

Methodological improvements to UK foreign property investment statistics

Deborah Aspden
Office for National Statistics

This article presents new methodology to measure ownership of foreign property by UK households. It is based on the Office of the Deputy Prime Minister's (ODPM) Survey of English Housing (SEH). The new methodology estimates the value of foreign property ownership in 2003/04 to be just above £23 billion – more than double the estimate for 1999/00. Investment is highest in Europe, with Spain and France being the preferred locations for investment.

Introduction

There has been growing public and media interest in obtaining reliable estimates of ownership of foreign property by UK households, as increased affordability and accessibility of foreign property markets have led to anecdotal reports of growing levels of ownership. International guidelines classify property investment abroad as Foreign Direct Investment (FDI), and private ownership is recognised as an element of this investment (BPM5, para. 382). However, the difficulty of obtaining data has prevented most countries from producing reliable estimates of the scale and location of this type of investment.

Investment in foreign property is currently measured separately for the corporate and household sectors. Corporate investment in foreign property is based on Office for National Statistics (ONS) survey data, whereas household investment is largely comprised of notional estimates. The most recent published data for 2003 shows household investment totalling £0.8 billion, within total outward property investment of £2.2 billion.

This article introduces new methodology to estimate foreign property investment by UK household residents. The methodology is based upon data collected by the Office of the Deputy Prime Minister's (ODPM) *Survey of English Housing* (SEH). The SEH provides data on the number of English households that own a second home outside Great Britain (GB). These data are converted to represent the whole of the UK and average dwelling prices are applied to estimate the level of foreign property investment. The investment transactions of foreign property are derived from this. Lastly, investment income (rental) estimates are calculated by applying rates of return to the level of foreign property investment.

Level of UK household investment in foreign property

Number and location of second homes abroad

The level of foreign property investment by UK household residents is based upon data collected by the ODPM's SEH. The SEH was launched in 1993 by the then Department of the Environment, with fieldwork and data validation contracted out to the Social Survey Division of ONS. In 1999 responsibility for fieldwork passed to the National Centre for Social Research. The survey is now the responsibility of the ODPM. The SEH is a financial year-based survey that collects information on English households, their housing and their attitudes to housing, via face-to-face

interviews. More than 20,000 households in England are interviewed each year to form a nationally representative set of estimates (ODPM). Questions concerning second home ownership were introduced in the 1994/95 survey. The SEH asks whether households have a second home, whether the second home is located in Great Britain or elsewhere and what the tenure is (rented, owner occupied, timeshare, or otherwise). From 2003/04, the SEH provided a geographical breakdown of where foreign second homes are located. Second homes were categorised into Spain, France, Portugal, Italy, other European countries, USA and other non-European countries. This article uses time series data of the total number of second homes from the 1994/95 to 2003/04 SEH. A time series of the geographical breakdown has been estimated by applying the same geographical proportions identified in the 2003/04 SEH to the earlier totals (see Table 1).

The number of *properties* that are owned abroad is assumed to equal the number of *households* that own property abroad. If a household owns more than one property abroad, the SEH only records the main property. Moreover, this methodology does not attempt to measure the value of properties owned by several households (that is, timeshare accommodation).

The SEH data provides a preliminary measure of the stock or level of foreign property investment, but it needs adjustment to meet Balance of Payments (BoP) definitions. UK BoP records economic transactions that occur between the UK and the rest of the world, while the SEH records the number of English households that own second homes outside GB (GB constitutes England, Wales and Scotland). The SEH data need to be adjusted to produce the number of UK households that own property outside the UK (UK constitutes England, Wales, Scotland and Northern Ireland).

The adjustment occurs in two phases. The first phase limits the location of second homes to those outside of the UK by subtracting the number of English households that own a second home in Northern Ireland. The second phase

broadens the number of households that own a second home to include the entire UK by adding the Scottish, Welsh and Northern Irish households that own second homes abroad.

