# SELECT COMMITTEE ON ECONOMIC AFFAIRS

## The Economics of the UK Housing Market

### Oral and written evidence

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SUMMARY

Government support for house building and purchase, income support and housing benefit, is largely wasted by being applied in the wrong way and in the wrong places, fuelling the next crisis.

This note suggests a means, over time, to cut this expenditure and: by applying a small proportion of this funding at the correct and most efficient points in the housing sector, underpinning, de-risking and creating a permanent pump-primer in the housing market with the potential for a significant re-alignment of the economy, wages, and offering wealth creation, for the future benefit of all.

This is written from a non-political perspective.

INTRODUCTION

All elements of economic and social activity are so tightly interrelated that consideration of specific elements such as housing in general, self-build housing or flood defences or the NHS for that matter, must be built on a clear and widely accepted foundation concerning the fundamental forces and trends at work on the economic system as a whole.

The recent publication by Lord Adair of his analysis of the banking crisis (Between Debt and the Devil) in which he makes the astounding assertion that, while the economists were busily watching the macro-economic picture, trusting the bankers own hopelessly flawed risk assessment, and consequently failing to spot the basic causes of the disastrous sub-prime debacle, there was nobody watching the explosion of private debt.

The lesson to be learned is that experts must ensure their expertise is developed with frequent reality checks, to ensure all effects and evidence external to their discipline is properly taken into consideration.
Any examination of the UK Housing Market must therefore first establish an agreed baseline or foundational premise from which to judge and measure all issues that may subsequently be considered, such that any policy flowing from the exercise has built-in demand to cross reference with related external factors that will effect or be effected by any proposed policy. Failing this, policy is frequently drawn magnetically to align with political expediency and the craving amongst politicians for appetising sound bites.

It is in this context that this draft paper seeks to caution that any conclusion that does not deliver at least 100,000 low cost rented homes per year, as well as reducing the actual cost becoming an owner-occupier, as well as a means to remove the burden of social rents and subsidies to the housing industry from the taxpayer.. will have sentenced this country to long term economic decline to a degree and depth that bares no comparison to the great depression.

1 - FACTs – Trends - 10 to 20 year Forecast

Selecting from almost any authoritative forecast, the following trends must be acknowledged:-

1 – Developments in IT and computerised automation WILL reduce the number of jobs in the economy by a further 20 to 40%.

2 – Globalisation and competition for the reduced number of jobs in the UK will lead to long-term decline in real wages and continued rise in inequality.

3 – Consequently, total lifetime personal income from earnings will reduce substantially, the measure of affordability in owner occupancy and rental homes will reduce, with parallel and far-reaching consequences for economic stability, savings rate, GDP and tax revenues.

2 - Discussion

2.1 – Proposed reductions in government support for Mortgages and rents, without an underpinning of the housing market will precipitate a sharp reduction in affordability, threatening property prices, reduced tax revenues, increased social welfare spending, leaving less people able to participate in the wider economy, resulting in long-term decline in GDP, secular stagnation sliding into a deep long-term economic depression..

2.2 – Traditional property development will not come close to solving the housing problem. The property developers and major house builders are on record as saying they are not interested in low-value business and they are known to be artificially restricting housebuilding and hoarding development land.
2.3 – As long as the government Right to Build initiative is based on selling building sites at Market value, it will not result in a measurable shift in the housing market and will not lift a significant number of renters into the owner-occupier market. It will flatter and generate profit or celebrity architects and will deliver a few hundred bespoke homes for the more adventurous households, but it will not dent the urgent need for hundreds of thousands of affordable homes.

2.4 – Rental Sector - Government spending on housing rent support simply supports speculation in the rental market, generates self-inflicted rent inflation, supports speculation in the buy to rent market and removes any competitive incentive for landlords to improve the quality of rented housing stock.

2.5 – Owner-occupier sector - Similarly, Government funding for housebuilding and residential property buyers will only cause house price inflation for property purchase and rental, as both are connected, whilst creating the next property and banking crisis by stuffing the bottom-end of the housing market with financially precarious mortgage holders and tenants, such that the inevitable increase in interest rates will trigger a cascade of defaults in the owner-occupier and buy to let sectors.

2.6 - Government support and funding initiatives, whether existing or proposed, for the current housing market at any level, will not solve the housing problem and may only prop-up the fragile low-end of the property market for a while, but with the weight of the trends outlined in 1 to 3 above, the best hope is for a delay in the next crisis.

3 - Proposal – Opportunity to create A New, Non-Land-Asset-Based, Consumerist, Parallel Housing Industry

3.1 - The housing market should be underpinned by a new and truly affordable level of accommodation, with security of tenure, at rents based on zero land value specifically excluding speculation.

3.2 - Government has the opportunity to create a totally new housing market with legislation obliging private and public sector landowners to make housing sites available to a new government agency – for rent only to householders – on 10 to 20 year renewable tenancies at low fixed ground rent... Such new “Land tenancies” would be between landowners and a new government agency or Government “Land-Bank”, which in-turn would grant “Land-Tenancies” with security of tenure, on standard terms , to households, the “Land-Bank” retaining responsibility for collection of ground rents and payments to the landowner.. Such “Land-Tenancies” to be non-tradable by the Government “Land-Bank”, the landowner and “Land-tenant” alike.

3.3 - Government control of this new Class of valuable land asset, will allow fine-tuning of housing supply to meet demand for low-cost housing, whilst underpinning and pump-priming the traditional property sector...
3.4 – In return for their cooperation, landowners may be offered valuable benefits in terms of tax incentives, or grants of planning permission for other property development. Conversely, uncooperative or unhelpful landowners might see the length of “Land-Tenancy” increased by increments of 5 years, and/or forfeiture of ground rents.

3.5 - Land requirement – If each of the 40,000 habitations (Hamlets, villages, towns and cities) in the UK provided just 1 site per annum, this would facilitate creation of 800,000 new homes based on “Land Tenancies” over a 20 year period. Larger habitations, towns and cities and locations with higher housing pressure, would contribute more sites as required.

3.6 – CPRE has identified brown filed sites sufficient for a million homes, whilst Property developer and builder land banks are believed to have tied-up 17 to 20 years’ worth of building sites under secret options. The Government “Land-Bank” could easily rent 10 years’ worth of these land banks in exchange for outline planning permission (which would incentivise developers to come forward to take advantage of the great increase in value from outline planning permission).

3.7 - “Land Tenancy” rents – should be based on agricultural land value only. Homes should only be of modular construction and hence removable, and the sites should require minimal preparation, such that the land should be returnable on termination of the Land Tenancy in a state fit for return to nature or for agricultural use.

3.8 - The great political advantage of the new “Land-Tenancies” is that landowners will not lose or forfeit their land, and they will receive income and benefits from the arrangement, whilst performing a valuable service the public. However, if legal means were required to secure landlord cooperation, then statutory devices similar to those employed to secure the land at “existing use” value, underpinned by powers of compulsory purchase could be employed as they were to establish garden cities such as Milton Keynes and Welwyn Garden City.


4.1 – Housing – What would such homes consist of? The average length of occupation in any one property is falling fast, particularly among the young and rental sector tenants. The spare room tax has highlighted the fact that space requirements change over time. The internet and IT developments have de-coupled many workers from the obligation to work in an office, and new portfolio careers and short-term contracts all combine to highlight the desirability of the greatest mobility of labour.

4.2 - The traditional housing market is an agent of stasis and prevents mobility of labour...
4.3 – We have at our disposal the opportunity, technologies, banking, finance, manufacturing and labour resources to create and drive a whole new industrial sector and market based on modular housing systems developed in conjunction with, and specifically for, the “Land-tenancy” system. The opportunity to take advantage of new technologies to deliver light weight, easily movable modular homes and to offer householders total flexibility in how they choose to configure their homes and where:- They would be free to choose from a growing range of innovative designs, with flexible possession from outright purchase, to rental, via various finance options, hire-purchase, lease-rental, rental from companies specialising in supplying modules and accessories to the new “Land-Tenancy” market.

4.4 – A totally new mass market for manufacture and supply of modular units for “Land-Tenancy” homes will be spawned, together with layers of business opportunities relating to sales, services maintenance, fixtures, fittings, house moving and sale and exchange of modules. Given unit cost of as little as a few hundred pounds for a used module suitable for refurbishment, to £4,000, to £6,000 for a new “plug and Live” module, and upwards for designer and high fashion modules; The new “Land-Tenancy” system offers the potential for a new multi-billion pound industrial sector within a few years, generating many thousands of well paid jobs all over the country.. It would even give Bankers something useful to do.

4.4.1 – An advantage movable/removable, modular construction is that it will allow the UK housing stock to evolve and change with individual and wider needs, and would avoid the pitfalls of building permanent structures, such as the tower blocks of the 50’s and 60’s which later became expensive slums. An overall reduction in housing requirement would be met by reduction in “Land-Tenancy” sites and their cheap and easy return to nature or to agricultural use.

4.5 “Land-Tenants” would be free to literally move home, by moving their arrangement of modules from one “Land-Tenancy” site to another, as long as a site is available. The government “Land-Tenancy Bank” would manage availability of sites and operate a site exchange system to optimise mobility of labour and would simply transfer contracts as “Land-Tenants” relocate. The fact that there would be only one ground rent and one standard contract would ensure optimum mobility of labour..

4.6 – Reflecting on level of “land-Tenancy” rent, The measure should be that a person should be able to house themselves, a spouse and two children with “Land-Tenancy” rent plus rental for a standard entry-level living module, 2 x bed modules and kitchen/bathroom module, for no more than say 25% of a single minimum wage living wage at 40 hours per week... This provide a decent basic standard of housing for all, will fix the government housing support budget for the medium to long-term and all to the exclusion of speculative investors.

4.7 – Specialised modules to meet the demands of various life stages, will be developed in the marketplace and could include branded products for newlyweds,
retirement modules, special-needs modules (cheaper than cost of modifying traditional housing stock), bachelors sharing a home, baby bedroom modules, (blue / pink?), teenage study modules (that students could take to University with them), specialist case modules for the infirm and elderly, which might eventually be moved to care parks when full-time care becomes necessary (having the advantage of the person remaining with their familiar environment)...

4.8 - The “Land-Tenancy” housing system will readily absorb many of those currently reliant on government housing support, simply as a matter of preference, as most would prefer to live within their own income and without government support.

4.9 - The system will expand over time to allow the Government Housing support budget to be diverted away from conventional property where it is being wasted in ever inflating numbers, and into the new “Land-Tenancy” system, where it might simply be needed to cover the “Land-Tenancy” rent and cost of renting one or two modules and some utilities. There will be a real prospect over time of reducing housing support expenditure to a fraction of current and predicted levels, whilst ensuring adequate housing for all.

4.10 - The Housing Ladder – “Land-Tenancy” – Pump-Primer and comfortable queue for the would-be owner-occupier market.

4.11 - The very low housing costs for “Land Tenancy” households, will free substantial amounts of income currently absorbed by high rents, for participation in the wider economy, including freedom to choose among purchase, HP, rental etc of Housing modules, and allowing households to rapidly accumulate savings towards a mortgage deposit to buy a conventional property. By this means, the “land-Tenancy” system will constitute a permanent pump-primer for the conventional owner-occupier bricks and mortar homes market, which will for many years remain the housing of choice for most households.

4.12 – It will be in the interests of everybody and government in particular to ensure that housing costs in the “Land-Tenancy” system are always as low as possible to ensure the maximum free income for participation in the wider economy, to encourage saving for later life, for mortgages and allowing the least fortunate the dignity of a decent affordable home, without rampant inflation in government housing support, indeed allowing rapid and long-term reduction in housing support.

5 - Environment

5.1 - Environmental Imperatives – The “Land-Tenancy” system will allow rapid development and deployment of the very latest in environmentally desirable technologies, which are essential if we are to meet our climate change obligations. These will be incorporated, at minimal marginal cost, into the modular units that “Land-Tenants” will choose to buy or rent themselves... It is easier to incorporate low energy heating and solar-powered systems into completely new, factory-built products, than to retro-fit into a poor and aging traditional housing stock...
Environmental standards will be imposed on the “Land-Tenancy” system and will cover cradle to grave life-cycle of the modules. As a simple example, low-cost spray-on Solar panels are within sight – something which would be incredibly expensive if not impossible, for the existing housing stock.

5.2 - Tight environmental standards, successfully and cheaply developed and applied in the “Land-Tenancy” system will ease introduction and counter resistance to their imposition across the bricks and mortar housing market.

6 - Threats to the building trade..

6.1 - We are already experiencing a shortage of skilled building workers to maintain even the low level of current housebuilding, and, given that conventional bricks and mortar must for at least the medium term, play its part in meeting growing need for housing, the “Land-Tenancy” system will not threaten employment in the building sector, neither will it threaten the major building companies which have contributed to the current housing crisis by their hoarding land in their land banks and their policy of restricting and staging development to optimise prices and profits.

7 - The Greater Economy

7.1 - It is observed that the Uk economy is so dependent on the real estate market, that growth of the money supply via government initiatives and attempts to stimulate the economy, simply converts into property price and rent inflation, contributes nothing to real GDP growth and fuels greater inequality and secular stagnation.

7.2 - By contrast, heavy and enthusiastic Government support and funding for the new “Land-Tenancy” system, WILL release discretionary income for participation in the wider economy, whilst creating real GDP growth, real wealth, and reducing inequality.

7.3 – Business and Jobs and new tax revenues in the UK - The demands of the “Land-Tenancy” system will encompass design, manufacture, distribution, sales, delivery, logistics, installation, servicing, equipping, etc, most of which must be physically undertaken in the UK, much of it by real skilled people, and by definition, will not easily allow export of work, jobs or revenues to low-cost countries or tax havens, as is demonstrably the case with the IT sector, which sucks out money and jobs faster than we can create them and beyond the reach of the Inland revenue.

7.4 - The housing support budget will be freed to properly support the NHS, education, flood defences, the arts and means of passing our increased fee time, as well as a whole range of worthy objectives, rather than pouring endlessly down the drain or pockets of the already super-rich, who are simply incapable of consuming more and so driven to further investment in the dwindling pool of available corporate, public and private assets.. where it is destroying the foundations of the free enterprise system upon which our freedom and democracy is based.
8 - Social and cultural benefits

8.1 - This paper started with the worrying fact that there WILL be 20 to 40% fewer jobs and less lifetime earnings for all but the super-rich. This is recognised as a social and economic disaster with government powerless for lack of ideas.

8.2 - The near revolution offered by the “Land-Tenancy” system, will ensure that, as free time increases and lifetime incomes fall, that the welfare of the population can actually improve dramatically, that housing standards can rise, and that the less fortunate will have lower housing costs and more resources to fund activities during the free time that we will all have.

9 - Developing world –

9.1 - Rapidly developing housing technologies emanating from the “Land-Tenancy” system will quickly translate into a thriving export opportunity for anything from the technologies and systems themselves, to complete new housing systems, re-sale of used housing modules and sub-systems, as well as an end-of life market for the first generation of housing modules.

10 - Supplementary studies and discussions:-

1 – Exploration of key factors and agreement of Premise.
2 – “Land –Tenancy” System – A new Class of Land Asset , balance sheet implications, Land acquisition, Contract forms,
3 – Site Preparation – On-grid/Off-Grid, minimal standard footprint, services, access.
5 – Technologies – CHP (Stirling Engine), heat pumps, solar electricity/hot water, waste treatment, advanced electricity storage.
6 - Design and locational opportunities – stunning locations, exciting scope for joy through design
7 – Special needs provision – new purpose-designed modules vs high cost to modify existing buildings.
8 – Realistic time-frame to volume delivery – 5 years
9 – Barriers to public acceptance – Shock of the new
10 – Early Adopters and Introductory sites - Introduce via university undergrad campus accommodation, graduates spread into the community. Accommodation for armed services personnel.

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About the author...
Peter Aldiss retired after a brief spell with Baring Bros, followed by corporate life in the oil industry and latterly in the environmental sector. Together with his wife Wendy, who is a renowned portrait photographer, he currently runs three micro businesses; a consultancy, an events company and a small technology manufacturing company from premises at their home in Buckinghamshire.

This paper was inspired by a presentation given by Lord Adair Turner at the Oxford Martin School for Advanced Economic Thinking for the launch of his book “Between Debt and The Devil” on 24th November this year.

Whilst just a small voice, with no authority, this draft paper is backed by 60 years life experience, extensive background research and personal study, and the guilt of standing watching as the bankers and hedge funds debase our assets, offshore our wealth, turn the city into a casino and the world upside down.

This paper is a simple plea and call to immediate action- if necessary go around the vested interests and the way “Things are done” by the experts in the property casino, and recognise that the people at the very bottom in the economy actually made the Rich and that without the empowerment and involvement of those at the bottom, in a revitalised underpinned by a healthy housing system, there will be nobody there to bail-out the Rich next time.

17 December 2015
Sources

This note draws, for inspiration and direction, without direct quotation, on many sources including:

Bank of England – M King, M Carney
Ben Bernanke & Robert Frank – Various
Robert Frank – Sept 2006 - Presentation to G Brown at No.10 Downing Street,
Viktor Mayer-Schonberger & Kenneth Cukier – Big Data – a revolution that will transform how we live work and think
Housebuilders and developers - Barrett, Persimmon, Taylor Wimpey
Prime Ministers;  Thatcher, Blair, Brown, Cameron
Chancellors of the Exchequer – various;  Brown, Darling, Osbourne,
CPRE
Custom & Self Build Association
DEFRA
Danny Dorling – All That is Solid
Martin Ford – The Rise of the Robots
HALIFAX Generation Rent Report
Peter Hetherington – Whose Land is Our Land?
BBC
Brandon Lewis
Mail Online
Atif Mian and Amir Sufi
The Guardian
SHELTER – Solutions for the Housing shortage – July 2013
Sunday Times
Adair Turner – Between Debt and the Devil
Joseph Stiglitz
Proposals for better foundations

Mike Kelly and Andrew Gilg argue that the *Fixing the Foundations* White Paper follows the line of many current analyses of the housing crisis in laying blame at the door of the planning system while failing to address a major flaw that results from the current housing land allocation process.

In July 2015, Chancellor of the Exchequer George Osborne published a White Paper, *Fixing the Foundations*, that outlined proposals for increasing productivity in Britain over the next ten years.\(^1\) The 88-page document contains several references to planning, including proposals to give de facto planning permissions for land in approved brownfield ‘zonal’ sites, and devolved powers to elected Mayors in some of the UK’s big cities.

However, the White Paper does not address what we see as a major flaw in the current process of allocating land for housing, namely the hoarding of land with planning permission by builders in the hope that land values and house prices will continue to increase faster than inflation. This article is devoted to our analysis – by an experienced professional planner and a career academic analyst – of where the White Paper has failed to address this weakness.

We begin by agreeing with the White Paper that there is a housing crisis in Britain. House prices are running at around eight times average earnings, and are unsustainable and unaffordable to many. For the first time, homeownership is falling and overcrowding is rising. However, most current analyses of the crisis fall back on political bias and partial truths – notably that the land use planning system is primarily to blame. So this article starts by examining this central assumption.
Driven by Treasury-led land use planning policy, the overriding supposition in the housing policies of the mainstream political parties is that property development leads to economic growth and thus improved economic performance, a key element in the Treasury-written White Paper. The ambition to significantly boost housing supply underpins the Housing and Planning Bill currently progressing through Parliament, and it is becoming ever clearer that the delivery of housing is seen as the overriding purpose of a reframed planning agenda.

Notwithstanding pronouncements to the contrary, ‘localism’ remains on the side-lines. Neo-classical demand and supply models represent the property market as part of the wider investment market and as having primarily an allocative function, structured by demand and pricing mechanisms which ensure that land will be used for its most profitable use. Demand and supply are thus regarded as the structuring forces in the land and property market, and central to this approach is the conjecture that development completions (building new dwellings) and price adjustments will always lead to equilibrium in the land market.

To complete the narrative, the demand for housing comes from those who want to occupy new housing, and changes in this side of the supply-demand equation can trigger development, which in turn stimulates the entry of new user and investment rights into the market. Constraints in the supply of land to meet demand lead to ‘inelastic’ supply and this results in scarcity.

The current fashion is to accuse the planning process of causing such supply-side blockages through local planning authorities granting insufficient planning permissions to meet the Government’s requirement for a five-year housing land supply. This failure by local planning authorities has the effect of increasing development costs at a fixed level of asset price, and, alongside delays in eventually granting planning permission, has the overall effect of reducing the profitability of development projects.

In this superficially persuasive scenario, planning represents a supply-side constraint (a blockage), and, as a consequence of this, development costs increase and construction activity falls (for the same asset price) and fewer new houses are built. This has resulted in a ‘housing crisis of our own making’, with an artificial scarcity of land for housing, to use the words of the Lyons Housing Review,² which
notes that: ‘Constraints on the supply of land do more than limit the number of building plots available; they also encourage a business model for developers that limits the rate at which those plots are then built out.’

The above explanation is predicated on a rational supply and demand model and assumes that equilibrium is achieved when the demand for space (the market for housing) is equal to the supply of space (the land for housing). Market prices – and, it follows, the release of land for development – are accordingly determined by the forces of supply and demand, and in this ideal neo-classical scenario the primary function of the property market is one of inducing supply to adjust to changes in demand and of inducing demand to respond to changes in the conditions of supply.

To neo-classical marginalist models of property economics, the property market therefore serves to reconcile demand for and supply of property and land, and the demand for land is therefore a function of the ‘utility’ or profitability of the proposed use. This market mechanism, based on a competitive allocation process, yields an ordered pattern of land use in which all activities are optimally located, in the sense that profitability is maximised as land may be readily supplied to meet demand by the highest bidder. In this scenario, planners are allegedly responsible for constraining supply, and this hinders the release of land to the market, resulting in a continual state of disequilibrium and constant adjustment in the housing land market.

There are, of course, other factors behind the imbalance between demand and supply, notably the inflated price of land for building that contributes to the high cost of new houses, as well as recently attested shortages of skills and materials. Furthermore, most would accept that to a degree some unevenness in supply is attributable to restrictive planning policies, although in passing it should be recognised that these policies are endorsed by the majority of the public in opinion polls, notably by existing homeowners for the reason that such policies serve to sustain and increase their property value.

**Firmer foundations**

Having outlined the macro-economic narrative, we can now – after outlining the current system – examine possible solutions.
Local planning authorities must identify in their Development Plans at least enough land to accommodate five years’ supply for new housing on specific sites that are suitable, are available, are achievable and are economically viable for a developer. They must not apply any supply-side constraints to the overall assessment of need, so historic under-performance, lack of infrastructure or environmental constraints are irrelevant to this overriding requirement to identify land for housing. If councils cannot show that houses are being delivered fast enough and in sufficient quantity, then developers promoting non-allocated sites benefit from a presumption that permission will nonetheless be granted.

In the above context local authorities have to identify sufficient land to meet the objectively assessed need based on inevitably flawed and uncertain household and population projections and should also aim to deal with any under-supply within the first five years of the plan period where possible. After the recent recession and a further fall in housebuilding, this means that in reality local planning policies should deliver not five years’ worth of new housing but that plus an additional 20% to catch up with the shortfall of recent years, guilty of ‘persistent under-delivery’ as many councils are in the Government’s view.

Furthermore, the ability to establish a five-year housing land supply is primarily to be demonstrated through an assessment of demand, not need – ‘objectively assessed need’ and market demand are quite different and a strengthened emphasis on the latter would help acknowledge the different characteristics of local housing markets. Granting more permissions on usually greenfield sites will not necessarily significantly increase delivery rates; if the market was there for increased sales then the permissions already exist to enable their delivery, as many councils have ample extant permissions but experience only a limited build-out rate as in practice housing completions are determined by the market and not by an inefficient or recalcitrant public sector.

This emphasis on the importance of a five-year housing land supply misrepresents the original intention to use this target as an element within an active monitoring and review programme, now superseded by the National Planning Policy Framework. Importantly, once land is allocated, local planners do not directly influence the supply of housing and have to rely on housebuilders to deliver houses
at the required rate. In reality, most councils have allocated enough developable land for housing and there is no shortage of housing land in many areas – and this has been somewhat belatedly recognised in the speech by Housing and Planning Minister Brandon Lewis to a recent conference, in which he acknowledged that ‘it is all too easy to blame the planning system, and planners, for the challenges facing the housing market in particular. All too easy and it would appear, wholly wrong’.  

So the issue is how to ensure that housing allocated through a plan-led system is actually built on allocated sites with planning permission instead of on non-allocated opportunistic sites allowed on appeal by a Planning Inspectorate perceived as antagonistic to locally held wishes and as preoccupied with whether or not councils are able to demonstrate a five-year housing land supply. Since the Second World War, a number of ways of doing this have been proposed and tried, including the notion that local planning authorities should control building land.

The idea of local councils or other bodies buying land for development has been put into practice twice in Britain. First, in the immediate post-war period virtually all housebuilding was undertaken by local councils for social houses and there was virtually no private housing – and any land value gain was taxed at 100%. However, when the Conservatives came back to power in the 1950s, private housing began to grow until it overtook social housing in the 1960s. Then in the 1980s Mrs Thatcher stopped virtually all social housebuilding except for that by housing associations.

However, in the late 1970s the Community Land Act 1975 set up an organisation that began to buy land banks for housebuilders, with any land value gain being recouped by the community. This process was widely acclaimed as beginning to work, but was abolished by the Conservative Government. However, we believe that the Act’s basic premise of buying building land at existing land use prices (probably one-tenth of building land costs) could cut the cost of new homes by at least £100,000.

Another solution has recently been proposed by Oliver Kamm in the Times. His thesis was that every proposal in the May general election would have exacerbated house price rises by making it easier or cheaper to buy houses, and thus further increase the mantra that a house is not just an investment, but one’s main
investment. In a radical proposal, Kamm proposed that capital gains tax be levied on the sale of primary residences. To some extent this might seem like political suicide, but it would to some degree reduce the inequality between the baby-boomers’ housing wealth and that of the rent generation in their 20s.

However, the effect of such a tax is hard to predict, and there is a danger that house-owners would add the tax to the asking price. In the short term, the solution is a more constructive relationship between land use planners and housebuilders, to which we now turn.

Most housebuilders follow a simple business model: they borrow money to buy land likely to get planning permission, secure permission, build within the constraints of wage and material costs to a given price that matches the actual demand from potential buyers, and then try to sell at this price – and then repeat the process, ideally with several sites on a rolling programme.

The easiest part of this model is the control of wage and material costs, albeit given current shortages outlined above. But since the 1960s, the proportion of a new house price due to construction costs has fallen dramatically to often less than half the price of each house. In contrast, land prices have risen to often at least half the total sales price. So house prices are predominantly about land prices, and there is an artificial scarcity as housebuilders and sometimes land speculators hold onto land with planning permission, as a land bank, while its value rises.

This means that land banking is at the heart of the UK’s development model. Large developers in particular are able to speculate that the release of land by local authorities will be too tight over time, and so land will rise in value. This leads to hoarding rather than building; to release land developers must believe that land values will decline, and not increase. In other words, the rising cost of land with residential planning permission creates an artificial scarcity produced as an unintended consequence of the planning system.

All too easily the narrative is accepted that these rises in land values accrue most as a result of too little land is being released to satisfy demand. So, simplistically, it is argued that releasing more land will break this vicious circle. However, research over many years\(^5\) has demonstrated that millions of houses would need to be built to have a significant impact on land and house prices, such is
the yawning gap between supply and demand and the curious obsession of the British public with house prices as a source of wealth generation, compared with Europe, where houses are mainly rented to meet an immediate need for a home rather than as an investment.

The development model outlined above has been described as a ‘trader’ system of land acquisition that enables the seller of an artificially ‘scarce’ resource to make large gains up-front based on notional profits, without taking on any of the cost or risk of development. The outcome is that housebuilders struggle to build good-quality housing served by supporting infrastructure while making a profit, and buyers have to deal with a market in which price inflation is almost out of control. This model of land trading directly impacts on the delivery and quality of housing.

An obvious remedy, and one proposed by the Labour Party as well as by a recent report produced by the CPRE (the Campaign to Protect Rural England) is that failure to build houses within a prescribed term would lead to the loss of planning permission; while others – including the authors of this article – would impose a tax dedicated to community infrastructure and services for each day that development did not start, while also conditioning permissions to ensure early build-out.

For its part, the Government should remove reference to the term ‘persistent under-delivery’ and the 20% buffer this implies on housing land supply, while also offering clear direction to Local Enterprise Partnerships to prioritise infrastructure funding and marketing opportunities so as to facilitate early delivery on extant housing permissions and strategic site allocations. Such measures may in turn form part of a proactive Housing Implementation Strategy featuring intervention to bring forward smaller but deliverable sites, led by local authorities in consultation with their local communities and housebuilders as part of the neighbourhood planning agenda.

So housebuilders need to put their own house in order, to stop complaining and to return to acquiring land and securing planning permission only on land for which they intend to build without delay. Given the precarious nature of the housebuilding model and its long-term reliance on speculative building, rather than building up a list of committed buyers and building to order, there is little else
builders can do, caught as they are between the rocks of perfidious money-lenders and capricious house-buyers.

To some degree the Local Plan system supported by the neighbourhood planning agenda should be engendering the type of constructive dialogue outlined above, and so we end with a call for short-term realism in matching demand and supply (intentionally in that order, placing demand first), and in the longer term for some sort of Community Land Bank scheme, possibly linked to a willingness by the public sector to use compulsory purchase powers, capital gains on house sales, and schemes whereby prospective house-buyers can collectively build a funded demand, so that builders can build in the confidence that buyers are committed.

Since the bulk of this article was written, George Osborne in his November 2015 Spending Review announced a programme of 400,000 more affordable houses by 2020; further relaxations of the planning system to include proposals for a ‘delivery test’ on local authorities to ensure delivery against the homes set out in local plans within a reasonable timeframe; measures to allow local communities to allocate land for housing in their neighbourhood plans and a 3% tax on the stamp duty paid on buy-to-let and second homes. While these should have some impact they do not address the central problem discussed in this paper, the imperfect linkages in the networks between house builders-planners-and house buyers.

Dr Mike Kelly is Chief Planning Officer at North Devon Council and Andrew Gilg is with the Department of Geography at the University of Exeter. The views expressed are personal.

Notes
3 ‘Brandon Lewis’ speech to the RESI housing conference’. Department for Communities and Local Government, 9 Sept. 2015. 

4 O. Kamm: ‘The more that buyers can borrow, the more house prices will go up’. The Times, 28 Apr. 2015. 
www.thetimes.co.uk/tto/business/columnists/oliverkamm/article4424023.ece

5 Gilg (Planning in Britain: Understanding and Evaluating the post-war system, Sage 2005) devotes six pages to theoretical, empirical and political analyses of the link between house prices and planning controls from which it emerges that the stock of existing houses is so large that even substantial numbers of new houses would have little impact, and that in any event the greenhouse gas emissions and loss of rural land would probably be unacceptable.

12 December 2015
Architecture Verte Ltd – Written evidence (EHM0069)

Response to the Call for Evidence
by the
Select Committee on Economic Affairs of the House of Lords
for
The Inquiry into the Economics of the UK Housing Market

1. As a founder member of NaCSBA and a group self builder of the 1980’s the writer offers this document as evidence of elements of the planning policy which is either not working or been adopted by the local planning authorities to suit their own needs and demands.

2. My Architectural Practice is suffering through the ability of the Local Planning Authorities to distort the Golden Thread of Sustainability which permeates the National Planning Policy Framework to their own ends. This makes it impossible in many counties to even consider any development outside of an established settlement boundary, (which are drawn by the LPA in the first instance, and often exclude houses that are not close enough to the centre of a settlement for fear of allowing “infill” to happen).

The main problems lie in the following items of planning law:

3. Green Belt: This is wrongly used in many instances as referring to green field site development. Green Belt status is a statutory implement which seeks to prevent the spread of one settlement in the direction of another, thus eroding the countryside in between the two. Green field status is a generic description of land that has not been developed. The Green Belt status of land once established should not be eroded by the local authority which they seem able to do when it suits them (Southstoke, Bath) but used as a tool to defend any development when they don’t want to develop it themselves. This dual standard creates a feeling of unfairness for anybody who wants to build a house for themselves but is told it is not possible to do so.

4. Settlement Boundaries: Are drawn around medium sized villages and above to create what is considered (in the eyes of the LPA) a sustainable zone for development. This means that all other settlements (small villages and hamlets) are in the open countryside and are considered unsustainable to support new homes.

5. The LPA’s need to be reminded that all of our beautiful rural settlements were developed one house at a time by “self builders” (people who took a hand in building or having a house built specifically for them) who chose to live where they built their houses. These settlements now contain a high percentage of listed buildings which reflects the importance placed on this historic form of construction. By wrapping these settlements in cottonwool and preventing any organic growth of these hamlets and small villages they are being strangled out of existence. The planning law is making their future uncertain which is why local services such as village shops,
post offices and public houses are being closed at an alarming rate. If organic
development could be re-introduced in to these settlements it will breathe a new life
in to some stagnating communities to allow them to stay active and give confidence
to those people who would like to run local services.

6. The CPRE and the CLA are both in support of organic growth in the countryside, so
why not allow these settlements return to the type of development that created
them in the first instance.

In order to make a difference in the provision of housing in this country, without
adding to the budget of the housing departments, I see the following changes being
necessary:

7. Allow the NPPF to be implemented in the true spirit in which it was written by
preventing the LPA’s from abusing the Sustainable Content to their own ends. We
have had refusals for single houses in many instances on the sole reason that by
being outside a red line the development is unsustainable due to the fact that a
motor car will need to be used to live in that location. This is a nonsense as the
future of the house is being based in the motor vehicle, which in a few years time
will most likely be a fully sustainable mode of transport. Even now the LPA could
impose a condition that makes it mandatory to have at least one electric vehicle
registered at the relevant address, a condition easily supported by DVLA.

8. To make Self Build or Custom Build a condition of allowing this type of
development in order to avoid larger construction companies from taking advantage
of this type of development, this would have the effect of returning to an organic
growth for any sized settlement that would help make smaller settlements
sustainable in their own right, and help keep local services and resources open which
in turn will help rural employment.

9. This would make many more house builds possible every year without incurring
any extra cost on behalf of the government as all the tools are in place to manage
this type of organic growth of settlements. It would also mean that the vast areas of
green field sites currently being developed on the outskirts of towns an cities (often
providing house that are further from facilities than those in smaller settlements) will
not be the only form of development available for people of this country to take
advantage of.

10. Whilst the government is seemingly in support of Self/Custom Building they need
to make it even easier to get permission to build as many people own land that could
be utilised if the current planning legislation could be made to include it as usable
land.

11. In Summary, I am not advising to throw money at affordable housing, instead, I
am advocating making it easier for individuals to build their own housing (which is
makes the house more affordable for them). This will provide a source of houses
better designed, better built, more sustainable often with many eco-features, that
large house builders will never provide, and at no extra cost to the government. Social housing built by the people that want to live in it!

I would be more than willing to come to London to explain in more detail to the committee how this can happen within the existing planning framework and without cost to the government.

Yours respectfully,

Paul w Richards B.Sc., B.Arch., RIBA
Architect
15 December 2015
Misconceived application of House Building Targets for LPAs

Whilst Local Planning Authorities (LPAs) are judged to have failed to meet unattainable 5 year targets, if the number of dwellings built in their district has not matched projected population growth, their Local Plans will not be adopted unless they include such targets. Accordingly they are in a “Catch 22” situation, often leaving the un-elected Planning Inspector (PI) with an excuse to permit speculative planning applications (using NPPF presumption in favour) against the judgement of LPAs, on green field & flood prone sites, whilst avoiding brown field sites.

Across the UK last year, around 250,000 new dwellings were needed to match population growth but despite a record 28% rise in new home registrations, only 133,670 (NHBC figures), ie 56% were built, whilst Horsham District achieved 64%. It seems that the long-term national average rate is around 130,000 pa.

By way of further illustration (extract below/overleaf) 450 dwellings pa were built in Horsham District during the 8 years prior to the recession, when GDP was growing at 3% pa, compared with only 290 pa during the recession, against an 800 pa Inspector’s target.

So it should be clear that HD’s 20 year target of 650pa is unattainable, even under normal economic conditions, not to mention the impact of a 5 year backlog of over 2,000 dwellings. Indeed to meet the target & clear the so-called backlog, would require >1,000 pa new dwellings over HD for the next 5 years, which is not even remotely attainable.

Developers have not met the arbitrary targets in many districts, as occupation densities have not reduced, because youngsters are i) staying longer with parents, ii) have shared equity with friends or colleagues, or iii) have moved to lower priced areas & FTBs are approaching 40.

Clearly developers won’t build, if there are not enough house buyers in the market & their objectives will be to optimise prices rather than sustain volume, whilst LPAs worry that any deviation from the arbitrary (population driven) targets is unlikely to meet the PI’s approval. That is why there are over 100,000 houses with planning approval, which have not been built.

So the three different parties involved are working to differing objectives. Developers want to maximise profits & improve the value of their (land) assets by getting early approval of speculative applications, whilst the PI requires building rates to match population growth & those two objectives are clearly incompatible.
LPAs on the other hand can smooth the path of the planning process, but have little influence on the supply/demand equation. To threaten LPAs with special measures or presumption in favour if they fail to meet unattainable targets, does little to maintain the quality & location of development and is likely to be counterproductive.

Indeed, the adoption of a Local Plan, incorporating such targets provides LPAs with limited protection against presumption in favour & can leave them unreasonably exposed, if they refuse a planning application, or delay approval for good reason. Developers on the other hand face no penalty if the targets are not met, although imposing such targets (however tempting) could invoke the law of unintended consequences.

Accordingly the PI needs to be instructed that 5 year targets are to be adjusted based on experience & on what is reasonable. That would go a long way towards restoring confidence in Localism, whilst allowing LPAs to have better control of planning decisions, thereby obviating more indiscriminate & speculative development.
### House Building Rates in Horsham District since 2000/01

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20 November 2015
WEDNESDAY 2 MARCH 2016

2.05 pm

Witness: Sir Jon Cunliffe

Members present

Lord Hollick (Chairman)
Lord Forsyth of Drumlean
Lord Teverson
Lord Turnbull
Baroness Wheatcroft

Examination of Witness

Sir Jon Cunliffe, Deputy Governor, Financial Stability, Bank of England

Q191 The Chairman: Sir Jon, thank you for joining us. We had a session yesterday with the head of mortgage lending and other matters at Lloyds, the largest lender of mortgages, and with the head of the Council of Mortgage Lenders. I think I would be correct in characterising their outlook as very bullish. They thought that things were going swimmingly—my word not theirs—and that all was well in the mortgage market. That slightly contrasts with your comments back in 2014 about flashing lights. When the Governor came to see us last year, he made a similar remark. Could you update us on how you see the state of the mortgage market and, more broadly, the state of lending to the public and public debt?

Sir Jon Cunliffe: It might help if I just say why we care, because it is quite important to deconstruct the various elements of this. From a financial stability point of view, we care about the mortgage market and household indebtedness not because we are responsible for house prices or for where house prices go, but because mortgage debt features very heavily on banks’ balances sheets, so there is a risk there to banks and their soundness and resilience. It is also the main element of household balance sheets: the main debt and the main asset is the house.
On the second part of the question, if household balance sheets become stretched so that the debt and the value of the house go up and then you get hit by an economic shock, even if there are no defaults, repossessions or forced sales the impact on consumption and the economy and then back on the financial system can be very great. That is what we saw during the last recession.

When I made the speech in 2014, house prices were growing at about 11.5%, and they had been growing strongly all through 2013. The increase in household debt is a function of the house price and the number of mortgage transactions, and the number of transactions was also growing strongly; it was just coming back to about 70,000 a month—pre-crisis it had been at about 100,000 a month. So the market had a lot of momentum. Prices had gone past pre-crisis points in some regions but not across the country generally.

The other metric that was moving quite a lot at that time was the proportion of new mortgages that were issued at a loan-to-income value of over four and a half times the borrower’s income. That had passed the pre-crisis peak. The concern was that these drivers would take household debt to income back towards its levels before the crisis. It was just cooling off at the point when I made the speech, because the MMR—the Mortgage Market Review—changes where coming in. We did not know whether that would be temporary or would have a more permanent effect.

After the speech, the Bank of England took some action, particularly in relation to the question of the flow of high loan-to-income mortgages. We said that, in the flow, lenders should ensure that no more than 15% of the new mortgages were at loan-to-income values of more than four and a half times the borrower’s income. We took that action in the middle of June. The market then cooled right through the second half of 2014; there were some months in which house price increases went down to 3% or 4%, and the level of transactions dropped. It was also relatively subdued at the beginning of 2015. Then, slowly, at the back end of last year and this year, the rate of house-price increases started to move up again to about 6% to 6.5%, and the rate of transactions started to move back towards 70,000.

The percentage of new mortgages at values more than four and a half times the borrower’s income was running at about 11% when we took the action. We put in a limit of 15%—somewhere ahead of where the market was—as an insurance level. That percentage of the flow then dropped to about 7%, and it is now going back up again to 8.5% to 9%. I characterised it as some of the risks that we saw in 2014 becoming more subdued as the market cooled off and as the flow of high loan-to-income mortgages and the level of transactions went down. The market is now coming back again, so some of those risks may be becoming a bit more prominent.

The insurance limit of 15% that we put in on this particular flow of high loan-to-income mortgages is still there and has not been reached, and the FPC discusses at its meetings whether it should keep it. At the moment, we have decided to keep it precisely because of insurance. So the risks are a bit less now than they were in 2014, but you can see the market starting to move back again.
I will make one last point on how things might be a little different. We do a survey every year on household finances and indebtedness—the so-called NMG survey—and publish the results in the Bank’s bulletin in December. The proportion of households that have high debt service ratios—spending 30% to 40% of their income on debt service—and the proportion of households that would say that they would cut their spending if interest rates went up have shaded down a bit. So the sustainability measures out of the service suggest that the position is a little better, but the market is coming back again.

The Chairman: So you have the 15% limit in place. We are travelling towards that but are some way away from it. You have said that the overall household debt position is still acceptable.

Sir Jon Cunliffe: Household debt to income came down from about 160% to 135% in the years following the crisis, and it has been stable around that point. Household debt is now growing roughly at the same rate as the economy, so those two things are staying constant for the moment.

The Chairman: So in the context of containing this at a safe level as the overall objective, do you feel that you have the levers necessary to do that and that the particular rules of the road that you have put in place are adequate for the task, particularly if there is now more momentum towards increasing mortgages?

Sir Jon Cunliffe: We used a “comply or explain” recommendation—in 2014, I think—and now the Treasury is out to consultation on giving us direction powers over debt to income and loan to value. When those powers are there, we will certainly have the levers to do it.

On the question of what a sustainable level is, I used the word “safe”, which I hesitate to use, but there are judgments there. Twenty percentage points came off the household debt-to-income ratio in the recession and the recovery afterwards, and we felt that some of that drove some of the cutbacks in that period. Interest rates are now pretty low, and we have said that they will rise slowly and will not go back to the levels that they were at before the crisis. In our test of whether borrowers could withstand a 2% or 3% increase in interest rates, assuming that there is no increase in income, that has improved. But, of course, 135% debt to income is high for the UK by historic standards and by international standards, so you are vulnerable to a shock, and if that shock happens, household balance sheets are stretched.

The Chairman: So the 135% that you referred to is, as you say, high by international standards. Why can the UK operate at a much higher level of loan-to-debt ratio?

Sir Jon Cunliffe: In some countries it is higher, so we are not the only country, but I think it is to do with the availability of credit and interest rates on the one hand. On the other, we have this very strong driver in the housing market, which pushes it up.

Lord Turnbull: Does it make a different if it is 85% mortgage and 50% debt, or the other way around? Is one more perilous than the other?
Sir Jon Cunliffe: One hundred and thirty-five per cent is total debt to income.

Lord Turnbull: Some of that is mortgage debt.

Sir Jon Cunliffe: And some of it is unsecured—about 10%.

Lord Turnbull: Does that fraction worry you?

Sir Jon Cunliffe: Yes—well, it makes a difference because the servicing cost on unsecured debt tends to be considerably higher than the servicing cost on mortgages, because the term is shorter and you generally pay a higher rate. So when you look at the debt service ratio, which in the end is I guess the test of sustainability—do you have enough income to cover your interest payments covering mortgage debt and unsecured debt?—higher unsecured would put more strain on you. The households that are in the high 30% to 40% of income going to debt service tend to have a proportion of unsecured in there, as well.

Lord Turnbull: Which of the two is growing faster at the moment?

Sir Jon Cunliffe: At the moment, unsecured is growing faster, at 8.5% a year—interestingly, it was 13% a year on average in the years before the crisis—but it is only 10% of the stock.

Q192 Lord Forsyth of Drumlean: I should declare an interest as a director of a challenger bank. I want to ask you about an interesting speech—you covered a bit of this in your opening remarks—that you made to the British Property Federation last month, in which you argued that the sustainable level of debt had increased for some of the reasons you have just pointed out. In the same speech, you warned that we were sensitive to upward shifts in interest rates, but broadly the message you are sending out is one of being comfortable with where we are. How does that tie in with the Governor’s description of us as being reliant on the good will of our friends? To what extent do you think that the position may look sustainable at present but that actually we may be in the eye of an oncoming storm?

Sir Jon Cunliffe: I think he used the Tennessee Williams line, “The kindness of strangers”. In my speech, I talked about how household debt had managed to go from 50% to 100% of income, up to 160%, and then come down again without huge problems of sustainability, except in the correction, after the crisis. That was about reductions in long-term real interest rates—structural, secular things that have happened over 30 years. I was also making the point that while those long-term reductions had helped to lift the level of sustainability, one should not expect a further long-term secular decline that would help in that way. It was therefore a question of whether household debt to income could continue to grow or resume its previous growth trend.

On how the current account deficit is financed, at the moment we are not seeing foreign flows into the UK banking system for mortgage lending. We were before the crisis, but at the moment the foreign flows into the UK are going into portfolio
investment and gilts; they are not going into the banking system for lending. So that
direct link is not there.

If we have a shock and the rest of the world decided not to finance the UK—6% of
GDP, or whatever—that could cause things to happen that then impart a shock to
the housing market. We tested this in 2014 in the Bank of England stress test: a
problem with current account loss of confidence, leading to a recession and a 35%
peak-to-trough fall in house prices.

So while mortgage lending at the moment is not being financed from abroad in that
direct sense, were we to have a shock induced by an abrupt closing of the current
account deficit, that would be associated with economic consequences, which would
then impact on the housing market.

Sustainability, in the sense I have been talking about it, is about the world
proceeding relatively smoothly. The thing that really impacts on mortgage debt and
servicing that debt is unemployment. If unemployment rises, that is the biggest
reason for people to default, because they cannot keep up their mortgage and
interest rate payments. The shock that we used for the stress test was a big increase
in unemployment and a big increase in interest rates as the Bank of England
responded to this closing of the current account, very abruptly, and that then led to
house price falls and the shocks to the housing market.

**Lord Forsyth of Drumlean**: Whether it is the kindness of strangers or the good will of
friends, that does suggest a rather more precarious position than the one you
describe. You are saying there is no evidence that this is going to happen. If that is
the position, why did the Governor say it?

**Sir Jon Cunliffe**: I thought I was agreeing with him, actually.

**Lord Forsyth of Drumlean**: I am sure you are.

**Sir Jon Cunliffe**: I hope so. To put it very simply, household balance sheets—the
current level of household debt to income—are quite large, so if you get a big shock,
they are vulnerable. We have a vulnerability in the current account. There are
reasons why it is sustainable. It is not a current account that is financing mortgages—
offset capital inflows are not financing mortgages—but if we get an economic shock
with debt to income of 135%, households are more vulnerable than if it were 50%.
The point the Governor was making is that were “strangers” or “friends” to lose
confidence and not be prepared to finance the UK more generally, our relatively high
debt to income would leave us more vulnerable.

**Lord Forsyth of Drumlean**: You do not see any evidence of that being likely in the
foreseeable future.

**Sir Jon Cunliffe**: We ran it as a stress test in 2014.

**The Chairman**: Have you run the outcome of a referendum as a stress test?
Sir Jon Cunliffe: No. We would not run a political event as a stress test. We ran a number of variables, one of which was on the current account, and how those impacted on the economy. The stress test that we ran in 2015 was about a shock coming out of Asia and the euro area, and about financial markets. The stress tests we run involve a series of things that could happen that fit together in a coherent scenario, but they are not necessarily what we expect to happen.

Lord Forsyth of Drumlean: So you do not expect us to leave the European Union, then.

Sir Jon Cunliffe: From a Bank of England point of view, we do not have an expectation one way or another. That, as they say, is in the will of the British people.

Lord Forsyth of Drumlean: If you have not run a stress test, obviously you do not expect it to make much of an impact either way.

Sir Jon Cunliffe: No, I do not think that follows at all. If you are asking me what the impact would be of a UK exit from the European Union on the banking system, on which we ran the stress test, my answer would be that a wide range of possibilities could follow the exit of the UK from the European Union. I do not know what the situation would be ex post. The Bank certainly is not responsible for or able to predict what is going to happen. There is a range of possible scenarios. We published a report on the impact of European Union membership on how we deliver our objectives, but it is not our job to speculate on the range of counterfactuals that might happen if the UK were to leave, which I think would be a large part of a referendum debate. What we can do is ensure that the banking system is robust to fairly extreme circumstances, which is what we tested. But you should not take from our stress test any Bank of England view about what would happen in the event of an exit.

Lord Teverson: Perhaps we should go back to housing—

Sir Jon Cunliffe: That is fine. I thought somebody might ask me.

Lord Teverson: —although I am sure we would all love to talk about the broader issues.

Sir Jon Cunliffe: We have to answer that in another place next week.

Q193 Lord Teverson: Perhaps I might refer to another speech you made, to the British Property Federation last month. In it, you identified the increase in house prices relative to earnings as one of the main drivers of the increase in household debt pre-crisis. According to ONS figures, the median house price-to-earnings ratio—I would be interested to know the practical difference between the mean and the median in this instance—is now above the 2014 level. How do you feel about that? Is that a sign of threat, if you like?

Sir Jon Cunliffe: We use the mean, which is the average above the median, which I guess is the representative house purchaser in earnings terms. You would use the
representative one if you were looking at this from a societal point of view. If you are looking at overall debt and income numbers, it is better to use the average. The average is still below the pre-crisis peak; I think it is about 4.3 for households, and higher for individuals. It was 4.8 during the crisis, so from that point of view it is not past the pre-crisis peak. To some extent, there is nothing magical about the pre-crisis peak; this has been building up for a number of years. It is fairly clear that if house prices grow faster than earnings and mortgage transactions go back to 100,000, or whatever, the debt-to-income ratio will grow, because the only way people can buy houses is to borrow more. A fair proportion of the pre-crisis borrowing was for people remortgaging—taking value out of their houses—so it was not just for house purchases.

A market in which very few people are buying houses but the house price-to-earnings ratio is very high is not changing very much in financial stability terms. A market in which the house price-to-earnings ratio is growing and lots of people are transacting at that level starts to build indebtedness. If the house price-to-earnings ratio continues to grow and housing transactions, mortgages, continue to grow—you need both to happen—the vulnerability that I talked about would increase. The point I was making in the BPF speech was that although sustainability had been helped in the last 25 to 30 years of the last century because of the secular declines in interest rates, one would not look to see that repeated. We have already talked about vulnerability in relation to the “kindness of strangers” point. You are vulnerable to a number of different shocks because you have stretched household balance sheets.

**Lord Teverson:** A very, very long time ago in my career, I was an economist in the corporate sector. I would look at the housing market and say, “Why are house prices still going up if no one is actually able to afford them?” Does the Bank of England have an opinion on that? Is it just excess demand?

**Sir Jon Cunliffe:** House prices have gone up—values have generally been maintained during the crisis; I think they dropped by nearly 20% in nominal terms, but they have come back up again—because of the underlying supply and demand imbalance. That is what drives the market as a whole. There are low interest rates—at the moment, the mortgage rates that borrowers face are pretty low. Clearly, that increases prices as well. The issue is that there must come a point at which people can no longer afford to buy. The other thing is that mortgage terms have been extending. The percentage of 25 or 30-year mortgages—some are beyond that—has grown, because the other way to square the fact that you cannot afford a house at a higher price is to extend the term of the mortgage in order to lower the monthly repayments.

The other thing that has come in increasingly over the last 15 years is not owner occupiers but buy to let. Virtually all the growth in mortgages over the last few years has come from buy to let, not owner occupier.

**Lord Teverson:** This is almost the question that we asked about the buy-to-let market effectively substituting for home ownership, which is going down. Do you see that as the scenario?
Sir Jon Cunliffe: We published some of this information in the last financial stability report. Demographic and other factors have increased the demand for rented accommodation, so the balance between owner occupier and rented has been changing over the last 15 or 20 years, but it looks as if much of that change happened in the period before the crisis, and a lot more of the switch between owner occupied and rented since the crisis has been due to affordability.

Lord Teverson: I have one last general question. One of the main questions that we are looking at is the shortage of housing and how we stimulate the market and grow it from a low level—an aspiration of Governments of all shades and parties. Given the Bank of England’s independent status, do you have a view about how to solve that conundrum of substantially increasing housing supply?

Sir Jon Cunliffe: Whether it should happen, or whether it can happen?

Lord Teverson: Whether it can happen, how it should happen, or anything that you think.

Sir Jon Cunliffe: We have to take the world as we find it. We have an imbalance of supply and demand, and at the highest level our job is to make sure that that does not lead to financial instability, given that we cannot build a single house ourselves. The other thing to point out is the kind of risks that we have in this system, which we have been doing, but it is for government and elected politicians to make the decisions on planning, subsidy and tax that may or may not tackle this issue.

The only area in which the “how” impacts on what we do is that we try to ensure that we have a healthy banking system that can lend. Certainly I believe that that means the banking system has to be properly capitalised and resilient, but also that we can have alternative forms of finance, possibly such as securitisation, that take things off banks’ balance sheets and enable more lending to the household sector. But the issue at the moment does not seem to be the availability of credit for mortgage lending. Is credit there for housebuilding? One of the reasons why we do not build houses is that the credit is not available. The whole building industry is pretty cyclical. But I am not sure that availability of credit is the big issue.

Lord Teverson: Actually, housebuilders do say that one of their key problems is from the supply point of view as opposed to the mortgage point of view.

Sir Jon Cunliffe: They are credit constrained at the moment.

Lord Teverson: Well, the ability to pre-fund and fund development is a major issue for builders, as we heard here yesterday.

The Chairman: When you talk about taking risk off the banks’ balance sheets, are you thinking of the development of a more securitised market, which would allow banks to manage their level of mortgage and the mortgages might then go to long-term holders?
Sir Jon Cunliffe: That is exactly the point. Retail mortgage securitisations got a very bad name in the crisis, but we did not have that much sub-prime in the UK. UK RMBS and mortgage securities did not drop much in value and proved pretty robust. There was some UK sub-prime, but most of the sub-prime that British banks held they bought overseas. That market is a useful market for two reasons. One is that, with controls, it can allow banks to transfer those assets to insurance companies and pension funds that want exposure to housing and are looking for long-term investment. The other reason, which is not an issue at the moment because we are still providing banks with pretty cheap funding, is that those securitisations are a way for banks to fund themselves when the market returns to normal. The Bank of England has done a fair amount of work with the European Central Bank on trying to revive the securitisation market in Europe.

Q194 Baroness Wheatcroft: Sir Jon, you mentioned the growth in buy to let mortgages, and I must declare an interest as a landlord. Do you think that the growth in that sector poses a risk to financial stability?

Sir Jon Cunliffe: There is a potential risk there. There are clearly risks on banks’ balance sheets, and one of the things the Prudential Regulation Authority is doing at the moment is looking into underwriting standards and banks’ plans for increasing their exposure to buy to let. But the financial stability risk is not the risk of individual institutions getting into trouble, although if enough of them to it becomes a financial stability risk.

The other financial stability risk, which you have to trace through, is that an increasing amount of housing stock is now owned by buy-to-let landlords, about half of whom—those who have mortgages—are higher-rate taxpayers. The question is how they behave if they cannot cover their interest costs because interest rates go up or there are tax changes, and how they behave if house prices go down. Interestingly, in the survey that I talked about we asked a sample of buy-to-let landlords what they would do if rental costs no longer covered interest charges and if house prices were expected to go down by 10%. Sixty per cent of them said that they would consider selling. “Consider selling” is not selling. This is about half of the private rental sector—the other half does not have mortgages—and is about 10% of the overall housing sector. So you have to work through the risks, but there could be risks to financial stability because it starts a spiral of house-price declines.

Baroness Wheatcroft: But presumably 50% would consider selling because, as far as they saw it, they had no option.

Sir Jon Cunliffe: They would consider selling, I guess, because they took the mortgage and bought the property as an investment. At the moment our calculations, if you factor in past house-price increases, are that the return in equities is somewhere near 15%, so it is a pretty good investment. But the parameters change and they then have to decide whether it still represents a good investment relative to what else they could do with the money. To be very blunt, we do not have much experience of a stock of buy-to-let mortgage holders of this size.
Behaviourally we do not have much evidence of how they would react. These are potential risks, not things that you can see clearly.

**Baroness Wheatcroft:** And the ground rules have just changed, or are about to change.

**Sir Jon Cunliffe:** The tax changes, yes.

**Baroness Wheatcroft:** Do you think that might have deleterious effect on the market?

**Sir Jon Cunliffe:** I do not want to front-run the Financial Policy Committee, which is meeting this month, because we looked at this before Christmas and will look at it again. But there are some estimates of the impact it might have on the market. You have to make a lot of assumptions, which are not easy to make, and different people—the Council of Mortgage Lenders, the OBR—all have rather different estimates. Of course, you also need to estimate whether, if a number of buy-to-let landlords with mortgages exit the market and the flow of new buy-to-let mortgages goes down because of the extra stamp duty, that means more first-time buyers coming into the market because there is a slowing in house-price growth.

**Baroness Wheatcroft:** Finally, to what extent do you think the growth that we have has been a reaction to uncertainty over pension provision?

**Sir Jon Cunliffe:** A lot of the growth that we have seen has been because this has looked to be an asset that gives a relatively good return at a time when many other assets—pensions or otherwise—are not giving a good return.

**Lord Forsyth of Drumlean:** Is this not just the dash for yield that we saw before the previous crisis reasserting itself?

**Sir Jon Cunliffe:** It is definitely people trying to increase yield. The question is whether they are taking risks. Before the crisis, in some areas of the country—the north-east was one—buy to let got very frothy and people bought at prices that could not be sustained by rental yields, and when the crisis came along there was an overhang there. Up to now, I do not think we have seen the same weakening of banks’ underwriting standards that allowed some of that to happen before the crisis.

**Q195 Lord Turnbull:** Part of the discussion yesterday with a representative from Lloyds and a representative from the Council of Mortgage Lenders was about contrasting the conditions in, say, 2007 and now. In 2007, banks were lending 90%–plus mortgages, and notoriously occasionally 125%. Now, the norm is about 70%. Then the witnesses pointed out that to help first-time buyers the Government had come in with a scheme that provided another 15%. We asked what would happen if that scheme were withdrawn. They said, “We think we would probably come up with a scheme to fill it, actually”, which I thought was quite interesting. We then asked, “If you got into trouble with these very high loan-to-value ratios in 2007-08, why do you want to go back to them?” They said that this was all to do with underwriting standards—I do not know whether this is because of the FPC or the
FCA—and that you have to assess and stress-test your customer. They said that they would lend at the kind of very high loan-to-value ratios that they loaned at before but to a better-assessed class of customer. Do you think they are being a bit complacent?

Sir Jon Cunliffe: Loan-to-value ratios are creeping up generally. Post-crisis they went down to 70%. There are now more products on the market over 80% than a year ago. This means that we are looking at this through the bank end of the telescope, so the loan to value is the banks’ equity cushion in the house. I would make a number of points. One is that the banks are holding more capital now, so they are more resilient to loss. They are also more resilient because they are not funding mortgages with very short-term wholesale market funding, which is one element of stress. So the banks, with their funding source and the capital, have more to absorb losses and shortages of liquidity.

Baroness Wheatcroft: They were blithely talking about 95%, were they not?

Sir Jon Cunliffe: On the question of the LTV, the MMR has certainly changed a number of things. Self-certified income has pretty much gone; you have to be able to show the income. The FPC put in the test that the borrower can withstand a stressed interest rate that is 300 basis points higher than the current interest rates; it is a test to see what sort of distress you would get into if interest rates went up. Interest-only mortgages, not for buy to let but for owner occupier, have now disappeared. So lending has tightened up in a number of areas. I do not know whether they are being complacent. You would worry if you started to see us going back to significantly high proportions of mortgages. We had over 100% mortgages before, as I recall.

The only point to make about the loan to value and why there is pressure on it is that of course if the loan to value is 80% rather than 95%, the deposit has to be four times as large. Given the savings rate, it takes first-time buyers much, much longer to come into the market with a lower LTV limit, and that has clearly had an impact.

The banks are more resilient and underwriting standards are tighter. The key, though, is to make sure that we do not drift back into a world in which we have a high proportion of mortgages at those very high LTVs.

Lord Turnbull: The other statistic that has come out from a briefing that we have been given is that, in the glory years, there were about 300,000 mortgage applications a year, of which about 290,000 were approved. Now—admittedly this is about 12 months out of date—there are 150,000 applications, of which 100,000 have been approved. The fall in the number of applications now being approved is dramatic. That indicates that the amount of lending is not going to get back to the old levels or old rates of growth while that kind of stringency is going on. Is that a reasonable deduction?

Sir Jon Cunliffe: Yes, I think so. The question underneath it, though, is about the amount of lending and the loan to value ratio. The stringency was tightened very significantly in 2009-10, as shown by the flow of mortgages. It has now come back
and the MMR is there, with a limit on high LTI mortgages. There are a number of things that are guardrails to stop things going back to where they were. The issue for the Bank, both for the PRA and the FPC, is whether the underwriting standards will hold and whether we can be sure that they do not deteriorate under the pressure of a market where there is an imbalance of supply and demand. For the moment, they seem to be holding.

**Lord Turnbull**: This is possibly a small issue, but when you and I left university, we did so with more or less no debt whatever. Many students are now leaving with debt of £27,000. It may turn out that many do not have to pay it, but they all work on the assumption that they do. Is that taken into account in the assessment of what a bank is prepared to lend them, given that they are lending to a customer who is already quite heavily indebted to start with?

**Sir Jon Cunliffe**: They should take debt into account. From the Bank’s perspective, the measures that we put in place on mortgages were about mortgage loan to income, but the powers that the Treasury are now consulting on are about debt to income. If we felt that there were other elements of debt that were unsecured or pre-existing and were leading in aggregate to a problem, we might look at overall debt to income rather than loan to income.

The other point about leaving university with large debts, or debts generally, is that there is a concern that you get cohorts, large groups, within the population of mortgage borrowers or bank borrowers who are highly indebted, so that the distribution gets skewed to a highly indebted fat tail at one end, with a less even distribution across households generally. You would expect those who have more underlying debt—the younger ones with bigger mortgages—to be there, and those are the ones who have cut back on their consumption.

**Lord Turnbull**: And, at the other end, 40% to 50% of the population have no debt at all.

**Sir Jon Cunliffe**: Yes. It is the distribution in the debt stock that matters.

**Lord Turnbull**: The way the Bank operates, it is looking at all sorts of dials or charts. Which ones are you looking at the most?

**Sir Jon Cunliffe**: There are a number of people on the FPC and, as with the MPC, people have their favourite metric. I look at the overall debt to income number, because that is the stretch in household balance sheets, and how that is moving. I look at how house prices are moving relative to earnings—to go back to the point made earlier—and that have to be mortgaged. Also in this area are the number of mortgage transactions and the level of interest rates. Those things give me an idea of whether the dynamics that drove that big increase in debt to income in the 10 years before the crisis are re-establishing themselves.

**Q196 The Chairman**: I presume that one of the most important dials on your dashboard is house prices and whether they are likely to go up or down. On the calculations of loan to value, the whole applecart can be upset if the collateral value
falls. We learned yesterday that the market is now at 95% and that it was unlikely to go any higher—the days of 125% are in the past. Part of your job as a regulator is to look in the rear-view mirror, but you also have to have a view to what lies ahead down the road. To that end, what factors are you most focused on when trying to get a sense of the direction of house prices, and what concerns you most about the possible factors that might lead to a fall in house prices over the next few years?

Sir Jon Cunliffe: We watch house prices both on the financial policy and on the monetary policy side, but from the financial stability point of view the PRA will have different views for individual firms. It will look at the business that those firms are carrying out, the amount of equity that they have in the loans et cetera and their underwriting standards. From the financial stability point of view, it is the rise in house prices but relative to earnings. If income is going up and house prices are going up and that is evenly distributed, that is much less of a worry, because the debt-to-income ratio will stay the same. It is house prices going up by 6.5% and earnings going up by 2% to 2.5% where one can see the gap. Then there is the number of mortgage approvals, which pulls it together. In the end, the Bank does not have a responsibility to ensure that, and it is quite difficult to have a view on whether, houses are fairly valued.

On assets, most of the models that you use around dividend discounts and the like are dependent on the interest rate that you use. To try to target house prices specifically is not for the Bank, and it is quite a difficult thing to do. For us, the key thing is household indebtedness.

On the banks’ balance sheet side, a drop in house prices leads to a drop in collateral value. There, one is interested in the other metrics as well—bank resilience, amount of capital and liquidity.

On the big things, I go back to Lord Forsyth’s question. The big things that would trigger a major fall in house prices would be a large economic shock that led to people’s income and income expectations being damaged—that is really about employment and unemployment—and large increases in interest rates. Those are the things that would lead to large house price falls.

The Chairman: But you are seeing nothing out there at the moment that is giving you anxiety about the stability of house prices.

Sir Jon Cunliffe: As to whether houses are for the moment fairly valued or not, it is difficult for us to take a view on what house prices should be.

Lord Turnbull: Do you look at rents and how fast they are rising?

Sir Jon Cunliffe: We look at them for a number of reasons. We look at rental yield. In the same way in which one is interested in the proportion of debt to income among owner occupiers, the equivalent metric for buy to let is the rental yield and whether the rental yield can then cover the mortgage.

Lord Turnbull: I was more worried about the tenant than the landlord.
**Sir Jon Cunliffe**: In the end, rents cannot go to 100% of income, so there is a limit. But the question of whether rents are rising and the impact of that is a more societal thing.

**Lord Turnbull**: They are going to eye-watering levels. They are putting a lot of pressure on somewhere like London, where renters probably outnumber owner occupiers.

**Sir Jon Cunliffe**: It is certainly getting that way. The rent amount is large, but in financial stability terms—

**Lord Turnbull**: I see that.

**Sir Jon Cunliffe**: —we look at rents and rental yields growing in line with nominal GDP, not growing faster than that. Certainly, in societal terms, it is a huge issue.

**Lord Turnbull**: We are looking at personal disposable income after X, Y and Z.

**Lord Forsyth of Drumlean**: In London you are seeing both things: rents going up very substantially relative to income, and yields going down because people are buying properties whose prices have gone up in the expectation of a capital gain.

**Sir Jon Cunliffe**: In aggregate, rental yields in London have come down more than anywhere else in the country. The rents have gone up, but property prices have gone up even more, so the yield has gone down. From my recollection, the picture is not homogenous across London; it is very different in the higher-value areas. You generally expect rental yields to be lower for the more expensive properties. But London is one area where we have seen rental yields going down.

**Baroness Wheatcroft**: There is the issue of judging whether valuations are fair or not. Leading on from what Lord Turnbull was saying, looking at the Bank’s overarching growth agenda, do you have any concerns about the fact that housing costs, whether mortgages or rent, are so high in this country relative to most others?

**Sir Jon Cunliffe**: We do not see consumption in the UK being low compared to other countries. One of the problems with the house price-to-earnings metric, which we look at in terms of debt, is that if people are paying more for their housing than they were 30 years ago but less for their televisions and other manufactured goods, there is a relative price shift that does not lead to sustainability. The big risk here, which I keep coming back to, is people paying more and more for houses, and buy-to-let landlords depending on higher rents—to go back to Lord Turnbull’s question. All that is sustainable until you get a shock, when the impact on the economy is greater. That “stretched balance sheet” point applies to rents and to mortgage payments in the same way.

**Lord Forsyth of Drumlean**: When the Monetary Policy Committee and the Financial Policy Committee are taking decisions, to what extent do they take account of the effect of those decisions on the housing market as such, particularly the Governor’s declared policy on housing?
Sir Jon Cunliffe: Both committees have a secondary objective, which is to support the Government’s economic policies, but their primary objective—financial stability on the one side and monetary stability on the other—dominates. We therefore take our decisions first of all with the primary objective mind. The MPC will look at what is happening in housing market transactions—mortgages and the like—and that gets fed into the general economic model. Of course, house prices are not in the CPI; the cost of housing, using rental values, is in the RPI, and people are now trying to bring it more into the CPI.

One of the advantages of having set up the FPC is that the MPC, which has a price stability objective, can look to the FPC to deal with the financial stability consequences around the housing market and the like. So the MPC can take its decisions very much with monetary stability mind, and it is the job of the FPC to deal with financial stability. There can be instances where those things overlap. The Bank has said that the last line of defence on financial stability would be monetary policy. I do not think that is a change from before the crisis. In the end, if the only way to deal with financial stability problems is to use interest rates, we have not ruled that out for financial stability purposes. But the objective of having the Financial Policy Committee is that it provides a range of actions that you can take to deal with financial stability problems before you get to that point, and there is the action that we take on housing.

Q197 Lord Forsyth of Drumlean: Sometimes what the Chancellor and other Ministers say on housing policy seems to be in conflict with some of the decisions that have been taken in respect of strengthening banks’ balance sheets, and so on. In Basel III, for example, there is a proposal very substantially to increase the risk-weighted ratios for mortgages and housing development. Although that might affect the big banks less on the standardised model, it will mean that the challenger banks are unable to provide lending without considerable additional cost. That seems to fly in the face of the Government’s declared policy of encouraging more first-time buyers. One just wonders the extent to which the right hand is talking to the left hand, and reaching a view.

Sir Jon Cunliffe: Our primary objective is financial stability, and the PRA’s primary objective is the safety and soundness of firms. It also has a competition element. But if the judgment is that, for financial stability or the safety and soundness of firms, banks should be holding more capital against particular types of investment, that is the job that Parliament has given us. It has not given us the job of encouraging owner occupiers or dealing with some of the more deep-rooted problems.

There is another point here about horizon. In the end, it does not help the housing market, owner occupiers or buy-to-let landlords if we have a financial crisis and we lose financial stability. It depends a little on the horizon; if you take a view about sustainability and wanting to have sustainable home ownership and a sustainable housing market through time, in my view financial stability goes hand in hand with that.
Lord Forsyth of Drumlean: That must be right, but looking at your speeches up to now, which have been reasonably confident about the capital position of the banks and so on, there is a proposal coming from Basel III that will make it more difficult for banks to provide finance for housing, and which arises out of a European decision. Of course, the housing market in Germany is completely different from that in the UK.

Sir Jon Cunliffe: There are several things there. One is that Basel is not European—the US is on the Basel committee, and it is an international standard setter.

Lord Forsyth of Drumlean: I understand that, but the implementation—

Sir Jon Cunliffe: Were there to be new standards, the implementation would come through the European Union, but we would implement international standards in the UK even if we did not have the European Union, so this is not something I would trace to Brussels in particular. It is important for us that we have high standards. There are proposals out for consultation, and Basel committee proposals have changed in the past as a result, so I do not know what the final outcome will be. That package does involve some higher-risk weights in some areas, but it also makes the risk weights for owner-occupier mortgages, for example, more risk sensitive and reduces the risk cost. So this is not an “everything’s gone up” situation.

Lord Forsyth of Drumlean: It increases the risk for those that are at the higher percentage—

Sir Jon Cunliffe: The risk goes up at higher LTVs and for buy to let relative to owner occupiers, and the risk goes down for the others. There are judgments.

Lord Forsyth of Drumlean: I am asking about the impact on first-time buyers.

Sir Jon Cunliffe: My point is that there are judgments here about how you provide a standardised approach. The one thing I would say about the standardised approach is that it is pretty out of date and pretty risk insensitive. The gap between that and the internally modelled approach, which is what the big banks use, is very large. The standard risk weight for all housing is 35%, regardless of risk. On the standardised approach, some of the internal models are below 20%. That is a huge disadvantage for challengers and smaller players. As we bring the standardised approach more in line with the internally modelled approach, that should make a very big difference to smaller banks and challenger banks. Within that, there will be some distribution changes. I do not know where the consultation will come out, and I would not want to prejudge it, but people always tend to pick the one thing in the distribution that they do not like.

Looking at this from a UK perspective—and from a financial stability perspective, not that of an individual lender to a particular sector of the market—we do not expect those changes in Basel, which deal with how you calculate risk weights, to be net additive to capital across the system. We do expect it to change the distribution between different banks in different ways—some going from big to small, and for people with different business models—but we are not expecting, certainly here,
that that will add capital across the system. We have been quite clear in saying that we do not think there is a Basel IV that is going to have a big net addition to capital.

**Q198 Lord Teverson:** Perhaps I could clarify my earlier comments about builders and developers finding it hard to find finance, because you looked at me somewhat incredulously at that point. I was talking about the smaller developers, not the larger building sector.

Coming to the last question, perhaps the House of Lords should declare an interest here, because it is on intergenerational issues. The graphs on the change in indebtedness across the generations in the last 20 years are quite stark when you look at the amount of net household wealth at the higher age end. I also saw a statistic that there are more householders with mortgages paid off, at the older end obviously, than people who have mortgages on their house. Do you or the Bank see that as an issue, and what about the predictions that people will retire with large mortgages still to be repaid?

**Sir Jon Cunliffe:** On the question of the distribution of debt and the distribution of wealth, I will repeat what I said before. What impacts most on financial stability is when we end up with highly indebted groups within households, and the vulnerability that you get when there are a lot of people with high debt and a lot of people with no debt. In the end, there is no net indebtedness, because for every borrower there is a lender, so the net position has to be zero, I guess. If you get high concentrations of people in debt who then act in certain ways under stress, that can be destabilising to the economy as a whole. If that high concentration of highly indebted people is sitting on mortgages that are written with poor underwriting standards—very high loan-to-value ratios for banks that are not holding enough capital, for example—that is a risk on the other side. That is how we look at it. Stretched balance sheets are generally one thing that you worry about. If you have a proportion of households with very stretched balance sheets that is sufficiently large, you would worry about that.

I, too, declare an interest in this. I looked at some of the evidence presented to your Committee. The FCA produced a very striking chart on the increase in first-time buyers’ income relative to the increase in first-time buyer house prices. The FCA also said that the amount of overconsumption of housing, which it defined as the number of properties with two or more spare bedrooms, was increasing. So you can also see general trends in how the housing stock is used, which add to those issues. The Bank has a pretty large range of responsibilities, and those societal and other questions—

**Lord Teverson:** So from the Bank’s point of view, it is a micro-question about the individual ability of those people to pay, rather than a social justice issue.

**Sir Jon Cunliffe:** I would say that, from a financial stability point of view, it is a macro question about what happens when you have lots of people in that position, but we do not go into the more societal issues such as the distribution of wealth in society and the inequality that this market might be driving. Those questions are better dealt with by elected politicians.
Lord Teverson: One of the potential solutions to that stress is getting more equity, rather than debt, into house ownership—shared ownership schemes, for example. Should that be encouraged?

Sir Jon Cunliffe: The Bank has not taken an overall view on that, but my personal view is that generally the level of debt relative to equity across the global economy is very high. The advantage of equity is that it absorbs risk, whereas in order for debt to absorb risk you have to go through default and some quite unpleasant processes. As a world economy, we are anyway generally highly indebted. Coming down from that level, where people have an asset with a capital value that they can move around—in the UK, it normally appreciates, but you can get periods when in falls quite sharply—financing a large proportion of that with fixed-obligation debt makes you vulnerable, and that is the vulnerability I have been talking about. If more of the variable capital value of a house was in equity—for people who wanted exposure to an equity investment—that would certainly stabilise things.

My ex-colleague on the MPC, David Miles, put forward a number of ideas. Of course, the Government have been doing that through shared ownership, and housing associations have been doing it for 20 or 30 years. It is interesting that that market has not taken off.

Lord Teverson: I was going to say that it has not been that successful, has it?

Sir Jon Cunliffe: I do not know why. There are clearly institutions that would like exposure to housing equity—again, insurance companies, pension funds, which have a long horizon—and if people cannot stretch to make the debt buy that property, a proportion of equity may help. But the market has not got going. It may be that it is so much in our psychology now to want to own our own house and to treat a house as an investment for the future and the like—

Lord Teverson: —that it would require a cultural change.

Sir Jon Cunliffe: It would require a cultural change. I do not know why it has not taken off, but it would certainly take some of the risk that we see out of the system.

Q199 The Chairman: The housing market generally—mortgages, and finance to build houses and the like—forms a very large part of the UK banking system. Your primary responsibility is the financial stability of that system, so you have a substantial horse in the race when it comes to the housing market. The description of the housing market that has most regularly been heard during our inquiry is that it is dysfunctional. It fails to deliver the required number of houses. There have been many government interventions over the decades, most informed with good intentions but not always having the desired effect, and sometimes rather contrary to other policies that were also being promoted. Against that background, to what extent do you think you should be concerned about the functioning of the housing market? To what extent should you be engaged in the discussion on the many initiatives—we have just talked about shared ownership—to promote stability and make it function better? To what extent do you think it appropriate and proper for
you to become engaged in trying to build financial stability into what is a very unstable and dysfunctional market—perhaps you will say that it has been unstable and dysfunctional for so long that it will continue to be that way—given your particular and very detailed perspective on the way the market works?

**Sir Jon Cunliffe:** First, we have a huge interest in the stability of banks and actors in the financial system, but even if, as the 2014 stress test showed, they can survive a 35% drop in house prices and a 4% increase in unemployment and still have enough capital, you still have the financial stability problems on the other side of highly indebted households acting in certain ways under shock. So we have an interest in both the lender and the borrower side, if I can put it that way.

It is for us to draw attention to the strains that we have to manage because of this market, and we try to do that. However, many of the remedies go to deeply societal distribution issues such as planning and tax. For the Bank of England to get involved in those is taking us beyond our remit, simply because we are not elected— and those are choices that you make at the ballot box, and through your government. We can draw attention to the risks in the world as we have to deal with it, but as for wading into how you should sort it out and how the present system should change, if there are things that we can do at the margin to ensure that the supply of finance is there in a sensible way and that we have a well-capitalised system, obviously we would do that. We support the Government’s general economic objectives, provided that they do not conflict with the primary ones, but I think we have to be a bit careful about getting into some of the issues that lie at the root of this.

**The Chairman:** I am sure you will only ever proceed with great care and caution, but you are in the uniquely privileged position of knowing this market intimately and being able to provide evidence based on objective analysis of some of the issues. I would have thought that that could only help the effort to make the market more functional.

**Sir Jon Cunliffe:** I hope we do, and we have tried to put a lot of information into the public domain about where we think the risks are and why. Now that the Bank has the prudential regulator of financial stability and monetary policy together, we have access to a much greater range of data, and we try to use that and put it into the public domain.

**The Chairman:** Thank you very much for sharing your views with us today, Sir Jon.

**Sir Jon Cunliffe:** Thank you.
Ayeesha Waller  
Clerk to the Committee Economic Affairs Committee  
House of Lords  
London SW1A 0PW

Ayeesha

Thank you for writing to Jes Staley requesting evidence from Barclays on access to finance to assist with the supply of new housing by the public sector. Jes has asked that I respond in detail, as Managing Director of Education, Social Housing and Local Authorities in Corporate Banking.

On reading your letter I understand that the Committee’s central thesis is that the rising demand for housing is unlikely to be met without a strong social or public sector house building programme, and that there are financing constraints on this occurring. We would fully recognise this sense of importance of the social housing sector.

I attach to this letter a longer submission on this issue and the specific questions posed in the letter. However in summary, our view is that:

- The credit performance of the Housing Association sector remains healthy.
- We believe that direct finance to Housing Associations remains the best approach, given their credit strength. This is equally true of direct lending from banks, and the increasing use of alternative and capital markets finance.
- We do believe that there is greater room for consolidation of Associations to unlock capacity and create cost savings.
- We see rental income uncertainty as the biggest financing constraint.
- We encourage the Committee to consider the widely noted problem of land availability - which may in part be eased by Local Authorities and Housing Associations working closely together.

I hope that the information in this submission is useful to the Committee and I would be pleased to enter into further correspondence if there are areas where we could continue to be of use.

Yours sincerely
Submission to the House of Lords Economic Affairs Committee

Below we set out general thoughts on the social housing finance market, and particularly the finance of new building projects. We also offer some suggestions to the Committee as to which innovations and changes might support further housing development.

How we approach the sector

- Barclays is a significant lender to the Housing Association sector and has been a consistent presence in that market for over 15 years.

- At present, our lending commitments are in excess of £10bn and we lent more than £350m to Housing Associations in 2015 to assist with their objective of building more homes.

- We have an industry focused team working exclusively with Housing Association clients. This reflects the specific nature of the industry, which requires an understanding of the housing sector, as well as the public sector.

- This is supported by a specific lending policy which recognises the historic and current financial strength of the sector.

Our view of the sector

- It is Barclays belief that this sector remains strong, and as a result we are able to support the sector with flexible and available finance, both directly and through the capital markets.

- The business model is a good one where our clients skillfully manage the balance between continued provision of affordable housing to rent and buy with more market-centred activities, such as market sales.

- The Committee may wish to note that Housing Associations generally borrow on more favourable terms than mainstream builders, reflecting the historic stability of their core business model. They also borrow on more favorable terms than complex structures such as Joint Ventures or leveraged funding models.

Future risks

- The principal risk the sector faces is further rental reductions beyond 2020. A reduction in income (or certainty of income) would affect funder confidence and appetite.

- It is also arguable that the market is unnecessarily fragmented. Given that these organisations operate within geographically defined markets, there would be value in creating greater scale and efficiency savings through mergers.
• We understand that the effect of the Housing Bill will be to allow the Housing Association sector to be re-classified as Private. Under those circumstances, we envisage continuing to play a strong role in the provision of private finance.

Suggestions for reform and innovation

• Retain a direct funding model - we believe that Housing Associations should continue to raise their financing directly, from both direct lenders such as banks, and from capital markets investors through fixed income products. This is most efficient for public sector balance sheets, and does not result in funding costs which are limiting, given the proven stability of the sector.

• Simplify demand side support - schemes like shared ownership and more recent Help to Buy initiatives are well designed products, however we believe they would benefit from simplification and from more effective explanation and promotion. Additionally, similar initiatives to support the supply of housing would be well received e.g. continuation of the ‘affordable homes’ programme.

• Extend use of the long term capital markets and alternative finance. There are examples of Housing Associations acting in innovative ways to find sources of finance. As an example, in 2012, social housing provider Places for People raised £180 million in a bond issue to retail investors. The Committee may feel that this strategy has the dual benefit of offering appropriately priced finance, and offering the people the opportunity to invest in the future of their community.

• It is important to note that currently there does not appear to be constraint in the availability of finance for Housing Associations, so widening sources of finance is unlikely to be transformative in the short term. However a greater range of finance sources should ensure ongoing competition from funders and therefore continued competitive pricing and terms.

• Consider consolidation of the sector - it is in the nature of Housing Associations to be highly exposed to specific geographies and customer groups. Consolidation should offer greater diversification within each Association, enhancing their credit risk.

• Additionally there should be efficiency savings and greater capacity unlocked as a result of formal consolidation or through working closely with Local Authorities. As an example of this second option, the release of public land for development with returns for both parties spread across longer periods following completion of open market sales could address the continuing issue of land availability and create a source of revenue for the Housing Association.

• The Large Scale Voluntary Transfer funding model (the transfer of Local Authority housing stock to Housing Associations) is well established and has
the potential to release additional capacity where Local Authorities may be constrained in their ability to undertake long term maintenance and investment on their housing stock.

- **Rental certainty** - It is important that the policy makers recognise that the ability for Housing Associations to raise funds needed to build housing stock is contingent on continuing rental income. Reductions in the level of rental payments to the sector may restrict the ability of Housing Associations to deliver more housing and should therefore be balanced against continued strong house price growth if the supply of new housing retrenches. The Government might for example investigate the potential for a ‘forward guidance’ approach to give clarity over the long term health of the sector.

- **Finance is only part of the solution** - The Committee will be aware that availability of land, particularly in the South East, constrains the supply of new housing. We suggest above the use of partnerships between Local Authorities and Housing Associations to unlock packages of underused land. While we do not have sufficient expertise in the issue of land availability to comment in detail, we do encourage the Committee to consider this question of public land use in detail, alongside more traditional challenges of planning law.

25 February 2016
TUESDAY 1 DECEMBER 2015

3.35 pm

 Witnesses: Martin Wolf, Dame Kate Barker and Chris Walker

Members present

Lord Hollick (Chairman)
Baroness Blackstone
Lord Forsyth of Drumlean
Lord Griffiths of Fforestfach
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Layard
Lord Monks
Lord Sharkey
Lord Teverson
Lord Turnbull
Baroness Wheatcroft

Examination of Witnesses

**Martin Wolf**, Financial Times, **Dame Kate Barker** and **Chris Walker**, Policy Exchange

**Q1 The Chairman**: Good afternoon, Dame Kate and Martin Wolf. I gather that Chris Walker is stuck in security. We feel we ought to make a start. I am sure he will catch up very quickly.

This is the first hearing of our inquiry into housing. As you will have seen from the call for evidence, we have very much focused on the supply of affordable housing, both for the social sector and the first-time buyer sector. That is our remit and the focus of this inquiry. I want to ask both of you about the likely number of homes that we should be targeting over the next five years. The Housing Minister has said that he wants 1 million new homes. Other numbers have been bandied about on
previous occasions. The Chancellor had some comments last week about the number of homes. In your view, what is the target that we should be looking at and why?

**Dame Kate Barker**: Please stop me if I go on for too long. The first thing I would say when you are asking what target you should be looking at and why is: what is your policy objective here? I guess most people would say that their policy objective is for everybody to have a decent home of some standard. Previous Governments added to that, they said it should be in a place they would like to live and work. That is quite ambitious because there are lots of places I would not like to live and work in at all.

When I say that it depends on your policy objective, what I am really saying is that there are certainly people around, including economists—Dieter Helm, for example, who has recently been writing about the green belt—who would think it should not be a policy objective to meet the whole of demand for housing because of the environmental costs.

When I finished my report in 2004, one of the suggestions I made was that the Government should take a systematic look at some of the environmental costs of extra housebuilding in the south-east. There was a piece of work done, but I have never subsequently seen any conclusions drawn from it. Before you start to ask how many houses you should build, the prior question I would raise is: have you thought about whether you want to meet demand, or do you want in some sense to say that, for environmental reasons, you do not want to meet the whole of demand? That would inevitably change your answer.

However, I do not have a great answer to the question of whether I would like to meet demand or not. I suspect, as a matter of fact, I probably would want to meet demand rather than anything else. I can see that you have Geoff Meen sitting on your right. Since I have always used Geoff’s numbers as my guide to what should be done, I would say that if the objective over the next five years is to keep the affordability of housing no worse than it is today, or even to lower it a little bit, we would probably need to be building around 300,000 houses a year or in excess of that. We would also have to build them in places where there is demand. Obviously, if we built them all around Sheffield it would not be very useful. If we spread them around the country, particularly in places of high demand, it would be more useful. It would be numbers of that order.

**The Chairman**: Mr Walker, welcome. We are just starting on the first question, which is about the number of houses that we should be targeting over the next five years. Martin Wolf is answering next.

**Martin Wolf**: I can probably answer this fairly briefly. There are two ways of answering this question and I am glad I have Kate next to me. One answer is: “I have this fully specified model of the British economy in which I have imposed some sort of welfare function and included the negative externalities associated with environmental cost, and the answer is X”. I do not have such a model. I do not think I would believe one if I saw one. I cannot give an answer of that kind.
The other sort of answer, which seems to me sensible for an economist, is: “I do not know, but clearly rather more than we are building as we can see from what is happening to prices.” If prices are continuing to rise at an extraordinarily rapid rate for a commodity that does not seem to me as naturally and inevitably scarce on the scale it is, then it is clear that we should be building a great many more. We will find out how many more we need to build by finding out what happens to prices when we start seriously building. Since we are not, I expect them to continue to rise. I would tend to say that the market is showing a profound disequilibrium, and the existence of the disequilibrium that exists indicates that we should be building a great many more. To be perfectly honest, I do not have the sort of model that would allow me to tell you how many more that would be. I do not know whether anyone does, but I do not know it.

The Chairman: Mr Walker, have you brought a model with you?

Chris Walker: I am afraid I have not, but I would say that I broadly concur with Kate Barker. If we are to keep up with our growing population and the changing population demographics, then we need to be building roughly about 240,000 homes a year in England. Of course, it is important to understand the distinction between England and the UK. Housing is a devolved matter. It is also estimated that we have a housing shortage in England in the order of 1 million homes. In order to address that shortage, as well as catering for the growing population going forward, I would again concur with Kate that broadly in England we need to be building about 300,000 homes a year.

The Chairman: Is the industry capable of significantly increasing the number of houses built? A lot of people left the building trade after the crash. It is now estimated that there are simply not enough skilled people in the labour force to achieve the 250,000 or 300,000 homes. Do you have a view on that?

Dame Kate Barker: You did not ask us to introduce ourselves at the beginning. Had you done so, I would have declared my interest in this matter. I am on the board of a major housebuilder. I am not here representing them but I can absolutely say that it would be very difficult in short order to get up to 300,000 homes. I am grateful for being reminded that that is in England, which is a point I usually remember to make. That would be an increase of 70% plus more than we are adding today. We know that the increases in housebuilding in the industry over the last year or so have led to increases in the cost of materials and some particular trades. You are completely right that both some of the manufacturers of material and indeed some of the trades have gone out of business during the financial crisis. Many small companies have also gone out of the industry.

There is a question as to whether you could materially affect the situation by using more custom build. There are various things about custom build. One is that when you have them in they can be quite inflexible as dwellings. They are properties that are not so easy to change once they are there. The second thing is that we do not have any factories producing custom build, so I am not entirely sure in the short term that it would help you. I think the industry would not be capable of going from
here to 300,000 in short order. Over time, and with clear signals that that is where we were going, I am sure that could be done. I would be really startled if we could get there by 2020.

**The Chairman:** You have talked about custom build. It is noticeable that in Scandinavia, the United States and Germany there is far more of an industrial process involved in housebuilding. Why has that not landed on these shores?

**Dame Kate Barker:** It is a very difficult question to answer. I was discussing this with somebody yesterday. One of the points worth making is that, in some of these countries where they do have more custom build, they undertake much more demolition. I made the point that the housing is not necessarily very flexible and some of it does not have such a long lifespan. We have tended, for reasons that perhaps I do not fully understand, to build to last here. It is worth thinking that, if you have custom build, you are going to have to produce more in the long run because you will find that they have a slightly shorter lifespan. I am slightly puzzled as to why we have not produced more custom build here. The truth is that people have not found it very easy to make custom build pay. Indeed, the company I am on the board of closed its custom build recently because they were not finding it profitable.

**The Chairman:** We need a modern prefab.

**Dame Kate Barker:** Yes, but, as you know, their lifespan was nothing like as long as a traditionally built house.

**Q2 Lord Teverson:** I declare my interest as a chairman and director of Wessex Investors and the Anchorwood development. I only have a slight connection with domestic housing, in the social housing area.

Generally, in infrastructure, we have become very sceptical about predict and provide, and certainly when it comes to transport infrastructure and those sorts of things. I am interested to know whether there is any alternative to predict and provide in the housing market. Do we have to provide everything for a civilised life for people who want to rent or own a house; or are there alternative policies that mean we can cope with not providing all the housing that everybody thinks they want or need?

**Chris Walker:** Perhaps I could pick up on that. There is certainly a lot to be said for the argument that meeting the 240,000 or 300,000 is not necessarily entirely about supply and building extra homes. There is probably something to be said about changing the way we use our housing stock. Our housing stock is not used terribly efficiently in this country. We have a lot of underoccupancy, for example, particularly in the owner-occupier sector. There is certainly a problem among the older generations and indeed people of my parents’ age. They want to downsize and move to a smaller house so they do not have two or three spare bedrooms, but they do not have a suitable alternative to which to downsize. It is almost like a bit of a
gridlock in the housing market. There is not the provision of alternative, smaller housing such as the bungalows that older people want to downsize to.

Certainly, when it comes to London, where obviously demand is among the most prevalent in the country, there is probably a lot more we could do to encourage a more efficient use of the stock. That starts to get us into conversations about tax, for example.

Baroness Blackstone: We all agree that we need a lot more houses to be built and there is a disequilibrium in the housing market. How far do each of you think that the planning system is part of the problem and that that will be a block to increasing the number of houses that we build in future?

Martin Wolf: It seems to me pretty clear that it is. The main symptom of the disequilibrium is ever-rising land prices. There are some reasons for land prices to rise even in the absence of restrictions on its availability for housebuilding. For example, there are particularly valuable locations within an urban conurbation, and building more in the green belt will not necessarily do anything very dramatic about the value of housing in Mayfair. If you take London as a whole, or any conurbation that I know anything about, the difference in the value of the land that is built upon next to the land that cannot be built upon is so vast that it is impossible not to conclude that the land price in the City overall would fall if more land were made available and used for homes. Therefore, it must be the case that restrictions on the use of land is a fundamental factor in determining the price of housing and above all the land on which the houses sit, which is the principal component of the cost of houses in places like London.

Dame Kate Barker: I would like to answer the predict-and-provide question. You are right about predict and provide, although of course there are examples of houses that are left empty. I am saying this because planning areas are now supposed to have this concept of objectively assessed need. That is an interesting concept for two reasons. I suppose being objective means you have no bias in either direction, but since any forecast is inevitably inaccurate, the idea of an objective assessment is a bit odd, and “need” is the wrong word anyway; it ought to be “demand”, unless you decide you do not want to meet demand for the environmental reasons I set out earlier, in which case I would completely agree with the person on my left and you would use tax. This is why I think that the policy objective you are trying to get to is such a fundamental problem; it is where you strike the trade-off.

On planning, one of the things I have tried to learn to do is to avoid talking about planning as though it were some kind of terrible impersonal force. Of course, the planning system is, in a way, trying—although it does not do it very well—to be some mediation of what we as a society want. You see this conflict in planning, which has gone on for quite a long time, between the national level where there is a view about building a lot more houses and the local level. The local authorities struggle with the question of, “Gosh, we really have to find places for all these homes. Where are we going to put them so that we will not be thrown out at the next local election?”. We have to be careful to say that it is the planning process as such rather
than what local electorates think they want. After all, planners are trying to do the job that I described earlier. They are trying to work out the environmental and welfare considerations of building in different places. I am not sure they always do it terribly well or articulate it in that way, but that is what they are trying to do. They are trying to make the places and the transport work, and that is all terribly difficult.

To come to your question, I think the NPPF was a big step forward because it gave a very strong lead towards growth. We had some very good planning guidance produced following it, which generally means that you are forcing local authorities to produce housing numbers that at least come up towards the household projections. At some point, Geoff will tell you that building in line with the household projections is not enough because housing is income-elastic. People want more as they get richer. Even if building in line with household projections was enough, there are a number of problems in the way that the local plans work.

I had a slightly wearisome look a couple of months ago at the status of planning in Hertfordshire. That was simply because I live relatively near it. I added up all the local plans as far as I could ascertain them. It is not easy to ascertain where people are with local plans. In total they only added up to 75% of the household projections, which, as I have just said, is not enough. Why were they too low? Some of them were too low because they had been produced ahead of the NPPF and there is no particular pressure on some of these places to push them up. Some of them were low because they are still in the process of being made and the planning inspector has not forced them into co-operation with the other authorities. You have this inbuilt tendency in the system to be planning for numbers that are below household projections. If you are planning below those, given that plans are often not fulfilled, you are almost inevitably going to build below household projections and they are not high enough. In that sense, I do not think the planning system works.

Martin remarked earlier—this is very simple and the new planning guidance does give a nod towards it—that it is all very well producing these plans for the next 15 years, but really none of us has any idea what is going to happen. But looking at prices in your area does tell you whether you are producing enough new houses or not. Personally, I think it is very important to plan where you want to put the next 100 or 1,000 houses when you decide to have them, but being forceful about whether you want 100 or 1,000 seems a bit odd to me and completely isolated from the market. We saw, after all, in the financial crisis that the effective demand for housing fell very quickly because people just could not get finance. The market does play a big role. I am sorry for the very long answer.

Baroness Blackstone: Would it help if there were stronger powers for the compulsory purchase of brownfield sites? It is one of the items that the Government have talked about but it has not yet come about.

Dame Kate Barker: Yes; I would be very sympathetic to the idea that there should be stronger compulsory purchase, and not just for brownfield sites. I am one of the many people who agree with purchasing land with compulsory purchase that has not previously been zoned for planning and so has no hope value, because you want to
establish a new settlement and you can get all the land value out from the public realm. Many people think that this would be a very good way forward to develop more housing at scale. I do not think it would solve the whole problem but I would support it.

Baroness Blackstone: Why has it not already happened?

Dame Kate Barker: You would have to ask the Government that. Many people have been talking about it. I talked about new towns in the review I wrote in 2004. One thing is courage. The difficulty with housing is that it has to go somewhere. A new town will be in somebody’s constituency. It is rather like Heathrow. There is a question about it. The other thing is that, even if you are buying land in quite cheaply, you have to have a funding mechanism to put the infrastructure in early, and of course public expenditure has been short. Although there has been a lot of talk about new towns, I really do not think there was very much energy put into them under the previous Government. It is not quite clear what the present Government’s target on housing is, I hope it is a question you will tease out of them. However, they seem to be more energetic and it may be that they will get on with it.

Q3 Lord Turnbull: On planning permissions, if that is a real constraint, you would expect that any site that had an active planning consent would be immediately developed, but that does not seem to be the case. There is quite a lot of land where builders could build but are not building. Are they just holding back because by waiting two or three more years it will be even more profitable? Are the incentives strong enough to force people to use their planning permissions quickly?

Chris Walker: I could pick up on that. One of the issues is the volume developer business model. In essence, volume developers are margin maximisers and not volume maximisers. Just like any other commercial entity, they are about maximising profits. That is not a criticism, by the way; that is what they are there to do. What that translates to is slower build-out rates than we might otherwise like to see. Of course if, as a developer, you suddenly build a vast number of houses and flood the local market with those houses, then you affect the selling price of those houses and therefore do not maximise your margins.

Where this is a particular problem is here in London. Of course, most of the building sites in London are large sites. There was a study by Molior back in 2014—I think they did another one the year before—which basically showed that no large site, a large site being one with more than 500 consented homes, would build out at more than 100 homes a year. By deduction, that is less than the 20% build-out rate on large sites. That slow build-out is symptomatic of the profit-maximising nature of things.

Dame Kate Barker: The thing about the Molior study and the figures is that they talk about unbuilt permissions. The comment about the build-out rates is correct and you obviously do not take prices down, because that would be an irrational thing to do. Local authorities could deal with this by making sure that sites get split up a bit more. With the Molior data, if you have consent for 100 homes and you have only
built out 50, my understanding is that the Molior figures count them all as unbuilt, so you should not think that they immediately translate into all these permissions being unbuilt. What they mean is that you have not got to the end of the site. In one sense, they overstate the issue.

On the second issue, I am speaking as a developer. The truth is that you are absolutely right. When you get planning permission, particularly for a big site, you put a hell of a lot of money into it. You immediately have a carrying cost for all that money you have put in. Your incentive is to get on the site. Why do you not get on the site the day after the planning permission? Generally, you are waiting for your planning conditions to be cleared. At the moment, one of the issues is that local authorities have stripped their staff down so much that you can sometimes wait two or three months to get your planning permission cleared, during which time you are not supposed to make a start on the site because it would be a contravention of what you are supposed to do. The date you get the permission is not necessarily the date that you have immediate clearance to start on the site. You start with groundworks and so on, and, even with the best will in the world, they take time. It will be very interesting to see what happens with the project that the Government are going to trial in Northstowe, where they will try direct commissioning and put some time limits on people for the build-out rate. We will see how far that succeeds and what it does to pricing. Northstowe is north of Cambridge, as you probably know, and is a very buoyant area. They should be able to get the housing away, but if you had a big permission in a relatively small town you would not want to build it out quickly because the stock might just stand empty, and that would not be helpful to anyone.

Baroness Wheatcroft: I find the figures that you have given us on build-out rate very hard to equate with the blocks of flats that are coming on stream all over London. Does this mean that you have a different way of counting apartments, as they are all known in London now? I am pretty certain that at Battersea, for instance, it is coming along at a rate faster than that you have been talking about.

Dame Kate Barker: Yes; flats do come along much faster. You may get permission for two or three blocks but you do not generally build all three; you build them a block at a time. With flats particularly, you obviously like to have pre-sale because you want some money before you start building 100 flats. You need to sell a few off.

Baroness Wheatcroft: Maybe we need to be clear about terminology. For the purpose of this inquiry I tend to think of an apartment as being a home, just as much as a house, but the tendency is always to talk about houses. I just wonder whether that skews the thinking generally.

Lord Griffiths of Fforestfach: If you were given a clean sheet of paper and you were asked to write to the Government and say how you could speed up the planning process, what would it be? One housebuilder argued to me recently that a major constraint was the number of planning staff local authorities have. If that is as serious a problem as they claim it is, is there not a case for saying that there should
be a special increase in public expenditure to the local authorities in order to make sure that planning staff are not being let go?

**Chris Walker:** That is absolutely right, and I agree with the diagnosis from the developers that I speak to. There is an issue with a lack of planners in planning departments and a capacity to deliver. There are bottlenecks in the system as a result of that. What is quite surprising, though perhaps we should not be so surprised about this, is that many developers would be prepared to pay higher fees and more fees themselves to have more planners in departments, if only they could. It does not even necessarily have to be about public money.

**Dame Kate Barker:** That is absolutely true. The cost of sitting and waiting before you can start is great. If the price was to pay somebody’s wages for a week to get them to sign off your conditions, you would be very happy to do it. The other thing is that it would help you to plan. When you are a big developer, you obviously have a number of sites and staff and you want to be able to know when you can move people from A to B.

**Baroness Blackstone:** I forgot to declare my interest, which I should have done. I am the chairman of a housing association that is also a housebuilder—Orbit.

**Q4 Lord Monks:** I want to throw another hot potato into our discussion, and that is the land value tax. Is this the way of shaking out some land for development? We are aware that Martin Wolf has written about this over a good few years now and advocated it. I am interested in the views of all of you on this subject. Do you think this is a way that would put pressure on developers to get on with those many areas where they have planning permission but sit on the land in the hope of some property inflation? If that is not going to work, what will work against this background of rising land prices, which, in many cases, make it economic to hang on to the land until you can get more for it?

**Martin Wolf:** Let me comment on this. There are a number of different reasons why we might want to change our taxation of land and property, not least that it is a fearful mess. It is difficult to just change one bit without thinking about some of the others. I see you list here the question about council tax, which is obviously a quite extraordinary thing.

On the specific issue of land tax, it seems to me that there are three reasons why one might be interested in pursuing this direction. First, it is simply a way of appropriating a substantial part of the value of land and there are good fiscal reasons why you would want to tax land rather than other things. For efficiency reasons, the more we can tax land rents, the lower we can push other taxes, some of which are highly distorting. There is this general Henry George-type argument. That is a fundamental change in the basis of our tax system, but it seems to me, personally, attractive.

The second reason is linked with what Kate talked about. It is another way of doing this thing and it is something I have been thinking about a lot and which to me
seems central in this discussion. That is how you change the incentives for local authorities. Under our current fiscal arrangements, although they do seem to be changing rather rapidly in ways whose implications I do not fully understand, from the point of almost any local authority the net benefit, both political and economic—and the two are very closely related—of development of housing is negative. So why would they do it? They are not going to get any significant revenue gain from it. They are going to get an awful lot of grief from their existing residents and they are going to incur a very large number of costs associated with infrastructure and all sorts. So why should a local authority want to promote development? It is in its actual interest not to do so. One wants to think about taxes that will accrue to local authorities and that will adequately compensate them for their costs.

One very simple one, which Kate suggested, and is essentially a tax arrangement, is that you buy a property at current value and sell it at the future value. Land value taxes are just a way of annuitizing that sort of process. You could clearly associate those with local taxes. That is rather different from the Henry George-type thing, which is national. This is one way, and it seems to me an incredibly important basic aim of our policy, to motivate local authorities to get a return. By the way, one reason why residents might be happier to accept incomers is if their own taxes were to fall, because very large taxes would be imposed on the development itself.

The final one is indeed what Lord Monks has mentioned. It would be a way of stimulating use of land that is idle. It would increase the carrying cost of land. At the moment, interest costs are extremely low. Obviously, if you are a large developer in the current circumstances, there are some costs associated with holding land, but, if the appreciation of the land value is significant, it seems to me perfectly rational to wait for the development. It is not in the least surprising why people do that. I am not suggesting that is the only reason; other good reasons have been given here. A land tax or site value tax related to the value in its current planned use, obviously assuming that the planning has occurred, would be a very useful stimulus for development. I have been arguing this for about 15 years completely unsuccessfully.

That is how I see some of the core tax issues in this.

\textbf{Dame Kate Barker:} I do not agree with Martin on this. I hope it is a stimulating area of debate. I do agree with him on the first thing he said, however, which is that we ought to tax land more than we do and we ought to make reforms to the housing and property tax system. On council tax and other things, there is much more agreement between us. It is partly for equality reasons and the standard Henry George-type reasons.

Where I think it becomes more difficult is in taxing land in the right way to produce incentives for development. There are two proposals here. You mentioned one and Martin mentioned the other. One is that, when you give a permission, then you start a tax running. I hope you would only start it running when you had got the local authority to sign off. Maybe if they were to get the tax, this would be a good incentive for them to sign off. That would work well. I do not disagree either with the idea that more of the revenue that implicitly comes in if you are able to use more
Dame Kate Barker (author of the Barker Review of Housing Supply); Martin Wolf (Journalist, Financial Times); Policy Exchange (QQ 1-16) – Oral evidence (EHMOE0001)

development for the public purse should be used locally. It is an extension of the section 106 idea.

One thing you need to think about is this. If you tax permissioned land, what does it do to your incentives? There is criticism about getting permission for a large area of land and building it out slowly. That may be true, but if you had this change and you taxed permissioned land, you would not ever want permission for 1,000 houses. You would apply for permission in little slugs, which would be relatively inefficient and would cost everybody a lot of money, but it would save you some money. That is the first thing.

The second thing is that it would raise the risk for developers if they have to pay tax and there is a risk that the market will turn. They will not want to build out so quickly, which would just get eaten into the land price. It would mean less money went to landowners, which we might regard as a good thing because it is landowners who generally get the money at the end rather than the developers. The landowners clearly get the residual after the developers’ margin. I can see why people think it would be a little bit of grit that would encourage people to build out a bit faster. Although I do not agree with it, I can see the attraction of it.

However, I find land in a plan really difficult. I will tell you why; it is an obvious reason. Say I am Thame district council in Oxfordshire, I want to build X houses and I allocate the land for it over a 10-year period. You could not possibly want to tax it all because you would not want them all built in the same year. You might then create a bit of an incentive for people to get in early, but the person who does not get their permission until the 10th year, because that is when the planner wants them built, would have had to pay tax on this high land value for what strikes me as a disproportionate length of time. During that time, the planning system might change and it might go out of the plan. Then what do you do? That is why I find it difficult to tax on its planned value. Martin wants to argue with me.

Martin Wolf: There are solutions to all these problems. I believe one could create a regime—and it is certainly one I would want—where you had presumptive permission. It could be one in which it would be perfectly possible for the council to say, “The following area has presumptive permission”, and at a certain point relating to the speed at which it wishes to see the development it says, “This is now designated for development and the tax date starts then”. It does not seem particularly problematic to me if the tax begins at the point at which the decision has been made that they now want to see the development. I am not particularly troubled by this. I think it could be perfectly well handled.

Dame Kate Barker: I have to say as a developer that if I owned a bit of land, I had it in a plan and the market had shifted and the town council suddenly wrote and said, “We would like you to build that now”, I would be a bit peeved.

Martin Wolf: Keeping developers happy is not my main objective. I believe it is pretty clear that almost anything we are going to do to improve these things is likely to make some developers very unhappy. We know this is the case.
Dame Kate Barker (author of the Barker Review of Housing Supply); Martin Wolf (Journalist, Financial Times); Policy Exchange (QQ 1-16) – Oral evidence (EHMOE0001)

**Dame Kate Barker:** That is true. Indeed, the proposition about taking the new land, which I do agree with, and using it for the public purse would suit neither developers nor landowners as a matter of fact. That does not mean I am opposed to it. It is in the more normal planning system I have a problem. I just think the land value tax is overplayed as a solution.

**The Chairman:** This seems to be an eminently sensible idea. Why has it not been taken up?

**Martin Wolf:** There are one or two countries that have tried it. There are so many reasons. There are very powerful interests against it; that is pretty obvious. In most societies, and certainly ours, landowners are extremely powerful people. The other aspect of it is very interesting and it gets in the way of almost all sensible, property-related taxes. It was Christopher who mentioned the point about people living in large houses with three or four empty bedrooms. One of the reasons for that is because you do not get taxed very much on owning this. If we raised taxes, to give an example, to a level that would encourage people to move down and liberate housing for young families, it would then be said that we were penalising Granny, who wants to stay in her house. People feel very strongly that taxes that are not attached to income or not easily payable against income are somehow wrong and immoral. That is a very powerful feeling and it gets in the way of what I see as rational taxation policy. I have to recognise that is a reality, although I think it is unfortunate.

**Q5 Lord Turnbull:** I declare an interest as a director of British Land, which has a small residential business. It is not particularly at the affordable level; it is mostly at the unaffordable level.

**The Chairman:** Presumably not completely unaffordable.

**Lord Turnbull:** By British people. My first question is for Christopher Walker. You talked about the business model of volume builders. Is one of the things we might do to try to bring into play people who have a different business model—i.e., housing associations who might be margin satisfiers? They have to earn a certain margin for how they mandate to maximise volumes, subject to that constraint. Do not many of the things we seem to be doing at the moment, like the constraint on rents and the right to buy, which reduce their ability to pledge collateral and introduce uncertainty, mostly go against that?

**Chris Walker:** I absolutely agree with the sentiment. For example, let us just take some very high-level numbers. If we need to build 240,000 homes a year to meet our growing demand, many of the developers and developer organisations I speak to believe that under the current planning system and the current arrangements they will never build more than 150,000 or 160,000 a year. That automatically begs the question: where are the rest going to come from? Housing associations have an absolutely pivotal role to play in that. Housing associations cannot really be described as margin maximisers. In a sense, they are more volume maximisers, in that part of their charitable purpose is about having maximum delivery of affordable
Dame Kate Barker (author of the Barker Review of Housing Supply); Martin Wolf (Journalist, Financial Times); Policy Exchange (QQ 1-16) – Oral evidence (EHMOE0001)

housing. As I wrote in my report last year on housing associations, I think the sector is capable of building 100,000 homes a year. That would plug the gap.

The magnitude of the challenge and the scale of the problem is so great that we need all the players to come back in. We need smaller and medium-sized builders encouraged back in. Over the last two or three decades, we have had the decimation of the number of housebuilders in the sector. It is quite staggering the decline in the number of builders that we now have. Of course, every time that we go through a recession, we have this huge ratcheting-down effect in capacity and the number of builders.

One of the things I would like to say about government policy—and obviously we have the Housing and Planning Bill—is that perhaps self-build and custom build will be one way of trying to encourage the smaller and medium players back in. We really do need them.

Lord Turnbull: Let me turn to a point that Martin Wolf made about local government. I have not fully digested what the Chancellor said last week.

Martin Wolf: Neither have I, and I am not convinced he has.

Lord Turnbull: It was about turning local authorities into bodies that have two streams of revenue; the business rate returned to them after 30 years and the council tax, which is their money. By the end of the Parliament, they are supposed to be more or less grant-free. It sounds as though that is a very major change in the incentive structure for local authorities. It may create a pendulum that swings so violently the other way that we will find the real problem is the lack of equalisation. At the moment, we have too much equalisation in the system, because, if you are successful, that money is just fed back into the pool and goes to Hartlepool or somewhere. In five years’ time, we will be worrying that those less prosperous areas will find it difficult to survive under this regime. If it is as he presented it, very briefly last week, it could be a very major change.

Martin Wolf: Yes. I have thought about it and I will comment on it briefly. There are aspects of this I certainly do not understand. This is what I understood from what I read, and Treasury documents are not always pellucid. There will be a quite complicated regime of controls on the rates councils may charge. They cannot change the business rate easily, but, as I understand it, there are mechanisms that will permit it too. There does seem to be implicit in it—it is not completely explicit—that, if they developed the business life of their area in such a way as to increase the rates, that would accrue in the first place to the local authority. That seems to provide an encouragement at least for commercial development. The same would seem to be true even now under the council tax. It is just such an inadequate tax.

However, it is clear, but not how, that redistribution among local authorities would continue, as stated in the document. Pretty obviously, if the entire business rates of Westminster went to Westminster, we would have a big problem; it would be absurd. It does seem to me at first reading—and obviously you would have to talk to
Treasury Ministers—that there will now be a greater link between the development of the local area’s business life and the revenue accruing to the local authority, which seems to me very desirable. There are consequences and features of this, in particular the way the revenue will be reallocated among authorities, which are, to me at least at the moment, still very unclear. Under sufficiently aggressive reallocation, the incentive would be considerably attenuated.

Finally, the council tax does not fit in with the business rate regimes which it did once, obviously. We have a property tax structure for personal housing and a property tax structure for business, which is clearly going to create all sorts of strange anomalies, which I could not work through at this stage.

Q6 Lord Turnbull: I have a follow-up question. There was a reference to the Dieter Helm view that you have economy A, where you try to meet demand, and economy B, where you recognise that you are not going to try and meet demand. That means that between the two there are some people who would otherwise get a house to rent or buy who will not. We must have a view about what the tolerable minimum standards are that we are prepared to allow people to live in.

Martin Wolf: That is correct.

Dame Kate Barker: I would not attribute that to Dieter Helm, although I would attribute some environmental views. In some sense, the view about the fact that we could share the houses more fairly is more a Danny Dorling view—that we do not build any more but just share them around.

Over the last X years, we have built about 90,000 homes a year fewer than we feel there is demand for, but we do not see a million people hanging about the streets; where are they all? The answer is, of course, that the young people are all living at home with their parents as opposed to moving out into flats. Is this a tremendous social ill? I do not know. Although there are many people who are owner-occupiers—it is 8.1 million in England and Wales with two or more spare rooms—there are about 1 million people in social housing who are overcrowded. They are probably a little bit more overcrowded than they were. We have been quite good at using up the empty stock. It has come back into play to the tune of about 20,000 a year, so we have accommodated the shortfall. The question is: how much longer can we accommodate it and do we really want to do it this way? If you decide you are not going to build to demand but you are not going to tax, for the reasons that Martin gave—we really hate taxing property—what you end up with is a huge incentive for people who can afford it to buy space they do not need and you force the poor to huddle up. That is fine; that is a result. The question is: do you like it? I do not like it. I would either build more, tax, or do a bit of both. If you carry on doing nothing, you will have the poor very huddled up.

Martin Wolf: Owning a house bigger than you need is surely the most rational investment strategy for anybody in Britain who has the money. That is exactly what we are seeing. Mr Dorling then said that we do not use property well, which is completely correct but it is baked into the cake.
Baroness Wheatcroft: So owning two houses that you do not really need is an even better investment.

Martin Wolf: The Chancellor seems to have a view on that, but only if you buy them. It depends on what taxes we can impose. It is truly fascinating that the one tax we can impose without any real worry is stamp duty, but of course from the point of view of any economist it is the least efficient tax, apart from the fact that you can raise revenue, which from the Treasury’s point of view—and that, I do understand—is a pretty important feature of a tax.

Dame Kate Barker: It is quite flexible. It is quite a useful tax to have in your armoury.

Martin Wolf: But it has now become the principal.

Dame Kate Barker: I agree with you that it should not be the first one you reach for.

Q7 Baroness Wheatcroft: I want to ask about the existing Government interventions, particularly help to buy. Martin Wolf has been vigorous in his attacks on the results of help to buy and yet the Government remain committed to it and continue to do it. Would there be a more efficient use of Government help in the housing market? For instance, listening to what you were saying earlier, would it make far more sense for the Government to invest in providing infrastructure in certain areas, freeing up much more land and potentially creating a supply that would at least not push prices further and further up?

Martin Wolf: There are two profound questions. One of the most profound questions is whether the Government should have a strong view about the way in which the right to occupy a house is realised: that is to say, should they have a preference for home ownership and the owner-occupier vis-à-vis the rental sector? As I see it, this Government seem increasingly to have decided that they ought to favour owner-occupation. There are already very large incentives for owner-occupation inherent in our tax system because imputed rent is not taxed. That is a point I made in my thesis approximately 40 years ago and it has not changed. There is a very large built-in incentive and we have added further incentives over time through the treatment of capital gains tax for owner-occupation.

The Government are now increasing incentives further. I cannot see any good reason for this, but that is a fundamental question. One of my objections to help to buy is that it is oriented to helping that part of the income distribution which would like to buy. Here, we are not talking about people who want to be housed. Most of those people are young people in the middle to upper parts of income distribution. I cannot see for the life of me why they should be a high priority in the current situation. I do not see the sense in that. There is a fundamental set of issues there.

The second question is: would this sort of scheme help to deal with what we all agree in different ways is the fundamental problem, which is supply? It does not seem to me that insufficiently high prices—ie insufficient reward for building—can be the main reason why people are not building, given what has happened to house
Dame Kate Barker (author of the Barker Review of Housing Supply); Martin Wolf (Journalist, Financial Times); Policy Exchange (QQ 1-16) – Oral evidence (EHOE0001)

prices. A further pushing up of house prices by subsidising the purchase does not seem to me a very well-targeted incentive in the housing system. For these two reasons I have, indeed, been very critical of this policy. That does not mean that I do not fully understand the political rationale, because it is obvious.

Baroness Wheatcroft: We have not talked about being able to pass on the family home.

Martin Wolf: That is the inheritance tax thing. On that subject I am afraid words fail me.

Baroness Wheatcroft: Would anybody differ on that?

