rely on investigation by local authorities, whose efforts are hampered by limited resources and powers to investigate suspected empty properties.
14. As well as generally increasing the resources available to councils, the Government should take steps that include: ensuring there is specific mention of Council Tax in sentencing guidelines for fraud, bribery, and money laundering; setting clear guidelines for fines in cases of Council Tax fraud; and issuing more stringent and effective guidance around how local authorities classify properties as empty for the purposes of calculating Council Tax.
15. As the Mayor set out in a letter to the Government in September 2017, he also believes councils should be able to charge this levy at whatever rate they feel necessary to incentivise occupation, or at the very least generate a more substantial receipt that could support other measures to tackle the housing crisis. At the moment, he believes the limits on how far this levy can be raised prevent it from being effective.
16. For example, properties in the City of Westminster are allocated one of eight council tax bands according to the capital value of the property as at 1 April 1991. A property in Band E would pay £529 in council tax, and only be subject to a 50 per cent premium if it were empty for two years or more. Given the median house price in Westminster is £1,050,000, the 50 per cent premium would amount to paying just 0.03 per cent of the property value each year.
17. Finally, the period of two years that the Local Government Finance Act 2012 specifies must elapse before English local authorities may levy a Council Tax premium is excessively long given the scale of the housing crisis in London. The Mayor believes that it should be reduced to six months to align with the proposals for the SDLT surcharge.

*Other comments on the surcharge*

18. The Mayor welcomes the Government linking liability for the surcharge to residence, rather than nationality or immigration status. He also supports the proposed provision for those who reside in the UK after buying a home here to receive a refund. These views reflect the Mayor's position that London must remain open to the vital contribution of non-UK nationals. However, the Mayor does not think that the period of residence required to be exempt from the surcharge should be reduced below six months.
19. The Mayor welcomes the Government's detailed consideration of how the surcharge should apply to companies, trusts and partnerships. However, he is aware that some of the non-residents buying homes in London will have ready access to highly skilled accountants and tax lawyers and that the introduction of any new tax measure is likely to prompt a period of scrutiny, in which these professionals seek to identify loopholes. The Mayor therefore recommends that, if their proposals for a surcharge on SDLT are implemented, the

Government keep arrangements under close review, with a view to swiftly remedying any loopholes that become apparent.

*Devolution to the Mayor*

20. The Mayor has long argued the power to design and raise Stamp Duty and other property taxes should be devolved to London – as recommended by the London Finance Commission<sup>9</sup>. This would enable the capital to levy property taxes that strike a balance between ongoing taxation of dwellings and transactions at rates that better reflect the wide range of property values without hampering the mobility that is essential to its housing market. It would enable the Mayor to support the Government's aim of using the property tax system to disincentivise non-resident purchases of London's homes.

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<sup>9</sup> London Finance Commission. 'Devolution: a capital idea: the report of the London Finance Commission'. January 2017.