Adjustment for English households that own a second home in Northern Ireland

The number of English households that own a second home in Northern Ireland is estimated with Census 2001 figures regarding the number of Northern Irish nationals living in England and the average household size of GB (see Table 2). As of the 2005/06 SEH, this adjustment will no longer be necessary, as the scope of foreign second home ownership will be limited to those outside of the UK.

Adjustment for households in Scotland, Wales and Northern Ireland that own property outside the UK

The estimate of the number of households in Scotland, Wales and Northern Ireland that own property abroad is based on the proportion of English households that own property abroad. The proportion is reduced to reflect lower household disposable income (ONS, 2005) and access to foreign holiday locations in Scotland, Wales and Northern Ireland compared to England.

The SEH provides a regional breakdown of English households that own second homes. An alternative method that uses the regional breakdown of second home ownership along with information on household disposable income will be explored further in the future to refine this methodology.

Figure 1 illustrates the two adjustments made to the original SEH data in order to meet BoP requirements. The centre line is the unadjusted SEH data. The line below shows the effect of excluding homes located in Northern Ireland. The top line is the final measure, broadening the range to capture foreign property ownership by all UK households. From 1999/00 to 2003/04 the number of UK households that own foreign property increased by almost 50 per cent to approximately 256,000 households.

Table 1
Location of second homes outside Great Britain

	Total	Spain	France	Portugal	Italy	Other European country	Total Europe	USA	Other non-European	Total non-European
1994/95	104,000	27,913	21,160	1,801	1,351	15,758	67,983	6,303	29,714	36,017
1995/96	137,000	36,771	27,874	2,372	1,779	20,758	89,554	8,303	39,143	47,446
1996/97	154,000	41,333	31,333	2,667	2,000	23,333	100,667	9,333	44,000	53,333
1997/98	141,000	37,844	28,688	2,442	1,831	21,364	92,169	8,545	40,286	48,831
1998/99	148,000	39,723	30,113	2,563	1,922	22,424	96,745	8,970	42,286	51,255
1999/00	156,000	41,870	31,740	2,701	2,026	23,636	101,974	9,455	44,571	54,026
2000/01	165,000	44,286	33,571	2,857	2,143	25,000	107,857	10,000	47,143	57,143
2001/02	185,000	49,654	37,641	3,203	2,403	28,030	120,931	11,212	52,857	64,069
2002/03	193,000	51,801	39,268	3,342	2,506	29,242	126,160	11,697	55,143	66,840
2003/04	231,000	62,000	47,000	4,000	3,000	35,000	151,000	14,000	66,000	80,000
Total (per cent)	100	27	20	2	1	15	65	6	29	35

Note: Bold values are in proportion to 2002/03 totals. Totals may not equal the sum due to rounding.

Source: Survey of English Housing (SEH), ODPM

Table 2
English household ownership of second homes in Northern Ireland

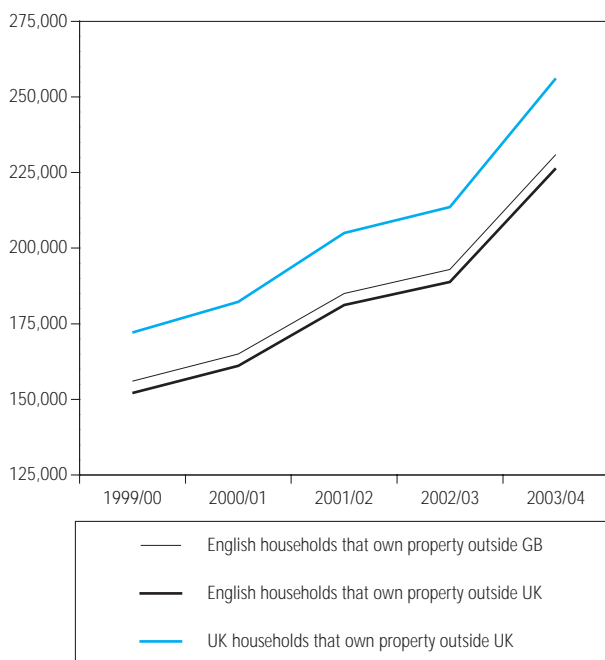
	Number of people born in Northern Ireland aged 16 or older living in England†	Average household size (Great Britain)†	Number of Northern Irish households living in England	Proportion of English household that own a second home*	Number of English households that own a second home in Northern Ireland
2003/04	206,624	2.33	88,680	0.0515	4,570