Chris Walker: I partly differ. Obviously, home ownership is clearly at the centre of the Government’s housing policy at the moment. Indeed, it has been at the centre of Conservative Party thinking for a long time. The fact of the matter is that most surveys and most polling show that most people want to, or aspire to, own. For example, the British Social Attitudes Survey showed considerably more than 80% of people wanting to own. It is a big problem for the Government because we have seen home ownership rates decline in this country in recent years. They have declined from about 70% in 2002 to just over 63% today. Much of that decline has been among young people.

If you take the subset of those aged under 35 within that, the home ownership rate decline is something from two-thirds to just over 40%. What you are seeing is a squeezing-out of young people from home ownership. It has become a generational equity issue as well. At one level, the Government are absolutely right to try and intervene on that. Of course, starter homes and shared ownership are obviously targeted at younger people under 40.

More generally, the fall in home ownership levels is more broadly symptomatic of a deterioration in affordability in a wider market. It is right at one level for the Government to intervene in tenure space, if I can describe it in that way. Ultimately, I do not think the Government can reverse that decline in home ownership until they start building many more homes and improve affordability in the general market.

Dame Kate Barker: I would like to look at it a bit differently, if I may. One of the things that I know some economists criticise is the taxing on buy to let. People say, “Why are we doing this? Should we not have a level playing field?” I generally agree with what people have said, but on the whole it comes back to an equality question. If, as we have argued very clearly, we are not building enough houses to meet demand so the pressure on prices is ever upwards, there is obviously an incentive for anybody who has money to buy the damned things and people with money in the buy-to-let market have been advantaged over people trying to get mortgages because of the otherwise very sensible changes in the mortgage regime. I know a lot of people say the Government are creating an uneven playing field, but I would say it is trying to level it up a bit from an equality point of view. I would prefer them to do
that and raise a bit of money by taxing buy to let people than by subsidising home ownership. That is where I generally agree with Martin.

The new build scheme was helpful when it was introduced, by the way, because supply was still in a difficult state and the mortgage market was then very tight. When it started off it did also have beneficial effects on supply. I am less positive about it as a continuing policy.

**Baroness Wheatcroft**: How would you feel if Government were to use their resources instead to prime the infrastructure for potential housing development or, indeed, to give grants to people living in large houses so that they could divide them in two?

**Dame Kate Barker**: I would prefer it if Government sold their own land a bit more cheaply and did not always sell it at the top price so that they were then able to use some of the infrastructure to build places. I have no problem with people dividing their homes into two, although, as we said earlier, this is a question of housing space in some sense. People do want more space. I thought you were going to say grants to help older people move, which I would also favour, although often they do not want to move because there is not a suitable house that keeps them in their community. The problem is that home is not just a physical thing; it is more than that when you have been there a long time. Personally, I agree that there are many better ways to use the money than on help to buy. I do not think there is a shortage of alternatives.

**Q8 Lord Griffiths of Fforestfach**: I have two questions. The first is to Martin Wolf. From society’s point of view—not the individual’s—are you totally indifferent between renting and owning?

**Martin Wolf**: Let me put it this way. I think, at the margin—this is perhaps a bit of a cop-out—my answer is yes. As I understand it, in the Victorian era—I am not an expert on this, but it is my understanding—approximately 90% of people rented and therefore by definition the properties were owned by people who lived off the rent. Would it be undesirable to go back to that sort of world from a social point of view, because it would profoundly affect people’s sense of whether they have a stake in society? I think that is the underlying thinking here: that they own something that is real to them, even if that was largely the result of expressed preferences, because it is a long-term contract; it is secure; and the rental does not change, as it did not in the Victorian era. I would probably be prepared to say that if that were the consequence I would begin to get worried. But, within the margins that we are now seeing, I am less worried about the fact that people cannot buy their houses.

The reason I am worried that people cannot buy their houses—and this is a real issue—is because there are such enormous privileges and benefits in owning houses. Because the tax regime is so explicitly and implicitly favourable to owning houses, if a very large proportion of the population is unable to buy houses, then we have a problem because it is a profound inequity. That does seem to be a problem to me.
The first best solution, of course, is to get rid of these tax anomalies since we are most unlikely to reintroduce Schedule A at a sensible level. I am not terribly happy therefore with the taxation of right-to-buy landlords. It does not seem to me a very big problem, although I would not have done it in the way that the Chancellor has proposed. I do accept there are some big issues. First, there is this stake-in-the-country thing. Secondly, and more importantly to me, there are just such large benefits in being an owner-occupier that if a relatively small proportion of the population receives those gains it will be perceived, and rightly, as entrenching quite an important unfairness.

Q9 Lord Griffiths of Fforestfach: Thank you very much for that. I now ask my second question. In the Summer Budget and in the Autumn Statement, there have been a number of changes in relation to rents for social housing. First, in the Summer Budget, they were coming down 1% a year for three or four years. If you had an income over £30,000, you were going to have to pay much nearer a market rent for social housing. In the Autumn Statement, it was said that housing benefit would be capped in relation to the amount you paid for rent. In relation to these changes which have been made to rents, what effect do you think it is going to have on the supply of social housing?

Martin Wolf: I am pretty clearly the wrong person to ask this, so I will ask Kate to deal with that. There are two issues here. I have not worked through the net effects of all this on the returns to social housing. That is obviously very complicated and probably depends very much on the particular social housing provider, the particular mix of tenants they have, the incomes and so forth. That is the first point. It is really quite detailed.

The second point, which does worry me very much with the recent developments in housing policy, no way unique to this Government, is that the constant changes and unpredictability in policy must make the lives of everybody trying to make decisions in this sector more difficult. I would imagine that must apply to social housing providers as well.

Dame Kate Barker: I have not done any of my own work on this either. I would use the OBR’s estimates on the ground that they have done the work. They said the cuts would reduce supply by 14,000 units over the next five to six years. I have no better estimate than that. I have to say truthfully that, on the whole, I do not work very closely on the social rented sector.

As a follow-up to the comments Martin was making about the advantages of people having home ownership, the truth is that, if you think about the people in this country who are really struggling with housing costs at the moment, they are mostly people in the rented sector. They are not people in the house-owner sector. That is an effect of all the things we have been talking about.

I do feel uncomfortable with a set of policies that seem designed, as we are all saying, to be supportive of reasonably well-off people who are just on the cusp of buying and just need that little nudge to get them over the edge, at the expense of
people who really are not in the buying area but are stuck in a rental sector that is becoming more and more difficult. The only positive thing I can say is that the move to tax individual buy-to-let but not so much corporates might improve the standards of the rental sector. You might get a more professional renting sector. Against that, I was unhappy when landlords lost their allowance for repair and maintenance. I would have preferred them to be inspected to make sure they had done the repair and maintenance. That would have seemed more helpful to me to raise standards in that sector, which are often too low.

**Chris Walker:** I do not concur with all of that sentiment. The Government are, in essence, changing their direction on affordable housing, and changing it quite fundamentally. It is going much more in the direction, as part of its home ownership push, of extending that home-ownership envelope and the home-owning democracy to households on lower incomes, including those who would have traditionally been thought of as social renters. You have the right-to-buy extension policy. You have shared home ownership and the announcement in the spending review of 400,000 homes, most of which will be for some form of home ownership or another. It is this move away from affordable housing as subsidised rentals towards affordable housing which is subsidised home ownership. It was significant in the spending review because for the first time more grant money will be spent on affordable home ownership products than on affordable rented or social rented products. Obviously, social rents were phased out for grants in 2010. For me that is a watershed. It is the Government saying, “We will no longer mass support submarket rental products through new grant money. We will only support home ownership”. That is a change of direction, but again it is about boosting home ownership and the Government saying, “We believe that home ownership should be available to a much wider pool of people than has traditionally been the case”.

**Dame Kate Barker:** I would just say that in the United States, when they did that, it did not necessarily end well. It is a slightly cheap point. And, alongside these policies we have made the support for people who fall into difficulties with their mortgages less good, which seems to me somewhat illogical.

**Martin Wolf:** It is so important. I am very worried about the social consequences of this. It seems to me that there are a large number of families with children on the edge. Their incomes are not necessarily very regular. Owning a house has large burdens associated with it. Large costs might arise for repairs you have to make and which you might not be able to meet. Shifting support away from rent in this part of society is, in my view, likely to prove an unworkable policy in the long run. The proof will be in the pudding.

**Q10 Lord Teverson:** I want to follow-up on a question. We had an evidence session with the Chancellor of the Exchequer a couple of months ago. Social housing was one of the areas we dealt with. It was one of the more contentious areas, and Baroness Blackstone asked a number of questions in particular. I got the impression from the Chancellor of the Exchequer, although it was not official policy, that one of the reasons that this was quite a good policy for reducing rents was because social
housing associations have had quite an easy life, they were not performing as well as they should and they ought to have a bit of a kick to get on and fulfil what he wanted them to fulfil. I paraphrase completely, but I would be interested in your views on whether social housing associations have delivered what we should expect of them.

Chris Walker: There has been a concern, particularly around housing associations not being the best delivery vehicle for new affordable housing supply in this country. There are all sorts of things within that. Obviously, one of the biggest issues that the Government are grappling with is how they can drive more efficiencies in the sector. You have a sector that is made up of over 1,500 organisations, including a very long tail of very small organisations. If there is something within that which basically suggests that we do not have the most efficient structure within the sector, I think that is one thing and one reason why consolidation could be a good idea in the sector.

Another issue is that housing associations have been making very big surpluses in recent years. Last year, the housing association sector made a surplus of £2.5 billion. These are very large sums of money, two-thirds of which is paid for by housing benefit. At one level, one might say that the Government are right to be asking those sorts of questions of housing associations and about how they can do more.

Lord Teverson: Are these held as cash mountains? How are they held?

Chris Walker: Some of the money is held in reserve. In defence of housing associations, it is partly because there are so many uncertainties ahead. You have all the welfare reforms going on. Housing associations feel that they have to keep more of a buffer to protect themselves against those uncertainties. There are two sides to this.

Dame Kate Barker: I do not have terribly strong views. In the days when I was on the board of the Homes and Communities Agency, and before that the Housing Corporation, we were trying then to persuade people to invest more and make sure they used their money more efficiently. It seemed to me that, operationally, some of the associations are much more efficient than others. It is quite difficult to sort that out because in some sense they are not running businesses. On the other hand, many of them do very good work. They often have to deal with very difficult tenants. Private landlords do not have to deal with difficult tenants. Housing associations do, and it is quite right that they have to think about risk, and a number of associations ran into financial difficulties that had to be managed away during the crisis. If the whole sector got into difficulties, it would not be very clever. My recollection is that the evidence was that mergers did not generally make much difference, but you are right that there are a lot of very small ones. I do not think it is the small ones we are worried about. You should ask the G15, or whatever they are called, about their policies.

Martin Wolf: I want to make one very simple point. I do not have any particular views about housing associations; I do not know enough about them and it would be ridiculous to claim I do. I even did my thesis on British housing policy. It seems to me
that the evidence we have is now absolutely unambiguous. We will need a sector that provides affordable rental housing. There is no doubt about it—absolutely none. This can be done through local authorities. We have decided that was not a terribly good idea. It can be done through housing associations or through private landlords with housing benefit. We are not very happy with the latter. It creates all sorts of problems, including problems for the Treasury. We do not want the local authorities, so housing associations is what we have. I fully concur with the Chancellor’s objective to make them as efficient as possible, but they are going to survive and I would guess that over a lengthy period they are likely to become more important rather than less for the structural reasons we have already discussed. Imagining in some way that this sector and therefore their clients will disappear seems to me pretty fanciful.

Q11 Lord Teverson: Perhaps I could lead on to ask about the Right to Buy, which was a commitment made during the election and is being fulfilled at the moment, through this strange voluntary mechanism rather than through legislation in the Housing Bill that is going through Parliament at the moment.

Do you feel this is reasonable and equitable? Certainly, when the Chancellor of the Exchequer was here, he said that it put such tenants on an equal par with council tenants of old, so it was non-discriminatory. Having said that, clearly it can be seen as a windfall gain for a very small number of people.

I would also be interested in your comments as to whether you feel this affects different parts of the country. I have been involved in a number of rural issues, and it is felt particularly that this could be more of a threat to rural areas than to urban. I would be interested in your comments on that side of this particular proposal.

Martin Wolf: I would make two points. I do not know about the rural versus urban. I would be interested in Chris’s view. I have written a column on this. I am on the record as saying it is an outrageous policy. It is pretty obvious that I would. I think it is expropriation and quite shocking. I have to stress, though not for that reason, that I am probably the only person left in Britain who thought the original right to buy was absolutely objectionable. I do not think public property should be given away to the fortunate few at submarket prices. That was the way Queen Elizabeth ran her public finances and I do not think it has improved since then. I am probably not the right person to ask.

In this particular case, the purpose of housing associations is to provide affordable rental housing. That is why they were created. That is why they have been supported and it seems to me that they should be left alone to do that rather than be encouraged to provide a windfall to a limited number of successful and happy incumbents. That is my view.

Lord Teverson: Can you be clearer?

Martin Wolf: Probably, but it would not improve my reputation.
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Dame Kate Barker: I always think the great thing about giving evidence with Martin is that you can sound enormously moderate. I have to say I am very glad he said that; I agree with it completely.

Chris Walker: I completely disagree with that. Fundamentally for me, if you are talking roughly about the same subset of society, there is no difference between subsidising home ownership and subsidising rent. What is fundamentally the difference between subsidising someone through rent with social rent at 60% of market rates, which is roughly what it is at the national average, and giving somebody a 40% discount on buying their home? At the very high level there is no difference. They are both subsidies and they are both ultimately given for equitable reasons.

On the Right to Buy policy specifically, I think we should welcome it. We should welcome Right to Buy extension as a new funding stream for new build affordable housing through the one-for-one replacement mechanism. I do caveat it with that, because I am in agreement with Kate and Martin that the original policy, which did not have one-for-one replacement, was problematic. It certainly did see a significant reduction in the social housing stock. So long as we can do the one-for-one replacement and that can be met, then it is a new source of funding. It is a new source of money with which to build new replacement affordable housing. It is a contribution to our overall housing supply and for that reason I think we should be a bit more positive about it. It is innovative.

Lord Teverson: You mentioned one-to-one replacement. The most recent parts of right to buy, or the previous one, have never managed to get anywhere near that.

Dame Kate Barker: No; they have not.

The Chairman: We are rapidly coming up to 5pm and I do not want to keep you here past supper. Perhaps we could move on. If you agree with what the other speaker says—and on that particular question you clearly did not—then we can move on even more swiftly.

Q12 Lord Sharkey: I apologise that I am going to have to leave in a moment. I am not going to ask the question I was going to ask. Lord Forsyth will take care of that. Instead I am going to ask a question that probably has a very short answer. Listening to all of this, I just wondered whether there was any experience elsewhere, or any examples of successful approaches to speedily increasing the housing supply, that might help guide us. Is this a problem absolutely unique to this country? Has it ever been encountered before? Has anybody dealt with it in a way that contains some lessons for the future?

Dame Kate Barker: I am not sure I can think of anywhere that has very successfully increased their supply of housing more quickly. I am much more struck by the fact that these problems are becoming more widespread, partly of course because population growth is very great. The only country I have done any significant amount of work on is Australia. There is some literature on comparative housing markets.
They all come from very different backgrounds. Martin has talked about the UK’s position not to like taxes on housing. That is not quite the same elsewhere. In other places, they are more willing. For example, people see council tax as paying for services. I think it is a tax for occupying that bit of land. That is a huge difference. The truth is that there is not huge evidence that people elsewhere do this very much better, although there is a great tendency to think local authority intervention might help stimulate some of the small builders, as Chris has already said and I agree with this. There is some merit in local authorities being more active in the land market and preparing what people call serviced plots, which they then sell off to small builders because that would help to get the thing going. That was done successfully in Germany and the Netherlands, and is an example worth copying. There is a lot to say if you start on international comparisons.

**Martin Wolf:** I would make two points. Looking at the comparative literature on price movements, my impression is that we do seem to be doing exceptionally badly compared with other European countries with comparable density problems in terms of the movement of affordability. That may partly be due to the exceptional role of London in our economy. That must be part of it, but I think we have to start from the assumption that we are an outlier.

The second point is that I would underline what Kate said. There is quite interesting evidence and the first time I came to learn of it was through Policy Exchange pamphlets written in the early 2000s by Oliver Hartwich, then at Policy Exchange. (?) I do not know whether you remember him. They did indicate that this set of incentives, working particularly in Germany but to a lesser degree the Netherlands, were more effective and that we could learn something from them. Certainly, the Germans have succeeded in avoiding the extreme bubbles and collapses that other European countries have had.

If we want to learn, however, about how not to increase supply, we could take a very close look at Spain or, if you want to get closer to home, Ireland.

**Dame Kate Barker:** Now Ireland have an undersupply, so it is amazing how quickly it can go from one to the other with a flexible population.

**Lord Forsyth of Drumlean:** I apologise for being late. I was involved with the European Referendum Bill on the floor of the House. I should also declare an interest as a director of a bank that lends to property companies. I also own some holiday letting properties in Scotland.

I wanted to ask you about the risk to financial stability, but I am sure the Chairman may do that if we have time. I want to ask you about the Government’s measures affecting Right to Buy, which I suspect you may have covered in an earlier discussion in the Committee. Do you agree with these measures?

**The Chairman:** I think we have covered that.
Lord Forsyth of Drumlean: I will ask my question about financial stability. To what extent do you think that the current housing market is a risk to financial stability? You have written quite a lot about this.

Martin Wolf: Yes. The answer is that, fortunately, we have a Financial Policy Committee in the Bank of England that is devoting an immense amount of attention and thought to this question, which was not the case prior to the crisis. The analyses seem to me to have been very professional, as I would expect of the people involved both on the committee and the staff. Our approach to this is orders of magnitude more professional than it was in the past. That is the first part.

Secondly, my sense of it would be that events that would make our housing market a serious threat to British financial banking stability would be extreme. They would be very large events. It would be some combination of a giant recession with a very large fall in house prices. The former would trigger the latter.

We are quite well cushioned on the house price point. As my friend, the former Governor of the Bank of England, used to point out, we were saved by our inability to build houses. The chances of a big house price collapse, given that supply is continually growing more slowly than demand, is not that high. It would have to be a very big recession. Remember that the last recession, which was the deepest we have experienced since the inter-war period, actually led to extraordinarily small losses on home mortgages. One of my favourite statistics that you probably know is that the British banks succeeded in losing more money on American mortgages than they lost on British mortgages.

This would suggest to me that the financial risk from the British housing market—I leave aside commercial property, which is something else altogether—is modest and manageable, barring some immensely significant world economic event. I can give you scenarios but they are not things that I would think sensible policymakers should plan for.

Dame Kate Barker: I agree broadly with Martin. The only area that is potentially a risk is London, of course, where you are subject to international funding flows. Most lenders, and the changes the Bank has made, ensure that no one is sufficiently exposed to London to be likely to cause a risk to financial stability, although it could cause a nasty cold.

Lord Forsyth of Drumlean: You do not think that a sudden rise in interest rates with high levels of mortgage borrowing and the effect on house prices could create a risk.

Martin Wolf: The suddenness of the rise would not matter; it is the level. Let me take an example. If you are imagining a scenario in which interest rates were to be 12%, which is an extreme, then we would have a big problem. We would have a very big problem. Nothing is impossible, but these are very extreme scenarios. I have looked through this, and if we are talking 4% or 5%, which would seem to me a reasonable extreme in the next cycle, I do not think that would create any serious problems. But of course there are levels of interest rates at which we would have an
enormous crisis. We would have to imagine some immensely significant world event causing that. It is not impossible to do so when I look around at the world at the moment, but they would have to be very extreme events.

Lord Griffiths of Fforestfach: The alternative would be if we let inflation rip. Nominal interest rates would have to increase and then we would have to cut back on public expenditure, the money supply and so on.

Martin Wolf: If the Bank of England completely lost control of inflation and we ended up with 10% inflation and the Bank of England had to raise rates to the sort of rates we saw in the early 1980s with our current leverage, we would have a problem.

Lord Griffiths of Fforestfach: Or the mid-1970s.

Martin Wolf: Early 1980s.

Dame Kate Barker: I do not disagree with that. Obviously, the last crisis was a real financial stability crisis. Clearly, in terms of raising rates, you are doing it to slow things down in the market. It is hard to think of a circumstance in which you would have to raise rates so high that you caused a housing market collapse. I made the point earlier that one of the things that concerns me is that, even in a moderate housing market collapse, we have removed so much support from people who have mortgages.

The second thing I would say is that the Government’s exposure to the housing market, through some of the mortgage guarantee schemes, is of course higher than it was generally. We have created some new risks.

Lord Forsyth of Drumlean: What was in my mind was that we seem to have got into a position where we are holding down interest rates, which is inflating housing asset prices. We have got into a cycle where it is very difficult to get out because of the level of gearing attendant on that. Although the Bank of England has taken measures, it seems to me that it ought to be of concern.

Martin Wolf: I assume this is not a discussion of monetary strategy and I presume you will be talking to the Bank of England about this, but they are doing their best—it is a very interesting question whether it is sufficient—to control the leverage consequences in the housing market of their policies. They would argue, I think with some plausibility, that the monetary policy’s effect on the housing sector has not been that vast compared with some of the other asset markets that they are influencing. Again, we are not certain of that. There are risks here, but there does have to be a very large meltdown to start raising serious financial stability concerns, given the current capitalisation of the banking sector. I am not saying it is impossible, but it would have to be quite extreme. You have to then ask how cautious the central bank should be in shielding us against risk.

Dame Kate Barker: I think that is right. I would say two things. First, you have offered me the opportunity to make my favourite point about housing policy, which
is that it is totally unjoined up between the Bank, CLG, Treasury and DWP. That has already been apparent from my comments on mortgage support. It is also apparent in the drive for home ownership at one end of town and the drive to keep leverage down at the other end, which do not strike me as self-evidently compatible.

The second point I wanted to make is that you said leverage has been increasing. It is true that house prices have been rising, but net mortgage lending has not increased terribly. I am quite sure there are, as there always are, some people who are overlevered and struggling, but the effect of the mortgage market review has very much limited that. I am with Martin, and I think that as a result of the FPC and the changes that have come in, the market is more resilient.

**Lord Forsyth of Drumlean:** Except with buy-to-let.

**Martin Wolf:** All the data show that the leverage of the household sector is currently below where it was before the crisis. The forecast from the OBR suggests that that will reverse, so by the early 2020s we might have reasons to be concerned about it, although the cushion from house prices will be bigger.

I want to underline Kate’s point, which is very important. A lot of the risk has been put on the Treasury’s books, which seems completely appropriate to me since it is the Treasury policy that is driving this and that is where it should rest. My memory is that the help to buy was £120 billion. It was something like that. That is 8% of GDP. If it all went wrong and the whole lot landed on the Treasury, it would increase public sector open debt by eight percentage points of GDP. It is not going to. That would bring us up to about 90 from where we are now. Would that be a cause for a major run on the gilt market? No. You can ask whether it is a sensible use of the Treasury’s borrowing power, but it is not going to bankrupt the Treasury. It seems to me that the risks are all manageable at the moment. I am aware that these are famous last words.

**Dame Kate Barker:** To respond to the comment about buy-to-let, you are right that potentially there is a little bit more risk in that sector. I think the Bank would admit that they do not have such good evidence in the buy-to-let sector of the vulnerability of landlords. That is another reason why there has been a bit of pushing against buy-to-let, but this is really a question for the FPC, which has done much more work on this than we have.

**Q14 Lord Lamont of Lerwick:** I apologise for not being here at the beginning. Like Lord Forsyth I was in the Chamber. I think I came in when you were expressing your approval of the extra stamp duty on buy to let. I am old enough to remember when we wanted to encourage more investment in the rented sector, when the rented sector was much smaller than it is now. Has not buy to let actually increased very considerably the supply of rented accommodation? It is something that has acted on the supply side.

I would also ask this question, and tell me if you have answered this before. It is very commonly argued that foreign buyers have very little to do with the market because
Dame Kate Barker (author of the Barker Review of Housing Supply); Martin Wolf (Journalist, Financial Times); Policy Exchange (QQ 1-16) – Oral evidence (EHMOE0001)

it is very much a London phenomenon. I accept that, although I must say I was a bit startled as I went across the river the other day next to Battersea Power Station and saw block after block after block in which there was hardly a light on. It is difficult to believe that this has not had quite a big impact in London and perhaps a ripple effect elsewhere. Those are my two questions.

**Lord Turnbull:** They have not finished building the houses; that is why there are no lights on.

**Lord Lamont of Lerwick:** I did visit someone in one of the houses.

*Dame Kate Barker:* Of course, expansion is vital in the rented sector, but it has come along at the same time as the fall in home ownership. The question is: has the fact that buy-to-let landlords have put money in helped to expand supply. There, the jury would have to be out. Rather like the comment about help to buy, it was a helpful source of demand in the early stages of the crisis. I think now, as we discussed earlier, we have the inequality of enabling people who already have money to use it to put into a housing sector that will push up prices because we do not build enough houses. My view is that by taxing buy to let landlords a bit more you are swinging the pendulum a little bit back in favour of first-time buyers in a more rational way than giving them subsidies, which just pushes up prices.

There will, however, be an unintended consequence. You will find that some tenants have their tenancies terminated. There will be a difficult period of adjustment and we need to think about how we manage that.

*Martin Wolf:* I like buy to let for the reasons you have outlined but it is more problematic if we cannot increase overall supply. I did think that the private rental sector was far too small. A lot of people, particularly in London, who are going to be here temporarily, need flexible housing and this is exactly what we want. Furthermore, it makes a lot of sense for people to put money into housing as a form of pension because there are not that many other good assets. There are lots of reasons why you want landlords, so I am personally close to neutral on tenure. We have had this discussion already. The big issue is overall supply. We would not be worried about the tenure issue if we were dealing with supply.

The second question you raised is one that is close to my heart. We never talked about the reform of council tax, which is a horrendous system. If we did what I want, which is to have the council tax or some similar thing, obviously uprated to current circumstances, and continued to extend up the scale of home values up to £100 million-plus at a reasonable rate, which needs to be higher than the current rate because it is ludicrously low, and it was doubled on empty properties, you would see this problem solved very quickly.

I own a little property in Italy as a foreigner. I pay a much higher tax than a domestic person does and I think that is absolutely and utterly reasonable.

**Lord Lamont of Lerwick:** But is it a significant factor?
Martin Wolf: If you are asking what I would do about empty properties, I have no idea about whether overall in London that would significantly affect—

Lord Lamont of Lerwick: I was not so much asking what you would do about empty properties. I was just saying that obviously there is not a fixed supply of housing but there is a very inelastic supply of housing, and you have this foreign demand. We are taxing on buy to let one category of investors and it might be argued that it would make equal sense, in a discriminatory way, to tax foreign investors in property.

Martin Wolf: Would this be legal under EU law? I have no idea.

Dame Kate Barker: I have some sympathy for that.

Chris Walker: I have no problem with foreign buyers buying property if they are either living there or renting it out, but I think there clearly is a problem where homes and buildings are being left empty. I do see a potential role there for tax along the lines that Martin suggests.

Q15 The Chairman: Let me come to one final intervention which has been made, which is inheritance tax. It was touched upon earlier. I would like to couch it in a rather more general question. There have been a multitude of inventions, some small and some large, by Governments over the last two decades to try and improve the supply of housing. One would have to say that they have not been remarkably very successful. What would be the interventions that you would recommend that, in your view, you think might be successful.

Dame Kate Barker: We have talked about some of these on the way through. I have talked about support for new towns. I have talked about a move to have a more sensible set of household numbers in the plans that would reflect incomes as well as household projections. We have talked about the need to get smaller firms and self-build back in. I think all those would be very helpful.

The main thing that would make a difference is if we had local politicians who had better incentives, as Martin said, to say to their populations, “Actually it would be beneficial to us to have more people here”. Until people accept that, it will be very difficult to push up supply.

The Chairman: You have written about that and have recommended that. What has been the response?

Dame Kate Barker: In terms of incentives we have seen the new homes bonus. It has not yet proved to be a very effective incentive. I would go further—and again Martin hinted at this—and say that people living in a town might pay a lower rate of council tax. However, I have no illusions that in better-off areas—and these things often work better in poorer areas—it would necessarily have the effect. I live in a town where quite a large sum of money was raised to fight an appeal, which suggested to me that the price for accepting the new houses was quite high.
Martin Wolf: Most of the basic points have been made. You need the supply of land and housing permissions to build, which I think should be pre-emptive. The planning authority must have a strong incentive to do it and a reward for doing it. That can be done in a number of different ways. We have discussed several of them—through tax or essentially obtaining the gain. I would just add one thing that seems quite encouraging to me. Lord Turnbull has raised this. The changes that are now underfoot in the local government fiscal regime are potentially an environment within which, it seems to me, quite radical changes in the tax system and in the incentives for local authorities might reasonably be considered. If we were to construct a regime in which local authorities could see themselves gaining substantially at a time when there is essentially no, or limited, support from the central government for their activities from development, we are more likely to see development than under any other sort of regime. We have something of an opportunity. I always felt that taking the business rate away from local authorities was a great mistake. The council tax was inadequate. Maybe we could think about fiscal regimes that encourage local authorities to act pre-emptively to expand land available for building and to gain benefit for their residents on that basis. If we do not do it, and do it quite aggressively, I do not think we are going to solve these problems at all. That is just a necessary condition. There are, of course, problems in the building industry that we have discussed. Let me comment briefly on that because it was at the beginning. I am perfectly prepared to believe that right now, if we tried to create a regime in which we increased housebuilding to 300,000, we could not do it. It would probably take time. If we knew that that was what it was going to be, the industry would adapt of course. We fought a world war in five years. You cannot tell me that we cannot build a few houses within five years if we really want to. It is a question of making it credible to the industry that that is what is going to happen. There is no reason for them to believe it is credible because no Government has ever acted in a way to make it credible. That is the problem. If you did, they would respond, like any other business.

Chris Walker: Picking up on a couple of those points, I would certainly concur that new towns and new cities is part of the answer. Obviously there was the Wolfson Economics Prize, which looked at this issue. More recently I have explored the issue of garden villages with Lord Matthew Taylor. That is a system where you have locally-derived, small, new settlements through local consent. The problem, of course, with large-scale garden cities is that all too often they have to be imposed top down. You only have to look at the Heathrow third runway to realise the political problems with that. New settlements and doing new development in a different way in this country is really important. I also think that devolution could be a significant opportunity. The devolution of stamp duty to the London Mayor and whoever will be the Mayor of the Northern Powerhouse could be a real opportunity and incentive in terms of giving local areas more incentives to increase housing supply by being given control of their taxes. They are just a couple of my thoughts.
Lord Layard: I must apologise to everybody that I was not here earlier. Maybe this has been covered but, from what I just picked up, would you agree that the shortage of housing land is the central reason for the shortage of housing and for the high level of house prices?

Dame Kate Barker: Yes.

Martin Wolf: Yes.

Lord Layard: In which case that is a central issue that has to be addressed. Can it be addressed without addressing the issue of building on greenfield sites, and in particular building on the sites where people want to build houses on the edges of our great built-up areas? That is where people most want to build new houses and to live. That is the way in which a built-up area has expanded historically over the last two centuries. We now apparently have a philosophy that says you must not expand an existing built-up area and if you do anything new it has to be somewhere else. I wonder if that makes sense. What people want, as we know, are green fingers. They do not want a green belt that they do not visit; they want green near where they are. There is no difficulty in expanding the existing built-up areas with green fingers left in among the expansion. How do you respond to this picture of basically solving the housing problem by allowing our big built-up areas to expand into the green areas? Much of it is arable and not particularly valuable land, but the house price differential between agricultural land and building land is so extreme that there is clearly something inefficient about the allocation. Do you see that as the way forward or not?

Dame Kate Barker: I notice that you are nicely dancing around avoiding the words “green belt”. The green belt is a perfectly sensible policy because you do not want to have too much urban sprawl. I do not think anybody would wish to go back to the time when we had a lot of urban sprawl. I do not have a strong view as to anything being a silver bullet. We have talked about new towns and new villages. One of the things I agree with Matthew Taylor on when he argues for garden villages is that the way in which we develop now, which tends to be little bits on the edge of towns, leads to a kind of suburbia that is not necessarily all that pleasant to live in, even though quite a lot of people will live in it reasonably happily. I am more sympathetic to garden villages or big urban extensions, as was referred to by Christopher in the context of the Wolfson Prize. We will have to do stuff on the edge of towns as well. The idea that we can do it all through new stuff or densification of old towns is not right. You can clearly densify quite a lot.

You have commented on things you have seen in London. I was very startled the other day, taking a bus down City Road, to see how much development had been built. Clearly London is going to end up as a denser city, and at some point we will have to answer the question as to whether we want to have a dense London city, a slightly bigger London with transport or bigger towns in places like Hertfordshire with good transport in. We do not answer these questions terribly well. The removal of the regional tier of government sadly means that we answer them even more badly.
Lord Turnbull: Does our dependence on the green belt not prejudice the answer?

**Dame Kate Barker:** I know, but if you do not say it you are not being very honest about the answer you are giving.

**Martin Wolf:** I have written about this. I exist to make Kate sound reasonable, as she pointed out. I have never seen the point of the green belt. My answer to this is that if we had had a green belt policy in 1850 we would not have London, and I find London infinitely more interesting and enjoyable than the alternative. Retrospectively, would we really want to put back all the greenfields we have swallowed up in the process? I do not think so; we have plenty of them. Most of the country is fields and, as Lord Layard said, most of them are not particularly beautiful.

I think it is clear that part of the solution is to allow some building in the green belt. It is a necessary part. It is probably not the whole solution. A great deal of it around London is not very distinguished or very usable. We view it as almost sacred. I find it very puzzling. This is something that does have to be opened up.

However, I do understand that as soon as this is put forward a vast number of people and organisations, which I do not need to mention by name, will get absolutely hysterical about the desecration of the English countryside and the terrible consequences thereof. I do think we have a fundamental problem. We have a country with a growing population and a growing economy, both as a result of forces we cannot control and some of them which are very desirable. The consequence of that is that the demand for housing, including space in housing, is going to rise and it will have to be satisfied somehow. Some of that is going to include making our big cities bigger. By the way, London right now is one of the world’s smaller big cities, not that I am recommending China as the model. We can expand London and it will be absolutely wonderful if we do it in the right way.

**Dame Kate Barker:** There is a great map that shows cities expanding in London. As a historical footnote, the first green belt was introduced by Elizabeth I, but sensibly it was then expanded.

**Chris Walker:** We are going to have to build up or out, and we are probably going to need some combination of both. I agree that there is no silver bullet. We absolutely need to have a sensible debate about the green belt. Most of it is not green; most of it is brown. I will just finish with a statistic. If we built on 10% of the green belt inside the M25, we could build 1 million homes on it. It is worth thinking about.

**Martin Wolf:** One of the things people do not understand is how much an extra mile on London adds to the area of London. It is enormous. You have to remember that it does not require very much to build a lot of housing.

**The Chairman:** Thank you very much indeed. That was a very stimulating discussion. It has got us off to a very lively start in our inquiry. Thank you very much for being with us today.
Submission to be found under Birmingham City Council; Lord Best; Greater Manchester Combined Authority (QQ 123-140) – Oral evidence (EHMOE0008).
TUESDAY 9 FEBRUARY 2016

2.30 pm

Witnesses: Lord Best, Councillor Sue Derbyshire and Dr Clive Skidmore

Members present

Lord Hollick (Chairman)
Baroness Blackstone
Lord Forsyth of Drumlean
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Layard
Lord May of Oxford
Lord Teverson
Lord Turnbull
Baroness Wheatcroft

Examination of Witnesses

Lord Best, former President, Local Government Association, Councillor Sue Derbyshire, Housing and Planning Lead, Greater Manchester Combined Authority, and Dr Clive Skidmore, Head of Housing Development, Birmingham City Council

Q123 The Chairman: Lady, gentlemen, thank you very much for joining us today. As you know, we are under a certain amount of time constraint because it is Lord Healey’s memorial celebration, if I can put it that way, this afternoon at 4 pm. Therefore, we need to be finished at 3.38 pm. For our part, we will keep our questions as succinct as possible. Obviously, we are very interested to hear from local authorities and from Lord Best, who knows this field very well, about the ambition that local authorities have to make a significant impact on housebuilding
and the supply of houses, in particular to meet the requirements in their areas for social housing and supported housing. Lord Best, it would be interesting to get your perspective on the role that you see local authorities playing going forward.

**Lord Best:** This is not about their planning role but about them building—the bricks and mortar end of it. Of course, lots of them are out of this game altogether. They have transferred their stock away, they are not part of a building programme any more, and lots of them do not have the capacity and the interest to get deeply immersed in it. It is down to a relatively modest number, but there are some very keen players, and if the idea is to build more homes, we need all the help we can get. Let us help local authorities that do have the ambition and the capacity, rather than hinder them in the things that they want to do.

At the moment, as those who want to do things would see it, it is all hindrances rather than encouragement and support. There are lots of ways in which the opportunities are being dampened down by the arrangements in the world around them, not helped, indeed, by the Housing and Planning Bill, which adds a few more little twists and turns. There are others, but the underlying issue is that the Government do not really want too much borrowing by local authorities. Due to the caps and the restrictions on borrowing, since everything that a local authority borrows goes on to the public accounts—it is part of the national debt and the annual deficit—in the Government’s view it is better not to let local authorities off the leash, those that wish to be off the leash, but to get the housing associations and other people to do the building.

That is a bit of a shame. We have some keen players out there who have access to land, who have opportunities, who can do the planning consents rather easily, who could get on with it. This definition of “public expenditure”—that borrowing to invest in housing counts against the national debt—is the big inhibitor for the Treasury and for government at large. It is the big stumbling block. If we adopted the OECD’s definition of public expenditure—indeed the EU’s and, I think, the World Bank’s—and if investment that is repaid from rental income was taken off the debt figures, local authorities would be freed up to behave like housing associations. Of course, if they inject public money, that is public expenditure, but if the borrowing that goes with that, which is what most of the cost of a home has to be provided through, was not at the moment such a major problem for government, we would be able to get them going and get some more homes built by the local authorities without worrying.

**The Chairman:** Do you think the local authorities that have the ambition to do this have the skills to manage these sorts of projects or should they do it in joint venture?

**Lord Best:** Mostly it is going to be joint venture; it is going to be partnerships; it is going to be collaborations. That is the way that most things are going to be done, and even that requires some considerable skill. If we were going to see a really big programme, local authorities would have to gear up a lot, but there is enough capacity. We are going to come later to whether or not the planning departments have the capacity, but within those councils that are raring to go there are keen,
intelligent and articulate people who could do an awful lot more and, at the moment, are being sat upon by the various constraints.

There are some little ways in which they might have been a bit freer and had a bit more money, but they are having their rents cut by 12% over four years; if they raise the rents under “pay to stay”, the money goes to the Treasury, not to them, and they cannot keep the proceeds from selling vacant properties under right to buy. At the moment, people sell vacant properties, but not to fund the housing associations to raise money for their own housebuilding. All these ways in which the Housing and Planning Bill adds to the pressures—the ceilings and caps on borrowing—make it extremely difficult for councils to get on with it and do anything. Liberating the keen ones would be a useful additional stream of new homes.

Q124 Lord Turnbull: You have used the phrase “freed up to behave like housing associations”. Is it not the case that housing associations are now being classified into the box that local authorities are in?

Lord Best: Not for long, we hope. Government have brought forward a bunch of amendments, which we hope will persuade the ONS to withdraw this, which otherwise, as you rightly say, puts the housing associations in the same box as the local authorities. We are going to cut off that major stream, which is very much more important at the moment than councils, if they are all classified as public bodies. That would be a complete disaster, but Government are now making the provision, stepping back and trying to ensure that housing associations do not remain classified by the ONS.

Q125 Baroness Blackstone: You suggested that just some local authorities should be selected to be housebuilders. How will this selection take place? How do you distinguish between those that ought to be allowed to do it and those that ought not?

Lord Best: No, it is up to them. For those that have the willingness and the eagerness, the restrictions that apply universally should not apply universally, and they would be the ones to move off the starting blocks.

Baroness Blackstone: Therefore, any local authority that wanted to build some additional housing would be allowed to do so under your proposals.

Lord Best: They are allowed to at the moment, of course, but it is just so difficult. Just make it a lot easier.

Q126 The Chairman: Councillor Derbyshire, Manchester certainly has the ambition and has brought its pension fund in as a funding partner. What do you forecast the demand for social housing and supported housing in Manchester to be over the lifetime of this Parliament and how do you plan to meet that demand?

Councillor Derbyshire: The second part is a difficult one. I do not speak for the City of Manchester; I am Leader of Stockport Council and Vice-Chair of the Combined Authority in Manchester. All 10 authorities have significant housing lists. To be
honest, I cannot remember the overall figure, but we have something like 9,500 people on the Stockport list alone, so if you multiply that up, it is very significant demand for housing. The housing associations have been the biggest builders for about the last five years across Greater Manchester, but in Stockport we have built only just enough to keep up with right to buy, so it is a bit like filling the bath with the plug not in.

Obviously, each individual council is doing its own work, but we are working as a combined authority with the other social providers—some of us have HRAs with ALMOs, others have not, but we all have RSLs working within our area—to see how we might, as an area, look at how we maximise the assets. There is something like £1 billion-worth of rent roll in social housing within Greater Manchester itself, although we will lose about £350 million over the next four years because of the rent decrease, which will go out of the local economy, mostly to the Treasury. We are looking at ways in which we can do this, but it is getting quite hard. We have a strategic planning framework, which is looking at the planning network under which housing goes and we are looking to try to take an overall view on a larger scale than one individual authority.

You are right; the pension fund, so far, has done quite a big scheme in the City of Manchester and I think is negotiating on a second. Obviously it has to invest prudentially in the best interests of its pensioners, but it is looking at investing in the high-quality private rented sector, which is part of the market that we also need. Quite a large number of people are in private rented accommodation of very variable quality in the Greater Manchester area.

**The Chairman:** Can the pension fund investment be used to build social housing or is it just the private rented sector?

**Councillor Derbyshire:** They need a return on their investment, because they are investing prudentially and with a fiduciary duty to their pensioners, so I am not sure that they would want, under the current regime, to look at social housing. If you are building properties with a business case but it is subject to right to buy or, under certain circumstances, for sale—so the income that you might expect to repay the investment may disappear—I would have thought that was a bit chancy for an institutional investor, which is what the pension fund is.

**Q127 The Chairman:** Dr Skidmore, how ambitious is Birmingham and how will it meet its ambitions?

**Dr Skidmore:** There is no limit to our ambition. Since 2009 and the changes to the housing subsidy regulations, we have built nearly 2,000 new homes through the council. That is direct delivery through us, not through housing associations. In the last financial year, we built just over 550 homes. The council is now the biggest housebuilder in the city. We are developing over a quarter of all the new homes in the city and we have a programme to build another 2,000 homes over the next four years. We are very ambitious, but I would add to the comments already made by Lord Best: we are, to some degree, hampered by a number of things, specifically the
HRA ring fence and the debt cap; the rent having been cut by 1%; and the complexity of the funding regimes and the fact that they cannot be used together.

We talk and work with a number of other local authorities and have what we call a West Midlands council housebuilding forum, which involves authorities like Wolverhampton, Dudley, Sandwell, Warwick, Wyre Forest and Stoke. All those authorities are either building council houses or are very keen to do so. We also have what we call our ambassadorial programme. That is, we visit other local authorities and we encourage local authorities to come and see us, to see if they can learn from us. In the last six months, we have been talking to colleagues in Hartlepool, Swansea, Carmarthenshire, Cornwall, Southampton and Manchester. There is huge appetite out there for local authorities to do more in terms of housebuilding.

**The Chairman:** It is the Greater Birmingham powerhouse. Birmingham is blessed with considerable commercial holdings. Is there a way of using those commercial holdings to generate capital to invest in social housing?

**Dr Skidmore:** It is not the issue of those commercial holdings that we need. It is the freedom and flexibility to do more through our housing revenue account that would enable us to build those extra homes. That is the key issue.

**Q128 Lord Layard:** I would like to ask two questions about housebuilding. The first one you referred to just now: how far is the reduction in social rents going to reduce the rate of housebuilding for social tenants? Secondly, if you look at the private rented sector, we have a ballooning housing benefit bill there. Is there any way in which something could be done to siphon off some of that money for the purposes of building houses by local authorities?

**Dr Skidmore:** I am happy to answer both those questions. The cost to Birmingham over the next four years of the 1% rent reduction is approximately £42 million, but the council has made a deliberate decision that it will find those savings elsewhere within the housing revenue account; it will not compromise the housebuilding programme. That is because we are so short of housing within the city that we have to make those savings elsewhere and carry on with our build programme.

Your second question leads on to one of the questions I saw on the list from the Committee. As you say, the housing benefit bill is ballooning; it is now £23 billion or £25 billion, which is an astonishing sum and represents something like 95% of government spending on housing, with less than 5% going on bricks and mortar. There have been a number of reports over the last few years—one from Shelter, one from the IPPR and another one from the Smith Institute, published last year—that basically say that this is not a good use of public money because it is not sustainable. If we were to divert some of the money that is being spent on housing benefit into building new homes, we could be building new homes. It does not matter what tenure they are; we would be dealing with the issue of supply and demand and, at the moment, we have insufficient supply.
Ideally, I would see that money going into social homes, because we are seeing, particularly in the private rented sector, a lot of people who, if there were sufficient supply, would be in the social rented sector. The difference is, because they are in the private rented sector, they are paying very high levels of rent. If we could hypothecate some of that housing benefit spending into bricks and mortar, it would also have tremendous benefit for the UK economy as well, in terms of stimulating the construction industry and providing the homes that we need.

**Lord Layard**: How would you do that?

**Dr Skidmore**: It is a difficult one, because you have to cut benefits at the same time as increasing housebuilding. The only way you could do that is to start increasing the housebuilding before reducing the benefits.

**Councillor Derbyshire**: Certainly within the Greater Manchester context, we work very closely on the public service reform agenda and on complex families and families with multiple needs. It is much easier to work with those families if they are in social housing. We can identify them much more easily; the housing providers have a good relationship with them. There are significant further pay-offs to the public purse of people who need to be in social housing being in there. The difficulty is, of course, you cannot just cut off the benefits to build the houses for people who are currently in private rented. It would probably improve the housing stock no end if housing benefit was connected to house condition. That is, landlords would be able to get housing benefit through their tenants if they met certain standards, which at the moment do not exist.

**Lord Best**: We can stop doing the wrong thing, which is to constantly cut the grant level so that social housing has to borrow a lot more money, so the rents have to be higher and then expect housing benefit to pay for that loss. All through my career in housing we have argued about this. How much should be the grant upfront, which then produces a low rent, and how much should the grant be cut and have a higher rent and pay for it with housing benefit? It was a Conservative Minister who told us all, when I used to run housing associations, “Let housing benefit take the strain. We cannot give you these big grants any more. We are going to have to cut the grants, but let housing benefit take the strain”. Now the Ministers responsible for housing benefit say, “We are fed up with housing benefit taking the strain. Why can these guys not provide grants to these housing associations?” But the grants are not there—a time of austerity is not a good time to look for more grants. The pendulum has swung on this and at least we should not go on making the same mistake.

I see the academic Geoff Meen over there. He did some work for the Joseph Rowntree Foundation, which showed how, if you invest at the beginning and have lower rents, take a trajectory over the years and watch those rents rise and expect those higher rents to be paid by the Government, it is much better to put in a few grants at the beginning and have low rents into the indefinite future. The high grants at the beginning made the housing associations rich. It gave them the capital assets that they were able then to progress from and do all the other things that
they do. However, it has gone the other way; it has gone into higher rents and higher benefits, and Ministers—and I do not really blame them—have got fed up with that.

**Q129 Lord Kerr of Kinlochard:** Some witnesses tell us that there is plenty of land around for building, some in local authority hands, some in NHS trust hands, some in MoD hands. Is it true? If so, how could it best be freed up and do we have to think about the green belt?

**Dr Skidmore:** I do not think the reason why we do not have enough houses built is that there is a shortage of available development land. A piece of research published last month showed that the nine biggest housing developers in the country have 600,000 building plots. That does not equate to a shortage of development land. The issue that we have is much more around ensuring consistency of supply and the fact that we are relying on market conditions and, primarily, the private sector to develop those new homes. That is not a criticism of the private sector, but clearly they are vulnerable to the vagaries of the economic cycle.

The other major issue that we have is the shortage of skills at all levels within the construction industry. That is a result of the fact that we are building well below what we need to be building. We are building only about 140,000 homes a year. It is very difficult to step up from that level because the skills in the construction industry, at all levels, whether it is ground workers, bricklayers or up to site managers and technical officers, just do not exist. Bringing more land on to the market is, therefore, not necessarily going to solve the problem.

There is an issue in terms of brownfield versus greenfield, which is that generally brownfield is more expensive to develop. That does not mean that we should just build on greenfield and neglect the brownfield. In Birmingham, we estimate that something like 80% of our housing supply over the next 15 years will come from brownfield sites, but that is because if you have been to Birmingham you will know that it is all brownfield sites. Within our Birmingham development plan, we have a proposal to develop about 7,000 homes on a green-belt site, but that will be only 20% of our new development. There are arguments for developing on green belt as long as the brownfield sites are not then left neglected and cause problems.

**Councillor Derbyshire:** There is an issue of land in the right places that developers want to go to, which is not always where, strategically, we would like them to go, but it is not really a fundamental shortage; it is about volume. Volume housebuilders do not tend to build in volume. Even when they have quite large sites within Greater Manchester, they typically are, at the most, aiming to put in about 25, 30 per year, so even if the site is very large, it is not contributing vastly to a five-year supply. Across Greater Manchester, we have identified about 150,000 potential unit spaces; 47,000 of those have planning permission but are not going ahead, and one of the things we are looking at is why they are not being built on. In some cases, it is finance—the Greater Manchester Housing Fund has assisted with a number of projects there. In other cases, it is about the viability of brownfield, the infrastructure that may be needed to deal with contamination or the impact on roads and schools, because houses are not built in isolation. People live in homes,
they live in communities and they need those facilities. The value of the land does not really allow for that contribution and local authorities do not necessarily make up the slack for the road network or the other services that need to be put in place. Land is an issue, but it is not the biggest barrier to development. There is plenty of developable land out there, much of it with planning permission.

Lord Kerr of Kinlochard: What about conversion of existing buildings, offices to houses? Is there any advantage there, any margin?

Councillor Derbyshire: That is happening, certainly in my area and I am sure in others. That is contributing, and a lot of us are looking much more closely at our town centres and how they work in terms of more density and more housing, perhaps, than traditionally we have seen. There are all sorts of things going on, some of which may involve green space.

I think it is a mistake when it comes to green belt. Green belt is about urban sprawl, but it is taken now to be shorthand for environmental quality. In fact, some green belt is horrible, and much very loved, very useful urban green space has absolutely no protection at all under the planning system. We need to take a more sophisticated look at what land contributes to communities and how they deal with it, whereas green belt has been used as a bit of a taboo subject and a shorthand. We will have to look very closely at that, but it is difficult to see how some of the really good sites could be developed without, again, some public intervention.

Q130 Baroness Wheatcroft: You mentioned a number of planning permissions that are never taken up. Do any of you have suggestions as to what should be done about that? We have had various ideas put before us.

Councillor Derbyshire: Some of it is about financing. We have had seven schemes from the Greater Manchester Housing Fund so far; we have allocated £67 million and most of those are on site and building, so that has accelerated. That has helped. In others, it is probably to do with contamination or other infrastructure issues, where we are looking at how we might have a loan programme, where there is some gap funding that would allow that to go ahead. There is a mixture. Some of it is unrealistic ambitions of the landowner or the original developer, who perhaps bought at the height of the market. Again, we are trying to work with them to be realistic about what the value of sites might actually be, but many brownfield sites need help to be developable.

Dr Skidmore: It is fair to say also that land is, to some extent, being traded as a commodity. A piece of land can be bought on the open market. If someone secures planning approval for it, it can then be sold at a profit. Sometimes sites are sold over and over again to people who are, potentially, speculators waiting for the market to turn. They are waiting and waiting and waiting. In the meantime, the land is sitting there and we are not getting the homes to be built on it. One suggestion that has been made about how we could deal with that is to tax those sites, because at the moment people are paying no tax on them whatever. I do not know why that is. You have to pay tax on any other kind of building, but you do not have to pay tax on
those development sites. Alternatively, have a “use it or lose it” power, on the basis that if you are not going to build on it, let someone else take it on

**Baroness Wheatcroft:** Both suggestions have been made to the Committee. Lord Best, do you have any thoughts?

**Lord Best:** To have a blanket number of years during which you must build out your project is a little unsophisticated. You may be trying very hard to get going, but all kinds of obstacles pop up in your way. I have had most of them over a period of years, including the two great crested newts that mysteriously appeared before the visit by the planning committee. Things can happen that stop you in your tracks and stop you from getting on with the building, some of them artificial. Some are underground: we had a car park and we had done boreholes, but we discovered that the boreholes had missed the fact that there were incredibly complicated cellars in one particular part of the site. Oh dear, start again. It took years. Delays are sometimes entirely understandable, so one has to be a bit sophisticated with the way in which you tax delay.

More broadly, on publicly owned land, about half of all the land that could be developed is in the ownership of a public body and not necessarily the local authority, of course: the NHS is such a big landowner; the MoD is a big player; Transport for London; the ex-utilities own land too. These should be a softer option in terms of, to use Councillor Derbyshire’s words, public intervention in what happens to the land. Of course the land is there; it is what kind of intervention we need with that land that will capture it for the good of wider society. It is all the tricks of how we handle that and one would have thought that land in public ownership, broadly defined, is a softer option. It is not at all.

I was responsible for taking the decision on an NHS site where we had Berkeley Homes and everybody else competing like mad, pushing up the price to the highest possible level, while I was trying to say to the NHS, which owned the site, that we were going to save it an absolute fortune. It was an extra care project that would relieve bed-blocking in hospitals, allow elderly people to have a decent home and not be in residential care and all the rest of it. It absolutely, of course, falls on deaf ears. It is just the price that the NHS is interested in. At least in theory, with publicly owned land one would hope that that kind of intervention, which would make good things happen, would be easier—and it is not always.

**Q131. Lord Layard:** One thought that we have heard is that the slow pace of development, certainly on permissioned land, is connected with the builders not wanting to build too fast because it would drive the price down, which is associated with a degree of local monopoly that they hold. Is not part of the problem the degree of monopoly in the building industry and the fact that the small builders have disappeared? Is it true that the small builders have largely disappeared because the planning system is so complicated that you have to have a huge office and staff to manage it? In which case, is not part of the solution to simplify planning?
Councillor Derbyshire: Planning is everyone’s Holy Grail. Certainly we saw a loss of the smaller builders in Greater Manchester over the last five or 10 years. It was probably more to do with the economic climate than the planning system. They were working quite well within the planning system until the recession really hit, so it has a lot to do with the economics and their ability to train and bring on new staff as much as anything. On the whole, most builders can get through the planning system as long as they have some stability with it, but it would help if we had more of the smaller builders. The drive towards the really big sites, of course, is also not very helpful to the smaller players in the industry. A lot of the smaller builders are interested in two or three builds on a site, not a really large development.

Q132 Lord May of Oxford: I want to say a couple of things and I hope I say them clearly, which I may not. It seems to me that there are many meanings that can be attached to the focus on green-belt land. There is this person Martin Wolf, who strikes me as a right proper nitwit, who says that he has never been able to see the point of it. What I do not understand is not the point of it; the point of it is to try to preserve, as I understand it, although I am not familiar with the details of the Act, a proper mixture of housing and where people live and an environment that is pleasant to live in. My wife and I have, more or less, just finished two recent circular walks right around London. I do not know how many people here are aware of them. The one that is really good is at every point equidistant from the centre of London and the M25. As you do that, you find the amount of green space there pleasingly remarkable, in places where, at first, if someone had asked you about it, you would have expected to see very little green space. I do not think the green belt has had a hell of a lot to do with it. There will be bits of this where, quite recently, there has been a fight lost by people who wanted to develop a particular part so that they would make some money, where it was not really going to produce more housing or anything other than a diminishment. It is quite an interesting and complicated subject and, it seems to me, it is not helpful to keep using the words “green belt” unless you really understand what that means. This nitwit Martin Wolf said, “If we had had a green-belt policy in 1850 we would not have London”.

Lord Lamont of Lerwick: He lives in Hampstead.

Councillor Derbyshire: There is a legal definition of “green belt” and there are five criteria for it. Forgive me, I cannot remember what they all are, but the criteria are not necessarily that it is accessible to people or that it is of high quality. Much of it is farmed; it is not necessarily unworked land. I am well aware that people tend to use the words “green belt” to mean any piece of green they are fond of. That is a complication for local areas and local members, because most of the parks, for instance, are not green belt. Quite a lot of the green space perhaps was previously, technically, brown, but green to the local community. In a way, “green belt” is a confusing term. We should really be talking to our communities about what is valuable to the communities in terms of the quality of life and what is less so and, therefore, may be available for the housing that those communities also need.

Lord May of Oxford: One of the most fascinating things on the walk we did is, basically, along a railway line.
The Chairman: We need to move on to the next question.

Q133 Baroness Blackstone: Can I just pick up on something that was said before? I will do it very quickly. You talked about very big sites being developed by one builder, who often does not develop it all at once but does it in chunks, partly for profit reasons. Is there no scope for local authorities to divide up these large sites and bring in several different builders, including small and medium-sized ones, so that you would get them all built together? It also gets away from the monopoly that big builders tend to have in some areas.

Councillor Derbyshire: There is scope, obviously, if it is within the public sector and we have some control over it, but if it is a landowner or a developer applying, it would make planning even more complicated if we were to try to do that as part of planning. I noticed the question about the plan-led system and I was a bit surprised, because we had not had that comment in GM. It may come from smaller builders, because the plan-led system does lead you to want to identify larger sites and perhaps forget that there may be smaller infill sites that do not get highlighted in quite the same way.

Q134 Lord Turnbull: I suspect that the three of you, as a panel, are unrepresentative, and what you represent is the coalition of the willing. The question is: are there many local authorities, probably more numerous than you but not so big, who are not in this coalition? For many local authorities, their voters do not want major expansion of housing. Under the planning framework you have to objectively assess need, so what incentive is there on them to do anything other than try to get the smallest number they can get away with? If there then is a planning appeal, they drag their feet, they do not approve it and they throw the blame on to the Secretary of State and then comes an appeal. Do we need something that converts more of the unwilling into the willing? Are the financial incentives to a market town or borough adequate to encourage them to defy the wishes of their electorate?

Councillor Derbyshire: They are difficult conversations with local communities wherever you are, because while many people recognise the need for more housing, for their children and their grandchildren quite often, they hope that there is somewhere else that it can be built. The impacts on the wider community, pro and against, are very important. Very often, the issue is not necessarily about the view or even the green area or the developed area; it is about highways in my area.

It is a mistake to think of housing as something that is a national market. We are all very different. I am sure Greater Manchester has great differences within it. We are very different from the Birmingham market and from other markets. There is not a lot of viability in the land in an area like Greater Manchester. Our average house price is £160,000, so even if you are building you are not producing an awful lot that can go into benefits for the local community. We only have one authority that has a CIL, two or three that are looking at it and others for which it does not seem worthwhile. There is that question of what the value is for communities that are just
seeing more building, more pressure on local services, in accepting that, and it is quite a difficult conversation to have, as local councillors.

**Dr Skidmore:** I would answer that in two ways. One is that, for the first time, there is universal recognition that housing is a national issue and it is the duty of all councils, whatever their views, to step up and make a contribution.

The second one is to follow on the points made by Councillor Derbyshire: development is, by its nature, always controversial. Most of the schemes that I deliver are in the city on brownfield sites. There is always someone who will object to them. Whether you are building on brownfield or greenfield, city or country, there is always someone who will object. The art, if you like, of development is to think, “How are we going to create a development that is not going to make the quality of people’s lives worse but will improve it?” Building new homes can bring with it a number of community benefits. It can bring real benefits as well as providing those new homes. They can be higher-quality homes; they can come with planning obligations requiring highways improvements or community improvements. Very often, when we are dealing with housing developments in the city and we are receiving objections to them, the way that we get over that is to say, “We are going to build these homes, but you need to understand that, as a community, you will get all these benefits”. That is the space that local authorities need to get into and be brave, have those conversations with their communities and explain what the benefits are, because it is not all negative.

**Lord Turnbull:** You do not think there is a need to change the Section 106 agreements, the community infrastructure levy or some of these more ambitious schemes to capture more of the planning gain to incentivise local authorities. You are almost saying that the political consensus ought to suffice.

**Dr Skidmore:** The financial argument is a difficult one. If that can be done in such a way that it benefits local communities, that would help councils to win that argument, yes. I can see that as an argument.

**Councillor Derbyshire:** The failure to develop, though, undermines that quite a bit, because you can go through a very difficult conversation with a local community, trying to explain about planning, getting it, and then the developer does not develop and therefore the benefit does not come, but residents have the possibility of it happening at some point in the future. That is where the ability to continually renew planning applications can be very wearing on communities.

**Lord Best:** The public’s resistance to development on their doorstep is such a big issue. Lord May would be the first to protest in some circumstances. Keep away, if possible, from green belt, if one can, is my motto, but sometimes developing in those areas is absolutely the right thing to do. The expectation that the local community will accept a development is often a complete waste of time. It is not going to happen, and the bribes that we come up with—the ways in which we try to get the community to accept something they do not want—usually fail miserably. I remember explaining that we were going to pay the bus company so that there
would be a really good, regular service coming through the village. “We do not want bloody buses coming through here all the time”. “Oh, right”. “You name the community centre we are going to create”. “Who wants a blooming community centre?” It is very hard to think of the things that people will accept. “We will knock a bit off the rates—the council tax”. “Oh no you won’t. We don’t believe that will ever happen”. The ward councillor representing that bunch of people is always going to say no. One can only get agreement at a higher level and then it is, unfortunately, a matter of saying, “I am sorry. We have to go ahead. These homes are badly needed. The community needs these things. We have to get on with it”. The vain hope that one will be able to persuade or bribe, though, very often is a losing battle.

Q135 Baroness Blackstone: Can I ask you a bit about local plans? Do you think the system is working well? Housebuilders have been quite critical and have said that they would prefer to go back to the pre-1991 Act set-up. Do you have any views about that?

Dr Skidmore: My view is just to look at the statistics. If you look at the planning permissions that have been granted over the last five years, the number has steadily increased year on year. To me, that is an indication that the system is working.

Councillor Derbyshire: I was surprised at that question, because it was not something that we had come across within Greater Manchester and we work with a whole range of people on the Planning and Housing Commission. We are working on a plan that will cover all 10 authorities, which is quite a big undertaking. For instance, Salford, which does not currently have a local plan—it got to inspection but the inspector suspended everything—has had an enormous amount of building going on, so the existence or non-existence of a plan is not stopping things from happening. If the plan stands and is not having to be reviewed very quickly, it gives a degree of certainty to all sides. As I say, possibly the comment is about the fact that the plans tend to concentrate on large sites and that may leave the smaller builders feeling that they are not, perhaps, incorporated within them enough.

Baroness Blackstone: When you are constructing local plans, do you take into account the views of developers?

Councillor Derbyshire: Oh yes. It is a very lengthy, complex process and a very expensive one, with many stages at which there is consultation with all stakeholders—communities, developers, everyone—before it gets to an inspection start and then obviously the inspector will take evidence.

Baroness Blackstone: In Birmingham too?

Dr Skidmore: Yes, absolutely.

Lord Best: We have to have local plans. If we believe we have a plan-led system and that is how things should work, we need a plan so that we know what is going on. The Government are absolutely right to put their foot down and say that by 2017 local authorities have to come up with a plan. Of course it is complicated and
difficult, but that is the basis on which you then know what is going to happen. Builders and housing associations can work it out. That is the starting point.

Lord Lamont of Lerwick: The alternative view that was being put was that small builders, in particular, were able to find parcels of land on which small numbers of units could be built and that this was better than having the jumbo plan. It was the same people who argued before us that, because of the pressures of public opinion and what you were saying, local authorities ended up planning for the minimum that was needed and failed to build in a buffer in case the targets were not realised. They felt that the smaller builders seeking out the land might be increasing the volume of planning permission.

Dr Skidmore: Local authorities, as part of developing a local plan, are required to provide a strategic housing land availability assessment, which is, in very simple terms, a list of all sites available for housing development across their local authority area. On the Birmingham list, for example, there are 35,000 building plots within that plan. The vast majority of those are small plots, which large developers would not be interested in. They work on particular margins, they are interested in sites of a particular scale, and most of those 35,000 plots would be aimed more at the smaller builders. That kind of information is out there and readily available for those local authorities that have developed a plan.

Lord Best: Croydon and one or two local authorities are looking at all those small sites, bundling them up and then introducing them to the small and medium-sized builders. It was the banking crash; they could not borrow, and without being able to borrow you cannot build out housing. We need the SMEs back desperately, and some local authorities—it is the old public intervention line—have been able to assemble those sites and give a steer, not least through the resources that the Government are trying to make available to assist those smaller housebuilders. But it is quite complicated and quite difficult for Joe Bloggs the builder to get his hands on the money or the guarantees that come from that. Local authorities playing their role there can make a big difference to the SME builder.

Dr Skidmore: As a very brief supplementary to support Lord Best’s point, we are doing that at Birmingham. We are identifying very small sites, sometimes municipal garage sites, that are only big enough for two or three or six properties. They are not of interest to the large-scale housebuilders but they are of interest to the SMEs. We have successfully engaged the SMEs and we have a couple of local SMEs that are building out those sites for us. The problem is that such a lot of those SMEs disappeared during the recession, so there simply is not the quantum of people that there was.

Q136 Lord May of Oxford: There is a fascinating question that we have skipped past, and it was my fault, because it is the second part of the thing that began with the green belt and I went on ranting about it. Simply, to what extent could the housing stock be expanded by conversion of office space to residential use? I think it is a fascinating question.
Dr Skidmore: There is scope for that and the Government have recognised that recently by giving more scope in terms of planning approvals for developers to do that. We have seen some of that happening in Birmingham. There are a couple of issues that we have to be mindful of. One is that we have to be quite careful about where that happens, because clearly if we think about city-centre cores, which typically tend to be the hive of commercial and business activity, you would not necessarily want to see all those areas going over to residential use. The other issue is around cost, because very often refurbishment of existing buildings is no cheaper than new build. The third is that, if we are talking about apartment blocks and that sort of thing, there is still a reluctance on the part of mortgage lenders; it is more difficult to borrow money on apartment blocks. Similarly, if you are a developer, that might put you in the position of a cash-flow problem, because if you are building low-rise housing or typical houses, you can build as you sell rather than having to build out the whole estate. With an apartment block, you have to do the whole lot before you can sell them, and the people who are willing to buy off-plan these days and get that kind of mortgage finance from their mortgage company are few and far between. There is scope, but there are a number of difficulties that have to be overcome.

Q137 Baroness Wheatcroft: On the planning process itself, Dr Skidmore, you said that there has been a steady increase in the number of planning permissions being granted, but we have heard complaints about the length of time it can take to get a planning permission dealt with. I wonder what you think the explanation for that is. Is it because authorities have had to cut back on the scale of their planning department or because planning has become more complicated?

Dr Skidmore: There are potentially a number of explanations for that. I am happy to say that at Birmingham we have a very good record and are in the top quartile in terms of processing 90% of major applications and 93% of minor applications within time. There is an issue that Birmingham is a very pro-growth authority and, therefore, there is very much that attitude of: “Let us see if we can get something approved if at all possible”. Clearly, there is also a reliance on the proposals that come forward being compliant with planning policy, and this is always where we get the tension between the planning policy on the one hand and the developer potentially arguing viability on the other.

Councillor Derbyshire: I would agree with that. Most of us lost planners about five years ago when the numbers of planning applications coming in absolutely dropped. Therefore, the planning income dropped. It does not cover the costs, but it was a contribution. The planning income dropped, there was no obvious role, perhaps, for some of the planners, and local authorities were faced with having to make savings, so a number of people took retirement or went off and did other things. We are, therefore, having to build back capacity as it grows, and that is an issue. Some of the applications are very complicated. We have to have those talks with the communities. They are not always planning-compliant, so it is not straightforward to say yes, and if we refuse there is an appeal. Just as a single local authority, we have had three judicial reviews of yeses in the last 12 months. We were successful on all them. It did not cost the applicant any more than £5,000, since they cap their costs,
but it is not that if we do it quickly it is done, because it is challengeable by everyone at every stage. It is important to get it right, but for the developer as much as for everybody else.

**Lord Best:** The poor old planning departments are pretty battered and bruised and under-resourced. I moved an amendment some time ago to try to give the most senior planning officer the status of a chief officer so that their status would rise. We have gone a long way from that, although in some places the head of planning reports directly to the chief executive of the council. People are beginning to get it, but basically it is a bruised and battered bunch.

I have sat round the table for a Section 106 discussion in which the private sector, usually a very large housebuilder, is represented by two extraordinarily sophisticated, slick gentlemen who are on very high salaries and who sit there and have a mass of financial information at their disposal, and somebody who is covering for maternity leave representing the planning department on the other side looking pretty mystified, as I, representing a housing association, sit there. You see how unequal the contest is when there are discussions on viability, whether or not the scheme stacks up, whether 30% affordable housing is affordable to the scheme. We need to really bolster these planning departments. They have a very big and important job to do.

**Q138 Baroness Wheatcroft:** Do you think that planners could do more to change the building style in this country? We tend to be building houses the way we have built houses over a very long period. What scope do you see for more industrialisation of the building process?

**Dr Skidmore:** Are you referring to non-traditional forms of construction—system built, that kind of thing?

**Baroness Wheatcroft:** Yes.

**Dr Skidmore:** It is a very interesting area. There is a lot of talk about this and it was stimulated because, two or three years ago, as people will be aware, there was a shortage of bricks. That hit our programme in particular at that time, because we had a number of schemes on site where developers were coming to us and saying, “You specified a brick. We cannot get that brick; they are not available. They are coming from China”, or something ridiculous. There is quite a big discussion about the potential for homes to be built in factories, as it were, and this is something that is done in Europe. There are a couple of points I would make about that. One is that, in Birmingham, we had lots of non-traditional-construction homes, as I will call them, built in the 1920s, 1930s and 1950s. I have spent 20 years knocking most of those down, because they did not last very long, but there is potentially a role for that form of construction.

Something we have to bear in mind is that, because these homes are made in a factory, they all look the same. That is fine if you have a site that is square, for example, or rectangular. We do not have many of those; they are all strange sites, so
you have to bear in mind that it does not take in the complexities of the design of an individual site. In terms of the quality of those homes, it should be very high because they are being built in factory conditions. They are not being built on a building site that is subject to the vagaries of the weather and temperature and so on. It is something we are looking at piloting and I know Manchester is as well, but we are looking at it primarily on smaller sites, because we find that the traditional methods of construction, even using SMEs, can be very expensive on small sites. We are actively looking at it.

**Lord Best:** I think it is great. We have to get into this. In other countries there is lots more standardisation and modern methods of construction, as we say. I did a development in Leeds, 46 apartments, using, at the time, the most modern methods of construction. These units were built by Volumetric in Milton Keynes, came on a lorry to Leeds and were lowered into place and so on. We won a couple of design awards. The place has been standing empty for a very long time because it was declared unsafe. I was also trying to introduce an overseas firm and I brought Kajima—a Japanese company that had done system building and built 1 million homes in Japan and Korea—into this country, because we do not have any international competition. It was a complete failure, I have to say. It failed because, although they left the factory pristine, when they got to a building site the ones that were strengthened to go on the bottom were put on the top and, you name it, every mistake that could be made was made. We will get there in the end. This is going to be a useful method, but we are so far behind the rest of the world on this.

**Q139 Lord Lamont of Lerwick:** Lord Layard raised the question of planning gain and the uplift in values. Is there anything you want to add on that subject or whether you think Section 106 is not really adequate in capturing part of the gain for local authorities? Have you any further ideas on this issue?

**Dr Skidmore:** If it is local authority-owned land, there are a number of ways in which local authorities can capture an uplift in value. They can do that through an overage agreement. The other way they can do it, and this is something we do at Birmingham, is by securing planning approval on the site itself before it is offered to the market, because clearly the moment it has planning approval it is worth more money. At Birmingham our model is to design up sites in advance, secure planning on those sites, de-risk the sites, and then we have a partnership arrangement with the private sector developer, which means that we share in the developer’s profit. That means that we get far more share of the developer’s profit than we would do if we just put a site on the market without the benefit of planning approval. If it is a really strong site where we know that sales are going to be very good, not only will we secure the planning approval but we will employ a constructor rather than a developer and will build out the homes for sale ourselves. In that case, we take the sales risk, we fund the construction of the homes for sale and we capture all the development profit. There are mechanisms out there that local authorities can use to drive more land value out of their sites.

**Councillor Derbyshire:** The difficulty is when it is not our site. The issuing of planning permission immediately can increase the value of a site tremendously for the type of
either development or transactions that were mentioned before. When the New Towns Act went through and the new towns were done, the land was acquired at pretty much its own value and, therefore, the increase in value could go into the infrastructure. Without some way of capturing that uplift in value or some part of that uplift in value, we are not getting an awful lot, in areas like Greater Manchester, out of Section 106 agreements. The viability arguments on the sites are that there is not the value there to contribute towards affordable housing. The first call tends to have to be on to the highways, because that is the most immediate impact on the area. While in the past we have seen quite good community impact from 106 agreements, it has decreased a lot over the last five years.

**Lord Best:** Using the new towns illustration, where we bought the land cheaply and then captured the value and released it and all the good things that could happen in a new town, I do not think that is entirely over. Although in a lot of places the hope value has already increased the value of the land, so even if you compulsorily acquire it, it is still extraordinarily expensive, there are tracts of the country where there is no expectation at the moment that there will be a development. We have the rural exception sites where in a village there was not going to be planning consent, but if you sell the site for only £10,000 a plot instead of £100,000 a plot and if you do this and if you do that, and it is for local people, then we will give you planning consent. We can play this trick on a bigger scale still and there may be opportunities—I shall be putting down an amendment to the Housing and Planning Bill in this regard—where, in terms of building garden villages or new settlements of some scale that would not normally be given planning consent, planning consent could be given if people will accept a price that is much nearer to the agricultural value. The land value can be captured and the whole development can proceed on a really good basis, parcelling out the land to the different interests that can develop it.

**Q140 Lord Forsyth of Drumlean:** I apologise for not being here for the start of the meeting, but I look forward to reading the transcript. Will the proceeds from the sales of high-value vacant properties be able to cover the cost of funding right-to-buy discounts for housing association tenants and the cost of replacing the properties that have been sold?

**Councillor Derbyshire:** The short answer is I very much doubt that those sums will add up. There is so much uncertainty still with the Bill going through as to what will be defined as a high-value property. We had a property in an area that would probably have fallen under the definition that got 2,000 bids from people with housing points, so it is not that it is a surplus property. We have managed to build no properties at all from the income from right to buy, because once the debt is paid off and the discount, there is no value left. It strikes me as an extraordinarily poor use of public money to try to take money from one set of social housing, to take another set of social housing out and then hope that there is enough left to build some more social housing at the end of it. If we are looking to increase the amount of social housing available, I would much rather put money into helping those people who could afford to buy to move out and release that social housing for those who need it.
Dr Skidmore: It is difficult to see how this can possibly stack up, but one thing we can be sure of is that the proposals as they stand will drive down the levels of social housing across the country. That will have social and economic consequences for us all, because the numbers that would need to be sold in order to make up the deficit and protect the right to buy would be tens of thousands or hundreds of thousands.

Lord Best: Despite those points, the Treasury and the Government will not miss out on this. They will not find themselves shelling out large sums of money for the right to buy, because they will regulate the flow of the right to buy by the housing association tenants who have been given this new opportunity. They will regulate that at the speed that the money comes in from the sale of vacant council housing. They have made it clear that they will just ration the available resources so that they will not miss out. This answers the question in a different, back-to-front way. It may take a long time for the resources to accumulate to cover the costs of paying out the discounts. Seventy per cent of them have to be paid out on the day of the sale. If this all happened in a rush, the Treasury would be in big trouble, but they are saying, “No, we will ration and slow down and lengthen the time that people have to live there before they are eligible”—whatever it takes so that this does not turn out to be a cost.

Lord Forsyth of Drumlean: My understanding of the working of the scheme is that local authorities’ high-value housing will be assessed, and if the local authorities do not sell those houses, they will have to return money to the Treasury. Leaving aside the problem of balancing building new houses against the revenue from sales of high-value houses, is that not going to damage the housing investment potential anyway unless they are able to identify and sell these properties? Is that a difficulty?

Dr Skidmore: Absolutely, it will. I mentioned earlier that we are going to lose £42 million over the next four years at Birmingham. This will be another amount of money that we will be losing, so it will be another levy that makes it more difficult for us to build new homes. It makes it more difficult to look after the homes that we have. We have 26,000 people on our waiting list and 100 people in temporary accommodation, and those numbers are going up every day.

Lord Forsyth of Drumlean: Do you think that the Treasury will take a flexible view on this?

Dr Skidmore: No.

Councillor Derbyshire: We are still waiting for a lot of detail. Lord Best’s information was useful, but it is one of those policies that is being worked through as the legislation goes through, and I am not sure that that ever produces great legislation.

Lord Forsyth of Drumlean: Is that a polite way of saying that it is not thought through?

Councillor Derbyshire: It does not appear to be, from the ground. As described here, there are going to be an awful lot of people who live in RSLs who believe they will have a right to buy but apparently will not—or at least not for quite some time—
which is obviously a political issue for those who promised it. I believe that my local authority will lose houses through the high value, because we are relatively high value within Greater Manchester. These will be the highest demand properties. The previous right to buy has never operated in a way that has allowed us to replace anything like for like. We have used HCA grants and other grants to build, but we have never produced any income through the right to buy. We may have to pay the money for our own houses. Our housing revenue account was a 30-year agreement three years ago before it got changed, so it is very difficult to plan and, as I say, it makes it dangerous to build houses in your housing revenue account.

**Lord Best:** Even in a high-value area like London, the local authorities have not been able to replace the stock in the timescale with the money that they have had from right to buy. Haringey and others have handed back millions and millions to the Government, which is rather galling for them, but they have not been able to use the resources in the time available to replace the stock, so it does not look too well thought out.

**Baroness Blackstone:** In Manchester and Birmingham, would it help if there were an amendment to the Bill that gave you a longer period to replace your stock?

**Dr Skidmore:** It would help. The threshold at the moment is that we have to spend the money within three years. I am happy to say that we do spend the money within three years, but we are fortunate because we have a large housing delivery programme that we have built up over the last five years, so we are able to do that. Three years is a very short timescale, though, in which to spend that money. The other complication is that we are legally not allowed to use that money alongside any other funding, such as HCA grant, so that makes it a little more difficult — unnecessarily difficult, in my view—to spend that money.

**The Chairman:** That brings us to the end of this session. Thank you very much indeed for your helpful and informative answers.
Inquiry into the Economics of the United Kingdom Housing Market:
Response on behalf of Greater Manchester Housing Providers Group

The GM Housing Providers Group consists of 26 housing providers of significant size in Greater Manchester where the conurbation is their main or priority area of focus.

We are hugely supportive of the new Greater Manchester devolution process that not only brings local control over local resources but also creates the basis for wide scale collaborative working. It is very encouraging that housing has been recognised as one of the key drivers for growth across the sub-region.

Together we aim to consider, input and deliver ways housing providers can contribute to the wider Greater Manchester strategy, to consider how we can work together to add value to the housing offer in Greater Manchester and to maximise the benefits of devolution.

We supply more than 247,000 homes to low income households across the conurbation.

1. Private Ownership.

1.1 It is generally accepted that we suffer from a national housing shortage. The size, design, and condition of our present housing stock fails to meet the increased demand from new, emerging and changing households across the country. Accurate calculation of the magnitude of demand is very difficult as many potential households do not ‘emerge’ statistically because housing market conditions are so harsh in some areas and/or their income is so low that any hopes of obtaining their own home are too remote to be considered.

1.2 Unlike our continental counterparts, evidence suggests that home ownership is a widely-held aspiration and, recent announcements show, the government places achieving this above anything else in their housing policy.

1.3 More than ever housing markets are interconnected, so things that happen in one part of the country have impact elsewhere. For example, the vastly over-heated London market has driven some potential buyers to seek more affordable housing elsewhere and, in the process, distorted those markets. In particular those buy to let speculators, who have been priced out of the capital, are competing with first time buyers in other localities.

1.4 Under favourable housing market conditions there is reasonable expectation that, allowing for a few house moves over time, most ‘final’ mortgages would be paid before or at retirement. This allows greater capacity and choice for downsizing and releasing equity in later life. Home ownership can provide a satisfying residential experience combining the comforts and security of proprietorship with the financial
benefit of an investment that grows in value. Within such a stable housing market most home-owners in previous decades could absorb paying eye-wateringly high mortgage interest rates that today would be totally unreachable.

1.5 The reality for potential home owners today is much starker. On average people buy later in life so it is more likely that their mortgage payment trajectory will overshoot retirement even with retirement age rising, which will create other housing problems. Now there are too few opportunities for people to take that first step on the home ownership ladder and less capacity to move up the ladder. For the first time there are more (older) outright homeowners than there are those (tending to be younger) paying off mortgages.

1.6 Providing more new homes and thereby increasing the ‘offer’ available is essential but it is not the full solution. People are rightly reluctant to make significant long term financial investments by taking out mortgages without having reasonable expectations of full-time, secure and sufficiently waged employment. Unfortunately the present working landscape does not provide this as austerity measures and general economic uncertainty limits confidence and lowers aspiration. This is particularly an issue in our region and the north in general, where the latest economic market intelligence shows that we continue to lag far behind the most prosperous regions. So, eliminating regional labour market inequality and shoring up instability are macro-economic necessities before people can safely exercise real housing choices.

1.7 There have been a number of initiatives aimed at increasing home ownership over the years that have attracted mixed reviews. Those, such as the right to buy and the right to acquire, may have helped many to move from rent to ownership but this not without many problems. A vast amount of public subsidy has been paid to encourage households to swap tenure; overall this has resulted in a reduction in the social rented stock as one-for-one replacements simply do not stack up. In many cases, a Right to Buy has eventually been sold on to the private rented sector to re-emerge as a rented property with rents well in excess of what had been previously charged. Some of these have become a blight on our estates due to poor property condition and poor management. Better value would be achieved if those resources/subsidies had been re-directed to housing associations and councils to enable them to build new affordable homes for sale or rent rather than given to those already in accommodation.

1.8 Help to Buy has contributed more effectively by targeting those who want to move into a new home rather than just changing the status of those already adequately housed or not in housing need. Its limitations are that it can act as an inflationary factor upping house prices, which is counter-productive to its aim of providing an affordable platform for those on limited incomes. Further, the scheme is highly vulnerable to hikes in the interest rate. Also, equity loans are only available on new build homes, which are not necessarily the natural or most affordable choice for first time buyers.
1.9 Shared ownership models are potentially the most important existing means of helping those on limited income into home ownership by providing an affordable and popular product. Originally envisaged that people would eventually become outright owners by buying up all the equity, many have continued as shared owners by either choice or by circumstance. The biggest difficulty with shared ownership is attracting sufficient interest from mortgage lenders.

1.10 Taxation based around residential land and property transactions is always going to be tricky to get just right. Too much taxation is a disincentive; too little a loss to the exchequer. Used as a progressive income-linked tool, taxation can reduce disadvantage and, if accurately targeted, help first time buyers to compete more successfully; also it could provide a means of holding back raging house price inflation.

1.11 Stamp Duty reductions will help more around the £275K level, where the savings are highest, than at the lower level. It is possible that movement in this medium tier will have an indirect impact on creating more churn and thus more opportunity lower down the property market from where first time buyers could benefit.

1.12 The announcement that Stamp Duty will be charged on private buy to let and second homes is welcome in helping to create a level playing field. Though its impact may not be as much as hoped if it is accurate to predict that many of those who can afford to think about buying a second home, or are a wealthy private investor, could take the tax hit and still be competitive against a first time buyer. Indeed there have been warnings that these measures would not deter big foreign investors who could make the situation much worse by inflating the market even further in the period ahead of the introduction of the tax in April.

It is hoped, however, that any extra revenue raised from payment of Stamp Duty is poured back into housing in some form or another.

1.13 Though it is still some way off the changes to Inheritance Tax, that introduce family home allowance from 2017-18, will be a positive step in encouraging downsizing but the main beneficiaries are likely to be those whose assets are greatest who are less in need.

1.14 The ideas we have to improve the situation are:

- Create a national housing strategy that takes a serious approach to supporting aspiration for home ownership but gives equal weight to the merits of rental housing options; a strategy that allows for regional and local differences and is informed by a robust business plan /financial package involving public and private investment projections.

- Develop a suite of products that provide a range of housing options that cater for all incomes and reasonable aspirations. This would include everything from rent, shared ownership, community ownership, self-build, community build, housing trusts, outright sale, and downsizing options. Importance
would be given as much as to how households would move between the options as the products themselves.

- Re-direct resources and priorities away from the right to buy towards supporting housing associations and councils to help any of their tenants who want to become owner-occupiers to move to a suitable property.
- Use progressive, income/profit linked and targeted taxation to prevent excessive house price inflation and reduce inequality in the system.
- Re-think the Section 106 situation where obligations on the private sector to provide affordable accommodation have been relaxed.

1.15 Even with all or some of these ideas enacted there will never be a renaissance in home ownership until such time as household incomes grow along with security of income. If achieved this would encourage people to risk entering into long term financial mortgage commitments. Even with a significant take-up of new mortgages to satisfy aspiration, there are potential long term issues for the wider economy as personal debt is already at its record highest; this would considerably exacerbate the indebtedness of the population.

2. Privately Rented Accommodation

2.1 The fragmentary nature of the private rented sector makes it a difficult subject to generalise about and to deliver ‘one-size-fits-all’ solutions. There is so much variety between the quality of accommodation and the cost-effectiveness of the products on offer, that a reasonable argument could be put that it is not a desirable thing to increase the supply of low cost private rented stock. It could be further argued that priority needs to be given to improving the present offer (efforts to do this can be seen in the new housing bill) rather than encouraging further growth across this sector.

2.2 The rapid growth in private sector lettings over the last few years has coincided with the growth in poverty and the stagnation of many households’ incomes. Demand for low cost housing has increased significantly but housebuilding has not been able to keep up with demand. Nor has the private sector developer sought to increase the proportion of affordable rented/sale units at the expense of higher value rental/sale options. Private sector social renting has expanded to fill this vacuum and, in many places, has become accommodation of last resort. Unlike the housing association and public housing sectors there is less rigorous regulation and public accountability, so value for money and quality of service is less easily achieved or monitored.

2.3 Changes to the tax relief available to private landlords are an important change because this creates more of a level playing field. At present prospective first time buyers are being out bid by buy to let landlords because of this advantage. It is one of the stronger contributory factors to the continued rise in private renting at the expense of home ownership. Further, an over-concentration of low cost private
rental properties in an area tends to reduce the overall local stock value leading to even more rental properties as the home ownership market retreats.

2.4 Controlling rent has been necessary to ensure that the worse aspects of the 1960s private rental market do not return and restrict the draw on housing benefit. The difficulty is that many landlords will reduce management and property standards rather than profit margins. Unless protected, more tenants will have less security and an even more transient pattern of tenancy will emerge.

2.5 One the one hand there has to be a balance struck between a landlord receiving reasonable profit from renting property, taking into account levels of risk and all the overheads. On the other hand, the tenant should expect to pay a reasonable but not extortionate proportion of their income for accommodation that is well-managed and in good condition. If a landlord has to resort to charging sky-high rents for social housing lets without achieving service quality, then it has to be questioned whether this is an arrangement worth supporting further.

2.6 Our suggestions, on top of the improvements planned in the housing bill and taking into account the autumn statement, are:

- Introduce measures that help to restrict the concentration of low-valued private rented accommodation in areas to achieve a better mix of tenure.
- Extend the right to buy to private rented tenants.
- Support housing associations and councils to build quality social housing so that people on limited incomes have more housing choice. Also so that councils do not have to rely too heavily on higher priced private sector rented units to discharge their statutory obligations to provide housing.
- Consider giving first time buyers preferences over buy to let purchasers at auction and/or generally at the lower end of the market.
- Encourage excellence in the sector by incentivising private landlords who have a proven track record through access to grants/services etc.
- Support housing associations to work more closely with the private rented sector so as to share expertise, develop good practice, and help those single buy to let landlords to understand better their options.

3. Social Housing

3.1 The private sector, as is its nature, prioritises profit above other things. It is unreasonable to assume that it would deliver low-priced housing for sale or rent if there are other, more lucrative, market options available. Generally speaking, it is ‘encouraged’ to do so by either/and government subsidy or planning law (section
106 agreements). These routes, reflecting government policy, now provide much less potent incentives and constraints than before.

3.2 On the other hand, housing associations do mix commercial and social priorities. This means that, given freedoms and support, we are potentially the strongest vehicle to deliver the bulk of new social housing. Without such freedoms and support a crucial window of opportunity, a period of low interest rates, will have passed without housing associations being able to risk or raise sufficient levels of investment to address the acute shortage of social housing.

3.3 Housing associations and public sector housing providers have been subject to a series of decisions lately that, cumulatively, will have very serious implications for the future viability of social housing in the country. Rather than growing home ownership in tandem with growing the rented sector, the approach seems to be to grow it at the expense of the social rented sector. Whilst this will increase the percentage of home owners it will do nothing to increase the overall stock, which is the real problem. It could be argued that some of the restrictions due to be introduced are likely to constrain many housing providers who would otherwise want to build more units; especially new affordable social housing homes.

3.4 The decision to rip up present rent agreements and impose a progressive rent cut over the next few years reduces housing associations’ income and, as a consequence, potentially destabilises future housing markets. Our capacity to provide the range and capacity of services our customers want and need is greatly reduced and future plans for growth are being downsized. In some cases housing associations are looking to greatly reduce or even abandon altogether their social housing new-build programmes.

3.5 Despite the extra challenges thrown at us, housing associations have much to offer if given the right type of support, encouragement and freedoms. For example, the welfare agenda is being directed by government towards making people work-ready and less reliant on public financial support. We have the assets, community expertise, potential work creation capacity, and social interest to contribute to making this change of emphasis a success.

3.6 Our suggestions on improving the situation are:

- Allow for wide freedoms for the Greater Manchester devolved framework to set its own housing agenda and means of operating that reflect the local/sub-regional situation in the context of the wider national housing landscape.

- Re-think imposing rent capping and revert to the previous agreements made.

- Seek an alternative solution to the right to buy that will allow people who want to enter the home ownership market to do so but not at the loss of an existing social housing unit.
• Reconsider the proposed projected mix of the £2bn housing budget of which over three quarters are expected to be starter homes or shared ownership properties, to include a higher proportion of social rented units.

• Do not forget that we have a significant and growing problem of disrepair and neglect of our older terraced stock. This neglect will lead to very expensive problems and possibly set back many of the gains to be achieved in other areas of social housing. Encouragement and funding should be made available to carry out improvement for rent, improvement for sale and improvement for shared ownership programmes. These could be targeted towards first time buyers (the sale products) and those most in need (the rental product).

• Make it compulsory for every new private residential development planned above, say, 30 units (lower in rural areas) to include at least 10% social housing units that can be proven to meet local need. Private developers should be able to spread their 10% commitment over additional sites, depending on the agreement of the appropriate local authority.

• Stop considering social rented housing as largely accommodation of last resort and support housing associations and councils to build new housing with an eye on developing mixed income communities.

17 December 2015
Evidence to House of Lords Committee

These comments come from a rural Parish in Eden District, Cumbria. Eden District is the largest non-unitary district in England. More than half the population lives outside of the four main towns, where the vast majority of education and employment opportunities occur. Rural public transport is rapidly becoming a thing of the past, necessitating high personal vehicle ownership and use.

Eden Local Plan is being finalised, which includes 3600 new properties over the next 18 years, the focus being on the only large market town (Penrith) where 50% of new properties are planned. A similar aspiration was included in previous plans but has not been achieved: in the last 12 years less than 45% of new properties were built in the four towns, including Penrith. Some of the pressure has come from incomers, usually over 40, who want to retire to rural Cumbria. This demand has led developers to focus on new developments in the rural parts of Cumbria, a significant number of which are used as second homes.

To meet the real needs of local people the focus on Penrith in the local plan needs to be implemented. Government can assist by supporting Eden’s objectives to ensure the relevant 1800 houses are built in Penrith, and rural areas do not lose their rented housing association properties.

Eden has high employment but low median wages. The Starter homes concept will therefore only appeal to a small percentage of the population. Penrith needs more affordable homes for sale, shared sale and to rent and this is reflected in the new local plan. Before the financial crisis in 2009 Cumberland Building Society had funds available for shared ownership. The government needs to provide incentives to building societies such as Cumberland to reintroduce a shared sale mortgage.

Housing Associations should be encouraged and supported to build properties for sale, shared ownership and rent. The committee MUST re-examine in detail the economic viability of the government plans to give occupants the right to buy housing association homes, especially in rural areas. This immediately reduces the number of homes available to rent for local residents. As with the sale of council houses there will be unwanted and undesirable consequences to the range of housing stock in rural communities. Council houses were not replaced and neither will it be practical or economically feasible for these housing association houses to be replaced on a one for one basis. The outcome will be to deprive rural communities permanently of available accommodation for local lower income families. Sustainability and social cohesion of rural communities will be weakened.

The government must support local councils in providing the new infrastructure required to support any significant expansion of housing in the town.
The Northern Powerhouse ideas need to be widened geographically to cover counties such as Cumbria with large rural areas. George Osborne made encouraging references to Carlisle on this subject in his Autumn statement but towns such as Penrith also need attention if better paid jobs are to materialise.

Without government support as described above, new housing will continue to focus on rural areas in Cumbria to meet the needs of more affluent incomers.

Bolton Parish Council

8 December 2015
British Hospitality Association – Written evidence (EHM0152)

INTRODUCTION

1. This evidence is submitted on behalf of the British Hospitality Association ("BHA") which is a representative body for the UK hospitality and tourism industry and speaks on behalf of 40,000 hospitality and tourism establishments, including hotels, restaurants, catering and facilities management companies, attractions and apart-hotels in the UK.

2. Our concern in submitting this paper is the growth of illegal short term letting of properties to tourists, significantly in London, and particularly by professional landlords in the capital, to whom restrictions imposed by legislation in 1973 still apply, though enforcement has been very difficult to achieve. Our evidence to this Inquiry is restricted to this aspect of the housing problem.

3. Ufi Ibrahim, Chief Executive of the BHA, recently gave oral evidence to the BIS Committee Inquiry into the Digital Economy, focussing on “home sharing” online platforms such as Airbnb.¹ These platforms have had a profound effect on the housing market in London and are a significant factor in the reduction of rental accommodation and lack of low cost housing available to people living and working in the city, and forcing up house prices.

HOUSING FOR HOSPITALITY INDUSTRY WORKERS

4. Not only is the hospitality and tourism industry concerned that it is increasingly difficult for its 517,000 employees in London (source: Oxford Economics data for 2014) to find accommodation but also that the broader picture is that because landlords are earning higher yields from short-term lettings to international tourists they are taking housing stock away from long term lettings, driving up rents and property prices, leaving London residents unable to find affordable places to live.

5. London Boroughs have been concerned about London’s housing crisis for some time. In October 2014 figures showed an increase of 37% in just over 3 months in the number of flats let as short-rentals in the Borough of Camden. Westminster City Council estimated that at least 3000 properties were being let as short term accommodation (because of the attraction of higher rents for short term lettings), while in some cases virtually whole blocks of flats were let for short periods.

STATISTICS ON THE REDUCTION OF HOUSING STOCK DUE TO SHORT-TERM LETS BY PROFESSIONAL LANDLORDS

6. Here is a case study for the Borough of Hackney:

   Reduction in housing stock: 3% of private rentals currently Airbnb. Likely to rise to 6–10% over the coming year.

25,000 private rented properties in Hackney


1,500 “entire properties” let on Airbnb

Half of these (750) are let permanently = 3% of total private rents

Meanwhile 8000 households in Hackney are on the waiting list for authority housing

Increase in rents: Average private rents in Hackney are up +6% yoy in 2015 vs. 1% in broader UK

Median private rent now £1520 which is +£90 yoy [http://data.london.gov.uk/dataset/average-private-rents-borough/resource/73b9fb07-b5bb-4a53-88b7-c17269879a08](http://data.london.gov.uk/dataset/average-private-rents-borough/resource/73b9fb07-b5bb-4a53-88b7-c17269879a08)

Increase in property prices: Average house price in Hackney are up 7% yoy in 2015 vs. 5.6% in broader UK.

7. The position was not helped by the Deregulation Act 2015, section 44, which pandered to political sympathy with the principle of the ‘sharing economy’ by removing planning restrictions on letting residential property in Greater London for less than 90 days. Any such letting required a planning application for change of use and helped to ensure that sufficient property stock was available for residential use. The 2015 Act does contain provisions for ‘zones’ within London Boroughs where the pre-2015 restrictions could be reapplied, but this requires Ministers to introduce procedural regulations under section 44(4) and this has not yet happened. The Act relates only to properties subject to Council Tax, by implication those occupied by a single family unit, and not those being let by professional landlords, whose short term lettings in London are still illegal, but difficult, if not impossible to police and which contribute significantly to the shortage of residential property available.

8. Indeed, it is clear that home sharing, originally welcomed as a positive way of connecting individual home owners with guests, has become a business. This “industrialisation” often involves multiple properties being let by one owner – in effect a landlord – running an unregulated “pseudo hotel” business.

9. Online platforms such as Airbnb (currently valued at $25.5 billion) facilitate these activities. As Airbnb does not disclose data, it is difficult to give precise figures. However, the following statistics have been compiled, using
www.insideairbnb.com as a source and using the methodology in paragraph 12 overleaf and should give a reasonably accurate indication of the figures involved. They cover two key areas: the illegal letting for more than 90 days of properties without obtaining planning permission and the letting of multiple properties by one owner.

10. London: illegal lettings for more than 90 days: research by BHA members indicates that, of the 25,361 listings on Airbnb in London (as of September 2015), the number of listings breaking the 90-day London short-term letting regulation can be estimated at 11,074 (44%) and that, of all the Airbnb stays in London, up to 80-90% are breaking the 90-day law (this is a bigger percentage because the illegal listings have – by definition – more stays).

11. Multiple Property Hosts: of the 25,361 listings on Airbnb in London (as of September 2015), 10,438 (41%) are listings by hosts with more than 1 property listed, thus quasi professional landlords (and not eligible for the spare-room income tax relief).

2,863 (11%) listings are by hosts with 10 or more properties listed.

Of these 10,438 (41%) “professional listings” 4,996 are “active and recent” listings which are let out for more than 90-days per year (this represents 20% of all listings).

2,953 (12%) of these “professional” listings are rented out for more than 180 days per year, 1,859 (7%) for more than 270-days per year, 1,146 (5%) are rented year round.

12. The methodology used to arrive at the 90 day letting figures is as follows:

Using a database of all the listings on Airbnb in the UK, along with all published data on each (including the number of reviews).

The number of reviews a listing has is proportional to the number of stays, the more reviews the more stays.

It is assumed that 50% of people who stay review (widely used methodology as outlined on - http://insideairbnb.com/about.html#disclaimers)

One can then estimate how many stays have happened in a property over a given time period.

This number is then multiplied by the average length of stay for the UK which Airbnb has publicly declared - http://blog.airbnb.com/economic-impact-airbnb/#london-edinburgh

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2 Inside Airbnb is an independent, non-commercial website which provides tools and data allows you to explore how Airbnb is really being used in cities around the world.
It is acknowledged that this is not a perfect methodology as there are assumptions about how many reviews per stay and length of stay, nevertheless it will be a reasonable estimate.

Even if one were to assume that all stayers review then the above numbers of listings breaking the law would still be 6,094 (24%) of all listings and 6,074 (38%) of all ‘active and recent’ listings.

INTERNATIONAL EXAMPLES: IMPACT OF, AND RESPONSE TO PROFESSIONAL LANDLORDS’ IMPACT ON HOUSING

13. Similar concerns regarding lack of affordable housing, increased rents and loss of community have been raised in numerous European cities, where various regulatory efforts have been made to address the “industrialisation” process illustrated above.

In Catalonia, for example, short lets are now legal but allow municipalities to determine in which areas of the city these lets are permitted. Owners must live at the property before and after rental, there are limitations on the length of lets and owners must collect tourism tax; furthermore rooms available must be registered with Spain’s Catalonia region tourism registry. In Barcelona an office has been established an office to regulate short-term rentals. ³

14. Various systems exist in other cities, such as Amsterdam, where residents may rent out their homes for up to 60 days per year. Customers are also required to pay tourist tax, in this case via Airbnb. ⁴

In Paris and Berlin, a distinction is drawn between home owners and owners of investment properties. The mayor’s office in Paris explained that the city’s main concern is the purchase of one or more properties with the aim of making them tourists rentals, as there are not enough properties to house Parisians. In Paris government inspectors try to enforce the ban on short-term stays in investment properties booked through home sharing websites.

15. In the USA, as early as 2010, New York State passed a law which prohibits lets of less than one month, if the landlord is not present. This law was designed to stop thousands of apartment buildings in New York being turned into de facto hotels, without safety requirements, as well as to prevent the takeover of buildings, zoned for residential use, by landlords eager for the higher incomes short-term rentals could bring. Other cities in the US have

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³ novobrief.com/airbnb-legal-in-cataluna-barcelona/

  http://www.usatoday.com/story/money/business/2015/07/06/europe-airbnb-room-sharing/29263881/
regulated short term lets, for example, San Francisco, where limited letting by homeowners of their principal residence is allowed.

16. These are just a few examples of attempts on the part of cities worldwide to deal with the housing difficulties caused by unregulated short term rentals. London is no exception and the home sharing economy plays a significant part in London’s housing crisis, by facilitating that part of it which is “industrialisation”, not “sharing”.

17. If existing regulation were applied to owners letting multiple properties and to those letting for more than 90 days, the supply of housing stock would increase and rents be reduced. The difficulty is that intermediaries, the online platforms, make it possible for these ‘pseudo hotels’ to be practically invisible and it is a huge, probably unrealistic, undertaking for the relevant authorities to identify them, in order to enforce compliance.

18. To date, in the UK, the rest of Europe and the USA, online platforms have seemed reluctant to provide information with the result that enforcement of regulation, new and existing, is very difficult. The BHA suggests that one obvious approach would be to require the online platforms to take some responsibility: to restrict owners from letting for more than 90 days, to disclose to the relevant authorities (health and safety, HMRC etc.) those owners with multiple property listings and, indeed, to be altogether more transparent in their activities.

19. The BHA would be pleased to assist this Inquiry with further evidence.

28 January 2016
The British Property Federation (BPF)

1. The BPF represents companies owning, managing and investing in property and is the voice of the property investment sector in the UK. As contributors to additional housing supply, we have a very active cadre of members who are making the Build-To-Rent sector a reality through significant and accelerating investment from UK and international institutional investors, including pension funds, large corporate landlords and housing associations. They come together on our Residential Board and Build-To-Rent Sub-Committee, and this submission represents their views.

Build-To-Rent

2. The number of households renting in the private rented sector is predicted to grow by 1.2 million over the course of this Parliament. Whilst half of that growth will come from households under the age of 35, half will be from older households, and include families.

3. There is therefore a clear need for quality market-rented accommodation in many of our large cities that is professionally managed to good standards. Part of that need currently reflects those struggling to access home-ownership, and who will never be eligible for social-rented housing. There is also an increasing part of our population, however, who are renting out of choice, who do not want to be tied to a mortgage, want to enjoy city centre living, or set up their own business, and the flexibility that renting provides them which makes absolute sense. To service this need for more and better rented homes there is a growing Build-To-Rent (BTR) sector in the UK.

4. The desire to encourage pension funds, and other institutional investors, to invest in market rented housing, has been an aspiration of ours for the past decade. It has generally received excellent political support from all parties, but it is fair to say made slow progress until the Montague Review of 2012, which looked at this potential new source of additional housing supply.

5. The nascent BTR sector is we estimate now delivering 14,000 units in London and 7,000 units out of London, which is a conservative estimate, as there is no definitive database of BTR developments.

Savills
6. Institutional investors have an estimated £30bn\(^6\) to invest this Parliament in market rented accommodation, and so there is plenty of scope to accelerate the growth of this sector further, but a challenge is finding sufficient stock at scale to invest in.

7. This lack of supply is driving more development and is leading to evolution in the sector. Institutional investors, like pension funds, generally prefer to invest in finished stock. However, given scarcity of stock it is increasingly leading these investors to commission buildings that are purpose-built for renting, and for them taking on construction and planning risks.

8. The other interest from politicians in this sector is a focus on raising the quality of the private rented sector. There is a strong desire to see a better private rented sector, which is professionally managed and focused on customer-service.

Challenges

9. The major challenge the sector faces is unfamiliarity. A generation of policymakers and planners has grown up on a housing model, which requires the delivery of homes for sale and an affordable housing requirement. Building market rented homes was something that institutions funded up until the mid-1970s, but hasn’t happened on any scale in the UK for 40 years. That said, there are exemplars to draw on, for example the USA, where Multi-Family Housing as it is called, has seen significant growth since the 1980s.

10. BTR operates on a very different business model to homes for sale. Institutional investors are sinking capital into such buildings for 10, 20 or even 30 years plus. In comparison, the period of building a home and selling it is much shorter, and typically a house builder will derive their total profit much sooner. This different business model has implications for viability, using a worked example the Investment Property Forum has shown that a much lower annual rate of return is generated by the build-to-rent model (7.5% pa) compared to the traditional build-to-sell model (17.5\%)\(^7\). Local councils therefore need to be conscious of this and should assess its different viability, and not on the same basis as homes for sale.

11. To reflect this, central Government has been supportive, for example, changing national planning policy guidance to inform local planning authorities that BTR is different and this should be reflected in any viability

\(^6\) Better Renting for Britain letter, 1\(^{st}\) May 2015

\(^7\) Mind the Viability Gap: Achieving More Large-Scale, Build-to-Rent Housing, IPF, September 2015
assessments. Guidance also now encourages authorities to assess need for market rented homes and consider new supply as part of their housing plans.

12. Another way, in which parts of the public sector have sought to support the BTR sector, is by using public land to partner with investors. Institutions will often struggle to compete with house builders in bidding for private land, and therefore having access to public land is important. The Greater London Authority and several London boroughs have been particularly supportive of BTR and that has led to some interesting innovations. For example, local authorities have leased their land to BTR developers, therefore keeping ultimate ownership of it and deriving an income, which is very valuable to them when other local government income sources are so severely constrained. A barrier to such arrangements sometimes can be local government interpretation of the best value rules, which could benefit from greater guidance on not just considering deals that provide instant sale proceeds.

13. More generally, there is a need to continue to educate and inform decision-makers in local government about the sector and that is something we will be pursuing early in 2016, via a series of workshops around the country. It is worth stressing this is not ascribing any blame at local officials. You can’t know what you don’t know, and it is incumbent on the sector to help that process.

14. A second challenge is standardisation. The sector is still very young and there is some re-inventing of the wheel. The GLA has been very good at seeking to standardise practice across London, and will shortly publish supplementary planning guidance, which will go into greater detail then ever before in how to approach BTR for planning purposes, stressing that:

   i. The affordable housing on a BTR development should be discounted market rent, so the block can be managed by the investor as one, and in a tenure-blind manner for tenants.

   ii. To protect local authorities they should place a time-limited planning condition, what the sector often calls a ‘covenant’, restricting the BTR element of the development for renting, so any different treatment for viability purposes is not circumvented by a quick sale.

   iii. If investors do need to sell during the covenant period then there should be some clawback provision so that the developer would in retrospect have to provide an affordable housing requirement, as if the development had been of homes for sale.

15. The current Mayor’s target of 42,000 homes per annum in London is based on a target of 5,000 per annum coming from BTR, and that target is on our current figures, being met.
16. A third challenge is just the law of unintended consequences. The institutions investing in the sector are generally very cautious and sensitive to their obligations to their pension savers. Perhaps the biggest impact of the Montague Review, was not just the tangible support that Government offered, but the confidence it gave the sector that this was something Government wanted to see develop and would support. It has continued to do so, and for example, institutional investors were not a part of the 3% SDLT surcharge announced in the Autumn Statement, the Government conscious it did not want to impinge on the additional housing supply that the sector can provide.

Affordability

17. The housing the sector is providing is not by planning definition ‘affordable’. It is, however, delivering a form of housing that is very much wanted and needed by a significant part of the population. One of the first build-to-rent blocks developed by our members Grainger Plc, is in Barking. It consists of 100 1, 2 and 3 bed homes close to the town centre. It has a 24 hour concierge, and 24/7 repairs and maintenance service. The apartments were all let in 8 weeks of going on the market. They are aimed at households with an income of £30,000 to £40,000. The company had thought that the homes would prove particularly popular with city workers as the block is about a 20 minute commute from Fenchurch Street. Occupation, however, has been very varied, with many key workers from the public sector and IT workers from Barking’s Essex hinterland. There is also a good mix of families, couples and singletons, and age ranges. The company are delighted. The new tenants are also pleased with the security of the development, and responsiveness of their landlords. About 40% of tenants have taken up the opportunity to take a 3-year tenancy with indexed linked rents.

18. Built-to-rent is not exempt from affordable housing requirements, but as described in London, discounted market rent works particularly well. The following case study may help illustrate this:

**Essential Living, Creekside Wharf**

*Creekside Wharf is situated on Deptford Creek, just 500 metres from Greenwich town centre. It gained planning approval in July 2015 for the delivery of 249 new homes and recently received the Housing Project of the Year award at the 2015 Sunday Times British Homes Awards.*

*The scheme includes a range of one, two and three-bed homes and along with a block dedicated entirely to families. Creekside Wharf is Britain’s first private rented scheme designed for families and includes:*  

- *A new onsite nursery*  
- *Additional acoustic insulation*
• Extra wide corridors to assist push chair mobility
• Large storage areas for push chairs, scooters and muddy shoes
• Balconies designed to enhance child safety
• Large utility cupboards to accommodate a separate washer and dryer
• Children’s communal workshop areas and a secure external rooftop play area

It also includes a pioneering Discount Market Rent (DMR) model to provide more affordable homes for local people.

The discount market rent model

A primary concern of the developer was to tenure blind affordable housing. To ensure it could provide as much affordable housing as was viable given this scheme is for rent, not sale, it worked with Greenwich to create an innovative Discount Market Rent (DMR) product. A quarter of the 249 units at Creekside Wharf will be available under DMR, which will allow local people to rent properties in Creekside Wharf at rates of 55%, 65% and 75% of open market rent. An additional 24 DMR units will be available for Greenwich families, at the same specification as the market rent units. By providing affordable housing rents across a number of bands (and by managing it themselves) the developer is able to offer numerically more affordable units than under a traditional affordable housing scheme, meaning in total it will be offering around 85 affordable units as part of the scheme.

DMR residents will be selected by Greenwich Council based on their income band, and rents have been benchmarked against local key worker affordability criteria. Should a DMR customer leave Creekside Wharf, their replacement will again be selected by the council, ensuring that the 25% affordable housing provision is maintained. The development will be a ‘tenure blind’ affordable housing solution that has the same standards and amenities, as market-rent customers.

Opportunities

19. BTR provides a fabulous opportunity to increase the pace of housing delivery. One of the most important benefits of build-to-rent is to accelerate the delivery of housing on large-scale sites. For traditional house-builders, the pace of development is determined by the rate at which homes can be sold,
which is usually less than 1 per week in the regions and 1.5-2 sales per week in London.\(^8\)

20. The pace of development for a build-to-rent scheme can be much quicker because the letting rates are much higher than the sales rates. The market has seen letting rates of 10-15 units per week, i.e. 5 to 10 times faster than the sales rate.

21. BTR also works well on large sites at helping to accelerate place-making; getting the public services (health centres, schools, etc) and shops up and running. That is one of the reasons why the Olympic Village is mainly a rental development.

22. Those wanting to rent tend to make more use of public transport than home-buyers and therefore build-to-rent developments work well at key transport nodes and interchanges. They will fit well with several policy decisions taken elsewhere, on Housing Zones, for example, at Old Oak Common and similar massive development opportunities, and with Transport for London and Network Rail being encouraged to release more of their land for housing, that will provide some very good opportunities for BTR. There is, for example, already a large BTR development next to Epsom station, run by Fizzy Living, a subsidiary of Thames Valley Housing Association. Transport for London have said they may actually retain some of the BTR built on their land to generate income for themselves:

“I am sure we will become a significant PRS [Build To Rent] player in the future. Given the quantum of sites we are talking about, particularly if you are thinking of Zones 3, 4 and 5 and even some in Zones 1 and 2, we are confident that PRS is part of the mix” he is quoted as saying.

“Whether we do that ourselves or through joint ventures ... I am sure we will become a significant PRS player.”

Graeme Craig, Commercial Director, TfL, 28th October 2015\(^9\)

23. To seek to be transparent on this new sector, the BPF publishes a map of every BTR development it knows of: [http://www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk](http://www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk). This shows that BTR tends to work best in outer London boroughs and some of the areas that surround London, so for example, places like Ealing, Barking, Greenwich, Hayes are all seeing significant BTR activity.

24. Out of London, the strongest growth in BTR has been seen in Manchester. The City Council sees BTR as an integral part of its vision and economic

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\(^8\) Mind the Viability Gap: Achieving More Large-Scale, Build-to-Rent Housing, IPF, September 2015

\(^9\) Letting Agent Today, 28th October 2015
strategy. The city has always had some excellent universities, but traditionally graduates have tended to leave the city at the end of their studies to pursue their careers. BTR is seen as part of a strategy to stop that happening and retain more of the city’s graduates, by providing a quality city-centre rental offer.

**Rental evidence**

25. There is a frustration in our sector that rental affordability is perceived to be deteriorating across the country. That is not the case. Within London, there is clearly a mismatch between supply and demand and that is leading to rental inflation that is stronger than wage growth. Whilst there will always be some hotspots outside the capital, for example Aberdeen or Harrogate, generally all other regions are seeing rental affordability in line with the historical average, and in many regions actually slightly below it.

![Rental affordability graph](image)

Source: Hometrack

26. Part of the issue with perceptions is a plethora of information that is published on rents, from rental websites, agents, specialist information providers, such as Hometrack, and an experimental index from the Valuation Office Agency, which may eventually gain National Statistic status. That would be welcome, in helping to provide an accurate picture on what rents are doing.

27. Interpretation of the unofficial information sources has to be done carefully. Many of the website and agency statistics will only include new lets and many landlords will only raise rents when a tenant moves on, which is on average about every 20 months. The VOA data measures these ‘static’ tenancies, which make up the majority of the market. Many of the unofficial sources do not. The other major interpretative issue is that unofficial sources tend to use advertised rents, rather than the rent that was actually agreed between the landlord and occupier, which could be higher or lower.

28. Institutional investors that are investing in the sector are more interested in long-term yield - the rental income they get per price paid for that income and with high house price inflation, land and construction costs, the sector is
not generating windfalls, but is attractive to institutions because the housing shortage is likely to assure demand for the foreseeable future, and therefore full occupation.

Rent restrictions

29. Recent debate on rent restrictions has tended to focus on the range of interventions and their relative merits. Less talk about old-style rent controls, and more about perceived ‘softer’ forms of intervention, what is often termed ‘rent stabilisation’. Under such policies, often pursued hand-in-hand with longer tenancies, rents are able to return to market at the start and end of the tenancy, but there is some constraint on annual increases during the tenancy, for example capped at a recognisable price index, such as CPI.

30. Many of the early institutional investors in build-to-rent are offering longer tenancies, typically for three years, and providing their tenants with some predictability, by linking rents for the period of the tenancy to CPI, RPI or even a fixed percentage uplift. Few, however, support enforced rent intervention.

31. The reason is that once rent intervention is embedded it is a never-ending opportunity for interference in the rental market. Investors, particularly long-term investors, worry that what might be a relatively moderate starting intervention becomes more extreme over time, as politics overtakes sound economics. Not every landlord will immediately exit the market because of an intervention on rents, but in a city like London, which needs significant additional investment, it is likely to lead to a smaller pool of investors, and therefore increases the risk that overall investment will fall short.

Interaction with starter homes

32. We can understand why Government is focussing a lot of its efforts on starter homes, given the reduction in rates of home ownership. There is a certainly a place for a low-cost home ownership product within the suite of different affordable housing products that Government supports.

33. The main way in which the BTR sector might be affected by starter homes is via an onsite requirement for the latter. It would make many BTR investors decline to invest, because they want to have full control over the management of their investments, and feel of them for the customer, which will be reflected in their brands. We have been making representations on this as part of the Housing and Planning Bill, and hope the Government will agree on a solution, which would be to provide a commuted payment in lieu of on-site provision.

17 December 2015
Submission to be found under Residential Landlords Association; Grainger Plc; British Property Federation (QQ 215-228) – Oral evidence (EHMOE0012).
House of Lords Select Committee on Economic Affairs: Inquiry into the Economics of the United Kingdom Housing Market

Submission of Evidence

Date: 15 December 2015

Summary

- Boosting housing supply across all tenures should be a national priority because of the long term poor performance on housebuilding.
- Government initiatives should be streamlined and simplified.
- City region and sub-regional planning strategies should be encouraged.
- As well as improving planning performance, the role of local authorities as facilitators and enablers of development must be improved.
- Institutional investment in new build private rented stock must be explicitly supported by national and local government.
- New approaches for delivering affordable housing should be encouraged e.g. local housing companies.
- Improving delivery through speeding up the development process is essential for boosting supply across all tenures.

1. Introduction

1.1. This evidence is submitted by Dr Tim Brown, Senior Research Associate in Housing & Local Government at De Montfort University, in a personal capacity.

1.2. The next section provides a brief summary of the housing supply crisis. This is followed by discussion of government initiatives and the planning system for private sector provision. Boosting supply in the private rented sector is then addressed. The penultimate section considers affordable
housing provision. Finally, there is an emphasis on delivery that is a cross-cutting theme in increasing supply for all tenures.

1.3. The emphasis of this submission is on England. But the overall opportunities and challenges apply equally to Northern Ireland, Scotland and Wales.

