

London housing bubble expands as plutocrats buy up top properties

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A Knightsbridge mansion overlooking Hyde Park in London is up for sale at an asking price of £300 million, far exceeding even the prices of trophy homes in New York.

In yet another sign that London has become an “investment” centre for the international financial elite, it will be the most expensive house sale in British history.

At nearly 800 times the price of the average London home of £388,000 and nearly 2,000 times the price of the UK average £160,250, both of which are far beyond the reach of most prospective homeowners today, the Hyde Park mansion will be offered “discretely” to international buyers.

For £300 million, you get floor space almost the size of a football pitch, 45 bedrooms, an industrial-size kitchen, swimming pool, gold leaf decoration, underground car park and bullet-proof windows.

The *Financial Times* gushed that the price, more than double the previous record of £140 million for 300-year-old home in Oxfordshire, “underlines the position of London’s property market as an asset class cocooned from economic realities”.

It is instructive to note who owns the property and is shielded from “economic realities”.

The mansion was the London home, presumably one of many around the world, of the former Lebanese prime minister Rafiq Hariri, who was assassinated in 2005. Hariri, who had made his money in the construction industry in Saudi Arabia and established close relations with the ruling House of Saud, had by the mid-1980s become one of the world richest businessmen.

The building, originally four separate homes, was bought in 1982 by the Yunak Corporation, registered in the then tax haven of Curacao in the Dutch Antilles and run by Hariri.

The Saudi ruling family installed Hariri as Lebanon’s prime minister in 1992. His construction company,

Solidere, played the key role in rebuilding war-damaged Beirut, enriching him and those around him, and becoming a byword for corruption.

By the time of his assassination in 2005, Hariri was according to *Forbes* the fourth richest politician in the world, “worth” \$4.3 billion, up from \$1 billion in 1992. Lebanon itself was saddled with \$38.5 billion of debt, equal to 173 percent of GDP, the highest per capita in the world, largely as a result of the reconstruction of downtown Beirut. The majority of Lebanese people struggle to make ends meet, face frequent electricity and water shutoffs, and must buy education and health care.

Hariri’s family inexplicably inherited \$16.7 billion on his death, although this did not include the Hyde Park mansion. This, according to the *Financial Times*, was “given” after Hariri’s death to his business associate Sultan bin Abdul-Aziz, the crown prince of Saudi Arabia, who died in October. At the very least, Hariri’s declared assets could have reduced Lebanon’s debts by nearly half.

The amount of overseas money flowing into expensive London property is colossal. According to the Institute for Public Policy Research think tank, this rose 72 percent to £5.2 billion in 2011, up from £3.2 billion in 2010. This is five times more than the annual investment in so-called affordable homes in London and one third of all loans made for house purchases. It takes place within the context of a dramatic fall in the volume of house sales elsewhere as mortgages have all but dried up.

Since the collapse of Lehman Brothers in 2008, foreign buyers account for more than half of all purchases in central London. Overseas investors buy more than 60 percent of all new homes being built in central London, and a significant number are kept empty. As *The Wealth Report 2012* notes, beyond “the obvious requirement for first and second homes”, these “assets” will benefit their owners in terms of development, rising property and rental values, and currency gains.

Most of these homes are bought with cash, mainly by buyers fleeing Russia, the Middle East and North Africa, the Far East, Greece and Italy—countries racked with instability, corruption and inequality—in search of a “safe haven” for their money.

It is far cheaper for the super-rich to buy up homes in London than in the United States and Europe because they can avoid capital gains and inheritance taxes, while Britain’s lenient property tax laws enable companies registered in tax havens to avoid stamp duty, at a cost to the Treasury of about £750 million a year. Britain has no legal restrictions on buying and selling residential property by nationality, unlike Switzerland, which has long been a destination of choice for the super-rich. The paltry new 7 percent stamp duty on property over £2 million and property bought through companies, announced this year, is not deterring buyers.

According to the estate agents Knight Frank, the sales of houses worth more than £5 million doubled in the first quarter of 2012 to a total of £723 million, compared with £365 million in the same period in 2010. The demand has pushed up prices of these trophy homes, the top 5 percent by value, by 11.3 percent.

London holds the record for the world’s most expensive apartment, with the sale for £136 million of a penthouse apartment in the One Hyde Park development in Knightsbridge, with another in a block being constructed by Bulgari, the luxury jeweller, going for between £80 million and £100 million. According to building consultants EC Harris, a further 9,000 new luxury homes, believed to be worth more than £21 billion, are to be built in London.

The Wealth Report 2012 states, “The central trend dominating the performance of prime property markets has been the relentless growth of ‘plutonomy’ economics” that has seen “the wealth of the richest 1 percent growing far quicker than that of the general population”.

It noted that the financial crisis had “ironically” done much to revive the fortunes of the wealthy.

This relentless rise in the global plutocrats’ wealth and the turn to investing in homes and commercial property is having a devastating impact on the rest of society. It has driven up the price of all homes, as mere millionaires buy up and renovate property once occupied by workers.

The average home now costs nearly double that in 2001, up from £121,700 to £236,500. Prices have risen three times faster than wages, leading to a dramatic increase in

the deposit needed for a mortgage and making home ownership impossible for young families. Rents have risen in tandem, with Shelter, Britain’s biggest housing charity, saying that “out of control rents” were forcing families to cut back on food and other basics.

At the same time, the demand for housing is growing, with a quarter of a million new households being created every year. Last year, private sector rents rose by 4.3 percent and the number of families waiting for social housing rose to 1.8 million, an increase of 77 percent in 10 years.

During the Depression of the 1930s, local government embarked on an unprecedented house-building programme. There is no such investment today. Only 15,700 affordable houses were built last year compared with just 49,000 the previous year. The government cut the capital grant by 63 percent in 2010, and has called for private investors to finance social housing and allowed social landlords to charge an “affordable rent” of up to 80 percent of the market rent for new tenants—much higher than the social rents previously charged.

Even this would at best only achieve 170,000 “affordable” homes. It ignores the fact that most social tenants are on Housing Benefit, which has been cut and capped, and from next year will be rolled into the new universal credit, paid monthly, leaving tenants to pay their own rent along with food, children’s clothing, transport, and so forth. It is expected that many more families will be unable to manage and become homeless.

A right-wing think tank has called for local councils and social landlords to sell their high-value rental properties in central London, providing another source of desirable homes for London’s millionaires.



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