† Based on 2001 Census figures

* Total number of English homes that own second homes (SEH) divided by total number of English households (2001 Census)

Figure 1
Adjusted number of households that own a second home abroad

Number of households



Average prices of second homes abroad

The value of foreign property investment is derived by applying average dwelling prices to the number of second homes owned abroad by UK households. Official average dwelling prices are used as a proxy for prices of holiday homes abroad. The overseas property markets have been split into Europe and non-Europe. European countries identified in the 2003/04 SEH were Spain, France, Portugal, Italy and other European countries. Spain and France combined, contributed more than 70 per cent of European property investment by English households (see Table 1). The average dwelling prices of Spain and France, derived from data published in the annual publication *Housing Statistics in the European Union*, have been combined to provide an average European dwelling price. This figure was then converted from euros to £ sterling using end-period exchange rates. This £ sterling price was then applied to the number of second homes in each country, to arrive at an estimate of investment in Europe.

The two non-European regions identified in the SEH were the USA and other non-European countries. Separate average dwelling prices have been applied to the USA and other non-European countries. The US Federal Housing Finance Board’s Monthly Interest Rate Survey publishes an average US dwelling price estimate. This US\$ dollar price was converted to £ sterling using end-period exchange rates and multiplied by the number of homes to produce a value for properties located in the US. Property ownership outside of Europe is likely to take place in countries such as Australia, Canada, Caribbean islands, India, New Zealand, Pakistan, South Africa, Sri Lanka, but no individual country data is available at this stage. In the 2004/05 SEH, a broader range of countries will be identified which will allow us to refine our estimate of average dwelling prices. Until then an estimated value of £40,000 has been used that takes into account the expected locations of second homes in terms of average dwelling prices as well as currencies.

Figure 2 shows that since 1994/95 total ownership of foreign property by UK households has increased by around £16 billion to just over £23 billion in 2003/04. In the last five years the value of UK household property abroad doubled.

Figure 2
Total level of UK household investment in foreign property

£ billion

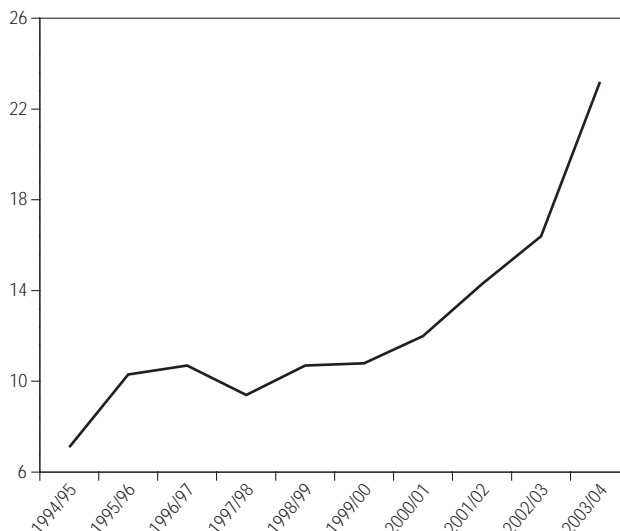
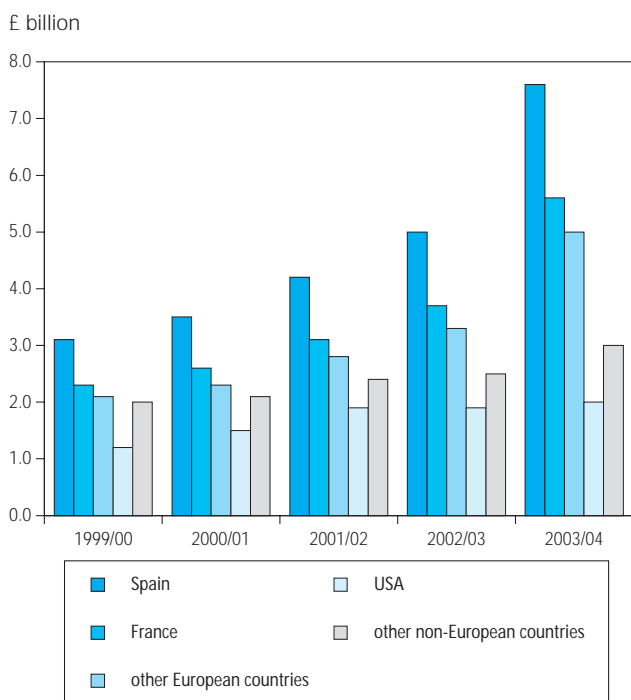