2. Housing Supply Crisis

2.1. A consensus exists that we should be building 250,000 new properties per year of which 40% should be affordable homes in England. The reality is that we are delivering just over half these figures. The Government trumpeted the growth in affordable homes provision in December 2015 as it had increased by two-thirds over the previous year to 66,000. But this is still at least a third less than is required.

2.2. There have been and continue to be many reports on boosting housing supply. There are currently no less than seven inquiries. This recognition of its importance is welcome. But the acid test is whether they contribute to better outcomes.

2.3. There are three points that are worth highlighting, which are often ignored or forgotten:

- **We don’t invest enough in housing and haven’t done for many years.** For example, our average annual gross fixed capital formation in housing as a percentage of gross domestic product between 1996 and 2011 was 3.3% compared to 5.0% in France, 6.0% in Germany and 5.8% in the Netherlands.
- **Housing policy is too London-centric.** It focuses on tackling house price booms through attempting to boost supply for home ownership. But in parts of the Midlands and the North, the issues are failing housing markets and the need for regeneration. We need local solutions to tackle local problems.
- **Quality as well as quantity:** Our new homes are much smaller than those in other North Western European countries. The Royal Institute of British Architects has once again highlighted this point in a recent report. We also appear to have forgotten the seven principles of building sustainable neighbourhoods set out in the Egan Report in 2004. We need to continue to remind ourselves that boosting supply is not just a ‘numbers game’-quality as well as quantity matters.

3. Private Ownership: Increasing the Supply of Reasonably-Priced Housing
3.1. Policies to help households on to the owner occupation ladder are welcome as are strategies to boost supply. But we suffer from the disease of ‘initiativitis’. It is estimated that there are over 20 programmes to boost housing supply and about a dozen schemes to help households on to the owner occupation ladder. They frequently involve time-limited small scale projects launched at each Budget and Autumn Statement. These are often in the form of competitive bidding regimes with little attempt to evaluate their subsequent success or failure, so we learn little about what works, why and how!

3.2. Governments should simplify the number of schemes and initiatives as well as committing to evaluating and monitoring them. More use of pilot schemes to learn lessons before full roll out would be welcome.

3.3. In relation to the planning system, the changes introduced through the national planning policy framework (NPPF) have simplified the system. But there continue to be issues over processes and policies. The approval process for local plans is time-consuming especially where there are lack of up-to-date housing market assessments and housing land availability statements. This is often compounded by inadequate co-ordination between councils in the same housing market area. This creates uncertainty for landowners, housebuilders etc, and slows down the development process. Addressing the need to speed up local plan preparation in a period of austerity is challenging. But one way forward is the production of city region / sub-regional spatial strategies that geographically are more realistic representations of real housing markets than artificial administrative boundaries. A number of groups of councils are adopting this approach e.g. Bristol City Region, Greater Manchester and the Sheffield City Region.

3.4. From a planning policy perspective, it is vital to acknowledge that the level of housebuilding is a hugely politicised activity at national and local levels. This is because of the wide range of organisations and interests involved – many of which have diametrically opposed views. The Policy Exchange in a press release on 13 February 2015 summarised this at the local level

“...new development is based on building around existing communities, predominantly on the green spaces at the edge of a town most valued by local people. The resulting high land values can lead to developers building higher density and lower quality homes

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and, because much of the land value uplift goes to the land owner, less money remains to pay for vital infrastructure and place-making amenities. The system therefore triggers a ‘vicious cycle’ where locals get the thing they fear most: poor quality, badly designed and dense housing estates right on their doorstep, with increased congestion on local roads, so opposition to further development intensifies.”

3.5. Addressing this challenge requires a refocus of planning away from local plans and development control to a facilitating and enabling role for councils. This involves activities such as land assembly, master planning (including planning briefs and design guides), co-ordinating early infrastructure provision etc. This type of pro-active planning is well-established in other Western European countries such as the Netherlands and Sweden. We should seek to learn from their experiences.

4. Privately Rented Accommodation

4.1. The increase in the proportion of households living in the private rented sector over the last two decades from under 10% to nearly 20% has been fuelled mainly through buy to let. This has involved the transfer of stock from other tenures rather than increasing overall supply.

4.2. Compared to other countries such as Germany, Switzerland and the USA, the level of institutional investment in the UK in new build private renting is low. However, there is an appetite among some UK and overseas pension funds and insurance companies to include good quality private rented property in their portfolios as a long term investment with a steady rate of return. The Government’s Montague Review on institutional investment in the private rented sector in 2012 set out a series of recommendations (e.g. build to rent fund, debt guarantee scheme and a taskforce) to boost new build private rented property – the majority of which have been implemented.

4.3. Nevertheless, progress has been slow. This is because of a number of reasons including (i) the lack of a track record of performance which affects the willingness to invest given the conservative nature of many financial institutions, (ii) the complex development partnerships involving a funder, land owner, builder and long-term manager as well as an overall enabler and (iii) the lack of skills and expertise in build to rent especially among local authority and housing association partners.

11 The author of this paper was a member of the Montague Review.
4.4. The long term prospects are, however, promising once private renting is established an asset class that can deliver an annual return of 4.5-5%. The way forward is for national and local government to facilitate and encourage new build private rented stock. This has to tackle institutional perceptions that councils are primarily interested in affordable / social housing and the Government’s focus on moving from ‘generation rent to generation buy’.

5. Social Housing

5.1. The starting point is ‘what do we mean by affordable / social housing?’ The overall conclusion from a scan of this material on sub-market housing is that it has two dimensions. It is, firstly, allocated according to need rather than by the market and, secondly, the cost to a household is less than the market price / rent. But the profusion of new initiatives makes it difficult in practice to distinguish between market provision and affordable housing. For example, the Government’s affordable rent to buy model launched in 2014 requires developers to let at affordable rents (i.e. up to 80% of market rent) for at least seven years. After the Government investment is repaid, the developer could convert the property to market rent or market sale or retain it as affordable housing.

5.2. Commercialism and the social dimension are often portrayed as opposites i.e. a focus on providing social housing for those in greatest need or an emphasis on market rent and home ownership products. But we must avoid an ‘either’ / ‘or’ scenario and instead combine a ‘commercial head’ with a ‘social heart’.

5.3. Local housing companies are a useful example illustrating this point. Clarifying what is meant by a ‘local housing company’ is not straightforward because they have been developed locally to reflect specific requirements e.g. tackling regeneration, providing new affordable rented housing and development of a full range of new housing. There is, thus, no single model or template. Key features may include providing a mix of tenure types (e.g. market ownership and rent, shared ownership and sub-market rent), borrowing from institutional investors as well as the public sector through the prudential borrowing regime, and disposal of public land to the company.

5.4. There are at least 50 companies that either have been set up or are in the process being established. There are strong overlaps with other types of delivery vehicles such as local asset-backed vehicles and municipal housing companies. Examples include Sheffield Housing Company. This a
partnership between the local authority, Keepmoat and Great Places to build 2,300 homes over 15 years in seven neighbourhoods. Nearly 200 units have been completed comprising two-thirds open market sales and one-third affordable or social rent. High quality standards have been adopted e.g. floor areas on average are 10% higher than Homes & Communities Agency guidance and all units are built to level three or above code for sustainable homes. There is also a focus on supporting local businesses and communities through contracts with small medium enterprises (SMEs) and training / jobs for local people.

5.5. Additional advantages of the local housing company model include (i) the development of mixed tenure neighbourhoods and (ii) the ability to cross subsidise affordable housing through market rent and ownership units.

6. Delivery

6.1. As has already been pointed out, we have a long term problem of lack of supply in all tenures. Part of this issue is poor performance on delivery because of the complex development process and the slow pace of building out sites. For example, one of the Government’s flagship sites is Northstowe in Cambridgeshire. It will provide 10,000 homes. But discussion on this project started in the middle part of the last decade. The first homes will be completed in 2016/17 and the site will not be fully developed until 2035. This is not atypical. The development pipeline is complex and time-consuming. It can take many years for a large site to move through the seven sequential stages of initiation, investigation & analysis of viability, acquisition, design & costing, consent & permission, commitment, implementation and disposal. Moreover, it is likely to be at least five years before any new homes are completed and will be at least 15 years before a large site is fully built out.

6.2. The Government has taken and is taking action on issues such as land availability and planning performance. But, there is a long standing issue over the later stages of the development pipeline i.e. commitment, implementation and disposal. Even when land acquisition, viability and planning permission challenges have been addressed, there is no guarantee that housebuilding will proceed smoothly. Indeed the Government has recently highlighted that while planning permissions for housebuilding have increased significantly, there has not been an equivalent rise in housebuilding starts and completions. There were 137,000 houses started in the year to September 2015 (a 1% decrease over the previous twelve months) and 135,000 houses completed. The Home Builders Federation estimate that nearly 200,000 units were granted detailed planning permission in 2014, while the Local
Government Association pointed out in August 2013 that there were 400,000 units that have been granted planning permission but have not been built. Unpacking this data is not straightforward. For example, planning permissions may have been obtained by land owners that have little interest in taking forward the development process by selling sites to a developer. Housebuilders and developers may have obtained planning permission but because of the state of the housing market or for other reasons do not wish to proceed. There is also mothballing of sites, where a developer has started construction but subsequently postpones and interrupts development because of the state of the market. This is especially the case for brownfield sites that are relatively high risk and cost sensitive. However, the most common general reason for the gap between planning permissions and outputs is that housebuilders and developers will build out sites at a rate consistent with maximising returns from the sale of property.

6.3. There are various actions that should be taken to speed up the development process including:

- Making use of the Homes and Community Agency developer partner panel (DPP) to speed up complex housebuilding projects using a panel of experts.
- Direct commissioning and procurement of projects by the public sector. This involves appointing a construction company to build out a publicly owned site to a firm timetable.
- Encouraging housing associations that have their own building divisions to become more strongly involved in newbuild projects.
- Supporting the further development of local housing companies (see above).
- Using urban development corporations that have a specific narrow remit of developing sites quickly and to a high standard.
- Adopting and encouraging the use of modern methods of construction to speed up the building process i.e. the use of new materials with extensive factory produced sub-assembly sections and components and accelerated on-site management.

15 December 2015
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Inquiry into the Economics of the United Kingdom Housing Market

Call for Evidence

Evidence submitted by Valerie Bearne, founder and Chair of the Build a Dream Self Build Association, (www.badsba.co.uk), founder and co-director of the Custom Homes Alliance CIC (www.customhomesallicane.co.uk) and founder member of the National Custom and Self Build Association (www.nacsba.org.uk).

1. NaCSBA research has proved that self/custom built houses should be giving the UK a far greater proportion of well designed, well insulated, purpose built, affordable houses. We trail way too far behind all other comparable countries.

2. Self/custom builders in the UK rarely have the same opportunity that volume speculative developers do to buy land at fair prices: i.e. at wholesale prices plus a reasonable profit. Individual plots are sufficiently rare that they attract a premium, thus instantly rendering them unaffordable to the majority on lower incomes, especially in the south and south east.

3. MORI polls show that around seven million people would like to build their own homes. See https://www.ipsos-mori.com/researchpublications/researcharchive/3347/One-in-seven-Britons-expect-to-look-into-building-their-own-home.aspx. Those that succeed, on average live there for 25 years, rather than the average for all homes of 6 years.

4. Self/custom built homes are better built, and proven to be more suited to long-term occupation.

5. Self builders develop skills and confidence that makes them more employable, and lead a number to start new careers related to house building. They also put substantial sums into the local economy, which supports local jobs.

6. Planning decisions are too arbitrary and too inconsistent. Planning could do well to follow the example of building control, and offer options other than NIMBY driven, and personal preference driven, decision making by local councillors and local officers.
7. Planners using ‘sustainability’ as an excuse to refuse consent should be given a definition that focuses on eco/green dwellings, not on schools and transport.

8. Mortgage offers are unfairly weighted against self builders, ignoring the statistics that show a lower mortgage failure rate, and the increase in equity resulting from a new build house.

9. Local councils need trained self/custom build support officers. They would need to educate the councillors and other council officers. They can encourage landowners to provide sites to groups and individuals wishing to self build. The landowners thinking of selling need to know that they have more options than the landbanking option contracts offered by volume speculative developers. Such options include leasing land for affordable dwellings. Selling sites could be made to focus on including housing for people with local connections, work/live dwellings, disability options designed specifically for families, granny annexes, self finish options, and group/community options. None of these would normally be available via volume developments seeking highest profit margins. Landowners also need to be warned of claw back clauses by large developers, whose bottom line has to be their shareholders’ profit.

10. Professional developers know almost to the penny how much building their houses will cost, and how much profit they will make. They can also call on the most experienced legal support to challenge anything they choose. Self/custom builders normally have too little idea what their total costs will be, or what problems are to be expected, or how most effectively to overcome them. They cannot afford expensive barristers, nor even know that could be an option. They cannot afford s106 or CIL taxes, which have stopped many self builds from happening, or forced them to do without the additional sustainable features they wanted to incorporate. They also have had to pay a premium for an individual plot, as they cannot buy wholesale. When negotiating to buy a plot subject to planning, they will likely be forced to pay for expensive surveys before purchase, which if planning consent is refused, has lost them thousands which they needed to move on to another location. The principle of building a house on a particular plot should be much cheaper to establish.

11. Volume developers acknowledge that they cannot alone meet all the country’s housing needs. There is plenty of headroom for custom/self build to help reduce the wide gap in housing provision. It is unfortunate that there is insufficient awareness and support for self building such that this most excellent method of delivering additional housing is so restricted.

12. Local development boundaries are often badly drawn and unnecessarily restrictive. Villages need the ability to grow, but not only by shoehorning more houses into gardens and orchards, when a nearby field can be a
sensible option. Then there would be more shops, pubs and other employment opportunities kept in villages.

13. Don’t forget that all the attractive towns and villages so beloved by inhabitants and tourist alike, were built organically by locals, using local materials, as and when needed, without any input from planning departments. Don’t forget that every house in the country was built on what once must have been open countryside. Don’t forget that the proportion of England that is built on is only 2.27%. For the entire UK, it is less than 1%. See www.bbc.co.uk/news/uk-18623096.

5 December 2015
Executive Summary

1. As the Select Committee acknowledges, there are serious issues with the UK housing market. The housing market operates as a system, and in England (as in many other places) that system is flawed. We see frequently through our work that approaching problems differently can create real change for the better. This requires freedom to try new things, to be allowed to make mistakes and to correct them. As long as we endeavour to learn the lessons from this process it is worth the increased risk. As housing markets function on a local (sometimes street by street) basis, we strongly advocate interventions at the local level.

2. Our submission focuses on two of our key programme areas: Community-led Housing and The European End Street Homelessness Campaign. In particular we want to draw the committee’s attention to the following:

2.1. Supporting the growth of Community-led Housing (and other alternative models of housing intervention) will help to disrupt the status quo and bring in new entrants and new methods. Which interventions work will differ depending on the problems that need to be solved. Local communities (households, businesses etc.) need clear input into how (not if) housing is delivered and managed, how this fits in with the wider community, and how the benefits of investment and growth can be equitably shared. The more local the focus, the more tailored the approach, the greater the level of local buy-in, and the higher the chance of success in the longer term. The problems are not one-size-fits-all, so the solutions aren’t either. We advocate that a proportion of housing subsidy is directed specifically to supporting locally developed, targeted interventions in the housing market, with the specific requirement that local people and stakeholders are integrally involved in identifying and shaping those interventions.

2.2. Our work on homelessness is inspired by the 100,000 Homes Campaign in the United States. The Campaign’s success proves that real change can be achieved quickly by disrupting the system, when people stop doing “what they’ve always done” and work together. Freedom to experiment combined with support and encouragement for formal and informal collaboration yields results. Freedom to innovate must be accompanied by effective data
gathering so that interventions can be tested and adjusted in a process of continuous improvement.

2.3. For further information regarding this submission please contact:

Jennifer Line:

3. The Building and Social Housing Foundation (BSHF) is an independent charity committed to ensuring that everyone has access to decent housing. We hold Special Consultative Status with the United Nations Economic and Social Council. We endeavour to act as a catalyst for change through:

3.1. Identifying great ideas and good housing practice from around the world.

3.2. Seeking to transfer those ideas and practices to places where they are needed.

3.3. Helping them grow so they benefit the people who need them.

4. We are exposed to valuable insights through our programmes of work:

4.1. Supporting community-led housing. We can point to examples of how genuine community engagement and leadership generates clear economic and social benefits and suggest possible interventions to scale these solutions up and out.

4.2. Establishing a European movement to end street homelessness. We are implementing this programme through the adoption and implementation of a set of core principles and practices, centred on the concept of ‘housing first’. This programme is inspired by interventions which have been successfully applied in other countries (the United States and Finland) and have shown both local and national economic benefits via the improvement of housing systems.

4.3. The World Habitat Awards, which run annually and identify effective, replicable interventions in housing across the world.

5. Community-led Housing

5.1. Community-led Housing enables individuals to engage in the provision of housing for themselves and others. It is delivered through a range of different approaches, which share (to varying extents) the principles of collective ownership and control, local responsibility and empowerment, and community benefit.

5.2. Where individuals are engaged in delivering housing (or place-making) as part of a group they must develop and apply a skillset which exploits and (in many cases) improves their economic productivity and value. These skills range from practical delivery (e.g. construction), to planning and project
Building Social Housing Foundation – Written evidence (EHM0128)

management (including financial management), and positive collaboration. The activity generates both individual and aggregate benefits, for example in developing and nurturing local trades, expertise and supply chains, improving systems of local government and accountability, improving the quality of the local housing offer, and generating innovative solutions to housing (and other) challenges. Collective engagement and investment in place also improves community cohesion and social sustainability. Organisations which support and enable community-led housing (for example local authorities, housing associations, developers, landowners, private business etc.) are able to deliver homes and create places in partnership with residents. This helps to broker support and provides a forum for a holistic approach to growth and development. Community driven housing solutions benefit directly from the knowledge of residents and the fact that they have a vested interest in making their place work. This personal investment can decrease the likelihood of ‘short-termism’ or ‘corner-cutting’, (reducing the probability of long term failure).

5.3. The retention of income from housing and other assets under the stewardship of the community helps to ensure economic sustainability and a more even distribution of wealth. Letchworth Garden City is an example of stewardship for the common good. With the right support and encouragement locally generated and controlled housing solutions could be scaled out and provide sustainable economic benefits. Support could include:

5.3.1. Ensuring the policy environment fosters and encourages community-led approaches which enable collective involvement in the planning and delivery of new homes (this can be seen in the approach taken by the Welsh and Scottish Governments in supporting community-led housing).

5.3.2. Providing fit-for-purpose development funding or other financial support to be used to address local housing market problems. This should include a requirement that current or future residents are proactively engaged and that the revenue and wealth created is retained for the local community. Interventions should be tailored at a local level but should not be subject to a ‘postcode lottery’ (i.e. where only some local authorities or housing associations participate).

5.3.3. Encouraging locally based new entrants to housing supply and regeneration (for example small and medium sized builders, including

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13 See http://gardencities.info/ for the work of the Garden Cities Alliance on developing a set of principles for new settlements which can assist in the more equitable allocation of housing and other land-related wealth.
community-led development vehicles) accompanied by a requirement for proactive engagement across the board. This will support diversification and improve the elasticity of supply, as smaller and community-led developers largely have business models that require them to build out their projects as quickly as possible. Levelling the playing field between large and small developers through supportive policies, weight for locally and community driven housing schemes in planning applications as appropriate, and financial mechanisms such as government backed guarantee schemes to de-risk lending for smaller providers would help to nurture growth in this area.
5.4. The following examples of community-led projects demonstrate the value of this approach:

5.4.1. Canopy (Leeds) and Giroscope (Hull): Examples of self-help housing organisations which procure and renovate empty properties within a specific local area. The homes are renovated with the support of volunteers, mainly from disadvantaged backgrounds, supervised by local tradespeople. Volunteers often go on to find employment or undergo further training as a result of their involvement in the process. The homes are let to people in housing need at affordable rates. The organisations are present and active within the local area, providing accessible and personal support. The activity supports the regeneration of the local area. Substantial efforts are made to ensure any money generated through the activity is circulated within the local community (for example by using local tradespeople, and supporting local shops and supply chains).

5.4.2. Redditch Cooperative Homes: A subsidiary of the Accord Group, (the parent housing association), working in partnership with Redditch Borough Council. Redditch Cooperative Homes has set up 5 mutually owned and managed neighbourhood cooperatives. Between them they have delivered 450 cooperative homes across the borough, with a further 77 in the development pipeline. The cooperative housing model empowers and up-skill tenants, and improves accountability and involvement in housing and community management. This local engagement provides opportunities for positive involvement in the planning and design of new homes. This has extended economic benefits in providing desirable, quality homes for the neighbourhood, and improves the credibility of the process. This can reduce the risks of high levels of opposition, political backlash, and expensive processes like appeals or judicial reviews. Housing management and delivery which is rooted in the community helps to ensure needs are met, for example in ensuring across the board provision for older people, families and young people, sensitively designed and appropriately located.

5.4.3. Wessex Community Land Trust Project: A regional umbrella body which supports the development of new community land trusts across Somerset, Devon and Dorset. The organisation works in partnership with Housing Associations and Local Authorities across the region to enable the delivery of Community Land Trusts, which provide permanently affordable homes across a range of tenures to suit local circumstances, and retain the land title for those homes. This generates a sustained income which is reinvested locally and helps to support the long-term sustainability of rural settlements. Though this example is rural, Community Land Trusts and other community-led models which centre on local ownership or stewardship of housing and other assets are not exclusive to rural areas and can provide a solution to the
challenges of housing affordability and social sustainability in a range of contexts.

5.4.4. The primary economic benefits of community-led housing include:

5.4.4.1. Contributing to the sustainability of local economies through the up-skilling of local people and the development of local supply chains and services, as well as providing income and wealth through housing assets.

5.4.4.2. Targeted and tailored interventions to address specific housing market problems.

5.4.4.3. Preventing excessive gentrification by providing a range of tenures to suit local needs with flexibility and support for social mobility.

5.4.4.4. Preventing excessive market monopolisation and encouraging diversification and innovation in a way that is aligned with the interests of communities and wider society.

5.4.4.5. Local focus ensures housing is built according to need, allows flexibility and control to the community, creates process efficiencies and allows for innovation, and nurtures local supply chains, also reducing carbon footprint.

5.5. The growth of community-led approaches is unfortunately threatened by current government policy. Community-led housing organisations seek to meet housing needs and address issues that are not being met by the mainstream. Many community-led housing providers focus on providing homes that are genuinely affordable, based on what people earn, not just for now but for every future occupier. The new Starter Home initiative will make it very difficult to satisfy this aim. The ability to count properties set at up to 80% of market value towards the affordable contribution is likely to be exploited to the maximum extent possible by landowners and private developers. In many areas 80% of market value remains significantly above what is affordable based on local incomes. Once the homes have been resold the subsidy is lost. This severely limits the ability of community-led housing providers to meet their objectives.

5.6. Early calculations informed by the RICS guidance on valuing affordable housing suggest that Starter Homes will double the price of rural exception sites. It is also possible that Starter Homes will inflate land prices in other areas. The resulting inflation would quickly eat away any short term benefit. This could have a very serious effect on community-led housing projects, reopening the way for local opposition to new homes that community-led housing schemes have successfully overcome. It is vital that there is a sufficient supply of sites at a land price that makes it possible to develop a
range of affordable housing so that development serves the communities it is intended for.

5.7. The proposals to extend the Right to Buy to Registered Providers also threaten the growth, sustainability and central purpose of those community-led housing providers who have become Registered Providers. Similarly the proposal to reduce rents in the social housing sector by 1% each year for four years from April 2016 will affect small community-led housing providers that are Registered Providers as the reduction in projected income jeopardises their long term financial sustainability.14

6. Innovation through disruption

6.1. Our work on homelessness is focused on adapting the 100,000 Homes Campaign approach to a European context. The 100,000 Homes Campaign (United States)15 was a World Habitat Award winner in 2013. The project successfully mobilised multiple organisations in 186 U.S. communities, to collaborate to permanently house 100,000 people suffering from chronic street homelessness. The Campaign was driven by the Non-Governmental Organisation, Community Solutions. It focused on innovation and improvement within the existing housing placement system, and was led locally by ‘communities’ of housing practitioners who worked together to identify and house the most vulnerable people sleeping on their streets.

6.2. The success of the Community Solutions approach has convinced us that systemic change to housing systems is possible, and that it can be adapted to other contexts with far wider applications. Transferable practices include:

6.2.1. Adopting the concept of Housing First. This means getting people into secure, long term housing as a first step, and then providing them with the support they need. International research shows a range of social and economic benefits from this approach.16 While we focus on homelessness as the most extreme symptom, the cost arguments for Housing First can be applied more widely. Failure to provide housing leads to:

6.2.1.1. Health costs linked to poor quality or inappropriate housing, including psychological strain associated with being inappropriately housed

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14 Concerns about the impacts of government policy on community-led housing have been raised previously – see for example: [http://www.communitylandtrusts.org.uk/about-the-network/our-campaigns](http://www.communitylandtrusts.org.uk/about-the-network/our-campaigns)


6.2.1.2. Education and employment costs linked to the greater disadvantage to individuals who are inappropriately housed

6.2.1.3. Infrastructure costs linked to strain on transport and commuter routes where affordable housing is inappropriately placed

6.2.1.4. Public service costs related to inadequate or unaffordable housing (including statutory services like housing related enforcement, temporary accommodation, housing benefit, etc.)

6.2.1.5. General economic costs linked to high housing or related costs (for example high transport costs) which reduce the level of disposable or investable income for each household. The need to work more to pay for housing also reduces the amount of time households are able to spend on other socially valuable activities (such as volunteering, involvement in civic activities etc.).

6.3. Using real time data for improvement. Effective data collection and measurement of interventions is crucial (e.g. do prices rise more quickly on developments where Starter Homes have been included? Do certain types of shared ownership product generate more interest than others? Does the interest for subsidised home ownership come from existing waiting lists or elsewhere? Do subsidies or interventions benefit those intended?)

6.3.1. Community Solutions embraced the use of data to achieve real change, using it to make decisions, measure and influence performance, determine successes and test assumptions. The Campaign encouraged communities to submit data regularly and reported progress using a Monthly Housing Placement Rate.

6.3.2. The use of real time data enables genuine understanding of the impact of interventions, fosters innovation and competition, and allows activity to be effectively evaluated. Data is most useful at a local level, and when it is ‘fresh’, so clear success or failure cannot be masked by aggregation or delay.

6.3.3. Giving local delivery organisations the opportunity and the freedom to work together to respond to what their data is telling them fosters innovation and can massively improve efficiency.

6.4. Collaborating differently. The 100,000 Homes Campaign supported communities to draw together fragmented services into a single, reliable and efficient housing system. Organisations committed to an ambitious but achievable goal which forced them to work together and work differently to share information, coordinate systems and prioritise resources.

6.4.1. Bringing disparate organisations together around a shared objective including organisations not usually round the table (for example private
landlords or local employers) can be an effective way of identifying and improving or removing systemic flaws and failures.

6.4.2. Focusing on addressing the most extreme symptoms of housing market failure (like homelessness) makes the overall system work better. This reduces failure demand and saves expenditure on public services (i.e. homelessness services, temporary accommodation, health and social care services, police involvement, etc.).

7. As a further source of ideas and inspiration we refer you to the World Habitat Awards for examples of successful housing interventions and international best practice:

7.1. Caño Martín Peña Community Land Trust, Puerto Rico

7.1.1. Caño Martín Peña Community Land Trust, Puerto Rico17 (World Habitat Award finalist 2015/16): This Community Land Trust is helping transform an informal settlement around a polluted and flood prone river channel into a sustainable community. The Trust is improving the area without making it unaffordable for the original residents. This project is remarkable in the way it has mobilised and empowered a grass-roots community on a significant scale (it is estimated the Community Land Trust is responsible for land which is home to just under 20,000 people).

7.2. The engagement achieved and the holistic approach to economic and social investment employed by the land trust demonstrates the potential of giving citizens responsibility over their own surroundings. While there are currently no informal settlements in England there are opportunities to introduce policies which invite and enable a greater contribution from those who are the intended beneficiaries of interventions in the housing market.

7.3. Rent to Buy Scheme, Scotland

7.3.1. Rent to Buy Scheme, Scotland18 (World Habitat Award finalist 2015/16): The Rent to Buy scheme is an innovative financial model developed by the Highlands Small Communities Housing Trust which enables households to save money to buy their home via affordable (as in within the reach of Local Housing Allowance) rental payments. Finance is obtained through loans from the Scottish Government, repaid at the point of purchase. A combination of financial and legal mechanisms protect the long term affordability of the properties provided and enable the loan funding to be recycled. The model provides affordable homes which contribute to long term economic and social sustainability. Subsidy is required in the form of affordable land but where this can be made available the model is adaptable for use by other delivery organisations.

17 http://worldhabitatawards.org/winners-and-finalists/project-details.cfm?lang=00&theProjectID=D195A6BE-D4AE-52C7-704921754734A1A2
18 http://worldhabitatawards.org/winners-and-finalists/project-details.cfm?lang=00&theProjectID=D3182DCF-D4AE-52C7-7049132821C3477F
7.4. BSHF seek out, promote and learn from examples of best housing practice across the world. There are always transferable lessons to be gained, no matter what the context. We would be more than happy to assist the committee in any way with their inquiry.

17 December 2015
Summary

S1. The Building Societies Association welcomes this opportunity to respond to the House of Lords Select Committee on Economic Affairs’ Inquiry into the UK Housing Market. In this response we argue that:

S2. In general: A diverse housing market better preserves economic stability, by ensuring that housing supply is responsive to changes in the market and society more generally. Although we welcome the cross-party political commitment to significantly increase the supply of new housing, more attention should be given to providing homes across a range of tenures, types of housing and price points.

S3. Government schemes: The Government’s focus on shared ownership is very welcome. While the Help to Buy equity loan has largely met its policy objectives to date, we would like to see careful management of London Help to Buy and a smooth transition out of the Help to Buy guarantee scheme.

S4. Tax: Tax revenues should be hypothecated to keep housing for young people permanently affordable. We are concerned that the changes to inheritance tax have the potential to dis-incentivise downsizing. The Government might consider a publicity campaign around the tax credit in order to avoid this.

S5. Mortgages: Although the changes to regulation implemented by the Mortgage Market Review have largely been positive, we are seeing some side-effects. However, what the mortgage industry needs now is a period of regulatory stability in order to focus on innovation.

S6. Planning: While the National Planning Policy Framework has largely been a success, further measures could be taken to incentivise build-out of planning permissions. The issue of funding infrastructure is a particularly crucial one, though a further review of the Community Infrastructure Levy is likely to create uncertainty.

S7. Private rental: The cumulative effects of the Government’s different policy measures on buy-to-let are likely to be significant. We are concerned, however, that tenants may be affected the most by the changes.

S8. Rent restrictions: While some corporate ‘build-to-rent’ landlords restrict rents voluntarily, we would be concerned about rent restrictions being imposed on the wider market, which is largely made up of small-scale landlords.

S9. Social housing: The policy intention behind the extended Right to Buy is clearly a good one – but achieving 1-for-1 replacement is absolutely vital in order to preserve housing associations’ asset bases. The cut in social housing rents is in danger of undermining private lenders’ confidence in the sector in the long-term, and in the short-term is likely to reduce development.

Introduction
1. The Building Societies Association (BSA) fulfils two key roles. We provide our members, all 44 building societies and two credit unions, with information to help them run their businesses. We also represent their interests to audiences including regulators, the Government and Parliament, the Bank of England, the media and the general public. Our members have total assets of over £330 billion, and account for approximately 20% of both UK mortgage and savings balances. It’s estimated that more than a third of the UK population has a financial service relationship with a building society.

2. We welcome this opportunity to contribute to the Select Committee’s Inquiry into the Economics of the United Kingdom Housing Market. We have a wide perspective of the UK - none of our members are headquartered in the City of London. They are all based in towns and cities outside of the capital serving the real economy and, in particular, their local housing markets.

3. Over the years since the financial crisis, building societies have a particularly good story to tell. Since the start of 2012 net new lending by building societies – that is gross new lending minus repayments - has topped £56 billion, compared to £14 billion from all other mortgage lenders put together. Building societies particularly excel in areas of the mortgage and housing market which other lenders find it difficult to serve – such as self-build, shared ownership and lending into retirement.

4. Our fundamental point is that a thriving housing market includes a range of tenures which give consumers a choice – including home ownership, shared ownership, private rental and social housing. While the Government has a clear priority to increase home ownership, it is important that these measures do not simply stoke up demand to the detriment of the wider market.

5. Building societies exist to help finance house purchases. Most lending is for home ownership but building societies also lend across the whole range of tenures. However societies do require economic stability and for any tenure they lend on to offer reliable security for the mortgage. The BSA believes that a diverse housing market better preserves economic stability by ensuring that housing supply is responsive to changes in the market and society more generally. This helps to prevent prices from becoming divorced from economic fundamentals, avoiding unsustainable price increases that are not in either lenders’ or borrowers’ long-term interests.

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

1.1 It is widely recognised that the UK housing market has many structural issues. We have been under-building new homes for years – consistently building less than half of the 240-260,000 completions needed each year. It is therefore very encouraging that both the Government and the opposition parties have made housing a political priority in this Parliament.
1.2 In the recent Spending Review the Government unveiled a Five Point Plan to deliver 400,000 affordable housing starts over the Parliament through a mix of Starter Homes, an expansion of shared ownership and various other schemes. This is certainly a laudable aim but the focus must now be on delivery.

1.3 To some extent we question whether all the focus should be on building ‘reasonably priced housing’ – which appears to be an aim centred solely on first-time buyers. However, there is undersupply across all housing tenures and types and across all age groups. Building housing at higher price points could incentivise people further up the housing ladder to move. As their homes come onto the market this creates buying chains and could stabilise prices further down the ladder as more homes come onto the market. The market can also better absorb a range of new housing tenures, prices and types.

1.4 One example of this comes from Legal and General research, which surveyed a group of people over 55. They found that despite 32% having considered moving to a smaller property in the last five years, only 7% had actually done so.19 These home movers may have significant amounts of equity and be able to pay a higher price tag but seem equally as frustrated in their search for a home suitable for their needs as first-time buyers.

1.5 The BSA conducts a quarterly survey of consumers called Property Tracker, asking about the main barriers to purchasing a property. In our September edition it was found that nearly a fifth of homeowners who were looking to sell their property said difficulty affording their next property is a barrier to putting their home on the market. This shows that affordability is an issue across the housing chain.

a. Government schemes

1.6 The BSA is very supportive of the Government’s plans to expand shared ownership. This would benefit young people and families especially if this form of tenure became more mainstream with a viable secondary market. Therefore the Government’s plans to loosen some of the eligibility criteria seem sensible. We are also supportive of the changes to the ‘Pre-emption right’ announced earlier in the year.

1.7 A number of building societies are active in shared ownership lending and have gained confidence from moves to standardise the shared ownership product in recent years, through initiatives such as the model lease. However, consistency amongst housing providers continues to be an issue. There are often subtle differences between shared ownership schemes offered by each housing provider and in each post code, which consequently makes lending more resource-intensive.


We are keen, however, to dispel any myths that lending on shared ownership properties is riskier – our data shows that arrears figures are only marginally higher than the overall average for other forms of lending and losses are negligible.

1.8 The Government has a further intention to ‘de-regulate’ shared ownership. We await the detail but welcome this principle in general. However, we would take issue with attempts to change things such as the model lease or, as another example, the ‘Mortgagee Protection Clause’ which gives lenders recourse to the full value of the property in the event that a shared ownership home is repossessed.

1.9 In terms of Help to Buy we will take the various schemes in turn. It would appear that the Help to Buy equity loan has been successful in kick-starting the new build market in various parts of the UK. Most of the effects have been seen in housing markets outside of London which is positive. On the other hand, while this intervention is effective in helping buyers without the ability to save substantial deposits to get onto the housing ladder, it has not improved ‘real’ affordability. Although Help to Buy helps people with their first purchase, unless they can later pay off the equity loan element from their own resources, their position with regards to obtaining another affordable home is not improved. Essentially they will still need to find a larger deposit when they want to move up the ladder, as repaying the equity loan reduces their purchasing power.

1.10 The Government has also recently announced London Help to Buy – offering an equity loan of 40%. Extending a current scheme is the right way of doing this as simplicity sells for both buyers and lenders. However, given the concerns about house price inflation in London prior to the original Help to Buy – and given that Help to Buy has so far avoided this – we would want to see the Government carefully managing this London scheme to guard against adverse consequences.

1.11 We would also want to ensure that borrowers will not be unduly burdened with debt under London Help to Buy. Using some simple maths – the 40% equity loan is available on London homes up to £600,000 meaning that the borrower could take a loan of up to £240,000, which will begin to bear interest after 5 years. This is on top of their mortgage debt. Although the equity loan will not require monthly repayments, this is clearly a substantial sum for the borrower to discharge upon sale of the property and amplifies the barriers with moving up the ladder as outlined above.

1.12 The Help to Buy guarantee scheme was essentially designed to meet the needs of high-street banks who largely pulled out of high loan-to-value lending during the financial crisis. No building society takes part in the scheme and societies have continued to lend using private forms of mortgage insurance.

1.13 However with the Help to Buy guarantee scheme due to end in 2017 and the Government unlikely to continue it, we are keen to see that there is a smooth exit strategy put in place – likely through a private-sector solution - so that high-street...
banks stay in this space. Building societies would not be able to service all of the market demand and would not wish to do so from a risk perspective. Given the need for high loan-to-value lending to help first-time buyers onto the housing ladder it is desirable to have a range of lenders competing in the market.

b. Taxation: Are there tax measures that would improve housing supply and affordability?

1.14 We like the idea, as set out in our report *Housing at the Heart of Government*\(^{22}\), of hypothecating some tax income to help provide housing to younger generations. A revolving fund could be created from tax receipts and used to help housing associations and the UK’s growing number of Community Land Trusts to ensure properties remain permanently affordable. We believe this would provide greater security for lenders and encourage a more competitive market.

1.15 The BSA has suggested this idea to the Welsh devolved government as they gain control over Stamp Duty Land Tax (SDLT) receipts in 2018. This could also be a good use for the extra SDLT income generated for the Treasury by the surcharge announced in the Spending Review.

i. We have not done any detailed modelling on the effects of the inheritance tax changes. It would be interesting to know whether the general public is aware of the downsizing ‘inheritance tax credits’ element of the policy. The Government may wish to carry out a publicity campaign on this point if there are worries about the tax change’s effect on housing transactions. We can anticipate that unless people are aware of this, the changes are likely to lead to a reduction in downsizing.

ii. Modelling by others has shown that reform of the ‘slab’ structure of SDLT bands in the Budget has had the desired effect of removing bulges at the various price points. However, perhaps unsurprisingly, the effect on wider affordability appears to have been minimal. Interestingly, our *Property Tracker* - which asks whether SDLT is a barrier to purchasing a property - has consistently found that SDLT is a relatively minor barrier to house purchase, with 10% citing this as a barrier in September but moved up to 13% in December. This recent change could be down to the SDLT surcharge for additional homes announced in the Spending Review. We wait to see whether there will be a rush for people buying additional homes to complete their purchase prior to the policy coming into effect on 1 April 2016.

c. Mortgages

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1.16 The changes to regulation implemented by the Mortgage Market Review (MMR) were for the large part very sensible. We cannot take issue with the principle that lenders should make every effort to ensure that borrowers can afford to repay their mortgage. The move to having almost all borrowers receive regulated mortgage advice did take some time to bed in and could explain why there were some damp quarters of lending – though there was nothing like the chaos anticipated in some parts of the media.

1.17 However it is difficult to be sure whether these damp periods were down to the changes implemented after MMR. Over a similar period the Bank of England has also intervened in the mortgage market, and Financial Policy Committee (FPC) members’ comments on the risks emanating from the housing market were covered extensively in the media. The FPC’s recommendation to limit lending at high loan-to-income multiples is likely to have affected first-time buyers the most. It is therefore difficult to disentangle the effects of the MMR changes on the market from those of the FPC’s interventions.

1.18 There are pockets of the mortgage market where the effects of the MMR changes are more pronounced however. The changes to interest-only, for example, mean that this kind of lending has been vastly reduced. As a result there appears to be a move towards longer mortgage terms of 30 and 35 years, with many borrowers needing to take a mortgage into retirement. The BSA recently published a report on Lending into Retirement in which it was found that around one in four people today who will borrow beyond the age of 65 is a first-time buyer. Our research shows that around half of 25-34 year olds think they will need a mortgage lasting into retirement.

1.19 However in terms of whether further changes are needed on the level of the MMR our answer would be no. Mortgage lenders are currently dealing with implementing the European Mortgage Credit Directive by March 2016. What is most needed thereafter is a period of stability and reflection. Currently a significant amount of lenders' resource is spent on implementing regulation, leaving little to research and design innovative products which meet regulatory requirements but deliver the right outcomes for borrowers and meet changing customer needs.

d. Planning

1.20 We are not planning experts so will leave a substantive answer under this heading to others. However the National Planning Policy Framework appears to have led to an increase in house-building, and the measures announced in the Government’s document Fixing the Foundations to get councils to adopt local plans are certainly welcome. We note that there are some fairly significant changes to planning policy currently being consulted on – including proposals to redefine ‘affordable housing’ to include Starter Homes.

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24 FCA Product Sales Data Q4 2014
1.21 However there continues to be a mismatch between the number of homes that receive planning permission and the number that are actually built out. Clearly some of this gap will be down to legitimate issues with viability. But the Government could consider further measures to get developers with sites holding planning permission to actually build out the homes. The independent Lyons Housing Review last year suggested ‘Use it or Lose it’ powers where council tax could be levied on the developer if homes are not built out within a reasonable time period. This would incentivise the developer to either build the homes or sell the site to another developer who will.

1.22 In terms of wider planning issues our forthcoming Property Tracker research found that the biggest opposition to house-building comes from people worried about a lack of infrastructure. 82% of people opposed to local developments either agree or slightly agree that new homes will put a strain on roads, trains, schools and hospitals. Clearly then any planning for new homes in a local area must take a strategic view to ensure that those homes are supported by sufficient infrastructure provision.

1.23 The issue of capturing land value uplift to pay for infrastructure is seemingly back on the agenda with a review of the Community Infrastructure Levy (CIL). We note that the original intention of CIL was to be a development impact tax commensurate to the infrastructure costs which new development imposes on the local area. This element was lost in favour of local authorities specifying a charging schedule. While CIL is not a perfect system, the charging schedule does at least offer greater certainty to developers, which is needed to make long-term investment decisions – but this will not be the case unless CIL is allowed to bed in.

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

a.

2.1 Our forthcoming Property Tracker research suggests that the reduction of tax relief announced in the Budget could well increase the cost of renting privately. 21% of the buy-to-let (BTL) landlords surveyed said they would respond to the changes by increasing rents. This was the most frequently chosen answer. However there are limits to how much rents can be increased. Rents are in part determined by net incomes – how much people can afford to pay for their housing costs, unless tenants are expected to make cutbacks in their other expenditure. This creates a cap on how much landlords can continue to increase their rents above wage inflation.

2.2 Rents are essentially a result of the structure and make-up of the wider housing market. It is unclear, however, where the ‘breaking point’ would be as tenants will often make significant sacrifices to pay the rent. Many private renters already spend close to half of their income on rent in some housing markets and may be unable to afford further rent increases. It is also unclear how many landlords would be willing to take a hit on their rental income or whether they would sell the property instead.
This depends on current and future rental yields and will play out differently in different local housing markets.

b.

2.3 The Chancellor stated an intention with the changes to BTL tax relief to level the playing field for home ownership. Whether these changes, in conjunction with the stamp duty surcharge announced in the Spending Review, will lead to landlords reducing their portfolios remains to be seen. In any case, margins are likely to be squeezed considerably. However there will always be people who can only ever afford to rent, and many who choose to do so. These changes may hit tenants the hardest if a constrained supply of rental properties drives up rents.

2.4 It is also unlikely that these changes will reverse the decline in home ownership. The decline in ownership is in large part due to house price inflation – which is a function of the total housing stock on the supply side, while in terms of demand we have experienced a growing population and greater household formation over recent decades. In 1981 two in ten households consisted of a person living alone, by 2013 this was 3 in 10.

2.5 It is also important to note that the high point of home ownership came on the back of two main factors. The first was Right to Buy - which the Government has been trying to reinvigorate since 2012 and is planning to extend to housing association tenants. The second was the broad increase in credit availability. The entry of banks and others into mortgage lending in the 1980s increased the overall supply of credit and the number of players in the market. Mortgages linked to endowments were also very prevalent then, as were other interest-only mortgages. Both of these options increased the number of people who could access mortgage finance but are no longer widely available.

2.6 In terms of how to encourage a stable long-term rental culture we have two points. The first concerns BTL. Some building societies offer mortgages which allow the landlord to give a 3-year tenancy. However, uptake is generally small. Uptake could become even smaller due to the changes to BTL tax relief, which will squeeze rental income and potentially shift landlords’ mind-sets even more towards the short-term of churning tenancies to adjust rents.

2.7 The second concerns build-to-rent, which the Government has supported through their Build-to-rent Fund and Guarantees schemes. There are now some exciting companies in this space – such as Fizzy Living and Essential Living. A number of housing associations also find the market increasingly attractive and are often backed up by long-term institutional investment. These companies can offer longer-term tenancies with inflation-linked rent increases, as this matches their ‘patient money’ business models.

2.8 The difficulty with expanding build-to-rent is that the model requires scale in order to achieve efficiency in managing the properties. However build-to-rent schemes have to compete for land with the large housebuilders who are primarily
building homes for sale. This can make the upfront land costs significant and whereas housebuilders will get a large capital receipt once homes are sold, build-to-rent investors have to wait far longer to make returns. Some experts have suggested creating a special planning use class for build-to-rent schemes, or building them on public land with a covenant that the properties built will be kept in the rental sector. Either of these proposals may enable build-to-rent developers to become established.

c.

2.9 As mentioned above, a number of build-to-rent landlords already link rent increases to inflation. This system can give greater certainty to both landlord and tenant and is similar to the rent restrictions proposed by the Labour Party. Labour proposed to extend these restrictions to the entire private rented market, but we believe this could lead to under-investment in the rental market overall.

2.10 To make this point, consider that interest rates are expected to rise in the next year or so. A landlord with a buy-to-let mortgage on a standard variable rate cannot precisely predict how much their mortgage rate will increase by. As buy-to-let mortgages are based on rental cover (rental income divided by the monthly mortgage payments), restricting rents limits one of these two variables. If mortgage rates rise more quickly than expected then this could quickly erode rental cover (typically around 125% is required) and cause serious difficulties for the landlord. Landlords may choose not to invest in repairs and maintenance of their properties in order to keep down costs, which would only be detrimental to the tenant.

2.11 Combined with all of the other changes on the horizon for buy-to-let - tax relief changes, stamp duty increases, regulation of some parts under the Mortgage Credit Directive and potential macroprudential regulation by the Bank of England – to add rent restrictions could severely restrain the market.

3. Social Housing: Are any measures needed to increase the supply of social housing?

a.

3.1 The policy intent behind the idea of the Right to Buy for housing association tenants is clearly a good one – opening home ownership up to a range of people who may not otherwise have the opportunity. However the key is in its implementation. The Government has promised 1-for-1 replacements for housing stock sold under Right to Buy and full compensation for housing associations.

3.2 Since the inception of Right to Buy, government has never reached anything close to 1-for-1 replacements. The difference with extending the scheme to housing associations is that there is a significant amount of private investment in the sector, making replacing these assets absolutely crucial. Building societies, banks and bond investors have all lent significant amounts of capital to housing associations, secured
against their housing assets. These must be replaced if housing associations are not to be in danger of breaching loan covenants.

b.

3.3 There is a danger with the changes to social housing rents that the Government undermines confidence in the sector. As with asset cover, rental income is a significant factor in an investor’s decision whether to lend to a housing association. Indeed, government increased the importance of rental income by shifting from capital investment to rental subsidy with the move to affordable rent over the last Parliament.

3.4 Government also agreed a ten-year rent formula with inflation-linked rental increases which was supposed to give investors confidence to lend to the sector. This is no longer the deal as the 2015 Budget will now reduce rents by 1% a year over the Parliament. While associations may be able to manage this in the short term by reducing their development programmes or cutting other services, there is a danger that any further rent reductions will affect investor confidence. The credit ratings agencies are already signalling a weaker outlook for the sector – compounded by the changes to housing benefit, which has hitherto underpinned a significant amount of housing association income, as well as the overall benefit cap.

17 December 2015
House of Lords
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Inquiry into the Economics of the United Kingdom Housing Market

Call for Written Evidence

Submission From:

Professor Michael Oxley, Director, Cambridge Centre for Housing and Planning Research (CCHPR), Department of Land Economy, University of Cambridge.

Dated 10th December 2015

1. Introduction

1.1 The focus of this submission connects with the emphasis of the activities of the Cambridge Centre for Housing and Planning Research (CCHPR), which has over 25 years of experience in producing world class policy related research on many aspects of housing and planning. An overview of our previous and current work is available on our website: http://www.cchpr.landecon.cam.ac.uk

1.2 In particular, in relation to the priorities of the Committee as set out in the Call for Evidence, the submission focuses on the supply of housing, planning and house building, measures to increase rental supply, rent controls and the Right to Buy for housing association tenants.

2. The supply of housing

2.1 Government should seek to promote additional house building by all forms of house builders. This includes building for social as well as market sector housing. Thus additional building by housing associations and local authorities as well as by private developers is essential. Government has a role in prioritising increased house building as a policy objective, incentivising production and coordinating the national provision of land, infrastructure and house building. This can be done in ways that are compatible with a large degree of devolution of detailed decisions and which support local democracy. There is a large body of evidence that suggests that whilst land use planning reforms that increase the supply of land for house building have
an important role to play in promoting increased house building, changes in
the planning system alone will not be sufficient. A wide range of other
changes are needed to encourage all forms of house builders to do more.

2.2 The need for house building by all forms of providers, and initiatives which
capitalise on existing good practice, is emphasised in the report of the Lloyds
Bank Group Housing Commission for which CCHPR provided the research
support. See: CCHPR (2015) Research Support for Lloyds banking Group
Commission on Housing
http://www.cchpr.landecon.cam.ac.uk/news/CCHPR-Research-Support-for-
Lloyds-Banking-Group-Commission-on-Housing
Housing
http://www.lloydsbankinggroup.com/globalassets/documents/media/press-
releases/lloyds-banking-group/2015/150128-
housing_commission_report.pdf

3. Planning and House Building

3.1 Changes in land use planning that promote more house building have been
an important aspect of the work of CCHPR. This has included a broad range
of topics including learning from how planning works in other countries, the
role of section 106, CIL, and planning constraints. Some examples of this
evidence base are given below:

deliver more housing? York: Joseph Rowntree Foundation
https://www.jrf.org.uk/file/40320/download?token=Pz8_67YA

Burgess, G. and Monk, S. (2012) Capturing planning gain – the transition from
Section 106 to the Community Infrastructure Levy, London: Royal Institution
of Chartered Surveyors

and affordable housing through the planning system: the future of planning
obligations through Section 106, People, Place & Policy Online, 5 (1) 1-11

Housing through Section 106: The Situation in 2007, Royal Institution of
3.2 CCHPR has examined the evidence for the assertion that some locations have much higher levels of house building than others. This shows that there are very wide variations in house building between locations with similar economic and social attributes. CCHPR intends to carry out further work to explore the reasons for the variations. See: http://www.cchpr.landecon.cam.ac.uk/Projects/Start-Year/2014/Promoting-policy-change-to-boost-the-supply-of-affordable-housing/Variations-in-house-building-rates-between-local-authorities-in-England

4. Measures to increase rental supply

4.1 Most of the increase in the size of the private rental sector in recent years is a consequence of conversions from other tenures rather than new building. Measures to increase private rental supply – which are not at the expense of contractions in home ownership or social housing but result in more building for rental use – are very different from those that simply increase the proportion of the housing stock that is in the private rental sector.

4.2 One option that might be considered to increase the supply of new affordable rental housing through additional house building is the use of a form of Low Income Tax Credits as used to promote investment in low income housing in the USA. LIHTCs, which have been in operation since 1986, are income-related investment incentives. Developers are able to obtain these subsidies if dwellings are occupied by households whose incomes are low with respect to local median levels.

4.3 LIHTC support is a federal scheme operated through the Internal Revenue Service (IRS). The Federal Government allocates annual quotas (based on population levels) to each state. Each state allocates its quota according to a

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Chartered Surveyors Research Paper Series, 7 (14)


More information on all of these is available from the CCHPR website: http://www.cchpr.landecon.cam.ac.uk
qualified allocation plan (QAP). The QAPs enable each state to prioritise
funding for locally important issues (for example, new build or improving
existing stock, urban or rural areas). The tax credits last for ten years and
projects are required to meet the particular project’s low income
requirements for a 15-year initial "compliance period" and a subsequent 15-
year "extended use period". Rather than using government to fund, build
and manage affordable housing, LIHTCs are used by the federal government
to stimulate the private and non-profit sectors into partnership arrangements
targeted at providing subsidised housing for specific income groups. LIHTCs
have helped to build, renovate or conserve more than 2.5 million affordable
housing units. The system accounts for 90% of all current affordable housing
provision in the USA.

More information is available at:

Oxley et al (2014) Boosting the supply of affordable rented housing: learning
from other countries, ESRC Project http://www.esrc.ac.uk/my-
esrc/grants/ES.K007564.1/read

CCHPR has also made a short film on boosting housing supply which features
LIHTCs: http://www.cchpr.landecon.cam.ac.uk/Projects/Start-
Year/2014/Promoting-policy-change-to-boost-the-supply-of-affordable-
housing/Affordable-Housing-Film

5. Rent controls

5.1 The Call for evidence asks “What are the advantages and disadvantages of
restricting rent increases in the private sector”.

5.2 A potential advantage is that limits on rent increases would increase stability
for tenants and reduce the risk of sudden significant rent increases. Rent
stabilisation methods which aim only to limit increases over a relatively short
period of time (3-5 years) may have only a limited negative impact on supply,
but would also only have a limited impact on rents, which would still be set
by the market and re-pegged regularly. Harsher rent controls which would
effectively reduce rents to a more affordable level would limit investors’
returns, thereby discouraging investment in the sector and thereby reducing
supply. In theory if controls limit only landlords’ excess profits (over and
above the minimum required to keep them in business) they will have no
impact on supply. If however controls fix rents below the market equilibrium
level they will, in theory, lead to excess demand and a shortage of rental accommodation.

5.3 In practice the impact of controls is difficult to predict as shown by two recent studies by CCHPR (A and B below). These show that even if rent restrictions leave landlords with an acceptable return many landlords will (or, more precisely, they say they will) disinvest because they resent this form of market interference. The impact in practice will depend very much on the specifics of the controls and landlords’ reactions. There are also reduced incentives for landlords to invest in properties and costs associated with implementing rent controls.


5.4 Limits on rents (for part of the rental stock) in some other countries have been linked to tax incentives. These “incentivised rent controls” give fiscal advantages to landlords in return for rents being held below market levels and housing being let to low income households. There are examples of this approach in the report (C) below.


6. The Right to Buy for housing association tenants

6.1 The Call for evidence asks “What will be the impact of the Right to Buy for housing association tenants?”
6.2 Analysis undertaken by the Cambridge Centre for Housing and Planning Research for the Joseph Rowntree Foundation (published 20 November, 2015) examined the impact of both the Right to Buy (RTB) for housing association tenants and also the sale of higher value local authority homes, which is needed to provide the subsidy for the RTB. It showed that replacing housing association homes sold under the new RTB scheme with those for sale as shared ownership, or at higher rent levels, could drive up costs for low-income tenants and the taxpayer. It looked at the impact of the tenure of replacement homes.

6.3 The report “Understanding the likely poverty impacts of the extension of Right to Buy to housing association tenants”, estimates that there will be 75,000 fewer low-cost homes becoming available to let over the next 5 years if the homes built to replace those sold are available as shared ownership rather than as low-cost rentals.

6.4 Taking into account the incomes of social tenants, the affordability of homes and the take-up rate of RTB by council tenants, and assuming the scheme was available on a similar basis to that on offer to council tenants, our research predicts that 128,000 Housing Association tenants would be likely to buy their homes under RTB over the next 5 years – fewer than one in 10 of all tenants. The report finds:

6.4.1 There are currently around 180,000 housing association tenants who could afford to exercise their RTB

6.4.2 Around half of these will be required to pay higher Rents under the Government’s new Pay to Stay scheme, and the higher rents they will face are likely to encourage them to buy their homes if possible.

6.5 The policy will have a huge impact on people who need to access low cost rented homes in the future. Building replacement homes for sale as shared ownership will mean that people seeking a social rented home will be pushed into the bottom end of the private rented sector instead, where homes are typically more expensive, less secure and in worse condition than Housing Association homes. The report finds that over the next five years if replacement homes are built for sale:

6.5.1 62,000 tenants will have to find an average of £1,668 extra a year to pay private rent. Around a third of these households are paying their
rent themselves from their generally low earnings.

6.5.2 The other two-thirds are in receipt of housing benefit, meaning that an estimated £31 million will be added onto the housing benefit bill as more people who claim housing benefit are pushed into the more expensive private rented sector or remain longer in homeless accommodation.

6.5.3 Just three percent of new social tenants could afford to buy the replacement properties if they were available as shared ownership.

6.6 In contrast, if the homes are built back at the same rent levels as those lost, there is only a temporary loss of lettings – caused by the delay whilst replacement housing is built. Under this scenario the estimated housing benefit costs of the policy over the first five years fall to around £16 million and the increased numbers renting privately or in homeless accommodation is close to zero by the end of five years. The number of available lettings will increase after five years as new rented homes continue to be built.

6.7 The replacement homes will be funded by the sale of high-value council homes, likely to be classified as homes that are valued in the top third regionally. Local Authorities have different proportions of high value housing stock, meaning that some face losing a large amount of their social housing, whilst others will be forced to sell very little, or own none to start with. The report estimated the five worst affected areas to be all in the London commuter belt, and face losing more than half of all their low-cost lettings.

6.8 The report shows:

6.8.1 Around 1.3 million housing association tenants will gain the Right to Buy, but only around 180,000 of these are eligible and able to afford to exercise it;

6.8.2 Total uptake of the Right to Buy over the first five years of operation is estimated at 128,000;

6.8.3 Around 10 percent of local authority housing nationally is high value for its size and region. The proportions vary dramatically between authorities, and the worst affected areas will see a reduction in over 50 percent in social housing available for letting, at least until
replacement stock is built;

6.8.4 If stock is replaced like-for-like in terms of tenure, the Right to Buy and local authority sales will eventually have a positive impact on the availability of low-cost housing and on poverty;

6.8.5 If social rented homes are replaced with affordable rented ones, rent levels, poverty and housing benefit costs will all increase;

6.8.6 If social rented homes are replaced with shared ownership or Starter Homes these will not be affordable to households who would otherwise have accessed the social rented homes. This will increase the number of poorer households renting in the private rented sector, which will increase poverty and housing benefit costs.

The full report is available at: https://www.jrf.org.uk/report/understanding-likely-poverty-impacts-extension-right-buy-housing-association-tenants

Michael Oxley

10 December 2015
Introduction

1. The Campaign to Protect Rural England (CPRE) welcomes this opportunity to provide written evidence to the House of Lords Select Committee on Economic Affairs for the economics of the United Kingdom Housing Market inquiry.

2. CPRE is a charity which works to promote and protect the beauty, tranquillity, diversity and vitality of rural England by encouraging the sustainable use of land and other natural resources. Our 43 county branches and over 200 district groups regularly engage with local authorities to inform and influence planning decisions and the development of Local Plans.

3. CPRE seeks to ensure that there is a supply of affordable housing in rural communities that meets the needs and means of those in rural communities on limited incomes. CPRE is particularly concerned about the potential impacts that the extension of the ‘Right to Buy’ to housing associations will have on the vitality of rural communities.

4. Our submission of evidence is largely informed by our Housing Foresight paper series. The objective of the series is to provide evidence-based research papers that support innovative policy solutions to critical housing issues. For more details on how more of the right houses can be built in the right places go to:


Comments

Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?
**Government schemes:** How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

5. Evidence from the 2008 English Housing Stock Survey revealed that the proportion of social housing (both local authority and housing association stock) in rural areas was 10% of total affordable housing stock in 2008. This figure had declined by 2% to just 8% in the three years to 2011. Although there is a lack of available data, it is likely that affordable housing stock in rural areas decreased even more significantly in the years before 2008 as a result of the Right to Buy scheme that allows local authority tenants to purchase their homes. The net loss of affordable housing stock through Right to Buy is likely to have happened despite rural restrictions put in place on the scheme. These are intended to limit the loss of affordable housing by controlling to whom a property purchased through the scheme can be sold after purchase. Once a social rented property in a rural area is lost to the open market it is difficult to replace. Any replacements that are built are likely to be in urban areas where development is quicker and cheaper.

6. More details on the impact of the Right to Buy are outlined in paragraphs 15-20 below.

**Taxation:** Are there tax measures that would improve housing supply and affordability?

7. A potential solution to this problem is for a local authority to agree what counts as a ‘material operation’ (and therefore implementation) of a planning permission as part of the planning application process. This would prevent relatively minor operations such as digging a trench counting, as the currently do, as implementation and incentivise a quicker completion of development. Further to this, local authorities should be given the option to charge council tax on the dwellings for which they have given planning permission 24 months after planning permission is granted, even if development remains uncompleted. Charging council tax on the completed property values of sites in this way will mean that house builders are incentivised to finish and market development, again accelerating housing delivery.25

**Planning:** Are any further changes to the planning system necessary to increase the availability of low cost housing?

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8. Our Housing Foresight paper *Getting Houses Built* was published in June 2015. It contains an analysis of why current housing output is below desired levels and offers several economic and policy solutions. The main recommendations are:

9. Empowering local authorities in the development process can accelerate and increase the delivery of new housing. Implementing ‘use it or lose it’ measures and reforming compulsory purchase provisions to allow local authorities to acquire suitable land for housing can accelerate the development process and help provide much needed housing.

10. The planning system currently pressurises local authorities to release large sites for development. Despite the widespread availability of small, nearly always brownfield, sites in urban areas, just 8% of all planning permissions between 2007 and 2013 were granted to schemes of fewer than 10 units. Realising the capacity of suitable small sites is essential to accelerating housing build-out rates, and local authorities can take steps to improve site identification. We welcome the proposals in the current consultation on changes to the NPPF to encourage the reuse of brownfield land, which responds to our campaigning for greater use of brownfield sites for development.

11. More transparency is needed in the development process. To improve planning for housing, all land, and land held in option, should be compulsorily registered. Open-book viability assessments should also be required to accelerate the development process.

12. Our recent report *Set up to fail* found that targets adopted by local authorities are often arbitrary and inflated. The result is that local authorities are being compelled by national policy to release more land for development in a bid to meet the targets. However, housebuilders do not necessarily have the motivation or capacity to build faster. So building rates stay low and housing targets are missed.

13. A key recommendation of the report is that the definition of housing ‘need’ must be clarified. The current definition is synonymous with ‘demand’ which leads to unrealistic housing targets which NPPF policy requires must be met in full. The imperative to meet these targets trumps the requirement to provide affordable housing so schemes are allowed which do not contain the full amount of affordable housing required in local plans. The supporting research (*Smarter SHMAs: A Review of Objectively Assessed Need in England*) also highlighted concerns that local planning authorities may often fail to fully identify the need for social rented or other sub-market housing in rural areas. This is because of the abandonment of local survey-based approaches to housing market assessments, and reliance instead on projections-based models which serve to conflate social needs with market demand.
14. Over the past three decades or so, whenever Governments have wanted to increase the delivery of housing, including affordable housing, it has tended to take steps to reform planning legislation and/or policy, largely in line with the seemingly infallible maxim that increasing the supply of housing land will inevitably increase housing delivery, despite the lack of evidence to support this. The typical proposed solution is the deregulation of planning which, inevitably, reduces planning authorities' discretion with regard to managing not only the location of development but also the types of houses delivered, with the end result that housebuilders continue to build the same numbers of houses as they ever did, but not of the types and tenures that would most effectively meet local need. Rather than seeking further deregulation of planning, if Government is serious about solving the housing crisis, steps need to be taken to address the failures of the housing and property markets outside of the planning system.

Social housing: Are any measures needed to increase the supply of social housing?

15. The extension of Right to Buy to Housing Associations risks reducing the low levels of affordable housing in rural areas (8% compared with 20% in towns and cities) even further. Rural areas also have lower average wages and higher house prices than urban areas – and the gap between average rural wages and house prices is growing.

16. CPRE is concerned that:

- rural affordable housing lost to the open market is not likely to be replaced,
- that a ‘portable discount’ alternative will not help rural areas, and
- that landowners will be reluctant to offer land for social housing if there are no guarantees it will remain affordable and not be sold on within a few years.

17. Without a comprehensive and well defined rural exemption, this measure will make it harder to sustain mixed rural communities and local services such as shops and pubs. Affordable housing is in high demand in rural areas for a number of socioeconomic reasons. On average, house prices are 26% higher and annual earnings are £4,600 lower in rural areas.\footnote{CPRE (2015) A living countryside CPRE Housing Foresight Paper 5} DEFRA’s statistical digest of rural England identifies that in the most rural areas the average lower quartile house price was 8.4 times the average lower quartile annual earnings.\footnote{DEFRA (2015) Statistical Digest of Rural England-June 2015} These statistics highlight that a significant proportion of the rural population is likely to be unable to access market housing in the foreseeable
future. To sustain the vitality of the rural economy and rural services, as well as the diversity of rural communities, it is essential that an increased level of rural affordable housing is provided.

18. National planning policy recognises that housing policy in rural areas needs to be responsive to local circumstances and to reflect local needs, particularly for affordable housing. Implementing the proposed extension to the ‘Right to Buy’ is likely to lead to the loss of affordable housing in the rural areas that need it most, making it difficult for rural local authorities to adhere to national policy.

19. Furthermore, a key element of the proposed extension to the ‘Right to Buy’ is the requirement on local authorities to dispose of high-value vacant council houses in order to fund the ‘Right to Buy’ extension discounts and the building of replacement affordable homes in the local authority area. With average house prices 26% higher in rural locations, it is very likely that most if not all of existing council stock will qualify as high value and therefore will be eligible for sell off at vacancy.

20. It has long been recognised in the formation of policies that rural communities need to be treated as a special case. CPRE therefore advocates that rural areas are subject to carefully defined exemptions to take account of their special circumstances.

CPRE
17 December 2015

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29 The Prime Minister’s Office (2015) The Queens Speech 2015: Housing Background Brief
1 Background

1.1 There are two major risks in speculative housing development: holding land and finding buyers.

1.2 Holding land generally involves the payment of commercial interest rates on the high costs of acquisition throughout the entire design, planning and construction stages.

1.3 The finding of buyers is generally dependent upon the unpredictable sentiments of both prospective purchasers and mortgage lenders.

1.4 House builders try to allow for the high initial costs and potential market volatility with substantial margins built into their financial calculations.

1.5 The costs of design, statutory consents and selling are modest in proportion to overall expenditure and these are readily controlled. The costs of construction are generally predictable and will rise and fall according to the buoyancy of the marketplace.

2 Solution

2.1 In 1971 Swindon Borough Council, a landowner with its own waiting list of prospective buyers, entered into a series of partnership agreements with F Rendell and Sons, a Wiltshire based builder. Rendell would design, construct for a fixed price and finance entry-level housing on council-owned land and sell to suitably qualified buyers from the Council’s waiting list. Independent solicitors would, on completion of each property, convey the land and buildings simultaneously to individual purchasers.

2.2 Rendell’s profit margin, a mere 8% on the build cost, was substantially higher than that obtained from its normal commercial contracting activities but, with a ready supply of qualified buyers nominated by the local authority, its development risk was negligible.

2.3 With each site being occupied under licence, Swindon controlled the land until each contract had been fulfilled and benefited from the reduction of its waiting lists through the elimination of those who could now afford to buy.

2.4 As no interest was paid or profit taken on the cost of land, the 25%+ margin between development costs and open market values offered considerable
security to lenders. By 1985 Nationwide, Halifax, Bristol & West, Northern Rock and a number other building societies had created parallel companies to finance Rendell’s activities with the incentive of the later mortgage business.

2.5 As the ‘development partnership’ concept became more widely adopted rules were introduced to prevent speculation, particularly in the south-east of England where margins in excess of 50% between cost and value became common. Houses were sold at full open market value but with the excess between cost and value subject only to a peppercorn rent. Buyers could choose to acquire the retained share at the prevailing market value or it would remain with the housing authority for recycling by way of re-nomination rights.

3 How it is relevant today?

3.1 Partnership developments can be of any size and undertaken by any competent contractor, not just volume house builders.

3.2 Lenders have the security of charges over both land and buildings, with the right to dispose of properties in the open market in the event of default, and the protection of a substantial margin between value and loan.

3.3 No value is forfeited by the landowner. In addition to the notional market price of the land, the landowner receives the benefit of savings in acquisition costs, interest payments and the substantially reduced profit margin. Whilst the receipts may be deferred, the landowner has the capacity to ‘gear up’ on the basis of the underlying asset.

3.4 By setting selling prices above the cost of development it is possible to create a surplus that can be used for internal cross subsidy, to provide property for both rent and shared-ownership.

3.5 Although the strategy presumes the use of publicly owned land, it is possible to construct financial scenarios that benefit private sector landowners.

4 Caveats

4.1 In order to prevent land-hoarding by public bodies the Land Registry would need to open its registers free of charge to aid the identification of potential development land.

4.2 Measures will also be necessary to prevent spurious claims that the land is ‘required for future operational purposes.’

I would draw the committee’s attention to the following publication:-
“Partnership Schemes MANUAL OF GUIDANCE FOR LOCAL AUTHORITIES AND DEVELOPERS”

(ISBN 011 752125 6, HMSO 1988)

12 November 2015
Carr and Carr (Builders); Federation of Master Builders (QQ 164-177) – Oral evidence (EHM0010)

Submission to be found under Federation of Master Builders; Carr and Carr (Builders) (QQ 164-177) – Oral evidence (EHM0010).
1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

The fundamental problem is that no government can afford for house prices to fall – our economy, and in particular our banking system is completely reliant on them continuing to rise. House price inflation is therefore encouraged and seen as a sign of a prosperous economy. Conversely our economic system cannot pay people enough to afford these prices, and wage inflation is viewed as a negative trend. Therefore there are no measures which can increase the supply of reasonably priced housing within the current system.

Before we move on we should note the terrible human cost of this state of affairs. Millions of people in the UK do not have a suitable home to live in. This will affect every aspect of their lives.

a. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing?

None of these schemes address the underlying issues: our reliance on house-price inflation, the use of housing stock as investments, or the resulting underinvestment in the productive economy which keeps wages low. All these government schemes achieve is to provide access to home-ownership to a select few who are just about able to get a mortgage. They do nothing to improve the affordability of housing per se or to ‘fix’ the housing market. In fact, it could be argued that they play a part in keeping prices high, particularly when Help to Buy is used to protect the profit margins of house builders. These schemes also divert attention from the underlying problem and perpetuate the false idea that the housing crisis is caused by lack of supply, which is temporarily pushing up house prices. The schemes consequently use taxpayers’ money to help better off individuals (those who can get mortgages) rather than providing homes for those in the most need. In fact the validity of using tax payers’ money to fund private ownership is questionable.

(We should remember that housing demand is very different from housing need. Current government schemes are designed to stimulate demand in the ‘economic’ sense of the word in order to keep the housing market ticking over. Housing need is entirely different, it comprises millions of people who are never going to be able to buy a property under the current system, but nevertheless, like every other human on the planet, need a home. )

What will be the impact of the cessation of these schemes?

The impact of stopping these schemes will vary according to the particular context. For example in some places the cessation of Help to Buy will slow down the supply, as house builders are reliant on it to sell houses. In other places Help to Buy is not a significant part of the market. This should not be used as a reason to maintain these schemes, as increased supply for a select few at current prices is not solving any problems. Furthermore the
development of these new housing units is ‘gentrifying’ inner city areas, destroying communities, and exacerbating housing need.

b. Taxation: Are there tax measures that would improve housing supply and affordability?

Taxation should be based on the use of resources. Space, land, light, location, are all finite, national assets. The value of a location is based on public goods: infrastructure, the rule of law, a stable economy, local amenities, good schools etc. Private individuals should pay for these public goods in proportion to the benefit which they receive from them. Too long have we expected the tax-payer to pay for the services, while the private individual pockets the financial reward.

The simplest way to do this would be through the introduction of a fair council tax system where everyone was charged a percentage of the current value of their home. At the moment people in fairly modest accommodation and those in multi-million pound mansions are paying the same amount in Council Tax. To introduce a flat-rate percentage-charge based on the value of properties would be much fairer, it would reduce bills for people in more modest accommodation, and it would encourage people in larger properties to downsize, or take in lodgers in order to pay their increased council tax. In the medium term it would also discourage house price inflation.

(In order to implement the new Council Tax, all properties would need to be valued, but this is now a much easier task thanks to websites such as Mouse Price. Because the tax would be a percentage of the value, rather than in bands, the precise value of a property would not be so contentious, although of course there would be appeals. The percentage charged would be set by the Local Authority in accordance with the amount they needed to raise, so if property prices increase the percentage charged would decrease, and vice versa.)

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

The changes to inheritance tax laws will further entrench inequality, as people who inherit property will have such an advantage over those whose parents do not own property. This will be incredibly divisive as very few recent migrants will own property, and home ownership will remain out of reach to second and third generation migrants, thus further dividing society.

Furthermore, it is unfair to protect private property at the expense of the tax-payer. Currently, in contrast to all other means-tested benefits, the taxpayer is asked to fund social care over a capped amount in order that people can hang on to their properties and pass them on. It would be fairer to use the same rules as with other means-tested benefits, so that people with modest savings/assets can keep some to pass on. By this we mean, rather than capping costs at a certain amount (say £70,000) people should be allowed to keep a certain amount (say £70,000) and be required to pay for their care until their savings/assets have been reduced to this amount.

ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?
Stamp Duty is complex, with several different bands, and it adds to the costs of the buyer. Although the costs may be borne to some extent by the seller reducing their asking price, the buyer needs cash to pay stamp duty, in addition to their deposit. Stamp duty been reduced for first-time buyers and this will have improved affordability for some people in some parts of the country. However any tax which has national banding is nonsensical, as property values vary so widely.

Stamp Duty will be increased for Buy to Let buyers in April 2016, this may cause a rush to buy properties before then, and it may also lead to an increase in rent in some cases. This additional tax is unlikely to deter many buy-to-let investors as there are not many comparable investments they can make.

Stamp Duty could be replaced by Capital Gains Tax on all properties (including primary residences, and those owned by companies) to be paid by the seller. The tax should take in to account the period the property has been owned, and the rate of consumer price inflation over that period. **Essentially the unearned income made on all property should be taxed at the point it is realised.** Tax breaks could be given to encourage older people to downsize.

We cannot maintain the façade of a meritocracy while people can earn more from their property each year, than the ‘hard-working family’ on the minimum wage earns. Unearned income should be taxed at least as much as earned income.

c. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

It is undoubtedly the case that bank mortgage-lending has been the main driver which has decoupled house prices from wages, creating the affordability crisis. Private banks should not be allowed to create money for their own profit. Approximately 97% of all new money in the UK is created by banks and almost two thirds of this is invested in property, as this is considered less risky than many other investments (such as business). This simply inflates the prices of existing assets (e.g. property), and diverts money away from the productive economy and the creation of new assets.

However, restricting the flow of mortgages does not reverse this problem, and in fact restricting loans-to-value rates and salary-multiples only serves to give investors with large deposits a massive advantage over first-time buyers. The mortgage market needs to be controlled on a local basis, so that it suits the local economy. There should be a moratorium on second mortgages, and Buy to Let mortgages. Mortgages for first-time buyers and other buyers who are buying a home to live in, should be provided by local banks, building societies, housing associations and local authorities in accordance with the needs of the local housing market.
d. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

We should stop the sale of publicly owned land. To bring public land in to the private market just raises house-prices. Land should remain in public ownership, and be developed, either privately or by community land trusts or housing associations, or by local authorities themselves. The buildings can then be sold, with the land remaining in public ownership and a small ground rent charged. **We need to take speculation on land values out of the development process.**

Almost every other developed country in the world has development bank, or a similar mechanism by which the state can benefit from the increase in land value, and fund the necessary infrastructure. We recommend that the Committee looks at examples such as Korea, Hong Kong, Singapore, Canada and the US, which demonstrate a variety of approaches to this problem.

2. **Privately Rented Accommodation:** What measures can be taken to increase the supply of low cost private rental properties in the UK?

The only way, under the current system, to increase the supply of low-cost private rental, is to subsidise it. Which begs the question, why should the tax-payer subsidise private investors? Isn’t it more sensible to invest in public assets – i.e. social housing, which will pay back the investment to the tax-payer?

a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

In some cases, if other steps are not taken (see below).

b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

Yes the trend will continue, unless the wider market system is changed. Furthermore it is not possible to create a stable long-term rental culture within the current market system. While house-price inflation is so volatile, and continues to outpace wage or consumer inflation, renting a property will always be a second-class choice. It is easy to understand why property is the biggest driver of inequality in the UK, with property-owners ‘earning’ more than the minimum wage, while renters pay someone else’s mortgage and get no benefit, only greater costs, from the escalating house-price inflation. The housing market consistently transfers wealth from the poor to the rich.

c. What are the advantages and disadvantages of restricting rent increases in the private sector?

Restricting rent increases could make the problems worse, as prior to implementation there will be a massive hike in rents, followed by increasing turnover in tenancies as landlords
seek to circumvent the restrictions. Furthermore it will penalise and discourage those landlords who currently charge a fair rent.

**The rental market should be properly regulated as any other utility is.** Landlords should be licenced and prices set by a regulator. There should also be rules about the continuity and security of service provision – i.e. there needs to be much better security of tenure.

The private rental sector claims that regulation and rent caps will lead to a sudden decrease in the amount of private rental accommodation available. However, the accommodation will still exist, and local authorities should be able to buy it up, with sitting tenants, if the existing landlords cannot continue to rent out the property profitably.

3. **Social housing:** Are any measures needed to increase the supply of social housing?

Yes. Local authorities should be able to borrow long-term interest-free from the Bank of England in order to invest in social housing. Social housing is a long-term asset with an income in perpetuity, as well as the add-on benefits of fostering mixed and thriving communities. Local authorities should also be able to use this money to buy up private rental stock as regulations push some private landlords out of the market.

   a. What will be the impact of the Right to Buy for housing association tenants?

Some tenants will benefit from being able to buy the home they are living in. Others will be paid by investment companies to buy the home, live rent free, and then sell after three years. The impact on future potential tenants will be devastating, as housing associations will have less stock available, and philanthropists and faith groups will no longer be willing to donate land for social housing.

The legality of the imposition of Right to Buy on Housing Association stock should be questioned as many of these homes were given by private individuals and groups in order to provide affordable housing in perpetuity. These are not public assets. This is the state confiscation of private property.

b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

Supported housing and sheltered housing needs to be exempt from these caps, or it will cease to be viable. The government has cut funding for supporting people to the bone, and service providers have become increasingly reliant on rents to subsidise their services. If rents are cut they will not be able to provide the services, and will pull out of the sector. This will create an enormous crisis in social care.

Simply, the government needs to fund social care properly. The social and economic consequences of not doing so completely dwarf the upfront investment.
The Centre for Context and Change:
Joint authors of “The Housing Crisis: why the current policy approach can’t work” for UCL Complex Built Environment Systems project. Neil May is currently leading a UCL Grand Challenge on the Housing Crisis which involves Economists, Built Environment experts, Planners, Anthropologists, Philosophers, Public Policy and others from UCL.

17 December 2015
How can we increase the supply of reasonably priced private housing in the UK?

Empirical analysis shows that between 2006 and 2014 a backlog of neatly 800,000 plots of unused land with planning permission has accumulated – with 225,000 of these plots in London.

If the housing supply had been increased by 800,000 over the period, the current imbalance between supply and demand that has driven up house prices to record levels would look somewhat different, and prices and rents would have moderated to some extent. The substantial shortfall in housing means that even if these 800,000 plots had been built on, it
would still not be enough, hence the view from many commentators that greenfield land should be used to construct new garden cities.

Before policy recommendations can be addressed, two key questions need to be answered. Why has there been no construction on these 800,000 plots, and how will the infrastructure get funded to permit a greater scale of house building?

One reason why the 800,000 plots have not been built upon is the way in which the business model of house building functions in the UK. House builders are required to acquire land at market values – which in many areas is in excess of 200 times those of agricultural values. The high price of land precludes many SMEs from getting involved in building houses thereby reducing competition. But those that do acquire the land to build are able to generate excess profits through rising land prices\(^{30}\). Hence it is not rational for house builders to ramp up house building as it would stabilise land prices, thereby reducing profits. Moreover, the sensitivity of land prices to shifts in demand can lead to losses as housebuilders are left with land plots that cannot be profitably built out. This is another reason for construction firms not to pursue rapid expansion of housing units. The UK’s housing market has remained one of the most volatile in the OECD over the last 40 years.\(^{31}\)

Another factor why the 800,000 plots remain unbuilt on is that many plots that are granted permission are not owned by construction firms. As landowners are able to profit from the jump in land values from agricultural or brown field to residential land, the longer that supply is constrained the higher their profits. The landowners’ profit – or the difference between use value (agricultural or industrial) and residential value can be up to a factor of 200 in England compared to only 10 in the Netherlands, whereas in Germany it is effectively zero. The reason behind this outcome is set out in the 1961 Land Compensation Act. The legislation ensures that landowners are awarded the full future development value of their plot of land, which is in direct contrast to the way in which land compensation functions in the Netherlands and Germany.

This raises two further critical issues: The first one is why landowners should be able to profit from the productive work of others. The reason for rising demand in a particular

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\(^{30}\) Econometric evidence suggests that a third of revenues is explained by the change in land values. [http://www.policy-network.net/publications/4810/The-challenge-of-accelerating-UK-housebuilding](http://www.policy-network.net/publications/4810/The-challenge-of-accelerating-UK-housebuilding)

location is due to the productive work of firms and workers in that location, and not landowners. But it is the landowners who are awarded the profits of the productive activity as set out in the 1961 Land Compensation Act. The debate that certain sections of society are able to profit from the work of others continued throughout the 18th and 19th centuries culminating in the land value tax proposal of the 1909 peoples’ budget. More recently, this debate has revived given Piketty’s dataset has highlighted the major reason for rising inequality is in fact due to those who own housing/land and those who don’t.32

The second issue is that it becomes very difficult for local authorities to invest in infrastructure to permit larger scale developments as it is the landowner that benefits from the uptick in land values. In essence, local authorities are unable to use the uptick in land values as a way of financing the infrastructure investment, as the proceeds flow to the landowner instead. For example when the University of Cambridge planned an expansion of around 3,000 units of housing it had to invest around £70m in infrastructure. As the University was the landowner it was able to finance this investment by issuing bonds to be paid back by the sale of around 50% of the houses at market value. The difference between the use-value of the land and the final market sale of the house made the investment viable. If the university had to acquire the land at market rates, the project would most likely have failed at the viability stage.

One specific policy recommendation from our analysis of the UK housing market is that these two issues could be addressed by an amendment to the 1961 Land Compensation Act. If the community / city-region authority was able to benefit from the uptick in land values as opposed to the landowner, not only would this provide a mechanism for local authorities to invest in local infrastructure, but it would also discourage the practice of withholding land from the market to increase profits. This would fundamentally alter the business model of building houses, where the acquisition of land no longer became both the barrier to entry and a source of profits. Construction firms would have to focus on the business of building houses as opposed to managing a balance sheet with volatile assets.

32 http://www.policy-network.net/pno_detail.aspx?ID=4949&title=We+need+a+dynamic%2c+democratic+capitalism
The net result of this would be to increase the rate of housebuilding, which in the medium term will alleviate housing costs.

17 December 2015
Professor Tony Champion (Professor of Economic Geography, Newcastle University); Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University) (QQ 78-93) – Oral evidence (EHMOE0005)

Submission to be found under Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005).
Vicky Chapman – Written evidence (EHM0023)

Inquiry into the Economics of the United Kingdom Housing Market
Call for Evidence

Personal Background:
Retired aged 70. Married to Civil Engineer in 1966. 3 children (State educated) aged 40, 44 and 46, all with degrees. Have moved house 7 times (4 times for husband’s job and 3 due to expanding family).

1. Downsizing Case History:

1.1 23rd August 2012 House put in the hands of Estate Agents

1.2 28th March 2013 Offer made and accepted – prospective purchasers wished to develop and they requested alterations be made at the same time as the sale paperwork processed. This involved several visits by planners, builders, and architects over a period of 3 months.

1.3 2nd April 2013 On the strength of the offer we made an offer on a smaller local property (4 bedroom bungalow which was accepted).

1.4 10th April 2013 Survey and searches done on retirement property involving costs.

1.5 24th April 2013 Planning application lodged with Taunton Deane Borough Council for extensions by prospective purchasers

1.6 18th June 2013 Target Date for decision.

1.7 17th July 2013 Planning approval granted – a month late.

1.8 17th July 2013 Purchasers pulled out and consequently we lost our prospective property with little prospect of finding anything else suitable in area – there is a real shortage of spacious single storey properties.

1.9 18th July 2013 Gave 28 days notice to Estate Agents

1.10 August 2013 Developed shingles

August 2013 to present: Remained in our 5 bedroomed house with beautiful private garden but in time will have to pay for help.
2. Resultant problems:

2.1 We had financial costs of the survey of our prospective down sized accommodation together with solicitors fees.

2.2 We had the disruption of the site visits

2.3 We had the problem of the Planners not keeping to deadlines and having to chase – Part-time lady who had sick leave followed by holiday, because of children, and during which time no one covered her work – not a way to run a business.

2.4 Felt obliged to redirect mail from now defunct purchasers to their old address!

2.5 The stress made me ill.

3. Conclusions:

3.1 If an offer is made it should be binding – as in Scotland

3.2 Planners should stick to deadlines unless a very good reason for delay.  Staff should be made available to cover the workload of the department.

3.3 There is a total lack of suitable retirement property.  Houses being built by developers are badly designed (two flights of stairs!), overcrowded, overlooked with small windows, small rooms and small gardens and high prices – what incentive, either financial or lifestyle, is there for people like us to move to a more expensive house of less quality?  What we do not want is to live in a rabbit hutch (we would like the same sized rooms but less of them) just because we are getting on a bit and neither do we wish to live in a commune of old people.  Villages used to be an option with a local shop and the occasional bus but Government policy, planners and developers with pound signs in their eyes are ruining much of our beautiful countryside.

3.4 It can also be argued that there might be less opposition to the influx of houses if they were of a good design, better spaced, with the infrastructure in place to go with them.  Further, the building of these estates not just in Somerset is devaluing existing property, making it even more expensive to downsize.

3.5 Stop interfering in the housing market. Price of houses will then find their own level as developers will price according to what will sell.  This might even improve the quality of design and layout.  Purchasers will regulate prices by what is really affordable and not subsidized.

3.6 Bring in a minimum standard of room size and amount of storage.
3.7 Estate agents to sell by floor area and not number of rooms.

3.8 Companies to be encouraged to move to more equitable areas - beneficial to high unemployment areas, with an increase in the number of affordable housing. Not everyone can live in Canford Cliffs. It must be beneficial for the Country to have a mobile workforce and moving house with all the costs and problems involved is a big deterrent.

3.9 Do not build on demand – it will never be enough. Think population growth and immigration limits!

3.10 Stop listening to housing lobbyists – they only have self-interest at heart.

24 November 2015
Chartered Institute of Housing (CIH) – Written evidence (EHM0170)

About CIH

Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals and their organisations with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world.

Further information is available at: www.cih.org

Local authorities’ borrowing headroom in the HRA

Council housing in England became “self-financing” in April 2012, under a settlement in which those councils with housing stock (currently numbering some 165) took on additional debt (in most cases) or had it paid off (in 33 cases). The self-financing settlement was intended to leave councils with sufficient resources to maintain their stock, but did not build in any explicit potential for new housing. In addition to the debt settlement, each council was set a “borrowing cap” equal to or in excess of its debt, which placed a limit on its future borrowing for investment in social housing. Where the cap exceeded the council’s borrowing, this created “headroom” which it could use for new borrowing to invest in the stock. The sector as a whole was left with headroom of £2.7 billion at the time of the settlement, a level that had increased slightly to £3.4 billion by April 2015. This is distributed as follows: £1.4 billion was with London Boroughs, £860 million with shire districts, £584 million with metropolitan authorities and £490 million with unitary councils.

The amounts of headroom vary widely – some councils have higher caps than they need, but others have caps which are set far below what they could borrow prudentially. Figure 1 shows the pattern at the time of the settlement, and it can be seen that some councils (28) had no headroom and many more had very little. (Note that borrowing capacity is needed not only for new build but also for investment in the existing stock, e.g. replacing kitchens and bathrooms that fail to meet the criteria in the Decent Homes Standard, which is obligatory for social landlords.)

Figure 1: Distribution of HRA borrowing headroom by local authority (April 2012)

Calculations of the 2015 headroom figure are by Glenn Smith of CIH Consultancy.
If current borrowing caps were used to the maximum, councils could in theory build about 3,000 units per year in total. They are actually building at a rate of 1,600 per year. The difference is undoubtedly due in part to the fact that the borrowing caps do not reflect variations in the need to build new homes. It probably also reflects the fact that councils have already become wary of making investment commitments in an uncertain climate, with considerable pressures on their General Funds as well as on their HRA income (affected by a range of factors e.g. welfare reforms such as the bedroom tax, and more recently by the imposed 1% rent reduction for the next four years – these are considered in more detail below).

Nevertheless there has been a marked increase in overall capital expenditure by local authorities on housing. It had declined by 65 per cent in cash terms between 2007/08 and 2011/12, reaching just £3.3 billion. However, it rose over the following three years to reach a recent high of £4.8 billion in 2014/15. In substantial part this is the result of the effects of HRA self-financing and the use of the borrowing capacity allowed, although the total includes also what remains of non-HRA capital spending, for example on grants to the private sector and GLA funding for housing associations.  

How would changed rules release new investment potential?

It has been argued that changed borrowing rules would give fresh impetus to a new build programme. In a survey in 2013, three-quarters of councillors said that if the government lifted the caps they would borrow to build new council housing and almost 80 per cent said if their borrowing headroom was to double, they would use the extra capacity to build new council homes.


35 The Smith Institute (2013) Does Council Housing have a future?
A 2012 report by CIH and others, *Let’s Get Building*, estimated that if councils were able to use their full borrowing potential – still under prudential rules – they would have capacity to borrow up to £20 billion over five years, or up to £27 billion if they were to let new homes at ‘Affordable Rents’. This could mean in theory having capacity to build 170-230,000 extra homes in total. In practice, work by the CIH showed that, if the caps were removed, councils would aim to build rather less than this – some 60,000 extra, or an extra 12,000 units per year. Nevertheless this would be an extremely valuable contribution towards any target to double England’s housing output.

It should be recognised that much of this potential output is only achievable by councils themselves. The key constraint is land, and much of the land for new building by councils will be associated with existing estates, including replacement of unpopular or obsolete stock, using garage and commercial sites or unlocking ‘backland’ or garden land that is little used. Councils are best-placed to assemble such sites and work in liaison with existing residents of council estates affected by new development.

**Other constraints on council HRA investment**

It is important to note that the demands for more borrowing freedom in the aftermath of self-financing are now strongly tempered by recognition of other very significant factors that deter council investment within their HRAs. The most important of these to have emerged in the last two years or so are (in brief):

1. The rapid growth of right to buy (RTB), which erodes councils’ stock and rental income.

2. The enforced reduction in council rents for four years from this April, which follows on several earlier changes in rents policy (representing significant departures from what was promised in the self-financing settlement).

3. The prospect of high-value sales further eroding the asset base (and the continued uncertainty as to what form it will take).

4. The growing impact of welfare reform on rental income and concerns about the effects of further reforms, e.g. the reducing overall benefit cap, the freeze on benefit levels and the linking of social rents to local housing allowances. All these have different impacts in different areas.

5. The impact of the heavy cuts in local authority General Funds, which have encouraged many LAs to find ways to transfer costs to the HRA, thus placing further pressure on HRA income. Also, the proportion of receipts from RTB which goes to

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LAs may be used to pay down General Fund debt, rather than used for HRA investment, by councils which want to ease pressures on their General Funds.

It is notable that the government made particular promises on rents at the time of the settlement. It said that ‘it does not have any plans to change the national rent policy’ and that it was committed to allowing councils ‘to keep all the money they receive from rent’. In advice for tenants, it said ‘the level of rent you pay will continue to be a decision for your council’.37

CIH is currently carrying out a joint study with CIPFA to assess the impact of the various recent developments on LA investment plans and, subject to getting sufficient response, the results will be published in the next few months.

Local authority borrowing outside the HRA

Councils have much more freedom to borrow to build housing outside the HRA, although because of legislation the normal way to do this is via a LA-owned company, so as to avoid the houses coming into the ownership of the LA itself and therefore having to fall within the HRA. Many councils, e.g. Stockport, have used their ALMOs to do this (ALMOs are arm’s length management companies which have managed council housing in many areas for the last 10-15 years). However, there are disadvantages to doing this. The main one is that developments have to pay for themselves either through rents or sales, and hence are less affordable than council housing built through the HRA, which can benefit from costs being shared across a much larger stock, enabling rents to be kept at more affordable levels.

More recently, councils have begun to establish purpose-created companies to build housing for market rent or for sale. There are no specific data sources on this activity, although the LGA believes that 14 councils plan to build 6,362 homes over the coming three years, via non-HRA prudential borrowing of almost £800 million.38

The existence of this other route to house-building highlights the fact that only HRA borrowing is “capped” by government. It should be stated that in the four years since the settlement the government has kept its promise not to reduce the borrowing caps; however, its response to suggestions for change has been limited. For example, it set up the Elphicke-House review into the role of LAs in housing supply, but it specifically ruled out a change in borrowing rules in setting the terms of reference. However, the final report did present arguments made by different councils on this issue and called for some flexibility.39

The government also has a scheme to allow extra HRA borrowing of £300 million over two

38 Apps, P. (2015) ‘Councils use LGA vehicle to avoid borrowing caps’ in Inside Housing, 8 July.
years to 2016/17 through a competitive bidding process among local authorities, but conditions imposed meant there has been only limited interest.

Should the HRA borrowing cap be raised or abolished?

Various calls for action to allow more investment have been made since the self-financing settlement. CIPFA argued that the caps should be removed, because prudential borrowing rules would offer sufficient control in themselves,\(^{40}\) and their view was endorsed by the Communities and Local Government Select Committee.\(^ {41}\) CIH, NFA and ARCH agreed with this, but went further in arguing for changed borrowing rules that would make caps unnecessary.\(^ {42}\) A report from Westminster Council on behalf of four local authorities supported this case.\(^ {43}\) The GLA Housing Committee called for individual councils to be able to request higher caps, or for councils to be able to ‘pool’ their borrowing headroom to use it more effectively.\(^ {44}\)

The difficulty in responding to the Committee’s question on this is the changed context for the settlement and the new factors outlined above. As noted above, it is no longer the case that a general relaxation or ending of the borrowing caps would guarantee significant extra investment, as other constraints have emerged which are now of even greater importance. Therefore, while such a relaxation would be welcome, it cannot be assumed that the growth of investment forecast in the earlier studies noted above, by CIH, LGA and others, would now result.


\(^{42}\) Perry, *op.cit.*; ARCH, *op.cit.*


\(^{44}\) GLA Housing Committee (2013) *Right to Build: What’s stopping councils from building more housing?*. London: GLA.
However, there are more limited reforms which might have worthwhile benefits for particular authorities who are still able to invest but have little or no headroom to do so. More flexibility could be allowed in the system for councils to demonstrate the need for higher caps, but without the tight conditions that were part of the government’s limited scheme to allow some LAs to have higher caps. Such flexibility might encourage an increase in the building of new homes in particular areas, but regrettably is unlikely to substantially mitigate the effects of the other factors which are constraining council HRA investment ever more tightly.

The case for revisiting the self-financing settlement

When the then housing minister Grant Shapps presented the self-financing proposal to parliament in December 2010 he called it ‘a reform intended to endure for the long term’. At the same time the Localism Bill, then passing through parliament, contained a power to reopen aspects of the settlement. This provoked calls for the power to be clearly defined, ‘leaving no doubt about the circumstances under which it could be used’. The government’s response said that the provision would allow ‘a further adjustment to the debt allocated to local authorities if a future policy change has a significant material effect on their costs or income’ and that the measure was ‘designed to protect both councils and the Exchequer’. It added that ‘...the Government is committed to assessing over the long term the impact of policy changes that may affect landlord income and the case to make good any losses or address any gains’.

In order to release the potential of councils to build at a much bigger scale, this promise needs to be met. Rather than simply raising the borrowing caps, a range of changes are needed to ensure that councils not only have the ability to borrow, but also the income to do so:

1. Crucially, there is a need to restore councils’ confidence in the stability of their income and in the wider environment affecting the viability of their investment. This could only be achieved if the government were to review the effects of the changes that it has imposed on the original settlement and restore councils’ ability to invest.

2. Councils require new assurances from government that rent policy really is now fixed for the longer term – assurances given in the recent past which, regrettably, have not held good.

3. Given that the intention of the settlement was that councils be self-financing, it is also contrary to the expressed intentions that the government is now seeking to take

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46 Hansard, 13 December 2010, Column 61WS (see www.publications.parliament.uk/pa/cm201012/cmhansrd/cm101213/wmstext/101213m0001.htm).
resources out of HRAs, via receipt's from high-value sales and via the extra income councils will obtain when the government’s pay to stay scheme is implemented.

The Committee is therefore urged in its inquiry to review the promises made in the original self-financing settlement against the key subsequent policy decisions that have affected councils’ investment capacity, and to urge the government to recommit to an updated settlement to reduce uncertainty and again encourage councils to invest in their stock and in new housing provision.

20 April 2016
Response to the Economic Affairs Committee’s Economics of the UK Housing Market publications

<table>
<thead>
<tr>
<th>Question</th>
<th>CIPFA response</th>
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<tr>
<td>What are the reasons for this increase?</td>
<td>According to survey data collected by CIPFA into the level of reserves they hold, at 31 March 2014 local authorities held £3.7bn in general reserves and balances, representing about 4% of local government revenue expenditure. In addition they held £2.3bn in schools reserves and £13.8bn in earmarked reserves. Reserves are important to local authorities as, unlike central government, they cannot borrow money over the medium-term, other than for investment in assets, and they are required to balance their budgets on an annual basis. They generally hold reserves for three purposes: • Working balance to help cushion the impact of uneven cash flow • Contingency to cushion the impact of unexpected events or emergencies • Building up funds to meet known or predicted requirements, often referred to as earmarked reserves In addition to their useable reserves, local authorities have unusable reserves on their balance sheets. These reserves, such as the Pension Reserve and Capital Adjustment Account, hold costs that the authority has accrued but not yet financed and cannot be spent on council services. Some local authorities also hold reserves on behalf of their schools and for public health and these reserves can only be spent on the services they are assigned for. In response to CIPFA’s survey, 40% of local authorities reported increasing reserves in order to meet the increased uncertainty around funding due to the introduction of local Council Tax support and localisation of...</td>
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Business Rates.

**Investing for transformation:** Given the complexity and size of service transformation needed to balance future budgets local authority reserves are vital in meeting the one-off costs of service transformation, including redundancy costs. As councils are increasingly exhausting efficiency savings, the complexity and scale of service transformation and the associated risks can only increase.

**Reserves for capital and other investment:** Many local authorities are unwilling to take on additional borrowing to fund capital schemes when the ongoing financial costs would need to be met from increasingly tight budgets. They are therefore increasingly building up revenue reserves to fund or part fund capital expenditure.

- A CIPFA survey found 81% of authorities plan to use their reserves to fund future plans in the medium-terms, planning to spend on average 23.4% of their reserves for this purpose
- Realising capital receipts remains difficult, so revenue funding is also an increasingly common source of investment for spend to save schemes and capital schemes provided in collaboration with partners.

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<th>Are there any restrictions on what local authorities can spend money in their non-ring-fenced reserves on? Could this money be used to fund the building of social housing (owned by the LA) or private housing (for sale)?</th>
<th>84% of authorities are holding reserves against specific risks in their budgets. The average planned drawdown of earmarked reserves was 6.7% in 2014-15 and is planned to be 17% in 2015-16. Earmarked reserves are used for a number of purposes by councils, commonly:</th>
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| - Insurance reserves to cover both insurance excesses and self-insurance in a bid to smooth out and reduce ongoing expenditure  
- Reserves to hold funding for specific projects, often including income received from third parties  
- Reserves used to smooth payments due under PFI or other contracts  
- Reserves to equalise expenditure or revenue that is subject to annual fluctuation  
- Reserves used to deal with mismatches between funding and expenditure. | In theory revenue reserves might be used to support capital investment in social housing, however, the current reality is that there are insufficient reserves to sustain the delivery of services and that position is getting more |
challenging each year. It is therefore unlikely that local authorities would prioritise capital investment for non-ring-fenced revenue reserves, and besides, the vast majority of non-ring-fenced grants are earmarked for specific spending needs and projects.

The Committee has heard evidence that local authorities’ capacity to borrow to build social housing is limited by the debt cap on the Housing Revenue Account.

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<th>CIPFA response</th>
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| What restrictions are placed on local authorities’ ability to borrow to build (a) social housing and (b) housing for private sale? | Caps on borrowing were imposed on each of 169 councils that had housing stock in April 2012, based on calculations under the old Housing Revenue Account (HRA) subsidy system. The caps impose limits on borrowing, and the limit includes the debt they already have.  
Therefore if they build within the HRA they are subject to capital controls. Local authorities have been cautious in taking on additional debt for house building and with the changes in rent policy and other central government policy this cautious approach would appear prudent.  
The government own definition of debt does not support the ability of the local authorities to borrow. Additional local authority borrowing adds to the total public sector debt levels under the current rules as the UK uses a wide measurement of public debt – this is not the same as elsewhere in Europe.  
A further discussion on the use of the debt cap should take place and options should be revisited. |
| Does CIPFA have a position on whether the debt cap on the Housing Revenue Account should be altered and, if so, how? | It is clear from CIPFA Members that the impact of the caps is very arbitrary – some councils that need to borrow have no or limited headroom, others have significant headroom and may not need it. There is a potential argument for authorities to be allowed to ‘trade’ their headroom with each other, and some investigation of the potential for this, and how it might work, was carried out in the run up to self-financing.  
The caps are also much tighter than when self-financing was originally planned by the last government – their Prospectus envisaged councils being able to invest in building 10,000 new homes per year.  
CIPFA believes the cap is unnecessary given local authorities must adhere to the Prudential Code. The |
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<th><strong>Prudential Code is a professional code of practice to support local authorities in taking capital investment decisions. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality local public services in accordance with the Prudential Code.</strong></th>
</tr>
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<tr>
<td><strong>Some local authorities have sought to circumvent these restrictions through private/public joint ventures. Do you have a view on these schemes and whether they will (or should be) brought on to local authority balance sheets?</strong></td>
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| **Local authorities should be allowed to realise the best uses for their assets. Local authorities should be free to decide whether to enter into private / public ventures, providing there is clear governance, transparency, firm financial management and a thorough assessment of risks. It is also important that agreement is built in at the contractual stage to ensure the provision of stock for social rent properties is sufficiently addressed.**  

The nature of public/private ventures varies dramatically, so it is not really possible to say if they will be part of the local authority balance sheet. Perhaps an indicator can be gained by looking at the Joint venture/company and the local authority involvement in it - for example an ALMO is a wholly owned Local authority company and so the created assets are on the consolidated balance sheet of the local authority. If the local authority has a minor stake in the company then this stake would be noted in the balance sheet, but not the individual assets. The long term ownership of the properties may mean that they revert back to the local authority, so although there is no short term liability in relation to the asset, there may be a longer term liability arising from them that might be enough of a consideration for them to be noted. Clearly at the end of the initial period they will have to enter the balance sheet. |

20 April 2016
1 Introduction

1.1 The Chartered Institute of Taxation welcomes the opportunity to submit limited evidence in respect of two questions that form part of the Committee’s inquiry.

Our evidence focuses primarily on question 1b:

Question 1b Taxation: Are there tax measures that would improve housing supply and affordability?

We also comment briefly on Question 2a with the proviso that the CIOT’s remit is the administration and practice of taxation. It does not extend to economic forecasting or modelling.

Question 2a Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

2 Taxation: Are there tax measures that would improve housing supply and affordability?

2.1 A number of features (explored below at 2.2 et seq.) of the UK tax system favour returns to property ownership, returns that could be expected to act to increase demand to buy property, retain it for longer, and so affect affordability.

Most of these reflect long-standing, important and widely supported objectives such as encouraging home ownership and seeking to tax returns where possible when there is cash to pay the tax. If affordability of housing is to be given greater priority in tax policy, it is unlikely to be achieved by a quick fix, but by a significant research and consultative effort to identify whether there are possible approaches that...
achieve, on a stable and sustainable basis, a better and more efficient balance between all these objectives.

A medium or long term assessment of the effect of recent tax changes would ideally be taken in a period of stability. There have been many changes affecting residential property taxation over a relatively short period of time. The Autumn Statement announced:

- an increase in SDLT rates on acquisitions of second homes and buy-to-let properties,
- an acceleration of the payment date for capital gains tax on disposals of residential property,
- an acceleration of the payment date for SDLT and
- a housing benefit cap.

Further recent changes include higher rates of SDLT for residential property and the change from the slab to a marginal rate basis, a 15% SDLT rate for enveloped property, the introduction of ATED (annual tax on enveloped dwellings) and ATED-related capital gains tax charge, CGT on non-residents disposing of UK residential property, the restriction on interest relief for buy-to-let property and replacing the wear and tear allowance with a less generous relief.

2.2 Enjoyment of the benefit of owner occupation is not subject to income tax (as it was prior to 1963) nor of course to VAT.

Historically (prior to 1963), the benefit of owner occupation was subject to income tax via the mechanism of taxing imputed rental income under Schedule A. In principle each property was taxed on its potential rental value and mortgagors were entitled to tax relief on mortgage interest. Schedule A taxation was abolished in 1963 on owner occupied housing although mortgage interest relief remained (as a relief against income tax) being gradually phased out until abolition in 2000.

2.3 The accrual of capital gains on the investment in property and the realisation of such gains on a principal residence are tax free, regardless of scale. In addition, elements of the principal private residence relief rules\(^47\) may allow investors some (usually partial) shelter against tax on gains on second properties (though less than was once the case).

To promote labour mobility, the PPR rules provide that if the property has been the only or main residence at some point during ownership, gains attributable to the last 18 months\(^48\) of ownership are free of CGT even if the individual is not living in the property during that time. If a taxpayer has two homes he/she can nominate, which property is the only or main residence (regardless of whether it is actually the main

\(^47\) Taxation of Capital Gains Act 1992 sections 222-226B

\(^48\) The previous period of 36 months was reduced to 18 months for disposals on or after 6 April 2014.
residence or not), provided that, as a matter of fact, the property has been occupied as a residence. It is the combination of these two elements that allows for limited ‘flipping’ or switching PPR between properties to take advantage of the 18 month period of tax free gain. This benefit has been curtailed by the reduction in the final period of ownership.

There is a further tax benefit of PPR if the property has been let. Normally the gain attributable to the period of letting would be subject to CGT but there is a lettings ‘relief’ of up to £40,000 to offset that part of the gain (or up to £80,000 in the case of joint ownership). This particular relief may, however, viewed in isolation have a beneficial impact on the supply and therefore affordability of accommodation, in encouraging the letting out of homes that have been (but currently are not) occupied as a main residence.'

2.4 The value of (or derived from) a family home can now be left on death free of Inheritance Tax (IHT) to a much greater extent than the value of other assets.

Prior to 2015 the IHT regime made no distinction between gifts (whether during life or as part of a deceased person’s estate) of a dwelling that was owner-occupied or one that was rented out. That neutrality was reinforced by the denial of Business Property Relief in respect of rental properties where the business is ‘making or holding investments’49. However, in respect of deaths after 5 April 2017, a Residence Nil-Rate Amount (‘RNRA’) allowance50 will remove from charge up to that value in a person’s death estate that comprises an interest in a dwelling-house which has at some time been the person’s residence, but only in cases where the home is left to direct descendants.

The Government has promised to include in Finance Bill 2016 legislation to allow the full RNRA where the owner-occupier had downsized prior to their death. In principle this should address the risk of elderly persons retaining the family home, purely for the ultimate IHT break. It will remain the case that the benefit of the higher IHT allowance is only available if the value has been included in the home in the first place.

2.5 Council Tax on the benefit of occupation is assessed on long outdated values. For properties in England and Scotland the amount payable is based on the value in April 1991.

2.6 Stamp Duty Land Tax (Land and Buildings Transaction Tax in Scotland) paid on the purchase of a house (partially) offset the benefits outlined above but themselves add a cost to buying and selling and so effect adversely the flexibility of the market, which again can be expected to similarly impact affordability.

49 IHTA 1984, section 105(3)
50 The RNRA is set at £100,000 for 2017-18, rising by £25,000 increments to £175,000 in 2020-21.
2.7 Flexibility is also adversely impacted because, for example, a taxpayer cannot typically deduct rent they pay for living in one place while they let out a property they own (and on which they will pay tax on the rent).

2.8 Although a serious study of affordability would be a medium/long term exercise, there may be some steps that could be taken more immediately that could have some impact; the increase in rent a room relief\(^{51}\) will help to ensure the relief meets the objective of easing the pressures on housing by making best use of the housing stock. Keeping the rate under regular review so that it responds to increases in rent is therefore one such step. The ability exists to amend the threshold via statutory instrument.

3 Question 2a Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

3.1 As announced in the July 2015 Budget, individuals who carry on a property business that involves the letting of residential property will gradually lose\(^{52}\) their entitlement to higher rate tax relief on finance costs in respect of loans taken out for the purpose of that business. Currently there is a full tax deduction for mortgage interest against property income meaning that currently economic and taxable profit is more closely aligned. From 2020/21 those costs will be disallowed in full and an individual taxpayer will receive a basic rate reduction against total tax liability.

3.2 The target of the legislative change is understood to be higher rate taxpayers running leveraged (unincorporated) ‘buy to let’ businesses. For a 40% marginal rate taxpayer the tax cost will increase by an additional 20%\(^{53}\) (40% - 20%) on the interest and other funding costs. The economic profit on which that increased rate is payable remains the same as before; the change leading to an increase in the effective rate of tax on that economic profit. Higher finance costs will equate to higher effective rates.

3.3 Such landlords can either seek to increase rents to offset the increase, or to absorb the additional tax cost, or take the decision to incorporate their property business (with the associated tax costs of incorporation and ongoing costs) or withdraw from the market. New landlords entering the market can do so with the expectation of higher rents or lower profits than would otherwise have been the case.

\(^{51}\) Rent a room relief will increase to £7,500 (from April 2016). The relief was initially set at £3,250, which was increased to £4,250 from 1997/98. Until the recent announcement, the relief had remained the same even though rents are reported to have nearly doubled.

\(^{52}\) The change will be phased in by disallowing 25% of the finance costs in the tax year 2017/2018, 50% in 2018/2019 and 75% in 2019/2020 before the whole amount is disallowed in the calculation of the taxable profits of the business from 2020/2021 onwards. In the transitional years, the percentage of the interest not deducted will be given as a basic rate tax deduction.

\(^{53}\) The disallowance of finance costs has the effect of increasing an individual’s taxable profit, and therefore impacts state benefits which are related to taxable income such as Child Benefit.
3.4 The CIOT is not an economic modelling or forecasting organisation and cannot comment authoritatively upon which of those possibilities will materialise and to what extent.

4 The Chartered Institute of Taxation

4.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT’s work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members’ experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT’s comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT’s 17,500 members have the practising title of ‘Chartered Tax Adviser’ and the designatory letters ‘CTA’, to represent the leading tax qualification.
15 December 2015
The Economics of the United Kingdom Housing Market

17th December 2015

1. Cheshire East Council response to the Economic Affairs Committee of the House of Lords, chaired by Lord Hollick, into the *Economics of the United Kingdom Housing Market*.

Consultation process

2. The Committee has issued a request for interested individuals and organisations to submit evidence to this inquiry. Written evidence is sought by the 17th December 2015. Written submissions will guide the Committee’s deliberations in future oral evidence sessions, and also inform the Committee’s final conclusions and recommendations.

3. There are 3 main consultation questions.

**1. Private Ownership:** What measures can be taken to increase the supply of reasonably priced housing in the UK?

   a. **Government schemes:** How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

**4. Response:** There have been 325 new shared ownership properties delivered in Cheshire East since 2009/10.

5. Shared ownership has played a role in providing affordable housing at a price above social rents but below market levels as per the definition in the National Planning Policy Framework. It has provided an opportunity to purchase a property for those who would not otherwise be able to.

6. Along with other intermediate housing and social / affordable rented units in Cheshire East, shared ownership has played its part in improving affordable housing options for local people.

7. Shared ownership has not exacerbated any lack of low cost housing.

8. Cessation of shared ownership will reduce the options for those who aspire to own their own home but do not have the means to pay the full open market value.

   b. **Taxation:**

**Response:** No comments.

   c. **Mortgages:**
Response: No comments.

d. Planning: Are there any further changes to the planning system necessary to increase the availability of low cost housing?

9. Response: We welcome the commitment to the Plan-led planning system.

10. We also welcome the establishment of a governmental taskforce looking at the issues surrounding Local Plan development, including proportionate evidence base, consultation and examination requirements. The role of Local Plans / Neighbourhood Plans are crucial in delivering sustainable development and the evidence-base required in terms of the overall levels of housing required in Boroughs such as Cheshire East.

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

11. Response: Where costs increase either directly as a result of inflation or tax increases, or indirectly through the reduction of tax reliefs, landlords are likely to seek to recover any reductions in profit by increasing the cost of their rental accommodation and passing the cost onto the tenants.

b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

12. Response: The Government drive towards increasing owner occupation refers to an end to ‘Generation Rent’. The direction of Government policies does suggest that there is a shift towards home ownership; that said there will always be a need for rented housing and it’s unlikely that there will be a significant shift away from private rented. It might stifle any further growth. There should be some monitoring and standardisation of estate agents and tougher regulation of estate agents and landlords to address the “trust” issue between landlords and tenants. A better way of getting longer term Assured Shorthold Tenancies (ASTs) would make tenants feel that they are likely to get a better deal in terms of quality of accommodation and length of stay in private rented accommodation. End of AST in 6 months affects housing options/homeless services two times over: firstly people don’t want to take on an AST for 6 months because they don’t like the upheaval, especially where they have young children or support needs; secondly, the Council has to prevent homelessness for the same people regularly as they are frequently issued Notice To Quit after the initial period.

c. What are the advantages and disadvantages of restricting rent increases in the private sector?

13. Response: The clear advantage is reduced costs for tenants and reduction in rent arrears, particularly where people are topping-up Local Housing Allowance (LHA). A disadvantage is that it will reduce long-term investment in properties, and one impact may be a reduction in spending in the local economy. This may lead to an increase in disrepair
and resultant illegal evictions as a result of tenant complaints. Not seen in the local Private Rented Sector currently, it is likely to be more of an issue in the future.

14. An advantage for housing options/homeless services is that it makes the private rented sector in some areas more affordable. We cannot have rents being able to increase and LHA frozen for 4 years as it would increase the gap for people on Benefits and make it an unaffordable option.

3: Social housing: Are any measures needed to increase the supply of social housing?

a) What will be the impact of the Right to buy for housing association tenants?

Impact on tenants:

15. Response: The question may want to focus more on the landlord and not the tenant directly?

Ability to borrow

16. Response: Unlike local authorities, who under legislation, secure all borrowing, including for housing, on future revenues, registered providers borrow on the strength of their balance sheets which is dependent largely on the value of the housing stock.

17. Right to Buy not only has a direct impact on the balance sheet, by reducing the total value of fixed assets through disposals, but also impacts upon third parties’ (e.g. lenders) assessment of the value of remaining stock.

18. This is because of the ability of tenants to exercise the Right to Buy at below balance sheet values. Registered Providers are completely dependent upon money markets for borrowing, and so will face increased borrowing costs if market providers and credit agencies downgrade the value of their balance sheets, and so increase the risk factors associated with lending to them.

Impact on Registered Providers’ stock:

19. Response: If the focus on extending RTB to registered housing providers is to increase homeownership, it should be noted that Registered Providers have historically helped a large number of their tenants into the sector through Shared Ownership and similar initiatives.

Access to social housing

20. Response: There is concern with Right to Buy that there may be less social housing left for the next generation. Registered Providers and Local Authorities maintain huge waiting lists for affordable housing and there is concern that this policy may exacerbate the problem. Providers want to build more social housing, but the Right to Buy policy means that Registered Providers will just be working to replace homes sold off rather than building any more.
b) What will be the impact of the proposed change to social housing rent announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

**Change to social housing rent**

21. **Response:** Social rents are not artificially low: they reflect the cost of building and managing the homes, are linked to actual earnings, and generally yield a surplus.

22. As such, lower rents and the Right to Buy would have an impact on the development capacity of most Registered Providers.

23. For the social housing sector, the cuts could be very serious. One way to make savings will be to build fewer new affordable homes - and the sector maintains this is very likely to happen. According to the Office for Budget Responsibility (OBR), the drop in rents will lead to an estimated 14,000 fewer affordable homes being built over the next six years. The National Housing Federation said the number could be closer to 27,000.

24. The impact on wider support from social housing providers will be vast with the cuts. We have already seen housing providers pulling out of neighbourhood support, money/financial advice and Anti-Social Behaviour work. All of this will lead to increased levels of homelessness as advice/support to prevent issues will be non-existent until people are in crisis. Secondly, Registered Providers will be less likely to take on vulnerable people or people with high support need as they will be unable to provide them with support in the community. This leaves those categories of people with limited housing options. The support offered to multi-agency forums such as, for example, child sexual exploitation, will be non-existent as providers cannot commit time or resources for early intervention and prevention.

**Additional or alternate changes to social housing rents needed?**

25. **Response:** The social housing sector maintain that if we cling to the old vision and keep rents at their current levels, we need in the region of £8-£10 billion a year in capital subsidy to achieve these numbers of new homes. There are, of course, other factors involved here - not least housing benefit levels, the availability of private finance, and securing sufficient land with planning permission. The key question is whether any future Government is likely to give the sector £8 billion a year in annual grant? In other words, is housing ever going to be a sufficient political priority to compete for these kinds of sums against the demands of health, education and defence?

26. The alternative is, perhaps, to accept that capital subsidies have had their day and that the Government, in future, has to subsidise the individual solely through the benefit system. Rents must therefore rise to market levels to generate the funds needed to support the building of new homes, and Registered Providers have to differentiate themselves from private landlords by the quality of their properties and their services, and their willingness to act as social enterprises.
Submission to be found under Professor Danny Dorling (Fellow, St Peter's College, Oxford); Professor Paul Cheshire (Professor of Economic Geography, London School of Economics) (QQ 41-58) – Oral evidence (EHMOE0003).
Evidence from Professor Paul Cheshire, London School of Economics

Overview

The fundamental problem underlying the crisis of housing affordability is the extremely inelastic supply of housing in the UK in general. This problem is worse in England and worst of all in London and the South East. This was identified in the Barker Review (2003) and has been identified in reports on the British economy during the past 3 years by the OECD, the European Commission and, last year, by the IMF. Since 2003 the mix-adjusted price of new houses has increased by 18% but annual construction has fallen by 19%; new construction in England has fallen by 27% since 1995. So the evidence suggests that despite initiatives and targets by all governments over the past 10 years (an annual build target of 240,000 was set in 2010 by the then Labour government) the rate of construction remains stubbornly low and far below levels identified by expert groups over the past 15 years or more as being required to even maintain the status quo with respect to affordability let alone help make housing more affordable (see for example NHPAU 2007).

Not only have we not been building enough houses for more than 30 years, those we have been building have too often been in the wrong place or of the wrong type to meet demand. Twice as many houses were built in Doncaster and Barnsley in the five years 2008 to 2013 than in Oxford and Cambridge. Even that was better than the most distant date there is data for all four places, 2002/03; then the northern cities managed nearly three times as many houses as the prosperous southern pair. Indeed, policy has been actively preventing houses from being built where they are most wanted; in places with access to new jobs which have been concentrated in London and southern England.

In the 19 years from 1969 to 1989, we built over 4.3 million houses in England; in the 19 years from 1996 to 2015, we built some 2.6 million. In 2009, the National Housing and Planning Advice Unit (which was set up as an independent technical source of advice in the wake of the Barker Reviews) estimated that to stabilise affordability, it would be necessary to build between 237,800 and 290,500 houses a year. That implies building some 260,000 houses a year or, over 19 years, a total of over 4.9 million. Taking the difference between actual building between 1996 and 2015 and the NHPAU’s estimate of necessary annual building, this implies that in the 19 years to 2015 building fell short of what was needed by some 2.3 million houses. Of course this figure is only an approximate measure but does suggest that the shortfall of house construction relative to demand has been of long standing and is very serious.

Thus any measure to make housing more affordable has to effectively increase the supply of housing. All measures which subsidise demand will primarily have the effect of increasing house prices.

Specific Questions
**Private Ownership:** What measures can be taken to increase the supply of reasonably priced housing in the UK?

Overwhelmingly the most significant obstacle to building (and so to improving the affordability of housing) is the planning system and, to a lesser extent, how that system interacts with incentives to local communities to permit building. No policy which fails radically to reform our planning system has any hope of significantly boosting construction. The basic framework of the British planning system is still as set by the 1947 Town and Country Planning Act and then the definition of the purpose and extensive boundaries of Greenbelts in 1955.

Since then we have systematically all but frozen the supply of land for urban development. Land can be substituted out of the production of houses. New houses can - and have - become smaller with smaller gardens (new houses are some 40% smaller in England than in the Netherlands and some 45% smaller than in Denmark). Land can also be re-cycled. But land is still not just an essential input into building houses but an attribute of houses which is much valued in its own right and for which demand rises very rapidly as people's incomes increase. Estimates of the income elasticity of demand for garden space are about 2: that is for every 10% increase in incomes there is a 20% increase in the demand for garden space.

The process by which our planning system decides how much land to allocate for development – apart from being hedged around by Greenbelt boundaries – systematically undersupplies land. This is because it works on the basis of projected household numbers, not projected demand, so ignores the strong income elasticity of demand both for space in houses and for garden space. Moreover, because it supplies a fixed area determined by assumed densities, it undermines competition in land markets. Since the area of land available for potential development is small and known (as well as systematically being less than market demand) competition between potential sellers is much diminished. Britain also has very severe and extensive height restrictions.

In addition our system injects uncertainty into decision making by making decisions on the basis of ‘development control’. This means outcomes are not known in advance and are highly politicised. In contrast Continental European and the US systems are ‘rule-based’. This uncertainty the process of ‘development control’ generates with respect to the outcomes of decisions injects even more risk into the already risky process of development. Developers always have to project expected costs and revenues well into the future when they are evaluating the viability of any potential development. Our politicised and uncertain process of making decisions via ‘development control’ means that an additional risk premium has to be added to require expected net returns for any project to be judged viable. This means that otherwise viable projects do not get built. Moreover it means our system becomes expensively ‘gameable’.

We then impose what is in effect a tax on building by the use of Section 106 Agreements (adding a further risk premium since what these will be is also not knowable in advance) and we provide very little fiscal reward for local communities which permit development.
The only effective measure to increase house building and so, over time the supply of housing would be to substantially increase the supply of available land, make height restrictions far more flexible and reform both the way in which our planning system makes decisions and our incentives to local communities to accept more housing.

a. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

The Help to Buy scheme increases demand. As commented on by the OBR in their evidence to the House of Commons Treasury Select Committee immediately after the March 2013 Budget which first introduced the Help to Buy scheme:

“...is it just going to drive up house prices? By and large, in the short run the answer to that is yes. But in the medium term, will the increased house prices stimulate more house building? Our general answer to that would probably be, "A bit." The historical evidence suggests not very much.”

In the out turn that seems a reasonable judgment. No policy which inflates demand can do much more than increase house prices given how inelastic the supply is. It is possible - but the research has not been - that the Help to Buy scheme could in fact have the effect of making housing less not more affordable.

The current OBR forecast is that:

“... house prices are expected to rise by 28.4 per cent by the first quarter of 2021. Relative to their pre-crisis peaks in 2007, real house prices at the end of the forecast are expected to be 11.2 per cent higher and the ratio of house prices to average earnings 10.5 per cent higher.” (OBR Economic & Fiscal Outlook, Nov 2015, para 3.75)

My own entirely independent forecast is very similar to this: a 23 per cent increase in real house prices by the start of 2020.

b. Taxation: Are there tax measures that would improve housing supply and affordability?

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

The only tax changes likely to have a significant effect on housing affordability would be a major increase in the incentives to LAs to allow development. Allowing a full retention of Council Tax proceeds on residential property without then offsetting those revenues with revenue equalisation, would have an effect. Perversely the good idea of permitting a retention of Business Rates will likely lower house building since LAs will be incentivised to reallocate land from housing to commercial uses.
Replacing the existing Council Tax with an annual charge on land values (a site value tax) with those values revalued on a regular 5 year cycle could encourage the recycling of both houses and land to allow more intensive use of land where is was most in demand as patterns of demand changed over time. However there is much rather wishful talk of older people ‘over consuming’ housing. The potential supply from this source is not great. The only serious research known to me concludes that, independently of income and other factors, older people chose to consume more housing space all things equal. Intuitively this makes sense since as you get older, up to the point of needing sheltered housing, you accumulate possessions which take up space and children and grandchildren who you want to have space to allow to stay.

With respect to Stamp Duty - abolishing it so the transactions costs fell would perhaps free up some housing space and certainly allow freer mobility. If revenues were replaced with a progressive site value tax that, too, would help since on the margin land for which demand had risen would be redeveloped at a higher density more quickly. The very recent changes in Stamp Duty for buy to let and second homes may just marginally increase the supply of housing for primary residences and fractionally reduce the price of owner occupied housing while increasing rents; but all these effects will probably be too small to measure.

All such tax changes would, in my judgement, have relatively little impact on the supply of housing unless accompanied by radical changes in the planning system.

c. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?
No comments.

d. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

There have been no substantive changes to the planning system since 1968 (except, perhaps for the introduction of the Brownfield targets in the 1990s) – see comments above. The NPPF ended up confirming the prohibition on building on Greenbelt land and re-inforced the bias towards Brownfield land. The New Homes Bonus was a move in the right direction but both too small and too opaque to make much difference. The move to sub-LA planning and the abolition of planning at a wider level (such as the city-region) has given more voice to NIMBY interests. This is because there are costs of development and these are significant but very local; the benefits of development are small to individuals and spread over a whole housing market area so the more voice given to the more localised area, the more the interests of anti-development will prevail, other things equal. Only substantial compensation to affected property owners via, for example, Impact Fees as applied in some jurisdictions in the US, or very decentralised fiscal systems as in Germany or Switzerland, can effectively offset the incentives for local home owners to oppose development.
2. **Privately Rented Accommodation:** What measures can be taken to increase the supply of low cost private rental properties in the UK?

   a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

   This is likely to have some effect but again hardly measurable.

   b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

   Given that there is no prospect of affordability improving (OBR forecasts mentioned above suggest the ratio of mean real house prices to mean real incomes will deteriorate by a further 10.5 per cent by 2021) private rental for younger people will go on increasing. The latest English Housing Survey showed a continuing rise in age for first time buyers with the proportion of 25 to 34 year old owner occupiers falling from 59 to 36% over 10 years; and for the first time ever, more owner occupiers did not have mortgages than did.

   c. What are the advantages and disadvantages of restricting rent increases in the private sector?

   Rent controls are very short term and opportunistic measures that cause more damage to the supply of rental accommodation the longer they persist and are politically difficult to get rid of once they have become established: a really bad idea in other words.

3. **Social housing:** Are any measures needed to increase the supply of social housing?

   a. What will be the impact of the Right to Buy for housing association tenants?

   No useful comments in the sense that it is difficult to quantify them and the impact will depend crucially on how they are implemented; for example, will all revenues actually be returned to HAs together with the value of any discounts? If that were to occur then the impact could be small - basically just the deadweight loss taken by the transactions costs involved.

   b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

   The restriction on the rate of increase of HA rents to 1 per cent p.a. will reduce the value of the balance sheets of HAs and so reduce their ability to finance building. Since they account now for some 20 per cent of all new construction this could be significant.

30 November 2015
“…building an economy upon a massive and growing distortion in the market for land is foolish. We do not need to concrete over England. We do need to stop constraining the growth of the places where people really want to live.” Martin Wolf, Financial Time, 5th Feb 2015

The purpose of this note is to expand on some of the ideas, raised but not developed in my original evidence or during my appearance before the Committee. The background is the overwhelming evidence of a serious and long term shortage of supply of housing, especially of supply attuned to demand in terms of type and location, and the relationship this problem has to our planning system and the incentives – or lack of them – facing local communities to allow building.

Two critical changes are needed. The first is to find a way of getting our land supply to respond to market signals while not compromising the environmental and amenity generating power of planning. The second is to find a way of providing a real positive incentive to local authorities and the communities they serve to accommodate new development. The first change involves a stick and the second a carrot.

1. A way to introduce market signals into land allocation

1.i This draws on Cheshire and Sheppard 2005 and Cheshire et al., 2014. The proposal was discussed in Barker (2004 – see para 2.31ff and Box 2.1; 2006 – see pg 147ff). It is essential to recognise that planning, while about other things as well, is fundamentally an economic activity. Our planning system allocates a scarce resource, development land and rights, but does so entirely independently of price. The planning system determines the supply of land but the market then allocates the land to developers via prices. It is again prices that allocate the houses built on the land to would-be owners.

1.ii Prices are jointly determined by supply and demand and are powerful signals of what is in short supply relative to its desirability and the purchasing power of individuals. As is well known, markets also suffer from problems of ‘market failure’: in the context of land markets they do not reflect, or do not adequately reflect, the social amenities or environmental values particular parcels of land may generate. Urban Parks, wildlife habitat, scenic countryside or recreational areas, including National Parks, are obvious examples.

1.iii In determining land supply for development in the present system, however, prices play no role whatsoever. Local Authorities supply land on the basis of projections of ‘housing need’ and on ‘planning grounds’ – a combination of complex rules and subjective judgements. If the long run systematic undersupply of land this method has generated over 50 years or so is to be resolved it is imperative that land supply decisions - as well as demand - also systematically respond to price information since this is the signal allowing our economy to provide enough of any good or service: with the single exception of land for development.
1.iv A method for doing this can easily be devised: the price differential between land in any use and its alternative proposed use, if it exceeds some threshold, should constitute a ‘material consideration’. There would then be a presumption that the alternative development would be permitted unless (and this is an important ‘unless’) it can be demonstrated that the environmental or amenity benefits generated by keeping the land in its existing use were of sufficient value to society to refuse the proposed development. It would be necessary to decide on an appropriate ‘threshold’ level for price differentials not to trigger a potential presumption of development. If the threshold was set at, say, £1 million, this would represent a significant hurdle to changes of use since the costs associated with such changes would not normally be as much. One can envisage, for example, agricultural land on the urban fringe or land zoned for industrial use in places where there is an undersupply of housing, so housing land prices exceed agricultural or industrial land prices by £1m or more. In neither case is it likely that basic infrastructure investment to make the land suitable for development in the new use would exceed £1m per Ha. So, if one was envisaging developing agricultural land on the urban fringe, a threshold of £1m could be viewed as the equivalent of a tax on Greenfield development, reducing the total urban land take.

1.v One further point is that prices should be measured free of CIL and all planning obligations. All planning conditions, S106 Agreements or CIL payments are negatively capitalised into land prices so, if the purpose is to find a way of reflecting the underlying value of land in an alternative use the supply of land for which is restricted by planning policies, it should be the price of land in the absence of such restrictions which signals a presumption to develop subject to environmental or amenity values. All the value of planning obligations or S106 Agreements would be more than compensated for by means of the suggestion in point 2 below.

1.vi The advantage of this proposal is that not only would it lead to a more efficient and equitable allocation of a scarce resource – space for housing – but it would require no actual valuations to be made. A major disadvantage of efforts to capture ‘betterment’ or ‘planning gain’ is that they either require a pre- and post-valuation, which soaks up most of the value uplift in professional fees and legal costs; or they increase uncertainty in the development process (because neither the ex-post costs nor even the outcome of the development control process are knowable in advance) and deadweight losses because of the complexity and costs of negotiating S106 Agreements.

1.vii This system of introducing price signals to the land allocation process would rely mainly on the initiative of developers. If they estimated that the price differential at the boundary between use categories exceeded £1m they could make an application to develop if that appeared potentially profitable. If the Local Authority (LA) judged either that the

54 Cheshire and Sheppard (2002) estimated that allowing the footprint of a tightly supply constrained local housing market such as Reading to expand so that at the urban fringe land for housing had a market value in 1984 prices of £25,000 per acre – the absolute minimum estimated at that date to secure land transfer to housing allowing for infrastructure costs – would generate an increase in the value of net welfare equivalent to a 3.9 pence in the £ reduction in income tax but only increase the total area taken for housing by 71 percent.
price differential was less than £1m or that the differential was justified by the environmental or amenity value of the land in the existing use, they could reject the application. The developer\textsuperscript{55} could then appeal if in their judgement the LA was sufficiently wrong that the appeal would be likely to be found in their favour and the expected profits sufficiently high. The net effect of this would be that because applications and appeals cost significant resources, developers would only make applications on land where the likelihood of success was very high: that is where not only was the differential significantly greater than £1m but the environmental or amenity value of the land was clearly below £1m. Equally because defending appeals costs significant resources LAs would quickly learn not to oppose appeals where the odds were seriously against them. While determining the exact environmental or amenity value of a parcel of land is impossible there is sufficient evidence from hundreds of hedonic studies or from The National Ecosystem Assessment (2011) to be certain that such values are negligible on very large tracts of land, especially for almost all intensively farmed agricultural land.\textsuperscript{56}

2. Incentives for Local Authorities

2.i The second essential is to find a way of ensuring LAs and local communities have an incentive to allow development. Given our present system, LAs are, in effect, fined if they permit development. Apart from the small, opaque and time limited New Homes Bonus, because of revenue equalisation no net revenue accrues to the LA if new houses are built but new demands are put on services by the new residents. In addition, infrastructure not provided by the LA, such as highways, rail services, recreational facilities or utilities, becomes more congested for existing residents who – as voters – control local planning decisions.

2.ii Existing sources of incentive such as Section106 Agreements or the Community Infrastructure Levy (CIL) are extraordinarily suboptimal. S106s are expensive for both the LA and the developer to negotiate and also inject additional uncertainty into an already highly uncertain planning decision-making process. Additional uncertainty translates into additional risk, so just the process itself – let alone the reduction in profit the final S106 Agreement results in - reduces the supply of new development. The extra risk requires a higher risk premium, all else equal, so otherwise viable projects slip below the threshold of viability – independently of the costs of meeting any likely S106 obligations. Also, because of the costs of negotiating them, S106s are only viable for larger developments and larger developers. They thus represent both a barrier to entry into the development industry and a hurdle for small authorities and small builders. As of 2010 less than 50% of all LAs had ever negotiated a S106. S106s represent not a second best but something like a 52\textsuperscript{nd} best mechanism either for compensating local communities for the costs of development or for funding social/affordable housing. They have serious deadweight losses associated with them. CIL might generate funds for LAs but introducing CIL in tandem with S106s increased the complexity of an already overcomplicated planning system. As bad, however, was the

\textsuperscript{55} The idea should apply to a development of any type: so it could involve a proposal to develop agricultural land or land zoned for industry, for housing; or, in principle for offices or a hotel on land zoned for industry or retail.

\textsuperscript{56} In London’s Greenbelt alone there are some 200,000Ha of intensive agricultural land compared to the GLA area’s total of 159,000Ha. The Greenbelt of Oxford is some 8 times the area of the City and 44\% is in intensive arable; 74\% of the Cambridge Greenbelt is intensive arable.
fact that rates of CIL were left to be determined entirely at the discretion of the LA and the funds raised were not either tied to paying the costs of infrastructure or offsetting the costs imposed on the local community of the development; nor were they safeguarded from revenue equalisation. This has led CIL rates to develop in a totally arbitrary way. There are cases – such as the GLA – where the rate is a simple charge per m² for new floorspace, highest in central London and lowest in outer London, and the revenue has been dedicated to fund infrastructure in the form of CrossRail. But elsewhere the CIL rate has either not been set at all or is essentially used as an instrument of ‘development control’. London Boroughs can set their own CIL additional to the GLA levy. In Islington, for example, a rate of £400 per m² has been set for new student accommodation, apparently to ensure it is not financially viable; in Wandsworth rates for new housing vary from £250 to £575 per m² depending on location. Outside London, in Huntingdonshire, rates are more than twice as high as they are in East Cambridgeshire, a few miles away.

2.iii What is needed if local communities are really to be incentivised to welcome development is a substantial, transparent and simple flow of substantial resources. These funds should be safeguarded not just from revenue equalisation (else they cease to be an incentive) but also from just filling holes in budgets, Treasury depredations or sometimes arbitrary local decisions. They could take the form of Impact Fees where the requirement is that the level of fee is related to expenditures that are needed in the local area to support the additional development. Or – even simpler – they could just be calculated as a percentage of the final sales value of any development: a Development Charge. This would have the very great advantage of absolute simplicity and certainty. The costs of necessary infrastructure are always debateable whereas the revenues generated by the sale of the development are easily discoverable. If, for example, all existing charges, including planning obligations, such as S106 and CIL, were abolished but developers had to pay a 20% charge to the LA on the final value of all residential or commercial development, this would generate a very large flow of additional revenues for local government. From the DCLG Table 23 (formerly Table 503) the average price of new houses in 2014 in England was £285,000. If the government’s target for annual house building of 200,000 p.a. was met, therefore, and a payment of 20% was levied on the final value of all new housing developments then this might be expected to raise a total of £11.4bn a year (compared to LA budgeted expenditure for 2015/16 totalling £95.4bn of which housing, planning and development accounted for £2.89bn). This figure for the total yield raised by the proposed Development Charge relates only to housing development; since the proposal is to raise a similar charge on all development the actual yield would be significantly greater since commercial development would add to it.

2.iv It would be vital that if such a Development Charge were raised it would be subject to absolutely clear and binding conditions.

1. All LAs should charge the same rate on all types of development. This would allow the resource allocating mechanism of the market to work effectively. If LAs could charge whatever they wanted, as with CIL, then not only would this inject complexity into the idea but it would mean that those LAs who were dedicated against permitting development, or development of particular types, could charge a prohibitive rate.
2. Revenues raised from the Development Charge would be safeguarded from revenue equalisation schemes in order to retain the incentive effect of the charge. Revenue raised should therefore not be counted as part of local government income for the purposes of central government calculations.

3. Revenues raised by the Development Charge would have to be spent on just three activities:
   i. Funding investment in any type of infrastructure to support the additional development (including roads and other transport, health, education and training related investment, strategic utilities infrastructure, recreational facilities and areas (e.g. new parks);
   ii. Funding affordable housing whether funded directly or via affordable housing providers;
   iii. Funding the LA’s costs of running the planning system.

2.v The advantages of tying in the way in which the revenues for the Development Charge could be spent are that it would so far as possible retain the efficiency of the allocative process; it would compensate the local community by maintaining, even enhancing, the quality and quantity of local infrastructure; it would provide a substantial and steady flow of funding for affordable housing without the deadweight losses associated with S106; and it would assist developers by not only providing proper funding for the planning process but by providing adequate infrastructure and a much simpler system to support development.

3. Impact of proposals on the real price of housing

3.1 In combination these two proposals would very greatly reduce existing restrictions on land supply for housing (the suggested £1m allowable price differential would have some restrictive effect) in a uniform way across the country and at the same time produce a substantial incentive to LAs to allow development and a generous funding stream for social/affordable housing.

3.iı An informed guestimate is that, once the system had fully adjusted – a process that would take perhaps 10 to 15 years - together these two changes would reduce the real price of quality constant housing in England by about 40 percent. This value is based on two different sources of evidence. Hilber and Vermeulen (2015), looking only at the period since 1979, estimated that if the most restrictive LA was as unrestrictive as the least restrictive LA in England then house prices in that LA would be 35% lower. But this ignores the already significant impact of planning restrictiveness on house prices before 1979 (see for example Hall et al., 1973 or Cheshire and Sheppard, 2005) and even the least restrictive LA is significantly restrictive. The second piece of evidence is that the price of new housing per m² in Denmark, Germany or The Netherlands is some 40 percent less than in England.

3.iii An entirely independent source of evidence as to the very substantial impact on real house prices of land supply comes from Cheshire et al., 1999. This estimated that given then projections of household numbers and trend rates of real income increase, if land supply was frozen and 60 percent of all new development was required to be on brownfield sites
within existing urban footprints, then by 2016 the real price of housing would increase by 131 percent from its 1996 level. If, in contrast, there was a mild relaxation of restrictions on land supply so that the radius of urban areas was permitted to increase by 5 percent but the same assumptions were made about population and income growth, then the real price of housing by 2016 would fall by 2 percent. An additional point this last estimate underlines is that the system does not stand still. A fixed land supply policy does not imply that the real price of housing is higher; it implies a continuous increase in the real price of housing as population and incomes grow.

11 February 2016

References
A Note on Translating Land Price Differentials and a Development Charge into Practice*

1 Introduction
The purpose of these proposals together (and they are designed to go together) is threefold: to substantially increase the supply of land for uses such as, but not confined to, housing where it is most in demand; make the overall operation of the planning system more predictable and transparent; and significantly increase the absolute level of funding for infrastructure, operating the planning system and providing affordable housing.

2 Translating land price differentials into planning practice
2.1 The effectiveness of introducing price signals to the land allocation process as a mechanism to increase construction would rely mainly on the initiative of developers. If they estimated that the price differential at the boundary between use classes exceeded £1m they could make an application to develop if that appeared potentially profitable. If the Local Authority (LA) judged either that the price differential was less than £1m or that the differential was justified by the environmental or amenity value of the land in its existing use, they could reject the application. The developer could then appeal if in their judgement the probability of success – given its costs – was justified by the expected profits associated with the development. The net effect of this would be that because applications and appeals cost significant resources, developers would only make applications on land where the likelihood of success was very high: that is where not only was the differential significantly greater than £1m but the environmental or amenity value of the land was clearly below £1m. Equally because defending appeals costs significant resources LAs would quickly learn not to oppose appeals where the odds were seriously against them.

2.2 While determining the exact environmental or amenity value of a parcel of land is impossible there is sufficient evidence from hundreds of hedonic studies or from The National Ecosystem Assessment (2011) to be certain that such values are negligible on very large tracts of land, especially for almost all intensively farmed agricultural land.

2.3 To simplify decisions as to the ‘environmental or amenity’ value of land, all land in designated uses or zones would be deemed to generate environmental or amenity values sufficient to justify not permitting development. These zones or uses would include all land in:

1. National Parks (which should continue to enjoy their current special planning regime that might permit some development as deemed appropriate);
2. Sites of Special Scientific Interests, designated wildlife sites or areas owned by Nature Conservation bodies or Wild Life Trusts;
3. National Trust or other non-profit heritage or conservation body ownership;
4. With unrestricted public access such as parks of any type;
5. More than 150 metres inside a designated Area of Outstanding Natural Beauty;57
6. Non-commercial amenity and recreational land such as allotments.

2.4 An additional purpose of the proposed change is, so far as practicable, to take decisions out of the contested space of ‘development control’ making them quasi-automatic. This would have substantial advantages in terms of reducing both the direct costs of securing planning permission and reducing the risk premium necessary for any proposed development to be financially viable. The twin proposal to replace both S106 and CIL with a Development Charge would take another source of risk – the uncertainty associated with S106 Agreements – out of the development process also.

2.5 To make development cheaper, less uncertain and risky and more transparent, some way should also be found to make any ‘planning conditions’ that might be imposed on any development secured on the basis of land price differentials as certain, clear-cut and transparent as possible. This might involve two sets of distinctions: between large scale developments of more than 150 to 200 houses and smaller ones: and between developments in LAs with an up to date Local Plan and in those without.

2.6 Larger developments can require a full Environmental Impact Assessment by the promoter and in British practice the results of any EIAs need to be considered and mitigation negotiated or determined as appropriate. Unless British practice could move to that of continental Europe, with EIA often dealt with by the public authority as part of a ‘zoning’ process, this would mean there would be a continuing need for EIA for larger developments.

2.7 Developments proposed in LAs with valid local plans could be subject to the standards set out in those plans appropriate for developments of that type and to be valid a local plan should specify such standards which would translate into standard planning conditions. Developments in LAs without an up to date local plan (currently about half of all LAs) could be subject to nationally determined standards (somewhat akin to the old regime of ‘by-law’ regulated development).

2.8 Existing national provisions with respect to things such as transport access and building regulations would continue to apply.

3 Development Charge

3.1 The purpose here is to replace two separate mechanisms for capturing value uplift and ensuring mitigation which are both complex and add costs and one of which, S106 Agreements, is inefficient, opaque and adds significant deadweight cost and risk to the development process, with one completely transparent charge which should generate considerably more revenue to local communities from allowing development.

57 The actual boundaries of AONBs were often originally set to follow administrative boundaries and these frequently do not closely relate to the actual beauty of the landscape. Thus while some land only just over AONB borders would no doubt meet the criterion of generating more than £1m per ha of amenity value this is not the case for all.
3.2 The issue is – is it as clear and transparent as it superficially appears? Care would need to be taken to ensure that developers could not (unduly) avoid it or mitigate it and Local Authorities actually delivered on their side of the ‘bargain’.

**Developers:** When sold on a free market as finished developments so that an open market price was established the charge would appear to be clear-cut. A price for each property sold is registered with the Land Registry and the *Development Charge* would be calculated on that (subject to possible abatement on a transparent scale because of land contribution - see below). However one might imagine developers selling off-plan; selling to a shell, maybe off-shore, company at a discount; selling options to buy; renting; selling only a proportion of the equity in a property; or going bust so the charge could not be claimed. For the proposal to work it would be essential that the market value of all developments was measured on a comparable basis. When there was a competitive market price established on sale there would be no problem but it might be necessary to have a mechanism to estimate an equivalent ‘price’ for all other circumstances. This should be done in a way which incentivised the developer not to cheat. For example the *Development Charge* could be set at either the selling price as established by an open market sale on completion or the valuation of the District Valuer plus 5%. Another possibility, especially relevant to address the case of developers going bust, would be to have the *Development Charge* as a first charge against the first open market sale of the property to be paid directly to the LA by the buyer. While the intention is that funds should be raised to allow LAs to either build or commission affordable housing (and some minimum proportionate sum might be set to ensure that), it might be thought desirable to allow developers to set off, at a published rate, a proportion of their sites to pass on to social housing providers with a consequent reduction in their 20% liability. If it was decided that was desirable, the rate at which the *Development Charge* would be reduced by the donation of land should be set nationally and be entirely transparent.

**Local Authorities:** there is an equal concern that LAs might not ensure the delivery of the necessary infrastructure or affordable housing either necessary to make the development viable but also acceptable to the local community; or ensure the delivery or the affordable housing which was part of the overall purpose. There are various ways to address this. One possibility might be that payments were made not to LAs but to a regulated agency charged with ensuring necessary infrastructure was delivered and making payments to LAs as infrastructure and affordable housing was delivered. In any case developers’ legal positions and rights would need to be protected.

**The level of the charge:** The proposal is for a 20% charge on all new development. That, of course, is up for consideration. Also the estimates of revenues generated do not include revenues from commercial development which should also be included.

4 Would development be in more environmentally friendly locations?

There might be concern that the twin proposals do not provide sufficient incentives to ensure new development is co-ordinated with infrastructure and is designed and located to reduce its carbon footprint and other emissions. The first point to note is that the current system does not adequately ensure this and to a significant extent – because it encourages leapfrogging over the Greenbelt – may exacerbate such environmental costs. One incentive
the proposals would have is that the most accessible land tends to have the highest price, so the £1m threshold would most obviously trigger new development on accessible land. LAs would also be incentivised – because the sales prices would be higher - to pre-emptively allocate substantial areas of land with good accessibility. Funds would also be available for investing in public transport infrastructure. But ultimately the carbon footprint of cities is most effectively addressed not by controlling the location of physical development but the pricing of different modes of transport and of carbon itself.

Paul Cheshire, LSE

*I would like to thank a group of senior planning professionals who wish to remain anonymous for help in drafting this note.

4 March 2016
I will first give an overview of the approach and intention of my two main proposals, summarising them in the context of the questions raised in the communication from the Clerk of the Economic Affairs Committee and Finance Bill Sub Committee of 13th April 2016. I will then try to answer the individual questions.

It has been recognised for a long time now that the planning system, in conjunction with the fiscal and other incentives facing Local Authorities, has not been delivering the housing and other development we need. Sadly the repeated attempts to reform the system – going back as far as 1968 one could argue – have ended up making it successively more complex. It has become so complex and difficult to navigate that it is almost true to say only the largest developers with a history of engagement with the British planning system are capable of getting anything built. The fundamental aim of these two proposals is to introduce a step change towards simplicity, clarity and transparency.

Being a developer is, in any regulatory context, a highly risky activity. It involves making very substantial outlays far ahead of receiving any revenues and, moreover, both the outlays and revenues are not knowable in advance. Decisions have to be made on ‘expected’ values. The more uncertain these flows of costs and revenues are the higher the risk premium the developer will necessarily need for the project to be financially viable. So any changes which make costs or revenues less uncertain or easier realistically to evaluate will increase the number and size of projects that become viable.

One of the tragedies of our system of land use planning is that it seriously adds to the direct costs of the development process and to the uncertainty it entails. Our use of ‘development control’ to make decisions about proposals instead of Master Planning or Zoning means that every development proposal is subject to uncertainty. Permission may not be forthcoming, expensive obligations may be imposed; it may have to go to appeal. Just one example of one of these sources of uncertainty is our use of S106 Agreements. The costs of delivering on these cannot be estimated until their exact provisions are known. Until these costs can be estimated it is not possible for the developer sensibly to decide how much it is worth paying for the site nor what exactly to build on it since the price a house will fetch is partly determined by the character of the neighbouring houses. While big developers have large, expert, departments employed to negotiate their S106 Agreements and have ready access both to the LA Planning Departments and to capital, smaller developers do not have any detailed idea as to what they will be asked to do by way of S106 until shortly – typically days - before going to Planning Committee. This makes it extremely difficult to negotiate to buy sites, to borrow (since Banks require precision) or to get through the planning system.

The two proposals are designed to a) reduce not just the difficulties and costs but the substantial uncertainties associated with getting planning permission and b) transform S106 and CIL into a transparent Development (Land) Charge, the cost of which can be estimated well in advance.
The first proposal is designed to get the allocation of land to respond to price signals (a rich source of information as to where value to the community can be generated and to which all resource allocation in our economy, except land, responds) without losing our ability to safeguard land where there are significant social or environmental grounds for doing so. It is designed also to minimise the need for appeals or adjudication (a process which itself has substantial direct but much larger invisible costs). It would do this because it would create a presumption of development approval provided the price threshold was met and the environmental/amenity value of the land did not justify it being kept in its existing use. I suggested a threshold of £1m because a rough rule of thumb suggests a well located, easy-to-build site involves about £500k per ha in internal infrastructure, servicing costs etc. This implies that if the developer is willing to pay £1m the ready-to-go land is ‘worth’ £1.5m in their judgement: a substantial mark-up over agricultural values which are perhaps £15 to £20k. So there would still be a substantial price hurdle slowing land use change.

Since applying for planning permission (even if proposal 2 were implemented) costs significant resources and fighting appeals costs far more, no sensible land owner or developer (applications could come from either source) would make an application unless they were confident 1) the price of land with permission would comfortably exceed the threshold set and that 2) there was no significant environmental or amenity value attached to the land in its existing use; and equally no sensible local authority or other body would reject or take to appeal a proposal unless they were all but sure conditions 1) and or 2) were not met.

It would take a few test cases for all parties to understand and learn how exactly the system worked but after that the incentives not to make implausible applications and not to oppose plausible ones would ensure almost all applications using this provision got automatic agreement. This would not only greatly increase the supply of buildable land but eliminate a major source of cost in the development process and in its control.

Although the price of land is only really known when there is an open market sale, and these are infrequent, professional valuers can, and do, make reasonable estimates. Similarly there is no exact measure of the value of environmental or amenity benefits generated by land but there is a very great body of research by economists using hedonic techniques which provides plausible numbers and, most importantly strongly suggests that on much land (intensive arable without public access; much former industrial land) these environmental/amenity values are negligible or even, in the case of intensive agricultural land, according to The National Ecosystem Assessment (2011), negative.

Questions (I have followed the structure of your note dated 4 March 2016)
Proposal 1: Translating price differentials into planning practice
- Land values:
  - How has the proposed price differential of £1 million per hectare been determined?
  - Would a different figure (for example permission being presumed on land with a building value greater than £2 million per hectare) achieve the same result?

How the £1m figure was arrived at is explained above. It is inevitably arbitrary and depends on how big a financial obstacle to change of use one wishes to erect. Implicitly, if the rule of
thumb cost of servicing land of £500k a ha is about right, the £1m threshold would impose a significant brake on change of use i.e. a built-in bias in favour of the status quo use of land.

The higher the threshold is set the less land would come within the provisions of this mechanism for increasing the supply of buildable land. In my judgement £1m is about right but £1.5m would still greatly increase potential supply.

- How would the amenity value of land be determined?

There has been much research by economists on this issue. The Barker Report (Barker, 2006, Table 8.2) showed illustrative values but research has improved since then – there have probably been about 1000 decent studies done in the past 15 years including the work embodied in The National Ecosystem Assessment (2011) which evaluated land in different types of use using so-called hedonic techniques. There is a growing consensus about the zero (amenity) value of intensive arable land and the zero value of Greenbelt land (as such) except for those owning houses actually in Greenbelt land. This relates to the designation: much land in the Greenbelt has public access, is significant wild life habitat or provides substantial amenity so the findings of zero value for Greenbelt land as such do not imply that this type of land within Greenbelts is not highly valuable. Findings suggest land used for urban open spaces such as parks or that has a long term guarantee of being conserved has the most environmental and amenity value beyond its (private) market price.

However the point is not to claim an exact valuation for the amenity value of land can be estimated: but a reasonable and soundly based approximation. Since there is such a large amount of land which self-evidently has zero or negligible amenity value it is unlikely that the need to estimate amenity land values would often arise since would be developers would have a substantial incentive not to make applications on any land where it could be argued such values were significant. One of the really valuable contributions of the Barker Reviews was to prove beyond any reasonable doubt that it was not a physical shortage of land associated with our being a ‘small island’ that was the problem but a planned undersupply of land for development. Even within the GLA boundaries 72.4 percent of the area has no building of any type – including roads or railways – and that figure in the South East is 95.3 percent 58

- How would disputes between local authorities and developers on land value be resolved?

By the existing process of appeal via the Planning Inspectorate who would have a revised remit to include these aspects and no doubt when such cases arose both parties would call on expert witnesses. But, as pointed out above, after the system had settled in this should very seldom arise.

- Planning Permission.

  - What would be the nature of the presumptive permission? For example, would it be permission be to build generally, or limited to one type of building or to a number of units?

The presumption would apply to outline permission and details would then be settled in the normal way. No doubt LAs could and might seek to negotiate where they thought that useful. Detailed permission could not be unreasonably withheld.

As set out in my note on *Translating Land Price Differentials and a Development Charge into Practice* para. 2.7, it might be possible to include a provision that applications – even though not for land currently designated for development, should conform to the appropriate provisions of any valid and current local plan or – if such standards were enacted – in the absence of such a valid local plan, to those national standards applying to development in such areas.

- If the local authority and developer agree that a piece of land exceeds the price-differential threshold, and thus permission to build is presumed, what further regulation, if any, is applied to development on the site?

Where appropriate (large scale development proposals) to Environmental Impact Assessment (EIA); and all would be subject to Building Regulations. It would greatly simplify the development process if British practice relating to EIAs could move to that of continental Europe, with EIAs dealt with by the public authority as part of a ‘zoning’ process – i.e. predetermined for categories of location and development.

- Local objections. The Committee has heard evidence that local objections to development are difficult to overcome. What power, if any, would local residents have to object to development, in particular:
  - Would local residents be able to object to the valuation of land? For example if the local authority and developers agreed that development on a local park was permissible (as they concurred the amenity value did not justify it remaining in its existing use) would local people be able to challenge that decision?

The particular case given is implausible since research shows that parks generally have a high amenity value so developers would avoid such sites because of the costs of failure: however in principle there might be a case for allowing a controlled (e.g. a petition of at least 5% of local voters) route whereby a third party (i.e. neither the LA nor the proposer) could take a proposal to Appeal. But they should be responsible for the costs – likely to be significant – of all parties in the case of failure. Again this would provide an incentive which would minimise such third party Appeals against presumptive permission but provide a safety block against abuse such as collusion between a developer and an LA on land owned by the LA such as a park.

- Would local residents be able to challenge the detail of what is built on a site which is granted presumptive permission?

This would be restricted subject to the points made in answer to the first question under the heading ‘Planning Permission’. Of course local residents could bring pressure to bear on members of Local Councils to negotiate with developers to influence change but the presumptive permission subject to relevant provisions in local plans or national standards should be the test. Otherwise there would be a danger of gaining very little from the proposal.

**Proposal 2: development charge**

The aim of this proposal is to keep it absolutely as simple and transparent as possible while avoiding any valuations that could be subject to legal challenge and ensuring that the
incidence of the charge is on the price of land. This last is surprisingly simple since an overwhelming body of research shows that all costs that are imposed on development and the value of all amenities or disamenities that are associated with specific parcels of land, even expected future values of such amenities or charges, are capitalised into the price of land. In the US where Impact Fees are charged it has been shown that they are 100 percent capitalised (and increase the flow of development); I have done research showing that not just currently measured school quality but expected school quality is capitalised onto land values (Cheshire and Sheppard, 2004). This explains why the children of poorer parents are priced out of better schools. In the context of the planning and then delays to the new airport in Berlin, Mense and Kholodilin (2014) have shown that future expected aircraft noise is capitalised into land prices in Berlin. Valuers’ use of residual valuations embodies the principle. So whatever charge is made will be paid for out of the price of land. It is reasonable therefore to call it a Development Land Charge: it will be the land seller who pays when the price of their land increases because it has become possible to develop it. Making this charge as just a percentage on the price of the finished development keeps it absolutely simple, transparent, and easy to calculate and not open to costly challenge.

The Development Land Charge would be applied to all types of new building. In my original proposition (Supplementary Evidence, submitted on 11th February 2016) I said:

4. Revenues raised by the Development (Land) Charge would have to be spent on just three activities:
   iv. Funding investment in any type of infrastructure to support the additional development (including roads and other transport, health, education and training related investment, strategic utilities infrastructure, recreational facilities and areas (e.g. new parks);
   v. Funding affordable housing whether funded directly or via affordable housing providers;
   vi. Funding the LA’s costs of running the planning system.

On reflection I think that there should be a fourth category of allowable expenditure – costs associated with cleansing or re-claiming contaminated land.

The costs of providing the supporting infrastructure, category i), however, should have the first claim on the revenues and to ensure this, developers paying the Development Land Charge should have the right legally to enforce the provision of this supporting infrastructure subject to reasonable conditions to eliminate unnecessary litigation. Local Authorities should be able to subcontract their obligations to a suitable regulated agency or agencies along the lines suggested in the follow up evidence (4th March): “... charged with ensuring necessary infrastructure was delivered and [developers] making payments to LAs as infrastructure and affordable housing was delivered. In any case developers’ legal positions and rights would need to be protected.”

- How has the proposed figure of 20% been determined?
To some extent this is an arbitrary figure but the point would be to set it high enough to provide a real incentive to local communities to accept development and fund affordable housing but at the same time low enough not to discourage land from coming forward and
persuade developers it was worth it because they were ‘getting something for their money’ in the way of a better funded planning system and supporting infrastructure.

In the cheapest region of England, Yorkshire, the average new 3-bedroom build house is 83m².\textsuperscript{59} A Development (Land) Charge of 20% and a construction cost of £1000 per m² would, at 50 homes per ha., mean development would remain viable down to a market price of about £115,000. These are small homes at relatively high densities but Barratts are currently selling new build 3-bedroom houses in, for example, Doncaster at £155,995.

- How would the charge apply to developments that are sold out over a long period of time? Is the charge applied at the point of sale of each unit, or once all units are sold? It should be charged as properties are sold.

- How would the charge apply where land is not sold after development? For example the Committee has heard evidence from developers building homes exclusively to rent and who will own and manage the homes once they are built.

The suggestion in \textit{A Note on Translating Land Price Differentials and a Development Charge into Practice} para 3.2 was that the charge should be raised “in a way which incentivised the developer not to cheat. For example the Development Charge could be set at either the selling price as established by an open market sale on completion or the valuation of the District Valuer plus 5%.” The second of these suggestions would cover the case.

- Is there any potential for local variation to the development charge? No: this is both to protect LAs and prevent the charge becoming distorted as has happened with CIL.

\textbf{General questions}

- Do your proposals apply only to residential house building or to all forms of building and development? They should apply to all types of development and land: for example the threshold allowing a presumption of development permission should apply to land zoned for industry or retail to allow its transfer to, say, residential or hotels; and the Development Charge should be raised on all forms of new building including, commercial development, in order both to provide funds to LAs but also to incentivise LAs to allow development. This is a serious problem. In Cheshire and Hilber (2008) we showed that the restrictions on office supply meant that it cost nearly 50% more to occupy office space per m² in Birmingham than it did in Manhattan while building costs in Birmingham were not much more than half those in Manhattan. We also showed that the introduction of the Uniform Business Rate in 1990 because it eliminated any incentive to LAs to permit commercial development while they still had to provide services had significantly increased restrictiveness with the result of increasing office costs more than any feasible Business rate could have done.

- Are you able to provide an estimate of the increase in building that would result if these schemes were applied as you propose?

\textsuperscript{59} \url{https://www.architecture.com/files/ribaholdings/policyandinternationalrelations/homewise/caseforspace.pdf}
Providing rigorously based estimates would require a major research project and the research design would have to be able to provide an answer for alternative thresholds and Development Land Charge rates: so, no. Some informed ‘guestimates’ of the likely impact on real house prices were offered in my Supplementary Evidence, para 3.ii.

20 April 2016

References
Chichester District Council – Written evidence (EHM0079)

Inquiry into the Economics of the United Kingdom Housing Market
Call for Evidence

Evidence Submitted by Councillor Susan Taylor, Cabinet Member for Housing and Planning, Chichester District Council

1. Limited building capacity in the sector, including building materials and construction workers and inflated land values are major contributors to the lack of supply and affordability. Current house prices in high value areas are unsustainable in the long term due to the widening gap between house prices and wages. Housebuilders will only build if they can sell at prices high enough to make a profit but salary levels do not support the high costs and sufficient profit.

Private Ownership

2. What measures can be taken to increase the supply of reasonably priced housing in the UK? The government schemes, such as Help to Buy Shared Ownership and Right to Acquire deal more with helping people to buy rather than increasing the supply of housing. They have helped fill the gap between market properties and affordable rent but affordable options need to be linked to incomes and affordability rather than market values, especially in rural and high value/low income areas. The Right to Acquire and Right to Buy depletes the existing supply of affordable homes and increases the pressure on housing services.

3. Measures which would help should focus on:
   (i) Increasing the supply of construction industry labour. In the SE there is shortage of skills to build out the houses. As a result the costs of labour have escalated over recent years. Much of the existing labour is attracted by the higher wages in London and local companies have found it increasingly difficult to retain labour.
   (ii) Increasing the supply of materials. Building suppliers no longer hold stock in large quantities, due to cost of storage space and financial inability to stock pile. Bricks & sanitary ware have been in particularly short supply.
   (iii) Restricting the cost of land. The cost of land has escalated in high value areas. It is potentially a safe investment for global investors who often have no interest in developing it out, their only interest is in their financial return. This again is reflected in the sale price of the homes.
   (iv) Ensuring infrastructure and development funding is available at reasonable costs to all developers including small and medium builders.
   (v) Minimising additional costs, including the cost of planning applications, building control and the associated legal costs.
Government schemes:

4. Help to Buy has had very limited impact in high value areas where even with equity loans the properties are still out of reach to the average first time buyer. Shared ownership is no longer as attractive as when first introduced when there was high interest rates and low rents. It is ultimately an expensive way to purchase a property for those people unable to purchase a market home. Few households in high value areas are able to take up the right to acquire. These schemes only try to make purchasing a home more accessible in that it is cheaper than purchasing a market home. They do not tackle the issues of supply and genuine affordability or consider whether the households will be able to sustain home ownership including the associated costs, such as maintenance and repairs or have the capacity to take on the responsibility of home ownership.

Taxation:

5. We need a taxation system that encourages occupation of homes and penalises underoccupation and in particular homes left empty by both UK and foreign investors.

6. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general? The only way to get older people to downsize is to ensure that there are products which are desirable and meet their needs. People living in rural suburban areas will not give up large detached properties with gardens and parking for high density properties with limited parking and little in the way of amenity land. The typical McCartney & Stone 1 or 2 bedroom sheltered flat do not meet this need (evidenced by the very long time both new and second-hand units take to sell). There needs to be more good quality smaller properties with decent size rooms, built with parking in attractive settings. Furthermore there are insufficient smaller properties to meet the needs of young people, older people downsizing and households splitting due to divorce.

7. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty? This will have made little difference in high value areas as the thresholds are too low. The surcharge on stamp duty for second homes and “buy to lets” may reduce competition and make it easier for first time buyers to complete on the market.

Mortgages:

8. Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? There is no evidence that this has had a detrimental effect in Chichester District. It has bought about improved sensible lending. Young people need to be encouraged to save towards the purchase of their first house.
9. Should further changes be made to the rules? The reintroduction of MIRAS for first time buyers would help give first time buyers a fairer playing field when competing against buy to let purchasers. This would be a much fairer way of helping young people get on the housing ladder than the proposed starter homes which will only benefit those buying particular properties at the cost of households with high levels of need.

Planning:

10. Are any further changes to the planning system necessary to increase the availability of low cost housing? No, planning is not the issue. Changes to planning policy create uncertainty for developers and only serve to slow the process. Developers need consistency in policy, they can then allow for the costs in the price they pay for the land. The main issues are that the price of land is over inflated and low cost housing at 80% of market value is not affordable to local people in the south east.

Privately Rented Accommodation:

11. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation? Only where there is a shortage of supply in high demand areas. Speculation in the housing market and lack of alternative investment options fuel the market and increase market rents.

12. Will the current trend of a decline in home ownership and an increase in private renting continue? Yes if the gap between wages and property prices continue! House prices need to be more sustainable in relation to earnings.

13. How can the Government encourage a stable long term rental culture? Encourage the major developers/house builders to work in partnership with corporate investors. Currently house builders generally only build for open market sale. Joint ventures involving private rented sector (PRS) investors only seem to occur on public sector land. Investors such as Legal and General will only consider investing in PRS with a minimum investment of £10million and 200 units. Framework agreements could be facilitated by the Home & Communities Agency, the Home Builders Federation and national housing associations to deliver an element of private rented sector homes on all large sites. This would give a guaranteed capital receipt for the house builder. It is however essential that this is provided as well as the affordable housing so that all levels of housing need are met.

14. In the UK there is a general culture of 6 month short term lets, whereas on the continent much longer term lets is the norm. This allows people to establish themselves in rented homes for example, allowing them to be confident children won’t have to change
schools due to having to move every 6 months or even every few years. The government could take a lead in changing this.

15. There is a need for more student accommodation, as in many of the major university cities much of the cheaper first time buyer stock has been lost to student landlords, as the rental income for multiply student occupants, allows such landlords to bid over and above first time buyers. Purpose built student accommodation would allow such housing to revert to meeting the needs of first time buyers. There is also a need for small bedsit type accommodation for other young single people under the age of 35 as they will in future only be able to claim housing benefit at the local housing allowance rate for a room. Local authorities have a duty to house vulnerable homeless people but will struggle to find them suitable accommodation.

16. **Advantages of restricting rent increases in the private sector** - If rent increases are restricted they can be linked to salary levels in the area to ensure a degree of affordability which will then help retain and attract young working people especially key workers in high value areas. This would have a knock on effect on the housing market and values. Landlords should be able to work out their income and the buy to let market will adjust accordingly. This would possibly take some of the pressure off the market and allow first time buyers to more easily compete. Any restrictions would need to allow an adequate rate of return to continue to attract investment, be simple and straightforward to apply with regular reviews.

17. **Disadvantages of restricting rent increases in the private sector** – may discourage some investors, especially if this resulted in lower house price increases. It could mean that landlords spend less on the maintenance of properties and properties fall into disrepair.

**Social housing**

18. **Are any measures needed to increase the supply of social housing?** Planning quotas for social housing should be retained, especially where they are supported by evidence of need and viability in high value areas. Public funding should be focused on the provision of genuinely affordable homes for vulnerable households rather than subsidising rents through the housing benefits bill.

19. **What will be the impact of the Right to Buy for housing association tenants?** The majority of tenants in the SE will be unaffected as they will be unable to buy. It will enable some tenants to get their foot on the market though some may struggle to both keep up payments and take on the maintenance of their properties. Older people may be persuaded by relatives to purchase their properties with their relative’s financial support but then find they struggle to maintain their properties, without the support of a social landlord and end up being a greater burden on the state than before. The
remaining housing association tenants will become more marginalised and it will be more difficult for them to move as their circumstances change due to the decreasing stock of affordable homes.

20. **What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget?** The biggest impact will be the effect on the development programmes of housing associations. All have reduced their programmes and new affordable rents are being maximised. The mix of tenure in favour of shared ownership has in most cases been adjusted on new schemes. This has slowed down the delivery of housing as registered providers and developers have had to reassess their positions and section106 agreements have had to be renegotiated or amended. On some sites it has proved impossible to find any registered provider to take on the affordable housing quota. This has reduced the supply of social housing, which will be matched by an increase in the number of households on the council’s housing register and more pressure on housing services. Registered providers are also having to reduce their staff and in many cases cutting back on their maintenance programmes.

21. **Are any additional or alternate changes to social housing rents needed?** They need to be linked to salary levels rather than market rents so that they are genuinely affordable to those in greatest needs and in low paid employment and do not serve to prevent people seeking work.

22. **Starter homes have the potential to distort the housing market.** The windfall gain to purchasers after 5 years could lead to high demand, from those who could afford to buy a smaller property or property in a cheaper area. The extra demand may inflate the market value and the scheme will fail to meet affordability issues for local people in high vale/low income areas. The current proposals state that the starter homes should be sold at a discount of at least 20% of market value but it is not clear how the level of discount is determined. In high value/low income areas it could be expected that the discount should be more than 30% but this would mean that starter home purchasers would benefit from a greater windfall in that area and could lead to higher demand in the area, which could result in higher market values.

16 December 2015.
Dear Ms Waller

Please excuse this late note.

One question which it might be worth asking is:

In light of the significant number of existing approved planning applications, would it not be sensible for the Government to incentivise developers to proceed quickly, by requiring that the domestic rates that would be payable had the approved development been built, become payable within a reasonable period whether the approved housing is developed or not.

The background to this is that there are currently approx approved developments in the UK for 485,000 dwellings. Obviously in a market where demand exceeds supply substantially, prices will rise, and a developer only needs to develop and sell enough houses to meet the expenses of running his business.

Yours Sincerely

Cllr John Gladwin  
Chiltern District Council

21 April 2016
SELECT COMMITTEE ON ECONOMIC AFFAIRS
INQUIRY INTO THE ECONOMICS OF THE UK HOUSING MARKET
Evidence from the City of London Corporation
Submitted by the City Remembrancer’s Office

1. London’s housing shortage is the most urgent economic and social issue the capital faces—49,000 additional homes are required each year to keep pace with demand. The Prime Minister has called for a “national crusade” to build more housing. All of London’s local authorities must play their part in this.

2. The inability of the capital to supply sufficient housing has led to problems of affordability for many on low and medium incomes. Research conducted by the City Corporation earlier this year found that even the cheapest 10% of London’s houses were only affordable for the highest-earning 25% of workers. Many of those unable to buy a home are not eligible for social housing, and thus use the private rented sector.

3. The housing shortage is also beginning to put London’s international competitiveness at risk. Research undertaken by London First found that 73% of London businesses surveyed thought that housing supply and costs were a significant risk to the capital’s economy. This was underlined by the experience of employees, particularly those aged 25 to 39. 70% of this group said that the cost of their rent/mortgage made it difficult to work in London, and 50% said they would consider leaving London to work in another region if house prices and rents continued to rise. This implies that businesses in London could find it increasingly difficult to recruit and retain the skilled workers needed to compete internationally.

Local Government Action to Build Housing

4. Meeting the housing needs of the capital requires the commitment and action of all local authorities. In order to help address the shortage, the City of London Corporation has committed to build 3,700 new homes by 2025—its biggest house-building programme since the completion of the Barbican estate in 1976. Some will be social housing, and some will be offered at market rate. The City Corporation will look at all available options to determine how best to reach these figures.

5. 700 of the new homes will be built on the Corporation’s existing housing estates—located across seven London boroughs—by increasing their density. This amounts to a 25% increase in the number of homes on the City’s housing estates. This programme will be funded through planning gain receipts, grant funding, borrowing within the Housing Revenue Account and cross subsidy from market sale of some new homes.
6. A further 3000 will be built on land owned by the City Corporation across London. To achieve this, the City will explore the potential of private financing, joint ventures, and borrowing. This will involve the City Corporation using its close relationship with the financial sector to facilitate partnerships across the private and public sectors to maximise supply.

7. Many local authorities with ambition to develop homes will be constrained by borrowing caps, concerns about the impact of the right to buy and the proposed reduction in the level of social rents.

Planning Changes

8. The measures in the Government’s Housing and Planning Bill that are intended to encourage house-building, particularly on brownfield land, are to be welcomed. The Bill includes some measures, however, which threaten the ability of local housing authorities to invest in new supply, or would deter such investment. The Government has however provided a degree of flexibility in the Bill, which is to be welcomed. It is to be hoped that the Government will be open to using this flexibility in order to accommodate investment plans developed by local housing authorities, especially in areas of particularly acute demand such as central London.

9. Starter homes could be attractive to some employees in London and therefore have a part to play in alleviating the problems caused by the current shortage. The City Corporation will examine the case for including such homes in the housing developments it intends to initiate.

10. The City Corporation broadly welcomes the notion of permission in principle for land identified as suitable for housing in a brownfield register or a local plan. It could play a useful role in encouraging a faster pace of house-building. A proper assessment of the planning implications must, however, await further detail. It is important that the register does not become a means of overriding local policies intended to protect land with a valuable employment function. In the City, such a policy is a vital tool for protecting its position as a leading commercial centre.

11. There is good sense in enabling large infrastructure projects to include an element of housing. A potential difficulty, however, stems from the fact that the nationally significant infrastructure process is not subject to a presumption in favour of local plans. This means that local policies intended to prevent the introduction of inappropriate housing into employment areas could be overridden as part of an infrastructure project. This would be of concern in the City, for reason identified in the previous paragraph.

12. The City Corporation strongly supports the call by the Local Government Association and others to permit local planning authorities to set their own planning fees. In an area such as the City, the scale and complexity of development means that the costs of administering planning applications far exceeds the fees set on a national level by the Government. At a time of severe pressure on local government budgets, this is
reducing local planning authorities’ ability to deal quickly and efficiently with applications necessary to deliver economic and housing growth. In such circumstances an effective subsidy to developers is not justified.

13. Although the planning system can be used to encourage home building, there are other constraints on supply. These include land banking and site ownership and control, poor infrastructure connections between brownfield sites and economic centres, and skills and material shortages in the construction industry.

**Social Housing**

*Right to Buy Extension*

14. In its capacity as a housing authority, the City Corporation is likely to be substantially affected by the Government’s decision to use receipts from the sale of high value. Although the threshold for “high value” is not yet known, it is likely to catch much of the Corporation’s municipal stock, which is in inner London boroughs. The Corporation is a relatively small housing authority and a steady attrition of stock could ultimately undermine its viability. The definition of “high value” should reflect the unusual circumstances of inner London. Given the significant disparity in land values between central and outer areas of the capital, it would not be appropriate for a single threshold to be applied.

15. Any social homes sold under the scheme should be replaced on a like for like basis. Homes are not fungible—the size and location of the replacement homes matters greatly. Any proceeds from sales in Greater London should be retained in the capital for the provision of new housing. London’s housing need is particularly acute, and an outflow of housing provision to cheaper areas of the country would exacerbate the present difficulties, as well as undermining the Government’s ambition to see 250,000 new houses built in London in the next five years.

16. In order to support its own plans to invest in new housing in Greater London, the City Corporation would wish to retain a substantial portion of the proceeds gained from selling high value stock. Otherwise the Corporation’s ability to deliver the investment set out in its Housing Strategy could be seriously undermined. The flexibility provided in the Housing and Planning Bill to agree the local retention of proceeds for house-building purposes is therefore welcome, as is the Secretary of State’s indication that he is open to discussion with local authorities in London.

17. Consideration should be given to some form of exemption for properties built by local housing authorities after the Bill takes effect. The prospect of having to dispose of such properties when they first become vacant would discourage authorities from investing in new housing in high-value areas.

**Mandatory Rents**

18. The Government is legislating to require social housing providers to charge higher rents to social tenants earning above a certain level of income. This builds on the
‘Pay to Stay’ scheme currently operated by some providers (not including the City Corporation) on a voluntary basis. Financial details of the scheme are not yet clear, but current indications are that increased rents will be payable by social tenants with a household income of more than £40,000, with the increase being ‘tapered’ according to the level of income until a market rent is reached. While housing associations will be able to retain the increased rental income for investment in new building, local housing authorities will be required to pay it to the Government in order to assist with deficit reduction.

19. Income deriving from housing owned by local housing authorities should accrue in the normal way to the housing revenue account, where it would be ring-fenced for purposes of local housing provision. The Government’s current proposal for the additional income from mandatory rents to be used by the Treasury for general Government expenditure does not guarantee that it will used to boost the number of homes.

20. The mandatory rents scheme will be complicated to administer. Local authorities do not currently collect information about the income of their tenants, so a new system would need to be set up. Particular difficulties may be encountered with respect to households with fluctuating income, for instance because of self-employment. In the case of a body such as the City Corporation, exercising relatively modest local housing authority functions, it is conceivable that the administrative costs of the system will exceed the additional income that it generates. This is likely to be exacerbated by increased costs for legal action in relation to rent arrears.

21. It is also anticipated that the scheme will encourage an increase in the number of right-to-buy applications from working tenants, which would result further in further reductions in City Corporation’s social housing stock and rental income. For those unable to exercise their right to buy, the scheme may act as a disincentive to work, particularly in London where the £40,000 household income threshold does not represent a high family income.

1% Social Rents Cut

22. The Government’s proposal to cut social rents by 1% per year over the next four years will reduce the investment capacity of local authorities and housing associations, and is likely to have a significant impact on investment in new and existing social housing stock. The City Corporation is expected to have a shortfall in the Housing Revenue Account in the region of £3 or £4 million over the four-year period as a result of the policy. Analysis by London Councils estimates that London as a whole could see a cumulative loss of approximately £800 million in cash terms to HRA business plans over the four year period.

City Remembrancer’s Office
17 December 2015
The CLA represents landowners, farmers and other rural businesses. We represent over 33,000 members who own and manage more than half the rural land in England and Wales. Our members play a vital role in delivering rural housing and own almost 40% of rural rented accommodation.

**Today in Britain we have a housing crisis. But in rural communities where delivery of new homes has historically been low the shortage of affordable homes has reached breaking point, affecting the sustainability of our towns and villages and the health of local rural economies.**

If we are to create truly affordable housing in our rural areas, we need to look at new and current mechanisms of building homes, of all tenures, to support our communities. Only through increasing the supply of new homes will we create a functioning market that keeps rents affordable and ensures the provision of homes.

Landowners are instrumental in providing the land needed to increase the amount of housing stock available, especially social and affordable homes through housing associations. They want to get on and build the homes we badly need and do so in a way that is of the right scale and design for our rural communities.

CLA believes that in order to ensure the provision of social and affordable homes that underpin the fabric of rural communities, more must be done to encourage the use of Rural Exception Sites which have been instrumental in delivering affordable homes in our countryside.

**Introduction**

The CLA is committed to ensuring the long term success of the rural economy. An acute shortage of housing constitutes a threat to the continuing economic vibrancy of rural communities and businesses. The shortage of affordable housing is particularly pronounced with only 12% of all housing being affordable compared to 20% in urban areas. The answer to the housing crisis in rural areas however is not to devote all efforts to one tenure, but to offer a range of tenures that are appropriate to the community.

The Matthew Taylor report ‘A living working countryside’ published in 2008 identified land supply as a barrier to increased development. While large sectors of England’s property market experienced reduced returns and scaled back development programmes in the wake of the economic downturn, CLA members have seen the price of some farmland rise, meaning CLA members have seen an increase in borrowing capacity. This ability to borrow puts landowners in a unique position to increase housing provision in rural areas. There are a number of disincentives that prevent or dissuade landowners from developing housing themselves or making land available for housing of different tenures. These are discussed in this document, with recommendations suggesting how landowners can play a greater role in solving the rural housing crisis.
Are changes to the planning system needed to increase the availability of low cost housing?

Rural Exception Sites provide a steady supply of affordable rural housing, they are small sites used for affordable housing in perpetuity on land that would not normally be used for housing. Recent Government statistics show that in 2013/14 1,642 homes were provided on such sites. This is a good rate of delivery when one considers the total number of new build social rented housing association properties completed with developer contributions under Section 106 of the Town and Country Planning Act 1990 was 1,696. While it is preferential to deliver affordable housing in mixed developments, the acute shortage of this tenure in rural areas should be a sufficient reason in itself to identify ways to get more Rural Exception Sites coming forward for development.

As part of the Taylor Review, the Royal Institute of Chartered Surveyors (RICS) surveyed landowner’s attitudes to releasing land for affordable housing and encouragingly found that just over a third would be willing to do so. Furthermore, the report also identified the following reasons that others were reluctant to do the same:

- Landowners were concerned the properties would not stay affordable in perpetuity and someone else would benefit financially from their generosity
- There was an expectation that land values would significantly increase if the land became available for open market development in the future
- Concerns that the local community may be opposed to any development
- Limited options to nominate or retain a small portion of the housing units developed to cater for family or staff needs.

The process for nomination rights is currently determined on a case by case basis between the landowner, the Local Authority and a registered provider, and there are some excellent examples of the process working well. However there are also Local Authorities who are not engaged in this process and are thus ignoring a possibility to incentivise more landowners to bring additional sites forward. We would suggest that having clearly set out national guidance would make the process clearer and would help to bring additional sites forward for development. To encourage more landowners to provide more sites for exception sites we would propose the following:

- Landowners should have the right to nominate tenants through a referrals system for up to 33% of the affordable homes where the properties are either funded through grant by the Homes and Communities Agency, or funded by a housing association, or a combination of the two
- Landowners should have full referral rights where they also fund the delivery of housing themselves provided that the houses remain affordable in perpetuity through a Section 106 agreement
The nomination process would have to ensure that anyone nominated by the landowner satisfies the local connection test outlined in the Housing Act 1996. By ensuring this, we envisage that there will be greater support from the local community as they will directly benefit.

There are two other points identified in the survey that are now pertinent as a result of the Government’s new Starter Homes programme. As the Government set out in its Rural Productivity Plan, it is intending Starter Homes to now be permitted to be built on Rural Exception Sites contrary to previous statements when it said Starter Homes were not appropriate on Rural Exception Sites. Although the initial sale of Starter Homes will be in line with local connection tests, there is no compulsion on any future sale of the properties. In our opinion this means that following the initial five year term during which the properties cannot be sold, it is likely that the homes will be sold to those without a local connection and at a significant profit to the initial purchaser. Not only does this raise the obvious question of why a landowner would offer land at a discount if someone else is going to make a large profit on their generosity, but it is also likely to weaken community support for any future Rural Exception Sites as the properties sold could be occupied by those without a local connection and potentially used as second homes. For this reason, we would encourage the Government to revert to its initial decision and not allow Starter Homes to be built on Rural Exception Sites.

‘Sustainability’ of villages

Planning authorities are sometimes reluctant to grant planning applications for housing in small villages if they do not have or have recently lost local services like bus stops and post offices, as they deem them to be ‘unsustainable’. This fails to account for the changing society in which we live where shopping and banking services can be done online; people can work from home remotely and we are all better connected. Any policy that ignores the changing ways we live and work ultimately reinforces the likelihood that small villages will disappear in the future and is a rather crude and inflexible policy that needs addressing.

The National Planning Practice Guidance makes it clear that “housing should be located where it will enhance or maintain the vitality of rural communities.” We believe that planning authorities need to apply greater flexibility when assessing access to services in order to maintain villages that may have already lost some or all of their own. The proximity of other villages and market towns where services are available should have a greater bearing on the planning authorities’ decision making than is currently the case. We would propose that when determining whether a small village is ‘sustainable’ or not, it should be a requirement for a village audit of facilities to be carried out using village/parish plans, this should account for the amenities available in the wider area, not just the village itself.

Is there a case for restricting rent increases in the private rented sector?

We do not consider it necessary or prudent to restrict rent increases in the private rented sector. Any interference with rents is likely to have unintended consequences, especially on the rural private rented sector where properties are more frequently tied to employment. As the graph below illustrates, while there are pressures on rents in London and the South
East, it is not reflective of the PRS nationally, and policy makers should be wary of the impact of introducing national policy to address regional trends.

The PRS is not a homogenous market, rather a patchwork of sub-markets that vary from region to region, and in urban areas, from post code to post code. Furthermore there are distinct markets within the PRS that cater for different occupiers. In her review of the PRS Julie Rugg identified ten distinct PRS markets, including young professionals, students, the housing benefit market, slum rentals, tied housing - which still has an important role in some rural locations, high-income renters, asylum seekers, temporary accommodation, and regulated tenancies, which are a dwindling portion of the market 60.

The pressures on rents are derived from a lack of supply within the PRS market, but also the difficulties experienced accessing home ownership. These two factors have increasingly brought the different tenant sub-groups into competition for properties that are affordable and in the right areas for employment. Increasing the supply of PRS properties and other tenures is the only long term solution for cooling rents in high pressure areas. Interfering in the market, particularly in light of the recent measures introduced on mortgage interest relief and stamp duty could result in landlords leaving the sector, further limiting the supply of PRS properties.

13 January 2016

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60 The Private Rented Sector: its contribution and potential, Julie Rugg and David Rhodes, 2008
61 Private rental market statistics, England only, June 2014
Community Voice on Planning – Written evidence (EHM0058)

Submission to the Economic Affairs Committee of the House of Lords inquiry into “The Economics of the United Kingdom Housing Market.”

1. Increasing reasonably priced housing requires two things – building the right types of homes and building sufficient homes in the right places to reduce prices to affordable levels.

2. Building the right types of homes:

   2.1. As Martin Wolf said in the oral hearing on 1 December, “the business model for volume developers is margin driven not volume driven” and by building fewer larger homes, it is easier to maintain margins.

   2.2. Local Planning Authorities are encouraged to approve large developments which include provision for the infrastructure required, but the developers respond to market demand and to maintain margins will restrict the scale of development on any site to something in the range of 100 homes per year. This means that a site approved for 1500 homes could take 15 years to build.

   2.3. There is much anecdotal evidence from around the country that many retired or semi-retired people would like to downsize but find it impossible to buy the kind of home that they want (similar sized rooms, small garden and 1-2 bedroom bungalows), yet developers are building more smaller scale homes with smaller rooms (less space for walking frames or wheelchairs) on 2-3 floors. An incentive to build “downsizer” homes would free up more family homes to the market, increasing supply and reducing prices to the “reasonably priced” levels that families need.

   2.4. The Local Government Association said that some means of enabling more housing building is vital to building the 230,000 new homes the country needs each year as private developers have not built more than 150,000 homes a year for more than three decades.

   2.5. Starter Homes are designed to help to increase the supply of the right type of homes for young couples but may actually exacerbate the problem. Land prices may rise as the costs of the starter homes discounts to builders will be less than their current s106 or CIL contributions, thus increasing perceived margins and encouraging landowners to increase prices.
2.6. Housing associations will build or buy affordable homes but need government
stability to give them the confidence that policies will not change and alter their
business model. The recent announcements about Right to Buy coupled with the
government imposed rent reductions by one per cent annually for the next four
years announced in July and possible reductions in tax credits have had a significant
impact on their level of confidence and their ability to continue expanding.

3. Building sufficient homes in the right places to reduce prices to affordable levels:

3.1. The “right places” are enablers to

“building a strong, responsive and competitive economy, by ensuring that sufficient
land of the right type is available in the right places ... including the provision of
infrastructure;” NPPF paragraph 7. This means building homes where jobs exist to
reduce the carbon impact of development and balance the environmental effect.
Homes should be built which enable people to use public transport or cycle or walk
to work. For a large part of the population of England this means London and the
South East. Given the pressure on the green spaces in this part of the country, this
means a significant emphasis must be placed on building on brownfield sites and
building close to areas of employment or transport hubs.

3.2. Unfortunately brownfield sites cost more to develop and therefore margins on the
sale of new homes on these sites are reduced. We know that major construction
companies are driven by a strong profit motive for their shareholders and will
therefore prefer to build on green field sites when possible. They must be
incentivised to build on brownfield first.

3.3. According to Government data, 242,000 houses were given planning permission in
the year up to June 2015. Housing starts and completions, however, show no sign of
coming close to matching this number. In fact, quarterly statistics on how many new
homes have started construction show that building rates have been static since the
beginning of 2014 (around 136,000 per year) whilst the data shows completions are
currently at 131,000.

3.4. The five year housing target in paragraph 47 of the NPPF is designed to encourage
speed of development but in fact it incentivises developers to slow works to more
than 5 years thus reducing the supply and enabling them to target sites that would
not otherwise be available. The law states that LPAs must approve enough new
planning applications to meet the “Objectively Assessed Need for Housing” for the
next 5 years. If they don’t, then the developers can appeal against any refusal for
planning to a planning inspector who will approve them, because the SHMAs say we
need them. This topic was considered extensively as part of the Communities and
Local Government Committee report into the Operation of the National Planning Policy Framework:

3.4.1. Paragraph 7 “A particular concern about unsustainable development was that planning permission was being given to substantial housing development on the edge of towns and villages, as a result of ‘speculative’ applications by developers. These applications used the provisions in the NPPF to target sites that had not been allocated for development or were unlikely to be allocated. It appeared that these developers were taking advantage of the absence of the local plan and five year supply of housing land to seek planning permission, often on appeal, in areas that local communities did not consider suitable for development.”

3.4.2. Paragraph 62. “A particular issue appears to be the qualification set out in a footnote to paragraph 47 of the NPPF. It states that to be considered deliverable and thus to be counted towards the five year supply “sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable”. It adds that sites with planning permission should be considered deliverable until permission expires “unless there is clear evidence that schemes will not be implemented within five years, for example they will not be viable, if there is no longer a demand for the type of units or sites have long term phasing plans”. ..

3.4.3. Paragraph 63. “First, some sites could not be counted because they would take longer than five years to build out. The RTPI referred to a proposed new town in East Devon, which the council had driven forward because it considered it preferable to the alternative, “a proliferation of small scale village extensions”. The RTPI noted, however, that any housing built on the site after five years could not be counted towards the five year supply, “despite the fact that the settlement will take longer than that to be completed”. This situation gives us cause for concern. If councils have clearly identified substantial amounts of housing in their plans, it is unfair that their communities should be left exposed to speculative development just because these sites will take longer than five years to deliver.”

3.4.4. Paragraph 68 “… In our view, the footnote to paragraph 47 has had a disproportionate impact. By restricting when sites with planning permission might be counted, and thereby removing from some authorities the protection of a five year supply, it has opened the door to unplanned and unwanted
development in communities across the country. This development is undermining confidence in the NPPF itself. It is important that the Government looks again at the wording of this footnote. We recommend that the Government amend the NPPF to make clear that all sites with planning permission should be counted towards the five year supply of housing land.”

3.5. One idea from the Government is the Land Value Tax – as Martin Wolf said in the oral hearing for this inquiry on 1 December 2015, “there are very powerful interests that don’t want this to come into effect” but it is crucial that developers are encouraged to build on sites that have approval as quickly as possible. If this type of tax does come into effect then it must be designed to encourage a reduction in land banking without increasing the price of land.

3.6. There is a general consensus that current housebuilding rates are below what is required. It is frequently argued that the main constraint is the planning process and that the amount of land that is released for development in local plans is inadequate. It is assumed that housebuilders would be able to build more if there were less regulation and more land to choose from. Yet the percentage of planning permissions being granted by local authorities has remained steady and is currently at around 88% of applications.

3.7. Annual reports from all major construction companies suggests that permissions are being granted at a faster rate than completed homes. Yet profit levels continue to outperform other types of companies and have increased substantially in recent years.

3.8. Given the continuing growth in house prices, property is a commodity generating more income than most other investments. We support changes in government policies to reduce the incentive to buy-to-let or buy-to-leave as capital investments. This should create a situation where “homebuyers” have greater access to the market.

3.9. The Communities and Local Government “Glasgow” Report demonstrated clearly that developers were slowing down build-rates to maintain margins and obtain more planning permissions [CLG Housing Markets and Planning Analysis Expert Panel, “Factors Affecting Housing Build-out Rates” A report by Professor David Adams and Dr Chris Leishman 2008]. Our members around the country can all provide anecdotal evidence to show that this is still happening. Developers argue that the time it takes to get permission is taking too long, we would argue that covering more Green Belt, green spaces and other green fields with building is reducing a primary resource of the small country and should not be done lightly. We
all know that we need more homes, which are affordable to the younger generations, but believe that this could be tackled by building starter homes (with the necessary infrastructure) close to areas of employment and building more bungalows and retirement flats for downsizers in all parts of the country. Investment homes which may sit empty or may be used as second homes are not the answer.

4. Objectively Assessed Need:

4.1. The Objectively Assessed Need (OAN) for housing in many parts of the country suggests that the number of homes should increase by at least 40%. A large part of the “need” defined in many parts of the country relates to inward migration, yet we can find no record of any study adding up all this inward migration to see if it relates in any way to the overall government migration targets, or any part of the country which is forecasting outward migration. Many SHMAs are based on forecast employment growth figures, but once again, we can find no record of any study adding up all this employment growth to see if it relates to any government target. This lack of evidence for employment growth and inward migration means that many local communities around the country are very distrustful of the figures on which the housing targets are based.

4.2. The OAN figures are based on aspirations, yet the housing targets for each LPA are cast in stone. The regional targets set under prior planning law were equally ambitious and were also not achieved, but permissions (in addition to those already in existence) are still being granted on Green Belt, green spaces and other green fields. This means that even if the jobs don’t materialise, the planning applications for homes will continue to be approved. We would be more supportive of upper and lower limits which are proven over time. Housing Targets should be set for 5-6 years and approved sites should be measured against them (this should include all sites approved not just those that a construction company chooses to release). Targets would only be set for further periods when evidence exists that the figures on which the Objectively Assessed Need is based are happening (demonstrated by additional jobs, inward migration and any other factors). This would eliminate spurious projections and ensure that forecasts and targets are based on proven facts, not overly ambitious targets.

5. Community Voice on Planning

5.1. Community Voice on Planning (CoVoP) is an alliance of campaigners’ groups throughout England. Many of our member groups belong to local regional alliances or act as umbrella groups. There has been a proliferation of protest in response to
the Local Plan process and this has accelerated and increased since the NPPF came into force. During the last two years many groups recognised the need to work together to present a stronger voice for those communities that feel ill-served by the NPPF. Our members are activists, but it should be borne in mind that they are also representative of the views of others who are less confident of speaking out. CoVoP was formed to provide support to all of the groups campaigning against the way in which the operation of the planning regulations is resulting in disproportionate developments of the wrong size, in the wrong locations, and without the necessary infrastructure of roads, hospitals and schools. It has represented its affiliates’ views in the national arena, including at the Communities and Local Government Committee inquiry, and to the cross-party consultations on planning organized by Greg Mulholland MP.

14 December 2015
Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

1) Right to Acquire discounts range from £9,000 to £16,000 depending on the location of the property. This is significantly less than the average discounts offered to social housing tenants under Right to Buy (£65,140 for local authority tenants in 2014/15 and £54,920 for housing association tenants). Significantly larger discounts under Right to Buy are also reflected in higher take-up. In the last three years, there have been 40,603 sales through Right to Buy and only 770 through Right to Acquire. This is out of 3.92 million households in homes rented through a housing association or local authority.

2) Whilst beneficial for the proportion of social housing tenants able to access mortgage lending and purchase their properties, Right to Buy and Right to Acquire take lower-rent homes out of the social housing stock. Despite the aims for 1:1 replacement of every Right to Buy home sold, in England there has been only 1 start for every 9 homes sold since 2012. In some districts of England, there have been no Right to Buy sales in the last three years, notably in Merseyside. It is unclear whether this is due to affordability or eligibility after council housing stocks were transferred to registered providers.

3) For other schemes such as Help to Buy and Shared Ownership, purchase values are directly linked to open market values. Purchasing a property through these schemes improves access for potential purchasers who may have been locked out of the housing market previously, due to high deposit requirements, but the schemes do not reduce the cost of borrowing, stamp duty or ongoing mortgage repayments. The Help to Buy equity loan was introduced in 2013 Q2 and since then, house prices in England have risen 22%. Furthermore, it is difficult to ascertain whether the scheme has helped additional purchases to be made or whether it has simply brought forward purchases that would have been made anyway. In either case, it represents an increase in effective demand, which may be pushing up house prices and reducing affordability.

4) The Starter Homes initiative is likely to exempt private sector developers from providing affordable housing or other social contributions through Section 106 and
the Community Infrastructure Levy. This means that homes for affordable rent and social rent that would have built through these routes will, most likely, simply be replaced by activity to build Starter Homes. Furthermore, with Starter Homes there is no recycling of government grant as purchasers are free to sell the property at market value after five years, capitalising on the original discount and any additional price gains themselves. Again, the increase in demand this brings is likely to raise house prices against the aim of making housing more affordable. The potential for purchasers in London to combine the 20% Starter Homes discount, 40% Help to Buy equity loan and £3,000 Help to Buy ISA bonus means government subsidy would be underpinning 53% of the purchase.

Social housing: Are any measures needed to increase the supply of social housing?
a. What will be the impact of the Right to Buy for housing association tenants?
b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

1) Extending Right to Buy to housing association tenants will lead to a reduction in rental revenue, which is used by housing associations to secure borrowing. Lower rental revenue streams risk reducing housing associations’ borrowing capacity and credit ratings agencies have assessed this as negative. For housing associations, credit risk may be mitigated if they receive full compensation for the value of the property sold off, but it has been mooted that this will be funded by local authorities selling off their highest-value properties as they become vacant – thus reducing the social housing stock.

2) The reduction in social rents is a clear benefit for social housing tenants. However, for housing associations, local authorities and other registered providers, it represents a further decrease in rental revenues and borrowing capacity. In addition, up until the July Budget, housing association business plans had been based on a ten-year settlement of rent increases of CPI + 1%. 90% of the funding allocated for Help to Buy Shared Ownership in the Autumn Statement (£4 billion for 135,000 homes) is assumed by the OBR to go to housing associations, which implies the majority of Shared Ownership homes will be built by housing associations. However, like Starter Homes, capacity constraints suggest that this construction of Shared Ownership homes will displace construction of homes for affordable or social rent.

17 December 2015
Evidence for Inquiry into the Economics of the United Kingdom Housing Market

1). Credentials.

I have been working to promote Cohousing in the UK for over 15 years. I was a founder director of the UK Cohousing Network and am now a director of Cambridge Cohousing Ltd.

2). Streamline the planning system.

The fundamental reason house prices are high is that the UK population wants more houses than there are available. It is a simple demand and supply situation. If enough new houses were built the prices would go down. There is no other reliable way of doing it.

A large contributor to the problem is the restrictive planning system presently in force. It is so expensive and slow to get planning permission it pushes all individuals and companies on a limited budget out of the house building market. This allows the large house builders to dominate the market and they play tricks such as land banking to restrict supply and thereby force house prices up. It also contributes to the extremely undesirable situation we have in the UK where only a tiny proportion of new houses are owner commissioned.

Cambridge Cohousing has had to spend of the order of £250 000 to draw up its planning application. This is a huge amount of money to spend on a speculative basis to get permission to build on a plot of just under 1 hectare. It has only been possible because of the enormous determination of its members to build a better housing system, and the dedicated work of a few key supporters. Much of this effort and expense would not have been needed if the planning system was simpler.

3). Remove Stamp Duty Land Tax.

Stamp Duty Land Tax (SDLT) presently taxes the wrong thing! By taxing the purchase of a house the government is making it more difficult for home owners to move. It is very important to make it as easy as possible for people to move as their life circumstances change. For instance changing jobs often forces people to move, but more often people just put up with a longer commute because things like SDLT, make it too difficult to buy a house closer to their new work. This is bad for numerous reasons such as increased road traffic, reduced national productivity and distortion of the housing market. SDLT should be replaced with a tax on land ownership. It is the ownership of land, not the purchasing of land, that forces up house prices. Land banking is presently an attractive option for a select few because the low cost of on-going ownership means they can afford to wait for the value of their land to go up. If SDLT was replaced with a tax on on-going land ownership it would free up land on which more houses could be built and increasing the supply would be most helpful for limiting the excessive house price inflation we are presently experiencing.
Robert Copcutt. BSc. PhD.

16 December 2015
Crass HMG 'CIL' policy will ensure ever higher UK house prices

1.0 The rush to adopt 'CIL' (ie. Community Infrastructure Levy, 'CIL') by many councils across England is, on average, adding £25,000 per new house, on top of planning fees and even before any footings are dug. This 'legal extortion' will now severely limit all politicians desires to build more homes on small 'brown-field' sites. House prices will continue to rise inexorably, since nobody can take huge losses and remain in business so that 'CIL' cost will simply be passed on to buyers making housing more 'un-affordable'. More small developers will 'go to the wall' and the average home seller (ie. joe public) will very soon realise that their local existing home floorspace cost per sq.M (ie. using their own local council CIL cost/sqM), could simply be determined and then added on top of their own estimated future home sale price when they eventually do decide to move, thus raising uk house prices even further. Thats a free 'monetary gift' being granted by HMG. An obvious unintended consequence of 'CIL'.

1.1 'Brown-field sites' usually already have local infrastructure nearby and as such building there makes far more efficient use of it, so why charge an 'infrastructure levy' on small 'Brown-field sites' at all? Those sites usually cost more to clear, ready to be built upon and yet 'CIL' takes no account of this extra cost whatsoever, and there is no proper appeal process, you must simply pay the council up front. Does that sound a little too draconian to you? Do you now believe any politician will ever reach their housing targets? Of course not, 'CIL' must now be repealed ASAP in its present form for small 'brown field sites' (ie. 10 homes or less) or everything will now inevitably be built upon 'green field' sites and small developers will no longer exist. The big boys can then set the price and we all know that monopolies always raise unit costs.

1.2 'Self-Builders' are now also caught with 'CIL' charges hanging over them, with a direct charge being placed on their house deeds should they ever wish to move within 3 years of build completion, is that really progress in house production? I don't think so! HMG must urgently think again! What if the 'self-builder' has to move for a job or gets divorced and has to 'sell up' withing those 3 years. No proper account of this is being taken into consideration either, so more problems are being created.

1.3 Arbitrary housing targets are now being rendered complete nonsense when ignoring the effect of 'CIL' on new home prices. Strange how not one politician has even acknowledged the undesired impact of the massive overhead introduced by 'CIL'. What they want and what they get will now be miles apart! In my opinion, 'CIL' has afar more long term damaging effect upon government housing development than all those 'buy-to-letters' that many believe are making things harder for 'first-time-buyers'. They need to urgently sort 'CIL' out or HMG will never ever meet their housing targets.

Alan Cotterell
1.4 PS. I have even spoken to Ben Gummer, my local Ipswich MP on this matter and I received feedback from Brandon Lewis, minister in the C&LG and unfortunately they all have their heads in the sand! Bring back Section 106 agreements! NOW! I had hoped to build a few new homes on my land but now I have been totally deterred ie. four homes on a small brown-field site = 4 x £25,000 =£100k, all upfront before I even begin any build, paid directly to my local council? its nuts! There’s very little profit left for all of the effort involved! Therefore NO new homes, all due to HMG’s crass ‘CIL’ policy. Houses will now simply continue to rocket in price!

16 December 2015
TUESDAY 1 MARCH 2016
3.35 pm
Witnesses: Mr Paul Smee and Mr Stephen Noakes

Examination of Witnesses

Mr Paul Smee, Director General, Council of Mortgage Lenders, and Mr Stephen Noakes, Director of Mortgages, Lloyds Banking Group

Q178 The Chairman: Mr Noakes and Mr Smee, good afternoon and thank you for joining us. You heard at the tail end of the previous session that lack of finance for small builders was identified as a key problem. Mr Noakes, how has your lending to SME builders developed over the past decade? We have seen a significant shrinkage in the number of SME builders, and we have heard today and from previous witnesses that lack of finance is a serious issue for them. How has your loan book developed over the past 10 years, and what are the factors driving it up, down and sideways?

Mr Stephen Noakes: I am happy to answer that, but before I start I should confess that I look after the retail mortgage business. Clearly, I am aware of some of the broader group activity, but it sits outside my domain. Leaving that to one side, in our lending to the major housebuilders we support 33 of the top 100. Since the financial crisis we have seen a number of them change the way their balance sheets look. They have strengthened their balance sheets, but we still have about £2.3 billion of lending to the major housebuilders.

To answer your specific question, lending to SMEs has been a challenge collectively, not just in the housebuilding sector. Over the last year we increased our net lending to SMEs by 5%, and by 25% over the last five years. We lend to small housebuilders, so it is an area that we continue to drive forward. To give you the broader industry numbers, last year when we were increasing by 5% the industry was broadly flat, and over the five-year perspective when we have grown by 25% the industry has been in negative double digits. There are broader challenges.

Listening to the conversation with the previous panellists, one of the key challenges that SMEs in particular face at the moment is working capital. There is no doubt that the time to
get planning has been extended, and that requires greater working capital. It was for that reason that Lloyds, together with the Government, launched the housing growth fund. I do not know whether it was mentioned in the earlier session. It is £100 million of equity finance available to SMEs that have been building between 10 and 100 units over the past three years; they have a track record but they need extra equity finance to build expansion, because there is no doubt that debt alone is inadequate to move them forward.

The Chairman: Would you like to add anything to that, Mr Smee?

Mr Paul Smee: No.

The Chairman: It is not really your parish.

Q179 Lord Layard: I want to ask about the problem of local authority building, because that is the area that has fallen most of all. What is your attitude towards lending to local authorities for housebuilding, and what do you see as the problems involved in that?

Mr Stephen Noakes: We would be supportive of lending to local authorities. We are one of the larger lenders to housing associations, with £13.5 billion of lending to that sector. Local authorities tend to present in different areas—those with cash available and those that are more challenged in the level of assets they hold.

Going back to the time when we were probably building between 200,000 and 250,000, there is no doubt that local authorities were much more active. One of the questions the Committee put to one of my colleagues, Andrew Bester—I think he provided written evidence; I am not sure whether you have yet had sight of it—was whether more could be done to support local authorities without it acting as another burden on public sector debt. There are some options that we would be keen to explore. Typically, if you are into off-balance sheet funding, you need to find some type of joint venture party that acts outside the local authority but works very closely in conjunction with it. There are schemes available.

The high-level message is that Lloyds was itself involved in sponsoring a housing commission about 12 months ago. We published a report. We had two former Housing Ministers from each side of the House, Nick Raynsford and Mark Prisk, helping us on that. The key conclusion was that there was no one silver bullet for getting to between 200,000 and 250,000; everyone needs to play their part.

Going back to the earlier session, the SMEs need to step up more, and we need to find ways to encourage more self and custom-build and get local authorities building again. We need to do all those things to get to the 200,000 to 250,000. There are options for local authorities, but we will have to be creative collectively in finding solutions.

Lord Forsyth of Drumlean: Would it not be much more expensive for local authorities to borrow commercially than they can borrow themselves on the market? Is it not going to add to the cost?

Mr Stephen Noakes: Depending on the structure, I do not think it is, necessarily. One of the areas that we might talk about further on in this session is self and custom-build. Local
authorities can play a very important role in that area. One of the challenges in self and custom-build—we are probably one of the few majors that support that sector—is that numbers are tiny. It is tough to get market data, but there are probably about 10,000 completions. It is not even 10% of national production at the moment, whereas you will probably be aware that it is a much bigger part of new-build construction in continental Europe; it is pushing up to 40%.

From a lending perspective, at the moment it is a difficult proposition. Much of that 10,000 presents a bit like Kevin McCloud’s programme “Grand Designs”. Typically, at the end, Kevin asks people whether they ran to budget, and the answer is usually never and that normally it took longer.

Lord Forsyth of Drumlean: I could never understand how they ran out of money, yet at the end of the programme the place was palatially dressed with every conceivable gadget.

Mr Stephen Noakes: The reason for that is because it is a sector in the UK that plays only to the affluent and to those who can afford to overspend, but as a lending proposition it is quite difficult because you do not have certainty on time and cost. Typically, we and the rest of the industry—probably the smaller building societies in this case—will cap out at probably 75% loan to value. That is almost impossible for prospective first-time buyers who want to self-build or custom-build; the opportunity is for another party to play the role of developer and take out that risk.

The Government are trying to encourage local authorities on the right to build. They have to survey the local area and determine how much interest there is, but they could go further and do the early stage of development. If we are working in a situation where we have agreed an approval in principle to the prospective first-time buyer—the self-builder—local authorities could develop on their behalf. That is a model that we could actively pursue.

Q180 Lord Forsyth of Drumlean: To what extent are you concerned about the impact of Basel III and the changes in the risk-weighting of lending for housing and development purposes? Obviously, the bigger banks may have their own standardised model, but what about the sector as a whole?

Mr Stephen Noakes: Indeed. Without getting into the intricacies, there is always something planned in the capital regime. Paul can probably touch on that from a broader industry perspective, but I do not see that it would create undue obstacles or barriers to encourage each of the individual sectors of the housing market to step up their game. If we are to be successful in getting the 200,000 to 250,000 new starts, we need a number of actors in the market to play their part. I do not think the potential changes in capital regime should influence any of those individual abilities, but it will require some resolve and a degree of creativity.

Mr Paul Smee: One of the problems we have with the capital regime is that it is not quite clear. We have been seeking clarification from the European authorities about how they see the regime applying for self-build and custom-build. We have not had an answer yet.
More widely, I would like to see more of the CML membership joining Stephen in developing their appetite for self-build and custom-build. We are having increasingly productive discussions with a wider range of lenders than those that have been traditionally involved in that market, but it is a slow process to get critical mass in this area.

**The Chairman**: You referred to the letter we received from your colleague. We received a number of submissions from banks with a wide variety of ideas. One consistent idea was about developers working with local authorities, with the local authorities contributing the land and developers then taking forward the project. Presumably, it would be structured in such a way that the borrowing the entity would take on would not fall within the PSBR. Does Lloyds do that sort of project financing? Is there a demand for that kind of project financing?

Another bit of evidence that we have heard consistently is that the amount of undeveloped land owned by the public sector, be it local authorities, the Ministry of Defence or the NHS, is quite enough for building 2 million homes over the next 10 years, according to the Lloyds report, which would be a tremendous outcome. Do you see any demand from that type of entity to get to grips with large numbers of houses?

**Mr Stephen Noakes**: At the moment, probably no. There is limited demand, but it is one of those areas where collectively industry needs to get together to demonstrate how the model could work. In many instances, local authorities are desperately keen to play a part, but they are not 100% clear about how that could work out. We probably need to do more on role modelling and help to provide some guidance on how that could move forward.

On your point about public sector land, perhaps I might pre-empt one of the questions you might ask me. If I had a wish, it would be about the use of public sector land and relaxing the criteria at the moment to get the best market value from it, because the other challenge we face, in addition to volume—there is a lot of discussion about the volume of housebuilding—is affordability. Irrespective of tenure type, whether rental, home ownership or whatever it may be, one of the key challenges that we face today is affordability. To address affordability, you need to find a way to put subsidy in the system. Clearly, in the current economic period that is challenging, but public sector land, which is more of a balance sheet item, would be a good solution if there was a view to change that policy.

**The Chairman**: It seems to be an opportunity for ingenious bankers.

**Mr Stephen Noakes**: Indeed.

**Q181 Lord Turnbull**: If I may come to mortgages, life is a lot tougher than it was in, say, 2006. Gone are the days of the 125% mortgage, or whatever it was. People are talking about 75% loan to value. You also have to know your customer and estimate whether they can still pay the mortgage in some kind of stress-test situation. Some very interesting figures have been provided by the Financial Conduct Authority. Back in the good old days of 2006 there were about 300,000 applications, of which 10,000 were refused; in January 2015, there were 150,000 applications, of which 50,000 were refused. The rate of refusal has gone up quite substantially. Is that recognition that there was a lot of slack practice in the past that needed to be corrected, or do you think the tightening up has gone too far?
Mr Paul Smee: I think the figures from the middle of the 2000 decade reflected a view that somehow house prices could go on rising for ever and the underwriting process could be pretty lax. There were ways in which people could get mortgages very quickly, with self-certification of income, and their applications could be turned round very quickly through an automated process. The underwriting process was almost an afterthought in some institutions. That was what led to the very high acceptance rate.

Since then, there has been financial tightening. Undoubtedly, those running the major lending institutions have become more risk-averse, and on top of that there has been what I would describe as an elongated process introduced by the regulator. I am not sure that regulation in itself accounts for that great discrepancy in mortgage acceptances. It is a much longer and more challenging process out of which people drop during the course of going through it.

Lord Sharkey: Is the mortgage market review a driver of that level of failure?

Mr Paul Smee: It contributes; I do not think it is a driver. There is wider concern about risk aversion and greater understanding of the need to have a proper underwriting process in place. Lenders have become more acutely aware of whether they are building up excessive risk in a particular bucket, be it shared equity or a particular loan to value.

Mr Stephen Noakes: Your initial question was about 2006 to the current position. To build on Paul’s point, there is no doubt that, if you go back to the industry in 2006, there were self-certification mortgages and laxer underwriting standards. Interestingly, acceptance levels before and after the implementation of mortgage market review are not dramatically different.

As to Paul’s point, one thing that has changed is that the process is now much more rigorous, and you could raise a question as to whether it delivers the best customer experience. If you go into a Lloyds Banking Group branch for a mortgage interview, you could be there for two and a half hours. For a first-time buyer who needs hand-holding in the house purchase process more holistically, that may not be a bad thing, but someone who may be on their third house move and feels that they know the market pretty well still has to go through the same process. There are challenges in whether we can improve the way the system operates to keep the conduct regulators comfortable but deliver a better customer experience, because if and when the market ever picks up further there will be operational challenges in the system just because of the time it takes to manage those types of processes.

Lord Turnbull: What you are saying is that the regulator may have moved the pendulum slightly too far, but the banks themselves would have got pretty near that point anyway.

Mr Stephen Noakes: If we step back and look at the key principles of the mortgage market review—income verification, affordability assessment and a stress test of affordability assessment, assuming that base rates might increase at some stage—most of the major banks had already adopted those principles. The thing that changed as far as the mortgage market review was concerned was the way the process had to work with the customer and ensure that they were always offered an opportunity on minimum affordable term: in other
words, really understanding the full ins and outs of both income and expenditure to get to a situation where you could advise on the minimum amount of interest affordable over the term of their mortgage. Hitherto, many customers would have said, “I am looking for a mortgage for roughly 25 years”, whereas the process now says that for the individual customer the minimum affordable term is 17 years, but to get to that you need a lot more income and expenditure information. That is the bit which, from a process perspective, is probably now more onerous than it was hitherto. Volumes are broadly the same, but customer experience has changed.

Q182 Lord Turnbull: One player not yet mentioned, which has largely been inactive up to now, is the Financial Policy Committee. I understand that its role is to take a view on whether the economy, credit conditions or some sector of it is overheating and it can then step in. Do you have an understanding of what its reaction is likely to be, or are we still making it up as we go along?

Mr Paul Smee: The Financial Policy Committee has been anything but inactive in our area. It has introduced a requirement about the amount of lending that can be done at more than four and a half times loan to income, and it has insisted on the stress-testing to which you referred in your earlier question. It did that by recommendation; it nudged the regulators to introduce appropriate rules, so we know it is taking a very close interest in the market. Recently it asked for powers to intervene in a similar fashion in the buy-to-let market, and that is the subject of a current consultation by the Treasury. From where I sit, I feel very much in the headlights of the Financial Policy Committee. I know it is watching both the residential and buy-to-let market for any sign of overheating or conduct that could be prejudicial to financial stability.

Lord Turnbull: You mentioned buy to let. There seems to be a conversion of sentiment within government, in that buy to let by individuals is a bad thing, yet they seem very keen on buy to let by L & G—professionals as they call them. Do you think it is justified to think about buy to let by individuals? I do not quite know why the Government have taken against them, but they definitely have.

Mr Stephen Noakes: In relation to housing tenure at a higher level, home ownership has been broadly flat for the past few years. There are clear challenges in the amount of money involved in social housing, and as a consequence the private rented sector has to pick up the slack. We have seen the percentage of private rented sector grow in relation to UK housing tenure; it is up to 18% or 19%. The private rented sector, in which buy to let clearly provides part of the role, is fulfilling a customer need.

There are also questions as to whether buy to let is necessarily crowding out first-time buyers. Interestingly, in the data for between 2011 and 2015, first-time buyer numbers are up by 60%. The first-time buyer market has grown quite substantially over that period, but there is no doubt that some prospective first-time buyers, because of challenges on either affordability or what I would call accessibility, which is the ability to garner the deposit, are currently unable to get on to the housing ladder. Therefore, they need the alternative, which looks very similar to the type of property they would prefer to own but will look to rent, provided by buy-to-let landlords. The FPC understandably wants the parallel powers it has in home ownership to manage potential risks in buy to let, but I do not think we should
be unduly concerned by what we are seeing in the growth of the private rented sector, because that trend is going to continue.

**Mr Paul Smee:** I feel that since the election the Government have had a conscious policy of encouraging home ownership rather than being tenure-neutral, and they have brought forward various schemes with that in mind. On buy to let, there is a clear need for the private rented sector. There is no way in which home ownership can instantly assume its role, although I can see why some changes at the margins may be considered desirable for broader social reasons.

**Q183 Lord Teverson:** I bought my house at a time of house price inflation for ever and inflation for ever. It was perfect, and we should definitely go back to that. I want to challenge on the question of financial laxity. As Lord Turnbull said, there were 125% mortgages and all that. What repossessions were there over that period? I do not have the statistics here, but I remember very well that in the recession in the early 1990s there were huge numbers of repossessions, particularly in the commercial sector, as well as negative equity on the residential side. Despite it being a far greater financial crisis this time round, we avoided all that. Are we chasing something that is irrelevant? Should we not be going after credit card indebtedness, which is not backed by assets, rather than going through all this stuff at the moment, with two-and-a-half-hour interviews, which is achieving nothing?

**Mr Paul Smee:** I take that point, and I am certainly not going to divert anyone’s attention from the credit card industry. On the housing side, some of the strain was found within banks because of poor underwriting. There are people who have been put into forbearance, with all the stress that entails. Banks have undoubtedly striven very hard to avoid repossession of properties, and a lot of work has gone on at industry level sorting out how arrears are handled to help people through rough patches. That has resulted in the low level of repossessions that we see today.

From the banks’ point of view, there are times when there has been forbearance and they have laid off requesting payments, and that causes problems for their balance sheet. There were repercussions from a time when mortgages were given with less scrutiny, laying aside the personal side of the strain and stress people are put under when they are in arrears.

**Mr Stephen Noakes:** You contrasted it with the earlier recession. The difference in that recession was interest rates. The low base-rate environment has definitely seen lower loss emergence. There is no doubt that if you compare cohorts of lending, as clearly lenders do, the loss emergence from the 2006-07 period is greater than it has been more recently with the improved underwriting standards. Because of the low base rate environment, we see fewer arrears and repossessions, but for prudential management we go through the process of working out post-model adjustments on the impairment numbers to see whether, when base rates increase at some point in future—clearly, it is a question of when rather than if—we have enough cover.

We have to be careful about comparing the prior recession with the most recent one. Paul is right that forbearance has definitely stepped up, and every lender is looking at doing the right thing, from both a customer and a prudential perspective, but low base rates have definitely been a key driver to help flatten some of those arrears numbers.
Q184 Baroness Wheatcroft: I want to ask you a little about the deposits now required from first-time buyers. One can understand why they are where they are, but to what extent do you think that is a real barrier to people getting on to the housing ladder? What innovative schemes are you coming up with to help them? Obviously, there is intergenerational lending—the bank of mama and papa.

Mr Stephen Noakes: Yes. It is a barrier. The Government’s Help to Buy mortgage guarantee scheme—you are probably aware that there are two Help to Buy schemes, but this is the one primarily for second-hand properties—allows lending at 95%. It does it because of risk transfer. There is a guarantee; the lender buys from the Government. The average deposit under that scheme is £7,000. Absent that scheme, the deposit required from that cohort of borrowers would be £14,000. Some data I saw a year or so ago showed that the time to save a 10% deposit for the average house would be of four or five years’ duration. That is a challenge for prospective first-time buyers. It is so far out in the future that they give up hope and find other ways to spend their discretionary income. We need to encourage savings behaviour, and the Help to Buy ISA is looking to do just that.

As to the more innovative schemes, we had a product called Lloyds Lend a Hand, which provided exactly the bank of mum and dad. We lent 95% and took legal charge over a parent’s savings account. They still got the normal rate of interest on the savings account, and it was only at risk if the first-time buyer—the son or daughter—got into financial difficulty and we finally repossessed. Those are the types of schemes that are needed.

Baroness Wheatcroft: You are talking about it as something that you did and do not do any longer.

Mr Stephen Noakes: We do not do it any longer because the Help to Buy government scheme has essentially overtaken it. We have been fully supportive of that scheme from the outset. The Help to Buy mortgage guarantee scheme finishes at the end of this calendar year, and because of the improving economy we are starting to see lenders prepared to lend at 95%, absent the risk mitigation. There was mention earlier of 125% mortgages. I do not think we will ever see a return to 100% and 125%, but we will see a return to 95%, absent risk mitigation schemes. A couple of major lenders are already doing that today.

Baroness Wheatcroft: When Help to Buy comes to an end, will Lloyds relaunch its Lend a Hand scheme?

Mr Stephen Noakes: One thing I can guarantee is that we will continue to participate in 95%. There are options. Either we go back to the scheme we used to have or we take the view that a couple of other major lenders have taken, which is to lend to 95% without risk mitigation. There was reference earlier to first-time buyers. The rough rule of thumb is that every first-time buyer drives three subsequent house moves. They are the life-blood of the industry, so you need to find a way to continue to support first-time buyers. If you leave them needing to save £14,000, without rich parents they will never get on the housing ladder.

Baroness Wheatcroft: Mr Smee, would you like to add to that?
Mr Paul Smee: My contact with other lenders suggests that they will take a similar attitude at the end of the mortgage guarantee scheme. The 5% deposit is important for all parties to have skin in the game, so I would echo Stephen’s remarks that we are probably beyond the days of mortgages in excess of 100%.

Lord Sharkey: Why is the 95% mortgage returning? What has changed in your collective assessment of the situation that makes the 95% mortgage something you are now prepared to do?

Mr Stephen Noakes: It is the experience we now have of lending at that level. When the initial discussions happened between the industry and the Treasury at the launch of the Help to Buy mortgage guarantee at the back end of 2013, there was still uncertainty about the economy. The industry at large, absent the odd scheme, had not lent to 95% and there was nervousness about what potential risk emergence we might see.

The reality is that two and a half years into the scheme—at scheme level, not individual lender level—you can almost count on the fingers of one hand the number of loans that have gone bad. It now drives greater confidence in lenders. If they apply the underwriting criteria and see risk performance at the moment, the cost of the guarantee—because clearly they are paying for that—does not make sense. It makes more sense to lend without the risk mitigation.

Mr Paul Smee: In addition, to give regulation its due, there is very good granular information about the ability of the borrower to sustain the loan at that level.

Lord Sharkey: I am slightly surprised that a 95% mortgage would pass any kind of reasonable stress test.

Mr Stephen Noakes: You still have to go through the same underwriting criteria. Essentially, 95% lending drives a couple of things. There was a conversation earlier about risk weights. The way it works on mortgages is that the risk weight is driven both by the credit quality of the customer and the loan to value of the mortgage. The higher the loan to value, the higher the risk weight, so you are definitely carrying a higher cost of capital. From an affordability perspective, you need to look at whether the customer can afford that mortgage were they to land on your standard variable rate after the product term had finished and base rates were 3% higher than they are at the moment—the FPC-mandated increment. Most of us in the industry are stress-testing that customer as if they were at a pay rate of probably around 7%. You need to feel comfortable that they can afford the mortgage at that stage.

On Paul’s earlier point, with that level of robustness in the underwriting decision it is probably not surprising that very few customers go bad. Typically, it tends to be because of personal circumstances. Illness or divorce are the key things that drive it, not the integrity of the underwriting process that was used. That gives the industry greater confidence in lending at that level.
Lord Turnbull: You gave some figures about the size of deposit. Those are average national figures. Are you going to be able to sustain 95% in London and the south-east, where all the numbers and the amounts at stake will be much bigger?

Mr Stephen Noakes: They will. London presents its own affordability challenges. The initial response to your question is yes. The challenge for us collectively goes back to the call-out that Paul made about the FPC. No more than 15% of new lending must be more than 4.5 times the loan-to-income multiple. Where do you find that index most challenged? Unsurprisingly, it is in London. On average income to house price, the London geography is the area where there is the biggest challenge. If you were disproportionately focused on London, you would definitely be challenged on the 15%. Deposits in themselves are not necessarily the challenge. I come back to the point I made earlier about affordability; even 5% of the average house price in London is still a good chunk of change and a challenge for many customers, which is why some of the other schemes, such as shared ownership, make initial affordability more possible for many customers.

Q185 Lord Forsyth of Drumlean: Referring to first-time buyers, if somebody has to find £14,000 as opposed to £7,000, they give up because they cannot save it. One thing that is slightly puzzling to me is that, given the Government’s drive on Help to Buy and so on, why at the same time are they putting up the transactional costs of buying by increasing stamp duty? To what extent is that counteracting the impact of those schemes?

Mr Paul Smee: For a long time, the CML has said that stamp duty is a poor tax because it penalises transactions and holds people back on the housing ladder. There is a mismatch between objectives.

Mr Stephen Noakes: I have a couple of points on the changes that have been announced. The Government moved away from what was commonly called a slab system. If your house just tipped over the band, all that value would be taxed at the higher level, so you could be moving from 3% to 5%, which is a material move. In moving away from that, customers in smaller-value transactions now have a lower outlay. Clearly, the scheme tried to balance the books by putting up much higher rates, so right at the top end they are up to about 12% at incremental level, but the average purchaser saved about £4,500 on stamp duty.

Lord Forsyth of Drumlean: That is the average purchaser, but if you looked at London and the south-east you would have a completely different picture from the point of view of first-time buyers.

Mr Stephen Noakes: You would, but it would still be true even in London. The tipping point, where it became more expensive in the new regime on stamp duty, was £923,000.

Lord Sharkey: The Government still claim that more than 80% of transactions have had reduced stamp duty costs.

Mr Stephen Noakes: Correct. The reason the revenue take has reduced is a decrease in transactions at the top end. It is not driven by stamp duty; I think it is broader economics. Some of those transactions were driven by overseas purchasers. It is less attractive to them, or they have fewer funds to invest in super-prime parts of the capital.
Q186 Baroness Wheatcroft: On affordability, the price of a house relative to earnings is very much higher than it has ever been, yet you will have seen the reaction of the builders to any suggestion that house prices might come down, or that they would do anything that might possibly help in that move. Is there anything that could be done? Is there a risk that, if you are back to lending 95%, you will be very wary of anything that might bring down house prices, whereas by any other measure they are far too high at the moment?

Mr Stephen Noakes: To go back to a point I made earlier, one of the key things that we need to address collectively is affordability. I mentioned the potential opportunity with public sector land. Land is typically 20% of the construction cost. If collectively we were happy to say that public sector land would be part of the development, and not sold to try to achieve best market value, there is an opportunity to produce a level of housing stock that is at least 20% potentially.

Baroness Wheatcroft: It did not sound as though the housebuilders would be keen to grasp that.

Mr Stephen Noakes: I think the housebuilders would. It is probably more a question to central government than to a housebuilder. The housebuilder would probably be under a covenant such that they would have to build on that land to a certain spec and price point, because you would not want to grant it and then have five-bedroom luxury houses built on it. You would want it to have an affordable product, but I do not think housebuilders would be averse to that development.

Mr Paul Smee: We also need to look at how housing is distributed. There is not just a first-time buyer issue but a last-time buyer issue, where people occupy houses that are probably too large for their current needs. We need to examine ways in which we can facilitate a move to property more suited to a smaller nuclear family than hitherto. That means looking at some of the transactional costs. It is also a challenge for builders in the stock they build, in that there is now a gulf between the family home and the retirement village that could be filled by a downsize home. Some builders are already looking at how that can be best designed, but building is at the heart of a lot of the issues.

Q187 Lord Teverson: I want to go back to buy-to-let mortgages; I know we talked a little about them before. Perhaps we could look at the unevenness between buy to let and owner occupier. We have been shown evidence that there are less strict criteria in lending for buy-to-let mortgages, plus they tend to be interest-only mortgages, which are much more affordable than those that include capital repayments. There is quite a substantial difference. There is perhaps unfairness in being able to purchase the sort of homes people may want to own rather than rent. Is that a true characterisation?

Mr Paul Smee: There may be mitigating factors. Buy-to-let purchases are still only about 10% of all purchases in the market, and house purchase activity by first-time buyers has recovered more sharply from the downturn in the late 2000s than buy-to-let purchases. The figures that we have for buy to let include an element of refinancing buy-to-let lending. I do not personally buy the argument that the first-time buyer is being crowded out of the market by the buy-to-let investor. There is a piece of research to be done about the habit of what you might call let to buy, where people who move into a larger house rent out the
starter home, or whatever, that they were in previously. That is quite a recent phenomenon, which needs to be examined more thoroughly than we have been able to do to date. We do not have any real figures for that. We have seen a recovery in the first-time buyer market alongside increased interest in buy to let, so I am not sure that one is at the expense of the other.

**Mr Stephen Noakes**: From a lender perspective, you look at buy-to-let investment on a commercial basis. The underwriting is not about doing the detailed income and expenditure that you do for someone who is looking to buy a house to own and live in; it is more about cover for the mortgage from the rental. Typically, you look at 125% cover against the mortgage cost at stress rate; it is done very much on an individual property basis.

The key thing to call out is one of the changes announced in the recent Budget: the change to the taxation of buy-to-let landlords. Essentially, the tax relief will move from the current situation—the borrower’s marginal rate—to 20%, tapered in from April 2017 to 2020. That will drive changes in the way the industry needs to look at buy-to-let underwriting. Hitherto, property by property on an investment basis has been okay, but going forward we will need to understand the tax status of the buy-to-let landlord. Only about a third of the private rented sector carries mortgages, and probably only about 40% of those will be affected by that tax change. It will be able to provide more of the level playing field you described, but I do not think it runs the risk of having a disproportionate impact on buy to let and the private rented sector, which I still think is important in driving a broad tenure-neutral available UK housing stock.

**Lord Teverson**: Do you think there are regional variations? Is London again particularly different in those calculations around buy to let?

**Mr Paul Smee**: The London market is an individual market in all forms of housing tenure simply because of the cost of land. It will always be a very attractive location for buy-to-let landlords and it will always be very expensive for those wishing to purchase.

**Mr Stephen Noakes**: If you are a buy-to-let landlord—I will not ask for a show of hands—you can envisage the key considerations: the yield—what return am I getting for the investment in that property?—and what do I see as the capital appreciation? In London, the yields tend to be lower but the prospective capital appreciation is higher. Buy-to-let landlords in London tend to be in it for a longer game and are not necessarily looking for a cash return on the property. They tend to have more borrowings, so they are less leveraged. There is some difference in the dynamics in the capital from other parts of the country.

**Lord Sharkey**: It is still the case, is it not, that a buy-to-let mortgage has an advantage over a residential mortgage, for the obvious reason that most are interest-only. It is mitigated to some extent by the taxation changes, nevertheless the playing field is not level when it comes to lending for the different types of product. There is some concern about that on the ground that competition for funding is unfairly biased towards the buy-to-let market. Do you think that is true? Another question arises from that: why is the FCA not the regulator of the buy-to-let market? What is the reason?
Mr Stephen Noakes: I will answer the first part and definitely pass over to Paul for the response on regulation, because he is probably in a better situation on that one. On the differences, you are right: interest-only tends to be the way lending operates in buy to let. The maximum loan to value, however, is 75% pretty routinely across the market, so the buy-to-let landlord needs to find 25%. On crowding out, I would point to the fact that first-time buyer numbers have stepped up quite dramatically from 2011 to 2015 at a time when buy-to-let lending was also increasing, but not necessarily to the detriment of first-time buyer numbers. Let me hand over to Paul to respond on regulation.

Mr Paul Smee: We have a mortgage market where new providers are coming in and bringing in new sources of funding. At the moment I do not feel that sources of funding are a constraint on people getting a mortgage in either a buy-to-let or first-time buyer situation.

On regulation, to generalise, the view to date is that buy to let is essentially a business transaction, and the Financial Conduct Authority is there to protect consumers, not businesses. As a result of the mortgage credit directive, which is a phenomenally complex piece of legislation, we have the creation of a new category called consumer buy to let, which relates to people who find themselves in the position of being a landlord without ever quite meaning to be: for example, because of inheritance or because they cannot sell their property and let it out when they move away. Conduct regulation is already going into that part—the accidental part. To say that we must now move in and regulate all buy-to-let mortgages would be to give a business sector a conduct regime designed to protect individuals, and I am not sure that will work. Echoing Stephen, a lot of lenders already have stringent criteria in place.

Lord Sharkey: I am not sure that I entirely understand one of the distinctions you are making. The FCA regulates the banking system to protect the consumer. What is unreasonable about regulating the buy-to-let market to protect the consumer?

Mr Paul Smee: The market regulator would be regulating the lender of the buy-to-let mortgage to protect the buy-to-let landlord who is a business. I am not sure that businesses need the same sort of protection; they are in a commercial activity.

Lord Turnbull: In relation to your portrayal of accidental buy-to-let landlords, I suspect they are there because the pension system is collapsing and it is an alternative pension for a lot of people. That is not going to go away fast, and we will find out after the Budget whether it is to be accelerated.

Mr Paul Smee: In referring to accidental landlords, I was using a term of art as to why the Government chose to regulate consumer buy to let in recent months as part of the directive. A lot of individuals have seen the opportunity to invest as part of supplementing their pension income. That is right, and it is one of the reasons why the buy-to-let sector at the moment is something of a cottage industry, with relatively small numbers of properties in each landlord’s portfolio, although I certainly think it is something people should not enter with an amateur spirit. Being a landlord has responsibilities as well as financial advantages.
Lord Forsyth of Drumlean: To go back to stamp duty, you quite rightly picked me up on the fact that there was a change in the stamp duty regime and we got rid of the cliff edges. Looking at the rates that build up, for properties in the band £250,000 to £925,000 it is 5%, and 2% below that. It is still a substantial amount to find if you are trying to cobble together a deposit to buy a one-bedroom flat in London. I am surprised that you do not see it as a something of a barrier to first-time buyers getting moving. Although I entirely accept that the overall burden may have gone down, it is still very substantial.

Mr Stephen Noakes: It is, but the average first-time buyer property in London—Paul may have the stats—is probably at the £300,000 to £350,000 mark. In the way the new system would work, it is the bit over £250,000 that would be at 5%.

Lord Forsyth of Drumlean: And the bit over £125,000 is at 2%.

Mr Stephen Noakes: Yes. A tax on purchase is always a challenge in encouraging additional transactions. I do not say that there are no challenges. The move away from the slab system has definitely helped to encourage customers to get on to the housing ladder earlier. For the average buyer, saving £4,500 means they can get on to the housing ladder quicker. You can see the attraction of tearing up stamp duty completely and envisaging a different type of property tax, which applies when you sell rather than you buy. That type of system operates in other international markets, but going from where we are today to that is a very difficult transition.