Figure 3 shows the geographical breakdown of foreign property investment by UK households. In 2003/04, European countries are shown to be the preferred location of second homes by UK households, contributing 79 per cent of total investment. Investment in Spain and France contributed almost £8 billion and £6 billion respectively towards total investment. Comparisons have been made with data available from counterpart countries in Europe. These show investment on a similar scale to the results published here.

Figure 3
Level of UK household foreign property investment



Transactions of UK household investment in foreign property

The flow of investment in foreign property has been derived from the change in the level of foreign property investment. The difference between the current and previous level is equal to the transactions (purchases less sales) and revaluation effects. Revaluation effects reflect changes in the market value of property resulting from movements in exchange rates and prices.

$$D = T + RE$$

$$T = D - RE$$

Where,

T = foreign property investment transactions

D = difference between the current and previous level

RE = revaluation effects

Revaluation effects are calculated by subtracting the original level estimates from the revalued estimates for the previous period.

$$RE = RVL_{n-1} - L_{n-1}$$

Where,

RVL_{n-1} = revalued level estimate for the previous period

L_{n-1} = original level estimate for the previous period

The revalued level estimate is calculated by applying the current average foreign dwelling price to the previous number of foreign property investments owned by UK households.

$$RVL_{n-1} = P \times N_{n-1}$$

Where,

P = average price of second homes abroad for the current period

N_{n-1} = number of UK households that own foreign property for the previous period

Figure 4 illustrates the method of calculating the transactions of UK household foreign property investment. Revaluation effects are removed from the change in level between the current and previous periods to derive the investment transactions. The increase in revaluation effects in 2003/04 is a reflection of significant price rises of dwellings abroad rather than exchange rates.

Figure 5 shows that in 2003/04 net acquisition for property abroad by UK households reached almost £4 billion.