Lord Forsyth of Drumlean: To take the example you gave me, I cannot do the arithmetic perfectly in my head—

Mr Stephen Noakes: I was not able to either.

Lord Forsyth of Drumlean: A smidgen over 2% would be the overall amount, and 2% of £350,000 is £7,000. In your earlier evidence, you said that having to find £7,000 means that people give up. The justification for having a government scheme to help them not have to find that extra £7,000 seems to me to be cancelled out by the fact that they have to find the stamp duty.

Mr Stephen Noakes: In the earlier example I was talking about Help to Buy where the average deposit is £7,000. Absent that, it would be £14,000. That is where people give up, but people’s ability to save differs depending on their level of income. There is no doubt that, given the prices of houses, even looking to get a 5% deposit means that some will still be discouraged, and that is one of the reasons why we are seeing growth in the private rented sector.

Mr Paul Smee: For information, the average first-time buyer house price in London last year was £300,000. A transaction tax will obviously have an effect on the margin. That is one of the reasons why we believe stamp duty should be thoroughly reformed.

Lord Forsyth of Drumlean: They have to find stamp duty, legal costs and everything else. Anyway, that is not the question I am meant to be asking you.
Mr Smee, in your evidence to us you presented a very interesting graph that shows that half of owner occupiers are living in what you describe as underoccupied properties; they have two or more spare bedrooms. You said that better use needs to be made of the existing housing stock. How could that be done?

**Mr Paul Smee:** How existing stock is used and encouraging opportunities for those who are, as it were, overoccupying properties to see different routes is an issue for the Government to look at. I touched on this earlier in response to Baroness Wheatcroft. The idea that there should be more houses built with the retiring generation in mind, but not retirement villages, would open up opportunities. We are certainly looking in the CML at the obstacles to people downsizing, which may be about being able to borrow money to assist them over the period of a transaction. Older buyers in the market need to be properly served; if we could remove some of the obstacles to people transacting later in life, it would free up the market. It would not totally free it up. I totally recognise the sentimental attachment people have for their family home, but it would create more opportunities for people to right-size.

**Mr Stephen Noakes:** I saw some research, probably 18 months ago, by an estate agency business that showed that about two-fifths of prospective house purchasers were looking to downsize, so it is quite a big part of the potential market. The key barrier to Paul’s point is availability of the right property. Recently I spent time on a site with the builder Crest Nicholson, which has definitely seen that opportunity. It does not look like a retirement home; rather, they are apartments in a development area much more suited to that particular demographic.

**Lord Forsyth of Drumlean:** I am still trying to get Mr Smee to rise to my fly. In your evidence you said that “some organisations, including Legal & General and the Retirement Housing Group … advocate stamp duty relief for older home-owners” in order to create an incentive for people to downsize.

**Mr Paul Smee:** The International Longevity Centre has come out with a similar suggestion.

**Lord Forsyth of Drumlean:** Chairman, I am sorry; I am leading the witness.

**Mr Paul Smee:** From the point of view of CML, stamp duty needs a thorough overhaul, as I said earlier. If you start to give holidays for particular groups, to my mind it brings out more and more the fact that the whole tax needs to be overhauled, and the question of when it is levied and on whom needs to be asked. Absent that overhaul, however, I quite understand why people like Legal & General would like to see that sort of encouragement.

**Lord Forsyth of Drumlean:** What are you advocating? What do you want to happen?

**Mr Paul Smee:** Absent a proper overhaul and review of stamp duty, a key obstacle to downsizing is the cost of transactions.

**Lord Forsyth of Drumlean:** What do you mean by a proper overhaul of stamp duty? Do you mean getting rid of it?

**Mr Paul Smee:** The question of when the tax falls payable and on whom. Should it fall on the seller or the purchaser of the property?
The Chairman: You said earlier that you would prefer to see a tax on the sale, which would catch part of the profit on the house, rather than a tax on the buyer. Is that right?

Mr Paul Smee: I think that is a good way forward.

Lord Forsyth of Drumlean: Would that not contradict your view that you want to encourage people to downsize?

Lord Teverson: It would work against it, would it not?

Mr Paul Smee: Not necessarily, if they are buying a house at the same time. It depends on where the balance is.

Lord Forsyth of Drumlean: Presumably, they would be selling a more valuable house and paying more and buying a smaller house and paying less, so does it not contradict what you are advocating?

Mr Paul Smee: I take the point. That is why we want a thorough review of the whole way in which the tax operates rather than a series of ad hoc adjustments to cope with various public policy initiatives.

Lord Forsyth of Drumlean: It would be quite good to have your thoughts once you have considered it further.

Lord Turnbull: You gave us the figures for a £300,000 house. A £500,000 house might be one that a couple moved into after about five years with their growing family, or it might be the house or flat granny wanted to move down to from a more expensive house, and that is £17,000. I think £17,000 would slow the moving up and discourage the moving down, because people would prefer to stay where they are and try to avoid paying that kind of money. My overhaul of stamp duty would be to return it to about 2%, but, instead of taking a large sum of money off the people who happen to move, all dwellers would pay a smaller sum of money that was added to their council tax. It would be a much better system.

Mr Paul Smee: That would be a way of cutting the cake.

Q190 The Chairman: Mr Smee, if you want to send in a note of your thoughts on this, it would be very interesting and helpful.

Both of you have your finger on the pulse of the house buyer, and the demand side of the equation is something we are looking at very carefully. First, in your view which of the measures that Governments have introduced over the past decade, say, have had the greatest and most beneficial impact? Secondly, are there other measures that you think should be introduced to stimulate the buy side, other—presumably—than making houses more affordable?

Mr Stephen Noakes: From a government perspective, the Help to Buy mortgage guarantee scheme has probably had the biggest impact over the last three years. From the perspective of Lloyds, across the two Help to Buy schemes—the shared equity scheme and the
mortgage guarantee scheme—we have provided £6.5 billion of lending to support 45,000 customers.

**The Chairman**: Would that make you one of the largest banks in that sector?

**Mr Stephen Noakes**: We would be. We tend to focus on first-time buyers—that is the way we manage the business—because of the criticality of that segment for the broader housing market. I think that is the way to look at it. That is probably over three years. Housing transactions in a year run typically between 1 million and 1.2 million. We would probably be 25% to 30% of the Help to Buy scheme, so you can gross up those numbers. They still look relatively small, but there is a multiplier effect. First-time buyers getting on the ladder enable other people to move, and it drives mobility throughout the whole system. That is the key thing.

In response to your second question, it sounds as though I am not allowed to deal with the move on public sector land.

**The Chairman**: You can.

**Mr Stephen Noakes**: Affordability is still the key challenge. If we do not address affordability, we will not be able to get to the higher number of households that will be able to access that market, irrespective of the type of tenure. We need to find a way to get subsidy in the system.

**The Chairman**: The report put out by Lloyds identified the number of 2 million homes. Did you get any official response to that? Has it been followed up? Are there ongoing discussions about it?

**Mr Stephen Noakes**: On the numbers per se, no, but there have been quite a lot of further conversations on the different areas of opportunity. This is one of those challenges where there is no one silver bullet, and we need to move forward in a number of different areas to get production moving up to the 200,000 to 250,000.

**Mr Paul Smee**: The mortgage guarantee scheme worked very well in enabling the high loan-to-value market almost to heal itself; it gave a catalyst that has led to high loan-to-value mortgages reappearing on the scene. It also did so in a way that hit its target audience, in that most of the loans guaranteed were outside London, were below average house prices and were for first-time buyers. That was not mandated by the scheme; it happened. If I were a builder, I would say that the equity loan scheme had transformed my ability to produce homes, particularly at the lower end of the price spectrum.

Looking forward, I would like any new government initiative, or any new initiative from any source, to be tied in with all the existing government initiatives, because they seem to appear in different parts of the landscape and are not necessarily joined up.

**The Chairman**: It may require another paper from you to explain how to navigate that particular challenge.

**Mr Paul Smee**: I would be delighted.
The Chairman: Gentlemen, thank you very much indeed.
Dear Lord Horlick,

I am delighted to have been invited to submit comments and suggestions in support of the work of the Economic Affairs Committee into the Economics of the UK Housing Market. Credit Suisse is committed to continuing to play a value-added role in the functioning of the UK housing market in various capacities, as demonstrated by our leading role in a number of UK residential mortgage portfolio transactions.

As the Committee would know, availability of affordable housing continues to be a critical focus across the United Kingdom. Continued household formation suggests a requirement for c.225,000 new homes per year, with current trends of new supply delivering c.100,000 per year less than required. The large listed homebuilders seem unable to increase their output of new homes at the pace necessary to eliminate this gap and the availability of financing to smaller homebuilders is challenged in the current environment. Housing Associations control c.10% of the nation's housing stock. The Housing Associations have done a laudable job over the years of providing social and affordable housing and their not-for-profit nature has enabled them to approach their mission with a long-term view. However, the associations face a myriad of challenges, including, but not limited to, cut-back of government subsidies both for development and to tenant housing benefits, increased reliance on conversion to open market units and corresponding sales of properties to support debt servicing capacity and the risk that the debt of the housing associations is deemed as national debt. The situation seems ripe for increased private sector involvement to reduce the reliance of housing associations on the government.

There are at least three avenues of greater private sector involvement to support the mission to provide greater and more affordable housing in the UK.

1. Public private partnerships that can encourage private ownership of affordable housing developments and supply much needed capital to the affordable housing sector

2. Property management drawing upon the experience and expertise of the private sector so as to enhance efficiency and maintain operating margins, which, in turn, can reduce the need for open market sales of social housing units

3. The development of non-recourse financing structures, drawing upon the experience of institutional financing of the UK mortgage markets, which is one of the most
vibrant sectors in Europe in terms of institutional investor financing through the mechanism of residential mortgage backed securities.

At Credit Suisse, we believe we are particularly well positioned to assist on point 3. There are previous successful examples of the use of securitisation technology in Germany in financing completed multi-family housing through transactions that are referred to as German multi-family CMBS, an asset class in which we are an active participant, and which has provided a meaningful alternative source of financing for multi-family housing developers in the country. The knowledge that sustainable and cost effective financing of completed developments is available can encourage the development of multi-family housing units since private sector equity investors in such development schemes can more accurately model the returns from their development equity, which can be de-risked considerably via financing of completed developments. Such financing does not suffer from the challenges of direct financing to typical homebuilders, which primarily relies on sales of units to repay the debt and thus exposes the lenders to the vagaries of the housing market. Affordable and social housing developments, by contrast, can rely on a long stream of predictable rental cashflows, which underpin asset values and allow securitisation structures to develop. Equally importantly, such financing structures are non-recourse to the housing developer (which may be a housing association or a public I private partnership) and as such can be structured to be off-balance sheet. Finally, investors in securitisations are often different to investors in typical bank loan or bond market financings to housing associations directly and as such can open a new source of capital and financing that does not cannibalise existing sources of financing. The regulatory authorities could also assist by designating such securitisations as benefiting from favourable capital and liquidity characteristics, which can expand the buyer universe. A robust financing platform among such lines could eventually largely replace the need for government support to housing associations and assist the United Kingdom in achieving the goals of addressing the demand I supply imbalance in the UK.

At Credit Suisse, we remain available to assist in the Commission's initiatives.

Yours sincerely,

Tidjane Thiam
Chief Executive Officer, Credit Suisse Group

22 February 2016
Crisis response to House of Lords Select Committee on Economic Affairs
Inquiry into the Economics of the UK Housing Market
December 2015

Summary

Crisis believes that the Government needs to act to increase the supply of housing across all tenures, and specifically to increase the supply of secure, decent homes that are affordable to those on the lowest incomes. Our evidence to the Committee shows how gaining access to housing of any type is becoming increasingly difficult for single homeless people. We address the fact that for low income single people aged under 35, sharing a home is often the only viable way to obtain housing, and yet there is a severe shortage in the supply of shared housing. We also provide information about the specific barriers that prevent single homeless people obtaining private rented housing and suggest solutions designed to tackle problems both of supply and of access. We draw the Committee’s attention to a range of evidence showing that, when measured over the longer term, investing in housing at social rent levels offers better value for money than building more “affordable” rent housing, mainly because of Housing Benefit savings. We also note that different housing markets need different solutions; for example, areas of low housing demand may need interventions to ensure an adequate supply of housing in locations with access to employment opportunities.

We propose action in the following areas:

• **Improving access to private renting, including shared housing, for low income households and improving standards and security for private renters**
  - Government intervention to stimulate institutional investment in the lower cost end of the private rental market, with analysis of the feasibility of delivering purpose built shared accommodation for low income households
  - A national rent deposit scheme linked to the introduction of a “quality mark” for private renting access schemes
  - Legislation to create longer tenancies of 3-5 years for private renters, with provisions to limit rent increases to inflation during the tenancy term
  - A nationally operated register of landlords with associated requirements on property safety and management
  - Addressing deficiencies in the Local Housing Allowance regime which mean that rent levels are increasingly out of step with the amount of Housing Benefit that can be paid

• **Increasing the supply of housing at social rent levels**
  - Government investment is needed to deliver more housing at social rent levels
  - Supported housing should be exempted from the 1% cut to social rents
Measures are needed to ensure that planned changes to Housing Benefit do not further reduce access to social housing for low income single people.
Introduction

1-1 Crisis, the national charity for single homeless people, is pleased to respond to the House of Lords Select Committee on Economic Affairs Inquiry into the Economics of the United Kingdom Housing Market. We are dedicated to ending homelessness, and our submission focuses on the ways that private rented and social rented housing play a role in providing housing for low income households.

1-2 The Committee is seeking evidence on housing supply in the private ownership, private rent and social rent sectors, as well as “any other relevant aspects of the UK housing market”. Our submission is centred on questions 2 and 3 of the Call for Evidence, dealing with private renting and social housing respectively. These are the housing sectors most likely to provide housing for single people who have experienced homelessness or the threat of homelessness. As our evidence below illustrates, gaining access to housing of any type is becoming increasingly difficult for this client group. Our submission provides information about the specific barriers that prevent single homeless people obtaining housing in either sector, and suggests solutions designed to tackle problems both of supply and of access.

1-3 Crisis believes that the Government needs to act to increase the supply of housing across all tenures, and specifically to increase the supply of secure, decent homes that are affordable to those on the lowest incomes. We draw attention in our submission to the way patterns of supply and access vary geographically, highlighting the need for flexibility to deliver solutions that meet local needs. We are mindful that the Scottish and Welsh Governments have adopted different approaches to manage the related issues of housing supply and homelessness compared with the position in England, and we hope that the Committee will consider evidence from all parts of the UK.

1-4 A summary of our recommendations is as follows:

Measures relating to the private rented sector (PRS)

Increasing new supply

i) We welcome government measures to increase institutional investment in the supply of new build housing for market rent. We would like to see this expanded to stimulate provision at the lower cost end of the market, and to investigate the feasibility of delivering purpose built shared accommodation at the shared accommodation rate of Local Housing Allowance.

Improving access

ii) We want to see the provision of a national rent deposit bond scheme in England, filling current gaps in provision, as well providing economies of scale to bring administration costs to a minimum. Access to the national rent deposit bond
scheme should be restricted to PRS access schemes that meet the highest standards, determined by a new PRS access scheme ‘quality mark’.

Improving standards and security
iii) We support the government proposal to scrap the automatic entitlement to the 10% wear and tear allowance for private landlords and replace it with a system that would allow landlords to make a claim for the actual costs incurred. We recommend that any savings from this measure are used to fund local authorities’ work to improve the private rented sector to help tackle the very worst conditions.
iv) We would like to see government improving security of tenure for private renters by legislating for longer tenancies of 3-5 years, within which the amount a landlord is able to increase the rent would be limited to an inflationary measure.
v) Drawing on the learning from the registration of landlords in Scotland and Wales, we want to see a nationally operated register of landlords for England, with associated requirements on property safety and management, which all landlords would be required to join before they were able to let a property.

Providing effective financial support for low income renters
vi) We urge the committee to draw government attention to the impact of the decision to break the link between LHA rates and actual rent levels, and the freeze on Local Housing Allowance rates. The government should also consider the case for remedying deficiencies in the valuation methodology for setting the Shared Accommodation Rate, developing a mechanism to ensure that rates reflect the reality of renting shared accommodation in the private sector.

Measures relating to the social rented sector
Increasing new supply
vii) We strongly supports measures to increase the supply of social housing. We recommend the Committee considers the financial case for this.
viii) We are concerned about the impact that the 1% cut in rent will have for the viability of the social rented sector, and particularly for supported housing, and we strongly support calls for supported housing to be exempt from the rent cut.
ix) We would like to see the Government and local authority commissioners promoting shared housing models to tackle the already critical shortage in housing supply for this group.
x) We want to see the Housing & Planning Bill amended to ensure that housing sold under housing right to buy must be replaced by low cost housing for rent.

Providing effective financial support for low income renters
xi) We are concerned about the Government’s plans to cap the amount of housing benefit social tenants can receive at their equivalent entitlement in the private
rented sector, and particularly the impact this will have on younger single people. We urge the committee to address this in their report.

xii) We also have concerns about the impact of these changes on the future viability for supported housing which pays a key role in meeting the needs of homeless people. There is a strong case for exempting supported housing tenants in the social rented sector from any new rules to limit rents to Local Housing Allowance rates, and we would urge the Committee to address this matter in their report.

1-5 The evidence in this submission is drawn from our own research, as well as the research of other relevant agencies. It is also informed by the work of our Skylight centres, in 10 locations across the UK, where we provide innovative education, employment, housing and well-being services to help homeless people transform their lives. Helping people gain access to safe, stable accommodation is central to our work. Our Housing Coach Service works with Skylight clients who are ready to seek housing in the private sector, and in some parts of the UK in the social rented sector. We also work with nearly 60 independent schemes that help single homeless people gain access to and retain privately rented accommodation.

1-6 From cities all around the UK, our Housing Coaches and partner agencies are reporting increased difficulty in helping single homeless people gain access to decent private housing at rents below Local Housing Allowance levels. There is growing competition between voluntary sector projects, councils and private lettings agencies for the available supply of decent quality, affordable private tenancies for households at the lowest end of the income scale. In some parts of the country, particularly London and the South East we are seeing a decline in the standard and size of private rental property available to our clients. The experience of Crisis Skylight services is mirrored by that of other agencies; a quarter of people in hostels are ready to move on but can’t, and lack of suitable accommodation locally is one of the main reasons for this. 

1-7 Worryingly, we are also hearing more reports of rogue landlords offering homes that are unsafe, and particularly of landlords exploiting the “exempt accommodation” provisions of the Housing Benefit scheme which allows landlords in certain circumstances to charge rents at above Local Housing Allowance levels in return for the provision of support to vulnerable tenants. We have anecdotal evidence from some parts of the country that the supply of low cost private rented housing at Local Housing Allowance levels is being converted to bogus exempt accommodation for vulnerable groups; often this housing is of poor quality. These are the kinds of abuses that flourish in an environment where housing demand outstrips supply, and the poorest and most vulnerable households have least choice.

1-8 Our submission also addresses the fact that for low income single people aged under 35, sharing a home is often the only viable way to obtain housing. There is a severe shortage in the supply of shared housing, linked to the fact that shared room rates of Local Housing Allowance do not reflect actual rents and that in some areas, particularly rural

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areas, there is simply no culture of sharing. This is an issue we believe merits consideration by the committee and is addressed in section 2 of our submission.

2 Privately rented accommodation

What measures can be taken to increase the supply of low cost rental properties in the UK?

2-1 As noted above, our particular concern is the supply of private rental properties that are accessible to single people on low incomes, and in particular people who have experienced homelessness. Over the last decade the number of people living in poverty in the private rented sector has grown significantly, with around 1.2 million people living in poverty in the sector in 2014.63 This historic growth is associated with the steady fall in the number of social tenancies becoming available to new tenants (discussed further in section 3 of this submission). The result is that a growing proportion of poorer households who would historically have had their housing need met by social tenancies are now living in private rented homes. The Joseph Rowntree Foundation projects that if these trends continue, 2.71 million people will be living in poverty in the private rented sector by 2040.64

2-2 Despite the increasing reliance on the private renting, the sector remains largely unfit for the purpose of accommodating those people in the greatest housing need. Conditions in the private rented sector are the worst of all housing tenures. A third of homes fail to meet the government’s decent homes standard, compared to only 15% of homes in the social rented sector. Characterised by short-term contracts of only 6 or 12 months, the sector fails to provide people with the proper security to rebuild their lives. In some parts of the UK, a lack of security is coupled with increasingly unaffordable private rents, a situation made worse because Housing Benefit rates no longer keep pace with market rents. As a result the loss of an assured shorthold tenancy in private rented sector is now the leading cause of homelessness, by June 2015 accounting for 30% of cases accepted by local authorities (39% in London).65 In Scotland, by contrast, relationship breakdown and being asked to leave by the host household are the two main causes of homelessness recorded in official statistics.66

2-3 Recent research carried out by Crisis, in conjunction with Shelter, into the experiences of homeless people resettled into the private rented sector highlighted a number of concerns about the suitability of the sector.67 For many of the participants, poor housing conditions had an increasingly negative impact on physical and mental health. People wanted to feel safe, secure and satisfied in their resettlement, but the insecurity of the sector undermined this. Whilst these problems are often mirrored right across the

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63 JRF (2014) Monitoring Poverty and Social Exclusion 2014
64 JRF (2014) What will the housing market look like in 2040
66 http://www.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/RefTables
67 Crisis and Shelter (2014) Sustain
sector, the study found that the personal circumstances and vulnerabilities of people who had experienced homelessness could make dealing with the risks and challenges inherent to private renting particularly difficult.

2-4 Despite more people in housing need and in receipt of Housing Benefit relying on the private rented sector, landlords are often reluctant to let their home to private tenants in receipt of Housing Benefit. Recent polling for the Who Benefits? Campaign found that 16% of people who claimed benefits had been refused by landlords or letting agents to rent a property.\(^{68}\)

2-5 Evidence presented by the National Landlords Association to the Department for Communities and Local Government Committee in 2013 showed that fewer than 1 in 5 (22%) landlords were willing to let tenants on Housing Benefit.\(^{69}\) This figure was a marked drop from 46% of NLA members who were will to let to tenants in receipt of Housing Benefit in 2010. They claim that this is a problem that is getting worse.\(^{70}\) A report published by the Department for Work and Pensions in 2013 found the majority of landlords said they were being more cautious about letting to Local Housing Allowance tenants for various reasons, including the LHA reform.\(^{71}\) This attitude was more pronounced among buy-to-let landlords concerned about their future income stream. The final report found that 35 per cent of landlords said they were ‘considering’ or ‘planning’ to exit the market for LHA properties.\(^{72}\)

2-6 So in addressing the Committee’s broad question about increasing the supply of low cost rental properties, we highlight the importance of ensuring that any measures to increase supply take account of concerns about the quality, security and accessibility of accommodation at the lower end of the market. In relation to private rental housing:

Increasing new supply

- We welcome government measures to increase institutional investment in the supply of new build housing for market rent. We would like to see this expanded to stimulate provision at the lower cost end of the market, and to investigate the feasibility of delivering purpose built shared accommodation at the shared accommodation rate of Local Housing Allowance.

Improving access

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\(^{68}\) Who Benefits? Second Class Citizens 2014.

\(^{69}\) http://www.publications.parliament.uk/pa/cm201314/cmselect/cmworpen/720/720.pdf

\(^{70}\) http://www.publications.parliament.uk/pa/cm201314/cmselect/cmworpen/720/720.pdf

\(^{71}\) Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: Interim report, Research Report 798 (2013)

The government should provide a national rent deposit bond scheme in England. Being able to offer a bond in place of a deposit allows access schemes to help homeless people overcome the major financial barrier to securing a private rented home. But the availability of such schemes is currently patchy across England. Creating a national scheme would fill the gaps in provision, as well providing the economies of scale to bring administration costs down to a minimum.

Access to the national rent deposit bond scheme should be restricted to those PRS access schemes that meet the highest of standards. This would provide an incentive – a localist lever – for local authorities, charities, housing associations and others across England to improve or set up PRS access schemes in their area.

The introduction of a PRS access scheme ‘quality mark’. Only those schemes that achieve the standards required to be awarded a quality mark would then be eligible for the national rent deposit bond scheme.

Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

Other agencies are better placed than Crisis to comment on how changes in the tax relief available to private landlords will affect costs. We do, however, have evidence about the impact of poor standards in the sector, and have taken the opportunity here to outline the reasons why fiscal measures to incentivise improved standards in the sector are critical for the well-being of tenants who have no choice but to accept poor quality housing.

The Crisis and Shelter research mentioned above highlights the effects of poor housing conditions on health and wellbeing of tenants living in the private rented sector. All the participants in the study experienced a problem with conditions at some point in the 19 months that they were interviewed. The most common problems were damp and mould, which made people’s homes very cold and impacted on their health, with people reporting new respiratory conditions such as asthma. Circumstances could be extreme, including walls running with water or damp with moisture, ceilings caving under the weight of excess water and/or damp and entire walls/ceilings or rooms covered in damp and mould. About half of those involved in the study reported an increase in the frequency of coughs and colds, and more frequent visits to the GP. Over time landlord responses to repair or conditions requests became a major factor in how the tenant felt about the property and its impact on their life. Because of the general poor state of the properties, frequent requests were made to landlords to improve conditions and undertake repairs. Landlords tended to be more responsive to repairs (for example,

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fixing heating issues) than conditions (such as damp). But often the standard of repair was very low and addressed the problem in a superficial way.

2-9 Crisis therefore strongly supports Her Majesty’s Revenue & Customs’ proposal to scrap the automatic entitlement to the 10% allowance and to replace it with a system that would allow landlords to make a claim for the actual costs incurred. This will help ensure that the tax relief reflects the true cost of repairs carried out by landlords, potentially helping to improve conditions in the sector. We also strongly recommended that the savings from this measure are used to fund local authorities’ work to improve the private rented sector to help tackle the very worst conditions.

2-10 We welcome the changes to stamp duty and mortgage interest, but will be monitoring the impact that these changes have in the supply and condition of homes in the private rented sector for our clients to ensure that there are no adverse effects.

2-11 The Chancellor of the Exchequer also announced that the government will increase the Rent-a-Room relief from £4,250 to £7,500 a year from April 2016. The value of this relief has been frozen since 1997. This change will allow individuals who rent a room in their main residence to do so tax free on income up to £7,500 to reflect increases in rent. Given the huge lack of shared accommodation, this is particularly good news for our client group. There is a growing body of evidence pointing to the decreasing supply of suitable accommodation available to those restricted to the Shared Accommodation Rate. Research conducted by Crisis found that just 13 per cent of rooms advertised in shared properties are affordable within the Shared Accommodation Rate, falling to just 1.5 per cent when accounting for landlords who are unwilling to let their properties to people in receipt of Housing Benefit.

How can the Government encourage a stable long term rental culture?

2-12 We address this question from the particular perspective of single homeless people. Achieving greater stability in the sector should go hand in hand with measures to improve the security and quality of private renting for low income households. The supply of shared housing is also central to meeting the needs of low income single households aged under 35 whose Housing Benefit is restricted to the shared accommodation rate.

2-13 As noted above, recent research carried out by Crisis, in conjunction with Shelter, into the experiences of homeless people resettled into the private rented sector highlighted concerns with the insecurity of the sector. For this reason, Crisis would like to see the government legislating for longer tenancies of 3-5 years, within which the amount a landlord is able to increase the rent would be limited to an inflationary

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measure. This would provide renters with far greater security of tenure than currently exists. We are supportive of the planned changes to tenancy law in Scotland which will remove no-fault grounds for eviction and ensure that tenants are provided with longer notice periods than at present (in future, this will generally mean a notice period of 12 weeks).

2-14 Crisis also supports the introduction of a national register of landlords, which all landlords would be required to join before they were able to let a property, as the principle means of collecting data on the sector. This register would be held centrally by national government and the information disseminated to local authorities. We would also support a mandatory requirement for all landlords to undergo training before they were able to let a property. In addition, landlords would have to upload documents, such as annual gas safety certificates to demonstrate that they had met their legal requirements. This would help relieve the burden on local authorities and provide a useful mechanism for ensuring that legal safety standards were being complied with without the need for expensive inspection resources. This would be a significant step forward in developing the professionalism of the sector and, combined with longer tenancies, would encourage a much more stable long term rental culture. The government should draw on the learning from the landlord registration scheme in Scotland and the recently introduced scheme in Wales to shape a registration scheme for England.

What are the advantages and disadvantages of restricting rent increases in the private sector?

2-15 While there is no single dataset on longer term trends in private rent levels, the available datasets suggest that the cost of renting as a proportion of earnings has been rising for at least a decade. ONS figures for England show that rents rose by 2.8% in England in the year to September 2015, and by 4.1% in London. In Scotland recent rent increases have been just below the rate of inflation nationally, but with significant local variation. Savills forecast that rents in the sector may rise by as much as 20.5% over the next five years, slightly ahead of wages growth. The impact of rising rents, and the growing numbers of low income households living in the private rented sector have contributed to the rising cost of Housing Benefit.

2-16 Against a context of rising rents, Crisis would support moves by Government to introduce restrictions on rent increases alongside measures to provide longer term security of tenure for private tenants. We strongly welcome the plans of the Scottish Government to limit the frequency with which rents can be increased in the private rented sector. Imposing a maximum of one rent increase a year with three months’ notice will increase certainty for tenants and enable them to budget more effectively. Research has suggested that in scenarios in which the scale and frequency of rent

76 CIH (2015) UK Housing Review 2015. Table 72
increases are regulated (at levels linked to inflation) but where rents at the start of the tenancy are set at market levels, it is unlikely that there would be a substantial change to the size of the sector.\textsuperscript{78}

2-17 However it is not enough to focus on the question of rent increases. A key issue in addressing the housing needs of low income households is the impact of restrictions on Housing Benefit eligibility at a time of rising rents. These problems are increasingly undermining efforts to help single homeless people gain access to private renting, and it is critical that they are addressed alongside any debate about restrictions on rent rises. This is the case in the devolved administrations as well as in England; although housing and homelessness policy are devolved, welfare reform policy determined at UK level still impacts on access to housing in Scotland and Wales.

2-18 Crisis has serious concerns about the impact of rising private sector rents for low income households. The real terms cuts we have seen and continue to see to Local Housing Allowance, particularly the decision in the last parliament to break the link between Housing Benefit rates and actual rents, means that the proportion of private rented homes that are accessible to low income households continues to decline. This puts existing private tenants at significant risk of rent arrears and eviction and makes it much harder for those seeking accommodation to access the private rented sector. In particular, the Government’s current plans to freeze Local Housing Allowance for the next four years will erode its value over time, making private renting increasingly unaffordable to those on low incomes.

2-19 While the stated intention of the Local Housing Allowance reforms in the last parliament was to exert downward pressure on rents, Government research shows that tenants are shouldering most of the burden, with 94 per cent of the shortfall between LHA rates and local rents falling on new tenants and just 6 per cent being absorbed by landlords in rent reductions.\textsuperscript{79}

2-20 Instead of Housing Benefit cuts tempering rents, there has simply been an increasing divergence between LHA rates and actual rents in many areas. Analysis by Crisis shows that across Great Britain, one in ten current LHA rates are already at least 5 per cent lower than the estimated 30th percentile of local rents. The Shared Accommodation Rate – intended to cover the cost of a room in a shared property – has been particularly affected by the decision to limit rate increases. A fifth (21 per cent) of Shared Accommodation Rates fall at least 5 per cent below the 30th percentile, even though almost all of these have benefited from additional funding to offset the shortfall.\textsuperscript{80}

2-21 Single under 35 year olds have been especially hard hit by cuts to Local Housing Allowance in the last parliament, in particular by the decision to increase the upper age

\textsuperscript{78} Clarke, A, Morris, S., Oxley, M. Udagawa, C. and Williams, P. The effects of rent controls n supply and markets, CCHPR, May 2015 pp.45.-46

\textsuperscript{79} Department for Work and Pensions (2014), The impact of recent reforms to Local Housing Allowances

\textsuperscript{80} Crisis analysis of Valuation Office Agency, Scottish Government and Rent Officers Wales data
limit of those limited to the lowest level of Local Housing Allowance, the Shared Accommodation Rate. This has put increased pressure on a limited pool of shared accommodation. Government research has identified a 13 per cent drop in single 25 to 34 year olds claiming Housing Benefit in the private rented sector and a 9 per cent drop amongst under 25 year olds. During this period the overall number of people claiming Housing Benefit in the private rented sector continued to rise, suggesting that these changes are not the result of a lack of need for Housing Benefit. Landlords and housing advisors interviewed for the research suspected many had been forced into ‘sofa surfing’ or rough sleeping.81

2-22 Crisis is concerned that the shortfall between the Shared Accommodation Rate and actual shared room rents is in part due to significant flaws in the way the Rate is calculated. The Valuation Office Agency (VOA) in England often bases its calculations on a limited sample of properties concentrated at the lower end of the market. In 2012/13 the VOA on average based its calculations on 102 fewer properties per postcode than were advertised on the website spareroom.co.uk and calculated the average weekly rent to be £23.95 lower.82

2-23 While Crisis has significant concerns that sharing is not suitable for vulnerable people with complex needs, our work with schemes supporting sharers across the country has shown that for some younger adults, sharing can be a viable housing option. The Crisis Sharing Solutions Programme, funded by the Department for Communities and Local Government from October 2013 to March 2015, assisted younger adults subject to the Shared Accommodation Rate to access secure and safe shared housing. The schemes provided tenants with pre-tenancy training and ongoing support and worked with landlords to incentivise them to rent their properties to vulnerable people. 84 per cent of tenancies created by the programme were sustained for six months or more. But this required intensive support, resources and staffing.

2-24 Younger adults with complex needs cannot be expected to share without such support. If under 35 year olds continue to be limited to the Shared Accommodation Rate, additional funding must be provided to support those with a history of homelessness to sustain their tenancies. The benefits of funding such support soon outweigh the costs, with £5.21 of savings generated for each £1 of grant funding.83

2-25 As noted above, to help address these issues the Government should encourage an increase in supply of shared accommodation to meet the housing needs of younger adults who are limited to this lower rate of Housing Benefit. But it is also essential that the Government reviews its position on freezing Local Housing Allowance rates.

81 Department for Work and Pensions (2014) The impact of recent reforms to Local Housing Allowances
82 Crisis (2015) Shut Out Briefing
2-26 We are also hearing examples in London of ways in which landlords are manipulating the Local Housing Allowance system, and capitalising on the relatively more generous Local Housing Allowances available for self-contained housing. Some landlords have responded by, for example, designating a three bedroom property as two self-contained one bedroom homes. Two tenants are housed, each claiming Housing Benefit at the one bedroom rate, giving the landlord a better return than housing more tenants at the shared accommodation rate. This type of arrangement illustrates the unintended consequences of de-coupling the shared accommodation rate from actual market rent levels and inflation. The result is to dampen still further the supply of shared housing for the under 35s. It also means that tenants who are eligible for self-contained accommodation may end up in what is effectively shared accommodation, even though it is designated as self-contained for Housing Benefit purposes.

2-27 We therefore strongly recommend that the Committee urges Government to:

- Reverse the decision to break the link between LHA rates and actual rent levels, and the freeze on Local Housing Allowance rates;
- Remedy deficiencies in the valuation methodology for setting the Shared Accommodation Rate described above, developing a mechanism to ensure that rates reflect the reality of renting shared accommodation in the private sector.

3 Social housing

Are any measures needed to increase the supply of social housing?

3-1 Crisis strongly supports measures to increase the supply of social housing, by which we mean housing at rents that are affordable to those in low paid work. We use the term social housing to mean homes let at social rents. It is also critical that in areas of low housing demand, funding is made available for area regeneration, providing decent homes in sustainable communities with access to employment opportunities.

3-2 Since the creation of “affordable rent” in 2011 most new subsidised rental housing in England and a proportion of relets are being let at rents of up to 80% market levels. Social rents are on average much lower than affordable rents; in England as a whole the mean weekly social rent of £96 was less than 60% of the mean rent in the private rented sector, compared with affordable rents at 80% market levels. Higher rents enabled the Coalition Government to reduce capital investment in social housing. This in turn means that subsidy to meet the gap between rent levels and the amount low income households can afford to pay has been switched from capital investment in bricks and mortar into Housing Benefit. This has been a significant driver of recent rises in Housing Benefit costs. In an assessment of the value for money of the Coalition’s Affordable Homes Programme, the National Audit Office calculated that, over 30 years, funding

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housing at social rents offers the better value for money for the taxpayer than charging higher “affordable” rents, “mainly because of Housing Benefit savings”.\(^{85}\)

3-3 The initial impact of changes in funding for affordable rented housing was a reduction in new supply, but in the last two years, supply levels have recovered. However, the majority of new homes are now let at “affordable” rather than “social” rent levels. In 2014/15 less than 10,000 new homes were provided for social rent, compared with a peak of 38,950 homes in 2010/11 (Figure 1):

Figure 1. Additional affordable housing (from CLG Table 1000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Affordable rent</th>
<th>Social rent</th>
<th>All affordable rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005/06</td>
<td>0</td>
<td>23630</td>
<td>23630</td>
</tr>
<tr>
<td>2006/07</td>
<td>0</td>
<td>24670</td>
<td>24670</td>
</tr>
<tr>
<td>2007/08</td>
<td>0</td>
<td>29640</td>
<td>29640</td>
</tr>
<tr>
<td>2008/09</td>
<td>0</td>
<td>30900</td>
<td>30900</td>
</tr>
<tr>
<td>2009/10</td>
<td>0</td>
<td>33180</td>
<td>33180</td>
</tr>
<tr>
<td>2010/11</td>
<td>0</td>
<td>38950</td>
<td>38950</td>
</tr>
<tr>
<td>2011/12</td>
<td>930</td>
<td>37680</td>
<td>38610</td>
</tr>
<tr>
<td>2012/13</td>
<td>6980</td>
<td>17620</td>
<td>24600</td>
</tr>
<tr>
<td>2013/14</td>
<td>19740</td>
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</tr>
<tr>
<td>2014/15</td>
<td>40710</td>
<td>9590</td>
<td>50300</td>
</tr>
</tbody>
</table>


3-4 Whilst the recent increase in overall delivery of affordable rented housing is a welcome boost to housing supply, it fails to address the crisis in supply for households at the lowest end of the earnings scale, as well as for those who are unable to work. Lettings data are one way of understanding the scale of the problem we face. In the decade to 2000/01 the number of social lettings each year to new tenants in England routinely exceeded 300,000; in the decade to 2009/10 it had fallen to an annual average of 256,000 lettings; between 2010/11 and 2013/14 the annual average was only 217,000.86 So even with the impact of new affordable rented housing, the scale of lettings to new tenants (as opposed to tenants moving between social rented homes) has dropped significantly over a 30 year period. Studies indicate that the scale of additional social housing needs to reach 70,000-80,000 homes per year to meet newly arising need for housing, with a backlog of unmet need of over 500,000 households who cannot afford market housing.87

3-5 In arguing for an increase in social rented supply, Crisis recognises that this raises questions for public spending. Investing in social renting requires more up front capital spending than higher rent housing, but over a 30 period the cost of subsiding higher rents through Housing Benefit is greater than the up-front capital investment required to fund lower rents. We recommend that the Committee considers the arguments presented in recent studies by the Smith Institute, SHOUT/National Federation of ALMOs, and Savills for the Joseph Rowntree Foundation/National Housing Federation which demonstrate the value for money and long term cost benefits of investing in

86 CIH (2015) UK Housing Review 2015. Table 101
homes that are affordable to those in low paid work.\textsuperscript{88} The Scottish Government has continued to invest in social renting, with 30,000 affordable homes built over the course of the last Parliament, of which two thirds were for social rent. The current Scottish Government has committed to build another 50,000 affordable homes (35,000 for social rent) over the coming parliamentary term, meaning that it is on course to meet the target requirement of 12,000 affordable homes a year identified by Shelter Scotland and others.\textsuperscript{89}

**What will be the impact of Right to Buy for housing association tenants?**

3-6 Our primary concern at Crisis is that Right to Buy will not be accompanied by like for like replacement of social rented housing, and will further erode the available social rented stock. We want to see the Housing & Planning Bill amended to ensure that replacement housing must be low cost housing for rent. Without this requirement, there is a strong likelihood that some replacement homes will be for low cost market sale, boosting supply for households further up the income scale at the expense of the poorest households.

**What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?**

3-7 Other agencies are better placed than Crisis to provide evidence about the impact for housing providers’ business plans of the social rent cut and the move to charge higher earning tenants a higher rent. We are concerned, however, at the impact that the 1% cut in rent will have for the viability of the social rented sector, and particularly for supported housing, and we strongly support calls for supported housing to be exempted from the rent cut.

3-8 With regard to other changes that are needed to social housing rents, we would make the general point, mentioned above, that rents at social rent levels enable lower income households to move into work or increase their earnings without seeing their income steeply tapered away as is the case if they require Housing Benefit to pay a higher rent.\textsuperscript{89} We would like to see Government allowing social landlords move to a framework that enables them to charge rents that are affordable to those in low paid work. The Living Rent proposals referenced above may offer a cost effective way in which rents could be set at levels that reflect tenants’ ability to pay, as measured through lower quartile


\textsuperscript{89} http://scotland.shelter.org.uk/professional_resources/policy_library/policy_library_folder/affordable_housing_need_in_scotland_-_summary_report_september_2015
earnings, and we would be supportive of further analysis to explore the impact of rolling out such a model at national level.\textsuperscript{90}

3-9 The final issue we want to draw to the Committee’s attention is the change announced in the Comprehensive Spending Review that Housing Benefit paid to tenants living in the social rented sector will be capped from 2018 at the equivalent Local Housing Allowance Rate. Crisis has significant concerns about the implications for single under 35s who could be eligible for a self-contained one bed property, but only entitled to the rate of Housing Benefit for a room in a shared property. In many parts of the country this is likely to leave tenants with a significant shortfall between their rent and the amount of support they can claim. This could deter social landlords from letting to single under 35s altogether, and will undoubtedly add to the already rising scale of single homelessness.

Our Skylight Centres in the Midlands, North East and North West of England report that social housing is one of the main housing options still accessible to our client group; these changes could represent a significant threat to housing options for this group in future. In Scotland where all homeless people, including groups considered not to be a “priority” in England, are entitled to social housing the impact of the measure could be wider still. We have grave concerns about the impact of these changes on the future viability for supported housing which pays a key role in meeting the needs of homeless people. There is a strong case for exempting supported housing tenants in the social rented sector from any new rules to limit rents to Local Housing Allowance rates, and we would urge the Committee to address this matter in their report.

3-10 We understand that the Government’s intention is that some social landlords may respond to this measure by using their stock to provide shared accommodation for single people aged under 35. Crisis has significant experience of working with schemes that support adults to find and sustain tenancies in shared accommodation (see above). This work has proven that, with good pre-tenancy training and ongoing support for tenants (and landlords), sharing can be a viable housing option for some younger adults. We would like to see the Government and local authority commissioners promoting shared housing models to tackle the already critical shortage in housing supply for this group.

3-11 Crisis is concerned however that, in many parts of the country, single adults who are eligible for social housing will by definition be some of the most vulnerable. In areas where social housing is scarce, access for single people will be limited to those who are deemed sufficiently vulnerable to be in ‘priority need’ under the homelessness legislation. This threshold is high and the proportion of people being found statutory homeless had decreased in recent years. Between 2004 and 2014 the proportion of people being accepted as statutory homeless and owed the main homelessness duty because they were considered to be vulnerable decreased from 38% to 27%.\textsuperscript{91} This proposal may therefore lead to people with very high support needs being forced to share with one another, potentially without support, making it highly likely that they will

\textsuperscript{90} Savills (2015) – op.cit.

\textsuperscript{91} https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness Table 773 Reason for Acceptance
be unable to sustain their tenancies. We will therefore be seeking opportunities to influence Government decision-making on the changes to Local Housing Allowances in the social rented sector to mitigate their impact for single homeless people, and would urge the Committee to address this issue in their report.

About Crisis

Crisis is the national charity for single homeless people. We are dedicated to ending homelessness by delivering life-changing services and campaigning for change. Our innovative education, employment, housing and well-being services address individual needs and help people to transform their lives.

As well as delivering services, we are determined campaigners, working to prevent people from becoming homeless and advocating solutions informed by research and our direct experience. Crisis has ambitious plans for the future and we are committed to help more people in more places across the UK. We know we won’t end homelessness overnight or on our own but we take a lead, collaborate with others and, together, make change happen.

17 December 2015
Introduction

1. This note responds to the call for evidence about measures to increase the supply of low cost private rented properties in the UK. We describe the recent changes in the private rented sector (hereinafter PRS) before responding to the committee’s specific questions. Our submission is based on our research on the impact of government policies on PRS supply since rent deregulation, including comparisons with other developed countries (summarised in Crook & Kemp, 2011, 2014).

Trends in the PRS since rent deregulation

Overall picture

2. Since deregulation the PRS has increased dramatically in size with major changes in the households living in the sector. The PRS now has a more positive image and satisfaction with it is higher than in the past. It works well for the young and mobile but less well for those wanting longer term tenancies. There has been a substantial growth in the number of ‘buy to let’ landlords but not, as governments hoped, in the number of corporate landlords, in equity investment by financial institutions, or in the amount of new PRS construction.

Trends in demand

3. The number of households renting privately has almost doubled since the turn of the century. Now one in five lives in the PRS, exceeding the numbers in social rented homes.

4. Growth has occurred because:

   - the propensity of young adults to rent privately has increased; university student numbers have grown; the shift to student loans has reduced demand for home ownership amongst recent graduates, young people are tending to stay single for

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92 Prof ADH Crook, CBE FAcSS, is Emeritus Professor of Town & Regional Planning at The University of Sheffield;
93 Prof PA Kemp, FAcSS, is Vice Dean of the Blavatnik School of Government & Fellow of Green Templeton College, Oxford University
longer and to cohabit before marriage, both trends deferring home ownership;

- many economic migrants are young people who value the flexibility of the PRS, are only temporarily in the UK, wish to maximise their savings or send remittances to family members in their home country; they disproportionately live in the PRS.
- house prices rose sharply after the mid-1990s and at a much higher rate than average earnings; the average size of a deposit for first time buyers (FTBs) to get a mortgage is now around £50,000; tighter mortgage lending rules emphasise borrowers’ ability to pay; hence more prospective FTBs have to rent in the PRS, at least for the time being.

5. As a result, increasing numbers of people aged under 45, more households with young children and more low income households are now living in the PRS:

- Compared with 1981, private renting has: doubled among people aged 18-24; quadrupled among 25 to 34 year olds; and trebled among people aged 35-44;
- The number of families with dependent children renting in the PRS has increased by 1 million since 2003/04;
- More low-income households who in the past would have rented from social housing landlords are now PRS tenants.

How well does the existing supply in the PRS meet housing needs?

6. Satisfaction among private tenants with their accommodation is high although satisfaction with PRS as a tenure is much lower than among owner-occupiers or social housing tenants.

7. The PRS currently works well for young and mobile households; fixed-term assured shorthold tenancies provide flexibility and landlords are often willing to allow them to roll on or grant a new fixed-term tenancy if tenants want to stay longer.

8. But not all PRS landlords are willing to renew the tenancy when an existing tenant’s fixed term comes to an end. Hence:

- Tenants who wish to stay are faced with uncertainty about lease renewal;
- Frequent moves are especially problematic for tenants with school-age children;
- Tenants moving home incur substantial financial and other costs.

Trends in supply and its financing

9. The PRS revival has also seen a significant change in both image and reality. It is now seen as a mainstream tenure and dwelling conditions have improved, albeit with a minority of dis-repaired and poorly managed property, including those owned by ‘rogue’ landlords.

10. PRS growth, especially after the year 2000, has been due to four factors that make
investment attractive to individual ‘buy to let’ (BTL) landlords.
- The very rapid growth of house prices up to 2007 (and again more recently) offered the prospect of substantial short term capital gains;
- Specialist BTL mortgages became available on attractive terms, making geared investments very competitive, especially as interest rates were relatively low.
- Alternative investments (including bank deposits and equities) became less attractive, especially to those building up their own pensions; annuity incomes also declined;
- Recent changes to pensions’ legislation and pensions tax relief have further made BTL an attractive part of pension ‘pots’ for some investors.

11. As a result the PRS has become increasingly dominated by individual landlords:
- In England the proportion of all PRS dwellings owned by individuals has risen from just over half in 1976 to over seven in ten by 2010
- The proportion owned by companies has fallen from 29 to 15 percent.
- Very few new landlords are property companies.

12. Average portfolio sizes have also fallen:
- The percentage of all PRS dwellings owned by landlords with less than 5 dwellings rose from 31 to 61 percent between 1976 and 2010.
- Landlords owning just one property constituted 80 percent of all landlords in 2010 and they owned 40 percent of the total PRS stock.
- This is not just because the number of individual landlords has increased but also because the size of company portfolios has fallen.

13. An increased proportion of dwellings are now owned as investments. By 2010, two-thirds of them had landlords who owned them as investments (44 percent for capital growth). But a significant proportion (31%) are owned for non-investment reasons, including homes let to employees or relatives.

14. Most of the growth has come from purchases of formerly owner-occupied dwellings (including former right to buy homes). Very little is due to new construction, with only 10 percent of properties in 2010 being specifically built for the PRS or acquired newly built, including city centre apartments and dwellings acquired from house-builders, sometimes at discounts.

15. Most of the PRS is owned by landlords with little housing management expertise who are not well informed about landlord-tenant law. Although some use managing agents, this is not a regulated activity, many not belonging to trade or professional bodies with codes of conduct.
- Many individual landlords are new to the PRS and hence have little experience of letting property. In 2010 one in five dwellings was owned by people who had first become landlords in the previous three years.
• Only two in five landlords used managing agents in 2010. Two-thirds of individual landlords had no relevant professional experience or qualifications and only six percent belonged to professional or PRS trade bodies.

• Individual landlords tend to manage market and business risk by restricting their ownership to familiar places close where they live and work, thus limiting portfolio sizes.

16. Over the past quarter century, successive governments have wanted to encourage more corporate landlords and financial institutions to invest in the PRS including through new building in order to:

• Attract large-scale investment that is longer term and less volatile than BTL investment;

• Secure new high quality building for the PRS over a wide geographic spread of areas;

• Achieve economies of scale and spread market risk better;

• Foster longer term tenancies;

• Allow individuals to invest in PRS companies and avoid having the risk and bother of owning property themselves;

• Improve the sector’s reputation with high quality homes let at high professional standards.

17. Previous governments set up four initiatives to create new companies and attract financial institutions: the Business Expansion Scheme, Housing Investment Trusts, Real Estate Investment Trusts and the Homes & Communities Agency’s PRS Initiative. But almost no new corporate residential landlords were established. Although some new companies have been established, these tend to be limited partnerships and property unit trusts with restricted investor liquidity, serving niche markets, such as student housing.

18. There is also relatively little equity investment by financial institutions in the sector. They invested in the PRS lettings in the late nineteenth century and to a lesser extent in the 1930s. But from the 1950s onwards, they sold their existing portfolios and ceased investing in new ones whilst increasing their equity and debt investment in commercial property.

19. Until the late 1990s building society and banks focused housing lending almost exclusively on the owner-occupier market. The building societies very largely ignored the PRS, while lending to private landlords was a very minor and specialist market for banks. BTL marked an important turning point and involved a new market segment of debt funding for private landlords, including the emergence of specialist BTL lenders sourcing funds from the wholesale capital markets. Since the GFC there has been some equity investment by financial institutions, in niche markets, but (with the exception of student housing) this is not yet substantial.

20. The predominance of private individual landlords, of course, is not confined to England (and the UK more generally), but in fact is characteristic of the PRS in almost all advanced economies. However, in some countries substantial equity investment in the PRS by financial institutions, even if not predominant, is nevertheless not
uncommon (including Canada, Germany, the Netherlands, Sweden, Switzerland and the USA).

**Competitive total returns**

21. Market rents tend to rise in line with average earnings and are much less prone than house prices to short-term fluctuations. Recent ONS data shows that, between 2011 and Q2 2015, rents rose by 10 percent in Britain as a whole, while average weekly earnings rose by 6 percent over the same period, the faster rise in rents reflecting housing shortages. Although net income returns have not generally been competitive compared with other investments, total returns (income returns plus capital growth) have, because house prices rose by 20 percent between 2011 and Q2 2015. These total returns are competitive with the returns from equities, bonds and commercial property.

**Responses to the select committee’s specific questions**

(a) What measures can be taken to increase the supply of low cost private rental properties in the UK?

*New corporate landlords and new building for the PRS*

22. Attracting corporate landlords with institutional funding is an important way of securing new PRS building and hence also reducing overall housing shortages and tempering rent increases. Portfolios would be designed for PRS tenants’ needs, built at scale creating construction and management economies, geographically spread to manage market risk and provide longer term tenancies. Investors would achieve:

- Income from rents (rising in line with earnings) and long-run real capital growth, with the two moving in different cycles;
- Assets that meet needs for a long-term and secure income matching outgoings;
- Investments with a lower volatility profile than other assets and good risk diversification;
- Better total returns than equities, gilts and commercial property over most cycles.

23. Because potential PRS funders are interested in long-term returns, they are principally focused on long term lettings. Long-term tenancies can improve returns, especially if rents are indexed to earnings, because they incur lower management and administration costs, agents’ fees, redecorations, voids and reduce business.

*The barriers to increasing supply*

24. Given these returns, why have property companies and funders been reluctant until now to invest in the PRS? There are six main reasons.
(i)  *Portfolios matching potential investors’ needs do not yet exist.*
- They want good quality newly built dwellings in desirable locations, in sizeable tranches (to create management economies) and in different locations (to spread market risk);
- Such portfolios would have to be constructed from scratch but financial institutions do not wish to take on development and first letting risk.

(ii)  *The costs and difficulties of property management are high.*
- Most do not wish to manage PRS lettings themselves but use agents, but existing agents are generally small scale, inefficient, lack professional qualifications and charge high fees.

(iii)  *Net income returns are not yet adequate.*
- While total returns are competitive, the income returns needed are not, partly because management and maintenance costs take up to a third of gross rents;
- Un-geared net income returns have been running at 3 to 4 percent, below the 5 percent currently required;
- To make investment competitive landlords need to realise capital growth by selling some vacant and poorly performing dwellings; large portfolios are needed to generate an adequate flow of vacancies.

(iv)  *Poor liquidity.*
- Financial institutions need to buy and sell assets relatively easily, but there is not an active market for portfolios, compared with prime commercial property
- The small numbers of funds with PRS assets, have invested in property unit trusts and limited partnerships, but these provide only limited liquidity;
- Thus establishing residential property companies (including REITs) is important if the PRS is to be a liquid investment with shares being traded.

(v)  *Reputation and Political risk.*
- Pension and life funds value their reputations and are wary about negative publicity from poor PRS management;
- While political risk had largely disappeared, it is once again a concern and the PRS was a contested issue in the 2015 general election;
- The continued existence of poor conditions and bad management in some parts of the PRS also poses reputation risk.

(vi).  *There are also some remaining tax disadvantages.*
- REITs ensured tax transparency, important to pension and life funds indirectly investing in the PRS and rules that had preventing new residential REITs getting started were changed in 2012;
• Stamp duty land tax (SDLT) on bulk purchases was changed in 2011, significantly reducing tax, but the 2015 Autumn Statement on PRS SDLT creates new uncertainty;
• There are still remaining tax barriers, specifically irrecoverable VAT (because lettings are VAT exempt), including payments to property managers.

Overcoming the barriers

25. Despite nearly two and half decades of policy initiatives to create more corporate landlords and institutional investment, progress has been limited but there are now signs that investment appetite is increasing, as knowledge of the market grows (especially amongst overseas investors), returns look more attractive in relation to other assets and recent government initiatives have provided some financial support.

26. What is now needed is the following to unlock this potential:
• Overcoming development risk for potential investors;
• Reducing the costs of construction, including land costs;
• Securing reputable management of the newly built lettings.

27. Following the Montague report the coalition government put in place the following:
• A £1bn built to rent fund for developers providing repayable debt, so that institutions could acquire newly built PRS ‘off the shelf’, thereby taking the risk out of development;
• By February 2015, £231m of Build to Rent fund deals had been agreed, providing 3k new PRS homes.
• A £3.5bn guarantee fund (plus £3bn in reserve) was also setup to underpin fixed income debt raised in the bond market, taken on by those lending to new and completed build to rent schemes, but not wanting asset risk;

28. The public and the not for profit housing association sectors offer significant potential for realising a new build PRS sector.
• A majority of the planned new PRS dwellings are being initiated by housing associations either on their own or in partnership with the private sector. Local authority partnerships are also significant.
• The majority are in the Greater London area there are also new investments outside both in the NW and NE regions and appetite for investing in the regions appears to be increasing;
• Whilst many are apartment blocks, there are schemes targeted at the needs of households with children.

29. To realise this potential investment:
• Housing associations can help overcome development risk. They have the capital (reserves; debt funding) to undertake the initial development and first letting.
• Some plan to keep their new PRS portfolios for the long term (using PRS surpluses to subsidise new affordable rented homes) whilst others plan to sell
completed and let dwellings to institutions, but retain the housing management function under contract providing the experienced and reputable housing management funds require.

30. Local authorities can use their planning and other powers to help reduce construction costs (especially land costs) by:
   - making the need for new PRS homes part of the housing requirements in their core planning strategies;
   - using S106 powers to require developers to provide PRS housing on new development sites (in this way ensuring that the long term income returns from PRS investment help shape and therefore reduce land prices);
   - sell or lease land to developers, including through deferred payment, on terms that take account of its development for PRS;
   - invest pension funds in ways that do not conflict with trustees’ fiduciary duties.

31. Local authorities can also take a pro active role to deal with the worst conditions in the PRS and to eliminate ‘rogue’ landlords knowing that a supply of new build PRS will provide alternative and much better options for tenants, helping reduce house prices and rents and ameliorating the housing benefit bill.

32. Although local authorities can use S106 agreements to ensure that the new PRS housing is made available to specified groups and at rents within their reach, these restrictions may impose too many restrictions and ‘frighten’ off investors. Local authorities can however use the S106 agreements to specify that the provision of the PRS homes must be made over the long term and also require payments if such covenants are broken.

(b) Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

33. The tax changes for individual BTL landlords announced in the 2015 summer Budget will reduce their rental returns because:
   - Tax relief on individual landlords’ interest payments will be restricted to the standard rate of tax. Higher rate taxpayers will therefore no longer receive relief at their marginal rate of tax (40% or 45%); it will instead be 20%, the same as for standard rate taxpayers. This change is to be phased in over four years.
   - BTL landlord interest relief will no longer be offset against taxable income, but instead be paid as a tax credit; BTL landlords will hence be taxed on their turnover not net profit.
   - This could push some basic tax rate landlords into a higher tax band and/or mean that their after-tax return becomes negative.
   - Furthermore capital gains tax on disposals announced in the Autumn Statement will now be due within three months of disposal and not during the following tax year, as now.
34. It is possible that these changes will prompt some BTL landlords to disinvest and some prospective landlords not to enter the market. Even if they place their ownership within a company structure (which is not affected by these tax changes) this is costly because of the potential stamp duty land tax and capital gains tax liabilities arising from transferring properties into company ownership.

35. The introduction of an additional charge of 3 percent on stamp duty land tax for transactions by individual landlords announced in the Autumn Statement will also raise costs. It is proposed that ‘corporate landlords’ will not pay this additional charge (the government explicitly stating its encouragement of them) and the ‘cut off’ to qualify may be a minimum of 15 existing PRS dwellings.

36. The Bank of England has recently noted that BTL lending and investment is procyclical and hence may be a macro-prudential risk for the economy. It is therefore investigating whether BTL lending should be subject to macro-prudential regulation. This may well lead to tighter lending conditions e.g. reducing high loan to value ratio BTL mortgages.

37. The likely impact of these changes will be:
   - muted as half PRS landlords are debt free and the interest relief changes are phased; there may be a rush to buy to escape the SDLT changes due to operate from April 2016;
   - some move of BTL property into company structures, especially for those with moderately sized portfolios (e.g. 10 plus);
   - some move to buy cheaper properties in lower cost areas, and thereby increasing competition with low income FTBs;
   - the reduced income returns of highly geared BTL landlords will lead to some exiting from the market (as recent press reports have suggested) and an even greater emphasis on others (and those entering) on capital growth; thus exacerbate PRS volatility;
   - rents are unlikely to rise because of the increased tax costs because these may be difficult to pass on (landlords tend to be price takers and not price setters) unless a reduction in PRS supply (as BTL landlords exit) leads to PRS shortages in areas where demand is relatively price inelastic and the overall supply of owner occupied dwellings does not increase;
   - the price of dwellings may well fall if there is a large exit of BTL buyers (as the government may well intend as part of its drive to increase homeownership), enabling some investors to take advantage of lower prices to invest for good income and total returns.

38. If the government’s intention is to redress what it (incorrectly) sees as a tax imbalance between home owners and BTL landlords, its analysis does not take into account the fact that landlords pay more tax on their properties than do owner occupiers, even allowing for these changes.

(c) Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?
39. As we have shown in the introduction (paras 3 to 5) key demographic and financial changes have underpinned the recent growth in the PRS, many of which are unlikely to be reversed. Changes within the labour market which create more labour mobility are also likely to reduce demand for home ownership as individuals and couples do not want to tie up capital in home ownership but retain flexibility in the housing market (at least until their careers are more settled in terms of both sector and geography). Hence demand will continue to be underpinned by the factors which have fostered the recent growth. Reduced PRS demand would only be likely to occur if student loan arrangements changed (including forgiveness of those with existing debts), mortgage providers provided higher loan to value mortgages (hence reducing deposits), there was a return to traditional patterns of earlier marriage and child bearing and a significant increase in social rented housing. Current initiatives to increase access to home ownership such as an increase in shared ownership and starter homes may change current trends at the margin. As for culture, stating that a step on the housing ladder can include having a good PRS home is equally as valid as being a home owner will help plus continuing to foster long institutional investment whilst also maintaining the current regulatory framework including using it to eliminate ‘rogue’ landlords.

(d) What are the advantages and disadvantages of restricting rent increases in the private sector?

40. Much depends on the accompanying changes to security of tenure and how far a statutory arrangement would change existing rents and rent increases. Much of the debate has been based on data that compares the rent of all new lettings in a specific year with the rent of all new lettings made in the previous year. And the data tends to come from particular market segments and not the whole market. Since this excludes what happens to the rent of existing tenancies it overstates rent increase in the market as a whole, especially as tenancy lengths tend to last longer that the nominal length of fixed assured shortholds. The new ONS index of private sector rents is more robust and has found much lower increases on an annual basis, although rents have been rising higher than earnings in recent years (see above para. 21), especially in London, reflecting overall shortages.

41. Nonetheless, many lobby groups and some political parties have argued that restricting rent increases within a tenancy would help with affordability and provide some confidence to tenants, helping them budget and giving them the security that, provided they can afford the increases, they will not have to move. Some commentators have argued for three year leases and annual rent increases linked to consumer prices, earnings or local rent indices. These kinds of arrangements are not uncommon in some other countries, for example Germany and the Netherlands and have not inevitably been connected with decreases in supply, although the wider context is important. For example, the tax regime in Germany is far more favourable for individual landlords than in the UK.
42. The advantages of a formula for intra tenancy rent increases and long leases are the certainty and security respectively that it brings tenants, which are important for those who seek long term leases. This will especially help low-income families with children for whom the PRS does not currently work well. Intra tenancy rent increases may not disadvantage landlords either, especially those who want to let over the longer term including the ‘hoped for’ corporate landlords. Modelling by lobbyists and think tanks suggests that, taking into account the reduction in landlords’ costs that arise from longer term tenancies, rents linked to relevant indices would in the past have produced income returns not dissimilar to actual returns over the same period.

43. The disadvantages include the inflexibility for those tenants who would not want to be locked into long term agreements and the risk regulation poses to landlords in terms of what they can charge and hence whether a risk premium will be factored into rents and indeed whether this type of rent regulation will deter investment. Any system that depends on external evidence to fix and ‘police’ rents will be bound to have a degree of complexity in terms of arrangements and data collection. Such a system will be bound to find ways of enabling additional rent increases to fund major repairs, including making homes more energy efficient. All will add to the ‘red tape’ surrounding the PRS just at the time when landlords are about to experience higher taxes.

44. We also note, however, that many individual landlords are more focused on capital growth than rental returns and that many do not run their portfolios as businesses regularly calculating their NPVs or IRRs in the way that institutions do. Hence sentiment is as likely to influence market reactions to regulation and may well deter new investors. It is especially important that it does not deter financial institutions from entering the market. We also note that the 2013 report from the House of Commons DCLG Select Committee on PRS regulation did not recommend greater regulation, despite being urged to do so by some of its witnesses. Instead it thought the PRS was part of the ‘new normal’ (para 2) although the sector was still maturing and needed help to do this. Rather, it recommended simplifying regulation to reduce complex, overlapping and (in some cases, inconsistent) legislation, more flexibility for local authorities to enforce standards, the introduction of fixed penalties for minor infringements and more flexibility for selective licensing schemes. It also supported longer-term tenancies, noting that the participation of housing associations and institutional investors in the PRS offered scope for longer terms being offered.

45. Finally it is important to note that many individual landlords offer shortholds, even though they would prefer assured tenancies, because they have little confidence that courts take timely action if tenants are in breach and give landlords possession. Hence they let on shorthold tenancies knowing that they have guaranteed possession at the end of term, so that if tenants are in breach (arrears, anti social behaviour etc) they can decline to renew the tenancy when the fixed term ends. Thus any move to statutorily required longer terms must involve speedier court proceedings.
17 December 2015
Submission to be found under Royal Town Planning Institute; Professor Tony Crook CBE (Emeritus Professor of Town & Regional Planning, Sheffield University) (QQ 153-163) – Oral evidence (EHMOE0009).
To: House of Lords Select Committee: Economics of the UK Housing Market
Submission 17 December 2015

1. The UK Housing Market is not a true market but is a constructed market.

2. Any new policy on housing must seek to reduce global inequality. This must be seen as a first step towards reparations.

3. Any new policy on housing must seek to build a Sustainable Society globally.

4. Social rented housing must be built in former colonies of Europe with the full cooperation and involvement of future tenants.

5. Social rented housing must be built in locations affected by push-pull factors causing people to migrate, with the full involvement of future tenants.

6. In the long term this will help reduce migration to Europe and other Western countries, such as the USA and Australia.

7. In the long term this will help reduce inequality within Europe and other Western countries, such as the USA and Australia.

For the specific problems of the UK:

8. Housing must be seen as a facility to meet human needs not for speculation.

9. Controls must be set on private renting.

10. Controls must be set on rent levels.

11. Targets must be set for the years 2050 and 2100.

12. For example:

   Total rented housing 50%.

   Standard house price £60,000.

13. The proportion of social rented housing must be forced up.

14. The proportion of housing provided for sale or lease must be forced down.

15. When a leasehold property is sold the remaining period of the lease will be halved.
16. Outside large cities social rented housing must be built with sufficient land attached to grow food for four people.

**Contact: Max Boucher, Manager, Community Support**

17 December 2015
Economics of the UK housing market

Submission to the Council of Mortgage Lenders to the House of Lords Select Committee on Economic Affairs

Introduction

1. The Council of Mortgage Lenders (CML) welcomes the opportunity to submit evidence to the House of Lords Select Committee on Economic Affairs call for evidence into the economics of the UK housing market.

2. The CML is the representative trade body for the residential mortgage lending industry. Its 134 members currently lend over 95% of the residential mortgages in the UK mortgage market.

Increasing the supply of housing

3. Across all the nations of the UK, new supply of housing has lagged behind demand for many years, resulting in significant unmet housing need, and the situation is being exacerbated by significant shortfalls to current housing provision.

4. As we made clear in our 2015 general election manifesto document A housing market to be proud of, the UK needs an ambitious and sustained house building programme for the next 10-15 years at least.

5. The long-term nature of our housing challenge means that we need a clear and consistent housing strategy, that commands strong cross-party and cross-national support and can be sustainable across several parliaments. In addition, we need mortgage regulation and housing market interventions which are aligned and proportionate.

6. While it is imperative that government policies and the stance of regulators should promote much higher levels of new build activity, this is not a sufficient strategy in and of itself to deliver a sustainable and healthy housing market.

7. We also need to make better use of the UK’s existing housing stock and improve housing market liquidity. Even if government policy helps to deliver the 222,000 plus homes needed in England (and approaching 300,000 in the UK as a whole) over the next decade, 90% or more of the housing stock that will exist in 2025 has already been built.
8. According to the latest English Housing Survey data, almost half of the owner-occupied stock is under-occupied, meaning that it has two or more spare bedrooms. Much of this under-use relates to the ageing nature of the UK population and the limited opportunities for downsizing.
Table 1: Overcrowding and under-occupation, by tenure

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Overcrowded</th>
<th>Standard</th>
<th>Above Standard</th>
<th>Under-occupied</th>
</tr>
</thead>
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<td>40%</td>
<td>20%</td>
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<td>Private renters</td>
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<tr>
<td>Social renters</td>
<td>40%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: 3 year average based on 2011-12 to 2013-14 English Housing Survey data

9. Government measures that nudge us towards even slightly more intense use of our current stock could contribute materially to improving the overall supply-demand picture.

Effectiveness of government schemes

10. All major housing initiatives risk the possibility of associated deadweight costs and stimulating housing demand as well as housing supply.

11. With respect to the Help to Buy equity loan scheme, a 2014 report from the National Audit Office, based on early experience, concluded that the scheme was bolstering the confidence of builders and helping buyers access mortgages and so the housing market, but could not say how many Help to Buy sales would have gone ahead anyway.

12. Sales under the Help to Buy equity loan scheme have totalled 63,000 since April 2013, and represented a substantial share of the total sales of large developers.

13. With the recent Autumn Statement decisions to extend the Help to Buy equity loan scheme beyond this parliament and to double the equity loan portion to 40% for eligible buyers in Greater London, the potential for the scheme to have significant deadweight costs, distort the housing market or to become a near-permanent feature of the market, inevitably increase.

14. We understand that the Department for Communities and Local Government has commissioned a fuller and more up-to-date impact assessment, and we would urge it to publish this report.
15. We are especially keen to know what exit strategy the government has for the scheme, and whether this could ever be executed without a material risk of disruption for the new build sector.

16. By contrast, the experience of the Help to Buy mortgage guarantee scheme appears straightforward. Its purpose has been to act as a catalyst for the early restoration of higher LTV lending, and so enable households with only limited deposits to purchase or move home, and has been successful in doing so.

17. Sales under the Help to Buy mortgage guarantee scheme have totalled 66,000 since October 2013. The bulk of related lending has gone to first-time buyers, and mostly in areas away from London.

18. The scheme has involved no government subsidy, attracted no adverse comments from the Bank of England’s annual scrutiny, and will close at the end of 2016 as originally scheduled.

19. A larger number of lenders now offer 95% LTV mortgages, both within and outside the scheme, and the indications are that lenders’ appetite to offer higher LTV loans will continue after the scheme’s closure.

20. Our 2015 general election manifesto document recognised the potential contribution that shared ownership could play for some households, where outright home ownership is not financially realistic or sustainable.

21. So we are pleased that, in the latest Autumn Statement, government set out a significantly enhanced role for shared ownership. We are keen to work with Government and others to remove the obstacles to its growth and to encourage lender participation. In particular, the higher level of capital that lenders are required by the PRA to provide against lending for shared ownership can be a real barrier to increased lending activity and a disincentive to new entrants in this market. In the light of the government’s ambitions for a very significant scaling-up of shared ownership provision, we feel it would be timely now for the government and the PRA to review the position on capital for shared ownership lending. Shared Ownership, as a newbuild proposition, sits alongside other initiatives such as Help to Buy Shared Equity and Starter Homes (when available). As such, a more level playing field would benefit Shared Ownership in competing for mortgage finance with other newbuild propositions.

**Taxation measures**

22. Last year’s reforms to stamp duty land tax reduced the tax payable on the majority of house purchases worth up to £937,500.
23. Although those buying above each of the tax thresholds will have experienced much larger gains (of up to almost 2% of the purchase price), the average “windfall” has been less than half a percent of the purchase price.

24. In practical terms, such a modest order of magnitude gain is likely to have proved transitory, and been quickly capitalised in (rising) house prices.

25. Because of the latter, the vast majority of purchasers, including first-time buyers, are already likely to be paying higher levels of stamp duty land tax than would have been the case a year ago.

26. Given the lack of any commitment to index thresholds for house price changes, any monetary benefit of the 2014 reforms has to all intents and purposes already dissipated. In short, affordability pressures continue to intensify for many would-be purchasers.

27. The CML, like the Institute for Fiscal Studies, has been a long-standing critic of residential stamp duty, because it contributes to high transaction costs and so has a detrimental impact on activity levels, market liquidity and labour mobility.

28. Historically, despite some improvement recently, levels of market activity look decidedly sluggish. Recent CML estimates suggest that current transaction numbers are no higher in absolute terms than they were in the mid-1990s – a period when activity was depressed by large numbers of home-owners caught in negative or low equity. And this, despite the fact that the size of the UK’s housing stock has increased by a third over the intervening period.

29. The disincentive impact of high transactions costs looks particularly perverse for older home-owners, both denying such households one avenue for unlocking housing equity to bolster their retirement incomes and restricting the choice of larger homes for younger families. This has led some organisations, including Legal & General and the Retirement Housing Group to advocate stamp duty relief for older home-owners.

**Mortgage Market Review**

30. The affordability rules, introduced as part of the Mortgage Market Review changes in April 2014, have been reinforced by the macro-prudential housing interventions announced a few months later by the Financial Policy Committee.

31. Taken together, these measures have acted counter-cyclically to reinforce prudent lending decisions during the upward leg of the economic cycle, and so restricted the pace of recovery of regulated mortgage business.
32. This can be seen in the fact that, from 2010 onwards, when market conditions began to stabilise, regulated house purchase activity has fallen further relative to the market overall. Only some of this reflects the strong and sustained recovery of buy to let activity from post-recession lows.

33. The data provides little if any evidence that regulation has adversely impacted upon first-time buyers disproportionately, however.

34. Indeed, first-time buyers appear to have been the principal beneficiaries of Help to Buy and other government housing initiatives, and enjoyed a greater ability to stretch their finances by lengthening repayment terms.

35. CML estimates that first-time buyers this year are within a whisker of matching the 25.6% share of overall transactions they represented in 2014, itself a ten-year high.

36. By contrast, those moving home represent just less than 30% of overall activity in 2015. Movers have experienced a declining market share for the past five years in a row and, their proportion compares unfavourably with well above 40% a decade ago.

Buy to let and the private rented sector

37. The renaissance of the private rented sector and the decline in home ownership are two sides of the same coin, given that the private rented sector has hitherto played only a minor role in stimulating new build.

38. These tenure changes are long-term in nature, reflecting a wide range of socio-economic and demographic factors, and so likely to be slow or difficult to reverse.
39. We welcome the Government’s efforts to kindle institutional investment in build to rent, as part of a broader range of initiatives to improve new supply.

40. While such efforts now appear to be delivering several thousand units each year, mostly in and around London, the longer-term potential and sustainability of build to rent models and their value for money have yet to be established.

41. Meanwhile, Government efforts to bolster the number of home-owners and the rate of home ownership, risk side-lining or even undermining the important contribution that the private rented sector has been playing for a wide variety of households – young professionals, students, inward migrants, those eligible for social housing etc - over many years.

42. Numerous studies have pointed to the fundamental drivers that have been underpinning the longer-term renaissance of the private rented sector. See, for example, UK housing market outlook: the continuing rise of Generation Rent and The Rental Revolution.

43. We have seen a number of tax measures announced this year, which are likely to have an adverse effect of future growth prospects for Buy to let and the private rented sector.

44. The reduction of tax reliefs available to private landlords, announced by the Chancellor of the Exchequer in the summer 2015 Budget, will adversely affect the future cash flows for affected landlords, prompting some to shade down their investment horizons, exit the sector or seek to restore cash flows through lifting rents.

45. Whilst some landlords may choose to mitigate the direct financial impact in other ways, for example by moving residential properties under a corporate umbrella, the overall impact will be to increase the cost and limit the availability of private rented sector homes. This adverse impact may be masked for a time as a result of reporting idiosyncrasies that will treat transfers of existing properties into a corporate structure as “house purchase” activity.

46. We expect the stamp duty changes, announced in the Autumn Statement, to directly reinforce adverse trends, although this may be deferred to the extent that landlords bring forward house purchase transactions into the first quarter of 2016 (before the stamp duty impost takes effect).

47. The rapid succession of these recent tax changes also risks having a significant indirect effect on investor sentiment, especially for the smaller-scale landlords who continue to account for the bulk of Buy to let properties.

48. This may of course reflect a policy intention, although this has not been made explicit.
49. Taken together, these tax measures are likely to materially alter the direction of travel for Buy to let lending and the further expansion of the private rented sector.

50. The stance of the macro-prudential regulator, the Financial Policy Committee, with respect to Buy to let activities is also a source of uncertainty.

51. The CML has been working closely with its members and the Bank of England/PRA to share our understanding of lenders’ business models with respect to Buy to let lending and supplying an evidence base around underwriting criteria. And we are keen to expand this knowledge base for the benefit of all stakeholders.

52. Although we have not yet seen the HM Treasury consultation document in relation to putative directive powers over Buy to let, we anticipate that the decision is a foregone one in favour of such powers being granted. This seems like a logical backstop for the macro-prudential regulator, and one that we fully expect will never be called upon, as long as the Financial Policy Committee calibrates its powers of recommendation appropriately.

53. This would emulate the approach seen so far in the home-owner space, where, despite having specific directive powers since early 2015, the only housing tools deployed by the Financial Policy Committee have been powers of recommendation. The regulator invoked these in June 2014, applying a soft cap on higher income multiples and a 3% interest rate stress test on loans to home-owners.

54. Although the Financial Policy Committee continues to signal its watchfulness with respect to the Buy to let sector, it has to date refrained from announcing any specific interventions with respect to Buy to let. Rightly in our view, as our members show themselves sensitive to the regulatory mood music and continue to nudge their underwriting criteria in a more conservative direction.

55. Reflecting announced tax measures and the hardening of macro-prudential messages, the CML’s latest market forecasts (forthcoming) project house purchase activity by Buy to let landlords falling away over 2016 and 2017. To our mind, this already raises a question-mark about the future availability of rental accommodation in the face of demographic pressures and the significant lags in Government housing initiatives stimulating additional housing supply.

56. Macro-prudential interventions, if or when they do apply to Buy to let lending, need very careful calibration to avoid unintended consequences for the wider housing market.

Further contact

57. This response has been prepared by the CML.
The Select Committee on Economic Affairs: Housing Market Enquiry
17 December 2015 – Submitted by Johnny Morris on behalf of Countrywide Plc

Executive Summary
1. It is widely recognized that the housing market isn’t meeting our needs. Ownership has become increasingly more difficult, private renting more expensive and social housing more strained. There are a host of reasons for this, underpinned by one fundamental issue; our inability to build enough homes to meet rising demand.

2. The government’s new target for 400,000 extra new homes to be built by 2020, about 80,000 homes per year, while welcome only scratches at the surface. To truly make a substantial impact on the housing crisis will require the current house building program to be scaled up to levels we have not seen in over 3 decades.

3. To boost the volumes of house building, we need a much more diverse group of organisations building homes in different ways. Large house builders, small & medium house builders, small developers, self-builders, housing associations, local authorities and build-to-rent developers all need to be encouraged and supported.

4. Increasing the volumes of house building alone will not lead to a healthier market but ensuring the right mix of housing, in the right places, are built will. The government’s move to release brownfield sites in the greenbelt is a step in the right direction but tougher choices on the definition of the greenbelt have to be made.

5. In conjunction, prioritising infrastructure projects will also help to stimulate house building by increasing the viability of sites for developers and linking markets to central employment hubs making it attractive to households.

6. The current near exclusive focus on ownership could damage the market, housing policy must not fall into the trap of thinking there is a single tenure solution. A million homes occupied by their owners in 2005 are now rented by tenants. Institutional investment in new housing stock for rent needs to be encouraged, and the rental market improved without compromising supply.

7. There are different issues in markets across the country, particularly between the South and the North as well as cities and rural areas. A one size fits all approach to housing policy will not provide the right results. While in some areas we have an acute need to build more homes in others we need to manage for decline. A holistic consideration of issues facing the housing market will also need to address the economic imbalance between the North and the South.
8. Housing policy has largely focused on supporting first-time buyers but consideration needs to be made for first-time movers too who also face similar issues. Increased mobility for first-time movers can also help to release the supply of homes for first-time buyers as they tend to live in the types of homes the buyers are seeking.

9. The housing market is a huge store of wealth and cash plays an increasingly important part of the market. There are now more households that own their home with no debt than have a mortgage, and in the last year nearly 4 in 10 homes sold were bought with cash.

10. Both the housing market and getting new homes built are incredibly complicated, long term issues. The housing ecosystem often suffers from lack of a long term view from government. Much like the new infrastructure commission, housing would benefit from an all-party body that had a long term interest in fixing the problems in the housing market.

Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

11. Successfully scaling up house building, to the levels required to make substantial gains, will depend on the appetite with which developers and house builders can expand. Given many house builders are reporting that they’re already delivering near capacity and facing a skills shortage, consideration needs to be made for how to resolve this.

12. One of the biggest sources of constraint for the industry at present is the shortage of skilled labour. The Construction industry was hit hard by the recession and shed many skilled workers; many have chosen to leave the industry and have not returned.

13. The number of first year construction trainees in the UK have been declining steadily since 2005 with fewer than 20,000 trainees in 2013. To ensure that we can build the volume of homes we need, more needs to be done to attract new recruits to the industry as well as making available training that they will need. The government’s pledge of 3 million new apprenticeships over the next parliament is an opportunity to solve this skills shortage for the long term. The government needs to ensure that appropriate take up of this is met.

14. SME builders need to play a bigger role if we are to increase our building capacity. In the late 1980s, two thirds of all homes built were built by SME builders but now they build a little over a quarter. More needs to be done to attract SME builders back into the market, particularly around financing issues.

15. In the short-term, more consideration needs to be given for alternative strategies to do more with the existing resources we do have. Encouraging more industry take up of the construction of modular housing using modern methods of construction (MMC) could be a viable solution. MMC could reduce the labour requirements for builders and would
allow the industry to manage the increasing demands for housing more easily should the industry’s skills shortage continue.

16. Government planning policy has long limited housebuilding in the greenbelt due to politics rather than viability. But while there are tough restrictions on new development there, some development still takes place. Our research shows over the last 20 years, 96,000 new homes have been built on the Greenbelt, slightly fewer than the number of homes in Trafford in South Manchester. This equates to around 3.5% of the 2.7 million homes built in England between 1995 and 2014.

17. Last year just 3,250 homes (3% of all homes) were built in the Greenbelt, down on 2013 and the long run average. At a time when cities are growing and in many cases are home to more people than when Greenbelt boundaries were drawn, the Greenbelt needs to keep up with the way people want to live now.

18. Tougher choices on the definition of the greenbelt have to be made. Careful, considered release of low amenity value greenbelt land has the potential to accommodate many of the homes we need. There are almost 80 railway stations in the greenbelt with surrounding plots that have been developed on to some degree as part of the stations’ infrastructure. Promoting development in areas within walking distance of those train stations in the Greenbelt which have already been developed, has the potential to accommodate around half a million new homes, in the areas where they are most needed.

19. Even without changes to existing Greenbelt boundaries, returning to the rates of development on Greenbelt land seen in the early noughties could yield an extra 5,000 homes per year.

20. Increasing the supply of housing can also be achieved by the government prioritising investments in infrastructure projects. Housing markets and employment markets are intricately linked – people move to where jobs are available or to areas allowing them to get employment hubs easily. Transport investment has a significant impact on housing markets by acting as a catalyst for development.

21. New infrastructure also helps to incentivise developers into building more by instilling confidence that there is or will be a ready market for the homes they can build. Importantly, it also achieves this even during downturns which can help to stabilise the construction sector and help limit a repeat of the skills shortages we are currently experiencing.

22. Taking London infrastructure as an example, over the course of the project, our research shows Crossrail looks on course to enable the delivery of 42,000 homes – equivalent to what London builds in two good years. The number of new homes built on the Crossrail
route peaked in 2009 as construction work started, at a time when new house building in London and the rest of the country was falling. Had house-building along Crossrail followed the wider London trend since its confirmation, around 15,000 fewer homes would have been built. A similar pickup in housebuilding on Crossrail 2 over and above current rates could add an additional desperately needed 12,000 homes in London.

**Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?**

23. The 2014 reform of Stamp Duty Land Tax has helped to limit rising entry costs for first-time buyers by lowering the up-front cash barrier they face. Based on 2014 transactions data, we estimate that 72% of buyers will now pay no or less Stamp Duty than they would have under the previous rates.

24. However, the initial savings are being eroded by price rises. As the average price has increased by 5.6%, the actual cash stamp duty paid has also increased. Meaning that the average buyer only pays £540 less. By 2018 purchasers will be paying more stamp duty in cash terms than 2014.

25. For first time buyers, along with first time movers stamp duty presents a significant barrier to owning and moving. The average stamp duty in 2005 was £340 and today it is £1,230. The tax is a particularly large barrier in London where 10 years ago, the average stamp duty accrued on a home was £2,130 but is now £15,000. As stamp duty is paid in cash at the point of sale, it directly increases the time it takes for first time buyers to save enough money to purchase, or movers to move.

26. While the stamp duty reforms in 2014 offered a brief respite for some, the stamp duty burden will continue to grow in future years. This will act on a drag on mobility and efficiency in the housing market. The current Stamp Duty system requires significant reform, to remove it both as a barrier to entry and penalty for those that need to move.

**Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?**

27. The UK’s Private Rented Sector (PRS) is going through a period of rapid growth. The rising cost of home ownership, demographic and economic changes and the growing trend for urbanisation and have all contributed to the growth of the PRS. These structural shifts have been years in the making and will not be easily reversed. Within the current environment the decline of home ownership will continue.

28. Since 2012, the government has implicitly supported the development of a professional institutionally backed private rented sector and we would urge that this intensifies to bring the UK rental sector up to similar standards of Germany and the US. More and more institutional investors have looked to enter the market since the government endorsement and the British Property Federation estimates that around £30bn worth of
new private housing investment, over the next 5 years, could be available if government continues to support the sector.

29. The government can play a greater role in encouraging the growth of this sector by urging Local Authorities to rethink tenure assumptions when assessing housing need so to as allow the release of viable land to institutional PRS developers.

30. A larger build to rent sector would not only help to increase the supply of rental properties in the market but also provide choice to tenants improving the experience of living in a rented home. Institutional investment into the PRS would allow the potential of longer-term tenancy agreements and provide the stability many feel is lacking today. In addition as institutions would be long-term owners of the properties, there is an incentive for them to provide high quality accommodation and to ensure that this is maintained.

**Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?**

31. It’s unlikely the reduction of tax relief will see a direct impact on rents, landlords are rarely able to pass on increasing costs to tenants, as the price is set by the market. In addition, approximately two thirds of landlords are mortgage free so the changes should not affect them.

32. While not a direct comparison, the introduction of a landlord licensing scheme in Newham was criticised at the outset because of the belief that landlords would pass on the cost to tenants. However, our research shows that there is no evidence the scheme pushed up rents in the area. In both the 12 months prior to its introduction and 12 months after, landlords in Newham were no more or less likely to put up the rents than in any other surrounding boroughs.

33. However, the hit to landlords’ income, estimated to average a 22% fall, will likely force more highly leveraged landlords out of the market. Especially with potential interest rate rises on the horizon further denting diminishing income streams and future buy to let regulation likely. With existing supply issues in the market, stock levels are down 5% year on year, more landlords leaving will increase the imbalance between supply and demand leaving tenants to compete for dwindling supply and putting upward pressure on rental prices.

34. The institutional PRS may grow to substitute smaller landlords, but as of yet it is still an emerging sector in the UK market so there is added risk of a short-term imbalance. Increased entry costs for new landlords as a result of the higher stamp duty rates they face may also mean that those leaving are not necessarily replaced in the short-term.
What are the advantages and disadvantages of restricting rent increases in the private sector?

35. A more affordable private rented sector is desirable but rigid rent control regulations are not necessarily the answer. Rent controls have the potential to reduce the incentive to invest, either in the new supply or maintaining existing stock. This would result in not just fewer homes to rent, of potentially lower quality, but also a reduction in mobility. Those who already have a home in the rented sector will be less likely to move from it and that is inefficient for labour mobility in the economy.

36. In other countries where some forms of rent control exists, it is hardly ever a cap on rent levels. Countries that do combine strong rent regulation with sizable private rented sectors usually have systems that permit rents to adjust to near-market levels even though they are formally ‘controlled’.

37. We believe that standard contracts offering longer tenancies with pre-defined rent rises for those that want it would be more viable. However, flexibility should still be allowed for both tenants and landlords. Terms should be made for tenants who need to leave, landlords that might need to sell or take possession and if either party is breaking the terms of the contract. With greater demand from higher income tenants for longer term, void and arrears risks will reduce and there will be greater incentives to invest.

Government schemes: How effective have Government schemes been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

38. The Help to Buy scheme has helped many individuals buy their first home. It looks to do more of the same with introduction of London Help to Buy. The new scheme means that for a buyer of a new build flat in London, the cost of servicing a mortgage would now be even lower than someone buying a 35% part-share of a home under ownership.

39. However, like most demand side subsidies, the long-term effect is likely to be further price rises as more buyers compete for available stock. Ultimately seeing the barriers to entry for those not able to buy growing further. There is a danger that the schemes are only helping those who would have been able to get on the ladder despite the discount, albeit more slowly, rather than those who might more help.

40. There is concern of how the Help to Buy equity loans will be repaid after the 5 year period – in particular the larger sums from the London Help to Buy. There is risk that the long-term effects could be a reduced mobility for households in the housing market. In a few years’ time it’s likely the term ‘Help to Buy Prisoners’ will emerge.

41. The Starter Homes scheme which looks to stimulate the delivery of homes is welcome but not as a replacement for other affordable housing. The starter homes scheme seems
to be positioned to replace low-cost home ownership schemes, affordable rent and social housing.

42. The biggest limiting factor for many potential first-time buyers is the deposit they need to raise. Despite its reduced cost, many lower income households would still find it difficult to be able to save up the necessary amount. Replacing affordable rent and social housing with starter homes will only exacerbate the issues these groups would face.

Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?
43. While the ability to retain the inheritance tax allowance from a previous property should help to incentivise older homeowners that downsizing is still worthwhile, there is still risk that it could restrict supply of existing stock. Those whose properties haven’t reached the new inheritance tax threshold still have an incentive to not move until prices rise to sufficient levels.

44. To encourage downsizing, there needs to be better provision of specific housing product, designed and built for downsizers. Our current housing stock (typified by the 3 bed semi) is not fit for most downsizers.

Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?
45. There is a fundamental issue of a lack of resources in planning departments. This has been at the forefront of concerns of developers. With departments already stretched, investment is needed here or else it risks limiting the ability to deal with the increased scale of development needed.

46. Planning is part of the equation in housing delivery, but attention must be paid to the whole supply chain. Right from infrastructure and land availability to how homes are built to what tenure they’re sold as.

Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?
47. In the year after the MMR was introduced, the number of mortgage loans fell by 7%. However, it is difficult to measure how much was as a direct impact of the MMR regulations or other market factors. First-time buyers, who generally have smaller deposits than other types of buyers, would have been heavily impacted by the MMR. CML modelling on the impact MMR would have on affordability for FTBs show that more than half of first time buyers would be affected with 15% unable to borrow and 40% having to borrow less than they would want.

48. We suggest a full review of the actual impact the MMR has had on first-time buyers since its introduction. In addition, an assessment of further lengthening of the mortgage
indemnity guarantee scheme to help boost lending to first-time buyers. With the government’s guarantee scheme set to end in 2016, there is a risk that first-time buyers will be further hampered by a lack of high LTV loans in the market.

17 December 2015
Cumbria Housing Group – Written evidence (EHM0097)

Submission to from the Cumbria Housing Group to the:

House of Lords Select Committee Inquiry into the Economics of the United Kingdom Housing Market.

1. Introduction

1.1 The Cumbria Housing Group is an advisory body consisting of representatives from the 6 District Councils, the Lake District National Park and the County Council covering housing across Cumbria. The Group is made up of lead politicians who have responsibility for housing (and wellbeing) issues in their areas.

1.2 The Cumbria area is diverse covering the Lake District National Park, an urban core to the North in Carlisle, and Authorities in the West and South which are economically isolated by inadequate transport infrastructure. The County is served by a two tier authority system, with statutory responsibility for housing sitting with the Districts, and planning, transport and infrastructure with the County Council.

1.3 Cumbria has significant ambitions for growth targeting the creation of 30,000 new jobs over the next 10 years. Local Plans are seeking to support this growth and meet existing need through the development of 33,000 new homes over the next 15 years, which includes 8,500 affordable homes.

1.4 The County has recently suffered from devastating flooding with both homes and businesses impacted. In the rush to build much needed new homes across the Country we would ask Government to remember, when considering planning policy, the distressing impact that flooding has. Building on flood plains, and in existing gardens is reducing natures natural ability to absorb rain and flood water, the effects of which we now see too often.

2. How can we increase the supply of reasonably priced private housing in the UK?

2.1 We can increase supply through both new provision and by bringing existing empty stock back into use, and the two need to be considered together.

2.2 Support for local councils has in the past been successful in bringing empty properties back into use, but there are still barriers that need to be overcome, and a recognition that this is not always an inexpensive option and often requires much detailed work with property owners. Government and Local Authorities need to work together to develop a pack of measure to make it attractive for private owners to rent out their homes.

2.3 It is essential that more public sector land is made available to support the development of new homes. There is a commitment to this through the 2015
Comprehensive Spending Review (CSR) but this does not go so far as to consider how the infrastructure to these sites will be funded. Previously Government had suggested that brownfield starter homes would be exempt from S106 contributions, which would place an additional financial burden on Local Authorities which they would be unable to meet in light of cuts to budgets over recent years.

2.4. The ability to attract private developers to the market is important, and how we do this is a balance between the need for ‘reasonably priced’ homes, and the need for private companies to make a profit.

3. How effective have Government schemes been in improving the affordability of housing?

3.1 We welcome measure to improve the affordability of housing, but would stress that affordability is not just about home ownership and that we need to ensure an adequate supply of affordable social housing is also available where this is needed and can be evidenced such as through the Strategic Housing Market Assessments (SHMAs) and local housing needs surveys.

3.2 In some Districts there has been a positive response to the introduction of schemes such as Help to Buy, which has supported an increase in home ownership along with other products including mortgage guarantees and equity loans. There are questions however as to whether help to buy has actually improved affordability, with evidence in the North West to show that the average price of a house bought this way is £193,000, with the average age of purchasers being 32 and with a typical household income of £45,000. This therefore cannot really be seen as affordable for young people on low incomes.

3.3 Starter Homes offer the opportunity for young people to take that first step on the housing ladder with a 20% discount on open market value. There are however concerns that the scheme introduced in CSR 2015 applies the discount for only 5 years, unlike other low cost ownership schemes. This means the benefits of the discount remain with the initial buyer but lost to future purchasers. We would prefer to see discounts remaining with the property so that the benefits can be passed on to future owners and we do see that the introduction of Starter Homes will reduce the delivery of much needed social rented housing.

3.4 Right to Buy has undoubtedly been a success story in terms of opening up opportunities for home ownership to those who could not have afforded to buy on the open market. The new voluntary extension of the scheme is only in the pilot stage, and we await with interest the findings of this. However there are a number of concerns about the impacts that this could have which are set out in the following paragraph.

3.5 There can be no argument that the ability to access the right to buy scheme will benefit some individuals, however the immediate concern is that an affordable rented home will then be lost to the local area. This is particularly important in parts of Cumbria where we have a low wage economy, and no amount of discount will ever enable some residents to buy their own home, meaning a supply of social housing is essential to the
market. This is also a scheme that once again benefits the first purchaser, with the discount then lost to future buyers, which actually adds to pushing up the costs of what were initially considered affordable housing. There is also evidence that many former right to buys end up as buy to let properties, and in one Cumbria District this is the case with 40% of flats sold under the scheme.

3.6 The proposals for the sale of high value council stock to fund one for one replacements for homes sold through the right to buy is one that we will watch with interest. In the past one to one replacements have never proven possible, and even if this does work there will inevitably be a time lag between the loss of the property to the sector and a replacement. It is also important to understand what high value properties mean in different areas, and the impact that the sale will have.

4. Are there tax measures that would improve housing supply and affordability?

4.1 Measures have already been announced to raise inheritance tax from £325,000 per person to £500,000, meaning that a married couple/civil partners will be able to pass on assets of up to £1,000,000. There will also be a family allowance added to the existing tax free starting at £100,000 in 2017 rising in annual increments to £175,000 by 2020/21. The concerns that we have in Cumbria is that this will only benefit a small percentage of people, with a more significant amount of people benefiting in areas such as London and the South East where they experience higher property values. This will actually only add to the geographical disproportionate share of wealth in the United Kingdom.

5. Has the reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers?

5.1 The reform of stamp duty has lifted an additional financial burden on most buyers, and certainly on the average first time buyer, with anyone purchasing a property for below £937,500 paying less or the same as before. However the other side of this is the 3% surcharge on stamp duty announced in the CSR for buy to let properties and second homes. Whilst we do have real concerns in parts of Cumbria where there is a high percentage of second home owners who use their properties as holiday homes, pushing up house prices and contributing little to the local economy, there are concerns of the impacts of these changes on buy to let landlords. This measure follows tax cuts in tax relief and could act as a disincentive to potential landlords and might also lead to an increase in rents to offset the costs. Whilst this might not be such an issue in large parts of Cumbria due to below average house prices, it has been estimated that nationally the duty would rise on a typical buy to let mortgage of £184,000 from £1,180 to £6,700.

6. Are any further changes to the planning system necessary to increase the availability of low cost housing?

6.1 We would welcome a local approach to planning allowing for the implementation of local evidenced policies which reflect local need, rather than a one size fits all approach across the Country. It is interesting to note that decentralisation is being advocated at the
same time as a role out of planning changes that will be enforced uniformly across the country despite the existence of very different housing markets and housing needs.

6.2 There need to be assurances for developers, rather than continual change which causes uncertainty, however we also need to ensure that developers actually progress development once they have planning permissions and not simply sit on them.

6.3 It is of concern that despite the positive measures announced to increase delivery these are aimed specifically at increasing home ownership. This neither acknowledges nor addresses the fact that there are insufficient affordable homes for rent, and how this can be tackled through the planning system.

7. What measures can be taken to increase the supply of low cost private rental properties in the UK

7.1 Despite the Government’s continued push towards home ownership, there needs to be a more balanced housing market that does reflect aspirations, but also the reality that house prices are out of the reach of many. For these people we need to ensure that we have high quality housing options and the private rented sector has a significant role to play.

7.2 Institutional investment in the sector could be the solution in some areas, but in many parts of Cumbria relatively low rental yields would be unlikely to make this an attractive proposition. Housing Associations may have a role to play in developing a specific private rented arm of the business, but we will not comment on the business case for them to do this.

7.3 Empty Homes, as referred to earlier in this submission, could have an important role to play, and measures would be welcomed to support this.

8. What are the advantages and disadvantages of restricting rent increases in the private sector?

8.1 There is a diverse private sector market across Cumbria, and at the lower end of the sector market rents are already charged which are below the Local Housing Allowance. Inevitably rents will be significantly higher at the other end of the private rented sector, and there is a need for this variance of properties to meet the different needs of residents at different stages in their lives. We can find no strong case for restricting rent increases, as they will be market driven despite the fact that high rents in the private rented sector clearly drive up the national Housing Benefit bill.

9. Are any measures needed to increase the supply of social housing?

9.1 In order to meet the County’s aspirations for growth, which includes affordable homes of which social housing is a part, we will require a cohesive approach across all partners. From a planning perspective resources are needed to plan for infrastructure requirements needed to unlock significant development sites, and whilst this would not
solely benefit the social housing sector, there are greater opportunities for both affordable and social housing on large scale sites.

9.2 Devolution may provide greater influence over the use of affordable housing funds, but Local Authorities will need to work closely with Registered Providers to ensure a robust pipeline of social rented housing which supports local need. This will however have to be in line with their business plans, which have recently been reviewed and submitted to Government to reflect the recently imposed rent reductions. This will inevitably make Housing Associations more cautious about new developments, and we could realistically see a reduction in the number of providers who will continue to develop.

9.3 Whilst there has been a raft of policy announcement recently regarding housing, these have done nothing to enhance the provision of social housing or the role that the sector has to play in the housing market. The planning system therefore can only go so far to support an increase in supply, and we need to look at the policies which are creating a blockage to this. For example the extended Right to Buy potentially not only reduces the stock through the sale of properties, but can discourage providers from building new homes which could then be sold at a discount. A number of Associations are also looking to switch pipeline schemes from socially rented to other forms of tenure as a result of the previously mentioned rent cuts, impacting on the number of new social rented properties that will be coming onto the market in the next few years.

9.4 There has been a massive reduction in grant rate for social housing over recent years, and whilst providers have found new ways of funding development, this is becoming more and more difficult. Uncertainty over the future of grant funding only adds to the challenge of developing more social housing.

9.5 The removal of the ability to stipulate affordable housing by tenure (draft Housing and Planning Bill 2015) will undoubtedly result in developers choosing to include starter homes rather than social rented as part of their affordable housing requirements. We see this as a significant risk factor in being able to meet the full range of housing needs in the future.

10. Additional Comments

10.1 Cumbria is committed to a growing economy, and partners are working together to make this vision a reality. In order to support this growth we must also plan for housing growth, but it is important that this is the right type of housing. We need to attract more high wage businesses as much of Cumbria has a low wage economy, and we need to ensure that housing provision is available across price ranges and tenure.

10.2 With a growing elderly population, it is crucial that we retain our younger people, including those who come to study at our universities. To make the area attract to them to live and work we have to have the right mix of housing, at a price they can afford.
10.2 There is evidence across Cumbria, and from individual Authorities, that show future population predications and housing requirements. This information can be provided to the Committee should they wish to explore this further.

Prepared by Sue Powell
On behalf of the Cumbria Housing Group
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Submission to be found under Homes and Communities Agency (HCA); Department for Communities and Local Government (DCLG) (QQ 59-68) – Oral evidence (EHMOE0004).
Brandon Lewis MP, Minister of State for Housing and Planning, Communities and Local Government, and Damian Hinds MP, Exchequer Secretary, HM Treasury

Q237 The Chairman: Mr Lewis, Mr Hinds, welcome to the Lords Economic Affairs Committee. As you know, we are looking into housing, with a particular focus on the supply of housing. We have very much in mind the target that has been set by the Government of building 1 million homes in the lifetime of this Parliament. Can we start off by asking you how you arrived at this target? How confident are you that you are going to be able to meet it?

Brandon Lewis: There are a couple of points on that, but first I want to say thank you for inviting us here this afternoon. It is an absolute pleasure to be back in this room; I was here a little while ago.
For us, it is about looking at the requirements with regard to the household formation that we need to achieve and making sure that we are working on what is achievable. Originally when I had the conversation about this, I was asked by a journalist, “What would you see as success?”, and I think it would be that. The Secretary of State in my department and we have been very clear that is not necessarily the end. We need to build 1 million homes and to keep going when we have household formation, on our latest figures, of around 210,000 a year. We are also very conscious that we have not built enough homes in this country year on year for many decades. Certainly, over the last few years, coming back from what was the lowest level of housebuilding since the 1920s just before we came in in 2008-09, there has been a lot of work to do. We have been very clear that we want to be very ambitious. We want to deliver homes across all tenures. We want to drive up home ownership as well. Working to deliver 1 million homes in this Parliament is a target we should be very ambitious about, and go beyond, if we can.

The Chairman: How did you come up with the target? What was it based upon?

Brandon Lewis: We have household formation at around 210,000 a year, so over the course of the Parliament we need to deliver around 1 million homes to meet household formation.

The Chairman: All the witnesses we have spoken to suggest that is going to be difficult to achieve to unachievable. What is your confidence based upon? What measures do you propose to take that will enable that level of housebuilding to be achieved, which you acknowledge is substantially higher than has been achieved over the last 20 years?

Brandon Lewis: It is based on a range of things. It starts with the Chancellor, in the Autumn Statement, giving us the biggest housebuilding programme since the 1970s. We have been streamlining and speeding up the planning process since 2010. The Housing and Planning Bill that is in your House at the moment plays its part in that. It is not the entire picture; it is part of that jigsaw puzzle, if you like, because the housing market, as people in this room will know as well as if not better than us, is a hugely complex area across the different tenures, as are the impacts on it both from the wider economic cycle and from how the planning process plays into delivering housing.

I am confident. When we look at the fact that housebuilding increased by approximately 25% last year and look at the reports from the Home Builders Federation, we see that 181,000 new homes were created last year, so the trajectory is there showing that we can do it. I make no bones about the fact that I fully accept that this is a big ambition and that we have our work cut out. We have to be absolutely determined and focused on delivering that. For that reason, we have to look at things right across the piece, from the planning side right the way through housing and across all the tenures, whether it is the new starter homes programme, affordable rent or shared ownership. Also, it is about supporting the private sector to deliver and increase its delivery going forward; there is also a huge part to play going forward in the way that we build homes.

The Chairman: The private sector has to play a significant part in that. What discussions have you had with the private sector that would encourage you to think that they can up their game?
Brandon Lewis: I have been having regular conversations with the private sector, as I do across all sectors in the housing market. I am afraid your Lordships will have to bear with me; I will talk more, shortly, about what we are doing with the private housebuilding sector. I am confident. With their own trajectories, they have been increasing their build-out rates. At one point they were averaging around 48 homes per site per year on a build-out rate. They are now at more like 70 homes per year. We need to get that up to 100 homes per year per outlet as quickly as we can. I am confident that we can do that.

Part of that is making sure that we have an efficient and effective planning process, but it is also recognising that the major housebuilders are not the only way of delivering housing. That is why, when we are doing our own projects, whether it is the direct commissioning that we announced in January, building on what we are doing at Northstowe, whether it is how we use our affordable housing programme and working with the housing associations sector more widely, there is a whole range of things going on. Indeed, in the private rented sector, depending on which expert we read in which newspaper on which day, there is between £30 billion and £50 billion looking to invest in our property market.

The Chairman: We can come to some of these points later in the session. A general point that has been made by not only the private sector but the public sector is that it is difficult to establish a long-term business model when nearly every year there is some change. One of the greatest volatilities that the businesses, housing associations and local authorities have to cope with is, bluntly, tinkering by the Government, not just tinkering this Government but Governments generally. Have you considered a self-denying ordinance that you might just leave the market alone so that it can recover under its own steam?

Brandon Lewis: I have a huge amount of sympathy for allowing stability in the sector. One of the things that any Government of any type are going to be looking at, if you are looking to continually move forward, is learning from what you are doing, and if at any given time there is a gap in the market or an opportunity, seeing whether there is a need to intervene and do something to make sure that you do not miss that opportunity.

One of the interesting things for us at the moment, looking across all the different tenures, is that we are very keen to make sure that we do all we can to support people’s move into home ownership. There are some shared ownership issues that we want to deal with to make it more available and to encourage more people to take it up. There is some regulatory work that we can do on that.

Things happen as you go through. The ONS decision last year means that, through the regulations, we need to make change in relation to housing associations. That will give them more freedom to do more things. I fully accept that there is a balance to find between that and having stability, but we need to be prepared to take decisions to help move things forward in a positive way whenever we can. We do that in consultation all the time with the sector, whether on the public side or the private developer side. That is why those ongoing conversations are so important.

Q238 Lord Layard: As you said, your target would involve matching the increase in supply to the increase in demand, but we are starting from a position of enormous imbalance between supply and demand, and our children, or in some cases our grandchildren, are
facing impossible housing costs. Should we not be aiming to make the supply rise faster than demand? I do not mean tomorrow, but over the next five years for example.

**Brandon Lewis:** Absolutely. That is why I made the point, and the Secretary of State outlined, that the 1 million homes is not 1 million homes and then we stop; we need to build 1 million and more and keep going. One of the challenges for the housebuilding sector, and one of the problems that our Government have had to pick up from what we inherited in 2010—the numbers were so low because of the economic crash—has been not only about physically going out and building houses but about rebuilding the supply lines. There are some challenges still, but they are pretty much back on stream. Some 75% of the small builders disappeared from the market, and we have to find ways to bring that side of the sector back. There is a huge skills shortage. If you talk to people in the development industry, they all have different issues they raise, but the one thing that is common is the skills challenge. That goes back to people leaving the industry back then, an ageing industry that we need to replenish, and to the way we build houses.

You are absolutely right that we need to increase supply further, and having got the market, and housebuilders, building again, we have to upscale that in a way that is deliverable right across the country.

On the wider picture of housing supply and demand, I would also say that we have to make sure that we do not look at this through the prism of the south-east and London, where there is a huge challenge. There are still substantial parts of our country in which if somebody bought a new-build home, even in East Anglia, near my own constituency, at the top of the housing market in 2006-07, they are possibly still sitting on negative equity and wondering what we are talking about. There are parts of the country where the gap between housing demand and supply is different from that in the south-east, particularly in London.

That is why it is important for us to make sure that we are looking at the right approach across the country and building up the economies so that certain parts of the north that want to develop and grow have the economic growth to support the housing growth that they want to see. That is why it is important that we have this cross-government approach. I am very fortunate to be a Minister working on a portfolio that the Prime Minister, Chancellor and all the departments are coming together to deliver on.

**Lord Forsyth of Drumlean:** I want to follow up on the point you have just made and go back to the Chairman’s question about how you reached your target. I can see how you might set a target for demand, but thinking about the supply side, as you have pointed out, a lot of small builders, and indeed larger builders, disappeared in the financial crash, and lots of people left the industry. We have had evidence that there simply are not the skills available to build these houses. In setting your target, to what extent did you take account of what needed to be done on the supply side? What assumptions did you make about how much more speedily land would be available from planning authorities and how many more building workers would be available with the necessary skills? Did you do that exercise in working out the target or just think, “A big number is needed, and this is probably as much as we can do”, as an arbitrary exercise? Is there a plan? If there is a plan, what assumptions were made about the availability of land, increasing skills and speeding up the planning
process? Are there targets in place for all these things and action plans to make them happen?

**Brandon Lewis:** In the widest sense, yes, but I will go into the detail. I would stress again the key point that we have made in relation to supply, which is not that we will build 1 million homes this Parliament, although we are absolutely determined to do that, but that we need to go further than that. I come back to the point which the Secretary of State has made: that we build 1 million homes, and then we need to keep going. That has to be our ambition, because that gets us up to where we need to be for household formation. As the Chairman and Lord Layard pointed out, that does not get us near starting to cover the backlog of gap that is in the housing market.

Moving forward, there is a range of things that we have looked at, and are looking at, including the planning process itself. One of the biggest challenges at the moment is bringing more small builders back in, as well as small builders becoming medium-sized builders, and medium-sized builders becoming larger builders, as the barriers to entry, which are partly to do with finance and are intrinsically linked to the planning system, are removed. We have done a lot to speed up the planning system over the last few years, which is why the housebuilders themselves would acknowledge, as they did at their conference this morning, that we have been delivering on what they have been asking for.

Equally, we need to do more on the bureaucracy of that process. Planning permission in principle, which is in the Housing and Planning Bill, helps with some of the access to finance issues, because of certainty of delivery rather than what can be effectively a gamble on planning permission.

We are now pretty much back to record levels. Some 253,000 homes were given planning permission last year.

**Lord Layard:** My question was about the assumptions that you made about how all these things that you are mentioning would be improved in setting the target—or did you say, “This is the target”, and then, “We need to do something about all these things”? The evidence that we have had is that there are simply not the skills in the marketplace to build the number of houses that has been set. Do you agree? If you do, how did you think you would meet the target? What targets were set for more building workers, for example?

**Brandon Lewis:** I am confident that we can build 1 million homes in this Parliament. I will be talking about that even more over the next few weeks. I am very aware that we have a challenge with skills. If we want to go further, we need to do more than just increase the amount of skills; work is being done between my department and BIS on apprenticeships. A gentleman by the name of Mark Farmer is doing some work on that at this moment for us to take that forward. That will be intrinsically linked to the work on how we build homes. We need to speed up the delivery of homes and the build process from 20 to 24 weeks to several weeks.

That starts moving us into the discussion on advanced and off-site construction, and changes the skills requirement and the speed at which we build. BIS has put substantial amounts of money into developments in that. We have seen the Laing O’Rourke
development joint venture coming through, in the last couple of weeks we have seen Legal & General coming into this market, and others are developing through this market already. There is a lot more that we need to do on that. That is all part of that agenda.

Yes, we look at all these things. They have been part of the conversations and work we have been doing on how we deliver these houses and make sure that we are confident we can deliver them. You are also right that it is inherently complicated.

**Lord Layard:** Could you give us a piece of paper from your department that sets out what assumptions you made and the increases that were required in all the areas that make up the targets and how you see them being achieved?

**Brandon Lewis:** Yes. Over the next couple of weeks I can let the Committee have an outline of how we get to 1 million homes.

**Q239 Lord Sharkey:** The Treasury told us that if you were to succeed in building 1 million homes in the period you are talking about, average house prices would still rise annually by around 6%, which is clearly faster than the growth in wages. As we are talking about price and availability, how many houses would you need to build in excess of the 1 million to reduce the rise in prices to the rise in wage inflation?

**Brandon Lewis:** I will say one thing on that and then hand over to my colleague, Mr Hinds, from the Treasury. I know that your Lordships will be fully aware of the difference between the average house price, and how that has changed, and the average price paid by a first-time buyer buying a new home. One of the challenges that we will always have, and what plays into the point, is that even building 1 million homes will not necessarily reduce house prices. An awful lot of homeowners will be very pleased about that, because it is the biggest piece of equity anyone owns and people want confidence, understandably, that equity is secure, if not reasonably increasing. That is an entirely human approach to take. We also need to make sure that people can access home ownership and the housing market. That is about new build and why it is important that we keep that supply going. That will not change the fact that in some areas, in the secondary market in particular, if there are properties that are sought after there will be an inflationary price challenge. We have to make sure that we are producing enough new build homes, so that people can access the housing ladder and the changes within it become proportionate between the bands. I will let Damian chip in.

**Damian Hinds:** I do not think there is a single, simple formula, because there are other factors that affect house prices, such as the availability of financing, and so on. The modelling suggests that in order to keep the house prices to earnings ratio constant, somewhere between 250,000 and 300,000 homes per year need to be built.

**Q240 Lord Lamont of Lerwick:** We have had a certain amount of debate both within and from witnesses about the contribution that population or rising incomes make to house prices. Do you have a view on that?

**Brandon Lewis:** In the sense of the pressure that it puts on?
Lord Lamont of Lerwick: Some witnesses have said population and migration growth are responsible for two-thirds of house price increases. Other people have argued that it is less than that and that the growth in incomes is an important factor. Obviously they both have an impact.

Brandon Lewis: I would not deny that there is an impact from any change in population growth, whatever outlet it comes from. Migration has a much, much lower impact than that. The biggest impact is a mixture of income growth and population growth. I have a brother and a sister. We all lived in one house with my parents, and we now have our own homes and we all have two children, so our families are growing in size. One of the biggest pressures in population numbers that we are seeing coming through is that we are all living longer and are living in our own homes longer, which is good news. Roughly 40% of the equity in this country is sitting with people who are over 65. People are downsizing, if they are downsizing at all, much, much later in life. That puts quite a big pressure on. That is probably more than two-thirds of the pressure.

Lord Lamont of Lerwick: Professor Rowthorn strongly disagreed with you on that, and said, “There is not the slightest doubt that longevity is much less important than migration for population growth”. That is not quite the same as demand for housing. He was distinguishing between the demand and new household formation from people staying longer in the same house.

Damian Hinds: The ONS made these projections of the numbers of households being formed. There are three big factors, among others: longevity, net migration and the average size of household. You cannot look at any of them individually and say, “This one is solely responsible”, because they all interrelate. Whether you are an immigrant or a non-immigrant you are also likely to live longer, and as people get older they are more likely to be in a single household than when they are younger. On the ONS numbers, which were estimated at 230,000 a year and have recently come down to 210,000, as Brandon said they can also strip out of the modelling what this number would be with zero net migration, and that number is 142,000.

Lord Lamont of Lerwick: There are two points that might be argued against you. One relates to rents, which are subject to the same forces as house prices but are not complicated by things such as mortgage availability or the relationship to incomes of mortgage. Rents have risen very, very sharply, and I suggest that probably owes quite a lot to population. Secondly, the proportion of income spent on housing has increased markedly, and the ratio of house prices to incomes is markedly higher than it was.

Damian Hinds: Because of where interest rates are, the proportions of incomes that are going on financing mortgages are at historic lows. I do not think there is any doubt that the population growth factors that you mention will have an impact on rents as well as on house prices. Although the value of homes to income is at a very high level compared to historic averages, the low interest rate means that the cost of servicing is lower.

Lord Lamont of Lerwick: The cost of servicing is lower, but the cost of repaying the principal is larger.
Lord Lamont of Lerwick: So it is less affordable on a cheaper mortgage. Some witnesses have questioned the accuracy of the DCLG household projections, saying that they underplay immigration. Are your household projections consistent with the latest population projections from the ONS?

Brandon Lewis: Yes. Our household projections show, as Damian outlined, that 32% of growth up to 2037 is due to migration, and that 77% of the net increase in households is due to households headed by a person aged 65 and over. That is how our projections lay it out.

Q241 Lord Lamont of Lerwick: Can I ask Mr Lewis a question about planning? It is rather a general point. We have all been a bit mystified at the inability of the private sector, with this huge demand and runaway prices, to satisfy the demand or build more rapidly. Despite all the Government’s reforms, I wonder whether the planning system still does not impose huge risks on the private sector, on the larger developments. I happened to have a conversation with someone who was involved in a site in the Home Counties—I had better not embarrass you by saying where it was—for 2,000 homes, 250 acres, including a 160-acre park in the middle of it. It was a brownfield site in the middle of the green belt. Initially, the local authority indicated that this was the key project in their local plan, but the local plan kept getting delayed. You will know that there are various reasons for that. After they had spent tens of millions—even excluding the value of the land, they spent another £10 million on advice, exploring bus routes, all sorts of things—planning permission was turned down. One can understand, faced with that, why people feel very much at risk in going for these projects.

Brandon Lewis: Absolutely. Lord Lamont, you make a very good point. It is one of the challenges in the planning system and why the changes that we are bringing forward are so important. One of the problems is that these things take a long time to come through the system. Although we have seen the changes and a 53% increase in the number of properties getting planning permission in the last year from where we were in 2010, we are now starting to see the benefit of a lot of the changes that got Royal Assent in 2011 and 2012. Some of the measures in the Housing and Planning Bill are looking to address exactly the point you outlined.

You mentioned larger builders, but this is even more of an issue for small and medium-sized builders. At the moment, when you go for planning permission on a piece of land that is brownfield, identified in a local plan, even identified in a neighbourhood plan, in theory you can still be refused for planning in principle. That means that it is very difficult to access finance, and the companies that have the finance can spend a lot of money without any confidence in being able to build. We think that is wrong. It is wrong for the community as well, because it takes confidence away from a community that has spent all its time allocating land as well and going through those processes.

One of the things that we are doing now, and the Housing and Planning Bill does this, is planning permission in principle. If you have land on the brownfield register and ultimately in the neighbourhood and local plan, it has been out to consultation, and the local
community has said, “We are happy for building to be done there”. Then you will have planning in principle to build X number of homes. Your full planning discussion then is not, “Can we build or not?”, but, “What does it look like? Is it Tudor? Is it Georgian? Where do the roads need to be laid out?” It gives that confidence back to developers and to the communities that have gone to the trouble of allocating land in the first place to be built out. We need to speed this up.

One of the other challenges in some cases is local authorities putting in preconditions that mean that a developer can get planning permission and still spend a year or two before they can physically get on site and build. That has cost implications that do not help either the eventual purchaser or the community, which spends two years wondering why nobody is building on land that they have given permission for.

These are all areas that we need to do more in. Some of that is in the Housing and Planning Bill and some is outlined in the Budget last week.

**Lord Lamont of Lerwick**: Is there a specific problem with brownfield land within the green belt?

**Brandon Lewis**: Yes. Brownfield land within the green belt is treated as green belt, because it is within the green belt. You still need to go through the entire planning process.

**Lord Lamont of Lerwick**: Are you planning to alter that?

**Brandon Lewis**: At the moment, we are not planning centrally on doing anything to alter green belt. If a local area wants to look at its green belt, it does so through its local planning process.

**Lord Lamont of Lerwick**: You are not planning changes to brownfield sites within the green belt.

**Brandon Lewis**: No, we are not planning any changes on green belt at all at the moment.

**Q242 Lord Turnbull**: The Prime Minister described housing as “one big piece of unfinished business”. The Chancellor has made a great deal of fuss about the infrastructure. There is lots of talk about the northern powerhouse, and frequent repetition of, “We are the builders”. What seems to be missing is the idea that housing is part of infrastructure. Most of the discussion about infrastructure is about railways, which is fine, but why is housing not regarded as part of infrastructure and within the remit of the National Infrastructure Commission?

**Brandon Lewis**: I do think housing is part of infrastructure. I am in the process of writing an article on that very issue at the moment. I am about half way through writing it for a publication. It is intrinsically linked with infrastructure at a couple of levels. It is infrastructure, it is something we need, but you cannot have one without the other. You cannot have good housing without good infrastructure, because housing needs the infrastructure. Whether you think of the infrastructure as education, health, transport, or, indeed, communications with broadband, all of them are intrinsically linked. You need good education facilities, good work facilities, access to them both with communications and
transport. It is intrinsically linked. I am seeing Lord Adonis in the next few weeks to have that conversation with him.

**Lord Turnbull:** You have already mentioned that there are three main tenures and that we need to work on all of them. Two of them, the local authorities and registered social landlords, have been more or less out of the game for the last 20 years. I have not seen anything in here that adopts the philosophy that you have to fire on all cylinders; that all these tenures have to up their game, and up their game substantially. The principal emphasis of the Government’s pronouncement is on home ownership, principally first-time buyers, which is absolutely fine, but there is a huge shortage, as you can see in the growth of rents, in the rented sector. In the last Autumn Statement there were measures on the private rented sector that are actually antagonistic to it. I cannot understand why you are making life more difficult for the private rented sector when it needs to expand just as much as the home ownership sector.

**Brandon Lewis:** I agree that we need to build across all tenures. We have one of the most complicated housing markets, in terms of the amounts of tenures that we have, in the modern world. I see that as a positive. It means that wherever you are on the demand side, you can look at the right product for you. I think of it as a menu, and you look at what is right for you, from starter homes through the private rented sector, affordable rent, social rent and a whole range of other niche products. We have to make sure that we keep all these tenures available and look at any gaps that need to be filled.

There is huge opportunity in the private rented sector. As I touched on earlier, there is £30 billion to £50 billion of institutional investment that wants to invest in this market. I have seen a couple of different organisations, each of which is looking to spend £4 billion in our property market in this area. I prefer to say that we are looking to develop a more professional rented sector that is institutionally led. We are starting to see that come through, but I also appreciate that we are at least a decade, and some might argue two decades, behind the multifamily housing that we see in other parts of Europe, and certainly the United States, and what that can provide, and at all different points of the economic scale. Also, there are something like 30,000 properties at the moment that either have planning permission or are in the build process in the PRS sector in this country. It is just now starting to come through, and over the next couple of years we will start to see the benefit of that. I would like to see more of that. It is good for the tenant because there is good choice, and more supply means that we can get control of prices. My economics degree is some years behind me, but the supply and demand to me still seems a pretty straightforward target.

**Lord Turnbull:** We took evidence from some professional landlords about what might happen in the future. We heard about this wall of money, but we did not see much evidence of what they were doing with it. Something is still discouraging them. You may want to be developing them, but I think you need to develop them in addition to the family-owned homes. I cannot see why you are trying to turn that tap off before you have turned the other tap on.

**Brandon Lewis:** The other tap is that 30,000 properties are already in planning or are physically being built now, so that tap is very much on. The Government also have a very big
guarantee scheme that we are running, as well as the Build to Rent scheme that we have facilitated. In the Budget, the Chancellor extended the guarantee scheme for a further year for the private rented sector. I was with a big chunk of that sector and the big institutions last week on Thursday, straight after the Budget, and they are still very positive about what they want to do, bearing in mind the fact how they get involved in the market that the changes do not particularly affect that.

I appreciate your point about the buy-to-let sector, the smaller landlords, the non-institutional individual landlords. I accept that the changes change some of the situation for them, but we have to look at this in light of the fact that there has been an anomaly in some parts of the property market. If somebody is buying individual properties as buy to let, until now they have been able to have a position that no owner-occupier can have, so they can outprice the owner-occupier because they are able to get an interest-only mortgage and 40% mortgage tax relief. No owner-occupier can get that. That has led to an anomaly in the system that means that owner-occupiers are disadvantaged by buy to let, and that cannot be right.

The changes the Chancellor has brought in, particularly to the mortgage tax relief, bring it into line with other equity investments, so it still works as a sensible investment. I had a conversation along these lines with a large individual buy-to-let landlord on Thursday last week. We have to put into context the fact that even the stamp duty change puts the average property price paid for buy to let back to where it was just two years ago when the market was, in some people’s colloquial terms, flying anyway.

Lord Turnbull: I am not sure I find that entirely convincing, given the complete absence of any kind of Schedule A imputed rent income and the fact that one sector is completely free of capital gains tax. We are not going to agree on that.

Can I come back to registered social landlords, who have been producing 20,000 or 30,000 a year perhaps? I do not quite understand this whole business of why they have been accidentally classified to the public sector. How quickly can you get that reversed? What can you do to bring housing associations, which would be professional landlords in your definition, back into play, when at the moment they could be large contributors of good quality, maybe not affordable rents but lowish rents? At the moment they are stymied.

Brandon Lewis: I do not agree with the last part about them being stymied. I will explain my logic. Certainly we in government do not want them on the government books and did not want them on the government books. That was the ONS decision, and it is an independent body. We are going to great lengths to deregulate and therefore hopefully to have them removed from the government books. Those are the changes in deregulatory measures in the Housing and Planning Bill that are agreed cross-party. We see housing associations as entirely independent organisations. We want to work with them on their future development. I would hope that the ONS will look at what is in the Housing and Planning Bill and some time later this year make a decision to take them off the government books. The ONS has put them on the government books and looked at some issues that go back to 2008, or 2007. We are working very hard to get them back to being fully independent bodies. That is what those deregulatory measures are about and which I hope you will support in the Housing and Planning Bill.
In relation to their building, there are 1,500 to 1,600 housing associations across the country, which interestingly is more than local authorities. Some of them are building right across tenures, which is interesting. The larger ones in particular have been developing developments that include private rented sector, affordable rent, social rent and outright sale. We have been working with the National Housing Federation and its representative body, the G15, the core of the 15 largest, over the last year or so, which was what led to the voluntary agreement on right to buy, which gives them access to assets and the ability to use them, which they have not been able to do before. I have to say, talking to the National Housing Federation, that it is very, very bullish in their desire, ability and plans to build. It is keen to build more and to build out faster. That is partly what the voluntary deal is about. We are working with it very closely to make sure that we get into a place where it can do that. Indeed, it was very supportive of the Chancellor’s spending review measures in the Autumn Statement that give us the massive building programme that it intends to play a very large part in as well.

**Lord Turnbull:** The impression that we got from them was that they were bullish in their enthusiasm but were still not helped, for example, by rent control, which would also be a reason why they might be classified as public sector. In trying to reduce the housing benefit bill by controlling rents, you end up building less as opposed to trying to control the build by building more and bringing rents down.

**Brandon Lewis:** There are two points. One links back to the PRS point. I accept the point you made about the PRS and the gap between what they would like to build and what is actually built. One of the big challenges is that there is an issue for the PRS in how the land values are dealt with. If you are buying for PRS compared with build to sell, you will get outbid pretty much every time. I put a challenge out there to the PRS sector—there are various ways in which we can look at dealing with that, if it is right to deal with that—for them to come back with a unified sector voice. They have done that through the British Property Federation. There is a piece of work on my desk at the moment which we are looking to respond to over the next month or two.

In relation to the housing associations and the social rent reduction, the reality is that social rent had increased by roughly double what the private rented sector has gone up by over the last five years. We need to make some difficult decisions about the deficit and bring down that bill, and look at it in the context that housing associations have not had to make any of the efficiencies that, for example, local government has had to make over the last few years, which is, if you like, its competitor in this field and has a hand in delivering that side of the public sector. We are asking them to make a 1% saving a year for four years in a sector that last year made record surpluses of about £2.2 billion. I think that their finding efficiencies, finding that 1% a year, is achievable, which is obviously also good for the tenant as they get a reduced rent, while still building more properties.

**Lord Lamont of Lerwick:** I am still a little mystified by your reply to Lord Turnbull about this level playing field between the small landlord and the institutional landlord, who does not yet exist, whereas the small landlord does exist now. You explained the interest relief point, and I can follow that argument in relation to the owner-occupier, but you have this positive reverse discrimination against stamp duty. What you left out in the list of measures was the
change in capital gains tax from 28% to 20%, which, as I understand it, does not apply to buy-to-let landlords.

Brandon Lewis: It applies to small and large. I would also say that there is substantial institutional investment now that is building out these 30,000 properties across the country at the moment.

Q243 The Chairman: In 2010, you set up the Government Property Unit. We also have the Homes and Communities Agency. According to Savills, 2 million homes could be built on public land. Could you explain what the Government Property Unit has been doing to try to build out on this public land since it was set up?

Brandon Lewis: The Government Property Unit, which works with the Homes and Communities Agency, which is in its triennial review at the moment, is the Government’s department that deals with land development. I am sorry, but I do not recognise Savills’ comment about 2 million homes. The Prime Minister set us a challenge. We had 100,000 homes in the last Parliament and we wanted to go further in this Parliament. We have found land for 160,000 homes that we want to release during the course of this Parliament. In the Budget last week we were also able to announce that we are working with local government and aim to build a further 160,000 through local government as well. That gets us to 320,000 homes on public sector land in this Parliament.

Nobody is denying that we want to go further and look at making sure not just that we are releasing land that becomes surplus—again, the Housing and Planning Bill has quite an important clause on the duty to dispose of land that becomes surplus and for both central and local government to work together—but that we are making good use of the public estate. That is where the Government Property Unit comes in: in identifying this land and parts of the public estate where we can bring things together. Local government has a big part to play in this as well.

Q244 Lord Forsyth of Drumlean: Perhaps I am being a bit thick, but can I follow on from Lord Lamont’s point about the changes in the treatment of buy-to-let landlords? Mr Lewis explained how buy-to-let landlords buying properties were at an advantage over, say, first-time buyers, because their mortgage interest was fully allowable against tax, they would find it easier than an ordinary person to get an interest-only loan, they had an advantage and were able to bid up the price and pass that on to the hapless first-time buyer in the form of a higher rent. I understand that argument. Is that the problem that the Chancellor was trying to tackle by putting the stamp duty on buy-to-let property and by changing the rules so that the tax relief was only allowable at the basic rate? If that is the case, I do not understand how it works, because if people are incorporated they will be able to set the interest on the debt against their income and against tax.

Also, originally the proposal was that larger landlords would not have to pay the stamp duty, although in the Budget the Chancellor appeared to reverse that and say that they would now have to. Could you explain the thinking here? Why were the large landlords exempted from the stamp duty and are now not exempted? Why was there different treatment of small landlords, perhaps using their pension fund or whatever as an investment, and not
incorporated, and those who might decide to be incorporated? Can you explain the logic of all this?

**Damian Hinds:** Starting on your last points, there was a consultation that followed the initial proposals on how multiples should be treated relative to individuals. It was not that it came in and then changed; this was a consultation to clarify the rules. We believe that as a simple matter of fairness there should not be an exemption for these large multiples that is not available to individuals.

**Lord Forsyth of Drumlean:** So why did you propose it in the first place?

**Damian Hinds:** You will remember from your time in government that there is often benefit to be had from consultation.

**Lord Forsyth of Drumlean:** I do not recall ever consulting on something that I did not think was sensible.

**Damian Hinds:** We have ended up in the right place, which is that the odds are not stacked against the individual. On the other hand, since 2000 there has been a big move from equities into buy to let property. Buy to let has been a big, big part of the growth in mortgage lending of late. They are not making land any more. In the short term there is a fixed supply of houses and building more time. In the short term, a house that is bought by one person is not bought by another. We want to make sure that more property is available to first-time buyers and young people. It is fair that the treatment of buy to let property should come closer to what it would be if you were invested in equities. You still have leverage on buy to let that you would not have in the same way if you were in stocks and shares. There is still basic rate tax relief. It is fair to bring it closer together so that there is not this distortion in the market, which encourages the growth in buy to let, where undeniably there has been a big growth, and therefore allow more space in the marketplace for young buyers. The changes we have seen in home ownership rates are particularly acute the further you go down the age scale. If you look at people in their 20s today, the difference in rates of home ownership compared to the past is truly significant.

**Brandon Lewis:** First-time buyers were the hardest hit part of the housing sector in the crash.

**Q245 Lord Kerr of Kinlochard:** Can I come back to Mr Lewis on the Chairman’s question about the evidence that we had from Savills that surplus land is available in government ownership on which 2 million houses could be built? I am scarred by an attempt 35 years ago, when I was in the Treasury, to persuade the Ministry of Defence to release land for housing. I was seen off with the argument then that it was necessary to maintain training facilities for a conscript army of 1 million men. We have been given evidence that under the Ministry of Defence, TfL, the NHS—in a large number of areas—there is land, mainly brownfield, that could be made available for housing. You mentioned the Government Property Unit. Who is in charge of the Government Property Unit and how powerful is it in negotiating with, say, defence or transport or health about the disposal of land?
Brandon Lewis: The Government Property Unit comes within the portfolio of the Cabinet Office.

Lord Kerr of Kinlochard: Who is in charge?

Brandon Lewis: The Cabinet Office.

Lord Kerr of Kinlochard: Who is the Minister?

Brandon Lewis: Matthew Hancock.

Lord Kerr of Kinlochard: Is he the tzar of surplus land disposal?

Brandon Lewis: No. Surplus land disposal will come generally through the Homes and Communities Agency, which is an NGO of DCLG, my department. Your Lordship may have noticed my smile when you commented on dealing with departments and surplus land. I am the Minister who has been having meetings across departments leading up to securing land for 160,000 homes. To be fair to the Ministry of Defence, it was the first to identify a big chunk of its land in an announcement in January, and it outlined where that is and when it is likely to come forward. Obviously some of that is dependent on movement around the Armed Forces as well, and indeed overseas. There is a challenge. For example, I co-chair the London Land Commission, and you are quite right that there is land, whether it is TfL, Network Rail, or an individual health trust sitting on it, that we all want houses to be built on it. It is surplus land and we want to see it built out. The challenge for central government, of course, and for the Department of Health, is that health trusts are independent, individual bodies, so the issue is how we work with them to get them to release that land. In London, the health world has a large part to play. We are doing that by working across government departments, with Ministers working together and putting that pressure on identifying that land. I do not underestimate the real challenge in getting that land, particularly when you are dealing with agencies such as TfL and Network Rail. Again, I will be fair even to TfL, as odd as that might seem to me, sitting on the London Land Commission, and say that there has been a definite change in the last year or so in the attitude to getting some of this away, and TfL is becoming far more proactive, not just on releasing surplus land but on working with the GLA—this is devolved from us to the mayoralty—and where we have transport hubs and TfL land, we are also getting best use out of it. We have the issue of not making the most of some of the land that we have, as well as whether it is surplus.

Lord Kerr of Kinlochard: I think there is an innate conservatism in all departments or agencies, which is understandable. They want to hang on to what they have as an insurance policy for the future. You only really tackle this if you make it the responsibility of some very senior member of the Government to act across the board. If it is a question of a piece of MoD land and they want to hang on to it, that requires the Secretary of State for Defence to persuade X, the guy who does not exist at the moment, who has across-the-board responsibility. When that happens, the departments will find that the Secretary of State looks at their case and is not prepared to defend some of them, therefore you get some movement.
In evidence to us, Kate Barker said that the main point she wanted to make was that housing policy is “totally un-joined up” within government. I deduce from that that there is something mechanically wrong with the process involving government-owned land, the easiest thing on which you can act because it is within your power. I am sure Mr Hancock is an excellent Minister, but does he have the seniority to go and persuade?

**Brandon Lewis:** I appreciate that I am biased, and your view may be that I would say this, but I disagree with the point you say that Kate Barker made. First, Matthew Hancock sits in the Cabinet, so he has the authority to do that and is doing an excellent job of working with us and delivering the Government Property Unit. More than that, in relation to identifying the land, Ministers across departments worked together. I disagree with her about joined-up government. I think we are more joined-up than I can imagine we have seen for a very long time in the sense that there is an absolute join-up between the Prime Minister and the Chancellor and generally, right across No. 10, No. 11, the Treasury and DCLG, on housebuilding and releasing public land. To be fair, all landholding departments are playing their part in that. That is reported back on regularly. We have a cross-government task force—we are meeting tomorrow—and at every meeting one of the standing items on the agenda, having worked up and identified that public sector land, is now reporting back on the progress on it. Every landholding department is represented there, and it is chaired by the Secretary of State. From the Chief Secretary through to the Chancellor, the Prime Minister, the Secretary of State for DCLG and other Secretaries of State, we have an absolute buy-in to this agenda, so I would argue that we have an immensely joined-up approach to this and a very cross-government approach and determination to deliver it.

**Lord Lamont of Lerwick:** I want to return to Lord Forsyth’s point about tax, and I will shut up after this. You talked about the changes to capital gains tax not disadvantaging buy-to-let investors compared with the larger institutional investors. I take that point, but, taking everything together, it seems to me that it disadvantages buy to let, or is certainly not going to encourage it to continue. I notice what you say at paragraph 1.171 on page 48 of the Red Book about the reduction in capital gains tax not applying to residential landlords. I wondered why this was. You say, “This will ensure that CGT provides an incentive to invest in companies over property”, i.e. you do not want them to invest in property. It seems rather odd, if you are trying to get investment in property, that you appear in the small print of the Red Book to say that you do not want them to invest in property.

**Damian Hinds:** We are not trying to stop anybody investing in property or anything else that they want to invest in. As I was saying earlier, we are trying to make sure that there is space in the market for first-time buyers and younger people. I could not find the statistic I was looking for earlier, but today fewer than 10% of people who were born in 1990 own a home, whereas of those born in 1970—I was born in 1969—a quarter did by the same age. I would say there is a dramatic difference in young people’s ability to access the housing market.

**Lord Lamont of Lerwick:** I agree with all that, but I would put it to you that there is a need to encourage investment in rented property just as much as in other forms of commerce.

**Brandon Lewis:** I agree, but it affects institutional investors as well, as you can see if you look at how many institutional investors have come in, where they are coming in at the very beginning as part of the development. There is the latest largest development that Greystar
is doing in London and, because it is involved from the very beginning, the stamp duty change does not affect it because it pays stamp duty on the land value, not the individual properties.

**Damian Hinds:** CGT is not coming down for residential landlords.

**Lord Lamont of Lerwick:** That is the point.

**Damian Hinds:** The point of the CGT change is to encourage an entrepreneurial and investment culture, which will create jobs and wealth.

**Lord Lamont of Lerwick:** Not to invest in property.

**Damian Hinds:** Of course, we are not trying to discourage people from investing in residential markets, but that is a different point.

**Q246 Lord Sharkey:** Lord Porter of the LGA told us that it is the state sector that has not delivered the housing units, and he went on to say that somewhere between councils and registered social landlords we are going to have to start delivering a lot more homes that are owned by the country. We have also heard that local authorities have a huge appetite to get involved in housebuilding again. How can the Government support the ambition of these local authorities, and, in particular, do you think that they should be allowed to borrow more to fund housing?

**Brandon Lewis:** I do not think they particularly need to borrow more, but we always have to be cautious about that because, the way the fiscal rules work, any borrowing that local authorities do from their HRA accounts has an impact on the PSBR and we have to make sure we deal with that deficit and debt issue. There is also borrowing headroom in the sector at the moment of about £3.4 billion. I want to see local authorities build out more and not only in the social rented sector. They have the capacity to build out across tenures as well if they want to and to get involved in that. Lord Porter is very ambitious for local authorities to get involved right across the housing delivery sector, and I absolutely support that. We work with local authorities and we very much have an open door to local authorities to come and talk to us that want to get involved and deliver, whether it is through delivering garden settlements or new settlements, or whether it is how they make better use of their HRA accounts. We are very happy to work with them.

**Lord Sharkey:** In your view, what is the barrier currently holding these people back if this £3.5 billion is available?

**Brandon Lewis:** I think there is a range of things. Some local authorities literally would not have the land. Some local authorities may not have the expertise, and I think that is where Lord Porter’s organisation, the Local Government Association, can play a very helpful part in bringing together some of the expertise around the sector. One of the challenges for local government, which I see very much on the planning side as well, is that there is still an institutional desire, it seems sometimes, particularly on the part of small district councils to work very much in isolation. Particularly on the property side of things and in planning, we need to encourage them to work together far more to break down those barriers. They are
doing it very well at some senior management levels, but they need to share services and expertise across local government. Some local authorities, such as Ealing, are doing some phenomenal work in delivering not only in the private rented sector but affordable rent and using a model that delivers. Last week, we launched the new Legacy model in central Bedfordshire. This is about how we spread that news and opportunity around other local authorities. The LGA itself has a big part to play in that.

The Chairman: Local authorities have something like £35 billion in capital reserves, which sits there doing nothing. Has the Treasury found a way of releasing that money to help build houses?

Damian Hinds: We are keen on local authorities using their reserves, particularly where they have high levels of reserves, and these are all very legitimate things to invest money in, so, yes, absolutely we encourage sensible use of reserves. As Brandon was saying, the borrowing facility is there. For most authorities it is not necessarily the finances that are holding them back.

Brandon Lewis: For local authorities more generally, it sometimes comes down to the expertise. I spoke to a local authority last week that has a really interesting programme. It is building in the private rented sector and using the income from that to finance some social and affordable rented housing and some for-sale build. It is a really interesting model. I asked them whether they were talking to other authorities about what they were doing, as it is really interesting work and really good regeneration work as well, and they said, “No, no”. They were a bit too humble to spread the good news of some really excellent stuff that they are doing. I think there is an issue with spreading expertise. Local authorities are becoming very aware of what even the Localism Act of 2011 says. They have that general power of competence and ability to use that in a much more commercial way, which is to the benefit of local residents and to their own balance sheet eventually.

The Chairman: They have told us that they do not have the finance to do it, yet they are sitting on these reserves, many of which arise from the sale of land. If that money is not spent in the same financial year, then effectively it increases their borrowing under the current rules that are applied, so this money sits there as dead money. We have also been told that the cost-benefit analysis that has been done favours infrastructure projects such as transport rather than housing, and, as Lord Porter explained, the payback on a swimming pool was greater than the payback on housing, so he was able to borrow the money to build a swimming pool but not to build a house. This is Alice in Wonderland economics.

Lord May of Oxford: Not for somebody who lives in a pool.

Brandon Lewis: I am always looking for innovative housing styles and techniques, so I appreciate Lord May’s point. Obviously, local authorities have to take decisions about what they do locally, but I have been on the record many times before about looking at what local government is doing with its reserves and how it uses them. Some local authorities are very smart about how they use capital reserves in that way. Overall, even on the revenue side, local government has gone from £13 billion to over £22 billion of reserves in the last five or six years, and I think it is quite right that local communities ask how they can use that in a way that helps in the areas where it is needed to solve some of the housing challenges.
Lord Sharkey: To be clear, you are saying that in fact finance is not a significant barrier to local authorities building houses?

Brandon Lewis: For some local authorities it will be, but I would not say that it is across the board when there is that kind of headroom in the sector.

Lord Sharkey: Yes, but if we are looking at the larger picture and the overall targets, you conclude that finance is not a barrier.

Brandon Lewis: In the overall picture, when you have £3.4 billion of headroom, there is a lot of capacity for building there, yes.

Lord Sharkey: You seem very reluctant to say that it is not a barrier exactly.

Brandon Lewis: If you have £3.4 billion of headroom, I am not quite sure how that is a barrier.

Lord Sharkey: That is what I was hoping you would say.

Brandon Lewis: I know, but I am quite sympathetic because some local authorities will have barriers, whether it is the availability of land or expertise. That is why I am a bit reluctant to use the term, but when you have £3.4 billion of headroom floating around in the sector, I would expect local authorities to be looking to use it.

Q247 Lord Teverson: Perhaps I could come back to social housing, which is where Lord Turnbull started this discussion. I was interested, Brandon, that you mentioned social landlords and them not really having the same pressure as local authorities and therefore maybe needing a bit of pressure to become more efficient. In fact, when the Chancellor of the Exchequer was here a few months ago, he made a similar comment. Is it the Government’s feeling that social landlords are lazy or inefficient, or that they have not really had enough pressure from government as quasi-public bodies?

Brandon Lewis: I would not describe my view quite like that. When you bear in mind that there are 1,500 to 1,600 housing associations out there, a huge number of them are not building houses. There are some that are doing fantastic work and are building houses. I want to see more of the sector building houses and partnering up to deliver more housing. When you are having record surpluses I want to see that sector really moving forward. I know from talking to the National Housing Federation that the sector itself—and I appreciate I am talking in generalities—also has those kinds of ambitions. It is very keen on that, and some in the sector will say that there are people in the sector who are not doing enough. It is the same in any sector; you will get a bell curve, and our job is to try to work with the sector to make sure that we are getting the most out of it in delivering the housing that we want to see.

On the social rent cut, my point is simply that the housing association sector has not been subject to the kinds of efficiency savings that other parts of the public sector, such as local government, have been. When it has those kinds of surpluses, I do not think finding 1% a year savings is too much to ask in the efficiencies they could find. That is backed up by the fact that there are some in the sector who have been talking to our department about...
wanting to go further than a 1% cut, in some cases because they find they are having to
compete with the private rented sector and are not as competitive as they would like to be.
I appreciate that is only a handful, but I think there is an understanding in the sector that
they want to deliver more and do more for less, and that is a good thing.

Lord Teverson: If it were the full private sector, as you say, and you make the good point
that there is great variability within that sector, with an asset base such as that you would
have the performers taking over the non-performers, if you like. You would have a
consolidation in the market. Is that something that should happen that energises this
sector?

Brandon Lewis: As it is an independent sector, I want it to be an independent sector. It is
not for me to tell them what to do.

Lord Teverson: I understand that it is not up to government.

Brandon Lewis: I think we will in the years ahead. We are already starting to see some of
that sector looking towards each other to partner up. We probably will see some mergers in
the years ahead. If that works for them as an independent body, I would encourage that,
but it is about making sure we are doing it in a way that the sector is able to continue to
deliver more housing and high-quality housing, which I know it is very keen to do.

Lord Teverson: I deal commercially with a fairly major housing association in the south-
west, which is one of the better ones, or one of the good ones.

Brandon Lewis: I can guess which one.

Lord Teverson: Is it not a fact that reducing rents by 1% means that it is the most efficient
that are hit most? Mathematically, they are the ones that have to cut their plans back more,
because the efficiencies have already been put in, whereas the not very good ones finally
get around to sorting it out. That seems a real issue to me.

Brandon Lewis: That is a point that you can make about any sector. The other side to that is
that of course a 1% rent cut in many cases is a rent reduction and so more money in the
pocket of the tenants. We have to remember that it is the people who pay the rent,
whether it is the public purse or an individual, who benefit from that, and I am very focused
on making sure that individuals get that benefit. Equally, some of the large organisations,
the ones that are efficient and well run, are like any good business, and I doubt that there
are many businessmen out there who, if they put their minds to it, would not put their
hands up and say that they could find 1% efficiencies a year and would spend a lot of their
time focused on doing just that. I still think that even the very best organisations, by
definition of being the best, find that a 1% efficiency is what they are looking for anyway.

Lord Teverson: But a 1% efficiency is going from an indexed base to a minus 1, is it not, so
the difference is significantly more than 1%?

Brandon Lewis: Not based on current interest rates, but I appreciate what you are saying.
Lord Teverson: I have a final couple of points to make. Stock could be a threat—or it might not be, as you say. On the extension of right to buy, we have seen in the past that replacement one by one has not been effective. Is that another pressure on social landlord housing stock coming down?

Brandon Lewis: I think it is the opposite. If we look at where we are with right to buy as was, one of the problems for a decade or more from 1997 was that for every 170 homes that were sold only one was built. In 2012, when we reinvigorated the scheme, we said that it would be one for one. At the moment, the only direct correlation we have is that first year, and in first-year sales it is one for one. In London it is about two for one. Local authorities get three years to build those homes, and we have said there will be one-for-one replacement. If local authorities do not build them, the money will come centrally and the HCA will build them. In the voluntary agreement with the housing association sector, at least one home will be built for every home sold. That drives up housing supply, because every time an asset is released it gives the finance to build an extra home, so for every home sold somebody is still living in a home and an extra home gets built. Over the medium and long term, that will increase housing supply and the number of houses being built by the housing association sector. It allows them to realise and access assets that they have not been able to before.

Lord Teverson: Some of the evidence has perhaps shown the opposite of that, but I take that point. Lastly, one of our concerns about government policy on starter homes—and we understand why that policy has been brought in—is that it can substitute for affordable homes in Section 106 agreements, which again puts pressure on social or affordable housing coming down. Starter homes are not necessarily the same as affordable homes.

Brandon Lewis: I would say a couple of things. More generally, as the Prime Minister rightly outlined, we are going to correct the fact that, at the moment, affordable housing in government language is technically a home that you rent, but affordable housing for 86% of our population who want to own their own home should be a house that they can afford to buy. Starter homes will be affordable housing, which is in the Housing and Planning Bill that is going through at the moment. Very shortly, we will publish a consultation document in which we will start looking at exactly how that works. We are very clear, as I was all the way through Committee in the Commons, and I think my colleague Baroness Williams in this House has also been very clear, that we believe that we can deliver starter homes and still give local authorities the ability to have affordable housing across different types of tenure. We are very clear that we want to deliver 200,000 starter homes for first-time buyers. As Damian has said, this area has been hardest hit since the recession. We think we can do that as part of the mix.

Lord Griffiths of Fforestfach: Mr Lewis, I am sure that as Minister for Housing you would say that the Government value home ownership, but that they also value the private rented sector. From the actions you have taken, it would appear that the Government have a clear preference for home ownership over the private rented sector. Am I right in thinking this is true? If it is, what case would you make for home ownership over renting?

Brandon Lewis: As a party, we launched our manifesto with two key housing policies, both of which were around moving home ownership forward: starter homes and the extension of
right to buy. Home ownership has been falling since 2003. The latest figures show that we are just starting to stem that tide, but we want to see it increase. Ultimately, we are public servants and serve the people who elect us, and 86% of them want to own their own home. It is entirely logical that we are very clear that our focus is on increasing housing supply and moving home ownership back in an upwards direction. I am also very clear that we need housing supply across tenures. I think the private rented sector has an important part to play, not merely because of economic pressures, although I accept that is one of the reasons we will see it grow in cities such as London, and Manchester to an extent, but because we are at the start of seeing what we have seen in other parts of the world. America is probably 15 years ahead of us on this. It is the millennials, if you like, the young professionals who, even if they can afford the equity to buy a house on the outskirts of London, choose to rent, either because they want to be closer to work or because they want the kind of facility, the multifamily housing as they call it in America, with the amenities and structure that that delivers, and we are starting to see those products coming through. Some of the evidence is showing that the number of empty nesters will also continue to grow. This is why I made the point earlier that, for us, home ownership, as well as increasing housing supply, is absolutely a priority, but I fully accept that we want to be delivering housing across all the different tenures, and the private rented sector is part of that.

**Lord Griffiths of Fforestfach:** Do you think that the buy to let sector crowds out home ownership?

**Brandon Lewis:** I think there is a difference between the buy to let sector and the institutional investors who are building and developing purpose-built units. They also have the advantage of giving a different type of security of tenure. One of the threats in the private rented sector that many people cite is that your landlord might sell to an owner-occupier, whereas, if you are in a purpose-built private rented sector unit, when your landlord sells to another landlord your invoice header changes rather than the tenure.

We are seeing in places such as the Olympic Village in Stratford that the institutional investors are driving longer tenancies, which give better security because they are in the institutional investors’ interests as well. It is a different type of tenure. As Damian outlined earlier, because buy-to-let landlords are buying individual properties in some areas and can buy with easier access—if not with access that an owner-occupier cannot get—to an interest-only mortgage, plus the tax relief as was, they have the ability to squeeze out the first-time buyer.

**Q250 Lord Griffiths of Fforestfach:** Finally, you mentioned the £30 billion to £50 billion of funds that are available to the sector. We had a discussion earlier about tax changes. If I were an investor with money like that to spend, or some of it, I would be nervous that the rate of return I would expect to get could be changed by any tax change that was made. We have seen some coming recently that are adverse. Are you really trying through fiscal policy here to effectively subsidise home ownership at the expense of the buy to let sector?

**Brandon Lewis:** As I said earlier, on Thursday I was with a large chunk of the property industry and my first conference on Thursday morning was with people from the private rented sector. Institutional investors were there, as were my officials, and the point that was made was that the changes do not fundamentally change the underlying financial
points for them in the sector. Obviously, all these things are kept under review, but, for us, it is about making sure that we are supplying homes right across all tenures. I make no apologies for the fact that with 86% of the population wanting to own their own home, my prime focus is on increasing housing supply and home ownership.

Q251 Lord May of Oxford: I have a short question that takes us right back to the beginning, when you explained your aim that at the end of this Parliament you would have had 1 million houses built and that you are way behind the run rate here. The end of the Parliament, as I understand it, and I could be wrong, is five years off, which means that you have a major task if you are to accomplish your aim. I am curious as to whether you seriously believe that you are going to be able to do it in light of the discussions we have had?

Brandon Lewis: In complete contradiction to my role as a politician I will give you a very short answer: yes.

Lord May of Oxford: Good.

Brandon Lewis: I am very confident.

Lord May of Oxford: I am happy with that.

Brandon Lewis: Working with the housing industry as well, if you look at the trajectory of housebuilding growth, with what we are doing and some of the extra work that we are putting in place, thanks to the Treasury and the Chancellor and the programme they have given us through the spending review, I think it is achievable. However, I do not hide from the fact that it is a real challenge. We are giving ourselves a very high ambition. We have to do everything we can. I am determined that we deliver on that, because we owe it to the next generation.

Lord May of Oxford: We would all like to be able to help you.

Brandon Lewis: Thank you.

Q252 Lord Kerr of Kinlochard: At the beginning we talked about the three factors behind rising prices: rising incomes and expectations, net migration and longevity. Does the inheritance tax change discourage downsizing?

Damian Hinds: It is deliberately designed in a way not to, so if you sell your home an allowance of £175,000 can then be bequeathed in non-residential property, so there will be no discouragement against downsizing.

Lord Kerr of Kinlochard: I can imagine my children crowding round to tell me, “For God’s sake don’t downsize, because the bill we’ll pay will be greater if you do”.

Damian Hinds: It is not for me to advise your children how to speak to you, Lord Kerr, but I do not think they need to do that, because there is this provision that if you have disposed of the main family home, the £175,000 on top of the existing inheritance tax nil-rate band of £325,000 can be bequeathed through other assets.
Brandon Lewis: Lord Kerr, if you will forgive me, I will add to Damian’s point. In encouraging people or seeing more people downsize, I think there is also an issue about what people downsize to. Putting aside the fiscal decision that people have to make, there is also the product or the home they are going to. I have been talking to my counterparts in America and their view is they do not have this right yet. I think there is still work to do on supplying enough homes of the right type for people to want to downsize to. Not everybody who is downsizing is ready or wants to move into a managed property. I have often used the example that I am very fortunate that both my in-laws and my parents are still with us. My father is 73. He has been to the gym today and is still running his business. If I go home tonight and say, “I’ve found you a really good unit built by a famous builder and you and mum will be very happy there; they do Sky TV”, I will get a two-word answer. There is not yet necessarily the product that makes everybody, when they are still capable of doing that, say, “I am choosing. I want to move to this kind of property”. There is a very big psychological challenge here. There is a very big opportunity for the industry as well. There are moves, and we are seeing more of it come through, but not enough yet. As we have a population that is staying in its own homes longer, we need to provide more opportunity, products and more of an offer for people who may choose to downsize as a positive thing; that it is a home they want rather than feeling they need to move either because of their own view or pressure from somebody else in the family.

Lord Kerr of Kinlochard: Stepping back from what we are hearing from both of you, I think you are maintaining that the Government’s acknowledged proud encouragement of owner-occupation is not in conflict with building more homes. That is what you are telling us, is it?

Brandon Lewis: Yes.

Damian Hinds: Far from being in conflict, I think it goes hand in hand.

Lord Kerr of Kinlochard: Yet I cannot help feeling that if you do not make something your highest priority, inevitably, because it is not, it loses out. We have seen lots of theoretical arguments about why encouragement of owner-occupation is inimical to the achievement of your 1 million new homes target. I do not know if they are right or not, but it seems to me that they cannot be of equal priority; one has to be ahead of the other.

Damian Hinds: Did you say over occupation or owner-occupation?

Lord Kerr of Kinlochard: Owner-occupation.

Damian Hinds: Why do you say this would create this conflict?

Lord Kerr of Kinlochard: It seems to me that is the Government’s principal concern in the housing sector, then, by definition, building more homes is not.

Damian Hinds: Our principal objective is to make sure that there is a sufficient supply of housing and that it is of the type and tenure that people want to live in. As Brandon has alluded to, there is an overwhelming majority of people—between 80% and 90%—who, given a free choice, “Would you like to rent your home or buy a home?”, have said consistently over many years, “I would like to buy a home”, and only 63% or 64% of them
actually do own a home. I am guessing that most of us here have chosen to be owner-occupiers. The reasons for that include the fact that we want to invest in an asset, in a place our families will recognise as their own that we can adjust in all the ways we want to, as security to bring us into retirement and one day hopefully have something to pass on to our children. We want more people to be able to make the same decision that I am guessing a lot of people around this table have made.

**Lord Kerr of Kinlochard**: I am not taking a moral stance. I am not disagreeing with what you are saying. It is a worthy aspiration that many, many people have. However, because that is your highest priority, does that colour your approach to, say, housing associations or building by local authorities?

**Brandon Lewis**: I understand the point you make, Lord Kerr, but I still think the two work hand in hand in the sense that if you look in practice at how we increase home ownership, I would argue that two of the key things are contained in our manifesto, which is the delivery of extending the right to buy to 1.3 million people who currently do not have access to that, and the fact that for every home that is sold another home will be built. That is how the voluntary agreement works. That increases home ownership and, by definition, will increase the supply. If you look at starter homes, bearing in mind that the hardest hit area of the house-buying market has been first-time buyers, by doing more to support first-time buyers to be able to buy homes means we have to build those homes for them to buy. Starter homes will be new-build homes. Obviously Help to Buy is delivering an increase in supply. We have seen that over the last few years, and even the independent reports in the last couple of weeks confirm that Help to Buy has helped increase supply. The measures we are taking to increase home ownership have a huge part to play in increasing supply as well. I think it would be almost impossible for us to increase home ownership without increasing supply. We need to be doing both.

**Q253 Lord Layard**: Mr Lewis, as you mentioned, we really need local authorities to be giving more planning permission. Would it help if they had a much stronger financial incentive to do this? I know that the New Homes Bonus has been provided by the centre, but you are getting a bit short of money. A huge pot of money is going to every landowner who gets planning permission on his land. Could we not use some of that money to incentivise the local authorities to give planning permission? Here is a suggestion: you could have a substantial levy on the value of every completed development that would be given to the local authority automatically and hypothecated for the infrastructure on that development, and for financing a better planning department and some housebuilding. That could replace the complexity of CIL/Section 106 and could also be set at a level that generated a lot more extra money. Do you find that idea attractive at all?

**Brandon Lewis**: I am not in favour of putting a levy on land and private individuals and how they use their land. I would be nervous of the Government in a sense suddenly taking away something that private individuals have been able to negotiate if they sell the land. However, I think there are a couple of points inherent in what you are outlining. First, you are absolutely right that the community infrastructure levy and Section 106 can be complicated and slow. It is part of the problem in the speed of the planning system. CIL has the advantage of being very transparent and upfront, but it only really works if you have a
number of small and medium-sized developments. It does not work on larger developments. Section 106 gives that flexibility, but there is no transparency and it can take too long. The Housing and Planning Bill will change some of that, but we have a review of CIL led by Liz Peace, who was the chief executive of the British Property Federation. I am very keen that when we get that review back, we look at how the interaction of CIL and Section 106 works so that we get a better overall approach that delivers for both communities and the councils. Effectively, what Section 106 and CIL should do is exactly what you are talking about: give that payback, feedback and infrastructure to the local community. For local authorities, we are consulting and looking at what we do on planning fees, but there is something quite important that I have been talking to local authorities about and will take every opportunity to say to them: that they need to see their planning departments as their economic regeneration departments. It should be the absolute heartbeat of a local authority on a couple of levels. The local authority is there, as I am sure most, if not all, local authorities are, to work in the best interests of their community. That is about shaping your community and delivering for your community. Whether that is commercially or for housing, it needs a strong planning department. If you are running your council to keep your Section 151 treasury officer happy, you need your finances, and that needs business rates, council tax and the new homes bonus—which I am delighted the Chancellor extended as it was only a six-year programme originally and we have another four years—all of which need a good planning department. The local authorities need to go further in understanding that the planning department is a vital department. Personally, I do not think they should be—and I say this as an ex-small district council leader—sitting in isolation in small councils. They should be sharing this resource to have better career paths, more interesting careers and more specialties, as well as efficiencies for planning departments across districts.

**Lord Layard**: Could I try another tack? That would be a carrot.

**Brandon Lewis**: I thought you meant a question, but I will take a tack.

**Lord Layard**: If you can find ways within your existing structure of making it more attractive financially, that is important, but there could also be a bit more of a stick. It has been suggested by some people that there should be more of a presumption in favour of giving planning permission, particularly when the price of land is very high, which shows that its value for building is very high. Could one not have more of a presumption—I do not mean in the green belt, but elsewhere—in favour of the giving of planning permission in principle than we have at the moment?

**Brandon Lewis**: Absolutely. That is exactly what the planning permission in principle in the Housing and Planning Bill is moving towards, because at the moment it is difficult for developers and very difficult for communities and local authority leaders. They go through what can be a quite a long, difficult and contentious process of identifying and allocating land in a local plan, and then there are two problems. From a developers’ point of view, if you go for planning permission you have no guarantee of getting permission to build anything at all, even on land that has been identified. The council and the community have the challenge of going through what can be a quite a contentious process a second time, having already done it. Once land is identified in a local plan or in a neighbourhood plan, or
even better a brownfield register, we should be moving towards planning permission in principle delivering what you are talking about.

**The Chairman:** You said earlier that you were not looking to change the planning regime or process to accelerate building on brownfield land that sits within greenfield or green belt land as if it were brownfield land along the lines you describe.

**Brandon Lewis:** Technically there is quite a big difference between green belt land and greenfield land.

**The Chairman:** I appreciate that.

**Brandon Lewis:** We are not doing a government review of green belt land. I am happy to say this for the record as often as possible and to make sure that all the journalists from the *Daily Telegraph* are listening: “We are not doing a review of the green belt”. What we are seeing around the country is that this is a matter for local authorities. It is not a matter for me as the Housing or Planning Minister. Some local authorities have a process in their local plan of looking at their land allocations and their green belt and deciding whether it is still appropriate for them, if it is still serving the right purpose, and how they should treat it. They go through full proper local consultation on that. Some local authorities have done that and have taken that decision.

**Q254 Lord Forsyth of Drumlean:** Can we go back to the Budget? The Budget said the Government would take measures to speed up the planning system. Could you explain what these measures are?

**Brandon Lewis:** The Budget outlines what we will be looking at over the next few months, and I will be looking at that. One of the things we will be looking at is how we extend and take planning permission in principle further. Another area, as I noted earlier, is the preconditions. I will give a very good example. A local authority leader recently complained about a developer not being on site almost two years after planning permission was given, and he had not realised that it was because his council had put 200 different planning conditions on the site. We need to do something about the whole process of planning from the pre-application process right the way through to getting developers on site as quickly as we can.

**Lord Forsyth of Drumlean:** We have had quite a lot of evidence from smaller builders that the complexity of the planning system is a barrier to entry for them. How can you encourage local authorities to support developments on smaller sites?

**Brandon Lewis:** I think there are three levels to this. One challenge is that we have seen a 253,000 overlap, where homes getting planning permission last year were getting less of the smaller sites. We need to encourage local authorities to identify smaller sites. We are doing our bit. We are going to be doing more with direct commissioning and are going to use the small and medium-sized builders for this. The key thing—I come back to the point I made earlier—is planning permission in principle. One reason why that will be key for small and medium-sized developers is that planning permission in principle will also make access to
finance easier, because you take away what some might refer to as the “gamble” of planning permission.

**Lord Forsyth of Drumlean:** I should perhaps declare an interest as a director of a bank. Small and medium-sized builders told us that access to finance is one of the main reasons for the decline of their sector. What can the Government do to help? In particular, does the Treasury have any plans to deal with the change in the risk weighting that applies to loans for property development arising from Basel III?

**Damian Hinds:** I should say that Basel III is not my first area of expertise. The Economic Secretary to the Treasury covers that.

**Lord Forsyth of Drumlean:** Broadly speaking, the risk weighting is being greatly increased, so it is more expensive and less profitable for banks to lend.

**Damian Hinds:** Broadly speaking, there is absolutely a recognition of the need for finance facilities for smaller builders. That is why we have the two building funds.

**Brandon Lewis:** We have the housing growth fund and the builders’ finance fund. One thing I did last year was extend the builders’ finance fund to cover more small and medium-sized builders. The home building fund is £1 billion, which was announced in the Autumn Statement. One of the things we are looking to do with that is to focus particularly on small and, indeed, custom build. We want to see custom build grow. There are some measures in the Housing and Planning Bill to facilitate that. This is a particularly opportune market for small and medium-sized builders.

**Lord Forsyth of Drumlean:** At the other end of the scale we have heard about land banking by large house builders. Do you really think they have the inclination to build the number of homes required?

**Brandon Lewis:** Yes, I think they have the inclination to build more. Obviously, there is a capacity issue for any individual company. The same is true for the larger housing associations, and some of that can be affected by a range of issues, not just finance bills, but skills, et cetera. I think data on the large housebuilders shows that land banking is not as prevalent as some might suggest. The figures between 2010 and 2014 show that they have been holding a land supply that pretty much runs in line with having a continuous pipeline to work on. Bearing in mind that we want local authorities to have a five-year land supply, larger developers having a two, three, three and a half year land supply to work through with continuous works is quite logical. I do not criticise them for that.

The challenge for us, though, as I said earlier, is that there is still a gap between the 181,000 new homes built last year and the 253,000 homes given planning permission. We need to analyse exactly why that gap is as wide as it is and how we narrow that. I also want to see more planning permissions. This comes back to a point raised in your earlier question about the preconditions that councils put on them, which can create quite a big gap, and the issue with some of the large sites. Part of what people refer to as a land bank, when you look at it,

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94 According to the Home Builders’ Federation (see above)
is a developer building out a site of 5,000 homes. Even if they are building out at 400 a year at the top end, the rest of that site is still technically a land bank, which is not a land bank in a way we would criticise.

One area we need to look at is how we challenge some of the organisations, which I am trying really hard not to name here today—not the developers, but some of the land agents who will go and get or seek to get planning permission. They may own the site, or they may not. They then spend a year or two hawking it around until eventually a developer buys it. Then we have two problems. One is that the site has not been built on for a couple of years, despite having planning. The agent has sold it at a profit, which now means that the developers are looking at the viability of it, and the viability is different from what it was when the planning permission was granted. Straightaway, you have an adversarial system between a developer and a local authority, neither of whom are to blame. There is an issue there. That is one of the things we need to look at as we move forward.

Q255 Lord Turnbull: The developers who we have taken evidence from endorsed your view that many planning departments are underpowered and underresourced. They have also said that in many cases they would be prepared to pay a larger fee for the planning application, provided that it went to boosting the power of the planning department. As I understand it, the Government control fees. Is it not possible to find some scheme that enables two willing partners to come together and reach an agreement?

Brandon Lewis: We have planning performance agreements that allow a local authority to do that with a developer, and they are used on the larger sites, particularly in London. At the moment we are also talking to the sector about having more competition in the planning sector and having planning fees linked to a fast-track process—and there is a facility for this in the Housing and Planning Bill—particularly aimed again at small and medium-sized builders. There is a balance to find. There was quite a big increase in planning fees a few years ago. If we had complete freedom right across local authorities—and I am sure that none of us in this room could think of a local authority that would abuse that—there is the potential for a local authority to use that in a way to discourage development at a time when we are very keen to encourage it. It is about getting a balance, but we are looking at this at the moment.

Q256 Lord Sharkey: Can we talk about direct commissioning in the context of whether or not direct commissioning is helpful to SMEs? I think the Government have four or five direct commissioning ventures at the moment, including Northstowe. Do you think they are going to be helpful to SME builders, and will they be able to generate significant volumes of new houses, bearing in mind the delays at Northstowe, for example?

Brandon Lewis: Northstowe is the largest example of direct commissioning. Obviously there was an agreement in Northstowe that the development would follow the infrastructure improvements around the A14. One of the things we are doing at Northstowe is making sure that we get everything working in parallel so that we get everything in place early. Some of the planning permissions have now been granted at Northstowe. Yes, we announced in January some other sites that we want to look at doing that. We are doing direct development at Connaught Barracks in Dover, Northstowe, Lower Graylingwell in Chichester, and Daedalus on the waterfront in Gosport. There we will be looking to deliver
homes in a slightly different way. Again, this is an opportunity for small and medium-sized builders and construction companies, because we will commission them to come and build. That also has an advantage to the conventional house buyers, because we will not, and they will not, be making developer profits. The construction margins are different from those of outright developers, who also have a speculative margin to make. It is an opportunity that works both for us delivering housing and looking at how we can deliver housing more quickly. For some of these sites—coming back to the point Lord Forsyth rightly made—there is a range of barriers to entry for small and medium-sized developers, and with some of these schemes we can start looking at how we can help remove some of those barriers to make it easier for them to come in.

**Lord Sharkey:** There are other schemes around, too. The *Morning Star* reported on Saturday that Mr Lewis shared the stage in Cannes with Rio Ferdinand to launch what it describes as a “joint venture with the Government”. What kind of scheme is that?

**Brandon Lewis:** That is not direct commissioning. That is in central Bedfordshire, and the Legacy organisation, with which Rio Ferdinand is involved, is not in a joint venture with central government. We have worked with them and the local authorities, and they are talking to a few at the moment. Central Bedfordshire is where they are moving ahead to start with. They are looking at a model where they will deliver homes in the private rented sector, affordable rent and social rent, using the income from that to facilitate community facilities, sporting facilities, potentially a school, whatever that local authority wants. The surpluses and profits go into the local community and local authorities. If Members want to look at it, Google “Legacy”. It is their product and I am not going to go selling their product for them, but that is what was being announced at Cannes. Central Bedfordshire and Legacy asked if we could join them to launch that. It is a really exciting opportunity. It could deliver thousands of new homes, and it is an interesting way to do regeneration, which is what Central Bedfordshire is using it for.

**Lord Kerr of Kinlochard:** As a Queens Park Rangers supporter, you are welcome to Rio Ferdinand.

**Brandon Lewis:** As a Queens Park Rangers supporter myself, that is fine.

**Lord Kerr of Kinlochard:** I would like to take you back to what you said about land banking because, as you said it, you sounded just like the witness we had from Berkeley. I remember a number which the Local Government Authority published not very long ago, which was that nearly half a million permitted development houses were not being built. I understand the economic rates of build out and all that—I take you point—but if this number, which is said to be a record, having gone up from 380,000 to 475,000 since 2010, represents more than just economic greater build out, Lord Layard must be right surely that you need to have some sort of stick in the machine as well as a carrot to encourage people not to sit on land that has been permitted. How would you go about that? Would you consider allowing some sort of council tax on the development gain to be made from the giving of approval?

**Brandon Lewis:** As you say, Lord Kerr, as my dad is from Shepherd’s Bush and I am a QPR fan I will not deny that I was quite happy to share the stage with Rio Ferdinand. I would not be particularly keen on that as a stick. Let me explain why. This is part of the challenge of
looking at what is the gap and why we have that land out there that is not being developed. There are a lot of different things going on. It is the same with increasing the housing supply. Any Minister who sits in front of anybody, your good selves or anybody else, and says, “I have a silver bullet to fix this problem”, is probably not fit to do the job, because they are kidding themselves. It is about getting lots and lots of different things in place at the right time and in the right format.

The problem with having something such as council tax or some kind of tax levy if property is not developed out is that could create the unintended consequence of hiding the planning permissions, so people will not go for planning in the first place. We are always looking at, and I am continuing to look at, some kind of a stick or carrot. What is going on at the moment is a mixture of different things. There is a percentage of that land that has been given planning permission that has not been built out because a landowner has decided to be speculative and thinks they are about to become a multimillionaire by selling their land if it gets planning permission. They get planning permission and then find that nobody wants to live there and nobody wants to build there, so it is not viable land in the first place. That is probably a relatively small percentage, but all these things add up. Some of that land will have within it a number of sites that have planning permission for 5,000 or more homes in place and developers are building through them. I visited Didcot recently. They are building out 400 a year, but they still have permission for 7,000 homes there, so that will count as part of a land bank. We want to see builders building at a faster rate. That is coming through now. I think we will see some figures on that very shortly. We need to encourage them to build faster, and that is where site construction comes in.

There is the issue of land agents, as I outlined earlier, doing that kind of work. There is also the issue of a local authority putting in so many preconditions that, once you get planning, there can be quite a big gap before you physically get on site. In some areas, because of the time it has taken from going for planning permission to getting planning permission and being ready to go on site, the economics of the site have changed dramatically. There is a whole range of things going on, and we have to be a bit cautious and not get into thinking that there is a very simple stick or carrot that we can use. We have to analyse them quite carefully, and that work is going on.

Lord Kerr of Kinlochard: I understand. So you are saying you are not against the concept of the stick, but that it has to be very carefully designed so that it does not punish the person who is developing at the economically correct rate and does not act as a disadvantage to seeking planning permission.

Brandon Lewis: Whether it is a stick or a carrot, I am a much bigger fan of carrots.

Lord Kerr of Kinlochard: Lord Layard is too.

Brandon Lewis: Whichever it is, the work for us is making sure that if we are going to come forward with proposals of any type across the housing sector, because of how all the different parts, whether it is planning or housing, intricately link together and how one thing that we do over here has a big impact very much further down the line, we have to make sure that what we do is very focused and laser-like and hits the spot without having unintended consequences. It is right that we take our time to assess that, but I will be very
clear: we want to see build-out rates get closer to planning permission rates, and we have work to do on that.

**Q257  The Chairman:** Gentlemen, that brings this session to an end. Could we have two follow-ups? The first was a question from Lord Forsyth about how the target was made up and an analysis of the various drivers of the target. The second question on which we would welcome some input and a note from the Treasury concerns the £35 billion that sits in the reserves in local authorities. How can that be deployed to help build houses, because it seems to sit there frustratingly unavailable? Is there a way in which some or all of that could be released to fund local authorities, which are very keen and highly motivated to get back into the market, and in the past they have always been a very large part of the market? If you could help us with that, that would be very helpful.

**Lord Teverson:** Could the Treasury comment on the £24.5 billion-worth of housing benefit that currently gets paid? Is there any way of changing that almost dead money, which is very important socially, into a way to invest more in combination with that money to get better housing?

**The Chairman:** That takes us back to a comment that Lord Porter made, which is that we are putting the money into subsidy and away from bricks and mortar.

**Damian Hinds:** In a sense, almost everything that we have talked about goes to that question, because it is a question about the availability of housing and therefore demand versus supply and the effect on price, but of course we will come up with a note.

**The Chairman:** Thank you very much indeed.
1. We welcome the House of Lords’ Economic Affairs Committee’s Inquiry into the Economics of the UK Housing Market, and are grateful for the opportunity to provide this evidence.

Overall Approach

2. The Prime Minister has described housing as “the one big piece of unfinished business in our economy”\textsuperscript{95}. The rate of housebuilding in the UK has not kept pace with the formation of households for decades, leading to an increasing lack of affordability. This Government is committed to twin approaches of increasing supply and extending opportunities for home ownership to those who aspire towards it. The 2015 election campaign demonstrated that housing is now a top priority, and the recent Spending Review and Autumn Statement set out the Government’s key priorities for this Parliament and beyond.

3. The need for housing has been recognised more generally. Local support for housebuilding has doubled in the last four years, from 28 per cent in 2010 to 56 per cent now, while opposition to local housebuilding has more than halved during the same period\textsuperscript{96}.

4. This paper seeks to address the key questions asked by the Committee in their Call for Evidence. Some key charts are attached as an Appendix to illustrate some of the points made.

5. Housing is a devolved matter, so this response covers Government policy as it relates to England, unless otherwise specifically stated.

Private Ownership

6. Government initiatives such as Help to Buy and Shared Ownership have not only boosted home ownership, but also accelerated further output across the industry, enabling both affordable and market homes to be built.

Help to Buy

7. Help to Buy has enabled creditworthy households to purchase a home with a deposit as low as 5%. The impact of the Help to Buy scheme has been palpable:

\textsuperscript{95} Prime Minister’s speech to Conservative Party Conference, 7 October 2015
\textsuperscript{96} DCLG, British Social Attitudes survey 2014: attitudes to new house building
• Since its launch, the Help to Buy scheme has helped over 130,000 households achieve their aspiration of owning a new-build home. This represents just under 5% of all transactions between April 2013 and September 2015.

• The average price of homes purchased under Help to Buy: (£186,000) was well below the national average (£286,000).
• 80% of properties sold under Help to Buy were bought by First Time Buyers.

• The scheme has increased market confidence, contributing to a significant increase in the supply of new homes. Since its start we have seen private housing starts increase by 27%.

8. We will continue to drive affordable home-ownership through Help to Buy, through announcements made in the Spending Review.

• We have committed to investing £8.6 billion to extend the Help to Buy: Equity Loan scheme to 2021 – supporting up to 145,000 families into new homes.

• Recognising the particular affordability challenges in London, the scheme will increase equity loans from up to 20% to up to 40% to support aspiring homeowners in the capital.

**Shared Ownership**

9. Shared ownership provides housing for those whose needs are not met by the market, allowing people to buy a share in their home and buy more shares over time as they can afford to.

• Shared ownership is a tried and tested way for people to start buying a home – between 2010 and March 2015 around 41,000 new shared ownership homes have been delivered.

• The Government has committed £2.3 billion to deliver 135,000 Help to Buy: Shared Ownership housing starts. The Government is raising the shared ownership income threshold from £60,000 to £80,000 in England and from £71,000 to £90,000 in London, to ensure that Londoners, who face specific affordability challenges, are not disadvantaged. Nomination rights and local authority restrictions will be relaxed or removed to allow a genuine market for this product to develop.

**Right to Buy**

10. Since 1980, Right to Buy has helped nearly 2 million social tenants realise their aspiration to own their homes. We are committed to ensuring housing associations tenants have the same home ownership opportunities as council tenants.
The historic voluntary agreement reached with the National Housing Federation will give 1.3 million housing association tenants across the country the chance to purchase a home at Right to Buy level discounts.

We will compensate the housing association for the discount offered to the tenant, and housing associations will retain the sales receipt to enable them to reinvest in the delivery of new homes. [Please see para 23 for further information on the impact of the Right to Buy extension].

11. A chart showing affordable homes provision, plus take up of Right to Buy and Right to Acquire can be found in the Appendix to this evidence.

New forms of private ownership supply

12. In November’s Spending Review, we announced a £2.3 billion Starter Homes funding package to support our objective to build 200,000 Starter Homes by 2020. Starter Homes will be sold at a 20% discount compared to market value to young first-time buyers, and will be underpinned by a new statutory planning framework that will carry:

- a duty on local planning authorities to promote the supply of starter homes when carrying out their planning functions;
- a requirement that Starter Homes be built on ‘reasonably sized’ housing developments;
- Powers for the Secretary of State to intervene if local planning authorities fail to carry out their duties related to starter homes.

Planning

13. The package of planning reform measures we introduced under the last administration have reaped results, with planning permission granted for 242,000 new homes in the year to June 2015, up 44% on the year to June 2010. Plans adopted since the introduction of the National Planning Policy Framework set targets equivalent to 109 per cent of national household projections – versus 86 per cent for pre-NPPF plans.

14. However, there is more to do: avoidable delays remain a common complaint of many developers (57% cited planning delays in Q2 2015). We are pressing ahead with the following measures to bring land forward to meet housing needs:

- We have set out an expectation that local planning authorities should have produced a Local Plan by early 2017, to adequately prepare for all housing needs in their area. We have also launched an Expert Group to explore how to significantly streamline the plan-making system.
- We will introduce a dispute resolution mechanism for section 106 agreements, and will be extending the ability to appeal against unviable section 106 agreements for a further 2 years, to 2018.
Private Rented Sector

15. Tenure structure is driven by a multitude of socio-economic and demographic factors: from employment opportunities and affordability to household demographics. A chart showing change in tenure over a 30+ year period is attached in the Appendix to this evidence, along with graph based on the data supplied to the Department by the Council of Mortgage Lenders showing the long-term trend in the number of first time buyers given mortgages. The number of first time buyers has grown over the last four years, from 168,200 in 2010 to 264,200 in 2014.

16. This government recognises that the PRS will continue to make an important contribution to meeting housing needs, and is therefore committed to investing in a better private rented sector, through improving delivery rates and the standards of housing provided.

17. We have introduced a number of measures to support growth in the Build to Rent sector:

• Our Build to Rent Fund provides up to £1billion in loans to help finance the construction of up to 10,000 new homes purpose-built for private rent. It has funded the delivery of over 4,000 homes to date, and applications for additional schemes are being considered.

• The £3.5 billion Private Rented Sector Housing Debt Guarantee Scheme offers housing providers a government guarantee on debt they raise to invest in new privately rented homes. The scheme provider, Venn Partners, is processing the first applications under the scheme with a view to issuing a bond in the first quarter of 2016.

18. Local authorities have an important role to play in stimulating supply of Build to Rent properties – both in their capacity as local planning authorities and as landowners in their own right. To this end, the Coalition Government:

• published, in March 2015, a build to rent guide for local authorities, setting out the different ways in which local authorities can support the sector and showcasing a number of examples of good practice;

• published the National Planning Policy Framework (NPPF) and Planning Practice Guidance. The NPPF requires local planning authorities to provide for PRS development where the characteristics of the local housing market justify it. Planning practice guidance requires local planning authorities to break down the overall housing requirements by tenure, household type (e.g. singles, couples and families) and household size, including through reference to current and future trends. In March 2015, the guidance was strengthened specifically to clarify that – in suitable areas – local planning authorities should support the viability of PRS housing development through careful assessment of the appropriate level and timing of planning obligation payments.
19. The investment community is responding positively to these opportunities. Savills has estimated that there is market appetite to invest up to £30bn in the private rented sector\(^97\).

20. In addition to seeking to bring new forms of investment into the private rented sector, the Government is also committed to improving property and management standards in the sector. To that end, the Housing and Planning Bill will provide local authorities and tenants with the tools they need to drive rogue landlords out of business and raise standards. Measures include: a database of rogue landlords and property agents; banning orders for prolific and repeat offenders; the introduction of civil penalties for certain breaches of housing legislation; extension of Rent Repayment Orders to cover illegal eviction, breach of a banning order and failure to comply with a statutory notice; and a tougher fit and proper person test for landlords of licensable properties. We have also reformed selective licensing arrangements, giving councils more discretion to target problems in the PRS.

**Rent Controls**

21. The Government has no plans to legislate for rent controls. It believes that rent controls would undermine effective investment and supply, ultimately, leading to deteriorating results. When rent controls were introduced in this country the size of the private rented sector shrank, and when they were lifted, the sector grew. While there is little in the way of empirical evidence, in theory, several academics suggest the following as outcomes of rent controls:

- Rental income streams would be eroded over time, which would incentivise landlords to prefer short-term tenancies, as they seek to revise rental terms through new lettings on a frequent basis. This will adversely affect families and households in need of stability and longer term contracts. These effects are likely to be exacerbated in an inflationary environment\(^98\).

- Rather than creating competition between landlords and tenants which could stimulate a reduction in prices, rent controls serve to create competition between tenants of different kinds (short stayers and long stayers) with some tenants eventually being unable to find accommodation at the price they are willing to pay (ibid).

- As landlords are unable to identify what type of tenants they are renting to, there is an incentive to underprovide maintenance and investment in an attempt to shorten a tenancy, and make conditions suitably uncomfortable to prompt a change of tenancy and create a new opportunity to revise rental contracts in the landlords favour (ibid).

- Restricting rental rises may also lead to an introduction of higher initial rents to offset anticipated inflation-related increases in costs (ibid).

\(^97\) Savills World Research, 2015

Rent controls may also undermine labour mobility benefits as sitting tenants have less incentive to relocate and face revised rental contracts in spite of better employment opportunities. The current prevalence of labour mobility in the PRS is demonstrated by the latest (2013-14) English Housing Survey, which suggests that households in the rental sector were the most likely to move for job related reasons relative to other tenures.

Social Housing

Social Housing - General

22. Government remains committed to ensuring a social housing sector that meets the housing needs of tenants and supports people into home ownership, and wants to see a range of housing delivered across all tenures, including homes to rent. We recognise the challenge of affordability - the stock of affordable homes fell by 420,000 between 1997 and 2010, from 4.39 million to 3.97 million, a drop of 10%.

23. The Spending Review / Autumn Statement announced £8 billion to deliver over 400,000 affordable housing starts – the largest affordable house building programme by a Government since at least 1979. This includes delivering 100,000 affordable rented homes alongside the shared ownership and Starter Homes programmes mentioned earlier in this paper. We have already allocated over £1 billion of this funding to deliver affordable homes across the country – and the majority of these will be rented homes.

24. Right to Buy for housing association tenants will offer the following two benefits:

Distributional benefits of extended Right to Buy

- Distributional analysis essentially allows us to account for the economic benefits of making national household income more evenly distributed. We estimate the distributional benefits of Right to Buy to be around £30k (30 year NPV) per sale which is based on the savings that Housing Association RTB tenants benefit from through paying a mortgage and owning a property compared to the rental costs if they didn’t buy. (A distributional weighting is then applied to the saving or ‘subsidy’ in order to estimate the distributional benefit.)

Supply benefits of extended Right to Buy

- Homes sold through RTB will be replaced on a one for one basis which gives rise to economic benefits associated with new Housing Supply which can be monetised using land value uplift estimates. The average economic benefit of every new replacement unit is estimated to be around £56k based on Valuation Office Agency data and assuming that

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99 Arnott, R (2003), Tenancy rent control, Swedish Economic Policy Review 89-121
newly developed housing will be built on greenfield and brownfield land in line with historical averages.

**Social rent reduction**

25. The 1% per year reductions in social rents announced at Summer Budget will control housing costs and protect taxpayers from rising costs of subsidising rents through housing benefits. Government believes this is a fair and necessary measure. Local authorities and housing associations have a part to play in deficit reduction. We are confident they will be able to find and make efficiencies to accommodate the new rent settlement.

26. The Government has noted the Office of Budget Responsibility’s headline forecast (November 2015 Economic and Fiscal Outlook) that housing associations will build 80,000 fewer homes for rent in the period to 2021 due to the social rent reductions announced at the Summer budget. However, after taking into account the wider measures the Government is putting in place to increase house building (ie taking into account the Spending Review and Autumn Statement measures also), the OBR’s estimates are that this reduces the overall impact to 34,000 fewer homes. Moreover, the OBR’s November forecast itself clearly recognises that there is a high degree of uncertainty surrounding this their first ever forecast for housing associations. The Department believes housing associations will be able to find efficiency savings thus releasing resources for house building, and we are encouraging providers to use cross-subsidies from other sources, including from low cost home ownership products and shared ownership accommodation which are not subject to rent reductions.

**Conclusion**

27. We are grateful for the opportunity to provide this written evidence, and look forward to offering further oral evidence at later stages of the inquiry and the Committee’s ultimate conclusions.
Appendix – Charts

Chart: PROVISION OF AFFORDABLE HOMES

- Affordable Home Ownership
- Right to Buy, number of sales
- Right to Acquire, number of sales

Chart: CHANGES IN TENURE FROM 1980

- own outright
- buying with mortgage
- private renters
- social renters
Chart: THE NUMBER OF FIRST TIME BUYERS. NB: These data are not publicly available; they are provided by CML because we are a CML member

08 January 2016
Matters Arising
There were a number of matters raised where the Department agreed or offered to provide additional information. These are:

1. Targets for the number of new homes built: what assumptions are these targets based on and how have the problems - such as construction industry capacity - been built into assumptions? (Lord Forsyth pg 10-11)

2. How does the Government propose the reach the house building target – who is going to build the additional homes and in what proportions? Which part of the market does the Department consider to be the most problematic? (B Blackstone pg 11)

3. Planning consents: over the last 10 years how much land has been permitted for development and how much of that development has actually taken place? What is the current stock of unused planning consents? (Lord Kerr pg 11 and 12; Lord Teverson, pg 12)

4. What is the Government guideline for the percentage of household income people should spend on housing? (B Wheatcroft pg 17)

Responses to these issues follow. We are grateful to the Committee for the opportunity to put further advice to them.
Matter 1: Targets for the number of new homes built: what assumptions are these targets based on and how have the problems—such as construction industry capacity—been built into assumptions?

(Transcript extract)

Lord Forsyth of Drumlean: My question is about how the targets will be achieved and whether, in setting these targets, the various problems have been looked at. Could we have a piece of paper that sets out how that is made up and what the assumptions have been?

Isobel Stephen: My apologies, I misunderstood the question. As I said at the beginning, the Government have invested £20 billion in housing through the spending review, which is to address some of the issues in the housing market that we have been talking about. If you would like us to write to you with more detail on that point, we could do that.

Lord Forsyth of Drumlean: Cash is one thing, but you need people with the skills to build, and the land. I imagine that the target reflects the practical reality of overcoming these problems.

Isobel Stephen: Yes.

Stephen Aldridge: There are practical measures to do with supply-side issues.

The Chairman: I think Lord Forsyth’s question is excellent. Perhaps I could ask you to take up his invitation to give us a concise paper on the things that need to change to get those targets.

DCLG Response

The Government has set an ambition to deliver 1 million homes. The Spending Review set out both levels of funding to be provided, and how such funding should be targeted to address wider supply side constraints (such as the supply of land, the role of SME builders and skills).

The Department carries out regular engagement with the wider housebuilding sector—private developers, housing associations, lenders, etc. This, coupled with the HCA’s wide experience of operating schemes informs the overall approach to funding and tackling specific barriers.

For example, there are schemes aimed specifically at bringing public sector land to the market—there is a target of releasing land with capacity for 160,000 homes during the current Parliament.

The SME sector tell us that some of the key constraints to increasing supply for them are access to finance, access to land, and planning. The Spending Review created a housing development fund, with a remit including supporting SMEs with finance, and the announcement of direct commissioning pilots on 4 January was also aimed at de-risking sites for smaller builders, allowing Government to work with them based on a contractor model rather than a developer one. Direct commissioning also aims to attract new entrants into the housing sector.
In addition to spending programmes, there are other levers Government has to tackle barriers and increase supply. Planning reforms brought forward as amendments to the system do not require funding to implement. For example, reforms to allow conversions from office to residential use have allowed new housing units to come forward, and the Housing and Planning Bill currently in the Lords includes provision for a new “permission in principle”, again aimed at simplifying the planning process and assisting smaller builders through delivering increased certainty.

All programmes brought forward though the recent zero-based Spending Review were subject to a consistent analytical process, which helped to determine the scale of investment and our assumptions of what they could deliver. From this we have made an overall assessment of total supply

This theme is developed further in the response to Matter 2.
Matter 2: How does the Government propose the reach the house building target – who is going to build the additional homes and in what proportions? Which part of the market does the Department consider to be the most problematic?

(Transcript Extract)
Baroness Blackstone: Perhaps I could add to your work and ask you to tell us, as well as indicating how you have reached the conclusions that you have reached on these targets and how they are composed, how you are going to reach the targets. Which parts of the housing market do you see as most difficult to respond to? Who is going to provide these additional homes? Are they going to be provided by private builders—large and small—the housing association sector or local authorities? It would be helpful to know how you see how these targets will be achieved in terms of who is going to build these houses.
The Chairman: Could you come back to us specifically on that as well?
Isobel Stephen: Yes, will do.

DCLG Response

The Department does not publish forecasts of housing supply.

We set out below individual programmes and their expected gross contribution towards supply.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Funding</th>
<th>Delivery (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Help to Buy: Shared Ownership</td>
<td>£4.1bn</td>
<td>135,000 starts</td>
</tr>
<tr>
<td>Starter Homes</td>
<td>£2.3bn</td>
<td>200,000 starts</td>
</tr>
<tr>
<td>Affordable rent</td>
<td>£1.6bn</td>
<td>100,000 starts</td>
</tr>
<tr>
<td>Housing Development Fund</td>
<td>£3.0bn</td>
<td>26,500 homes delivered, other interventions aim to unlock up to 160,000 units</td>
</tr>
<tr>
<td>Public Sector Land programme</td>
<td>£1.1bn</td>
<td>Release land for 160,000</td>
</tr>
<tr>
<td>Large scale developments (Ebbsfleet, Bicester, Brent Cross, Northstowe, Barking Riverside)</td>
<td>£0.5bn</td>
<td>55,000</td>
</tr>
<tr>
<td>Estate Regeneration</td>
<td>£0.3bn</td>
<td>6,000</td>
</tr>
<tr>
<td>Help to Buy Equity Loan extension</td>
<td>£8.6bn</td>
<td>Support 145,000 families into new homes</td>
</tr>
<tr>
<td>TOTAL</td>
<td>£21.5bn</td>
<td>522,500 units&lt;br&gt;160,000 land capacity&lt;br&gt;Up to 160,000 units unlocked&lt;br&gt;145,000 supported into new homes</td>
</tr>
</tbody>
</table>
However, the total number of units that will be delivered by these programmes will be lower than the sum of the units provided by each programme in the table above. It is important to ensure that where programmes have the potential to overlap with each other or displace market delivery, there is no element of double-counting. For example, a proportion of units unlocked by the Housing Development Fund may be Starter Homes; of all new build units delivered by the Help to Buy Equity Loan scheme, 43% are additional and 57% would have been delivered by the market in the absence of the scheme.

It is important therefore to mention market housing that will be delivered outside of any Government intervention. Government does not make forecasts of private sector house building, but clearly this will form a substantial component of overall housing delivery beyond private sector contributions to the aforementioned Government programmes. In 2014-15 there were 112,310 private enterprise housing starts in England, and the Department anticipates that private delivery will increase over the Spending Review period, due in part to the planning and other Government reforms being enacted as explained in Matter 1.

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100 See a forthcoming evaluation of the Help to Buy Equity Loan scheme.
101 Source: DCLG Live Table 208

Matter 3: Planning consents: over the last 10 years how much land has been permitted for development and how much of that development has actually taken place? What is the current stock of unused planning consents?

(Transcript Extract)

Lord Kerr of Kinlochard: After Lord Forsyth’s and Baroness Blackstone’s fiendish questions, mine is very simple and straightforward. You have told us that you keep data on planning consents. Could you send us a note telling us, over a convenient period of time, what these figures show? How much land has been permitted for housing development and how much of that land has been used?

Isobel Stephen: I can give you the number of planning permissions now, if that is helpful. There were 250,000 in the year to September 2015, which compares with 150,000 five years earlier.

Lord Kerr of Kinlochard: I am really trying to establish whether it is a canard, as I think you are saying, that developers seek planning permission and then do not build the houses. You say that on the whole it is a canard and there is rather less of that than there used to be. I am asking you to prove that.

Isobel Stephen: Okay.

The Chairman: We would be very interested to understand what the stock of unused planning permissions is at the moment. Lord Turnbull, are you very keen to come in at this point?

DCLG Response

As of 1st January 2016, according to data supplied to the department by Glenigan Ltd:

- There were detailed planning permissions for around 620,000 homes where work has not yet completed on site.

- Of the 620,000 homes with a detailed planning permission, work has started but is not yet complete on sites with capacity for almost 300,000 homes.

- There were also outline permissions for around 600,000 homes for which a detailed permission or reserved matters must be granted prior to work starting.

Using evidence from annual reports (2013 data), the combined data for the top 8 house building firms suggests the number of years of supply firms hold in their land bank has been falling year on year since 2009, dropping 17% from 6.3 years to 5.2 years.

Although the top 8 house builder annual reports indicate that total short term land banks have increased (from an estimated 266,000 units to 336,000 units between 2010 and 2014, an increase of 26%), these firms’ combined completions increased almost as quickly (from around 44,000 to 54,000 over the same period, an increase of 23%).
There are strong financial incentives for house builders not to sit on permission land banks. Once planning permission has been acquired, it often has an expiry date (the default period is 3 years). If, after expiry, construction has not started then a firm will lose planning permission and will need to reapply for permission to build, often at additional expense.

The Local Government Association recently published a report that suggested that there are permissions for 475,000 homes with permission that are not yet ‘implemented’. However this figure included sites where work has already started. The report covered only permissions granted in the last three years and included sites in Wales, so was not consistent with figures produced by Glenigan Ltd for DCLG.
Matter 4: What is the Government guideline for the percentage of household income people should spend on housing?

(Transcript extract)
Baroness Wheatcroft: Does anyone in government have a guideline as to how much of their household income people should have to devote to getting a roof over their heads?
Stephen Aldridge: I could say that it was determined by the eligibility requirements for housing benefit, for example. That would give you an idea of what level of income was deemed appropriate in order to enable people to meet their non-housing costs while at the same time getting accommodation over their head. If it is helpful, we could give you a note setting out the position.
Baroness Wheatcroft: That would be helpful, thank you.

Response:

There is no Government guidance on how much a household should spend on housing because it depends on the household’s decision to consume it and the Government does not regulate the amount of housing a household may consume. However, through housing benefit (HB) the Government subsidises housing consumption of some households in the rented sectors. The English Housing Survey (EHS) shows that in 2013/14, 26% of private tenants and 63% of social tenants received HB102.

The HB entitlement criteria are complex and the amount received depends on many factors of which the household’s income is one.103 The total benefit cap introduced by welfare reform in 2013 may also affect the level of HB assistance provided.

The proportions of households’ income spent on housing costs vary by tenure, the measure of household income, household type and employment status, geographical location and the size and type of property104.

9 February 2016

102 English Housing Survey 2013-14, Headline Report, p.22
103 For housing benefit eligibility criteria see https://www.gov.uk/housing-benefit/eligibility
104 English Housing Survey 2013-14, Household Report, Annex Tables 2.3 to 2.6
1. The 1967 Leasehold Reform Act gives leasehold tenants of houses the right to buy the freehold. These rights were extended through the Housing Act 1996 and the Commonhold and Leasehold Reform Act 2002.

Tenant’s right to buy was further increased under the last Budget when this right was extended to Housing Association Tenants.

2. To be a qualifying tenant they must have

   - a long lease which was originally granted for a term of more than 21 years or with a right to renewal.
   - have the lease of the whole house
   - must have held the lease for two years.

3. However, if the property falls within an area covered by a rural exclusion clause the property is not eligible.

   The rural exclusion clause relates to a house which is

   - in an area designated as a rural area by Order made by the Secretary of State and
   - the freehold of the house is owned together with the adjoining land which is not occupied for residential purposes and is set out in Schedule 9, Housing Act 1996.

These rural areas are set out in Statutory Instruments, for example S.I. 624/1997 The Housing (Right to Acquire or Enfranchise) (Designated Rural Areas in the North East) Order 1997.

4. Thus there are residents in rural areas that are discriminated against and do not have the same rights for enfranchisement as urban tenants.


Lord Harris of Haringey said on behalf of the Government “the rural exemption clause exists to prevent the breakup of country estates......... and there may be a case for amending the rural exemption to target it better at the kind of properties that we wish to exempt and we are willing to look at this question in the longer term.”

Lord Goodhart responded “.............it seems to me that the problem is almost certainly over estimated”

6. Where estates have contributed to their own breakup by selling off land or property to finance the running of the Estate it could be argued the rural exemption clause should not
apply. In the last 50 years since the introduction of the 1967 Act it is unlikely that such an estate exists that has not sold of some item of property.

7 This matter was considered in 2012 in joint study between LEASE and BPF regarding enfranchisement when it was concluded that “the amendments made to the 1967 Act have made enfranchisement available to all but a small percentage of leasehold house owners. Schedule 9 Housing Act 1996 placed a restriction in the contrived situation of a leaseholder whose original lease term did not exceed 35 years and the house was in a rural exclusion area. Although this only affects a few hundred householders there are grounds for investigating further the reasons why they should be excluded from a right of acquisition available to all other lessees”

Other conclusions from this study were that in respect of the Low Rent Test it questioned why “only a few hundred households should be constrained from enfranchisement which is available to all other lessees” Further Para 4.2.1 states “there seems a case for its complete abolition as a restriction on freehold acquisition.” Para 4.3 states “that tenants should be granted rights of security in enfranchisement in common with other long leaseholders”

8 A proposal for the revocation of the rural exclusion clause would align with a 1986 ECHR declaration when it was resolved that in respect of the sale of properties belonging to the Duke of Westminster to tenants “such an action was in pursuit of legitimate social, economic or other policies which could be in the public interest”

9 In 2013 the new Housing Minister, Mark Prisk, who is a chartered surveyor, recognised that “there is a powerful principle that those who wish and can afford to own their own homes should be able to do so”

10 My argument is twofold,
   - is it not now time to allow enfranchisement to ALL properties including those in rural areas. Rural residents would then have the same rights that urban residents have enjoyed for years.
   - if a landlord is seen to be contributing to the breakup of his Estate the exemption clauses should not apply.

11 The properties to which I refer will, like mine, frequently be occupied by retired people for whom the house is now too large and be large farm house type properties with extensive outbuildings. With a little imagination these properties have the potential to be converted to provide at least 5/6 much needed vernacular style affordable houses in the countryside without the need to acquire LAND.

4 February 2016
TUESDAY 15 DECEMBER 2015

3.35 pm

Witnesses: Professor Danny Dorling and Professor Paul Cheshire

Members present

Lord Hollick (Chairman)
Baroness Blackstone
Lord Griffiths of Fforestfach
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Layard
Lord Monks
Lord Turnbull

Examination of Witnesses

Professor Danny Dorling (University of Oxford) and Professor Paul Cheshire (London School of Economics)

Q41 The Chairman: Professor Cheshire and Professor Dorling, welcome to the Economic Affairs Committee inquiry into housing. You may see some comings and goings from the Committee members because there is a Bank of England Bill on the Floor of the House and a number of our colleagues are very active in the debate on that. I apologise in advance if it looks a bit like a revolving door at some stage.

Professor Dorling, you have written about the overconsumption of housing and that, crudely, we are occupying rather more space than we need to occupy, and if that space
could be liberated and distributed it would address some of the demand problems for housing. Could you just elaborate on that and, in particular, what measures or steps you would take to encourage the liberation of that—shall we call it—surplus space?

**Professor Danny Dorling:** The way we can tell we are overconsuming is by looking at every census for the last 100 years, which measured how many people there were, how many rooms there were and the distribution of people by rooms. By the last census, in 2011, the best-off 1/10th of the population had five times more rooms per person than the worst-off 1/10th. It had shot up from 1991. The last high point was 1921, so we have had an incredible increase in inequality and the distribution of rooms between groups of the population. That is one way of telling.

This is an historic high. It has happened for two reasons. One is ageing. Our housing stock worked quite well when people died in their 70s and works not so well when they live into their 80s and 90s. There is also increased inequality in income and wealth. Tackling that is a much longer-term issue, but if you have a very economically unequal country you will have problems with housing, and we have the biggest income and, probably, wealth inequalities in western Europe.

Short term, though, a huge number of people are rattling around in relatively large houses on their own that they find hard to heat, which they are lonely in, and they would like to move, but there is not suitable accommodation nearby for them. They want to keep their friends; so one way to reduce the overconsumption is to build housing for elderly people near where they currently live. The other way is anything you do that affects house prices, which means that somebody sitting in a large house does not think that the value of that house will carry on rising, and the longer they hang on in there on their own, the more money they will be able to give to their children and grandchildren. So there is a perverse incentive to stay in a house that they find hard to heat at the moment because it benefits their wider family. We need places nearby for people to go to because they want to stay near to their friends. You cannot simply say, “Can the elderly move out of the more productive cities and be miles away?”. Their friends are nearby, so we do need places for them to go. Longer term, you can do things like phasing out the allowance for single people where they pay less council tax. That is another incentive not to go out, but it is a phasing out. You do not want to do any of these things suddenly for people.

**The Chairman:** So the first step would be to build suitable alternative accommodation for older people nearby and then you would take out the single-person discount, and that would provide a tax incentive for them to move.

**Professor Danny Dorling:** Yes. One key thing about suitable accommodation is that it can be apartments. It must not have stairs. As we age, we really want to get away from housing with stairs. For the baby-boom generation born after the war, there will be an awfully large number of people who are going to find stairs very difficult. We just do not have the bungalows for that population.

**The Chairman:** If there is a latent demand for these houses, why are they not being built? I think there are one or two specialist companies, such as McCarthy and Stone, for instance,
Professor Danny Dorling (Fellow, St Peter's College, Oxford); Professor Paul Cheshire (Professor of Economic Geography, London School of Economics) (QQ 41-58) – Oral evidence (EHMOE0003)

which focus on that market. If there is a latent demand there, surely they would have sought to meet it?

**Professor Danny Dorling**: The housing market is wonderful for showing you how economic models do not work in practice. You can make a bigger profit building so-called detached executive housing for families with two car-parking spaces.

**Q42 Baroness Blackstone**: Who do you think, then, should be building this appropriate accommodation for elderly people to move into? If the private sector is not fulfilling the demands of the market, where do you want this to come from?

**Professor Danny Dorling**: It would be very good if a lot of it was rented. As we age, and because the diseases of which we are dying are changing—so fewer heart attacks and more long-term illness—we are likely to have to cascade through a series of properties in our old age. You are looking, ideally, at a rented stock in many cases. Then it is a whole range of providers. I quite like new town models. Housing associations are fine but we do need to plan for ageing. That means that the idea you stay in the house of which you are an owner-occupier into your 80s and 90s becomes dangerous, because you can suddenly find that you can no longer use that house but you then have to deal with the sale. Of course, the point of being an owner-occupier is that you can fix the house yourself—you do not require the landlord to fix it—but your ability to get up a ladder and fix things diminishes with age. We are not preparing our housing for the ageing that is to come. The baby-boom year was 1946-47, so you need to think about that particular age cohort.

**Baroness Blackstone**: May I just add to that? Housing associations are doing this but, at present, on a relatively small scale. They are able to start off with independent living and no extra care at all and move into additional care, often staying in the same accommodation. It does not have to be a bungalow, either. It can be in a nice apartment.

**Professor Danny Dorling**: Yes. Apartments are much more efficient than bungalows with this. There are examples. The Rowntree Trust in York does a very good job on this. Bourneville has a whole cascade down the hill to the nursing home at the bottom. We have a problem in that we see housing associations as providing housing for a particular economic segment of society, for people who are worse-off. Until we get away from defining our tenures by how wealthy, average or poor you are, this housing is going to be needed for everybody, irrespective of whether they were earning high or low during their life. You also get a lot more in common with other people as you age and get disabilities, but we have this model. We have moved to a model where we see council housing as housing for the poor—it was not built like that—and housing association housing as housing for people who are not that well-off, and then the private sector should look after everything else. This is a model that is going to disbenefit the baby boomers, particularly the middle-class baby boomers.

**Lord Turnbull**: I have some problem with the vocabulary here of “overconsume”. We do not talk about an overconsumption of cars, although we all have much bigger cars and more cars per family. We do not talk about an overconsumption of food, although we certainly overconsume that, but we do not make it a policy problem; but you are quite near the answer, which is that we overinvest. What has happened in recent years is that housing has
become an investment—this probably solves your problem—and people are not building so many custom-built properties for the elderly because the demand is not strong, and it is not strong for the other feature that you have mentioned, which is that people hang on for as long as possible because they are not confident that there are other stores of wealth. If they downsize and turn it into cash, what on earth do they put it into? The annuity market, which would help them pay the rent, has been shot to pieces as well. The financial incentive for people to stay in these houses, I suspect, is probably the point of entry into this problem, rather than thinking that, somehow or other, they have to tax. It is about taxation. It is not about taxation of overconsumption, but it is overstimulation of investment.

**Professor Danny Dorling:** Yes. That is the main one. The point about the use of the word “overconsumption” is that land is finite. If you are taking up a certain amount of space in the City of London, that does not allow other people to do it, whereas with many other goods you are not curtailing other people’s opportunities by your consumption. It is the effects on others. If I had five houses—the London flat I might use occasionally, the one in Oxford I use for teaching, the family home somewhere else, a holiday home and so on—that would cause an indirect disbenefit to the people in many of those areas who could not live in those places. You never want to force people out. You want to provide people with the opportunities to move when they want to do it. Loneliness is one of our biggest problems in Britain. The danger is this. Suppose we eventually get a situation where house prices of large properties begin to fall gradually, in which case it begins to make sense. The faster you move out of your house, the better off your children will be, but the difficulty is hanging on to a house that is declining in value because people do not have somewhere to go. The other disbenefit is that, with private renting, you cannot trust what the landlord will do with the rent, and you have no way of increasing your income as a pensioner, or not in an easy way.

**The Chairman:** Professor Cheshire, do you think that Professor Dorling is on to something here?

**Professor Paul Cheshire:** In the overall balance of problems in the housing market, this is a very small component. I tend to agree with Lord Turnbull that it is confusion of this need concept that tends to drive the amount of land that we provide for housing with demand. The problem we have is that the allocation of housing space is determined by demand, as one would expect in a market economy, but we are determining the supply by, essentially, a fiat. There are some disincentives to mobility, and stamp duty is one of them. Some quite rigorous research shows that stamp duty thresholds, and now just stamp duty, reduce short-range mobility. It does not seem to have much impact on longer-range inter-labour market mobility, but on people downsizing to a smaller house it appears to have a statistically significant but relatively unimportant effect. The other thing is the way that we tax property. Council tax has many disadvantages, one of which is that you are not taxed on the basis of the value of your house. Something like a site value or a land value tax, which would produce an incentive to reuse land for more efficient purposes more quickly, would be an advantage. Again, it is relatively small potatoes in the overall problem that we have with housing affordability and housing availability.
Q43 Lord Lamont of Lerwick: I meant to ask about immigration, but I think I know what Professor Cheshire’s view on that is. You just repeated it by saying that you do not think it is the most important problem, if it is a problem at all, because, as I understand it, your views are that the shortage is caused by planning. If I might, I would like to ask a couple of questions instead about planning. I read an article you wrote in which you praised the rules-based system of planning as in continental Europe or the United States, where there are plans covering local communities. Would you like to enlarge on that and say why you think the whole basis of the British planning system is wrong? You refer to countries such as Switzerland or Germany having more sensible systems. Could you tell us how the planning system could be altered to release more land and affect the price of housing?

Professor Paul Cheshire: May I just make one point on population, which comes back to this earlier point about what drives demand? The issue is that there is a direct demand for one of the important attributes of housing, which is space in them, and that is very sensitive to incomes. The income elasticity of demand for space in houses seems to be, according to my estimates, around two, so, as people get richer, they try to buy more space in houses; but we have been providing on the basis of population and not real incomes. We have been systematically underproviding land for housing ever since we set up the system in the early 1950s.

With respect to your second point, again, this is not going to transform our problem, but one of the problems with our system is that it injects additional risk into the development process, because you do not know what the outcome of a decision is going to be in advance and it becomes politicised. As we have development control rather than a zoning or a master-planning system, you have to wait for the political process to discover whether you are going to be able to do the development.

I was on a platform with the Secretary of State for the Department of Communities and Local Government about a year ago—and I was very impressed—where he entertained us with an anecdote of his first experience of making decisions in the department in 2010. An appeal came to him that had been right through the process. It had spent about five years getting there, and it was for a medium-sized housing development in an urban area where it was agreed that the plan said that there should be housing. It had been rejected at the borough level because a particular member, who was an influential local member, did not want the opprobrium of having agreed to this development when there was local opposition to it, but was quite confident that it would be passed through the inspectorate. Unfortunately, the inspectorate did not pass it, so it went up to the Secretary of State. So, almost the first decision by the Secretary of State, according to him, was to agree to this development going through the system. That had taken something like five years and an enormous amount of resources in the form of planning lawyers, appeals and so on, but that is the tip of the iceberg that you could measure. The bit that you cannot measure is the fact that it makes all development more risky so there is a risk premium that has to be added. Because development is quite a risky process, you have expected future flows of income and costs, but they are expected, and, if you increase the risk, you increase the necessary risk premium for projects to become viable. Making decisions in the way that we do, in contradistinction to much of continental Europe or the United States, means that we have
Professor Danny Dorling (Fellow, St Peter's College, Oxford); Professor Paul Cheshire (Professor of Economic Geography, London School of Economics) (QQ 41-58) – Oral evidence (EHMOE0003)

no certainty in the outcome, which has the effect of meaning less development and, in total, less gets built because you have this additional risk premium—

Lord Lamont of Lerwick: But does a rules-based system, as you refer to it, mean that people do not make planning applications but they just put up what they think accords with the rules, and then if someone says, “Pull it down”, they have to pull it down? Is that what you are advocating?

Professor Paul Cheshire: No. For example, because housing in Britain is so expensive, I import my recreational housing services from France. France has a rules-based system. I wanted to greatly increase the size of the house so I simply read what the local community’s plans were, I looked at local building regulations, I got an architect to draw up proposals that conformed to those requirements and it took 13 days to get permission to do it. That is inconceivable in the British system. It was a perfectly democratic process in that the commune had adapted a local plan that set up what could be built where and what the rules were. I simply was able to discover those rules relatively easily and ask for something that was in conformity with those rules.

Q44 Lord Lamont of Lerwick: In your article that I read, you are pretty scathing about the green belt. You say: “The final myth about greenbelts is that they provide a social or amenity benefit. The reality is that a child in Haringey gets no welfare from the fact that five miles away in Barnet, there are 2,380 hectares of greenbelt land; or in Havering over another 6,010 hectares”. You lay stress on the fact that a lot of the green belt is just intensive agriculture, which you say is not really environmentally important—we will leave that point aside—but we do need agriculture anyway. I just wonder whether you are not downplaying the green belt a bit much.

Someone commenting on your article said: “I think you’re being a little disingenuous, Paul. None of the arguments you put ‘for’ greenbelts have ever been arguments for greenbelts ... The only purpose of the green belt is to stop cities expanding forever”. When you contrast the way that planning operates in some parts of the United States, as I have seen, or in Japan with the ribbon development, I wonder whether you are not underestimating how planning is valued by the population.

Professor Paul Cheshire: I certainly would not advocate that one should build regardless anywhere, because there are clear issues of market failure in land markets, and one needs a system of planning land-use regulation to control for those. Obviously, one needs to preserve areas of outstanding natural beauty, parkland, areas that have public access, sites of special scientific interest, areas of water catchment, et cetera. One certainly does not want to build everywhere, regardless. One of the problems that the United States has is that, unless one is aware of the details of how systems work, one is sometimes misled. For example, American urban economist colleagues of mine claim that the Bay area is built out. There is no space for any more houses in the Bay area, which is, they say, the reason for the high price of housing in the Bay area—and it is. However, if you stand on Golden Gate Bridge and look northwards to Marin County, you are looking at a community where there are minimum lot sizes of 60 acres. One of the problems in the US is that they have these enormous exclusionary zoning processes, essentially, where they have minimum lot sizes. For example, in Phoenix, Arizona, many communities have 10-acre minimum lot sizes and
some have 25-acre minimum lot sizes. There you have a system of regulation that produces the exact inverse. Our system produces people jumping across the green belt. If you look at a map of where the highly skilled who work in central London commute from, they commute from all over southern England, even from Norwich, Bournemouth and certainly from Oxford.

Professor Danny Dorling: We have people in Oxford jumping over the green belt to London. Oxford itself has 40,000 people every day driving across the green belt to come in for jobs in Oxford. You must have a measure about when a green belt has failed to be green. The Oxford green belt, which in some places is just two miles from the city centre, so it is incredibly tight, is helping produce an enormous amount of pollution. You could build round Oxford away from the river plains within cycling distance of the centre, which would be much more green than having a green belt that is not green.

Professor Paul Cheshire: We are spending £18 billion on Crossrail, which is going to bring, say, Taplow or Iver within 35 or 45 minutes of central London, but you cannot build any houses there at all, although south of Taplow there is a lot of not very interesting intensive agricultural land. Only 1,500 people live in Taplow. If you look at Iver on Google Earth—I will not go on the public record about the quality of the land around Iver, but it is in the green belt—there is room there for, probably, 50,000 houses, which would probably be an environmental improvement.

Q45 Lord Griffiths of Fforestfach: For the sake of clarity, I would like to ask the question that my colleague never asked because I am not sure of the answer, not having read the piece you wrote. What is the effect of the immigration that we have seen, particularly in the last 10 years or so, on the housing market in the UK?

Professor Paul Cheshire: I was at a meeting with the GLA this morning, so we were talking about London. Take London as an example, because I was doing my homework on London. The population of London since 1951 has increased by less than 5%. Real house prices in London have increased sixfold—that is, real house prices, allowing for inflation—so it is not population that drives house prices. It is the fact that people, as they get richer—and we in this room are probably all examples of that—choose to consume more housing space and more garden space. You may or may not like it, but cars, for example, are complementary to space consumption. Car ownership since 1951 has gone up thirteenfold. If you are concerned, as I am, about the effects of cars on the environment, it is not a question of where you build houses, although, as Danny was saying, encouraging people to commute across the green belt is not a particularly good idea; it is a question of how you price carbon and how you regulate emissions from cars and provide for cycling.

Lord Griffiths of Fforestfach: I take the point about the elasticity of demand as being very important. If you looked at the market for lower-quality housing, the rental market, which presumably the flow of immigration would impact, do you find in your statistical work any evidence that there is a relationship?

Professor Paul Cheshire: I have looked at interregional population movements, which are induced by regional changes in differential house prices, which is another issue, because how many people live in a place is partly dependent on what the cost of housing is in that
place compared with other alternative places. I have looked at the impact of changes in population compared with changes in real incomes on house prices. Back in 1997-98, I did as vigorous a model as I was capable of doing to estimate the impact of different land releases on future house prices. In 1996, a Green Paper was concerned about population growth and where we would house them all. This was a 1996 to 2016 forecast of future house prices given the land-release policies that we then had. The answer was a 132% increase in real house prices by 2016 if real incomes grew at their long-term trend rates. If you took all the income growth out of that model, so you assumed that real incomes were constant over time, then real house prices grew by only 4%. The problem with our planning system is that it allocates land on the basis of a forecast of household numbers, not on the basis of a forecast of housing demand or space demand. So we have been systematically undersupplying land since the early 1950s.

Lord Griffiths of Fforestfach: Professor Dorling, are you in broad agreement with that?

Professor Danny Dorling: It is hard to determine, because, at the same time as immigration at the bottom end of the market rose, we had a huge increase in university students and then a very big increase in graduates, also at a time when their salaries were not enough to allow them to do anything but rent. There are three sources of population growth. One is fertility and births, which is still below the reproduction rate. The second is immigration. The third one that we always forget is the biggest one, which is ageing. Because life expectancy has been going up so fast in Britain in the last 20 or 30 years, more of us are around for longer and need to be housed. This is not a problem; it is something to be celebrated, but it is by far the largest. Worldwide, the main reason why we are going to get to 10 billion or 11 billion people in the world is not more babies—fertility has been dropping since 1971—but that the world is ageing. If you have a life expectancy for the planet that doubles, you end up with twice as many people, and it is similar for Britain.

We never talk about that third component, which is the largest component of all. It is particularly tricky for housing because we have these established models of when you traditionally form a family, how you pack yourself in and then what you do. We do not have an established model for housing in old age. We do not have an established model for what you do when one of you is on your own. Do you stay on your own for 20 years? The Office for National Statistics about 10 years ago did a survey of the elderly asking about options, trying to see whether the 1960s generation might behave somewhat differently from older ones, because that would have a huge effect on housing. We worry about immigration. If we were to leave the European Union, it would be really interesting to watch what the effect on housing demand would be. That will be the independent test and natural experiment that you could do to find out the importance of immigration to housing.

Professor Paul Cheshire: I have to interject there and say that it would not be a controlled experiment because there would be a lot of other effects as well.

Q46 Lord Monks: While we are in the migration/immigration area, over the years there have been some fairly colourful phrases used about migration and immigration. Mrs Thatcher talked about a new Grantham required every year, and Bob Rowthorn recently in a Civitas journal talked about a new Letchworth Garden City every month, which is a rather
graphic way of putting it. Do you accept that these are the numbers that are realistic, even if you might not use the same colourful language? Where are they all going?

*Professor Danny Dorling*: It is several hundred thousand net a year at the moment. It is historically unprecedented. The only slight precedent is after the 1929 crash, when we had in-migration again because the whole of the world crashed and then people moved. This current peak of immigration is associated with that economic crash. Where do you go? You go to the place where you speak your second language, and you try to make your life in England. So it may well not be a long-term thing. Where do they go? They go to London or to Oxford. A quarter of the population of Oxford is overseas-born now, and the rate is not just going up but it is accelerating. Only a small proportion of that is the students. Migrants go to the places where the jobs are, where it is worth them being, and they stay for as long as there are opportunities. Often, they then settle. There is also an enormous moving around of people who come, stay for a short amount of time and then jump to another country. It is very hard to control that.

I wrote one paper looking at the long-term net migration pattern for Britain based on cohorts, so not in one year but what happens to everybody, say, born in 1916. Are we a net importer or a net exporter of people born in 1916? For decades, we were a net exporter to the rest of the world. We were a net exporter in every recession apart from this one. The long-term migration pattern fits birth rates, so we tend to have immigration peaks 30 years after we do not have babies. We had an immigration peak in the 1950s and 1960s from the Caribbean and so on, when we did not have babies in the 1930s. We had a low point of fertility in the 1970s. We had an immigration peak in the 1990s. People find it easier to find jobs when they are not competing with the children who were not born in this country. There are interesting connections. Given that current birth rates have been pretty high in Britain, you can say that in 20 years’ time the opportunities for people coming in will not be as good as they have been.

*Professor Paul Cheshire*: The other factor is partly lifestyle but it is also income. Short-term work-related migrants tend to live at incredibly high densities, in multi-occupation, so they do not take up much space. I would go back, again, to my earlier more strategic point that what really drives it is real income growth and age. Some research suggests that there are three things that influence how much space people demand, one of them being, which is the most important, income, but also education and age. As people get older, everything else being equal, they tend to consume more space. Young work-related migrants also tend to be quite young, as do students. If you look at the underbuilding which we have achieved during the past 30 or 40 years, you are talking about something that is far, far more housing than Grantham.

*Professor Danny Dorling*: The other thing worth saying is that we have an enormous number of emigrants, whom we always forget. A lot of elderly emigrants are in Spain, Malta and so on. We have more people in the rest of Europe than has any other European country. If a significant proportion of that group were ever to return, housing them would be incredibly difficult and providing a health service for them would be incredibly difficult, whereas, as it is, we are attracting in young, fit and highly qualified people who cram themselves into rooms in London and are massively economically productive, and we export
people at the end of their productive lives to somebody else to look after. It is an amazing deal.

**Lord Kerr of Kinlochard**: It is like the horror movie Brexit “The Return of the Living Dead”, is it not?

**Lord Monks**: Just to pursue this matter a little more, Chairman, Professor Dorling mentioned to the House of Lords Built Environment Committee that migrants were not the problem, but it is the foreign investors who are stoking up prices and the financialisation of this industry. Again, the evidence you gave was interesting and graphic. How do you square that with what you have just been saying about migration?

**Professor Danny Dorling**: At the very top of the market in London and a few other affluent places in the south-east, you have investing from abroad. It was one of the things that led to our incredible and current housing inflation. Everything came together at the same time, the baby boom and lots of other factors, but one was that people’s money was no longer safe in Swiss bank accounts because the Americans were looking there; Chinese investors decided that the Chinese housing market was not safe; Singapore brought in capital controls so that the Chinese could not invest in Singapore and so they jumped over and came to London. It may not be a huge number of properties, although it does result in the population of Kensington and Chelsea falling, as we build more and more rooms in Kensington and Chelsea. The real danger is that the escalation of house prices at the very top of the market is so high—Oxford has a 16:1 ratio and London has a 15:1 ratio—that people begin to believe the ridiculous income-to-price ratios are okay. I read in *Metro* today of a young couple who had bought a one-bed flat costing almost £600,000. That looks cheap compared with what investors from abroad are paying for luxury properties. The real danger of the overseas purchasers is that it puts people into a false sense of security about what a normal housing price is. We will have to wait to see for that.

**Lord Lamont of Lerwick**: Do you have any estimate of what proportion of new build in London is accounted for building for foreign investors? I have seen reports by builders admitting that there is quite a high percentage—30% of new build—for foreign investors, defending it on the ground that it provides capital for other types of building. That would appear to concede that there is quite a significant effect on new build.

**Professor Danny Dorling**: For the more expensive properties, it is very high. I do not have a figure. *Private Eye* has accessed the data. You can go and look down your street to see who, from where, has bought property. Because that data has only very recently been released, I have not seen somebody doing an aggregate analysis of it. There are complicated ways in which property ownership is hidden in Britain that make it hard. There are still ways in which you can buy through a company, whereas in fact it is a personal investment but you make it look as though it is a company flat. If you are going to do a proper analysis of this, I would start off by asking, “Which are genuine homes for genuine residents?” and for everything else I would be a little bit suspect.

**Professor Paul Cheshire**: All houses are a substitute for all others; so concentrating on only new build is partly relevant but not entirely relevant, because you have to think of the stock of all houses. You only change the stock in very small percentage each year with new build.
There are some Bank of England figures suggesting that foreign ownership of houses in London as a whole, including old houses, is only 3%, but it is much higher in some of the super-prime areas. London is a world city and we are bound to have foreign people wanting to own property here. In a sense, it is to be welcomed because it is part of what London is, but it is reinforced by the short-term asset issue and quantitative easing, which means that sterling has not looked like a bad bet given what has been happening in the world over the last five years, as rates of return on other types of asset class have been so low that you might as well park money in housing in London. In the broad spread of things, that is a short-term rather than a long-term phenomenon.

**Professor Danny Dorling:** People are parking money where they can get a rate of return on the rent that is tiny at 2%, 1% or ½%. If you buy a million-pound semi at the top end of the Piccadilly Line, which was an upper working-class house 40 years ago, you can probably only rent it out for about £20,000 a year. That is just a 2% return. What I find disturbing is watching the prices carry on rising, and then you suddenly realise that people are not investing to get a return but because they are afraid of every other investment vehicle and they see this as safer in a turbulent world since 2008. I find it hard to rationalise why somebody would invest their money knowing that the return would be that low unless they are going for the security of land.

**Q48 Baroness Blackstone:** Do you think a land value tax could help the problem of housing supply?

**Professor Paul Cheshire:** On the margin, yes, it would be a move in the right direction, but it would not be an answer. The problem is much more deep-rooted than that. It requires more radical action.

**Baroness Blackstone:** It is a help but it is not sufficient. It is necessary but not sufficient.

**Professor Danny Dorling:** Yes; and you would move to it gradually. You would reform council tax first and then you would taper it so it would be over such a number of years that it would not address the current crisis, but it is a very good idea.

**Professor Paul Cheshire:** Also, you would try and divert more of those revenues to local authorities to give them some incentive to allow housing to be built. At the moment, we virtually fine local authorities to allow housing to be built, which is very foolish compared with what the Swiss, the Germans or the Americans do.

**Baroness Blackstone:** What about a capital gains tax on the main residence? Would you favour that? Is it too big a leap?

**Professor Paul Cheshire:** I do not think that it would solve the problem. It would be politically extraordinarily difficult.

**Baroness Blackstone:** Yes, it would be.

**Professor Paul Cheshire:** Yes, in principle, but that is a theoretical answer.
Professor Danny Dorling (Fellow, St Peter's College, Oxford); Professor Paul Cheshire (Professor of Economic Geography, London School of Economics) (QQ 41-58) – Oral evidence (EHMOE0003)

**Professor Danny Dorling:** You would introduce something else at the same time and you would introduce it tapered. It would start off being 1% so people had plenty of warning. I would know, as somebody with a mortgage, that when, if I am lucky, in 20 or 30 years’ time I sell the house I am in, it will probably be full-rate capital gains tax at that point on what I have made. It will be a long time in the future, which would simply discourage people from speculating. The problem at the moment is that you are encouraged to buy the most expensive property you can because it will, probably, go up most in price. You want people to try to save money. You want them to try to buy—this is outside London and Oxford where it is impossible—in other parts of the country, and you want it to be rational for people to buy the cheapest property that they are happy to live in, not to do the opposite.

**Professor Paul Cheshire:** The problem is that we keep sticking our finger into dykes but more holes pop out because, underlying it, is this pressure of lack of supply. Prices go up and it becomes an investment asset rather than simply somewhere to live. In a rational world, you would be indifferent as to whether you rented or you bought, and you would do what suited your lifestyle and age most; but in Britain, where real house prices are doubling every decade or so, you have a big incentive to try to buy as much housing as you can as soon as you can.

**Baroness Blackstone:** What about far more bands for council tax? I saw somewhere that somebody said we should go up to band Z.

**Professor Danny Dorling:** If you added them and doubled them, you only need to go to band N, which, at that time, captured the Sultan of Brunei. It is much better than a mansion tax because it is graduated and everybody knows that somebody above them is paying a higher rate. People can pay it. Even if they are on a very low income, they can simply take out a small mortgage and pay it. I got a letter once from a man on a low income in London whose flat had ended up being worth, again, £1 million near Covent Garden, who said, “I cannot possibly pay a higher tax”, to which I said, “If you take out a £20,000 mortgage, you can pay the tax. When you sell the flat, you will still have £980,000”. That man will still be richer than I will ever be. The argument that people with high wealth but low income cannot pay does not work. The other really important thing, though, is the unfairness across London: the fact that you pay half as much in Westminster and Kensington and Chelsea as you pay in Barking and Dagenham for the same. London should have a London-wide banding.

**Baroness Blackstone:** You would take this away from local authorities in London and give it to the Greater London Authority.

**Professor Danny Dorling:** I would give it to the Greater London Authority. I would make it London-wide. It is the beginning of a way of dampening. Sensible, boring politics is to try to dampen this current excessive rise, because, if it goes up and up and up, we know what happens from other examples elsewhere in time and in the world. You want to do things that dampen it. Altering council tax in that way would help, and adding bands would help. Adding bands would be seen to be fair by the vast majority of people because the vast majority of people would not be paying a band L, M and N. This is, in effect, what New York does. You are talking about bringing in what will head towards a flat property tax. New York is not that radical a place. New York is like London in many ways.
Professor Paul Cheshire: Except that local authorities retain the revenues in the United States, which is quite important.

Q49 Lord Griffiths of Fforestfach: I am attracted to the idea that local authorities respond to economic incentives. If they get something from making land available to planning, the suggestion is that they will then spend up the planning process and enable more land to be available. The question is that they are politically driven as entities, and because of that they will have many pressures, if they find they have more resources available. To what extent do you have confidence, if you had to give evidence, that they will respond positively if they are allowed to keep the council tax, for example?

Professor Paul Cheshire: There is fairly convincing and rigorous evidence. This relates to commercial property, but I did a study, which was published in the *Economic Journal* in 2008, which looked at the impact of going from a local business rate to the uniform business rate in terms of the impact it had on the supply of offices. That showed that, as a result of the increased reluctance of local authorities to give permission for office development, the increase in the price of office space had greatly exceeded any possible business rate. There is some quite persuasive econometric evidence from the United States showing that local jurisdictions that impose what is called an “impact fee”, which is a tax on development which has to be related to the costs that that development imposes on the community, are less reluctant or more willing to grant development approval than authorities that do not impose that tax. There is reasonably persuasive evidence. Also, in Switzerland, where you have a local income tax, all the revenues essentially from growth go to the local community. That appears also to keep house prices down. There is quite persuasive evidence but I would not rely on it as a total solution.

Lord Kerr of Kinlochard: It would be important, surely, to keep the council tax revenue going to the level where the planning decision is taken.

Professor Paul Cheshire: Yes.

Lord Kerr of Kinlochard: So London-wide might not work.

Professor Paul Cheshire: There is also a good argument for having a city-region input into the planning process because you also have the problem of gains from free trade. You have big losses from free trade for those who have an engagement in the present occupation, but you have small gains that are spread out over very many people. If left to themselves, people would never choose free trade. Similarly, with development, there are big costs in development and one has to recognise that for very local people, because they have more congestion, noise and pollution going on, they may lose local amenities, their roads become more congested and they have no payback from that. There are big losses to local people. The more local you put the vote, the more voice you give to people who lose from the development process. You need to balance the wider social interest against the spatially narrow interest. Having, for example, mayors and, with the city deals, city regions having a big say in things such as demarcation of the green belt for their city and the strategic aspects of planning and transport provision, would effect an improvement.
Q50 Lord Kerr of Kinlochard: I feel very depressed because you both make a powerful case for a complete reform of the planning system, which, I am sure, politically is not going to happen. I am not quite sure what the answer is. Would you like to look at the things that the Government are trying to do and tell us whether you think they are useful in their effects or not? In your published works, you have both been a bit rude about Help to Buy. I would guess, from the way that this discussion has gone, you would not be too thrilled by the inheritance tax changes that were in the Autumn Statement. What are the Government trying to do that you would support?

Professor Paul Cheshire: Business rate retention is potentially useful, but the problem is that if it is done in isolation from residential property it is going to provide an incentive for local authorities to provide more business property and less housing, which is not what we want. Although it is a good thing in itself, it is not a good thing for the housing market. To have a parallel change, which gave more tax revenue advantage to local authorities from allowing building, as the New Homes Bonus attempted to do, is a move in the right direction. The New Homes Bonus went in as a good idea but it came out as so opaque, short term and small that I do not think it really had very much impact.

Professor Danny Dorling: One thing that is good is the beginning of curbs on buy-to-let landlords. We have had a sudden and massive increase in buy-to-let landlords. Within London, there are now a quarter-of-a-million children who are below the poverty line who are in private rented accommodation, slightly more than those in local authority housing. These children are likely to be forced to move home every two or three years. That is the rate at which the rents are being put up to a point where their family has to leave and find somewhere else. They are moving around London going from school to school to school. This is disastrous. London has had the most amazing improvement in its education in the centre of London in the past 20 years. To suddenly do this to families is very bad. So much of this was a result of the crash in 2008. People simply could not buy because the banks would not lend then. The number of mortgage transactions halved. Families carried on moving so they rented, the prices of rents shot up, landlords made more money and they invested that, and so on, until you get to a point in many areas where only landlords and investors can buy. The problem is that we were trying to move towards a European system where it is more normal to have more private rented, but we have ended up suddenly putting lots of families with young children into this tenure, which has such little protection that a family with children can so often be outbid by a couple of young professionals without children who can pay a higher rent. This is a very recent change in the middle of London. The implications of it are very worrying outside housing.

Lord Kerr of Kinlochard: I see that, but where do these people go? If we are bearing down on social housing and we are bearing down on housing associations, where are these poor families with these children to go?

Professor Danny Dorling: They progressively move out from inner London to outer London. Then there is an increase along the coast, and particularly the east coast, in the index of deprivation, which is some kind of guess as to where the continued move has been. We know that the rate of moving is high. Often, they are moving to something just 10 miles away that is of a lower quality and a lower rent when they cannot pay it any more.
Households affected by the benefit cap, which is normally a household with a disabled child, are particularly likely to be moved. This was not planned, and the rise in the figures is shocking to see. It could be much better effected by improving the tenancy conditions. That might be the short-term way to do it. Because we have such short-term tenancy contracts, it is relatively easy to change the law. I say it is easy, but you can change the law, but not retrospectively, to say that all new shorthold tenancies now have to be of a new form without altering anybody’s existing contract because the contract only lasts for about a year. Politically, it is very possible.