Figure 4
Analysis of value of UK household investment in foreign property

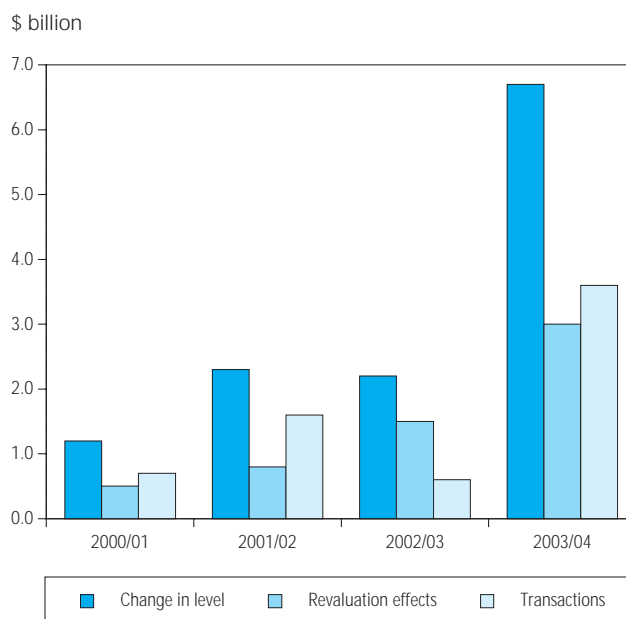
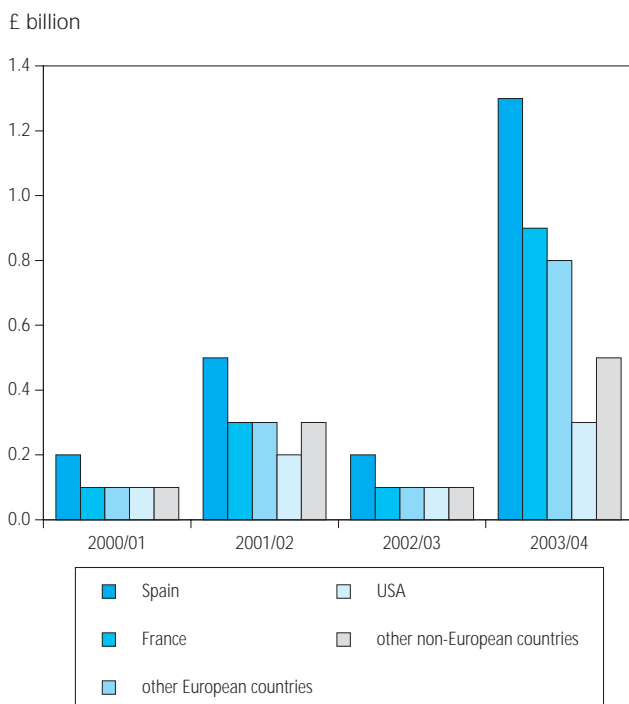


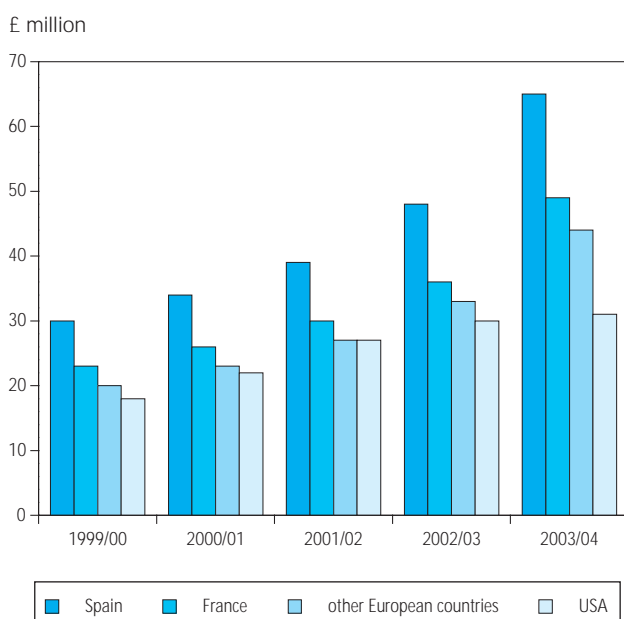
Figure 5
Transactions of UK household investment in foreign property



Income from investment in foreign property

Rental income from investment in foreign property has been derived by applying an income rate of return to the estimated level of foreign property owned by UK households. With the lack of other evidence we have made some broad assumptions relating to the level of income generated from foreign second homes. These have been based on an underlying assumption that the key motivations for households owning property abroad are private use and potential capital gain in the future, not for generating significant rental incomes.

Figure 6
Income from investment in foreign property



The methodology first assumes that rental income is primarily generated from the European and US property markets. It is further assumed that rental properties account for approximately half of the total number of foreign investment properties, and that those rental properties are likely to be rented out on average for no more than six months of the year. Income rates of return are based on published information for the Spanish and French residential markets (Investment Property Databank) and US residential property market (National Council of Real Estate Investment Fiduciaries).

As seen in Figure 6, in 2003/04 rental income from investment in foreign property totalled almost £190 million.