Lord Kerr of Kinlochard: I see the argument for it, but that is not what the Government are trying to do. The Government are trying to reduce the incentives to buy to let.

Professor Danny Dorling: Yes.

Lord Kerr of Kinlochard: That is going to have precisely the effect that you do not want.

Professor Danny Dorling: No. That will have the opposite effect, and it will, on the margin, help pretty affluent first-time buyers to buy.

Professor Paul Cheshire: The effect is going to be extremely marginal. I am not going to get excited. The problem that has been discussed is a very real problem, but, again, it is a symptom of the underlying problem in lack of affordability of housing and a lack of provision of social housing for those who cannot get on to the housing ladder. There always will be people who cannot get on to the housing ladder. We are not doing a good job there. There is a really serious underlying problem and none of these changes is going to make that much difference. I would not challenge you, but my judgment is that we are between a rock and a hard place, that nothing short of radical reform will solve the problem, but radical reform is politically unacceptable. The real problem is that 10 years down the line we will find that the whole system collapses and that we have something that is not reform. What we need is considered reform that is also radical if we are going to solve the problem. Otherwise, we may get down the line and have unconsidered reform.

Baroness Blackstone: On the same point, is part of the problem that the Government are overcommitted to home ownership at the expense of affordable social renting?

Professor Paul Cheshire: In an ideal world, most sensible people would be tenure-neutral. It does not matter if you are a home owner or if you are a renter. It depends on what suits your personal circumstances. Given that we have constructed a world where real house prices are doubling every decade, it is creating huge inequality between the housing haves and the housing have-nots. Last year was the first year ever that more owner-occupiers did not have mortgages than did have mortgages. The proportion of under-35s who are owner-occupiers has fallen from 59% to 36% in 10 years. In itself, I would not mind. If we were living in Germany where real house prices have not changed for about a generation, that would be fine, but we are not living in that world. What we are doing is engaging in an unwitting, huge redistribution away from the poor and the young to the old and the rich.

Q51 Lord Lamont of Lerwick: Just going back to the Help to Buy—I understand the criticism made that anything inflating demand may prove counterproductive—are we being...
completely fair when we remember the circumstances of 2013 and the precise targeting of the scheme, because in 2013 it was still very difficult for first-time buyers to get a mortgage? Mortgage lending was not increasing quickly, and the emphasis was on first-time buyers and new-build homes. Given that we are in a situation where we need to create confidence for the industry to build houses, the first-time buyer is, surely, crucial and new-build homes are crucial. Did it not result in about 50,000 new-build homes being built? Although I would normally be rather sceptical of increasing demand, in the circumstances in which we found ourselves in 2013, maybe it was important to give the building industry that confidence.

Professor Paul Cheshire: If Help to Buy had been only confined to new-build homes, and originally there were two schemes, one of which was and one of which was not, then, on balance, I would not have been against it, so to speak. Again, it is one of these marginal things, because you may be helping these people to buy but that means that you are not helping those people to buy; and, because it will have the effect of pushing up house prices, those who are not helped by the scheme are in a worse position than they would otherwise have been. All that is very marginal. I do not accept the 50,000.

Lord Lamont of Lerwick: Fifty thousand houses are a lot from where we started.

Professor Paul Cheshire: This is a box-ticking number. It is not a real number.

Professor Danny Dorling: The Treasury released the Help to Buy figures on 9 December. They say that up until September of this year it supported 65,920 mortgages, and many of those will not be new-build properties.

Lord Lamont of Lerwick: Half were supposed to be new build.

Professor Danny Dorling: Yes, but half of 65,000 is not—

Lord Lamont of Lerwick: No, half of 110,000.

Professor Danny Dorling: The key thing is that the average house that has been helped has only gone for £155,000. This is housing in the north of England. It has stopped any northern town seeing price falls. The problem with that is that it makes the population think that price falls do not happen because it is being used most in those areas where prices have not been going up much. If we did have prices falling in some places where demand would have been less, people would at least know better because you have to be fairly old to remember when prices fell after 1989 and 1990. I worry that Help to Buy has made the population, as a whole, more confident about the housing market in a way they should not be as confident about the housing market. The liability is not great so far. The liability is only something like £1.4 billion to us, but Help to Buy is going to rise to a 40% chunk of property in London. We are putting taxpayers’ money into housing to make loans that banks themselves think are not safe to make.

Lord Lamont of Lerwick: I agree with that.

Professor Danny Dorling: We are increasing the scheme. It was supposed to taper away.
Q52 Lord Layard: I wanted to come back to what we can learn from foreign countries. If we accept that we have a bigger problem than most other European countries, including ones that are as densely populated as we are, and this is certainly, to an important extent, due to issues of planning and land supply, what can we learn from these other countries about how to incentivise local authorities? It also comes back to the question that was asked here. What can we learn about how to incentivise the people who are organising the supply of land to allow houses to be built?

Professor Paul Cheshire: The trouble is that incentives that work in one institutional and tax regime do not necessarily work in another institutional and tax regime. The Germans and the Swiss both have big tax advantages in a decentralised fiscal system, which means that there are fiscal incentives for local authorities, particularly in Switzerland, to accommodate housing.

In the Netherlands, as you know, you have a system that has grown out of the municipal drainage of the delta so that local authorities have a statutory obligation to provide land, and they buy and have developed over the years an institutional structure to support them in developing the ability to get agricultural land, either to service it and sell it on and keep the profit, or to sell it on unserviced but with development rights. The issue is that that has grown out of the particular institutional and legal structure of the Netherlands’ local authorities that have acquired this expertise, and they also have borrowing powers. Their financial regulations allow them to do this.

As I said a long time ago, development is a very risky process. We did try something like this with the Community Land Act 1975, which lasted for two-and-a-half years and produced 150 acres of land for development, because the local authorities simply did not have either the financial capacity or the commercial capacity, and the rules governing their borrowing were such that they did not engage in the process. What works in the Netherlands does not necessarily work here. On the other hand, the tax incentives that one could see coming out of property taxes, with a significant proportion going to local authorities, on additional housing that they permitted, which would not then be revenue- equalised across authorities, might have a beneficial effect on their willingness to allow development.

Baroness Blackstone: It is sometimes said that, for local authorities, there are no votes in providing lots more planning permissions. As long as that is the situation, whatever you do in terms of fairly marginal changes to the planning system, it will make very little difference.

Professor Paul Cheshire: Yes, and that has grown up out of the system that we have. It is partly this insider/outsider problem that there are local losses, which are very localised, that bring people together to lobby against a development portal, whereas the gains are spread out over a whole housing market; if you built houses anywhere in the whole London region, there would be a small benefit for everyone.

Professor Danny Dorling: A planner once told me that the most politically powerful group in Britain are nimbies, the people who will most organise when something is going to happen. If you talk about adding a hundred houses to the edge of a small village, you will see signs up saying “No houses”.
Professor Paul Cheshire: But are processing powers there? In the Netherlands or France, this simply does not happen because you have an agreed plan, which has been adopted, and it allows this to be built here, that to be built there, and you do not have any gain from lobbying because it will not affect the outcome.

Professor Danny Dorling: All the effort goes into saying, “Do not build those hundred houses”, which might well make sense because the village will not get a primary school but it will just add a class. Nimbies never say where they would like the houses otherwise built. We need to introduce something that allows that to happen because people themselves, when they oppose housing, do not or cannot organise to say, “It would make much more sense to add it on to the edge of the city rather than put it into our village”.

Professor Paul Cheshire: And the community gets no resources. An impact fee, which I mentioned earlier, is one way of getting resources to the local community to support it, but having property taxes, a proportion of which stays with the local community, is another way of getting it. You also need to make the change. The National Planning Policy Framework set out to do something moderately radical, and it got, essentially, stifled in that process, so you ended up with a document that has just as much restriction on where you can build, what you can build and, indeed, reinforced some restrictions in the sense of increasing densities in suburban areas and advising against it. We ended up with this basic situation where you have to say that, if there is no environmental value associated with keeping a piece of land undeveloped, then there is a presumption in favour of allowing development.

Lord Layard: This is the approach that puts pressure on local authorities to give permission, rather than giving them an incentive—the notion that they have to give permission if the price differential is big enough. It seems that a more natural approach would be to start from wanting to give them a positive incentive. I do not know—you must have done calculations—but I have just done a back-of-an-envelope calculation that planning permission is worth something like £5 billion a year. If the local authority could capture the value of the planning permission that it gives, it would have £5 billion to buy off the opposition. It seems to me that we ought to be able to find some way to pilot that, to have some local authority given the power to develop in the way that it captures the land value, and see what happens. Surely, there is a case for that.

Professor Paul Cheshire: Yes. The proposal to build an urban extension to Oxford is quite an interesting one. The trouble is that Oxford City is quite in favour of it but it is surrounded by local authorities that have no potential gain from it at all. I doubt if it will happen. You have to have both incentives, which impact fees and property tax retention would provide, plus compensation, and you have to recognise that, like it or not, we are allocating by fiat but we are then allocating by market price, and that market price reflects the shortage. We do not want to create a world as, for example, the South Korean success created, where there is an incentive for local authorities to restrict supply because they get more value uplifts, some of which they can capture. We want to think about housing as something that generates a benefit, a welfare. Housing is important to people’s lives.

Q53 Lord Lamont of Lerwick: I wanted to ask Professor Cheshire about something he once wrote—I do not think you repeated it today, but it was pretty remarkable—that twice as many houses were built in Doncaster and Barnsley in the five years to 2013 as in Oxford and
Cambridge. That strikes me as quite extraordinary when you think of what is happening—I do not know Oxford so well—in Cambridge, with a big expansion. With no disrespect to Barnsley and Doncaster, I do not get the impression that they are booming in the same way. I put that alongside a newspaper article that I was reading at the weekend, which referred to the fact that in some areas—it did not mention particularly Doncaster and Barnsley—the cost of new build is so expensive compared with the price of an existing house that there is a huge disincentive to build houses. In fact, I read that in one area the land had negative value. Putting that alongside the fact you highlighted, it seems most extraordinary. I wondered if you could expand on all this.

**Professor Paul Cheshire:** Our system, as it is, systematically, leads to a higher probability of allowing building in less prosperous areas than in more prosperous areas. That is partly what underlies it. It is partly the brownfield land target. There is abundant, cheap-to-renovate and cheap-to-build-on brownfield land in many of the declining northern industrial cities. In the south-east of England where the demand—

**Lord Lamont of Lerwick:** Does it have a negative price?

**Professor Paul Cheshire:** It is more likely to have a negative price in parts of London, the reason being that we have built on all the brownfield land that was easy to build on, it did not require very expensive remediation, et cetera, whereas where you have large tracts of brownfield land, as you have in many of the former industrial cities of our heartland, there is an ample supply of brownfield land. Going back to the point I made earlier, you need to allow building on greenfield land, which is much cheaper to build on, but we simply do not have enough brownfield land. One of the interesting things that some people at the University of Reading showed was that it is, in planning terms, more difficult to build on brownfield land than to build on greenfield land. The average was 43 weeks going through the whole system from beginning to end for greenfield land, and well over that for brownfield land, because they tend to be small areas, they tend to require a lot of remediation and there are a lot of surrounding property owners who can lobby and engage in activities. It is really not the case that brownfield land is a panacea. One of the outcomes is that you get twice as much housebuilding in Doncaster and Barnsley as you do in Oxford or Cambridge.

**Q54 The Chairman:** The Government have set out their objective of building a million houses during this Parliament. How is it to achieve this objective? You are making the point that it should be easier to build houses on greenfield or green belt land, however we describe it, and you have made the powerful point that the houses that are being built are not necessarily in the right place. You referred earlier to a broken business model. I suppose one example of that—we have received evidence—is that in London planning consents given each year far exceed the number of houses built. So there is a stock of unbuilt houses already. What measures do you think should be put in place to fix, or help to fix, the broken model? Certainly, going back to Harold Macmillan’s time, when there was rebuilding after the bombing of the Second World War, local authorities took the lead. Do you envisage local authorities, maybe blessed now with some receipts from the planning gain, which they could capture, playing a role? If not, who is going to build these houses?
Professor Danny Dorling: That will determine whether the actual building is beneficial. We should not forget that it is quite possible to build a lot of houses and to still end up with a very large proportion of the population very badly housed. As our income and wealth inequalities keep on widening, there is no guarantee that just building flats and houses will make the situation better. One of the reasons for wanting to have a decent chunk of social housing in there, local authority or housing association, is partly to make sure that those people who are worst-housed at the moment benefit from any building and it does not end up being used by people who are already pretty well-housed or an increase in second or third homes, which can happen.

There are also practicalities. The Guardian is releasing a report tomorrow about the number of bricks and brick factories in Britain. If you really did want to build a million houses this fast, you have to worry about the fact that we cannot make enough bricks in enough time. The nitty-gritty of it requires some looking at it. Then later claiming that you never realised we had lost our capacity to make enough bricks should not be a good enough excuse for failing. I would emphasise that it is important that we think about building from the point of view of who most needs the housing. We must remember about helping people who are rattling around a house that is too large for them to move out. Just because there is not the demand at the moment, because there is an incentive for the elderly to stay in their home, it does not mean that we should allow private buildings not to build retirement apartments, because we can tell that we are going to need them, but that requires planning. The market will not deliver it because, in the short term, it does not look like it is going to make a profit.

Professor Paul Cheshire: I am afraid—this is my judgment—that there is simply no way that we will build a million houses by 2020. My recommendation would be that we should set some very modest target of 750,000 houses by 2020, perhaps, and agree that, if we have not met that modest target, we should set up a serious commission to review fundamentally how we go about planning and incentivising the building of houses in this country. I just do not think it is going to happen. I am sorry. There is no way that the present system can deliver that number of houses.

Lord Kerr of Kinlochard: What did Harold Macmillan do?

Professor Paul Cheshire: He started off in a world where there was lots of land because from 1947 up to 1955, when we first established these green belt boundaries, we established room for growth as well, albeit on the basis of population growth rather than understanding that there was income growth that was also important in that process. We also had a whole programme of building new towns, which were on separate land that was available for housing, so you were dealing with a completely different world. We were also dealing with a world where local authorities had the capacity to build, and they did. On the other hand, we managed quite well. In London, the GLA area, between the two world wars, the peak building was 80,000 houses a year. We built 70,000 over several years in that period through the private sector, almost entirely with almost no social housing, because we had an ample supply of land and we were investing in transport systems to service that land. There are many worlds, but it takes time to get there. It is like turning a super-tanker round, which is why I am, sadly, confident that we will not build a million houses, because you only build a small number of houses. We have created a world whereby we have almost
monopolised the development industry because it is so complicated to operate the system that it is a real barrier to entry. We supply relatively little land because of value uplift, and that generates a financial incentive not to build out rapidly. If you could change expectations so that people really thought that the prices were going to be stable over the next 20 years, because you were really going to increase supply, then they would have an incentive to build out more quickly.

Q55 Lord Monks: Just to change tack a little, assuming that we really did make an impact with the kind of ideas that we are talking about at the moment in boosting the supply of houses, is the construction industry up to it?

Professor Paul Cheshire: Not at the moment. It would take a long time. We would need to build more bricks, have more training and have more small development firms. We would have to have entry into the whole process. It has taken us 50 or 60 years to get into this mess, so it is going to take us a good 10 to 15 years to get out of it.

Professor Danny Dorling: Even if we plan for that now, you will not get it. Macmillan had the great advantage that just before Macmillan the Labour Government were producing very near to this, and all he did was slightly up the rate. We are in a very different situation. The number of medium and small-sized builders that went bust in the crash means that those skills have gone.

The Chairman: You say that those skills have gone, but if he was a carpenter in 2007, he would still be a carpenter in 2015. Where have those skills gone?

Professor Danny Dorling: Those skills have gone to working as a taxi driver in our increased numbers of taxi drivers. They could become carpenters again, but the firms have been dissipated. People have gone and found themselves other employment when they were made unemployed by the small builders. As to the builders, the person in charge was often an elderly man who has taken early retirement, so the younger people involved will still be around but doing different jobs. You can turn all this around but you cannot just wish it to happen suddenly. You do have a few very large building firms that do have an interest in this not happening, in there not being competition from many medium and small builders, in slowing building out and maximising profit, so it is not happening.

The Chairman: What measures could the Government take to improve the competitive environment in the housebuilding market?

Professor Paul Cheshire: It could release five times as much land, so you had actual competition in the land market.

Baroness Blackstone: I am sorry, but may I interrupt? You say that, but if there is no capacity in the construction industry, however much land you release, you have a problem.

Professor Paul Cheshire: As I said, it will take 10 to 15 years. We need to train people.

Baroness Blackstone: We have to come back to further education and training where the Government are slashing the provision of further education, which is the main source of skills for people who work in the construction industry. If those courses were reinstated and
young people were encouraged to take those courses, you would then be building up a new supply of appropriately qualified skilled labour.

**Professor Danny Dorling**: I like that. That is definitely worth doing. The other thing to remember is the opposite to “Auf Wiedersehen, Pet”. There is a very quick way to get in builders at the moment.

**Baroness Blackstone**: How?

**Professor Paul Cheshire**: By skilled migrants. It has taken two generations to get to the position we are in and we cannot get out of it quickly. We clearly need to have training in skills. We need to have a market that encourages new brick manufacturers, new tile manufacturers, new architects, and new entrepreneurs to set up small building companies, because the whole process of development has become more and more monopolised in this country.

**Professor Danny Dorling**: In Germany, there are a huge number of building companies. I think about one-third of property is built by the owner working with a small building company. There is incredible competition in building in Germany as opposed to here, which also means that you get a much nicer variety of housing, as opposed to an estate built by one of the big builders.

**Q56 Lord Griffiths of Fforestfach**: I have two questions. The first is that someone said that bricks are outdated technology. My impression is that certainly some housebuilders are looking at building houses in a manufacturing plant and then taking them to where they need to be placed rather than having bricks from the London Brick Company and expanding to brick-building in Bedfordshire or somewhere. I just wonder if we are not living in the 20th century rather than the 21st century from the point of view of innovation in housebuilding.

**Professor Paul Cheshire**: This is what Richard Crossman was arguing in the 1960s—system building, industrialising building, to solve the problem. Yes. I was using bricks partly as a symbol of building materials that we need to have a building materials industry. There are many ways of building houses, obviously. We do seem to have an attachment to brick-built houses in this country, and in Europe generally. The problem is that so much of the cost of a house is now embodied in the land because we have made land so expensive.

**Professor Danny Dorling**: Let me say that the LILAC project in Leeds is the biggest communal self-development project of housing, and they have built it all with straw bales. It is beautiful but it is slightly more expensive than brick, but very environmentally sound.

**Lord Griffiths of Fforestfach**: Coming back to the question I asked on migration, I am still not clear. I am not in favour, necessarily, of restricting migration. It seems to me that, if you have 300,000 people who come into this country, they may, in Professor Cheshire’s model, not be significant in terms of demand, but in terms of a housing need they have to live somewhere. In terms of a housing crisis, it seems to me that, if our population is going to grow in the next 20 years by what is predicted by government statisticians, that is a serious issue. One can say it all depends on income and not population—you quoted London and you said that the population of London increased over 50 years by a very small amount—
but if you looked at the population of Hertfordshire, Bedfordshire and Northamptonshire, I suspect you would find it was very different from 5%. Finally, there is more in issue here than saying there is an economic demand function in relation to price, income and other factors, which I do not think we are really getting to the heart of.

Professor Paul Cheshire: The population of the whole London region has certainly increased more rapidly than the population of the GLA area over the last 50 years. Of course, over the past 10 to 15 years, the population in the GLA area has increased, so people are looking at this recent increase in the population of the GLA area and saying that this is the cause of the problem, but it is not. You can look at the long-term increase in real house prices and the long-term increase in population in the GLA area, and the increase, as you say, is very small. Population is not irrelevant. I am not trying to say that population is irrelevant. Providing social housing for people who would, in any world, be unable to get into decent housing, is something that, as a society, is a perfectly sensible obligation to take on. But the real underlying problem is that we simply made housing unaffordable for everybody, and this question of income elasticity of demand is far more important in terms of the increase in house prices and, therefore, it is reduction in affordability rather than it is population change, and Polish builders can help us build houses.

Lord Kerr of Kinlochard: I am completely unwrung by this horror story about no bricks, no brickies and big evil companies crushing little companies that might otherwise build houses—

Professor Danny Dorling: They did not crush them. It was just that little companies went bust because of the recession, and the big companies could survive.

Lord Kerr of Kinlochard: It seems to me that that is exactly what it is. It is the consequences of the state of the housing market, not the causes of the state of the housing market. If we are going to try and think of solutions, surely Lord Layard is right that we need to be thinking about giving an incentive for a more rapid planning system. Where a person sits on permitted land—that is, land where housing construction has been approved but is not happening—he should surely be paying a higher price. So we come both to the incentive and to the price. We need some sort of land tax, a tax on land permitted for development. Do you both agree with that? I think I know that Professor Cheshire agrees with that. I do not know if Professor Dorling does.

Baroness Blackstone: Could I just ask whether the land tax should only be on land already agreed for development or whether it should not also be on land that is undeveloped and no agreement has been made about it?

Professor Danny Dorling: Yes, but the danger of just doing it on land with a permit is that it puts people off getting permission because they then know that they will be taxed, but if you were to begin to introduce it, again, slowly on all land, then it gives you an incentive to get on with something that you were thinking of doing, now. Suppose you are a college, you happen to own a few acres and you are thinking that at some point you might build some housing on that. You would have an incentive to do it now and not lose money, but people really do need these incentives because it is easy to put these decisions off. It needs to be
on all land, not just on land with a permit, otherwise it puts people off getting the permission.

Professor Paul Cheshire: I would agree broadly with that. There is an argument for a site value tax that would apply to all land whether developed or not, which is a better way of taxing property than the council tax and the business rates, because it encourages the redevelopment of land as better uses come forward. So you build Crossrail, et cetera.

Lord Kerr of Kinlochard: I agree. Thank you.

Lord Lamont of Lerwick: Let me put a contrary view, which was put by Kate Barker, who said that, if land was taxed from the date of permission being given, there are almost certainly delays in starting due to meeting planning conditions. It would also increase developers’ risk “and the cost of that will get borne somewhere else … or if you did it today of course, people would build out more quickly, but they would be a lot more cautious about the next set of planning permissions they applied for, so actually it might make the future market less elastic”.

Professor Paul Cheshire: Yes, except virtually everything is capitalised into land prices. This is why you could make brownfield land, which is not very costly to redevelop, non-viable by increasing the risk premium. That is one of the consequences of having a system that does not make clear-cut decisions, which are non-gambleable, so to speak. If you were to put a land tax on it, all that would happen is that people would pay less for the land in the first place. It would get capitalised into land prices, just as impact fees are capitalised into land prices. They come out of the landowner’s take rather than the developer’s profit.

Lord Griffiths of Fforestfach: If you think of the impact that Uber is having on black cabs in London and other cities, my impression—it is only an impression—is that an increasing number of people in London, particularly young professionals, are looking to rent out a room for people who might come to work in London from Monday to Friday, and more and more of this is happening anywhere, but particularly in London. If you own a house and you rent out one room, imagine if you paid no tax on the rent you get from one room. Do you think that that would have an effect on increasing the supply of accommodation? The Treasury might be horrified by it.

The Chairman: Airbnb does just that.

Professor Paul Cheshire: It has changed the supply of room space. If you think of each room, Airbnb has changed the supply.

Professor Danny Dorling: But, in theory, you should declare your income. My worry is that I suspect a huge number of people do not declare the income they get from the informal agreement of somebody to stay in the spare room.

Q57 The Chairman: Leaving aside people’s tax planning arrangements, which is beyond the scope of our inquiry, Airbnb—the “sharing economy”, let us call it—offers the opportunity of addressing one of the problems that you have identified, which is the amount of spare space, on a very flexible basis.
Professor Danny Dorling: It does, but it is worse than our current shorthold tenants who have no tenancy agreements. You have no rights at all. You can end up as a resident by using Airbnb continuously. Maybe you get squatting rights—I do not know—without having a tenancy agreement.

Q58 Baroness Blackstone: I have a specific question about current government policy. In the Budget, the Chancellor announced that social rents were to be reduced by 1% per annum over the next five years. Do you have a view about whether that was the right thing to do, particularly from a perspective of housebuilding by housing associations?

Professor Paul Cheshire: It will reduce housebuilding by housing associations because it will reduce the value of their balance sheets and make it more difficult to finance building, and since they account for 20% of new construction, that is probably non-marginal, but it will be small.

Professor Danny Dorling: However, one reason for doing it was that there is no point in introducing a so-called living wage and not controlling rents. You need to do something about rents, otherwise a living wage becomes meaningless because your rents go so high that it is no longer a living wage. I can see why they are worried about it, but there are other ways of getting our housing costs down. Our housing costs are very high as a proportion of our income in this country as opposed to housing costs in France and Germany. You could improve the standard of living of the vast majority of people in Britain by reducing the cost of our rents and mortgages. You need to ask why they are so high and what you can do.

Professor Paul Cheshire: The answer to that is a long-run shortage of supply. We have underbuilt by more than 2 million houses during the last 20 or 30 years. Of the houses we have built, they have not tended to be of the right type in the right places to satisfy demand. It is not surprising that housing is as expensive and as cramped as it is.

Professor Danny Dorling: We have also increased inequality.

Professor Paul Cheshire: Yes. On that basis, we have increased inequality.

Professor Danny Dorling: We had more rooms per person in 2011 than in 2001. I agree that we have the smallest rooms in Europe, and we want more rooms than we have. We have been building rooms on to housing. We have slightly more housing than we have ever had. The problem is the distribution of who is cramped in some parts of London and who is sitting in housing that is empty. That is getting wider as well. It is going to get much worse because of this demographic boom that is going through.

The Chairman: Gentlemen, thank you very much for an interesting and wide-ranging discussion.
East Devon Alliance – Written evidence (EHM0052)

The Economics of the UK Housing Market in East Devon

East Devon Alliance (EDA) is an umbrella group for people across the district concerned with promoting transparency and accountability in local government, especially in planning. It was formed in 2013 and in this May's local elections helped ten Independent candidates gain seats on the District Council.

1. **PRIVATE OWNERSHIP – why prices are unlikely to fall**

1.1 The recent Bow Group report by Daniel Valentine wants the Bank of England to set a target whereby house prices average no more than 4 times income\(^1\).

1.2 East Devon, is one of the least affordable areas in the country with one of the highest percentages of second homes. The average price of a house is £270,982, almost 12 times the average income of £23,171. This is worse than the comparable figures for the South West as a region (£240,427 average house price, ten times average (mean) income of £23,823).\(^2\)

1.3 Average income tells us nothing about income distribution. The services industry accounts for 85.7% of the employment in East Devon with a large section of this being in the retail, hospitality and health sectors, all of which are predominantly lower-paid sectors\(^3\). Tourism is also seasonal.

1.4 The income required for an 80% mortgage on an average-priced house in East Devon (2014) has been calculated as £61,939, nearly three (2.7) times average income\(^4\) of £23,171.

1.5 East Devon is an attractive region for retirement; it has a high proportion (30%) of those over 65\(^5\), almost double the national figure of 17\%.\(^6\) It has low wage rates and, although the need for housing can be assessed, the demand for retirement and second homes is almost limitless, i.e. demand outstrips need and the affluent from other parts of the country retiring or buying second homes here can always outbid the locally employed.

1.6 East Devon District Council (EDDC) is still in the process of attempting to gain endorsement of its Local Plan. The current draft cannot be described as an example of “Nimbyism” since it sets out an 18-year target to build a minimum of 17,100 houses, 63% more than those required to meet the demographic need\(^7\).

1.7 The NPPF’s “presumption in favour of sustainable development”, combined with the requirement for a 5-year land supply and inflated housing figures in Local Plans, has encouraged developers to land-bank\(^8\) in order to maintain or push up prices. It has also encouraged land speculation when land use is changed from even grade 1 agricultural to residential.
1.8 We have evidence from the developers’ lobby, submitted to the Inspector at the oral examination of EDDC’s Local Plan in July 2015 that build-out rates are failing to keep up with the 5+20% year target\textsuperscript{x}. Yet, in the free-for-all created by the NPPF in the absence of an endorsed plan, EDDC has already granted permission, or received planning applications, for 80% of its 18-year 17,100 target\textsuperscript{x}. Failure to build is due to what more than one developer describes as “market saturation”\textsuperscript{xi}, yet these developers are arguing for more land whilst failing to use what they already have.

1.9 So, from our experience in East Devon, we can substantiate the Communities and Local Government “Glasgow” report\textsuperscript{xii} which showed developers in 2008 had slowed down build-rates in order to obtain more planning permissions and increase prices.

1.10 The result is an over-supply of high-end housing, no reduction of house prices and a desperate shortage of low-cost and social housing.

1.11 The erosion and removal of requirements to build a percentage of affordables combined with the tendency of developers to argue for their removal on grounds of financial unviability are further reasons for the reduction in low-cost housing.

2. RENTED ACCOMMODATION.

2.1 Average (mean) monthly private sector rent in East Devon in 2013/2014 was £687\textsuperscript{xiii}. According to the online “salary calculator”\textsuperscript{xiv}, a gross salary of £23,171pa (the average quoted in 1.2 above) equals a net take-home monthly pay of £1,570.29 (not taking into account any tax credits etc). This makes the average rent of £687 nearly 44% of monthly salary for the average single-earner. Affordability is considered to be no more than 33% of disposable income spent on either rent or mortgage\textsuperscript{xv}.

2.2 Observation of new estates, for example in Honiton, show many houses are ‘to let’, where previously they would have been for sale, indicating the rise in the phenomenon of “buy-to-let” locally. Some of these look to be in a poor state despite being relatively newly constructed. The recent extra stamp duty rise (to come into force in April) will stop only a very few people from investing into buy-to-let, i.e. those who might have only one or two properties. Larger investors will simply raise rents to cover the extra costs.

2.3 Renters are now in many cases paying more for the same type of home than those who are buying but are in a Catch 22 situation where the high rent stops them from raising a deposit. The charity Shelter has just released figures\textsuperscript{xvi} from the Ministry of Justice which shows 1 in 89 renting homes in East Devon, based on current eviction rates, are at risk of eviction (167 eviction claims last year).

2.4 Mortgages are not suitable for many people (young and old). Many younger people need to be flexible about where they work and the need to sell a home can prove difficult when their job requires it. Older people, if they want to downsize, often choose to rent a retirement home to keep their capital intact and these homes are just as expensive to rent as those on the open market for young people, causing people to remain in unsuitable and often large homes.
2.5. It now appears that at different ages people are experiencing more barriers to finding appropriate housing. For example, a new category of renter has appeared in retirement housing where highly dependent people move into a rented retirement unit rather than moving into a residential or nursing home as their condition dictates. A new phenomenon is arising of people in their 40s and 50s (from broken relationships or no longer eligible for social housing) sharing properties with strangers. This has been generally accepted amongst the young as a temporary measure, who then moved on to their own homes. It is now a growing phenomenon amongst the older population with unknown acceptability. Supported rented housing for those with complex needs is also fast disappearing, leaving people bed-blocked in hospitals.

2.6. Cheaper rented housing is often poorly maintained and in poor condition but, because of the lack of cheaper accommodation, people take it and become physically and/or mentally ill. Some even prefer to live on the streets.

3. REDUCTION IN SOCIAL HOUSING:

3.1. The sale of Council Houses to private buyers since the 1980s and the failure to re-stock is a major cause of the shortage of affordable and social housing. Councils and housing associations are now forced to sell off properties in higher-value areas; and are resorting to "land-grabbing" places such as car parks and play areas to build replacements for "right-to-buy" sales. These are then often the wrong homes in the wrong places and take away valuable amenity land.

3.2. “Smarter SHMAs: A Review of Objectively Assessed Need in England, Final Report for the Campaign to Protect Rural England November 2015” shows that inflated housing figures in Local Plans have encouraged “market demand” at the expense of social housing. So that in Cornwall and Devon, for instance, local people and those on lower incomes are priced out of housing, as already explained. The government’s new Housing and Planning Bill places a duty on councils to provide “starter homes” but the cost of these still far exceeds what most country people can afford.

3.3. Inflated housing figures also produce unbalanced, and arguably unsustainable, communities. East Devon’s demographic already has twice the proportion of elderly than the national average. This will only get more skewed if the growth of house building is out of balance with the growth in jobs and the local economy needed to keep the younger demographic employed.

3.4. In addition, developers prefer to build on rural and greenfield sites rather than regenerate urban areas by building on brownfield sites where there is the most acute shortage of low-cost housing. Furthermore, local councils, starved of central government funding and often failing to identify and focus on local and social need, have been encouraged to promote more and expensive housing developments in order to offset government cuts. The need for big New Homes Bonus receipts drives Local Plan targets and planning applications, with the majority
of housing coming in the first five years.

3.5 Social housing rents are being cut by government, leading to "black holes" in local authority housing. Some councils, including EDDC, are raising rents above inflation now so that when the cuts come they can reduce the size of the black hole. Service charges for non-rent items are also being raised to claw back more income to replace that lost. In some cases, tenants cannot choose to opt out of services they consider they can no longer afford.

4. **CONCLUSIONS**

4.1 It is unlikely that “market economics” will itself solve the housing problem for those on lower incomes. The “elephant in the room” is the tax incentive to treat one's primary residence as an investment pot, resulting from the exemption from gains in tax. This incentivises people to aggrandise their properties, regardless of need. The result, certainly locally, is an over-supply of large expensive housing and a drastic reduction in low-cost dwellings and in housing to meet social need.

5. **SOME POSSIBLE SOLUTIONS:**

5.1 We have attempted to list these under the headings specified by the call for evidence, though there seem to us to be overlaps where pursuing one solution might improve more than one identified problem.

**A. Reducing the cost of Private Ownership**

(i) Change the planning laws to try to prevent land-banking e.g. by counting permissions against the 5-year total and/or imposing a Land Value Tax; introduce a more robust and realistic methodology for housing forecasts. Impose an Excessive Profit Tax especially where developers have land-banked and/or failed to build affordables – Redrow has recently posted a half-year increase in profits of 93%.

(ii) Impose higher taxes on second homes, or for those unoccupied for 6 months. The 3% increase in stamp duty on second homes and buy-to-lets in November’s Spending Review will do little to deter investors. Taxation could be used to encourage the construction of modern Houses in Multiple Occupancy (HMO). For example, in converted unused office blocks, an idea first implemented in West London in the late 1990’s.

(iii) The New Homes Bonus should be paid **only** for developments on brownfield sites or for truly affordable housing

(iv) As developers don’t pay the landowner until building starts, the agreed price may turn out to be incorrect and make the site unviable. In these cases developers should be forced to renegotiate instead of stinting on affordables and infrastructure

(v) Restrict the purchase of property in Britain by foreign investors, which has pushed house prices beyond the reach of the low-paid and younger generation, especially in London.
(vi) Incentivise developers to build on brownfield sites through taxation while heavily taxing building on greenfields, the taxes to go to local infrastructure.

(vii) Encourage small builders, who promote growth and innovative design in smaller communities. At present Local Plans offer slabs of countryside to larger developers who build to standard designs.

(viii) Charge capital gains tax on principal residences to restrain house-price growth and push investment out of the market.

B. Reducing the cost of Private rented Accommodation

(i) Scrap the Right-to Buy scheme.

(ii) Pass a law to ensure that rented accommodation meets “decency” standards.

(iii) Utilize the stock of empty houses, starting with those empty for more than 6 months: in England now there are 610,123 homes empty, 205,821 for more than 6 months. Facilitate the use of empty accommodation over shops. Impose a tax on properties empty for more than 6 months (many new houses are empty and often bought up by foreign investors as is revealed in the Bow Group report).

(iv) Measures to increase tax for buy-to-lets and imposing rent controls would help curb the high cost of private renting which is partly caused by those creating portfolios and charging high rents. This takes housing out of the market, pushes prices up and stokes the need for housing benefits.

C. Addressing the shortage of Social Housing

(i) Build many more Council houses or Housing Association housing. Even have a National Programme to regenerate urban areas and incentives to build on brownfield sites. Local Authorities should be helped to build social housing – in East Devon, as elsewhere, the authority sells more than it builds. Discounts for first-time buyers, announced in this November's Spending Review, will result in less social housing. Much more publicly-owned housing should be built in small plots by local builders.

(ii) Introduce a statutory requirement to build a higher percentage of low-cost houses in all developments of more than 8 houses. It is too easy for developers to wriggle out of affordable housing agreements as Tesco did in Seaton, Devon, in August 2014.

(iii) Allow tenants to buy Council Housing only at market price.

In conclusion:

our evidence and experience bear out the view expressed by Greg Mulholland MP (2014):
“Developers are still cherry-picking greenfield sites and building expensive multi-bedroom houses in areas that do not want and cannot support significant development. That is not what the country needs: we need more affordable homes in key areas and more social housing. Reform is needed to ensure that building happens where it is wanted and needed by communities and regions, and on brownfield sites first, not simply where developers will make money building homes that are out of reach of the pockets of ordinary people.”

Part of an introduction by Greg Mulholland MP to his Planning Communities Involvement Bill introduced under the 10 minute rule\textsuperscript{xviii}.

12 December 2015
Eden District Council – Written evidence (EHM0112)

Our Reference: Select Committee Letter
Enquiries to: John Greenbank
Date: 17 December 2015

To the Chairman of the House of Lords Select Committee on Economic Affairs

Inquiry into the Economics of the United Kingdom Housing Market – Response to Call for Evidence from Eden District Council’s Housing and Community Scrutiny Committee

1.1 Eden District Council’s Housing and Community Scrutiny Committee welcomes the Call for Evidence from the Select Committee. In response the Committee has addressed the questions contained within the call for evidence which it regards as raising issues of the most importance in relation to Eden.

1.2 Eden is a large mainly rural district which is facing a demographic problem of an ageing population. This is made worse by a lack of suitable social and low cost housing for first time buyers combined with limited employment opportunities for young people causing many to leave the area.

1.3 The Committee would like to make the general point that there is a lack of understanding from central government of the impact of its housing policies on rural areas, whose needs are very different than in other parts of the country. Attempting to create ‘one-size fits all’ housing policy does not reflect local need and would appear to be at odds with the government’s localism and devolution agendas.

2.0 Private Ownership

2.1 Encouraging private home ownership is considered beneficial and the government’s Help to Buy scheme is welcomed by the Committee and is a good way to encourage first time buyers. However it is the Committee’s understanding that the scheme allow applies to the purchase of new builds. This is potentially too restrictive and the widening of the schemes application should be considered.

2.2 It is the view of the Committee that the biggest obstacle to building affordable housing is the cost of land. The high cost of land limits the affordability of building low cost housing and therefore restricts the number of houses that can be built for first time buyers.

2.3 A possible solution to this is the re-classification of certain greenfield sites as brownfield. Former agricultural land is classed as greenfield, even if was the previous
location of economic activity. This makes it difficult for planning authorities to allow building on these sites, and creates an obstacle to development.

3.0 Privately Rented Accommodation

3.1 The Committee believes that pressure should be put on private landlords to work with local authorities to provide quality housing.

3.2 In relation to the reduction in tax relief available to private landlords, the Committee agrees that this will increase the cost of privately rented accommodation. By making it more expensive to make accommodation available for rent, landlords will in many cases seek to pass the cost on to their tenants, or may decide to remove it from the market. This will in turn further reduce the supply of privately rented accommodation.

3.3 Members of the Committee question the commitment that the Government has to establishing a long term rental culture. Increasing Home Ownership has been a stated aim of the Government and this would appear to conflict with expanding a rental culture. If the Government is to commit to a long term rental culture then the re-introduction of tax relief for private landlords would be an important first step.

3.4 By making the cost of providing private rented accommodation lower the Government can encourage more landlords to make their property available. In turn lower costs mean that it will be cheaper for landlords to maintain their rented accommodation and therefore improve quality.

3.5 In addition to this the Government should insist on a higher minimum level of quality for the houses that can be provided, to prevent the rental of poor quality accommodation. To aid this more vigorous inspections should be introduced.

4.0 Social Housing

4.1 The Right to Buy scheme is designed to encourage the purchase of social housing be its tenants. While this may be beneficial to the tenant, to purchase a house they may have occupied for a long time, it is damaging to housing associations and the long term future of social housing.

4.2 Houses sold under the scheme cannot in many cases be replaced and there is no formal mechanism to do so. The sold property will also no longer generate rental income for the housing association that formerly owned it. The government has also capped rental increases for housing association tenants, further restricting the ability of housing associations to generate income.

4.3 The loss of difficult to replace housing under the Right to Buy Scheme combined with the cap on rental increases for housing association tenants has created a shortage available finance for housing associations. With decreasing funds housing associations will struggle to build new property for social housing, this will inevitably lead to a fall in the amount available over time. A lack of social housing will force low
income families into the private rental sector, where rents are higher and therefore less affordable to those who should be accommodated in social housing.

4.4 Tightening finances will also threaten the future of housing associations themselves. With reduced income and the need to maintain its existing housing stock some may find that they can no longer afford to remain operational. The potential impact on the tenants in the event of the closure of their social housing provider is unknown.

4.5 The loss of local housing associations will be to the disadvantage of the local communities they serve and negatively impact the provision of social housing.

4.6 The Committee has serious concern for the long term future of the housing associations within Eden District. It therefore asks that the impact of national schemes on local areas be reconsidered.

Yours

Councillor Mrs Joan Raine
Chairman of the Housing and Community Scrutiny Committee
Eden District Council

17 December 2015
1.0 Purpose Of This Submission

1.1 This submission forwards the views of Edward Henry House Co-operative to the House of Lords Economic Affairs Committee’s inquiry into the economic viability of the UK housing market.

1.2 Edward Henry House Co-operative is a self-managed, independent co-operative of 69 homes in Waterloo, London SE1. Not only did we supervise the rehabilitation of the buildings we have been running ourselves successfully since 1981.

1.3 Our properties are in better condition, and because of the work member-tenants undertake our rents lower, than those of Lambeth Council and surrounding housing associations. Our rent arrears are extremely low.

1.4 As a fully mutual housing co-operative, we are member-tenants running our housing as a small business.

2.0 What will be the impact of the Right to Buy for housing association tenants?

2.1 Right-To-Buy would be disastrous for Edward Henry House member-tenants. It would undermine the co-operative spirit that we thrive on and undermine the ability of our successful community to operate.

2.2 Even with discounts, few, if any, of our member-tenants could afford to buy at the prices of the ever increasing central London housing market.

2.3 Local experience shows that a large portion of Right-To-Buy properties all too soon end up in the hands of Buy-To-Let landlords. New owners and renters would not have the experience nor inclination to be co-operative. Co-operative member-tenants would be giving voluntary time to manage our business which benefits those refusing to attend meetings or share responsibility, inevitably causing tension and a break down of our happy community.

2.4 It would be impossible for us to build or acquire property in or near our location. There is no room to develop and very few suitable properties exist locally that might even come on the market. Any growth would need to be far away, destroying the cohesion absolutely essential to function as a co-operative community.

3.0 What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget?
3.1 Pay-To-Stay would be disastrous for our Edward Henry House Co-operative. It would undermine the co-operative spirit that we thrive on and undermine the ability of our successful community to operate.

3.2 Being self managed by volunteer member-tenants, housing co-operatives rely on experience passed on over years. New member-tenants are mentored in the skills required to run our business and a spirit of community and mutuality is fostered.

3.3 Pay-To-Stay is designed to encourage tenants to move away. The resulting churn, a continuous high turnover of residents as residents rise above the threshold, would result in a lack of experienced member-tenants. Our co-operative would lose the continuity essential to be able to function.

3.4 Member-tenants paying market rents are highly unlikely to participate in the voluntary work required to manage and maintain a housing co-operative.

3.5 Pay-To-Stay would require member-tenants to keep track of the income of neighbours. This invasion of privacy would cause tension, further eroding our community.

Submitted on behalf of Edward Henry House Co-operative Ltd by:

Philip Wright

16 December 2015
Dear Sir

UK housing market

I would start my submission from a rather different starting point than yours. It seems to be taken as read that we are short of houses in this country but I think that instead that we are over-populated. Action needs to be taken to get our population down to a lower more manageable level. It is difficult to put a precise number on that but the constant stories of housing shortages have only started this century. If we were to go back to the population level of the 2001 census that would be sensible. Until such time as the population was at the sensible level net immigration would have to end. We also need to look at the birth rate and see what gentle measures could be taken to dissuade people from having more than say 2 children. Fewer large families would also reduce the need for larger houses meaning more smaller ones built on the available space.

One measure that could help in the meantime would be to build better quality small houses. I live on my own in a 3 bedroom house which is a complete waste of space. The reason is that a detached house seems to be the only way to ensure peace and quiet. I would happily live in a 1 bedroom flat but only if the walls etc. were thick enough to ensure that I did not have to listen to my neighbours and them to me. My first terrace house required me to hear the neighbours toilet flush and telephone ring simply because the walls were too thin. I dare not play music as I did not want to inflict my musical tastes on others. It was no way to live and until I can find a suitable flat I will continue to occupy space that several people could share.

Whilst I am wasting part of my house there is also the controversial fact that other people have more than one house with spare houses left empty for weeks on end. Passing a law banning multiple ownership would help. It sounds somewhat totalitarian and I have no idea how you could frame such a law but if you are serious about solving your housing shortage then something like that would be needed.

What we must not do to solve your housing shortage is simply build vast numbers of houses. Here in Harrogate we have a constant battle with the Government and developers constantly demanding more land and the Council and the people of Harrogate saying no. We do not want our pleasant town ruined by over-development. There are also arguments about water and drainage. As recent events have shown we cannot constantly expect the rivers to cope with ever more run-off. Every new development on a green field
reduces the land available to soak up rain and causes increased run-off into drains and the nearest river.

Yours faithfully
Robert Edwards

11 December 2015
1.0 Purpose
1.1. The purpose of this document is to provide evidence on social housing from the Fairhazel Housing Co-operative Limited to the House of Lords Economic Affairs Committee’s inquiry into the economic viability of the UK housing market.

2.0 Background
2.1 The Fairhazel Housing Co-operative Limited is a fully mutual housing co-operative comprising 129 flats in three streets in South Hampstead, London. It houses 200 member-tenants and their families, a total of approximately 350 people.

2.2 Founded in 1975, Fairhazel Co-op is the oldest fully mutual housing co-op in London. We are a sustainable small business run by our members for our members (all of who are also tenants) according to fully mutual co-operative principles and rules.

2.3 Fully mutual housing co-operatives are legally different from other forms of social housing. Fairhazel Co-op member-tenants own their homes collectively, acting as both landlord and tenant. Our tenancies are not assured, we are precluded from granting membership to anyone who is not a tenant or prospective tenant, and we are not allowed to assign our tenancies.

2.4 In common with all co-ops, we rely on our member-tenants giving their time voluntarily to manage ourselves, doing anything from dealing with our complex financial and legal affairs to gardening and organising community events. We are run by an elected committee of 12 member-tenants who meet monthly and who themselves manage a housing manager, a maintenance officer, a part-time housing assistant, a part-time gardener-porter, and a part-time bookkeeper. We also have a number of sub-committees and working parties to deal with allocations, finances, housing management, property maintenance, and other issues as they arise (e.g. purchase of freeholds). We have two general meetings every year at which members vote on important issues. This considerable amount of tenant input allows us to keep our rents low.

2.5 Fairhazel Co-op underpins a mixed yet settled and socially cohesive community, in which neighbours work together and support each other. The majority of our nominations come from Camden Council’s housing list; many have multiple needs or are vulnerable, who we support. We also house key workers (ambulance staff, nurses, teachers, firefighters, etc). The remainder of our member-tenants come from our list and are those in housing need, with a connection to the local area, and who are willing to volunteer. Our co-op houses three generations of the same families; many older members are founding members and their children now contribute while bringing up young children.
2.6 Like other homeowners, our member-tenants take pride in maintaining our Victorian homes to a high standard, thereby benefiting non-co-op members too. We also own and maintain two large enclosed communal gardens (with legal covenants that they remain green spaces). Co-op and non-co-op residents use these gardens, which provide children the rare opportunity to play outside together safely, help neighbours get to know one another, and boost physical and mental health.

2.6 We set our rents responsibly and through sound financial management have recently arranged 20-year commercial mortgages to purchase the freeholds of six of our leasehold buildings and are currently negotiating mortgages to purchase a further two. The majority of tenants in these properties were council nominations.

3.0 Response to the question: What will be the impact of the Right to Buy for housing association tenants?

3.1. The Housing and Planning Bill 2015-16 as introduced appears to have overlooked housing co-operatives. It does not actually contain the word “co-operative”. Instead, co-ops have been subsumed under housing associations overlooking that their differences mean implementing the right to buy and mandatory rents for high income tenants (pay to stay) will be highly problematic for housing co-ops, for reasons explained below.

3.1 Previous governments have recognised the uniqueness of fully mutual housing co-operatives and exempted them from the right to buy in the Housing Acts of 1985 and 1988; however it has been suggested that under the Housing and Planning Bill 2015-16 housing co-operatives would be included in right to buy but be given the discretion not to sell some of their properties and instead give their members a ‘portable discount’, which they can use to buy another property within the same housing co-operative or in another.

3.2 It is unclear how portable discounts will be implemented in housing co-operatives such as ours which are typically much smaller than housing associations, and where members do not have the right to assign their tenancies.

3.3. Right to buy is very unlikely to help Fairhazel Co-op provide more social housing. The Government have said they will repay housing associations the discount they provide their tenants and suggest housing associations use that money to develop and replace the properties sold. However Fairhazel Co-op is in London’s Zone 2 where it is extremely difficult, if not impossible, to develop because of lack of space, prohibitively high prices, and being in a conservation area. Further, we rely on our member-tenants living close by to be able to work together to manage ourselves. This would not be possible if new housing to replace that sold is far away.

3.4. Buying a Fairhazel Co-op property is well beyond the means of most if not all of our members. The average cost of a flat in our area is £1m. Even with a £100,000 discount, first time buyers would need an income of £200,000 plus a sizable deposit to buy.

4.0 Response to the question: What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget?
4.1. The pay to stay regulations in the Housing and Planning Bill 2015-16 will be disastrous for Fairhazel Co-operative: it will strip us of skilled volunteers and the continuity we need to run ourselves; it undermines the ethos and values upon which fully mutual housing co-ops like ours are based; and it will be very difficult to administer. Each of these is dealt with in turn below.

4.2 Pay to stay will strip us of skilled volunteers. In our area market rents are four times co-op rents; for example the average market rent for a three bedroom flat big enough for a family with two parents and two children of different sexes is £3,000 per month, or £36,000 per year. Forced to pay that amount, many of our members who currently contribute a lot will have no choice but to leave. Others who stay but pay much higher rents will have a much reduced incentive to volunteer their spare time to benefit those paying much less.

4.3. Pay to stay will destroy the continuity we need to run ourselves. Many of our experienced members who have volunteered for years and even decades are now aging. Normally they help and train younger volunteers, but under pay to stay the only new members will, by definition, be low paid or vulnerable, since nobody else will have any incentive to join. These would be left with the complex and demanding burden of running the organisation, without the benefit of the usual help.

4.4. Pay to stay undermines the ethos and values upon which fully mutual housing co-ops like ours are based. Co-operatives are founded on the values of equality and equity. Every member has an equal share (a symbolic £1), an equal say (the right to a vote they can exercise at general meetings), and an equivalent home for their needs. Some members paying four times what others pay for the equivalent accommodation is directly counter to these values and will stand in the way of members working together for the benefit of all.

4.5. Administering pay to stay will be extremely difficult for us. Many of our members are self-employed with fluctuating incomes. A taper would lead to an even greater administrative burden. Pay to stay would likely increase rent arrears and evictions – currently very low. These administrative burdens would for the reasons stated above fall on a depleted volunteer workforce. Outsourcing this work would be costly, and eat into funds we use for maintaining our properties and buying our freeholds.

4.6. One of the stated intentions of pay to stay is to encourage home ownership; however as explained above it will be difficult for our members to buy their properties (which they already own collectively anyway). Further, while paying very high rents it will be hard if not impossible to save for a deposit. Members in their late 40s and 50s are still far away from retirement but too old to get a mortgage.

4.7 Pay to stay is likely to lead to the collapse of our co-op, which will put further pressure on other housing providers, social care providers, and the NHS. Our co-op does not currently receive any government subsidy; however we save the taxpayer on social care costs by supporting our elderly and vulnerable tenants, and save the taxpayer on housing benefit bills by keeping rents low through volunteer contributions.
4.8 The Government has introduced a 1% drop in social rents. This is unlikely to have a huge effect of Fairhazel Housing Co-operative because we run ourselves very well financially; however it is uncertain how it would affect us if our ability to manage ourselves were seriously compromised through pay to stay.

5.0 Response to the question: Are any additional or alternate changes to social housing rents needed?

5.1 We do not believe that social rents need to be altered to benefit us. Over the last 40 years Fairhazel Housing Co-operative has provided high quality homes for a diverse yet cohesive community. The volunteer work of our member-tenants has allowed us to keep rents and rent arrears low while prudent financial management means we have a turnover of over £1m, allowing us to maintain our properties to a high standard and provide employment for several staff, while also having built up sufficient reserves to obtain commercial mortgages for the acquisition of the freeholds of eight of our properties.

5.2 The Government and opposition members of both Houses of Parliament have frequently expressed their support for housing co-ops, however the legislation announced by the Chancellor in 2015 poses serious risks to the successful housing co-operative model. We have requested that the Government exempt fully mutual housing co-operatives from pay to stay in order to allow co-op members to get on with helping ourselves and our communities (see below for links to letters in the Guardian [1], Independent [2], and Evening Standard [3]).


17 December 2015
Evidence Session No. 10  
Heard in Public  
Questions 164 - 177

TUESDAY 1 MARCH 2016

3.35 pm

Witnesses: Mr Brian Berry and Mr Chris Carr

Members present

Lord Hollick (Chairman)
Lord Forsyth of Drumlean
Lord Griffiths of Fforestfach
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Layard
Lord Sharkey
Lord Teverson
Lord Turnbull
Baroness Wheatcroft

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Examination of Witnesses

Mr Brian Berry, Chief Executive, Federation of Master Builders, and Mr Chris Carr, Chair of the FMB Home Builders Group, Carr and Carr (Builders)

Q164 The Chairman: Gentlemen, good afternoon. As you know, we are conducting an inquiry into housing. We are focusing on how to increase housebuilding, in particular social housing. It would be very interesting to hear from you today your experiences from the front line. We have taken quite a lot of evidence already. It is clear from that and from the written evidence you have provided that SME builders, which in the past have been a very important constituent of the building industry, have declined substantially in number. The decline started before 2008, but to a certain extent it has accelerated since then. It would be helpful to hear from you as to why you think that is, and how its revival might be encouraged.
Mr Brian Berry: Lord Chairman, you are absolutely right that there has been a long-term decline in the number of SME housebuilders, not just in recent years but over a 25-year period. In 1988, two-thirds of all new homes were built by SME housebuilders. That figure has now fallen to 26%, so there has been a marked decline in the number of homes built by local builders.

There are probably three main factors that contribute to that fall. The first is that the planning system has become much more complex over that period. The allocation of land has also changed, so larger parcels are allocated in the five-year land supplies. That has militated against SMEs looking for smaller parcels of land to develop, and they have not had that opportunity. Interestingly, lack of availability of parcels of land was the No.1 concern. We did a survey of our housebuilder members and 68% said they were having problems.

The second issue is developer contributions, which have increased over time, particularly with the introduction of the community infrastructure levy as well as the Section 106 agreements. The fact that local authorities now have to look for ways to increase their revenue, particularly during the recession and cutbacks, has worked against SME housebuilders.

The third issue, which has been very serious since the start of the recession, is the problem of access to finance. Despite the recovery in the economy, banks are still very reluctant to lend to SMEs both for development and ongoing business. That is still causing a problem for our members. In our latest survey, 62% reported that was a problem.

Mr Chris Carr: I agree with everything Brian said. We also have to understand that we have been through two or three quite deep recessions over the past 10 or 15 years. The problem has been the natural decline in developers. A lot of it is due to retirement and a lot is due to recession, but the big problem is that we cannot encourage developers to come in at the bottom. We are losing developers coming out at the top but not replacing them at the bottom. There needs to be a mechanism to promote tradespeople to become developers as they used to be. At the moment we do not have that. Although we are losing the top tier, like any industry in the UK, there is a big age gap and it is top-heavy. We need to replace them at the bottom for them to feed through, and we are not doing that efficiently enough.

The Chairman: Traditionally, how was the industry replenished?

Mr Chris Carr: Tradespeople—bricklayers, joiners and plumbers—would buy a plot of land to build one unit. Next time they would buy two plots and then carry on to become bigger developers. It is harder and harder to get into that sort of market now. Local plans are pushing for bigger development sites of 1,000 or 2,000 units, which SME tradespeople cannot access. You can set up consortia or try to do something on, probably, local authority land. If they are going to do almost a custom-type build on local authority land, you could sell off individual plots to tradespeople to progress in the market.

The Chairman: In other questions we are going to be covering some of the barriers to entry that you have raised. Can you explain for us the role SME builders play? Mr Berry, as I think you mentioned, and we have heard from other witnesses, it is increasingly the practice of local authorities to permission very large plots of land, which is not really your bag.
Federation of Master Builders; Carr and Carr (Builders) (QQ 164-177) – Oral evidence (EHM0010)

**Brian Berry:** No.

**The Chairman:** I think between 500 and 1,000 is the number below which you become an SME. Quite why that is I do not know, but, for instance, why do local authorities not wish to break up sites and allow smaller builders to come on to them?

**Mr Brian Berry:** It is probably economies of scale. It is easier for a local authority to deal with one large housebuilder and to be guaranteed that 500 homes will be rolled out, as opposed to dealing with 10 local housebuilders. Economies of scale come in there.

In relation to the numbers that our members build, 68% of our housebuilder members typically build between one and 10, so those are micro-housebuilders. To try to solve the housing crisis, we think it is better for each village or market town to build a small number of homes using local builders, who often have apprentices because they have a good reputation for training young people, and spread the economic benefits right across the country. Although local authorities are probably looking at the costs of using just one major housebuilder, there would be wider economic, social and environmental benefits through using local builders who employ local people to build local homes.

**Mr Chris Carr:** You also have to remember that a 2,000-unit site will deliver only 40 new homes a year. If there was one national housebuilder on one site, it would deliver 40 new homes. It does not matter how big the site is; that is what it would deliver. Two national housebuilders on the same site would deliver 60. Planning authorities seem to think that issuing a 2,000-unit site will cover their housing needs. It will not. It is proven that it is better to have a lot of smaller sites that deliver more units to a local authority than having one big site.

**The Chairman:** If you had permission to build 10 or 20 houses on a larger site and there was a national housebuilder already building them, would you be prepared to take the risk of building when you know you have quite a large competitor who is already building more houses?

**Mr Chris Carr:** It would not bother me one little bit. It is like someone who buys a Ford car. You know Ford and you can buy it all over the UK. Some people want a Mercedes, a Fiat or something different. We supply to the market something completely different from the national housebuilders. We do not compete; we cannot. The scale of the economics is such that we cannot compete with national housebuilders. We have to offer bespoke—a different type of home.

**The Chairman:** Would you say that that bespoke or a different type of home is more in keeping with the housing that already exists in a particular village or county town?

**Mr Chris Carr:** Without a doubt. I am not having a go at national housebuilders. We need both of us to work in the UK to deliver the housing numbers, but they have a certain number of designs that they use all over the UK. Every single site we build is different. Planners insist that we take into consideration the street scene and local amenity areas. We need to take control of all that. We deliver something that fits in nicely, but it complements
the national housebuilders. They will give you a huge number of houses, but we will give you something slightly different.

Q165 Lord Forsyth of Drumlean: I declare my interest as a director of a challenger bank. Can I ask you about the extent to which you are hampered or hindered by restricted access to finance, and what you think the reasons behind that might be?

Mr Brian Berry: Finance is still a major issue for our members. It came out as No. 2 in our survey carried out last year; 62% of members said that it was still a problem. Despite the end of the recession, banks are still very reluctant to lend to SMEs because they are deemed high risk. The problem is that it seems to be a blanket approach; it is not done case by case, which would benefit our members. The banks deem the SME housebuilding and building sectors riskier than other sectors, and that is causing a problem for small housebuilders coming forward.

The Government have introduced some welcome new initiatives, such as the housing growth partnership and the housing development fund, but they are only quite small steps and they have not permeated right down to the microcompanies we represent. How SMEs access finance is still a big challenge. We find that SMEs are using alternative sources of funding—new institutions that have entered the market and peer-to-peer lending.

Lord Forsyth of Drumlean: You say you are regarded as riskier lending. From the point of view of banks, housing developments are treated as risk-weighted asset loans. Are you aware of the proposals from the European Union to increase risk-weighting from 75% to 150%? Have you made any representations in that respect?

Mr Brian Berry: We have not made a representation on that.

Lord Forsyth of Drumlean: From the point of view of the banks, it seems to me the issue is not that housing per se is risky; it is the cost of capital, because of the rules applied to housing development. That may be an issue you want to pursue.

Mr Brian Berry: We will follow that up.

Lord Forsyth of Drumlean: Are lenders imposing other conditions that make development difficult for small operators, perhaps wanting to restrict operations to one site? We have had evidence that lenders will not lend to second sites until a particular site has been concluded. Is that an issue?

Mr Chris Carr: It is definitely an issue. To go back to your first question, you say that the industry is a risk, but should we not be judged on companies? My company has been with my bank for 90 years. My bank has now called me a risk because I am an SME housing developer, although my company has been building for 90 years. Surely, we should almost go back to what bank managers used to do, which is to know the people they are lending to. You cannot just say that anything below a certain level is a risk. It is not, and that is a worry.

I think you asked a question about access to finance.
Lord Forsyth of Drumlean: I asked about finance if you were developing on more than one site.

Mr Chris Carr: They want you to complete on one site. The repayments are predominantly front-loaded. It used to be the case that, if you sold a house for £150,000, you would give back £100,000 to the bank and retain £50,000 for cash flow. They have stopped that. Now you pay back the £150,000 straightaway on a resale. That is why it has changed dramatically.

Lord Forsyth of Drumlean: To explain the point, when banks lend, the category of lending is looked at. The regulator requires capital to be set aside according to the nature of the lending rather than the nature of the client. There is a possibility that those rules will be tightened and that may be something you want to pursue. Far be it from me to be defending the banks and lobbying you, but that is the explanation.

Mr Brian Berry: That is one we will follow up. Thank you.

Q166 Lord Lamont of Lerwick: In your opening remarks, you commented that local plans were focused too much on large sites. Your answer was that it was more convenient administratively for local authorities to have large sites, so it is probably not necessary to go over that again. If the land is not publicly owned, is it not rather difficult to expect the local authority to be able to split it up into smaller sites?

Mr Brian Berry: I agree that it is more challenging, but that is where we need more negotiation and collaborative working with other landowners to find creative ways to release land for SMEs.

Lord Lamont of Lerwick: To ask a general question, I have been sitting here for weeks listening to evidence about all this, and I am not sure I am any closer to having an idea about a solution. It seems to me that there is a spectacular market failure but I cannot quite identify where it is. You have a scarce commodity, you have great demand for it, it forces up prices and the demand is still there in a residual sense. You would think that was a wonderful opportunity for the market and the private sector to meet the increasing demand and the increasing price, and drive it down and make increasing profits. In your opinion is it just planning, or what is it? It is a bit of a mystery to me.

Mr Brian Berry: It goes back to the items I mentioned at the beginning: the complexity of the planning system—the system is a lot more complicated than it was 20 or 30 years ago—and the regulations imposed on housebuilders. There is a problem about finance, which has tightened over the last 10 years or so, and the availability of land in the sense of larger and not smaller parcels. All of them come together to create a situation where, as you say quite correctly, there is huge pent-up demand and lack of supply. It would be easier if the planning system could release more land to increase the available supply, but there is not just one thing we can pinpoint. It is finance, the availability of land and the complexity of the planning system.

Lord Lamont of Lerwick: Sometimes we are told that when there is assistance on the demand side, as with government schemes, we are increasing demand and inflaming the
market, and on the other hand, when finance is restricted, we are told that scarcity is driving up the price. Which is it?

Mr Brian Berry: I think the Government have done quite a lot in helping on the demand side, but you need the same initiatives to balance the supply side. You have to have the two running in tandem, and maybe they are slightly out of kilter.

Q167 Lord Teverson: I would like to come back to the local authority planning side and sites, following up Lord Lamont’s initial question and something you said earlier. Applying for planning is demand-led. I know there are local plans, but it is demand-led to a degree. It makes the smaller side sound almost quite passive in the process. Having been a substitute member on a local authority planning committee, I am sure that, if the will is there, you can get planning committees to say yes to smaller sites. We talked about local plans, but there is a growing number of neighbourhood plans, which have to reflect the overall requirements of the local plan. Does that not give the opportunity for communities to demand small-scale development, which a lot of them like? The local villages around me like small four to six-house developments because they keep villages alive and can grow all the amenities. Are we at a turning point?

Mr Brian Berry: You are right, but some communities are not receptive to having housing in their village. Some communities recognise, quite rightly, that having a smaller development is much more attractive because it provides homes for local people and keeps the village alive, but it is a fact that, sadly, in other parts people do not want housing in their village or market town.

Lord Teverson: But is that not about scale? Large developments that are almost grafted on, like town or village extensions, will meet resistance, but in my experience a plot size of 10 or below is something local communities quite like.

Mr Brian Berry: If that is the case, it is striking that the number of SME housebuilders dropped rapidly over that period.

Lord Teverson: I guess that is my question.

Mr Brian Berry: I think it is because of those other factors. Maybe the SME housebuilder cannot find available sites or cannot find the finance to put forward a proposal. That is where builders are struggling.

Mr Chris Carr: We are just doing a community-led plan rather than a neighbourhood plan. It is a far better process to go through for villages, because it is not too technical. You gather information and feed it through to the local authority to put into the local plan. My local parish council asked me whether I would be involved in it as a developer, to give a different perspective. We said to the group straightaway, “There are no two ways about it. You have to deliver housing in this plan. If you do not deliver it, your local authority will, in the local plan, without notification to you. Are you not better off advising where you would like it?” When you tell them that, they buy into it and say, “I get it now”. We need more community-led plans. Neighbourhood plans require a lot of technical information and are a bit bureaucratic to get through. The plan made a massive difference to our village. Our village is
about 6,000, almost a market town. People now understand the plan and have proposed six sites they would like to see. We have gone from never having any building to, “If we are going to have building, let’s have it here”. One part of it was to enable a new school. All sorts of things were involved. When you get people engaged it makes a great difference, so when the applications come in there is less resistance from the parish council to the planning committee because residents have had some sort of engagement and involvement in developing their own village plan. It is definitely the way forward. Engagement with residents is massive, and we have consultation with residents all the time on our development sites. You have to get them on board, involved and part of it.

**Q168 Lord Sharkey:** The Federation of Master Builders raised the cost of planning applications as hindering small and medium-sized builders. Taylor Wimpey told us that the cost of achieving planning permission is a significant issue for SME builders. If that is the case, what should be done about it? What do you propose could be done about that? For example, would the proposals in the current Housing and Planning Bill, which make provision for permission in principle to be granted for smaller housing developments, be helpful in creating more shovel-ready sites for small builders?

**Mr Chris Carr:** I think they would. It goes back to being open and honest with residents. To take my last two planning applications, one cost me £275,000 on consultants and legal fees. The one after that, where I did all the negotiations and spoke to residents, cost £43,000. That was because we did six public consultations. We spoke to the residents; we went back and changed the plans slightly. All those things cut down the cost. You have to change the mindset of developers. They cannot just think, “I am going to bulldoze my way through a planning application, throw as many consultants at it as I want and not care who I offend”. That is the mentality. We have to go back to engaging people. That will cut down the costs massively, especially on smaller sites. When it is a local builder, people know him; they have seen him in the town. We employ a lot of apprentices. People notice that. That sort of thing will help more than altering the planning system. The planning system has got a lot better, but it depends on how it is interpreted by each individual planning authority. We have a good one. A private company runs planning for North East Lincolnshire. It is sublet; it is more professional and quicker to get planning applications determined. Whether they are refused or approved is irrelevant. They get the process running quickly.

**Lord Sharkey:** Is subletting the planning process a common thing?

**Mr Chris Carr:** There are probably two or three local authorities doing it at the moment. We used to have Balfour Beatty WorkPlace, which was bought out by Cofely, and now it is ENGIE. It is working great, because there are professional people. There are still the same planners, but there are people above them who probably have a more businesslike mindset. I speak to planners and explain what happens if you are a developer. They say, “We thought you were being obstructive”, but when I say why I have done something, they say, “Oh, we’ll tell the members”. The cost is in communication. The hassle of getting planning through is communication. It needs to be broken down.

**Mr Brian Berry:** I echo that. The recent changes in the planning framework and in the Bill that is going through will certainly help to reduce the costs. That has been a big concern for our members; 41% said that the combined costs of Section 106 and CIL were making sites
unviable. Chris talked about the changes to the planning system that are helping to speed things up and simplify and reduce costs. We are beginning to see the benefits of that, so, hopefully, the situation will change over the coming months and years.

**The Chairman:** Mr Carr, you referred to a cost of £275,000. Can you give us an indication of what percentage that would be of your total costs on the project?

**Mr Chris Carr:** Per unit?

**The Chairman:** No, the overall cost.

**Mr Chris Carr:** That was for 200 units, but it was purely the professional costs. It was a reserved site under the old local plan, so it is not as if it was controversial.

Q169 **Lord Teverson:** I want to ask about the benefit to smaller builders of modern methods of construction, off-site pre-works and all those sorts of things. From your introduction, are you at the other end of that and much more involved in bespoke housing? I am interested in your comment on that and where your market niche is.

**Mr Brian Berry:** Modern methods of construction are very important in trying to solve the housing crisis. We need to look at new ways of doing things for any industry to survive. Our members are primarily providing more bespoke housing to reflect local need, so they use traditional skills. That is important. Given that 85% of our buildings will still be standing in 2050, we need a bank of skilled builders to maintain them going forward.

Off-site construction has been talked about for quite a long time; since the end of the Second World War, it has been deemed a panacea for the housing problem. There is now a lot of talk about modular housing, which can have a role to play given the huge demand for more housing in this country. Small builders could get involved in that. There are opportunities to assemble off-site housing. Small builders need to be responsive to the changes in housing construction, but primarily there is a huge need for builders with traditional skills to maintain our existing built environment.

We need to make our existing buildings fit for purpose given that our climate is changing, as we are seeing, with very warm, wet winters. If we are to make our built environment fit for purpose, we have to think of new ways to adapt those buildings, and that is where new technology comes in. Solid wall insulation is quite off-putting because it diminishes the size of rooms or changes the appearance on the outside. New technology might be able to reduce the thickness of the insulation we would need. That could be quite exciting for local builders who adapt, change and embrace new technologies and materials to meet what I think will be the coming demand to upgrade our existing building stock.

**Lord Teverson:** The first half of that answer suggests to me that one of the reasons smaller builders have gone out of business is that they cannot innovate enough. Are you driven only by having to comply with building regulations, or is there real innovation among smaller builders? Maybe Mr Carr would like to come in on that as well.

**Mr Brian Berry:** I am sure Chris Carr can speak for himself. Builders show innovation on a daily basis. They are adapting and changing; they do not follow a template. When they go
into someone’s house, they have to think creatively about how to put on the extension and make a repair. They need a range of skills to do that.

**Lord Teverson**: How do they achieve that? How do you keep up with innovation that is going on in other parts of the world, or whatever?

**Mr Brian Berry**: That is a good question. Anyone in this country can call themselves a builder. One of the problems we face is the image of the industry, because there are no prescribed qualifications for a general builder, which is why the Federation of Master Builders is trying to raise standards. We have changed our entry criteria so that we can differentiate our members from Joe Bloggs on the street; there are a lot of consumer programmes with people talking about being ripped off by a cowboy builder. There is an argument for some form of licensing or registration of builders in this country, because in that way you could enforce standards; or you could rely on trade bodies such as the FMB to raise standards in the building industry. That is voluntary; it is up to builders whether or not they join us.

**Lord Teverson**: A big building construction company probably has a research and development department and is well up to date on new techniques. How do small builders stand a chance with that sort of innovation? That is what I am trying to get at.

**Mr Brian Berry**: We have a builder here.

**Lord Teverson**: Is that one of the reasons the sector is being squeezed?

**Mr Chris Carr**: It is almost the other way round. If a supertanker like one of the big national housebuilders decides to change the way it builds properties, it will take months, if not years, to change the way they are delivered on site. I can change the way I build a house tomorrow, so we are more innovative with our design and build than national housebuilders. We lead and they follow, because we can change anything straightaway. We are always open. Trade magazines and organisations like the FMB send out loads of details, but we get rid of the gimmicky stuff. We are very keen on energy-efficient homes. I have worked with the Zero Carbon Hub for five or six years on the developer side to say, “That won’t work; it won’t be delivered on site”. It comes up with some great ideas and we just try to dumb them down so that they actually physically work. We have done great work: for example, designing houses around the sun and putting porches back on houses, basic things that make homes energy-efficient. The quality of the build is also a big issue. We can do all that. We can charge a slight premium for our properties over national housebuilders, because we are not in competition with them. We offer a completely different bespoke model. We offer something with a bit more detail and quality, and we can offer more energy-efficient products.

**Q170 Baroness Wheatcroft**: Do you think there is any innovation that would make a significant dent in the cost of housing? You are talking about improvements that will lower running costs, but the biggest obstacle for people wanting to get on the housing ladder is the initial cost of the property. Is there anything you can think of that would make an exponential difference in bringing down the cost?
Mr Chris Carr: The quick answer is no. We have to be careful. Do you want to reduce the cost of homes now? We will put a lot of people in negative equity if we do. We need to level it off and stop increasing the price of new homes. As a developer, we hate house prices going up. It sounds bizarre, but we lose a tier of buyers every time house prices go up. We used to sell properties to those in the 20 to 30 year-old bracket. That has gone. We would love to sell to them, but we do not dictate the price of houses; the market dictates it. We are judged by lenders. A mortgage provider says, “We are valuing a house for Mr Smith”. He will put a value on it, and that is its value. We do not put that value on it. We cannot ask for another £20,000 or £30,000, because the provider will not lend the money, so we will not sell it.

Baroness Wheatcroft: It is perfectly open to anybody who manufactures something to sell it at a lower price should they wish. The result might well be negative equity if there was a lot of it about, and obviously that is a problem for some people. Nevertheless, if we are trying to solve another problem, which is the lack of affordable housing, although nobody is quite clear about what affordable is, increasing the supply of lower-cost properties seems essential. If that means that house prices come down from the silly multiples to income they have reached, that is just an unfortunate consequence, is it not?

Mr Chris Carr: I agree. We have to remember that our membership is the whole of the UK, not just London and the south-east. In Grimsby, where I live, and probably in a lot of northern towns, there is not that differential. We have to be aware that we are not talking about just London and the south-east.

The thing is to get people into the market. The Government’s starter homes programme has teething problems, but I believe it is a good idea. Shared ownership with social housing providers is another way to get into the market; people buy only 20% or 30% of the property and rent the rest, and over a 10-year period they eventually buy the rest. Local authorities could be doing that through their own land supply. They could build shared ownership homes and retain the land ownership, which they can borrow against for government lending; they could build properties and get a rental income from them and sell part of it. Over a 10-year period, that will generate more money than selling off the piece of land now in a market with declining house prices.

Q171 Lord Griffiths of Fforestfach: I have two questions. First, last year Parliament passed the Self-Build and Custom Housebuilding Act. It seems that the self-build sector, from the statistics I have in front of me, accounts for between 7% and 10% of completions. In Austria it is 80%. A Building Societies Association survey in 2011 suggested that 53% of people in the UK would consider building their own home. Would you like to comment on that? In particular, is there any way of creating partnerships with small builders in order to do it?

Mr Brian Berry: The FMB was very supportive when the Bill was going through Parliament. We see it as an opportunity to increase wider choice in the housing market. There is obviously a key role for small builders to be involved in working with clients and putting together those houses. You are quite right: looking at other European countries, there is a very small proportion in this country. I think it is less than 10%. That market could expand. Given that 86% of people want to own their own home, it would be another way to allow them to get on to the housing ladder. It is something we have supported. We need to make
sure that the register that is being set up is fully transparent so that local people know exactly what opportunities are available. We also need to make sure that builders have the right skill sets and link up with clients so they work in partnership. We are getting involved to try to facilitate that.

**Mr Chris Carr:** In dealings with a client, we are doing a self-build development—or we were until two weeks ago when we found it restrictive as to what we could do. We are not going to promote it as custom-build; we are doing it under self-build. Custom-build was a bit too restrictive as to what we could and could not do. If you have a plot of land with a house on it now, you can knock it down and build something on top, at a certain price. On custom-build, we still have to pay our Section 106 contributions, so we are paying for education, open space, road infrastructure and all the other bits. That bumps up the price of the plots, but there is a big demand. With custom-build, which people have not completely realised, we can sell plots on to developers. We talked earlier about getting developers into the market. If you have a custom-build site, a developer can buy two or three plots on that site and it will still be classed as custom-build. It does not have to be individuals; it can be smaller companies. That is a way of generating the conveyor belt for more developers to come through.

**Q172 Lord Griffiths of Fforestfach:** My second question is about competition. We have been told in evidence that the small-build sector was devastated by the financial crisis of 2008, which would suggest that competition is less than it was. On the other hand, to what extent do you feel squeezed out by large companies that have a lot more resources, access to capital and so on, where you feel there is not a level playing field as regards competition?

**Mr Brian Berry:** I do not think SMEs are in direct competition with large housebuilders. They operate to different business models. The tension is probably at the margins. For example, if small builders cannot access small sites and larger housebuilders have stepped in and developed them, there might be some tension. The other problem is finance, which we have talked about. Larger housebuilders have been able to access finance in a much easier way than small local housebuilders. Those issues have contributed to the decline of SME housebuilders, but I do not think the volume housebuilders have pushed out the SMEs per se; other factors have contributed to that demise.

**Q173 Lord Forsyth of Drumlean:** Could I take you back to the point about flexibility and innovation, and creating houses that meet people’s aspirations? Perhaps I should declare an interest, having built a house 20 years ago. The small builder who built it did a brilliant job; it has not fallen down and is very satisfactory. When I talk to builders or architects, they say that now the burden of regulation and requirements on them effectively makes it very difficult to innovate and adds greatly to the cost. There is no particular thing but a whole raft of things. Do you think that is a factor in limiting the ability to do as Baroness Wheatcroft indicated, which is to build houses that people want and that are more affordable?

**Mr Brian Berry:** There has been an issue over the past 20 or 30 years. It is more complicated to build a house than it was at that time, and that has been a factor in why the number of small housebuilders has declined. It is often difficult for smaller builders to know where to get information, unless they belong to a trade association such as ours. Small builders do
not keep up to speed about what is happening or innovate in the way they should, but that reflects the state of the building industry and the fact that anyone can be a builder in this country.

Lord Forsyth of Drumlean: What can be done about that?

Mr Brian Berry: We are trying to raise standards and provide our members with more information and training, which we make available across the country. That becomes much more attractive, and our members are better equipped to compete for work.

Lord Forsyth of Drumlean: It is not that they are not equipped to compete for the work; they know what they have to do, but the argument—tell me if it is wrong—is that there are now so many requirements, whether about additional insulation, health and safety or building methods, that it becomes extremely difficult for them.

Mr Brian Berry: It is difficult, but our members are doing it because we provide the training and make sure the information is available. The majority of builders, if they have access to that information and training, are well equipped to meet those requirements. The increase in health and safety requirements over the past 20 years has been a good thing. We would not want to reverse that. Sometimes you hear builders complain about building regulations, but for the majority it is very helpful to know what is expected. Our members tend to value building regulations. Provided they have access to training and somewhere to go if they are stuck, that overcomes some of the problems, but obviously we want to keep regulation and bureaucracy to the minimum to ensure SMEs are able to compete in the marketplace.

Mr Chris Carr: We innovate; we grasp all the modern technologies. We get a lot of information from builders’ merchants and the supply chain. They get a new product and bring it forward. It does not tie in well with affordability, because there is an additional cost with any new product, but for me it is about design. If someone can design a good property, it can also make it a usable space. National housebuilders stick to one design that is repeated all over because they can build it to a high quality and to a set design. They know it ticks every U-value box and everything else. We cannot. That is where the building control people have a more common-sense approach. They and the planners see what we are trying to achieve and they relax. They say, “We can see what you are trying to achieve and we think it is going to deliver”, and we can come to an area of common ground.

Lord Forsyth of Drumlean: It is not a problem.

Mr Chris Carr: It is a solution opportunity; it is never a problem.

Q174 Baroness Wheatcroft: Could I ask you a bit about the Government’s plan for direct commissioning? It was said very clearly when the plans were announced that there would be scope for smaller builders to get involved. Are you seeing evidence of that yet?

Mr Brian Berry: When the announcement was made in January we welcomed the proposal, but the fact is that only 13,000 homes are in the five projects, so it is very limited in scope at the moment. I am not aware of our members directly benefiting from it, but it is early days yet. The principle is right. It is good that the Government are taking that approach,
recognising the problem our members face. We would like to make sure that the initiative works, but it will have to be on a much bigger scale if it is to have a big impact on the SME sector.

Baroness Wheatcroft: They are big sites by their very nature.

Mr Brian Berry: Yes.

Baroness Wheatcroft: To go back to what you said at the beginning about dealing with the housing crisis by putting a few houses here and a few there, do you think that the sites are available now? If people changed their approach, could small builders work on lots of small sites all over the country to solve the problems?

Mr Brian Berry: They absolutely could. Those sites exist and people in communities tend to know where two or three houses could be built that would not change the character of the village or market town, but the sites are sometimes outside the local plan. Maybe we need a more flexible approach and a lot more community engagement, because I am sure that, if we took that approach, we could find the spaces needed to build homes. Most people recognise that having additional homes in a village is good for the community.

Baroness Wheatcroft: Mr Carr, you said that consultation and getting communities involved was the way forward.

Mr Chris Carr: Yes, it is. You are right that we can have smaller sites through the local plan as exception or windfall sites, so it can still be done even under the local plan. It is the same when having open dialogue not just with the residents and parish councils but with planning officers: sustainability is the key thing. Those 2,000-unit sites are not sustainable. A 5% increase in every village or town is sustainable; it keeps the shops, the pub and the school open. We need to feed more of that into local plans.

Earlier, Lord Lamont asked how we would deliver bigger sites and force the bigger developers to release land. It is easy. We have to provide 20% social housing. They have managed to do that. Why can we not give 20% social housing and 15% to SME or custom-build? They would buy it from the landowner at the same price as the national housebuilder. It can be done. It would make houses more affordable for the SME sector if it was buying them at bulk price—the national housebuilders’ price—but delivering its own products. It can be done because it happens through social housing.

Baroness Wheatcroft: Do you think the Government take into account the different requirements of SME builders from the giants when they come up with policies such as Help to Buy, or does that benefit you as well?

Mr Chris Carr: With Governments over the past six or eight years there has been a massive difference for the housing industry. There is a complete change from what we had before. They now back the industry and understand it; they know we drive the economy and that it is part of UK plc. Everything they have done over the past six or eight years has been massive input, and that is why we are seeing a stronger, healthier market.
Mr Brian Berry: Since the general election in particular we have seen more emphasis on how to get more SMEs back into the housing market. That has become a primary focus of government policy. It has been noted by our members that there has been an improvement, and the fact that we are talking about it now is recognition of the role we play. It has been overlooked for far too long, so we welcome what has been happening in the last two years.

Baroness Wheatcroft: It is the lenders who are the problem.

Mr Brian Berry: It is not just lenders; as I said earlier, it is the planning system, the land and the finance. There is no one issue that we can solve to address the housing problem; it is a mixture. We need to bring all those points together if we are to solve the housing problem and get more of my members back into the housing market. Only then will we solve the problem.

The Chairman: What is the most effective measure the Government have introduced that has encouraged people to come back into the building industry as SME builders?

Mr Chris Carr: The planning system has got better for the SME sector. Delivering smaller sites or individual units has become a lot easier. People were physically afraid to put in an application: look at the stories I gave you about the costs. Suddenly it has become more open and there is greater accessibility to planning permission, and that has made a big difference for people drifting in again. I chair the Home Builders Group for the FMB and get to see all the regional homebuilders. The big barrier is still finance. Every one of them said they would double their turnover if finance was accessible.

Q175 Lord Turnbull: My part of south London is awash with skips, which tells me that a great deal of money is being mobilised for the modification of existing houses—lofts and even basements, although not much near me. Does modification of existing houses, as opposed to building new ones, form a bigger and bigger part of the capacity of the FMB output?

Mr Brian Berry: During the recession a lot of our housebuilding members went into home extensions, particularly in London and the south-east, because people could not afford to move but saw that they could have a loft conversion, kitchen extension or basement. Our members tapped into that market and it provided a new workstream for them.

Lord Turnbull: Can they be tempted back?

Mr Brian Berry: I hope so. Unless we tempt them back, we will not be able to solve the housing problem.

Lord Turnbull: You mentioned, not in favourable terms, Section 106 and social obligations. There is a good social case to be made for them, because there is some associated infrastructure. There is a good economic case, in that there is a difference between non-permissioned and permissioned land, but you seem to be indicating that they are more burdensome for SME builders than large ones. Is that because local authorities are not using their discretion to work out more accurately what your market can bear?
Mr Brian Berry: That has been the case. As I said earlier, 41% of our members said they were put off developing because of the combined CIL and Section 106 costs, so there needs to be recognition that, if those costs are too high, proposals for development will not come forward. There is a case for local authorities and builders to be talking in a more realistic way without losing the potential for development to take place.

Lord Turnbull: There has also been discussion about fees. I distinguish the fee for an application and the fees for professional people, such as architects and so on. Taking the application fee, which goes to the local authority, some people have contended that it ought to be higher. Maybe it means that the Section 106 cost is lower, but more money needs to be got into the planning departments of many authorities, and if fees were less severely regulated by central government they would be a good thing. Do you have a view on that?

Mr Chris Carr: I was one of those people. I sit on the Government’s developers’ forum. One thing we said as developers—national housebuilders and the SME sector—is that we are quite happy for the fees to go up, as long as the money is ring-fenced for planning and cannot be taken out of the local authority and spent elsewhere. As long as it provides a more efficient service with more and better qualified staff and officers, we think it is quite a good thing and have no problem with it.

Lord Turnbull: What is the state of consultation with central government on that?

Mr Chris Carr: The issue at the moment is the policy that any planning fees can go into the council’s general expenses. They do not have a policy to stop that at the moment. As developers we are saying, with the greatest respect, that we do not want to pump in more money that goes to social services, schools or education; it needs to go into producing a more efficient service. We have no problem at the moment, but a huge shift of policy would be required to change that.

Lord Turnbull: You seem to be saying that somehow you should be exempt from Section 106-type levies, whereas I was contending that they ought to be differentiated and lower for your sector. I certainly was not implying you should be exempted from them.

Mr Chris Carr: For Section 106, it is very difficult because you can go for viability, which is what we are talking about. If Section 106 is put in front of you, you can contest it on viability. If I pay over the odds for land in the first place, which is what we are doing—if it is not commercially viable, it means you have paid over the odds for it—my bank will not lend me money. If you are reckless enough to buy land at an inflated price, why would the bank lend you money to develop it? The national housebuilders or bigger companies possibly pay over the odds and tell their accountants that they will get the money back by reducing the Section 106 contribution. We cannot do that. Our bank would not touch us; it would say that was reckless spending.

Q176 Lord Kerr of Kinlochard: We are not building enough houses. To achieve the Government’s target, we will have to more than double the rate of building. You have described a number of small obstacles. You have not told us about any single big obstacle.
Oversimplifying grossly, if you had the power to change one single thing, what would you do?

**Mr Chris Carr:** Access to finance.

**Mr Brian Berry:** You cannot choose just one thing; you have to look at planning. It is too easy to identify one issue.

**Lord Kerr of Kinlochard:** I agree, but on the finance front, what would you do? Say you are the Chancellor of the Exchequer writing your Budget. What are you going to do?

**Mr Chris Carr:** It is not the Chancellor of the Exchequer, but the banks. I do not know whether he has any influence over the banks. It is about having almost a guaranteed package with the banks. We used to be able to use the land we owned to borrow against development finance. That seems to be almost a thing of the past. There is value in land straightaway. As soon as you get planning permission it increases in value five or sixfold, so it is about having the ability to get a guarantee from the Treasury to the banks that says, “We will underwrite this land”. It is not as if you do not have an asset if the company goes bankrupt; you still have the asset value of the land, so physically you are not losing anything. You are not gambling on a car manufacturer that suddenly goes out of business and you have nothing; you still have the value of the land that was there in the first place, and it is increasing in value all the time. A guaranteed finance scheme to the banks to help us access finance would be ideal. There are other things we have talked about today. The members I have spoken to tell me they can double turnover. You say we need to double the turnover of units, and we can deliver them when we have access to finance.

**Lord Lamont of Lerwick:** Some people argue that the key to getting the market to grow more aggressively is the first-time buyer. If you do not get the first-time buyer, you cannot get the whole chain moving. Do you agree with that?

**Mr Chris Carr:** Totally, and that worries me for two reasons. First, I have a 22 year-old son at home and I want him to get a house. There needs to be access to finance to get him out. That is probably not the right thing to say. We are missing a market. When I was 21 or 22 you could buy a terraced house in my town for £25,000, and it got you into the market to build up. Where do we start in the market now? It is a frightening thing. We worry about it now, but it is a generational issue; it could go on for generations if we do not sort it out now. You are not going to put up people’s wages.

**Lord Lamont of Lerwick:** You agree that the first-time buyer is the key in the chain of transactions.

**Mr Chris Carr:** I prefer first-time buyers to social housing. With social housing you are almost on a downward spiral; you have to deliver more and more social housing for people who cannot afford to buy. We need to get people in their mid-20s to access and live in the houses now. I think starter homes for the under-40 first-time buyers will work; it just needs tweaking. We could definitely do shared ownership with local authorities, which would generate an income for them. It is not as if we are asking local authorities to do something
that is costing them. It could generate an income for them and put a whole generation of young people into the housing market.

Lord Forsyth of Drumlean: On access to finance, what loan-to-value ratio are you thinking of?

Mr Chris Carr: The loan to value is fine. We are probably paying probably 2% or 3% more than we have been paying. It is the additional fees that are killing us at the moment.

Lord Forsyth of Drumlean: In order to get funding from the bank, you said you had land or other assets. How much of the project are you seeking to borrow against and finding it difficult to get covered?

Mr Chris Carr: We would look for a 60:40 split.

Lord Forsyth of Drumlean: Even at 60:40 it is proving difficult to get finance.

Mr Chris Carr: Yes. Banks say, “Sorry, we are invested heavily in national housebuilders”. Our bank is lending 10% or 15% on construction. We are doing that, but we just do not fit into that pattern.

Q177 Lord Layard: I want to go back to Lord Lamont’s question about market failure. I suppose the most extreme evidence of it is the difference in the price for permissioned land and non-permissioned land, which could be justified only if you could demonstrate an amenity value that exceeded the difference. What would your members feel about a proposal to put an obligation on local authorities to give outline planning permission when the price differential was more than a particular number, unless they could demonstrate that the amenity value exceeded that differential? If you are looking for ways to re-energise the market, would that not put developers and builders like yourselves back into the driving seat to a greater extent, because the driving force has been removed to some extent by the planning process?

Mr Brian Berry: That would be an attractive proposal. Outline planning permission would be a good thing. We would need to look at that, but it seems to be a way we would want to consider and support.

Mr Chris Carr: We have discussed it slightly. It would be classed as the red line application they keep talking about, which is how we used to do planning. My father used to go along with an A4 sheet of paper showing a red line around a piece of field and say, “We would like to build 100 houses on there. We will give the village a playing field”, and they would say, “Yes, fine”. That was how it used to be. We would still have to do detailed planning later, but to go back to that sort of mentality at the beginning—almost a planning agreement in principle for sites—would help, because then we could possibly get a little more finance to push through an application. As we said, there is a big differential between greenfield and development-approved land. Someone would take a gamble on that if they had provisional agreement.

The Chairman: In your view, are the local plans being drawn up at the moment as comprehensive, detailed and adventurous as they should be?
Mr Chris Carr: It varies from local authority to local authority, which is why some have had their local plan sent back. Some people are not being forward-thinking. Central Bedfordshire is one. I have to say that, considering where we are, North East Lincolnshire is thinking outside the box, trying to deliver custom-build sites and all those sorts of things. In the beginning it was a challenge, but now some of them quite enjoy delivering something completely different. I think local plans will work. They need tweaking, but for me it is about deliverability. It is all right to have a plan with thousands of houses plotted on it, but there needs to be more emphasis on deliverability than just on planning applications. That needs to be a big consideration in any application.

The Chairman: Mr Berry and Mr Carr, thank you very much indeed for a very interesting session.
Federation of Master Builders – Written evidence (EHM0140)

Evidence to the House of Lords Select Committee on Economic Affairs
Inquiry into the Economics of the United Kingdom Housing Market

December 2015

About the Federation of Master Builders

1. The Federation of Master Builders (FMB) is the largest trade association in the UK construction industry, and with over 8,000 members, it is the recognised voice of small and medium-sized (SME) construction firms. Established in 1941 to protect the interests of construction SMEs, the FMB is independent and non-profit-making, lobbying continuously for members’ interests at both the national and local level.

FMB house builders and member profile

2. In the FMB’s 2015 Membership Tracking Survey, 45% of FMB members listed house building as one of their areas of activity, 8% listed house building as their main area of activity. Taken together, FMB house builder members therefore make up a significant proportion of the thousands of small and micro developers and contractors in operation in the house building industry.

3. In the FMB’s 2015 House Builders Survey, when asked to project their house building output for 2016, 68% of respondents said they expected to build between one and ten units, 13% expected to build between 11 and 30 units, 9% expected to build more than 30 units and 10% did not expect to build any homes in this calendar year. Of these firms, 45% built houses solely as a contractor, 16% solely as a developer and 39% acted as both developers and contractors.

Decline in the SME house building sector

4. It is well-established that small and medium-sized house builders have declined significantly in terms of number of firms and aggregate output over the past few decades. It is worth highlighting statistics which show the extent of this decline. NHBC figures show the proportion of new homes being registered by those building less than 500 units per year (a rough approximation for medium-sized firms and smaller) has fallen from two thirds in 1988, to less than one third in 2014. A significant part of this decline has occurred over the last eight years. From 2008 to 2014 this figure fell from 44% to 30%.

5. At the same time, NHBC figures show the number of firms in operation at the low volume end of the market has declined dramatically. Over the period 1988 to 2014, the number of firms registering:
• 1-10 units a year fell from 10,112 to 2,000;
• 11-30 units a year fell from 1,500 to 244;
• 31-100 units a year fell from 603 to 159.

6. A significant proportion of this decline has happened over the last eight years. Over the period 2008 to 2014, the number of firms registering:
• 1-10 units a year fell from 4,411 to 2,000;
• 11-30 units a year fell from 745 to 244;
• 31-100 units a year fell from 311 to 159.

7. This sustained loss of firms from the industry is clearly incompatible with the kind of growth in the capacity of the house building industry we will need to see to improve the supply and affordability of housing in the UK. It is difficult to see how significant growth in the current capacity of the UK house building industry can be achieved, unless there is a reversal in the decline of the SME sector. This will involve organic growth among existing small developers, the continued attraction back into the market of the large number of small builders who have diversified out of house building, and a real increase in new entrants to the small developer market, including the large numbers of skilled small contractors who have the ability and willingness to bring forward their own developments if circumstances allow them to do so.

**Barriers to supply for SME house builders**

8. Regular surveys of FMB house builder members over recent years have allowed us to build up a clear picture of the major barriers to supply in the SME house building sector. The FMB’s [House Builders Survey](#) has asked respondents over the last four years what they considered to be the main constraints on their ability to build more houses. The results are set out in Table 1 below.

9. Difficulties in accessing finance remain a real problem for many and especially those working on the smallest scale developments, new entrants and small contractors looking to bring forward their own developments. Of equal importance is access to suitable and viable small sites – this involves a complex of factors, including the treatment of small sites within the planning system, the disproportionate cost of bringing these sites through the application process and the increasing burden of planning obligations placed on smaller sites.
Table 1: Q. What would you say are currently the main constraints, if any, on your ability to build more homes? (Responses from 2012-2015 FMB house builder surveys)

<table>
<thead>
<tr>
<th>Constraints</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of finance to the company</td>
<td>62%</td>
<td>62%</td>
<td>60%</td>
<td>72%</td>
</tr>
<tr>
<td>Restricted mortgage availability</td>
<td>47%</td>
<td>35%</td>
<td>42%</td>
<td>56%</td>
</tr>
<tr>
<td>The planning system</td>
<td>57%</td>
<td>43%</td>
<td>48%</td>
<td>41%</td>
</tr>
<tr>
<td>Lack of available and viable land</td>
<td>68%</td>
<td>51%</td>
<td>55%</td>
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</tr>
<tr>
<td>Cost of national regulation</td>
<td>22%</td>
<td>12%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>Cost of locally imposed standards</td>
<td>19%</td>
<td>12%</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Cost of Section 106 agreements</td>
<td>34%</td>
<td>31%</td>
<td>28%</td>
<td>46%</td>
</tr>
<tr>
<td>Shortage of skilled workers</td>
<td>27%</td>
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<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Materials shortages</td>
<td>8%</td>
<td>12%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Cost of Community Infrastructure Levy (if applicable)</td>
<td>22%</td>
<td>24%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Tighter Part L standards introduced in 2014</td>
<td>11%</td>
<td>7%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>No constraints</td>
<td>0%</td>
<td>14%</td>
<td>8%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

10. One other factor which is imposing serious constraints on the capacity of the entire house building industry and the wider construction sector is the serious shortage of skilled labour the industry now faces. According to the FMB State of Trade Survey in Q3 2015, 60% of members reported difficulties in recruiting bricklayers, up from 27% in Q3 2013, and 54% reported difficulties in recruiting bricklayers and carpenters, up from 23% in Q4 2013. To overcome these shortages, the industry will need to recruit and train significantly more people than it has in recent years, and the scale of this challenge should not be underestimated. However, for the purposes of this enquiry, as a representative of SME house builders, the FMB’s submission here will focus on outlining some of the key barriers specific to SME builders in the UK housing market.
Access to finance

11. Since the financial crisis of 2007-08, SME house builders have faced severe difficulties in accessing the finance they need to build. As major lenders have sought to reduce their exposure to the property sector, reluctance to lend for smaller scale residential developments has amounted to what has often appeared to be a blanket ban on lending to the sector by major banks.

12. Access to finance has improved somewhat in the past 18 months. In the FMB’s 2015 House Builders Survey, conducted in August 2015, 27% of respondents reported improved lending conditions to SME developers as against 6% reporting deteriorating conditions. However, with some exceptions, there remains obvious reluctance among the major banks to lend to smaller developers. Table 2 in Annex 1 provides a sample of responses to a question in the FMB’s survey on recent difficulties experienced in accessing finance. The responses give a good sense of the kind of barriers which these firms continue to face.

13. Anecdotal evidence suggests that, to the extent that finance has become more readily available, this is due primarily to the increased prevalence of specialist lenders, challenger banks and alternative funding institutions (e.g. peer-to-peer lending). The greater choice available to SME house builders is to be welcomed, but finance from these sources tends to be significantly more expensive and the FMB’s recent House Builders’ Survey found that concerns over the terms of finance were increasing, as concern over loan refusals fell back slightly.

14. Ministers in the previous and current Government have sought to respond to the difficulties in accessing finance faced by small house builders. The Builders Finance Fund was put in place in 2014, and the lower threshold was reduced from 15 units to 5 units. This pot of funding was consolidated with other schemes and extended to 2020/21 as a £1 billion fund in the 2015 Spending Review. The Government has also co-invested through the Home and Communities Agency with Lloyds Banking Group in the Housing Growth Partnership, which is seeking to make equity investments in projects with a gross development value (GDV) of between £0.75m and £12m. If the terms of investment are right, this will allow small developers to expand and open up more sites by reducing the capital they need to invest in any one project.

15. Though we may need to look at some of the barriers to take-up, these initiatives are very welcome and have been part of an improving environment for SME builders. However, FMB survey evidence suggests that access to finance challenges remain severest for those developing the very smallest sites, and for small contractors and other new entrants seeking to access finance to bring forward their own developments, who find themselves refused because of their lack of ‘track record’. Government initiatives need to look to see if they can do more to reach these firms. Ultimately, the FMB believes that, until the lending positions of major banks change, the sector will not receive finance on the scale and on the terms it needs to drive a transformation in the output of SME house builders. For this reason, we
remain convinced that some kind of loan guarantee system would be the most effective means of ensuring an adequate supply of finance to this sector.

Planning and small sites

16. The way in which small sites are treated within the planning system also raises real barriers to SME builders' participation in the development market. This is the result of a complex set of factors, but most important are an excessive focus on large sites for the delivery of housing numbers, and the disproportionate cost and complexity of bringing forward applications for smaller developments. Local plan making tends to be heavily focused on large strategic sites, in the process often over-looking and under-utilising the potential of small sites. Allocations within five year land supplies tend to be overwhelmingly made up of larger sites, leaving SME housebuilders largely reliant on windfall sites (sites not identified for housing in the local plan) with significantly higher risk attached.

17. In addition, the fact that even the smallest sites have to go through essentially the same planning application process as a site for 500 units, tends to create disproportionate cost and complexity in bringing small sites through the system. This acts as a significant barrier to small firms and new entrants bringing forward applications. The typical information requirements demanded of any given application have expanded significantly over recent decades. Small firms typically will not have the in-house staff able to work on the requirements and processes of the application, and will therefore contract with agents and consultants to undertake this work. The production of, for instance an ecology report by a consultant might typically cost in the region of £1,000. When 10 or 15 such reports are required, costs quickly stack up. In the FMB’s latest house builders survey, over a quarter of respondents (28%) estimated that on a typical small development they spend more than £4,000 per unit gaining planning permission.

18. These represent significant, and often personal, investments for small firms for who access to finance typically remains difficult. Information requirements and expensive pre-application meetings are often required even to gain outline permission. The fact that these costs are incurred upfront and in the face of uncertain outcomes greatly increases the risk of bringing forward applications to an extent which is prohibitive for many small firms. As such, the FMB would strongly advocate a more streamlined approach to gaining permission for the smallest sites, under which the principle of development can be decided at least upfront cost to the applicant, thereby de-risking the investment in the remainder of the process. For this reason, we strongly support the new ‘permission in principle’ consent being introduced through the Housing and Planning Bill, which should provide precisely this kind of mechanism.

19. The FMB also welcomes the Government’s intention that ‘permission in principle’ status will automatically be granted to all sites on the new Brownfield Register which have been assessed as suitable for housing. The Register itself, along with proposals for a wider register of small sites, should go some way to improving the focus on smaller sites for the delivery of housing and de-risking the bringing forward of applications for these sites. We believe the Government should now look to go further and explore the possibility of adopting a ‘design
code’ or ‘pattern book’ approach to planning for the smallest sites. Recent proposals to require local plans to set out positive policies for how they will assess applications for non-allocated small sites are a move in this direction. The Government also needs to continue to address the main causes of delay in the planning system – namely the excessive use of, and delays in discharging, planning conditions and long delays in signing off Section 106 agreements. These delays, though experienced by all house builders, can be particularly costly for small firms whose financing models rely on getting on site quickly.

Planning obligations on small sites

20. The decline of the SME house building sector is the result of a range of factors which cumulatively often render small scale residential development uneconomic. The rising burden of planning obligations which have been placed on smaller sites over time has undoubtedly been a significant contributory factor to this. In the FMB’s 2015 House Builders Survey 41% of respondents said that there were sites which they would otherwise be interested in, but which they believed would be unviable due to likely Section 106, Community Infrastructure Levy (CIL) or other obligations.

21. Few would question that the level of developer contributions demanded of small sites has risen substantially over time. Though as recently as 2012 national planning policy included an indicative minimum site size threshold of 15 dwellings for affordable housing contributions, more recently it has been common practice to apply affordable housing requirements to all sites, no matter how small. At the same time, the implementation of the Community Infrastructure Levy (CIL) is now placing new and additional burdens on smaller developments, with the result that the obligations imposed on small sites are now unprecedentedly high.

22. There is little sign that these demands take account of the position of SME builders or the economic differentials of smaller scale development. It is generally accepted that small developments are on average more expensive per unit to build than larger ones, partly because of loss of scale economies, and partly because small sites tend to have more varied and challenging characteristics than larger ones. A report by the Building Cost Information Service for the Federation of Small Businesses in 2015 found that the £/m² build cost for all residential schemes of 10 units or less was on average 6% higher than on large developments, and was 14% higher for housing only schemes. The report found no evidence that this is taken into account when assessing the viability of smaller schemes.

23. The Government’s attempts to impose a minimum threshold of ten units for affordable housing contributions were overturned by the High Court in July 2015. In the FMB’s 2015 House Builders Survey 29% of respondents said that they knew of sites for which the ten unit threshold for affordable housing would make the difference between viability and non-viability of development. The Government has said it will appeal the High Court judgement, though it remains to be seen how any threshold will interact with the proposed changes to the definition of affordable housing and the Government’s objective of delivering 200,000 Starter Homes. More generally, policymakers need to continue to be aware of, and take into account, the cumulative impact of obligations placed on small sites, taking into account the ongoing introduction of the Community Infrastructure Levy (CIL), the differential economics
of small scale development, and the lower impact of smaller developments on local infrastructure.

Table 2: The following is a selection of responses to the question: “Please describe what, if any, problems you have recently experienced in gaining access to finance?”

<table>
<thead>
<tr>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Even though we own property that we let out and have plots with planning permission, neither our bankers, Bank W or Bank X, are willing to finance the builds.</td>
</tr>
<tr>
<td>Too many hoops to jump through.</td>
</tr>
<tr>
<td>Bank Y block all finance for construction</td>
</tr>
<tr>
<td>Taking too long to gain finance.</td>
</tr>
<tr>
<td>Banks are not interested.</td>
</tr>
<tr>
<td>Lot of problems!</td>
</tr>
<tr>
<td>High interest rates and unrealistic personal security demands</td>
</tr>
<tr>
<td>Disproportionate and high interest charges in relation to security held by lender</td>
</tr>
<tr>
<td>We have a development ready to start, however we cannot gain reasonable finance rates.</td>
</tr>
<tr>
<td>Main tier lenders not interested, can only use 2nd tier at 15% plus p.a. even for established company</td>
</tr>
<tr>
<td>Very hard to satisfy lender requirements</td>
</tr>
<tr>
<td>Difficult, too much paperwork and bureaucracy</td>
</tr>
<tr>
<td>Cost of finance</td>
</tr>
<tr>
<td>Banks treat contractors as high risk.</td>
</tr>
<tr>
<td>Lenders not keen on construction industry. Not enough security.</td>
</tr>
<tr>
<td>We have private funding over the past 4 years, so banks have not been a problem.</td>
</tr>
<tr>
<td>No appetite for development unless pre-sold</td>
</tr>
<tr>
<td>Banks reluctant to lend, even if you provide 3/4 of the finance yourself!</td>
</tr>
<tr>
<td>Difficult to get any finance</td>
</tr>
<tr>
<td>Reluctance of banks to lend on speculative developments and input of developer contributions gets more onerous. Set up and valuation fees becoming very expensive.</td>
</tr>
<tr>
<td>Cannot get any at decent rates. Period.</td>
</tr>
<tr>
<td>Bank Z have point blank refused to lend our company development money, as we are now classed as high risk purely because we are a SME developer. We have been with our bank over 90 years.</td>
</tr>
<tr>
<td>There are a lot more options around than before, but conditions are still tight</td>
</tr>
<tr>
<td>High interest rates and costs setting up the finance, lenders not interested in our 'micro' company</td>
</tr>
<tr>
<td>None recently, but Banks seem extremely risk averse, extremely careful and very slow.</td>
</tr>
<tr>
<td>Setting up costs are excessive</td>
</tr>
<tr>
<td>We do not have problems obtaining finance because we have collateral and track record. Nonetheless credit has been noticeably tightened up.</td>
</tr>
<tr>
<td>No finance for small companies</td>
</tr>
<tr>
<td>Poor ratios (less than 50%) high entry/exit fees onerous process</td>
</tr>
<tr>
<td>Unless you are an established developer with at least five years of profitable developments under your belt and are cash rich, there really isn't any finance available to grow. The Banks are not interested.</td>
</tr>
<tr>
<td>Interest rates too high for lending compared to rates for savings</td>
</tr>
<tr>
<td>Building societies and banks don't want to lend to small companies</td>
</tr>
</tbody>
</table>
Lack of flexibility and dynamism from banks.

18 December 2015
Response to the House of Lords Economic Affairs Committee Inquiry into the Economics of the UK Housing Market December 2015

1. Introduction

- The FCA welcomes the opportunity to provide written evidence to the Committee’s inquiry into the UK’s housing market.

- We are an independent regulator with responsibility for the conduct regulation of over 73,000 firms, and we are also the prudential regulator for those firms not regulated by the Prudential Regulation Authority. We have a strategic objective to make sure that the relevant markets function well, and our statutory operational objectives are the protection of consumers, to protect and enhance the integrity of the UK’s financial system, and the promotion of effective competition.

- We regulate firms and approve individuals that are involved in advising on, arranging or managing home finance, including mortgages. This written submission focuses on the impact of the Mortgage Market Review as the part of the call for evidence most relevant to our remit.

2. Executive Summary

2.1 The Mortgage Market Review (MMR) was a comprehensive review undertaken by the FSA/FCA. Finishing in 2012, it looked at the conduct and prudential standards that applied to mortgage lenders. Its final rules came into effect in April 2014.

2.2 The MMR was designed to prevent a return to the poor lending practices of the past, which contributed to the financial crisis, while allowing customers who can afford to take out a mortgage to do so. It did so largely through changes to affordability requirements. These changes, and the way that they were implemented by firms, received much scrutiny.

2.3 It is important to note that lenders’ risk appetites had changed post-crisis, before our MMR rules came into effect. The MMR changes are intended to hard wire the greater responsibility that the market has shown post crisis. The effect of this will be less visible while the market is subdued, as is now the case, and our evidence suggests that
there have not been any substantial shifts in the level of lending to any consumer group since our changes took effect. However, we estimate that MMR will have a bigger impact as the market picks up.

2.4 We are looking at the impacts of the MMR, including through our responsible lending review and a call for inputs on competition in the mortgage sector.

3. Background information

3.1 Between 2009 and 2012, the FSA, our predecessor body, undertook a substantial review of conduct and prudential standards that applied to mortgage lenders, intermediaries and administrators – the MMR. The MMR was a sector-wide intervention aimed at resolving market and regulatory deficiencies in the first charge residential mortgage market. While the mortgage market worked well for the majority of consumers, there were a significant number for whom irresponsible lending practices had led to unsustainable levels of borrowing. The MMR is intended to prevent this reoccurring.

3.2 Final rules were published in Policy Statement PS12/16 (October 2012) and came into effect on 26 April 2014. Among the changes were tighter requirements to assess affordability so as to prevent a return to poor lending practices seen pre-crisis, while ensuring continued access for borrowers who could demonstrably afford a mortgage. The key changes to affordability assessments include the following:

- Placing an obligation on lenders to assess affordability on the basis of borrowers’ income, credit commitments and essential expenditure (e.g. utilities and essential travel costs). These affordability assessments were required both for mortgages provided directly and through intermediaries. Prior to this, a lender could rely on less stringent affordability checks undertaken by the intermediary;
- A ban on self-certified mortgages, requiring instead that income is verified in all cases;
- Stress testing against future interest rate rises. (In May 2014, this was supplemented by an additional requirement to ‘have regard to’ any prevailing Financial Policy Committee (FPC) recommendation on appropriate interest-rate stress tests – currently a 3% increase over five years); and
• Only allowing a borrower to take out an interest-only mortgage where there is a credible repayment strategy in place.

3.3 In the weeks following implementation of these new rules, there was some criticism and reports of a negative impact on the market, including reports of customers experiencing delays booking an appointment with a branch advisor, as well as lengthier interviews with more intrusive questioning on income and expenditure. However, as this submission will show, our data does not currently point to any substantial shifts in lending to particular groups.

4. **Thematic Reviews to test implementation of the MMR and the impact on consumers**

4.1 In our 2014/15 Business Plan we committed to undertaking two thematic reviews to understand how firms have implemented the new rules and to assess the outcomes for consumers. In July 2015 we published the findings of the first of these, our review into how firms provide mortgage advice after the MMR, which required advice to be given for the great majority of sales. Although our review found that only a small minority of sales (3%) resulted in an unsuitable recommendation, one of our findings was that firms need to strike a more appropriate balance between relying on structured questions and taking account of individual customers’ needs and circumstances. We also saw that some firms had identified issues with their advice processes and were making changes to improve their service to customers.

4.2 Our responsible lending review, which is underway now, is assessing how firms have implemented and are applying the new affordability standards. We expect to publish the findings next year.

4.3 Also flagged in the Business Plan was our call for inputs on competition in the mortgage sector, published in October 2015. This asked for views on whether aspects of the regulatory regime are acting as barriers to firms that wish to enter, compete or innovate in this market. We aim to publish a feedback statement in the first quarter of 2016.

5. **The changed mortgage landscape**
5.1 The mortgage market originally existed to help consumers to buy their own homes. While regular surveys still cite around 80% of the population aspiring to home ownership, the stock of homeowners with a mortgage has fallen by 1.4 million since 2000 (Annex A – Chart 1).

5.2 The decline started in the 1980s, although home ownership levels were temporarily supported by the Right to Buy scheme. The decline became more noticeable in 2000 as house prices rose relative to first time buyer (FTB) earnings (Chart 2). Despite falling levels of home ownership and falling FTB numbers, the level of secured debt doubled in pre-crisis years driven by rising house price rises. However, the increased levels of secured debt did not reflect increased levels of home ownership, but rather a dramatic increase in remortgage activity fuelled to a considerable extent by mortgages being renewed every 2 to 3 years, often to withdraw the value of equity growth (Chart 3). Remortgage finance was also extended to consumers in financial difficulties who could self-certify their incomes, withdraw equity and opt for an interest only mortgage to aid affordability.

5.3 The landscape today looks very different. The financial crisis, the closure of the wholesale funding markets for non-bank lenders and reduced risk appetites have shifted lending back towards lower risk, lower loan-to-value (LTV) business. Falling levels of equity growth, the withdrawal of self-certified mortgages and limited availability of interest-only mortgages has resulted in a substantial fall in remortgage lending. The availability of low Standard Variable Rate (SVR) mortgages has continued to reduce the incentive for many borrowers to remortgage, although this is slowly starting to change as more borrowers look to fix their interest rates because of potential future interest rate rises.

5.4 One key point to note is that lenders’ risk appetites changed in advance of the MMR rules being implemented on 26 April 2014, as shown in the following table. The change in credit conditions can also be seen in the application and approvals data (Chart 4); in the years prior to the crisis the gap was negligible. Before the MMR rules came into effect, 43% of all applications were approved and by the end of 2014 the figure reduced only marginally, to 41%. While this can be as a result of property transactions falling through this also indicates that risk appetites started to change before the MMR rules came into effect.

### Impact of the MMR on different types of customers

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2014</th>
<th>2015 (Q1-Q3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of regulated</td>
<td>£294bn</td>
<td>£124bn</td>
<td>£124bn</td>
<td>£143bn</td>
<td>£163bn</td>
<td>£126bn</td>
</tr>
</tbody>
</table>

467
5.5 The cost benefit analysis (CBA) we developed to support our consultation on the MMR draft rules considered the impact of the MMR responsible lending rules under two scenarios – subdued market conditions and conditions seen in a boom period. In subdued market conditions, we estimated that around 2.5% of borrowers would either be excluded from the market or would be able to borrow less because in these conditions, lending standards would already have tightened. However, in a boom period, the MMR responsible lending rules were likely to act as a significant constraint by preventing the return to the lending standards seen in the 2005-2007 period. We estimated that around 11.3% of borrowers would be impacted in this scenario.

5.6 Regardless of the market conditions, we expected that certain groups of consumers would be more impacted by the new responsible lending rules than others, such as those seeking interest-only mortgages, the self-employed, and those with a poor credit record. However, our data shows a downward trend in lending to all of these types of consumers since 2008, in advance of the rule changes in April 2014.

5.7 Interest-only (Chart 5 – Repayment Methods) – the interest only market has dramatically reduced from 32% in 2007 to less than 5% of new mortgage sales today. Our rules do not ban interest-only or set maximum LTV limits or minimum loan sizes – any actions lenders have taken in these areas are primarily driven by their own credit risk appetites. We have made it clear that interest-only mortgages can be an appropriate option for some consumers; however, firms must not lend on an interest-only basis unless the customer has a credible plan in place to repay the capital.
5.8 Self-employed (Chart 6 – Employment Status) - a feature of the mortgage market in the run up to the crisis was the extension of credit to borrowers who were previously poorly served by lenders – borrowers such as the self-employed who were not able to provide proof of income. Their choice had been restricted to a specialist lending sector but these consumers became a target for some of the mainstream lenders in the pursuit of lending growth. The ensuing competition meant that many firms under-priced the extra risks being taken on board.

5.9 Self-employed customers who can provide evidence of earnings should not be disadvantaged by the new affordability rules. The MMR does no more than require the lender to assess affordability for self-employed customers to the same standard as for the employed. Customers must provide verifiable evidence of income and the rules allow for this to be demonstrated through past accounts, and for it to be prospective, e.g. projections from a credible business plan. There are also no MMR linked requirements in terms of the length of self-employment. Our data shows that lending to the self-employed has remained relatively stable since 2010 with MMR having no discernible impact in the current market. In 2014, lending to the self-employed totalled 98,493, 3% higher than the year before and higher than any time since 2010.

5.10 Credit impaired (Chart 7) – before the crisis, customers with poor credit and on low incomes were able to obtain mortgages via the non-bank/specialist lending sector. These loans were often securitized. The wholesale markets for non-mainstream business post crisis have disappeared and while we have seen a few lenders slowly re-entering this space, none are now prepared to lend to non-creditworthy customers because of the difficulty in accessing wholesale funding for impaired loans. The MMR changes ensure that even when there is greater availability of wholesale funding, lending is still restricted to those who can afford to repay. As a consequence, consumers previously served by these lenders can no longer access mortgage finance. Also, many who did obtain mortgages are now unable to access a new mortgage because their lender is no longer active and other lenders cannot or do not want to lend to them because of their poor credit history.