Future developments

The ODPM are introducing several changes to the SEH that will allow this methodology to be refined. As of the 2004/05 SEH, households that own several properties abroad will be taken into account. The methodology used to derive the level of foreign property investment will be assumed to reflect the number of foreign properties owned by English households. Also from 2005/06, the distinction between domestic and foreign second home ownership will be changed to an ex-UK rather than ex-GB basis, eliminating the need to adjust for properties located in Northern Ireland. In addition, a much broader geographical breakdown will be available, including key countries such as Canada, Australia, India, Pakistan and South Africa.

As the methodology is still a work in progress, implementation into the UK Balance of Payments and National Accounts has not yet been scheduled. Comments regarding the methodology proposed in this article are very much welcomed.

Acknowledgements

The author would like to thank Shuvro Bose and David Wall from the ODPM's SEH team for the supply of the survey data.

For further information concerning this article, please contact Simon Humphries on 020 7533 6075.

References

- International Centre for Research and Information on the Public and Cooperative Economy, University of Liège (2003). *Housing Statistics in the European Union 2002*. CIRIEC: Belgium.
- International Monetary Fund (1993). *Balance of Payments Manual 5th edition*. (BPM5). IMF: Washington.
- Investment Property Databank. Spanish and French residential income return rates.
- National Agency for Enterprise and Housing (2004). *Housing Statistics in the European Union 2003*. NAEH: Copenhagen.
- National Council of Real Estate Investment Fiduciaries. US residential income rates of return. Available at <http://www.ncreif.com/>

Office for National Statistics (2003). *Census 2001: Key Statistics for Local Authorities*. The Stationery Office: London.

Office for National Statistics (2004). *United Kingdom Balance of Payments - The Pink Book 2004*. The Stationery Office: London. Available at <http://www.statistics.gov.uk/statbase/product.asp?vlnk=1140>

Office for National Statistics (2005). Regional Economic Indicators. *Economic Trends* No. 615, pp 26–35. Available at http://www.statistics.gov.uk/downloads/theme_economy/REIFeb05.pdf

Office of the Deputy Prime Minister (ODPM). *Introduction to the Survey of English Housing (SEH)*. Available at http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_603478.hcsp

APPENDIX

Level of UK household foreign property investment

	1999/00	2000/01	2001/02	2002/03	2003/04
Number of second homes owned by UK households					
Spain	47,650	49,204	55,321	57,802	69,284
France	35,296	36,448	40,979	42,816	51,322
Portugal	3,530	3,645	4,098	4,282	5,132
Italy	1,765	1,822	2,049	2,141	2,566
other European country	26,472	27,336	30,734	32,112	38,491
Europe	114,713	118,455	133,181	139,153	166,796
USA	10,589	10,934	12,294	12,845	15,397
other non-Europe country	51,180	52,849	59,419	62,084	74,417
Non-Europe	61,768	63,783	71,713	74,928	89,813
Total	176,481	182,238	204,893	214,081	256,609

	Average dwelling price (£)				
Europe†	67,772	70,387	75,248	87,116	109,484
USA*	116,432	137,860	152,308	144,765	130,634
other non-Europe**	40,000	40,000	40,000	40,000	40,000

	Level of property investment by UK households (£ billion)				
Spain	3.2	3.5	4.2	5.0	7.6
France	2.4	2.6	3.1	3.7	5.6
Portugal	0.2	0.3	0.3	0.4	0.6
Italy	0.1	0.1	0.2	0.2	0.3
other European country	1.8	1.9	2.3	2.8	4.2
Europe	7.8	8.3	10.0	12.1	18.3
USA	1.2	1.5	1.9	1.9	2.0
Other non-Europe country	2.0	2.1	2.4	2.5	3.0
Non-Europe	3.3	3.6	4.2	4.3	5.0
Total	11.1	11.9	14.2	16.4	23.2

† Housing Statistics in the European Union 2002 and 2003, tables 2.1 and 4.6, average price of new dwellings is used

* Monthly Interest Rate Survey, US Federal Housing Finance Board

** Nominal average house price