5.11 For the credit-impaired, the need for lenders to carry out a robust affordability assessment combined with the lack of availability of interest only mortgages is having an impact. However, our rules aim to avoid the detriment arising where consumers take out mortgages they cannot afford, a measure which drew strong support from consumer organisations. If the customer has a poor credit history but is able to
pass the affordability assessment, our rules are not intended to restrict access.

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i Solving the UK Housing Crisis, Report for the Bow Group by Daniel Valentine, November, 2015.

ii Home Truths 2015/16. The housing market in the South West – National Housing Federation

iii Quote from EDDC notes on the local economy see http://eastdevon.gov.uk/council-and-democracy/council-business/equality-and-diversity/knowing-east-devon/knowing-east-devon-summary/economy/#article-content


vi The Devon and Exeter Strategic Housing assessment 2014 gives an assessment of the demographic base case need for 584 houses/year 2013 - 2033. This amounts to 10,512 over the 18-year period of the EDDC Local Plan 2013 - 2031. The target 18-year housing target in the draft EDDC local plan is a minimum of 17,100, i.e. an increase of 63%

vii CPRE report: How to Accelerate Delivery of Housing (June 2015) p 12 says “According to their 2014 annual reports England’s nine largest housebuilders hold approximately 313,819 plots” in strategic landbanks. See also local evidence quoted in letters at ix below.

viii See written responses to Inspector Thickett c/o Programme Officer EEDC as part of the Public Examination of the Local Plan from: Nathaniel Lichfield & Partners; PLC Planning Ltd; Savills on behalf of Hallam Land Management Ltd, all dated 30 September 2015.

ix An EDA member has listed all the current significant planning applications that are awaiting decisions. There are large or medium-sized planning applications totalling 7,668 dwellings plus a 60-bed care home (equivalent to 7,698 homes) currently awaiting planning decisions. The draft EDDC Local Plan shows that there are 6,135 new homes already approved, so the total already approved or awaiting decision is 13,833 homes, over 80% of the 17,100 homes that the Local Plan says are needed.

x Oral evidence given in front of Inspector Thickett at the public Examination of EDDC’s Local plan 8 July 2015. Also comment on economic downturn affecting build-out rates in letter from Nathaniel Lichfield & Partners referred to in ix above.

xi Factors Affecting Housing Build-out Rates, CLG Housing Markets and Planning Analysis Expert Panel, Feb 2008

xii http://www.thesalarycalculator.co.uk/salary.php

xiii http://www.bbc.co.uk/news/uk-24856594

xiv See table reproduced in this article dated 3 December 2015 http://www.westernmorningnews.co.uk/350-renters-week-South-West-risk-losing-home/story-28293015-detail/story.html


xvi Column 847, Hansard, 30 April 2014.
5.12 First Time Buyer (FTB) mortgages (Chart 8) - while FTBs are clearly an important part of the market, economically and socially, numbers have been in decline since the early 2000s; long before our regulatory changes. However, post crisis, FTB mortgages have become proportionally more important to the market as remortgaging has declined. In 2014, FTBs accounted for 30% of all new mortgages, the highest figure since we started to collect data from firms in 2005 (Chart 8). In addition our data shows:

- FTBs have higher incomes - in 2005, 10% of borrowers had a joint income of between £50k to £100k. In the first half of 2015, 20% of borrowers fell into this income bracket.
- Mortgage terms are increasing – the biggest increase can be seen in terms between 30 and 35 years where we have seen an 18% increase since 2005. This reflects higher house prices and the impact of reduced availability of interest only mortgages.
- Greater availability of higher LTV mortgages - in the first half 2015, 21% of all FTB mortgages had a loan-to-value of between 90% and 95%. This is higher than at any time since 2008, reflecting the greater availability of higher loan to value mortgage products. In 2011 only 2% of FTBs had a loan-to-value in this bracket.

5.13 Lending into retirement (Chart 9) – our data shows that the proportion of loans advanced extending beyond the age of 65 continues to increase steadily (particularly loans extending into the 65-70 age bracket – which account for around 30% of new loans). Lending to borrowers aged 66-70 (at application) marginally increased in 2014 but the bigger increases were to borrowers aged 71-75 (14% increase) and those over 76 (12% increase) reflecting the increase in Lifetime Mortgage sales over the same period.

- MMR intentionally allows for lending to older borrowers, where this is affordable. However, as we have seen with interest-only lending, where some lenders now offer a more automated and a less bespoke approach to underwriting, this potentially restricts their ability to make individual assessments on non-mainstream mortgages such as lending to older borrowers. Lending to older borrowers also carries risks (beyond compliance with our rules) such as death of one borrower, the reputational risks of repossession and pensions which may not provide a stable income in retirement) which may deter some firms from lending.
- The challenges posed by an ageing population, plus concerns that an increasing number of borrowers will not be able to repay their mortgages on or before retirement, are risks that lenders recognise and are working to address. However, there are no easy solutions,
not least due to the difficulty of funding attractive mortgage products where the mortgage term is uncertain (i.e. where the mortgage is to be repaid through sale of property on death). We have signalled our willingness to work with the industry as they consider how to deal with this issue.

6. Treatment of existing customers

6.1 Under our rules there is no requirement for lenders to undertake an affordability assessment where an existing borrower just wants to switch to another rate with the same lender and they are not borrowing any more.

6.2 This flexibility was in part designed so that borrowers could take the opportunity to fix their rates in light of any future rises—particularly relevant now as the Bank of England has indicated that interest rates will rise in the short to medium term.

6.3 In the 2014 FCA Risk Outlook we suggested that the majority of mortgage borrowers, who will potentially face affordability pressures, are those who have experienced payment difficulties in the past, rather than existing borrowers who have managed their debt-servicing costs in the past and new borrowers who were subject to MMR affordability checks. Borrowers with these characteristics could amount to around 1.1 million mortgage holders.

6.4 While it is ultimately up to each individual firm to decide whether to lend and to make use of the flexibility in our rules, all firms have a responsibility to treat their customers fairly and we expect them to put good customer outcomes at the heart of everything they do. We continue to remind firms that under our new rules there is no requirement for existing lenders to undertake an affordability assessment where an existing borrower just wants to switch to another rate and they not borrowing any more. This is an area that we will be reviewing as part of the Responsible Lending Review.

7. Future changes to mortgage regulation

7.1 We have consulted on and published final rules that will give effect to the Mortgage Credit Directive. These will come into effect on 21 March
2016. We were mindful of the MCD’s likely final shape when undertaking the MMR, and aimed to maximise compatibility between the two. We are relying largely on our existing rules and so our expectations of lenders when assessing the affordability of new lending are largely unchanged.

7.2 As the MCD applies equally to first and second charge mortgages, the government has decided that regulation of second charge will move from consumer credit to our mortgage regime at the same time.

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i The Mortgage Credit Directive requires a creditworthiness assessment where an existing mortgage holder is moving to a new lender. On that basis, from 21 March 2016, our current provision that allows a lender to waive affordability checks when taking on a customer from another lender, and where there is no additional borrowing, can no longer be available. However, we expect this to have limited impact given that few lenders have used this transitional provision. A lender will still be able to waive an affordability assessment where one of its existing customers wishes to change a mortgage, provided there is no additional borrowing and there are no other changes to terms likely to affect affordability.
Supporting Charts

Chart 1

Trends in homeownership

Source: ONS Labour Force Survey, English Housing Survey

Chart 2

First Time Buyer House Prices and Incomes

Source: Nationwide, ONS

Chart 3
Since 1999 to the crises, the growth in the market was in remortgaging and BTL

Chart 4

Around 50,000 applications per month are being rejected - still

Chart 5 – Percentage of new mortgages by repayment type
Chart 6 – Percentage of new loans by borrower type
Chart 7 – Percentage of new loans to credit impaired borrowers

![Credit impaired chart](attachment:chart7.png)

Source: PSD

Chart 8

![FTB: Number of sales & share of market](attachment:chart8.png)

Chart 9
15 January 2016
Response to the Lord's Economic Affairs Committee's follow up questions

1. Your work so far has been conducted against a background where the growth in the outstanding mortgage stock (or net mortgage advances) has been very modest. Do you have a view, built into your work, about what is likely to happen to mortgage lending in the future?

Following the financial crisis, the Mortgage Market Review aimed to create a more sustainable mortgage market for all participants. The rules that came into effect in April 2014 were designed to ensure that poor pre-crisis lending practices could not recur, preventing consumers from taking out mortgages that they cannot demonstrably afford, while maintaining access for customers able to service the debt.

We do not forecast activity in the mortgage market. However, the effects of different market conditions were considered when developing the new rules.

It was anticipated that the new responsible lending rules would have the greatest impact on consumer access and lending volumes in buoyant market conditions. FSA research estimated a 10% reduction in lending had our post-MMR rules been in force between 2005-07.

Our rules were intended and expected to have a less significant impact when there is reduced mortgage market activity, as is now the case. Although we have seen mortgage market growth in recent years, this is against a backdrop of a considerable decline post-crisis, when lenders tightened their risk appetites and funding became more constrained.

2. Do you see evidence of competition between first time buyers and buy-to-let investors for mortgages in the current environment and is the Buy-to-Let market likely to lead to increased risks for first-time buyers through additional market volatility?

Since the financial crisis, when mortgage lending to all borrower types fell, there has been growth in lending to both first time buyers (FTBs) and buy-to-let (BTL) customers. However, over the past year, the proportion of gross lending to each type of borrower has remained broadly unchanged.

We do not regulate the conduct aspects of BTL markets. As a result we have no data that would allow us to determine whether BTL investors can access mortgage credit more easily than first time buyers.

106 Around 300 regulated mortgage lenders and administrators (banks, building societies, credit unions and other specialist lenders) are required to submit a Mortgage Lenders & Administrators Return (MLAR) each quarter, providing data on their mortgage lending activities and covering both regulated and non-regulated residential lending. In Q3 2014, 21.7% of total lending was advanced to FTBs, with 14.3% advanced for BTL. In Q3 2015, these figures stood at 20.4% and 15.6% respectively.
What is clear is that the lending decision is different. For example a BTL investor does not usually have to demonstrate affordability on the basis of their personal resources. However, a BTL investor will often require a higher deposit – typically 25%. The products are also likely to be different; the typical BTL mortgage is interest-only.
More generally, lenders usually have distinct strategic approaches to lending to first time buyers and BTL investors, which will involve different risk appetite and capital considerations. Consequently a reduction in lending in to one class of customer will not necessarily lead to a compensating increase in lending to the other.

3. What impact do you anticipate the Mortgage Credit Directive will have on the availability of second mortgages?

The government chose to move the regulation of second charge mortgages from our consumer credit regime to our mortgage regime from 21 March 2016, the same point at which we are required to implement the Mortgage Credit Directive (MCD). Although the MCD applies equally to first and second charge mortgages, we had discretion on whether to apply other elements of our mortgage regime to second charge activity.

Having analysed evidence and risks of consumer detriment in this market, in September 2014\textsuperscript{107} we consulted on proposals designed to ensure that, consistent with first charges, customers take out a second charge mortgage only where it is suitable, affordable and, in the event of payment difficulties, they are treated fairly. Our approach met with broad support and we published final rules in March 2015\textsuperscript{108}.

Second charge mortgages can be beneficial to consumers, allowing them to borrow money at rates that can be lower than unsecured lending without disrupting their existing mortgage. We want to ensure this market is sustainable, competitive and works in customers’ interests. We understand that, in advance of our rules coming into effect, some second charge firms had already adopted practices similar to our requirements and we expect the market to have fully adopted our rules by 21 March 2016.

As we mentioned above, we do not forecast mortgage lending activity as a matter of course. As in first charge mortgages, we expect that our responsible lending rules will have the greatest impact in buoyant market conditions. In our September 2014 consultation, our analysis of profit drivers in the second charge market suggested that lending volumes were unlikely to reach pre-crisis peaks in the short to medium term, though some continued growth from the low base was likely.

4. Do you consider that buy-to-let mortgages should fall under the MMR/MCD rules?

The MCD allows member states not to apply the Directive to buy-to-let (BTL) mortgage activity, provided there is an ‘appropriate framework’ for this type of activity at national level. The government decided to take advantage of this exemption and introduced such a framework through the Mortgage Credit Directive Order 2015. This framework includes conduct standards and applies to ‘consumer’ BTL mortgages i.e. those taken out by individuals who are not acting wholly or predominantly for business purposes. The HM Treasury impact assessment estimated that 11% of BTL mortgages are taken out by consumers. The regulatory perimeter within which the FCA operates is a matter for the
government- it decided not to apply the framework to BTL mortgages taken out by ‘non-
consumers’ because it did not believe that these customers required the same protections
and the borrower’s own home is not at risk.
5. Your evidence (paragraph 5.12) indicates that, in the first half of 2015, 21% of FTBs had a loan to value ratio of between 90% and 95%. However CML statistics suggest that in 2014 the median deposit required by FTBs was approximately 17%. Are you able to provide statistics on the full distribution of deposits for FTBs?

The quoted data is correct, and there is no contradiction between ours and CML’s data.

1. In H1 2015, 21% of FTBs had LTVs >90% and <=95% (note that this does not include LTV=90% exactly):

<table>
<thead>
<tr>
<th>Number of Sales</th>
<th>LTV band</th>
<th>2015 Q1-Q2 sales</th>
<th>% of sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Time Buyer</td>
<td>0% - &lt;=30%</td>
<td>4,325</td>
<td>3.3%</td>
</tr>
<tr>
<td></td>
<td>&gt;30% - &lt;=50%</td>
<td>8,800</td>
<td>6.7%</td>
</tr>
<tr>
<td></td>
<td>&gt;50% - &lt;=75%</td>
<td>29,485</td>
<td>22.4%</td>
</tr>
<tr>
<td></td>
<td>&gt;75% - &lt;=85%</td>
<td>31,729</td>
<td>24.1%</td>
</tr>
<tr>
<td></td>
<td>&gt;85% - &lt;=90%</td>
<td>29,238</td>
<td>22.2%</td>
</tr>
<tr>
<td></td>
<td>&gt;90% - &lt;=95%</td>
<td>27,849</td>
<td>21.1%</td>
</tr>
<tr>
<td></td>
<td>&gt;95% - &lt;=100%</td>
<td>253</td>
<td>0.2%</td>
</tr>
<tr>
<td></td>
<td>&gt;100%</td>
<td>6</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>131,685</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

2. Median FTB deposit over this period was 17% (the same as the CML figure), or just under £30,000:

<table>
<thead>
<tr>
<th>Borrower Type</th>
<th>Calendar Year Number</th>
<th>Median Property Value</th>
<th>Median Loan Value</th>
<th>Median LTV</th>
<th>Median deposit %</th>
<th>Median Deposit, £</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Time Buyer</td>
<td>2015 Q1-Q2</td>
<td>165,995</td>
<td>126,494</td>
<td>83</td>
<td>17</td>
<td>29,750</td>
</tr>
</tbody>
</table>

3. The table below shows the distribution of FTB deposits.
<table>
<thead>
<tr>
<th>Number of Sales</th>
<th>2015 Q1-Q2 sales</th>
<th>% of sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Time Buyer</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>&gt;0 - &lt;=10,000</td>
<td>19,322</td>
<td>14.7%</td>
</tr>
<tr>
<td>&gt;10,000 - &lt;=20,000</td>
<td>28,843</td>
<td>21.9%</td>
</tr>
<tr>
<td>&gt;20,000 - &lt;=30,000</td>
<td>18,813</td>
<td>14.3%</td>
</tr>
<tr>
<td>&gt;30,000 - &lt;=40,000</td>
<td>13,728</td>
<td>10.4%</td>
</tr>
<tr>
<td>&gt;40,000 - &lt;=50,000</td>
<td>11,107</td>
<td>8.4%</td>
</tr>
<tr>
<td>&gt;50,000 - &lt;=60,000</td>
<td>7,415</td>
<td>5.6%</td>
</tr>
<tr>
<td>&gt;60,000 - &lt;=70,000</td>
<td>5,600</td>
<td>4.3%</td>
</tr>
<tr>
<td>&gt;70,000 - &lt;=80,000</td>
<td>4,182</td>
<td>3.2%</td>
</tr>
<tr>
<td>&gt;80,000 - &lt;=90,000</td>
<td>3,214</td>
<td>2.4%</td>
</tr>
<tr>
<td>&gt;90,000 - &lt;=100,000</td>
<td>2,880</td>
<td>2.2%</td>
</tr>
<tr>
<td>&gt;100,000</td>
<td>16,558</td>
<td>12.6%</td>
</tr>
<tr>
<td>Total</td>
<td>131,685</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Finsbury Park Housing Co-operative – Written evidence (EHM0055)

Written Evidence Submission to Select Committee on Economic Affairs

From Finsbury Park Housing Co-operative 13th December 2015

1. Private Ownership

a. Government Schemes. The Right to Acquire (or Right to Buy) scheme exacerbates the shortage of low cost housing and the replacement of lost housing units is very costly - it can cost 4 or 5 times the original price of each unit which needs to be replaced. Please see 3. a. below.

3. Social Housing

a. The impact of the Right to Buy for housing associations is huge as the costs of replacing units purchased under the scheme are prohibitive. A much better solution, both economically and practically, would be for a scheme of Transferable (or Portable) Discount. This would enable housing association tenants to buy an alternative property of their choice and free up their existing social housing for a new tenant. This could potentially save the Government millions (billions?) that would otherwise have to be invested in creating replacement social housing stock, whilst freeing up the existing stock for new tenants.

In the case of Fully Mutual housing co-operatives, the Right to Buy scheme is an anomaly as all the tenants are members and all the members collectively own all the housing co-operative’s properties.

b. Housing co-operatives set their rents at the lowest possible level, while providing for maintaining our properties in good repair and receive no on-going subsidy. Indeed, for those member-tenants who are in receipt of Housing Benefit, we reduce the burden on the public purse by charging low rents. Housing co-operatives are only able to offer low rents because we do all the work ourselves, we are run on a voluntary basis by our member-tenants who, though a series of committees, do everything from managing complex legal and financial matters to property maintenance to hosting social events. Housing co-ops are settled communities. New members are introduced to community participation and responsibility. Vulnerable members are supported by neighbours.

The impact of the 1% rent decrease will be to reduce our ability to provide a good level of responsive repairs, cyclical works and decent home standard improvements. This ability will be increasingly diminished over the 4 years that this annual rent decrease is in effect.

Pam Broadhurst

Chair

For and on behalf of Finsbury Park Housing Co-operative

13 December 2015
SUBMISSION TO MEMBERS OF THE FINANCE COMMITTEE

THE RUINOUS EFFECTS OF CLAUSE 24

PART1: THE BACKGROUND
PART 2: WHERE'S THE MODERATE IDEOLOGY?
PART 3: LANDLORDS AS DISNEY VILLAINS
PART 4: THE ACTUAL TRUTH
PART 5: THE STRANGE MYTHS OF LANDLORDING
PART 6: THE EFFECTS OF CLAUSE 24
PART 7: SO WHAT CAN BE DONE?

THE BACKGROUND

1. I am an elected councillor, formerly of both Stevenage Borough Council and Hertfordshire County Council, currently with some responsibility for Planning. I hold a degree in Politics & Economics, have been a former Army officer undergraduate and for the past nineteen years have been a professional provider of private housing and trainer in the best practices for the private rented sector. I had responsibility for housing on SBC as deputy chair during my last stint in office.

2. Since this bill was announced, there has been a growing public outcry against it, as people have gradually woken up to its severe implications, and I wanted to ensure that you as a committee member are fully aware of those implications. Currently, few people are aware of the catastrophic consequences awaiting the housing sector if this goes ahead but you’ll get to hear a lot more about this from an increasing number of people once it is more widely understood what the consequences will be. So far, the National landlords Association, the Residential Landlords Association, the Council of Mortgage Lenders, the Institute for Economic Affairs, the Institute for Fiscal Studies, the Conservative think-tank Core Policy, The Telegraph and many concerned landlords, tenants, agents, economists, and academics have spoken out against this ruinous policy which is contrary to all established taxation practices, contrary to principles of natural justice, and is one of the most anti-business proposals ever considered.

WHERE'S THE CONSERVATIVE IDEOLOGY?

3. A very large number of landlords – the vast majority, I expect, of the 2.1m thought to be in operation - would have voted Conservative at the last election. We have always
traditionally seen ourselves as natural bedfellows, with the private sector, business, support of the individual investor, low taxation and freedom to expand private enterprise as core Conservative ideologies. Landlords are moderate people, planning for the future – nothing in Clause 24 assists or endears them, and willingly betrays those who thought they had a fair and moderate government they could trust and believe in.

4. Clause 24 willingly and deliberately embraces the beliefs of the hard left – taxation in excess of 100% of earnings, the driving from business of an essential private service, the extreme dereliction of wealth hard-fought and legitimately earned. No politician of any colour has ever thought this is a workable or realistic policy – it was recently described as being like something ‘from a third world country with a lunatic dictator’ - so we are utterly stunned that any moderate government should be the ones to try to implement it.

LANDLORDS AS DISNEY VILLAINS

5. There are so many untruths being perpetuated about this Clause, and landlords generally. We are used to being the most hated people in society –only bankers and paedophiles seem to keep us off the top spot – yet so much of the media hysteria about the housing market is provably and factually untrue. We are consistently portrayed as some sort of Disney villain, sheltering in some rain-soaked castle on a distant mountain whilst rolling around in untold riches, laughing raucously at the poor and misery around us. The media happily perpetuate this myth of rapacious greed. Only two weeks ago, ‘Moneyweek’ magazine produced a column about landlords entitled ‘Making money out of misery’ which went on to contain so many factual errors (that would have been obvious even to a lay-person), that one had to conclude they had made the whole thing up and passed it off as reality.

...AND THE ACTUAL TRUTH

6. In truth we run businesses providing quality homes to a wide variety of people who cannot or do not want to buy for a wide variety of reasons. In my case, I run a permanent 24/7 on-call policy, I spend all day administering, visiting, repairing, and running a full refurbishment outfit where I am hands-on and at the very centre of the housing provision. I have excellent relationships with all of my tenants, many of whom have been with me for many years, some of whom have left and decided to return, and at least two who left for that holy grail - a council house - only to later ask if they could return to my far superior houses and level of personal service! I take poor, damaged housing that few people want and turn them into high quality refurbishments that are desirable and in huge demand from people looking for a high-quality home with full provision laid on.

7. My own contribution to the wider economy, as with many landlords, is immense. I employ multiple tradesmen on a regular basis, occasionally letting agents, estate agents when buying or selling, and, most of all, I have a regular programme of refurbishment, where each house receives around £20,000- £25,000 each and every time it needs refurbishing. This is money that is put directly through the tills of my local hardware stores which keeps staff, kitchen fitters, plumbers, bathroom manufacturers, electricians and all
manner of manufacturers in business. Such thorough repairs and refurbishments will inevitably cease if I can no longer afford to carry them out.

THE STRANGE MYTHS OF LANDLORDING

8. The government makes some strange claims that are provably false. Let’s take a look at these myths individually:

8.1. ‘It is an investment – like shares – not a business’
Anyone who says this, or thinks this, has quite clearly never been a landlord, and they’ve certainly never run a housing business. For the vast majority of people trading in shares, they need do nothing more than press the ‘buy/sell’ button at appropriate times. Indeed, the very nature of shares is that someone else is running the business. The investor is not expected to have an involvement. For even the smallest of landlords, there are endless preparations, and every day of their business life they are subject to legislative and regulatory adherences that require an ongoing commitment to another person or family. For portfolio landlords, every day is a full-time occupation of responsibility, with paperwork, phone calls, visits, meetings, financing, services to be provided, repairs to be made, court cases to handle, and for me, full time and expensive provision of totally refurbished properties taking anything up to £25,000 per time of further investment and management, all of which is hands on and an integral part of my working day.

With shares, having a regular, full-time job is expected and usual. As a landlord, it is next to impossible to have any other full-time work and maintain the professional commitment to your business and your tenants.

I also look forward to the day that property can be held in an ISA!

8.2. ‘Only 1 in 5 landlords affected’.
The truth is that most landlords with finance in place – which is the vast majority of them – will be affected. Expert opinion puts this at 60% of the 2.1m, or one and a quarter million landlords. Even if, as is suspected, the government means only 1 in 5 will be facing severe difficulty or bankruptcy as their tax bill rises, often to exceed earnings, this still means 400,000 private individuals being forced into untenable situations simply for pursuing a much-needed business or for providing themselves with a decent pension. If they only housed one person each, that’s 400,000 renters potentially looking for a new home in a shrinking market. The real impact though is that the landlords being targeted in this grossly unreasonable way are the professional, portfolio landlords, so having one tenant each is wishful thinking! If they only had 5 houses each, that’s anywhere from 2 million people upwards, including children, looking for a new home. As a local councillor, I can assure you they will in large part be heading for the local council for support, which simply cannot be offered or provided.

8.3. ‘It’s government ‘generosity’” and ‘only the wealthiest landlords are affected’
The wealthiest landlords – the truly wealthy in this country – are usually unfinanced and therefore remain completely unaffected. The landlords that are the most affected, with the prospect of having their entire businesses and wealth effectively confiscated by the government, are the less well off, middle class, working, portfolio holders. Most of these are professional landlords with full time businesses, but we are also talking about potentially destroying the finances of public servants, nurses, doctors, teachers, train drivers, book editors, driving instructors, the retired, and a vast range of ordinary people in ordinary jobs who have invested wisely for their futures. The government says these are ‘wealthy’ people, which neatly plays to the media headlines hungry for a property scapegoat, when the truth is that

DEBT does not = WEALTH.

Hitting those with the most borrowing and calling that a taxable EARNING is beyond ludicrous, and something no Conservative – or ANY moderate and right-thinking government - would ever understand as reasonable behavior.

The comments about this being a case of ‘generosity’ to the wealthy are also highly offensive and ill-informed. There is nothing ‘generous’ about a business expense. No so-called ‘wealthy’ retailer, industrialist, manufacturer or service provider is being spoken of in these terms yet they all get identical tax treatment. Why are landlords the scapegoat yet again?

8.4. ‘A fairer tax system’

Taxing debt is not fair. Paying tax rates greater than everybody else, simply because of the business you are in, is not fair. Getting taxed at rates of anywhere between 100 and 156% of earnings, with the inevitable bankruptcy, is not fair. Distorting tax so that lower earners pay more, or get forced into higher tax brackets on non-existent income is not fair. Taking away personal allowances as people on moderate incomes are hit for additional-rate tax is not fair. In fact, the only thing that is fair is the CURRENT SYSTEM where everyone gets taxed the same affordable amount on their profits. This is the only way that everyone is treated equally – singling out a landlord for extreme treatment is DISCRIMINATORY and is fair to no one. Some of these affected landlords with day jobs are being advised by accountants to GIVE UP THEIR JOBS in order to try to protect their earnings and tax band. It is a sickening situation for normal, hard-working people to be forced into this predicament.

8.5. ‘Landlords have an unfair advantage over owner-occupiers’

Owner-occupiers do not pay CGT. They do not pay tax on room rentals up to £7,500. Landlords have to find 20-25% deposit as a minimum, owner-occupiers only 5-10% typically. The IFS has said landlords are far more heavily taxed already than home owners or commercial operators. I have bid on 15 houses this year and been outdone by a first-time buyer or established owner-occupier on every one because they don’t have to factor in business expenses in providing the home to someone else, as landlords do. Most importantly, landlords pay tax on their earnings – sometimes large amounts of tax – which will stop if they cannot continue in business.

8.6. ‘Landlords are responsible for high house prices’
Councillor James Fraser – Written evidence (EHM0037)

This is one of the most bizarre beliefs, but it is constantly perpetuated. The official, academic studies show that of the last 150% rise in house prices, around 7% is attributable to the private rented sector. According to the ONS, house prices have doubled in this country every seven years since 1948. It sounds incredible, but it is true, regardless of boom or recession, the average has always advanced thus. Since consumer buy-to-let only arrived in 1996, how do you explain the exponential rise over the previous HALF A CENTURY? And since the graph of house price rises continues on the exact same trajectory both pre- and since 1996, it would seem that the private rented sector has had a far less impactful effect on house prices than is often perceived by the public and the editors looking for a sensationalist headline.

8.7. ‘Landlords might destabilize the housing market’
At 19% of the housing stock, and 14% of current mortgage lending, it seems somewhat strange to single out this minority group as the cause of any future instability. Traditionally, landlords have never caused instability, and many of us have factored rate rises into our calculations, as mortgage lenders already do. Most of the long term professionals were trading during the times of 15% rates, and even since 1996 my earliest mortgage rates were 8%. The mortgage lenders have always seen landlords as a safer bet than home owners which is why the lending on these types of business is so popular. What definitely WILL destabilize a relatively secure market is bankrupting or forcing out of business most of the professional operators! A strangely ironic position, don’t you think, considering the government’s claim that this is what they’re trying to avoid?

8.8. ‘Landlords are greedy and selfish’
Really? Apart from the fact that most make only modest returns – 1-2% net is typical – 21% make no profit at all and use their asset value as a long term savings plan or pension. In my case, my refurbishment costs mean my real return on most properties is a negative figure. Also, the large majority of the landlords I am associated with are far more likely than a Local Authority or Housing Association to offer real, proper help and advice, including writing off debts, lowering rent and assisting tenants with all manner of personal issues. I enjoy housing people, taking an interest in their lives, seeing them grow and prosper. Comments to the contrary are just offensive and ill-informed.

THE EFFECTS OF CLAUSE 24

9. Large numbers of landlords are facing bankruptcy. The maths do not lie. It IS that serious and any politician who thinks this is a good idea urgently needs to re-read the facts above.

10. Tenant evictions will gather pace and possibly reach unsustainable proportions. Some landlords have already started on this process. I have already started meeting with my tenants to inform them of their new situation. They are shocked and upset. Where will they go, in a rapidly shrinking market?

11. Those that can find houses for rent will also find the basics of economics apply, namely that a short supply with expensive costs makes the price high. No landlord I know wants to
raise rents, nor evict people, but it is an absolute inevitability. If you think differently, please tell me why.

12. A large number of innocent people will now fall foul of child benefit payments, or be moved into a higher tax bracket despite earning no more income. Freedom of Information requests from HMRC PROVE that they have no idea how many landlords are to be affected, how many tenants or properties will now be at risk, how many people will move tax brackets, nor how many people will lose child benefit. NO IDEA. How can any policy seriously proceed on this basis?

SO WHAT CAN BE DONE?

13. Luckily, there are a few options available:

13.1. Make the new legislation applicable to new mortgages taken out from April 2017. This way the government still gets its plan but existing portfolios are not targeted and landlords who might have spent two decades building for their family’s future are not dragged into hardship and even state dependence themselves.

But better yet...

13.2. Only apply the new restrictions to bad or unaccredited landlords. Those who can prove accreditation, or that they have all the relevant certifications and standards in place, can continue on the existing system. Many local authorities are already signed up to the national scheme run by the NLA. This benefits the government in that they can still launch this plan whilst simultaneously forcing the ultimate raising of standards on all landlords, which in turn benefits all tenants and everyone in the private rented sector. It also neatly solves the problem of trying to determine whether someone is a ‘professional’ based on number of properties/number of tenants/turnover/earnings etc etc which various governments have seen as a problem in deciding how to professionalise the sector. This, I feel, is a brilliant plan as it solves several problems whilst creating no real down sides.

But better yet...

13.3. Scrap Clause 24 altogether and save landlords, tenants, related trades, the economy and various others whilst still taking the income tax, VAT and ongoing CGT we provide the exchequer with!

Many thanks for reading. Please stand up for your voters, and what’s right as an elected official of a democratic and moderate government. For evil to triumph it is only necessary for good men and women to do nothing!

Sincerely

JAMES FRASER
5 December 2015
LONDON’S HOUSING MARKET: ASPIRATIONAL, OR REGRESSIVE?

Would reducing the impact of government regulation on the inelasticity of housing supply help young workers more than focusing on income tax?

Increasing demand and low, unresponsive, supply in the South-East of England have caused house prices to rocket in both the nation’s capital, and the surrounding commuter belt. Political changes over the last 35 years have gradually shifted the discourse around housing towards demand-side measures, and contributed to supply being viewed as independent of government policy. Fear of the home-owning vote has led to an avoidance of the supply issue, with ideas of unimpeded aspiration focusing instead on easing excessive income taxation, to the detriment of younger Britons.
1. Background

London is at the epicentre of an affordability crisis in the English housing market. The median house-price to median earnings ratio has increased markedly since the turn of the century. Furthermore, unlike the rest of the country, the recession in the aftermath of the financial crisis resulted in only a temporary decline, to be followed by new highs.

**Ratio of Median House Prices to Median Earnings in London.**

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
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<tbody>
<tr>
<td>Ratio</td>
<td>5.62</td>
<td>5.99</td>
<td>6.50</td>
<td>7.17</td>
<td>7.67</td>
<td>7.86</td>
<td>8.08</td>
<td>8.17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>8.28</td>
<td>7.64</td>
<td>8.39</td>
<td>8.57</td>
<td>8.60</td>
<td>9.11</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: DCLG. Available[^109]

Though there are outliers, most notably Kensington and Chelsea (31.27), in 2013 only one borough, out of 32 within the Greater London Authority, had a ratio of median house prices to median earnings lower than the English average of 6.83. Half of the boroughs had ratios in double figures, including areas such as Bromley and Haringey, demonstrating that the problem is not limited to leafy enclaves of West London. Consequently, the trend has had wide ranging effects upon the prevalence and nature of home-ownership within the capital.

**Shrinking Home-Ownership.**

The first result is that home ownership levels are declining faster in London than in the rest of the United Kingdom (Heywood & Hackett, 2013, p.26). In 2014 the average costs of a first time buyer’s property was £364,000, an average mortgage advance £255,000, and an average borrower’s income £73,000[^110]. These figures necessarily exclude a large proportion of the working population, who can never hope to obtain the required deposit or borrow the amount they need to purchase a home. London is therefore at the sharp end of other nationwide trends, including a diminishing proportion of younger buyers (Ibid). The expectation is also that the decline of owner-occupation levels will continue over the next decade, predicted to fall to 40% by 2025 (The Princes Foundation, 2014, p.16).

Even for those who are not excluded from buying, there are other effects on the makeup of homeowners. Larger deposits require longer periods saving whilst in the rental market and/or help from ‘the bank of Mum and Dad’. The former decreases the proportion of a working life


[^110]: ONS House Price Index, May 2015, Table 28
which can be used to accumulate capital assets. The latter unfairly favours those from wealthy backgrounds. This is perhaps the key impact of the increasing ratio of prices to earnings. It will limit, or at least skew homeownership in London towards households with access to existing capital. Currently, 70% of first time buyers receive finance from a source other than their own income (Ibid). There is a risk that the standard of living will become increasingly less correlated with income and more correlated with familial wealth (Keohane & Broughton, 2013, p.9).

Another outcome of the increasing house price to earnings ratio is the extension of mortgage periods. Despite current low variable rates, when combined with higher borrowings, longer mortgage periods could severely affect the longer term finances of younger homebuyers.

### Percentage of UK Mortgages 30 years and over in duration

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<tr>
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<tbody>
<tr>
<td>% of Mortgages</td>
<td>1.6</td>
<td>2.7</td>
<td>4.3</td>
<td>21.9</td>
<td>19.2</td>
<td>19.1</td>
<td>23.1</td>
<td>27.8</td>
<td>30.3</td>
</tr>
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Source: ONS HPI, May 2015, Table 20

N.B. For mortgage duration, no London specific data is provided by the ONS, but given the far higher price-income ratio it is reasonable to assume the figures would match, if not exceed the national trend.

The price dynamics of the Greater London market have therefore contributed to more households spending a higher proportion of their income on either mortgages or rents (CBI, 2014, p.10) (Keohane & Broughton, 2013, p.3). One report concluded that Londoners are worse off by an average of £4207 (The Princes Foundation, 2014, p.11). Despite the higher average earnings of Londoners compared to the UK as a whole (£3804 more per year), once housing costs are taken into account this paper will argue that high housing costs are largely attributable to artificial supply constraints (regulation). If this is correct, then it follows that these government constraints serve as an unofficial levy upon income, in the sense that the extra costs which result from supply constraints are an obligatory expense imposed by government. Moreover, this levy is not payable solely to the state (through higher stamp duty for example), but to lenders and landlords.

An investigation into planning and economic performance for the LSE Growth Commission, found that in nearby Reading (with similar constraints), the net cost of strict planning controls was equivalent to an income tax of almost 4p in the £ for homeowners (Cheshire et al, 2012, p4). The issue is all the more important because of the concentration of graduate employment and economic growth in London, and other cities facing strict planning constraints in the South, such as Oxford and Cambridge (Ibid). The regulatory levy is therefore highest within our most dynamic city economies, where increasing demand cannot be met by supply. Highly skilled workers face punitive charges for their employment in regions with vibrant economic growth. Furthermore, whilst income tax rates are progressive, supply constraints more closely resemble
a highly regressive wealth tax, because those with large amounts of home equity profit, and young aspiring homeowners with zero assets face higher costs.

**An Aspiration Nation: Current Political Discourse**

Planning policy and decisions within London are influenced by several distinct authorities, including individual boroughs, and the GLA. For large developments, the Mayor of London has the ability to determine approval, as occurred recently with building of 680 homes on a former Royal Mail depot in Mount Pleasant\textsuperscript{111}. However, for the purposes of this report the focus will be at a national level, for two reasons. Firstly, Central Government holds an ‘agenda setting’ ability to influence regulatory culture in England. This is crucial for London because the costs of supply restraints are affected by decisions far beyond the borders of the GLA. Secondly, Westminster bears overall responsibility for balancing the needs and ambitions of different interests within the country. The contention of this paper is that the Government is failing to apportion the burden of taxation appropriately, because of selected interests dictating the agenda.

The manifesto of the new Conservative Government embodies the tendency in contemporary politics to frame conversation of personal aspiration around jobs and taxation, whilst offering short term demand-side aid for homeownership\textsuperscript{112}. The reasons for this inclination towards demand-side solutions will be explored further in section 3, but what it is important to note is that there are few signs of significant change in this area. A streamlining of planning policy was introduced in the National Planning Policy Framework by the Coalition Government in 2012, alluded to in the manifesto as having ‘unblocked the planning system’ (2015, p.51). In addition, there are specific proposals for London to free up brown-field sites owned by local authorities, but there is no discussion or commitment to fundamentally altering national housing supply by liberalising the market. Indeed, key proposals in the manifesto include the building of 200,000 starter homes available 20% below market price, as well as the extension of several Help to Buy measures. These amount to a tacit admission that the market is broken.

Since their election victory these fairly modest proposals have been followed by bolder reforms announced by the Chancellor\textsuperscript{113}. The policy on brown-field sites goes further by making planning permission automatic on designated sites. Additionally, Ministers will be granted more power to push local authorities into developing housing plans and to penalize them for failing to take sufficient action. Another policy which attracted a great deal of press coverage was the ability of London homeowners to extend their properties upwards to the height of neighbouring properties. Whilst these reforms do suggest some movement towards liberalising planning, it should be noted that this is done with a view to maintaining protection of the greenbelt.

Furthermore, the Chancellor has conceded that under current rules it would have been a

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\textsuperscript{111} [http://www.bbc.co.uk/news/uk-england-london-29475191](http://www.bbc.co.uk/news/uk-england-london-29475191)

\textsuperscript{112} The Conservative Manifesto 2015

\textsuperscript{113} [http://www.ibtimes.co.uk/chancellor-george-osborne-unveil-sweeping-planning-reforms-boost-uk-housebuilding-1510186](http://www.ibtimes.co.uk/chancellor-george-osborne-unveil-sweeping-planning-reforms-boost-uk-housebuilding-1510186)
challenge for the Conservatives to meet their initial house-building targets. These reforms are therefore necessary purely to meet the original numbers of new homes planned, rather than increasing supply still further. Overall, the government is still moving far too slowly on the issue, and there are no indications that over the course of this Parliament the required number of homes will be built to keep up with demand. There is also a firm commitment that there will be no wholesale liberalisation of land use in the South-East of England by threatening the Green Belt.

The Conservative’s proposals for ‘backing ambition’ relate chiefly to income tax; raising the thresholds for both the basic rate, and the 40p rate (p.27). This paper does not seek to oppose either of these measures, nor dispute the reasoning behind them. Instead, it submits that political expediency leads to a selective adherence to less government intrusion, and low tax rates. In that light, it endeavours to establish the importance of this nation summoning the courage to tackle vested interests, and ease the costs of supply constraints, which fall disproportionately upon the younger generation and exclude many of them from the housing market.

2. Supply or Demand

That high house prices in the South-East of England are due to demand exceeding supply is accepted, based on the fundamentals of microeconomic theory. Where there is less agreement is whether it is increasing demand, or low, restricted supply, which is responsible for the dramatic changes in real house prices over the past few decades. Additionally, both factors can be subdivided into different subsidiary elements, where again the contribution of each element is contestable. In terms of demand, these elements include; local incomes; the availability of credit; the number of foreign buyers; the number of buy-to-let investors; population growth and density; and household size. For supply, these elements include physical constraints; regulatory constraints; available finance; sufficient skilled labour; and nimbyism. Neither list is necessarily comprehensive; there may be other elements.

Demand

The issue of the price dynamics of demand and supply is complicated by London’s unique status within the UK as a major global city and because of the South-East’s economic dominance over

\[114 \text{ http://www.ibtimes.co.uk/chancellor-george-osborne-unveil-sweeping-planning-reforms-boost-uk-housebuilding-1510186} \]
the past few decades. The extreme disparities between the fortunes of London, and many other areas of the country, makes it all the more difficult to identify and propagate the importance of supply constraints in the housing market. There is no similar booming city economy to compare London to with a more lax planning regime. This means that an immediate, superficial analysis would point directly to the disparities in demand. It is certainly true that London has seen huge increases in demand which differ from elsewhere; because of growing incomes, a faster growing population, and influxes of foreign capital into the housing market. Since the financial crisis, the latter factor has played a part, and is frequently cited by the press as a contributor to house price inflation. A New York Times Op-Ed struck a particular chord by referring to London property as a new form of global reserve currency, reiterating the widely supported idea that it was, and is, a ‘safe asset’ in troubled times. A paper by the Smith Institute also identified foreign investment as the main reason behind London’s divergence from the rest of the UK, despite acknowledging that the investment was concentrated at the higher end of the market (Heywood & Hackett, 2013).

Andrew Lilico is one economist who has recently been vocal in his beliefs that the ‘housing crisis’ is effectively a myth, and that house prices have been driven by strong demand, principally from easy credit. He maintains there were no long-term supply issues in the UK over the last economic boom up to the crash, but that economic optimism and a favourable borrowing climate drove up prices. For London specifically, he echoes the view that the South-East was the fastest growing region, with the highest income, so people were willing to pay a premium to live there. He also raises the important point that supply in housing is principally driven by the availability of existing housing stock, not new house building. This is because new builds will only ever comprise a tiny proportion of the total stock in a nation of 25+ million households. In a thriving economic area like London, willingness to sell up and move out may be lower, so strong demand from economic dynamism, feeds into limited supply in this sense, and is not necessarily a case of low house building.

Supply
The main arguments made in favour of a demand-side influence on prices are all perfectly legitimate. It is indisputable that loose credit -perhaps above all other demand factors- played an important part in large, real terms, price rises. However, it is fundamental to understand how supply constraints facilitate these increases, and intensify the impact of credit availability.

http://www.theguardian.com/money/2014/jan/13/london-house-price-changes-political-uncertainty-overseas
http://www.bbc.co.uk/news/business-26980299
116 http://www.nytimes.com/2013/10/13/opinion/sunday/londons-great-exodus.html?_r=0
117 http://www.capx.co/there-is-no-uk-housing-crisis-and-there-never-was-one/
118 http://www.capx.co/more-evidence-on-why-high-house-prices-are-driven-by-credit-availability-not-a-shortage-of-houses/
Inelasticity

The elasticity of supply is a measure of how responsive the supply of new homes is to fluctuations in price. A range of economic literature all indicates that by international standards the UK’s supply is inelastic and, compared to some countries, significantly so. The Barker Review, commissioned by the New Labour Government, presented six separate academic studies in the UK which found the elasticity of supply was <1, or inelastic (Barker, 2006). The review also showed elasticity in the UK (0.7), was lower than other advanced countries such as France (1.1), the USA (1.4), and Germany (2.1), all of which had elastic supply (Taylor, N.D.).

Additional literature reinforcing the UK’s price inelasticity include: (Cheshire et al, 2012, p.6), (Meen, 2005, Swank et al, 2002, Ball et al, 2011) all cited by FTI Consulting, 2012). An OECD study also found inelasticity; the UK’s figure (0.395) less than a fifth of the equivalent for the United States (2.014) (Sanchez & Johansson, 2011, p.22). The differing figures available can be explained by contrasting methodologies, and some of the research uses a wider range of data, but they all conclude that the UK’s supply is inelastic.

Elasticity of supply is crucial to the price dynamics of housing because it effectively serves as a pressure release valve for growing demand. The housing market is the container, and rising incomes and credit increase the pressure inside. If supply is highly elastic, as in some parts of the United States, cities simply sprawl and this rapid growth of supply prevents prices (pressure) from spiralling out of control. If regulation purposely inhibits sprawl (as in the UK), causing inelasticity, then growing incomes and credit has nowhere else to go and feeds into rapid house price gains. In the USA for example, although they too had a housing bubble which precipitated the financial crash, the bubble was unevenly distributed across the nation. There are really two housing areas within the country; Flatland and Zoned areas, zoning laws being akin to planning controls. The Zoned areas are typically within densely populated coastal states. Examples of these Zoned areas are New York, Miami and San Diego which saw prices rises of 77, 96, and 118 percent respectively, between 2000 and 2005 (Taylor, N.D., p.8). Areas inland with looser controls such as Houston and Atlanta, saw rises of 26 and 29 percent over the same period, despite also being dynamic city economies. Paul Krugman referred to this contrast in 2005 when he predicted the US housing market crash, explaining that in the Flatland areas, city sprawl and the price of new housing is effectively determined by the cost of construction, making it all but impossible for bubbles to begin (2005, cited by Taylor, N.D. p.8).

The OECD study also highlights the disproportionate effect of demand shocks in areas with unresponsive supply, concluding that ‘the magnitude of these effects is reasonably large’ (Caldera-Sanchez & Johansson, 2011, p.26). The paper also cites several others which draw similar conclusions. Favara & Imbs (2009) found reducing banking regulations in the USA caused higher prices rises in areas with less elastic supply. Andrews (2010) found higher price volatility in areas with inelastic supply, controlling for differing levels of demand. This finding is supported by Glaeser et al (2008) who found that housing bubbles are more common, larger and last for a longer time in places with inelastic housing supply.

In the UK and the South-East this pattern is repeated, and is partially credited with the difference in prices between the South East and elsewhere. The Spatial Economics Research Centre found that if the SE (the most strictly regulated region) had the same level of regulatory
constraints as the North-East of England, then prices there in 2008 would have been roughly 25% lower (Hilber & Vermeulen, 2014, p.4). Their study found that Greater London and the South had a far higher refusal rate for ‘major’ residential developments (classed as 10 houses or more) than the North of England. The National Housing Federation also identified in a report that Outer London and the South demonstrate the greatest opposition to new housing amongst residents, suggesting a link between ‘nimbyism’ and the strictness of local regulatory regimes (Keohane & Broughton, 2013, p.62). These findings are reinforced by a 2010 report from the Department of Communities and Local Government (DCLG) which tested a hypothetical scenario whereby the planning system was unwound completely in an average LPA in England. This identified that house prices would be between 21.5 and 38.1 percent lower (Hilber & Vermuelen, 2010, p.57).

The DCLG, the Spatial Economics Research Centre, the IFS (2014) and the Barker Review (2006), all identify planning constraints as the fundamental driver of higher house prices in the long run. Price rises in the South can be explained to a large extent by restraints on the supply of land caused by planning regulations. Physical constraints are a secondary concern in most places (Hilber & Vermuelen, 2010, p.8). Though physical constraints do become a more important factor within the GLA (as you would expect in a densely populated and built up area), regulatory constraints play a part in constricting vertical growth in London. Furthermore prices in London are affected by prices within the surrounding commuter belt and vice versa.

It is crucial that the effects of these artificial planning restraints are recognized and that rocketing prices in greater London are not dismissed as inevitable due to lack of land and high incomes. The Institute of Economic Affairs issued a paper highlighting some of the ‘red herrings’ which people falsely attribute as causing high prices (Niemitz, 2012). These include low or absent taxation on property, empty housing stock and demographic changes, particularly household size. The paper notes that despite the UK being an international outlier in terms of house price rises, it is not an outlier in any of these variables. Our tax structure in terms of its approach to property is not rare at all; the empty homes rate is one of the lowest in Europe and the trend towards smaller households is present in most developed countries. Britain’s figure of 2.1 is not a notable outlier, the OECD ranges between 2.0 and 3.0. The Institute of Directors provides a chart demonstrating the similarities in demographics between Germany and Britain, despite their vastly different price trajectories for property.
### TABLE 5

**UK and Germany compared**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>UK</th>
<th>Germany</th>
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<tbody>
<tr>
<td>Persons per sq km, 2009</td>
<td>250</td>
<td>231</td>
</tr>
<tr>
<td>Average household size, 2003, persons</td>
<td>2.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Change in average household size, 1980-2003, persons</td>
<td>-0.3</td>
<td>-0.3</td>
</tr>
<tr>
<td>Population in urban areas</td>
<td>90%</td>
<td>88%</td>
</tr>
<tr>
<td>Dwellings per 1,000 inhabitants, 2000</td>
<td>430</td>
<td>467</td>
</tr>
<tr>
<td>Completions per 1,000 inhabitants, 2003</td>
<td>3.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Average size dwelling stock, sq m</td>
<td>85</td>
<td>87</td>
</tr>
<tr>
<td>Average size newly-built dwellings, sq m</td>
<td>76</td>
<td>109</td>
</tr>
<tr>
<td>Real house price growth, 1985-2007</td>
<td>200.7%</td>
<td>-14.4%</td>
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</table>
The UK has not experienced societal changes which radically differ from those of other developed nations, certainly not enough to explain our rapid house price growth. Where the UK does differ is in the lack of elasticity of supply. The inelasticity of our housing supply is due significantly to artificial supply constraints from the strict planning system. Thus, the single most important conclusion to take into consideration is that high and rising property prices and associated housing costs for residents should be considered to a large extent a factor of Government policy, whether local or national, and hence within democratic control.
A Note on the Income Effect in ‘Parasitic City’

The ‘Income Effect’ is an economic concept which outlines how fluctuations in income affect demand. The theory is that for a ‘normal’ or ‘luxury’ good like housing, increasing incomes will increase demand, and therefore push up prices if supply is restricted.

As previously mentioned, one school of thought around London’s house prices is that over time people’s incomes have grown, and moreover that they are ‘willing’ to allocate a higher proportion of their incomes to housing. ‘Willingness’ is the word of choice from the IFS and Andrew Lilico in describing this phenomenon, but this expression should be treated with caution. Though in a literal sense anyone who spends vast sums on housing must be ‘willing’ to do so – they have not been held at gunpoint - willingness implies eagerness, or enthusiasm. It implies that benign changes in consumer choices, and the attractiveness of property as an asset class, have shifted incomes towards housing costs as a solely positive decision. However, it is also recognized by the IFS and the Smith Institute that buyers can be forced into the market because of rapidly rising prices, and the fear that they could become out of reach. Prices can therefore be driven by both conventional and ‘negative’ or ‘fearful’ speculation. Speculation involves buying an asset to profit from further rises, but people also buy because as prices rise, the costs of not buying or delaying a purchase also increase. Consequently, the choices of buyers either trying to profit from future rises or avoid being penalised by them both contribute to rising prices.

The fear of being locked out of the property ladder is such an important consideration in London because of the nature of the rental market and the huge costs of renting privately. A report in July 2015 by PWC emphasized the growth of the private rental market in the UK and the simultaneous growth of mortgage free home-owners\textsuperscript{119}. It underlined a recurrent theme about how the British housing market is becoming an increasingly binary system. Social housing is shrinking, and society is diving along the lines of homeowners and private renters. This was bluntly discussed in The Economist when London was referred to as the ‘parasitic city’. This is a city where homeowners have formed a rent-seeking collective and influence legislation to confer financial gain for themselves at the expense of others\textsuperscript{120}. A key point about the ‘parasitic city’ is that if you are not a parasite then you are being fed upon. It is this reality about renting privately - the insecurity of tenure, the costs of frequently moving, the huge proportion of your income spent on housing- which drive the income effect in London.

Renting privately for many people represents economic insecurity; being at the mercy of your landlord and at risk of above inflation rent increases\textsuperscript{121}. The more people who view renting as a waste of money because you are paying your landlords’ mortgage rather than your own, then the higher house prices are likely to be with limited supply. This is because in London, what you are selling is, in a large part, not a house, or flat, in terms bricks and mortar; what you are selling really, is the opportunity to obtain equity. You are selling economic security, or perhaps

\textsuperscript{119} http://www.pwc.co.uk/en_UK/uk/assets/pdf/ukeo-section3-housing-market-july-2015.pdf

\textsuperscript{120} http://www.economist.com/blogs/freeexchange/2013/06/london-house-prices

\textsuperscript{121} http://homelet.co.uk/assets/documents/June-2015-HomeLet-Rental-Index.pdf
even more starkly; a future. The high price of housing reflects in part the desperation to escape the jungle of the London rental market.

A paper by the Smith Institute argued that foreign speculation must be the driver of price rises in London because declining affordability and ownership levels meant domestic factors couldn’t possibly sustain demand. This argument isn’t correct. That is not to say that foreign demand has no impact, but their argument is that rising prices are inconsistent with fewer and fewer people being able to buy, and that is false. Demand should not be seen as simply the number of people who are seeking and notionally able to buy a particular asset but the strength of their desire, or more accurately their need, to purchase it. It is precisely because homeownership is becoming out of reach and affordability levels in London are so bad that people will assign such huge sums to buying. The fear of being shut out of the market forever, sustains demand, as people will become highly leveraged and use family wealth in order to buy. They would do so to the same extent if homeownership was still easily open to everyone and would remain that way. The fairly recent mortgage affordability rules may have restricted the ability to borrow excessively, but buyers will still have the capacity to stretch their finances, especially if using their parent’s wealth.

Hence there is certainly the factor of the ‘income effect’ in London, but to describe it as ‘willingness’ is highly misleading. The inelasticity of supply forces people to go to extreme lengths in order to buy, in the full knowledge that demand is outstripping supply and is likely to remain that way. Consequently the income effect in housing is not solely a demand-side factor but is also influenced by the supply-side. Demand for housing is affected by the public’s knowledge of the limits of supply, and this applies for foreign demand too.

3. Insiders and Outsiders: Value vs Price and the Low Supply Equilibrium

Insiders and outsiders is an expression which describes those who are inside and outside the market; homeowners and homebuyers respectively. In the words of the Institute of Directors, referring to the planning system; ‘the current system confers a benefit on those inside the market (homeowners and landowners) at the expense of those outside (homebuyers)’ (IOD, N.D. p.3). Another way to consider the issue is the two terms of value and price. Both those words refer to the same numbers in housing, but demonstrate how insiders and outsiders view those figures from a different perspective. If you’re a homeowner your home is an asset with a value; if you are not then it is an asset with a price. It is this difference in perspective, and the power of homeowners within the UK which has contributed to the long term trend of low supply.

A report published by the National Housing Federation entitled ‘The Politics of Housing’ charts how the relationship between insiders and outsiders changed over the latter half of the
twentieth century. It is worth reading the report in full, but I will present a summary of their findings to explain how the low supply equilibrium came about and is so difficult to break down.

A basic visual summary depicts how low supply leads to demand-side aid from Government and creates a form of circular feedback. As homeownership levels grew rapidly over the 20th century (though they have since begun to decline), larger proportions of the population developed a vested interest in keeping prices high to protect their asset values. Homeowners are a powerful lobby forming the majority of adults in the country. They tend to be against development more than any other group and through the strength of their lobby can strangle housebuilding purely through their numbers. The report also notes how homeowners, as ‘insiders’ in the system, possess more political power than the outsiders, at local and national level. They can create an anti-development atmosphere within planning regimes.

The key finding from their report in relation to this paper is that as a result of the increase in home ownership from the 1980s onwards, politics shifted away from supply, to demand-side measures and to boosting home ownership. This emphasis continues today. The two main parties began to move away from competing about who would build more homes (supply) towards measures designed to increase the number of homeowners, most notably the Right to Buy. Longer term solutions to boost supply are avoided in favour of short term measures to help buyers with their chances of becoming homeowners. This is reflective of the public’s preferences. When asked what the Government should do to make homes more affordable, only 5% thought developers should be allowed to build more homes, compared to 29% who wanted assistance for First Time Buyers and 23% who wanted banks to give better access to mortgages. 19% also wanted more support for local authorities to build social housing, but these numbers demonstrate how the public are wary of allowing wholesale new developments
from the private sector. They prefer direct financial support for home buying, despite the risk that this can push up prices. Both the public and Governments prefer immediate superficial answers to housing affordability because of an impatience and reluctance to grapple with the problems of chronic low supply. It is this public attitude that leads to the type of proposals in the Conservative manifesto; Help-to-Buy and homes built specifically for First Time Buyers. Meanwhile, the green belt cannot be touched.

‘Sticky’ Prices: Downward rigidity and Macroeconomic Policy

Another effect of the extent of homeownership has been the attachment of key economic policies to inflated house prices. These policies also feed into the low supply equilibrium. Two key areas are the use of home equity as a form of asset based welfare, and also the link between house prices and overall financial stability for individuals, financial institutions, and consequently the entire macro-economy. Maintaining home values has therefore become an issue not solely for the owners of these homes but everyone else in the country too. This strengthens the circular feedback loop of advocating demand-side measures.

It is a point of significance that despite the severity of the 2007-08 financial crisis and the subsequent recession, house prices in London never declined as much as they did in the early 1990’s, when the market demonstrated extreme volatility (Hilmer & Vermuelen, 2014, p.3). Between 1991-2 prices fell by over twice as much as they did between 2008-9\(^\text{122}\). This is partially due to deliberate changes, which have for the time being successfully tackled extreme volatility in the South-East of the UK by making prices ‘sticky’. As stated in section 2, inelastic supply can fuel price rises by encouraging speculative bubbles, but over a long enough time period extremely low supply can also protect against price drops. Prolonged low supply has created a backlog of needed homes calculated at around 2 million (Keohane & Broughton, 2013) (The Princes Foundation, 2014, p.6), acting as a safeguard against falling prices. In addition, the housebuilding market itself has inbuilt safeguards, because the inelasticity of supply is highly asymmetric (FTI Consulting, 2012, p.17) (Keohane & Broughton, 2013, p.52). This means that supply responds slowly and poorly to rising prices but quickly and proportionately to falling prices. Housing developers take time to bring new projects to fruition but can quickly mothball them in the face of slowing demand. Furthermore, they may face additional obstacles to supply which are beyond their control such as a greater difficulty in raising finance. This asymmetric inelasticity only serves to exacerbate undersupply issues and means that over an economic cycle, supply isn’t likely to keep up with demand if development is left to the private sector (FTI Consulting, 2012, p.18) (Keohane & Broughton, 2013, p.52).

The issues arising from asymmetric inelasticity are compounded by the Government’s tendency, noted by the NHF, to use housebuilding as a means to stimulate the economy in the event of a downturn (Ibid). In the most recent recession this has not occurred. Instead of announcing a vast Government funded home building program, the Government has stimulated private developers by kick starting demand again. Their intention is to provide a short term stimulus to

\(^{122}\) ONS HPI March 2015, Table 23
the economy and utilize spare capacity in the construction industry, but this has been achieved by demand-side measures, rather than the Government taking up the reins in housebuilding. The outcome of this, rightly or wrongly, is that is an implicit directive of macroeconomic policy that the housing market should not be allowed to clear. Allowing prices to fall enough for demand to recover naturally would potentially jeopardise the long term health of the construction sector and threaten the wider economy if such a key sector suffered a huge downturn. The unfortunate result of the Government’s approach for those who are not homeowners is that is to all intents and purposes Government policy has prevented prices from returning to a level they could afford unassisted.
4. The Future: Worsening affordability

Several reports indicate that affordability problems caused by inelastic supply will continue and potentially intensify over the coming years and decades. The DCLG report from 2010 states that ‘if current trends continue and in the absence of major policy reforms future housing (affordability) crises will be increasingly severe’ (Hilber & Vermuelen, p.14). Urbanisation and demographic projections all point to increasing demand in some urban centres, and both the DCLG report and a more recent paper by the same authors (2014, p.25) warn that both regulatory and physical constraints may become even more binding in the future. The IFS suggests that population pressures in London are set to be more severe in the decade from 2011 than they were from 2001-11 (Chandler & Disney, 2014, p.18). These pressures, combined with the aforementioned sticky prices, means that without significant changes in the policy of housing supply in the South-East, housing costs are set to increase still further; excluding many young people who are not on the housing ladder already.

If the ‘Politics of Housing’ continue to dictate that supply issues are not tackled then there is the possibility that cuts in income tax will be utilized as an indirect form of demand-side stimulus. High housing costs, if seen as independent of government policy on planning, could be used as justification for lowering tax rates further, using the rhetoric that people deserve to keep more of their money to cope with living costs. There is a risk therefore that tax cuts do not only occur to avoid the issues of housing costs, but could feed into the low-supply equilibrium model alongside official demand-side measures such as Help-to-Buy.

Within the Conservative’s latest manifesto there was the proposal to raise the threshold for the 40p rate from £42,385 to £50,000, lifting 800,000 people out this rate altogether (Conservative Manifesto, 2015, p. 29). The intention is to have achieved this by the end of the current Parliament. Let us imagine that the change is immediate. For someone making £50,000 a year gross salary in 2015/16 - paying no student loan, or pension contributions for simplicity’s sake - their net wage would increase from £36,325.70\(^{123}\) to £37,858.70; a tax saving of £1523, assuming the tax free allowance was static. This means the Government is proposing to allow this individual to ‘keep’ £127.67p more of their own salary every month. However, this tax saving is completely pointless and the rhetoric hollow, if the individual is merely ‘keeping’ more of their own money to then be forced to spend it on basic living costs because of other Government policies. Barking and Dagenham is the London Borough with the fifth cheapest average rents at £740 a month. If you lived alone in Barking and Dagenham, this tax saving would be wiped out by less than two years of the current annual rental variance of 9% in the Borough\(^{124}\). A two year compound increase of 9% per annum would push up your rents to £879, an increase of £139 a month. If you are an older mortgage free homeowner in this example, you would pocket your tax saving. If you are a younger renter, this tax saving will be swiftly transferred to your landlord. Barking and Dagenham is by no means an outlier; in fact rent

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\(^{123}\) http://www.listentotaxman.com/50000?

\(^{124}\) http://homelet.co.uk/assets/documents/June-2015-HomeLet-Rental-Index.pdf
increases per year for Greater London as a whole are even higher at 10.1% for the three months to June 2015125.

**Conclusion**

Without a commitment to significant changes in housing policy, for younger earners who rent, the offer to let them keep more of their own money is largely worthless to anyone who lives in the South-East of England. These savings merely free up larger amounts of income to be paid to landlords. Instead of the money being redistributed in a progressive manner when paid as tax, it transfers from poorer tenants to richer landlords in a way that is highly regressive, and exacerbates existing wealth inequalities. The purported principle of allowing people to get on without overbearing Government is lost completely if Government regulation is directly responsible for driving inflated living costs. This inconsistent approach to Government involvement is extremely damaging and has the potential to simply reinforce wealth inequalities caused by the division between owners and renters. As such, it is imperative that alongside cuts in taxation the planning regime of the South-East of England (possibly further afield as well) is reconsidered. Otherwise, the Government’s commitment to helping people out of taxation, or onto lower rates, should be exposed as the empty measure it is if accompanied by a refusal to consider wholesale planning reform and the opening up on the Green Belt.

13 November 2015

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References


Chandler, D & Disney, R (2014). Housing market trends and recent policies London: IFS.


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Simon Forrester – Written evidence (EHM0022)

**Submission to House of Lords Select Committee on the housing market**

My wife and I are having a very frustrating time due to the petty and unreasonable objections of planning and conservation officers.

We live in a village and need to downsize, thus freeing up our house for younger and larger families.

First we wanted to convert a redundant barn to a modest, single storey domestic dwelling, in the style of the vernacular and using a top quality architect. The barn is in fact a block-built shed with a corrugated iron roof but unfortunately it is Grade II curtilage listed. The planning officer did not object initially but the conservation officer was not happy with the size of the extension to the barn, despite the barn itself being too small to provide satisfactory accommodation on its own. I support the preservation of historic and listed buildings but objecting to the conversion and extension of a scruffy block built barn is absurd.

As an alternative, we then applied to build a single storey, agricultural-style eco home in our paddock. Our ward member and almost all the locals supported our application but the planning officer said he’d recommend refusal because he considered the site outside the housing line. This is despite the site being well within the village and there being existing buildings on three sides of the site and there being an existing access to the site. Don’t these people know Britain has a chronic housing shortage.

It seems that big bad developers can force through large scale planning applications but for the little guy the system is obstructed by petty regulations. Having served for nine years as a parish councilor in our village I have first hand experience of seeing private householders’ reasonable applications rejected while developers obtain planning permission for a modest number of houses and then straight away apply for many more.

Best wishes,

23 November 2015
1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

To increase the supply of housing, the government should stimulate housebuilding while seeking to minimise any demand-side stimulus, which only acts to make housing less reasonably priced.

We agree with wider industry estimates that 300,000 homes need to be built per year to bring down the cost of housing for those who don’t already own their home. Neither the government’s record (a net increase of 170,000 in 2014-15) nor its plans (an aspiration for 1 million homes by 2020) come near this level.

More homes should be built for all tenures, but especially for social housing whose stock has been diminished over the past 30 years through Right to Buy and a failure to replenish it. 1.5 million private renters are claiming housing benefit. Many of these claimants, who are low-paid and unlikely to find secure accommodation elsewhere, would benefit from additional supply of social housing. Indeed, private landlords often complain that they should not be expected to accommodate vulnerable tenants.

If more private renters were able to move into social housing, demand for private rented homes would fall and this would reduce the upward pressure on private rents. There would be less demand from speculators on property so prices would stabilise. Private renters would be able to save money and build up a deposit to buy more quickly.

Public money should therefore be prioritised on social housing. Private developers have traditionally catered for owner-occupiers and profited from this without government subsidy. They should not be receiving public subsidy if low-income households are not directly benefiting.

Private developers have said that their industry cannot supply all the new homes that are needed each year. Indeed, if they did build enough to meet demand, currently inflated prices would fall and that would not be in their commercial interests. Because of this conflict of interest, the government cannot and should not rely on the private sector. When the UK last consistently built more than 200,000 homes a year, in the 1970s, half of these were for the social sector. Any plans to ramp up the number of new homes being built should acknowledge this.

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126 Letter from Richard Lambert, National Landlords Association, 26 November 2012  
http://www.theguardian.com/society/2012/nov/26/how-to-solve-social-housing-crisis

127 Poll of housebuilders reported in the Financial Times, January 2015  
http://www.ft.com/cms/s/0/23ec2c1a-e264-11e3-a829-00144feabdc0.html#axzz3ObzPevVR

128 Government live tables on house building, Table 209
Building new social housing (in addition to the replacement of sold-off properties) requires investment and this can come from central government, local authorities borrowing, or private investment through bonds and pension funds. One potential source of funds is the £3bn of private renters’ deposits that could be used to capitalise a national Housing Investment Bank and provide a return to private renters on their hard-earned money.

- **Government schemes:** How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

  We are most familiar with Help to Buy. Since its launch 90,246 first-time buyers have used one of the two schemes, out of around 750,000 first-time buyers in total (12%), and 4.4 million private renter households (2%). Its impact is therefore neither insignificant nor dramatic. The scheme has had most impact in areas that already had greater affordability such as the Midlands and the North, and less impact in areas experiencing high housing stress, such as London, Brighton, Bristol, Oxford, Cambridge and York.\(^{129}\)

  The proposal in the Autumn Statement to expand the scheme in London to provide a 40% equity loan has the potential to make homes significantly more affordable, but with only 12,000 private homes built in London last year and the same number the year before, the availability of the scheme to the city’s 800,000 private rented households is likely to be extremely limited. In the likely event that the scheme is oversubscribed, it could be an excuse for developers to increase their prices, thus eroding the benefits to first-time buyers and only enhancing them for developers.

  The government has invested £2.4bn to date in equity loans. This is money that could have been spent on homes for low-cost rent instead, with the benefits to struggling households and the wider sector that this unlocks. In addition, the government’s stake in 50,000 private homes bought with equity loans gives them a financial interest in prices rising, which might benefit the exchequer but would not help those would-be first-time buyers whose wages cannot keep up.

  Starter Homes have not been tested, but a 20% discount on market prices would make home ownership attainable in many parts of the country. However, this discount only applies for five years after the initial sale, meaning that the lucky first-time buyer will reap a large windfall courtesy of the taxpayer if they sell after the five years. If the discount were instead kept in perpetuity, each Starter Home built could help multiple first-time buyers. On current plans, only 200,000 households will benefit, out of 4.4m private renter households in England.

- **Taxation:** Are there tax measures that would improve housing supply and affordability?

  The tax system should be designed to incentivise work and investment in productive parts of the economy instead of assets whose supply is fixed, such as property. At present, property is undertaxed compared to work. For example, landlords do not pay national insurance on their

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rental income, which makes investment in property a more attractive activity than work (for those who can afford it). This undermines productivity in the wider economy.

The council tax system should be used to incentivise more efficient use of housing, for example by levying punitive rates on owners who leave properties empty for most of the year.

We also believe that the government should intervene to depress the cost of land, which would make house building more viable. This intervention might take the form of rent controls rather than a tax measure. We are currently exploring how a system of rent controls and licences for landlords who wanted to charge market rent could help increase affordability and help fund new supply.

Opponents of absolute rent control (i.e. setting rent levels rather than merely limiting increases) argue that such a policy would lead many landlords exiting the market. First of all, it is important to remember that these properties would remain homes and would fall in price in order to find a buyer. Many buyers of these homes would currently be private renters.

Moreover, lower house prices would mean that land would become much cheaper. Cheaper land would reduce the cost of building homes. While the reaction of landlords to intervention on rents has been documented by a number of organisations, including the Cambridge Centre for Housing and Planning Research, there has been no economic modelling of this policy on the wider housing market. Without a better understanding of the economics, policymakers should not rule out greater intervention on rents.

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

This policy has been somewhat peripheral to our work, but we view an incentive to tie up money in expensive property as likely to fuel house price inflation.

ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

The cut in Stamp Duty would have helped buyers in local markets where house prices hadn’t increased. Someone who bought an average first home costing £208,000 in autumn 2014 would have paid £2080 – this year they would have paid £1820 on the same price.

However, the average first home increased to £216,000 by September 2015, so the upfront cost of, say, a 10% deposit plus stamp duty is £540 more than it would have been last year.

We broadly welcome the Chancellor’s changes which make buy-to-let investment and second homes less attractive, as it means that more private renters can move to their preferred tenure, and ease demand in the rest of the sector.

c. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

The MMR changes do not seem to have had much effect initially as first-time buyer mortgages increased in 2014\(^{131}\). So far this year, growth in first-time buyer mortgages has been mixed and it is too early to say what factors are at play. We see it as sensible to prevent risky lending that brought the market to crisis eight years ago.

**d. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?**

We propose that there should be more incentive for local communities to support house building. Local residents could benefit from a council tax holiday in return for new homes being built nearby, which would help mobilise the silent majority to support housebuilding and end the dominance of vocal anti-homes campaigners in local debates.

**2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?**

The expansion of all types of tenure will help reduce rents in the private rented sector. More homes to buy and more homes for social rent will help reduce demand for private rented homes, and thus depress rents.

We support the development of new low-cost homes to rent privately and believe that this is where the future of private renting lies. Institutional investors letting homes for the long term should be, and generally are, willing to do so on better terms than what the wider market offers. Government support for this investment should be conditional on giving tenants security of tenure (including limits on rent rises) and a commitment to minimum standards.

**a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?**

The tax relief changes will affect only a minority of landlords as only 1.46m properties out of around 5m in the UK sector have a mortgage and, according to the National Landlords Association, around 560,000 of these are individuals liable for higher rate income tax\(^{132}\).

Using the NLA’s figures we estimate that 190,000 private rented properties have a yield low enough to be made unprofitable. In many cases the landlord will already be charging the market rent and will therefore be unable to raise it without being undercut by mortgage-free landlords in the local area. These landlords might be forced to exit the market.

With only 24% of private renters spending more than five years in a home, 45,600 private renter households might find their landlord facing difficulties by the time the tax relief cut is phased in completely in 2020\(^{133}\). We therefore expect the policy will have a limited impact on costs, but we would like to see protections for tenants caught in this situation in the form of secure tenure for all (see 2b).

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\(^{133}\) Family Resources Survey, 2013/14, Table 3.4
b. **Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?**

Before home ownership started falling, approximately 600,000 first mortgages were advanced in 2002 – this then fell as prices rose between 2003 and 2007. The average number of first-time buyers before the 2007 crash was 400,000 and since then has been 225,000, meaning that each year around 175,000 new households found themselves in a position where they would like to buy a home but could not. This adds up to around 1.2m households since 2008, which is roughly the increase in the number of private rented households.\(^{134}\)

As long as private renting remains expensive and insecure, people will prefer to buy, but as long as house prices remain high and wages fail to catch up, the majority will be unable to do so. First-time buyer numbers will fail to recover to their pre-crash levels and home ownership will continue to decline.

With the majority of private renters unlikely to be able to buy a home in the near future without a dramatic fall in house prices, they will still desire a secure and affordable home. At present, private landlords are free to deny their tenants a new tenancy, evict them without a reason, or raise the rent to an unaffordable level if the market permits it. The majority want to provide a long term home to their tenants so won’t exercise this power. However, we believe that all private renters should expect this from their landlord.

The government should therefore create security of tenure by placing disincentives on landlords from exercising Section 21 no-fault evictions, and preventing them from raising the rent by an unreasonable amount.

We envisage this being achieved through a requirement on a landlord using Section 21 (as opposed to Section 8, which enables the eviction of tenants for a breach of contract) to “buy out” the tenant with a sum of money large enough to both cover the cost of moving home, and deter landlords from incurring the cost in the first place. This would, in effect, limit the use of Section 21 to circumstances where the landlord has to carry out extensive refurbishment of the property or sell the property. In such circumstances the cost of compensating the tenant would be small compared to the other sums involved.

The government should also encourage landlords to sell a property with tenants in situ if they have to sell (at the very least by waiving increased stamp duty on such purchases), and encourage mortgage lenders to appoint a receiver of rent instead of evicting tenants in cases where the landlord defaults.

c. **What are the advantages and disadvantages of restricting rent increases in the private sector?**

Rents have outpaced inflation for a number of years, so they have taken up a higher proportion of private renters’ income.\(^{135}\) To make renting truly affordable, rents must fall dramatically.

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\(^{134}\) Figures taken from a series of Council of Mortgage Lenders press releases

\(^{135}\) English Housing Survey, 2012-13
Simply restricting rent increases and letting wages catch up would take years to have an effect on living standards.

However, we do strongly support restricting rent increases for reasons of security of tenure. Many tenants are forced to move by a landlord deciding to raise the rent to a level that they cannot afford. If landlords are restricted from evicting a tenant using the law, there must be a protection from this practice as well.

Rent increases should be limited – but not indexed – to inflation. As market rents can fall, a tenant might respond to a fixed rise in their rent by moving somewhere cheaper. By capping rent increases, rather than fixing them, unnecessary moves can be avoided.

One objection is that higher market rents would prevail for new entrants to the market or someone who moved home. That is true, but it is no worse than the current situation for new entrants. And with greater security of tenure there would be fewer tenants moving home.

3. Social housing: Are any measures needed to increase the supply of social housing?

We are concerned that the requirement to sell off high-value council housing will undermine incentives for local authorities to build like-for-like replacements. The government should make it easier for local authorities to maintain a stock of homes for vulnerable and low income households.

Local authorities should consider making developers bid for planning permission on the basis of the number of social homes they will build. Instead of awarding development rights to the company that offers the most money, they would maximise the number of low-income households who would be housed.

a. What will be the impact of the Right to Buy for housing association tenants?

We are concerned that the loss of homes for social rent and the time lag of building replacements will reduce the availability of homes for low-income and vulnerable households. There needs to be upfront investment in building social housing to mitigate the added pressures.

b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

We cannot speak for the tenants or landlords involved in this change. However, the government’s decision to intervene on social rents at a time when it professes support for building by housing associations and local authorities indicates that it does not believe that rent control will have a detrimental effect on investment. We therefore hope ministers are making plans to intervene on private sector rents.

1 December 2015
Q17 The Chairman: Ms Dillner, Mr Stott and Mr Lloyd, can I welcome you to the Economic Affairs Committee? It is our second meeting on the inquiry into housing. Thank you very much for your written submissions. We would like now to explore some of those and you can add some more colour. There are three of you. In the interest of efficiency, if somebody has already said what you think, a nod will suffice and we will try to capture that nod. Thank you very much. Perhaps I can start. Over the last decade or so since 2003, the increase that had prevailed over the previous 100 years in home ownership has declined and private renters have increased to fill that gap. Is that a matter of concern for you?

Duncan Stott: Thank you very much for the invitation this afternoon. PricedOut is concerned about the ability of first-time buyers to get on to the housing ladder. The fact that the vast majority of UK citizens want to be home owners suggests there is a great deal of unaffordability in the housing market. It does suggest to us that the affordability of housing is an incredibly
large problem and home ownership rates declining are symptomatic of the fundamental problem of what people are expected to pay for their first home and how much they are earning. The gap is too large and it is due to grow over the next five years. So, yes, it is a concern because of what people want from the housing market.

**Toby Lloyd:** I second that. It is a concern, both because, as Duncan says, it is not what people want, but also because the private rented sector as it is currently constituted is really not fit for purpose for huge numbers of people who are forced to rent privately at the moment. They are increasingly spending on average over 50% of their income in London to secure a home that is often in poor condition with minimal amounts of security and fundamentally unaffordable, rendering them unable to save up for a deposit. So as things are currently constituted, yes, that shift is very worrying.

**Q18 Lord Lamont of Lerwick:** There are many different ways of looking at this. If you look at it from the point of view of political philosophy or philosophy, you might argue that home ownership is the most desirable form and many people want it because it gives people a sense of security and it has appeared under political rubrics like “property-owning democracy”. On the other hand, if you look at it purely as an economic question, leaving aside that, one might have argued that the degree of home ownership that we had in this country got so high that it was an inhibition on mobility throughout the country. Can one really be so certain that it was not a good thing that the private rented sector developed so much?

**Toby Lloyd:** I would agree that there is absolutely a case for rented housing to provide individual and overall economic flexibility. However, the private rented sector as it currently is, is not what people want and is not what they can afford. Unfortunately, the economic argument falls down when people are spending more than 50% of their income on an insecure home. The instability and insecurity is extremely damaging for them. Remember that the vast growth in private renting is not among mobile young professionals but families with children who are finding it very difficult to put a child through school with six month tenancies and are unable to save for their pension or for a deposit on a home. The economics of an economy in which a huge number of people spend so much of their income purely on paying the rent do not look that good, either.

**Betsy Dillner:** I would agree with all of that. It goes back to what Toby is saying: the private rented sector is unfit for purpose. We are tenure neutral as an organisation. The growth of the private rented sector is not in and of itself a terrible thing, but we do need to make sure that it is fit for purpose for the people that are there. Very often it is unaffordable; it is left in worse condition than any other tenure and we want to make sure that the private rented sector is a place where people can live their lives and right now it just is not.

**The Chairman:** Are there any changes that you would like to see in the private rented sector that would make rental much more attractive?

**Betsy Dillner:** There are some very easy changes that we can see in the law for increasing security of tenure. As Toby said, there are now 2 million children living in the private rented sector and, at the end of assured shorthold tenancy, a tenant never knows whether or not they have a good landlord or a bad landlord. They have two months’ notice and they have to uproot their lives. We would like to Section 21 reformed so that if a landlord has a legitimate reason to take back possession of the property they would pay the tenant three months’ worth of rent to
compensate for that upheaval of their lives. That would also then disincentivise unscrupulous landlords who are doing it solely for bad purposes. There should be more accountability and professionalisation in the management of properties, both through landlords and letting agents. There should be some more investigation into ways in which we can put controls on the unaffordable rates of rent.

The Chairman: That would all seek to give a greater security of tenure and certainty over the medium term.

Betsy Dillner: Absolutely, but it is also about having flexibility and having security of tenure that represents the variety of people who call it home. Certainly, there are still going to be students who only want it for nine months out of the year. So it is retaining that flexibility for them and for the tenant, but also for the families that are going to be there long-term so they have that security and peace of mind that they can make it a home.

Toby Lloyd: We have advocated five-year tenancies, during which rents would be uprated only by an index link to CPI inflation.

The Chairman: Five years compares with the current average length of tenancy of what?

Toby Lloyd: The standard is six months or 12 months.

The Chairman: Is that the length of the tenancy agreement or is that the length that people tend to stay in that rented accommodation?

Toby Lloyd: Actual tenancy length tends to be approximately getting towards two years on average, but the point is that when you are in a tenancy like that you never know. Security is partly about knowing that you are not going to be thrown out at a moment’s notice. Even if the average is longer than six months, you are constantly on a two-month or possibly three-month notice period.

Q19 Lord Lamont of Lerwick: Mr Chairman, can I apologise for the fact that last time I arrived in the middle of the session? Because I arrived in the middle of the session I never referred to my entry in the register of interests, which I believe one should do at the beginning of an inquiry. If I can go through it, I am a director of a firm of architects; I am an adviser to a small property company and also to a finance company. Those are the ones that are relevant, but I apologise for not having mentioned it before.

The Government appear to be moving from subsidising renting to subsidising home ownership. Is this not a completely counterproductive approach given the problem of unaffordability, which you have referred to as affecting both the owned sector and the rented sector? The reason there is not adequate demand is because the prices are so high. People are priced out at that level. To give help to the buyer is merely to delay the process but to nonetheless give it a kick towards more unaffordability.

Duncan Stott: Ultimately, at PricedOut we represent people looking to buy and, therefore, we look primarily at the housing market, covering 83% of homes, the privately owned homes. We still want to see greater housebuilding and a greater subsidised sector. Whether it is affordable rent and now increasingly affordable home ownership, that has a crucial part to play in increasing housebuilding levels to the level we need to see.
Lord Lamont of Lerwick: Surely you are making it unaffordable rather than affordable by the subsidies that have been given.

Duncan Stott: For people who are not able to access the subsidies, yes. If you provide access to credit, as many of the Help to Buy schemes do, particularly mortgage guarantees, all that money will pour into the existing housing stock and that can only push house prices up, making it much harder for people to get on the housing ladder if they are not able to access the scheme. So yes, it is good for the people who are able to access the scheme. It is not a good move for the country and most of these Help to Buy schemes have the same problem at their heart. Some of them are tethered to new-build only, but still developers are constrained in how much they can build by the planning system, by the land markets and so on.

Lord Lamont of Lerwick: Last time we were told that there was such tightness in the supply of suitable labour to the housebuilding industry that builders needed a rise in house prices in order to get the labour that was necessary for an increase in housebuilding. Have you looked at that at all?

Toby Lloyd: It is certainly something we have looked into. It is just another indication of the sheer dysfunctionality of our housing supply system that we can honestly have a situation where builders can be making such record profits, house prices can be so astronomical and they can still say, “We cannot find the labour at a price that makes sense”. This clearly demonstrates that this market is failing spectacularly and that significant intervention is needed to make it work better.

The short answer is that there are two things that really drive up the costs of housing. The first is the supply of credit and demand—effective demand. As you say, pumping up credit and pumping up the availability of subsidy on the demand side does not help that equation at all. The second part of it is land prices. What really determines the cost of housebuilding and housing supply is the price of land. If we could get land into the system at a far cheaper rate, you would find that there is a break-even point for housebuilding at a far greater scale. Unfortunately with the current way the industry is set up—again, it is no fault of their own; they are quite rightly profit-maximising firms—developers are in the business of maximising the returns on the land they buy. That means that they have an absolute requirement to not build too many homes and not to lower the price of the homes that they sell. So unfortunately, until we are prepared to intervene strategically in the land market in order to get more land into the hands of people who are prepared to build housing at lower cost, we will not solve that affordability conundrum.

Betsy Dillner: If the Government continue to subsidise the market for home ownership instead of the market for social housing, essentially you are subsidising an industry that is fairly capable of sorting itself out and, again, is completely disincentivised from building the amount of housing that would bring housing prices down. In the end, you are just going to be subsidising low-income housing though housing benefit. If there are not enough social homes available, those people would then get pushed into the private rented sector where you are then subsidising market-rate rents in a private rented sector that is not fit for purpose and insecure for some of the most vulnerable people in our society.

Toby Lloyd: It is a perfectly legitimate aim of public policy to support people into home ownership and if the Government choose to use subsidy to do that that is their prerogative and,
as Duncan says, is very welcome for some people. However, when that is done at the expense of housing for people on low incomes it is undermining the overall housing and economic health of the country. Unfortunately, that is what we are seeing. It is not an increase in subsidies. It is a direct shift of subsidy from homes for low-income families to homes for better-off people on incomes of up to £90,000 a year in order to just tip them over the margins into home ownership a little bit earlier. While that may be a laudable aim, it must not be at the expense of genuinely affordable homes.

**Q20 Lord Sharkey:** Could I ask you two short questions about affordable homes? How successful was the coalition’s Affordable Homes Programme in providing low-cost housing? How affordable is affordable rent? If it is not affordable, would you change the way it is calculated? I say that because in London you would require a minimum pre-tax income of about £40,000 a year to qualify unless you lived in Kensington and Chelsea, where you would need £80,000 a year to qualify for an affordable rent.

**Toby Lloyd:** We have always been firmly of the view that affordable rent is not a satisfactory product for that very reason. To call it social housing is to stretch the use of the word “affordable” beyond any kind of meaningful level. The Affordable Homes Programme, which has subsidised affordable rent, is therefore a failure because it has built a lot of homes that are not really affordable to anyone. I would also question whether as a mechanism for getting homes built that was the right measure.

**Lord Sharkey:** But it did succeed in getting homes built, did it not?

**Toby Lloyd:** It has built some homes, although not even that many. Inevitably, whenever you change the rules on the programme you get a two-year hiatus in which very little is built and then a big bulge as it works through, and we have just seen that big bulge coming through. However, we are now changing the rules again so you can expect to see another fall-off.

**Betsy Dillner:** It has completely skewed the public debate on it because when we talk about affordable homes we are not talking about what is affordable and we think that it should be tied to local incomes. NUT recently did a survey of newly qualified teachers in London and they said that about 67% believed that they would not be in London teaching in five years’ time because they did not believe that they could afford it. It is going to have catastrophic effects on our low-income workforce, let alone middle-income workforce, if they cannot find a way to sustain themselves as single people, let alone as families, in the high-demand areas such as London, Oxford and Cambridge. It is not just a moral argument of forcing people to pay unaffordable rents but is going to have a devastating consequence on our labour market.

**Toby Lloyd:** It already is. Places like Oxford are really suffering already from the economic consequences of being unable to attract and house middle-income workers.

**Duncan Stott:** One thing to bear in mind is that affordable homes plans have traditionally been delivered by housing associations and sometimes councils. They are useful additional people to build homes on top of the homes that the private sector can deliver. That is welcome because we need to get housing numbers up. One thing that worries me about the change that is happening in the Affordable Homes Programme is that, while it is welcome that the amount of money going in has significantly increased in the Autumn Statement from just a few weeks ago, the subsidy per house has gone up significantly, too. On the previous affordable rent scheme
you were typically getting £19,000 as a subsidy per household. Now it will be going up to around £38,000, so we are nearly doubling the amount of subsidy going to an individual house and household. It seems like this is a very expensive way of not delivering many more homes than would have been delivered under the previous scheme, which is a shame because I do not want to be too miserable about seeing more money being spent on housing, which we desperately need.

Q21 Lord Teverson: Perhaps we could move on. Before we do that, I forgot to declare last week that I rent an individual unit in south Devon as a landlord. To stay on the social housing side, in the summer Budget immediately after the election it was announced that the original pledge in the coalition Government was going to be changed and, rather than increasing at above inflation, social housing rents would go down 1% from 2016 to 2019. That is excellent news for social tenants. I am just interested to understand what you think are the wider implications of that. Is that good news or will it mean, as one social landlord said to me, that the investment programme of their particular social housing corporation will decline? How do you see that and how will it affect in reality the building of social housing in the future? Are the projected figures down to a scare story or are they real?

Toby Lloyd: I am afraid that they are very real. Lowering social rents is a good thing for social tenants and the steady increase in social rents over the last 20 years has not been a good thing either for tenants or for the housing benefit bill. So lowering the social rents cap in and of itself is a good thing. However, the manner in which it has been done is extremely damaging. The announcement came less than 18 months after a 10-year promise to increase social rent by RPI plus 1%, on the basis of which housing associations and councils were busy borrowing money and planning housing supply. They now have a massive hole in their budgets, not just for new housebuilding, a lot of which will be killed stone dead, but even on their existing housing revenue accounts—managing their existing stock. So while getting social rents down over the long run is a good idea, to do it in this heavy-handed way as a surprise and tearing up previous deals has already impacted on the credit rating and the borrowing ability of associations in particular, and it is having a really damaging impact on the future supply of affordable housing.

Betsy Dillner: I would agree with that, but the fact that the Government have reduced rent in the social housing sector indicates that they are not really worried about the impact that it has on low-income housing supply. We would like to see the principle of intervention on lowering rents extended into the private sector.

Duncan Stott: I have a very quick point. It seems that this will create a saving in housing benefits. Would it not be wonderful if that housing benefit saving was directly used to build more social housing so that that potential supply gap was filled? It strikes me that increasing the cost of social housing to the tenant increases the cost to the taxpayer and then decreases the available funds for other things such as housebuilding. That would strike me as a better balance.

Toby Lloyd: I would absolutely second that. If my answers seem contradictory, it is because we recognise that increasing social rents is not a particularly good way to forward-fund future social housing supply. It is the way it has been done for a long time and therefore pulling away that rug has been damaging. However, it is clearly not a particularly sensible or efficient way to do it. It is far better to give direct grant to housing providers and I would much rather see lower social rents, but compensated for by an increased grant to provide new homes.
Lord Teverson: Does that pressure perhaps force social landlords to be a little bit more innovative than they had been in the past?

Toby Lloyd: To be honest, social landlords have been under huge pressure to be innovative anyway. The blizzard of changes to the landscape in which social housing providers are operating is now so intense that it has gone beyond any nudge towards innovation. Of course there is always scope for more innovation, but I am not sure that this is the best way to achieve it.

Q22 Lord Griffiths of Fforestfach: I will ask two questions. First, do you support or do you oppose the extension of Right to Buy to housing associations? Secondly, what would be your comments on the specific policy the Government have announced as to how they want to do it?

Duncan Stott: Ultimately, if people want to become home owners that is great, but the cost of this policy is huge. The housing associations look like they are going to be largely compensated for this, so the cost of each additional home owner driven through this scheme is going to be approaching £100,000 per household in London and around £79,000 elsewhere in the UK. That strikes me as such a large amount of money that there must be better things to do with it to help each and every household on a wider basis. It also creates winners and losers. If you have been fortunate enough to get yourself into a housing association home, for which there are large waiting lists, you may question the justice of whether these people deserve home ownership any more than people who are stuck renting.

Betsy Dillner: We disagree with it. We mostly disagree with the sale of council stock to pay for the discount. We will see it hollow out communities that would otherwise be in expensive areas. We are also worried about the likelihood of that being replaced anywhere soon. So we are very concerned about that and disagree with it.

Toby Lloyd: I would agree that in principle Right to Buy is fine. There is absolutely nothing wrong with people, including social tenants, being given the opportunity to buy their homes. The problem is the way in which it has been operated since it was started, in that the social stock that was lost has not been replaced. Unfortunately, the new extension, despite some assurances, does not look like it is going to be replaced in anything like equivalent tenures. The Government have insisted that there will be replacement, although it now transpires that that seems to mean that a home somewhere might be built in some other tenure at some point in the future rather than replacing what is being lost, namely a low-rent home in an expensive area. So while Right to Buy itself is alright, the way in which it is being funded and the extension is being funded is particularly damaging. This is the forced sale of council housing—which is what this is, it is not Right to Buy. This is selling council houses on the open market and we know that many of those will go to buy-to-let investors, not to owner-occupiers. Forced sale in order to fund Right to Buy is particularly pernicious because it means we will lose two social homes for every one sold.

Lord Griffiths of Fforestfach: I recognise that, but if you think Right to Buy is okay, what changes would you suggest the Government should make to what they have announced that they intend to do?

Toby Lloyd: We need an absolutely iron-clad commitment to genuine like-for-like replacement in the same area in the same tenure. Ideally, I would like to see those replacement homes built
before they are sold off. It is always very easy to say they will be replaced at some point in the future. It is a huge amount of money that is being siphoned off. We would like to see the forced sale of council housing to fund it scrapped entirely because there is no justification for destroying existing affordable housing, which is so desperately needed, in the places where it is most needed, which are expensive areas. We need to see the funding mechanism scrapped and, if the Government want to subsidise social tenants to become home owners, they need to find the funding from elsewhere, not from within the social housing stock.

_Betsy Dillner_: That is right. I would agree with everything you have just said.

_Lord Turnbull_: You used two phrases there—“helping people to buy their homes” and then “building houses like-for-like in the same area”. Is it not all rather pointless? Should the aim not be to help them buy a home, and if you are building in the same area they could buy another property there without requiring the forced sale and replacement of the housing association home? How much importance do you attach to the fact that it is their home with their all their decorations in it et cetera or a home of a similar type in a similar area?

_Toby Lloyd_: I can see there is an argument for people who have lived in their social home for a long time wanting to own that particular home. That has certain benefits for community stability and continuity, but you are quite right that ultimately we should not be fetishising that to the extent that we destroy the social housing stock in the places where it is most needed.

_Baroness Blackstone_: Can I just ask whether you think the size of the discount that is being proposed by the Government is acceptable? Could it not be quite a lot lower and still give an opportunity for some housing association tenants who can afford it to buy their house or their flat if that is what they want to do? It is the size of the discount that is particularly surprising and produces huge inequities, in that many other people do not get a discount at all when they try to buy a house.

_Toby Lloyd_: I would agree that it does pose problems of equity. However, again, to be honest, if the Government are prepared to find the money from elsewhere then that is up to them. The problem for us is that that £100,000 discount is being found by selling off existing social housing.

Q23 _Baroness Wheatcroft_: Generation Rent said in its evidence to us that on starter homes it felt that the discount should be held in perpetuity to stop people making windfall gains. Would you say the same about housing association purchases, for instance?

_Betsy Dillner_: Yes. There are also some concerns. In starter homes you are limited in selling off that property for five years because, as we have seen—and Inside Housing did a lot of really great research on this—the Government have then subsidised the very laudable aim to try to get people who are eligible for social housing into home ownership. We see then that in the second generation of that purchase it goes into buy-to-let landlords and you have then decimated the stock of social housing for low-income workers and you are then subsidising a private landlord’s purchase and you are not seeing that discount go in perpetuity to the people it was intended to help in the first place. It is not good for the Government’s budget at the same time. That gets into some tricky territory about who you are allowed to sell it to and, if you just keep that discount in perpetuity to landlords, are you then just discounting the purchase and then subsidising through housing benefit? In general, the way in which the
Government have created a package of undermining social housing and the long-term viability of social housing in this country is a problem and it needs to be addressed.

**Lord Monks:** In the same territory, if I can just probe a little further on Help to Buy, do you think it is targeted at the right people?

**Duncan Stott:** First of all, there have certainly been four schemes and there is probably a fifth on its way, the way it has been going. We have had Help to Buy equity loans, Help to Buy mortgage guarantees, Help to Buy ISAs and now Help to Buy shared ownership, which is the same thing as shared ownership. There have been some slight changes in who can access it and when you can follow on with it. I just disagree with all the schemes. When you do not want a scheme to exist, it should not be targeted at anyone. That is basically the way that I would see it. It is the wrong approach. When you create a subsidy for demand in a housing market with already too much demand you are just going to push prices up.

The political context of this is that the Conservatives have a target in their manifesto, which we intend to remind them about as much as possible, to double the number of first-time buyers by 2020. That would mean 600,000 first-time buyers in 2020. For us, the correct way of achieving that target is to engender a culture of house price stability, to have no more house price inflation and create market reforms that make that change in the housing market. Earnings would increase, house prices would stay the same and more people would be priced into the ordinary housing market. Help to Buy does exactly the wrong thing. It will create some home owners in the short term. Everybody else will be in a much more difficult position and the housing market will have become more dependent on taxpayer subsidy.

**The Chairman:** What measures should the Government take to hold down house prices?

**Duncan Stott:** First of all, they should build more homes. They should review the property tax system; it is a total shambles. They should stop subsidising lending and, in fact, keep a tighter eye on lending because when it is looking like it is out of control it can pump up house prices and cause a gap in the boom and bust cycle. Thankfully, the Bank of England has brought in its mortgage market review controls, which are on the home owner sector, and we know they are looking quite strongly at buy-to-let as well. So there is good progress in that field, but we are still building half the number of homes we need per year and property taxes create all sorts of unwelcome distortions in price as well.

**Baroness Blackstone:** Could I just ask whether it would have been better if the Government had put more time and effort and thought into promoting shared ownership? They say they are in favour of it. It is a question to all of you really. Would that resolve some of the problems that you have identified in the Help to Buy scheme?

**Duncan Stott:** There are some improvements to shared ownership that have come through with Help to Buy. We have previously been quite critical of shared ownership because people found themselves quite tied into it. When they are looking to move on, it is harder to sell a share of a home rather than a home. You just go to an estate agent to sell a home. It is much more complicated with a share. Broadening this out so your second purchase can also be a shared ownership is an improvement. It feels like, though, there is still going to be the element of rent in shared ownership. We have seen poor examples of some housing associations using the service charges on shared ownership housing, and increasing them particularly on the shared
owners because they have a more stable financial position. When housing associations find themselves a bit short of money, service charges are quite an easy target. We have had notable examples of people getting in touch with us saying, “We thought it was the answer. We thought it would give us our own home and it has certainly not turned out to be”. So there are problems. It looks like housing associations are identifying these and bad practice is slowly coming out of the system. But previous generations got ownership and our generation gets shared ownership. It just seems like our generation has gone backwards and it feels wrong. Why has the housing market just got so wrong that ordinary people cannot afford a home like other generations could?

Q24 Lord Turnbull: You have three categories of people: people in the private rented sector, people in the social rented sector and people aspiring to own. Where is the social harm greatest of those three? Who would you prioritise?

Betsy Dillner: Sorry, can you explain social harm?

Lord Turnbull: Who is having the hardest time out of those three groups?

Toby Lloyd: Private renters.

Betsy Dillner: I would expand that to say private renters on the very sharp end of the market.

Toby Lloyd: Who are the very ones who—

Lord Turnbull: Betsy, I noticed you are hinting that you thought if there was anything wrong with the 1% cut in rents it was that you thought it should be extended. Does that take us to the words “rent control”?

Betsy Dillner: Yes, it does.

Lord Turnbull: Defend that in the longer term.

Betsy Dillner: I know that the prevailing argument against rent control is the concern that landlords would exit the market and that would further exacerbate the supply crisis. That is the prevailing thing that says that is just what would happen. Our view on rent control is that it will take us many years to sort out the supply crisis in this country and, in the process, private renters are going to be stuck with private rents that take up far too much of their income and that is a drain on the economy. So we would like to see further investigation into various types of rent control and proper economic modelling to say, even if landlords do exit the market, is that necessarily a bad thing? We do not want it at a rate of knots because that would create a further deepening of the housing crisis, but nobody is ever having that conversation or doing the deep economic modelling to say whether there is a model that would work for the London market, for the UK market, and the learning the lessons from the way in which rent control works in other places but finding a unique way of limiting the harm done to private renters.

Lord Turnbull: How does a buy-to-let landlord exit the market? He cannot take his house and take it home with him.

Toby Lloyd: No, the point is they put it on the market and it is then bought. It could be either by a landlord who does want to operate in that new environment, and there are plenty—after all,
the Government are keen to encourage institutional investors into the sector, many of whom are much more comfortable with a more regulated, longer-term, more stable model of renting—or they sell it to a first-time buyer or someone who wants to live in the home, which again is a goal of public policy. So the fear of landlords exiting the market is greatly overstated. For all that, Shelter is not calling for traditional old-style rent controls.

**Lord Turnbull**: Is the danger not that they exit the market but that they exit the maintenance of the property?

**Toby Lloyd**: Frankly, plenty of landlords are terrible at keeping up their properties anyway and the idea that we have to raise rents in the hope that they might choose to spend a bit on keeping their property up I am afraid just does not work. The proper way to get landlords to improve their properties and maintain them to the legal standard they are required is proper enforcement of the law and, unfortunately, that does not happen enough. The main argument against rent control is not that landlords would exit or that if they did it would be a disaster; it is that, unfortunately, when you set hard rent caps, old-school rent controls—and it is worth saying at this point that the UK has a rather unfortunate history in this territory. Prior to 1998, we had the most heavily regulated and hard rent-control regime that the world has ever known, as far as I can tell. Following 1998, we had the most deregulated rent regime that the world has ever known. That rather polarises the debate in this country and we tend to assume that it can only be one extreme or the other. Everywhere else on the planet has a much more sensible balance somewhere in between those points. So our model of five-year tenancy with the market setting rents at the beginning of tenancy but index-linked controlled rents during tenancy is just one example of what is known as second-generation or softer rent controls.

**Toby Lloyd**: Absolutely. That is why we are desperate for the Government to invest more in genuinely affordable, low-rent, secure homes. Because. Because the real solution to the private rented sector’s problems is to create better options for people, that they want. We did the largest survey of private tenants that has ever been done in this country and I can tell you that precisely 6% of them rent privately because they value the freedom and flexibility of private renting. The vast majority do not want to be in that tenure. They do not find it appropriate. It is just that they have no other option. The best way to improve private renting is to create the other options that people do want.

**Betsy Dillner**: And making the private rented sector fit for purpose.

**Lord Griffiths of Fforestfach**: You are basically arguing for rent control. You are also arguing for longer tenancies. You are saying that the UK is an extreme case. Can you recommend us looking at the evidence in any countries where the market is working extremely well and you have longer tenancies and some form of rent control?

**Betsy Dillner**: This is a difficult question for us to answer. I used to work in housing in New York City and they have about five different forms of rent controls, all operating alongside each
other—and, quite frankly, New York City is not affordable for their low-income workers. It is not working for New York, so why would we expect it to work here? The housing market in Berlin is different from the housing market in London. There are ways in which we can learn from other countries to say that the sky is not going to fall in if we have rent control, but it is important that the Government come in and say what the most appropriate way is that works within the housing market that we have and how they can assist in minimising the pain for people in an overinflated rental market, and help us achieve our longer-term goals of having an affordable roof over people’s heads regardless of tenure.

Q25 Baroness Blackstone: Turning to housing supply, you have all agreed that one of the really big issues is that we are not building enough houses. How much importance do you attach to reform in the planning system to achieve a greater rate of housebuilding than we have at the moment? Do you think it is very important, not terribly important or somewhere in the middle?

Toby Lloyd: In all honesty, it is somewhere in the middle. It is overstated, sometimes, the extent to which planning is the biggest obstacle to housing supply. It is not. There are those who would argue that given the lack of supply and high prices, clearly, from a market perspective there must be the dead hand of the state somehow impeding the market. You do not have to look far in the housing system to find that—you blame the planning system. However, I would say it is the other way around. The reason we have a dysfunctional land market and dysfunctional property market is not because we have a planning system. We have a planning system because property markets and land markets in particular are inherently dysfunctional. That is why every country in the world, including many which are even more enthusiastically free-market-embracing than our own, have if anything more rigid planning systems than ours. There is a simple mismatch between the nature of land markets and the rest of the economy, and particularly people’s wages and their ability to house themselves. That is why even very ardently free-market countries like Singapore have extremely rigid planning controls and extremely rigid land market interventions, because they recognise that, left to its own devices without planning, the market simply does not deliver housing at a number or a rate that people can afford.

There are things you need to do to planning to improve it, undeniably, particularly around the process and the time it can take. However, if anything what we need is stronger and better planning, not less of it. Unfortunately, the debate about planning reform always comes back to cutting away red tape and what that tends to mean is just increasing land prices, because it increases the profit margin that landowners can make and that developers can expect. Really what we need is the planning system to be stronger and therefore writing down land values to a level where development can proceed and build homes at an affordable rate because it is the land cost that really determines the unaffordability of housing, and it is the planning system that, operating properly, should determine the land cost.

Duncan Stott: I would slightly edge away from Toby a bit. There is always a planning system in any sensibly-run country, but the way that the British system works is quite heavily restrictive. We are in new NPPF territory now, so we have a strategic housing market assessment that comes up with an objectively-assessed housing need. This is based on demographic projections that often turn out to be wrong. Very recently, they have now been adjusted for affordability, which is good, but affordability should be at the centre of how housing need should be calculated. When you look at a really expensive area, just looking at the demographics does not tell you the screaming market signal that far more homes are needed in this place.
So there is not enough emphasis put on affordability when the housing numbers are being produced. Then the housing numbers are routinely missed. Often not enough planning is granted to meet that target. Then the number of planning permissions that are granted do not all turn into completion. At every stage through the system, fewer and fewer houses get built compared to what should have been built. So we end up with this chronic undersupply, which has been a problem in the UK housing market since the early 1980s and we are reaping the high housing costs of that. There are still fundamental problems even after the new NPPF has come in with the way that housing need is calculated and then delivered.

Q26 Baroness Blackstone: Can we rely on greater development of brownfield sites in our big cities and higher-density housing in them or do we have to move out into the green belt in order to create more land availability?

Duncan Stott: There is space for about 450,000 flats on brownfield sites in London. We need to be building, I would say, far more than that over the next 20 years. We have to be looking at greenfield sites and that is presumably going to be in the green belt because we do not want to be building on parks and publicly-used spaces. Green space is good, but we are protecting scrubland and land that is quite near train stations and disused airfields. I am glad to see last week there was some movement on the green belt. We seem to be protecting exactly the wrong things often because in the outer London boroughs you see playing fields built on while the green belt is protected half a mile away. It is a crazy situation and there are problems throughout.

The problem is that this is all decided by local authorities, which are elected by the local population, who tend to have an interest in not having any more houses built. Then the local authorities also look at their finances and do not see much benefit to houses being built either. So there is an inbuilt political desire to not build that many houses.

Toby Lloyd: I would agree with that. I should stress that the green belt has been a very successful policy for what it is intended to do, which is prevent urban sprawl. That is a laudable aim and it has worked well. It therefore does need to be reviewed as and when cities need to grow. Oxford was mentioned as a prime example of a city that clearly needs to grow and is now overly constrained by its green belt. However, if you do that simply by removing green-belt restrictions all you will do is create a speculative frenzy as those bits of land rocket in value because the uplift is absolutely astonishing. The difference between a £4,000 per acre piece of agricultural land and housing land could be at least 100 times. That value could be supporting infrastructure, affordable housing and a whole host of community benefits. If you just remove those restrictions all you do is enrich the landowner, who will be extremely grateful and very glad to pocket the money and why not? Good luck to them. But you will not get the community benefit and the affordable housing that we need if you all do is remove those planning restrictions. In that sense, the green belt is a fabulous opportunity because it is doing precisely what planning ought to do. It is restricting development and controlling land values. If you remove it, you therefore need to make sure that you capture that value created and use it for community benefit, not for windfall gains for a lucky few.

Baroness Blackstone: Let me just push you then. Do you put the new housing on brownfield sites in cities and create greater density?
Toby Lloyd: Both. I am afraid the scale of our shortage is so great it is not an either/or. There is no magic silver bullet to our housing crisis. We need supply from all sources, which includes brownfield sites in cities where they are available; it includes densification of the suburbs; it includes redevelopment of some places that are run down; and it also includes greenfield sites in some places. Particularly when greenfield is released, we owe it to posterity and to our communities to make sure that the value created is genuinely channelled into community benefit and affordable housing, not just enriching a handful of lucky people.

Lord Lamont of Lerwick: Could I just ask if you would enlarge on what you said about planning? The phrase you used was “control land values”. Do you really believe that that is possible and could you enlarge on that?

Toby Lloyd: It is precisely what the planning system does. A piece of land that has planning permission to be used only for agricultural purposes is worth approximately 100th of that same piece of land when it has planning permission for residential development. That is what planning is supposed to do.

Lord Lamont of Lerwick: You were just talking about the trade-off with agriculture. That was to your point, was it?

Toby Lloyd: It is most stark in the difference between residential use and agricultural use, but it is also the case when you talk about brownfield land. Remember, an awful lot of brownfield land is schools and employment uses. It is not all just vast, open bits of land not being used for anything in city centres. We all live on brownfield land, after all. It is any bit of land that has been developed at some point in the past and most of it is not vacant; it is being used. For example, every school would be far more valuable in market terms if it was allowed to be built as housing and you could get rid of the school. But society needs schools as well and, therefore, it is the job of the planning system to ensure that some bits of land do not go purely for the use that generates the most money but to uses that the community requires. Where it is released for profit-making purposes we need to ensure that the community claws back a sufficient proportion of that so that we are not just building unaffordable homes.

Q27 Baroness Wheatcroft: Would you say that part of the answer to the housing shortage, given the impact of land prices, is to go taller—and a lot taller than planners currently encourage? I would be interested to hear all your views on that and whether taxation could be used to encourage that sort of development and whether there are any other sorts of taxes that you would advocate to eventually increase the housing supply.

Duncan Stott: Yes to taller buildings, absolutely. There is some dispute about how tall you go until you do not get any more homes. There are better people, architects for example, who can discuss that. You will still hit nimbyism whichever way you try. If you try to build outwards, the people who like the view of the field complain. The people who feel like they going to lose light and things will complain if you try to build upwards. There needs to be some way through this. It feels like the only way that would-be buyers of these homes ever get their voice heard in the planning system is via the developer who builds them. That is not necessarily the most direct way this could be done. Typically, nimbys present the argument as the developer versus the local community. It is obviously about more than that; it is about how we build homes for ordinary people to live in. Build upwards, build outwards. Build, build, build.
Toby Lloyd: With regard to tall buildings, yes, of course, sometimes there is real scope to increase density and to increase heights: fair enough. There are limits to it. In many parts, particularly in our inner cities, you could argue that if anything we have gone too far that way in some places. I know some people feel very strongly that building too many point blocks is socially disruptive and does not work well for the wider community. Again, it comes back to the interaction of the land market, the economics of development, mediated by the planning system. If you buy a piece of land at a price that effectively reflects permission for a five-storey block and you get permission to build a 50-storey block on that, you have made an awful lot of money for nothing. If you do that, you should be required to make a decent contribution back to society in the form of affordable housing and other infrastructure. Unfortunately, at the moment that gain is just a windfall.

Baroness Wheatcroft: What about other sorts of taxes that might encourage the supply? Martin Wolf, for instance, is a strong advocate of land tax.

Toby Lloyd: There are a lot of good arguments for moving the system in general towards a more land-value-tax approach, but there are a lot of complexities in that as well. One measure that we have called for that would be relatively simple would be to say that where a developer has planning permission to develop and after a certain period of time nothing happens—and, as Duncan has alluded to, a lot of sites with planning permission do sit unbuilt upon—council tax and business rates could be levied as if that property had been built, because that would provide a spur and an incentive for them for them to build the homes that they, after all, have been given permission to build.

Baroness Wheatcroft: Just finally, do you have views on the Government’s proposals to take the family home up to a certain value out of inheritance tax completely?

Toby Lloyd: I am afraid that it is just another demand-side subsidy and it is ultimately damaging. As Duncan has alluded to, the whole property tax system is part of the problem here, in that we massively tax-favour property investment over and above everything else. It is the only form of investment where you effectively pay no tax on unearned gains: and then we wonder why people choose to overinvest in that that particular asset class. It is inevitable. We do need to look seriously at trying to rebalance the tax system away from that, but I do appreciate that there are real complexities in doing so.

Lord Layard: I just want to go back to your previous discussion about how to trap the social value created when the use is changed. If you take a greenfield site—that is easier to think about—and you change its use from whatever it is to development land, what do you think of the system, as I understand it, in the Netherlands where essentially the municipality, local government, pays the undeveloped price for the land and then sells it off at the developed price? Do you think that is a system we could—

Toby Lloyd: Absolutely. That is exactly the system that has historically worked extremely well in this country as well. We have just lost the art of it. It is the system that for example the Duke of Westminster uses in Belgravia—long-term stewardship of land assets that you do not sell, which gives the landowner a vested interest in maintaining quality and reaping a long-term income yield from it rather than a short-term capital gain. It is the same model that the Victorian and Edwardian pioneers of the garden city movement used to build Letchworth Garden City, and that is still delivering huge surpluses back into the town every year. It is also
the model that the Government used in the post-war era to build new towns. It acquired land at agricultural prices and reinvested the profits in providing services and repaying the debts. It is a perfectly simple model. The Dutch do it extremely well. We have just lost the art in the last 40 years.

Q28 Lord Lamont of Lerwick: Have any of you made any estimate of the effect of overseas, particularly non-EU, buying of investment residential property in this country and the effect on supply? The Government have formed the view that there is too much buy-to-let investment in this country and that this is crowding people out of the market. By parallel argument you could apply that to foreign-investment buying. I know it is a sensitive subject in view of Britain as a location for inward investment and an open economy et cetera, but I think I am right in saying that Civitas has made a study of this and it came to a conclusion that this was having an effect very much on the London market.

Toby Lloyd: It is something we have looked at. It is very hard to get real data in this area, so there is a lot of anecdote and story, but because the property industry and, particularly, the land market are so opaque it is extremely difficult to get real, hard evidence. However, the anecdotal evidence suggests that it is a massive phenomenon, not just of foreign investors buying homes but buying homes particularly off-plan and then selling them on. The question is whether that is a real problem or not. The industry would say that this is providing forward funding for development and without it they would not build the homes. There is clearly a problem there that if you just pulled away that source of funding, a lot of these developments would not go ahead at all. That is the fear. However, it does raise the question of what we are building for. Are we building homes for people to be able to afford and live in or are we simply providing an asset class for international elites to stash their cash in? That does raise some serious questions. It is not, however, to my mind, entirely clear how much of a genuine problem it is outside of certain high-end developments, along the Thames particularly.

Lord Teverson: Perhaps I could ask Mr Lloyd a short question. This is a similar theme, but we seem to have concentrated a little bit on urban issues. I come from a rural coastal area with high tourism and high prices in comparison with wages. On second homes in particular and problems of rural housing, is there anything specifically we should learn about that area, too?

Betsy Dillner: The changes in the tax system that we have seen in the Government Spending Review of higher stamp duty on second homes and buy-to-let mortgages are trying to disincentivise that, so they are trying to work through that. The other thing about longer-term tenancies is important because finding a suitable, affordable replacement home very quickly and very often within rural communities is quite difficult. We often talk about this as an unscrupulous landlord, but longer-term tenancies that allow rural renters to know that they can stay in that small community longer-term takes that stress away from longer-term renters as well.

Toby Lloyd: I would also make a plea for the entirely laudable exception site regime, which has been vital in providing much-needed affordable housing in rural communities. Unfortunately, again, that is being fatally undermined by the starter homes policy. Exception sites are where a local landowner is persuaded to give up a piece of land for housing development that would not otherwise happen because it will be affordable housing in perpetuity for that community. If generally well-meaning local landowners, who can see the problem in their towns and villages and want to help, now see that these homes will just be snaffled up by first-time buyers and the
subsidy entirely creamed off and sold off, presumably to investors, in five years, that supply will dry up, too. We urgently need to preserve the ability to build genuinely affordable housing in rural places and to stop selling off the existing stock. We are about to lose a huge amount of our genuinely affordable homes from precisely those areas because those will count as high-value council homes and they will be sold off forcibly.

Q29 Lord Layard: I want to ask about empty homes, which are often raised as a cause of the shortage for people. If you look at the numbers, it looks as if this is exaggerated in the public discussion. I am finding that certainly fewer than one in 100 homes in London is vacant for over six months, but it can be an offence in particular cases. What do you think should be done about it and how big a problem is it?

Duncan Stott: I would suggest that it is not that big a problem. I would agree with your assessment, largely. You also need some empty homes in the system. If there are no empty homes then no one can move home. You need some gaps in the system so that housing chains can complete, so that needs to be borne in mind as well. There is an example of a council, Islington, which has been very keen to operate on this. It has found that about 3% to 5% of their new-builds are finding themselves significantly empty, particularly in the southern end of Islington where you are on the fringe of the City and you have people looking at this as an asset rather than as a home. It is a problem, but not a big one. Let us see what happens with innovative little schemes from local councils and if that helps let us do more of it.

Betsy Dillner: We certainly welcome Islington’s approach to this. The only time in which the empty house issue in London is a problem is in the luxury market. That comes back to the foreign buyers and people who buy in cash. If you can say to those buying speculatively to keep it empty that there are consequences to that, you might disincentivise somebody who is purely speculating and not using it as a home. If they are going to buy it and then rent it out then you are addressing the issue of people needing a home. It does stoke demand for that high luxury development if the only people that are going to be able to afford it are people who are purely doing it as a piggybank. It might address that.

The places in which empty homes are a bigger issue are up in the north. That is not a problem with the housing crisis; that is a problem of economic development. This goes way beyond the remit of Generation Rent, but if we can find a way of taking demand off the south-east by investing in proper economic development in the north, there are places in which we can put empty homes back into use and put families back in them. There are a lot of really fantastic community programmes where you get ex-offenders getting skills to renovate those homes and then being able to access them as a home. That is not an issue of it causing the housing crisis, but an innovative solution about how you take pressure off high demand areas and into places where empty homes are a problem.

Toby Lloyd: I would agree with that entirely.

The Chairman: I thank all three of you very much for a very helpful session. Thank you very much indeed for joining us.
16th December, 2015

Lord Hollick
House of Lords
Parliament Square
London
SW1A 0PW

Dear Lord Hollick,

Submission to the House of Lords Economic Affairs Committee inquiry into the housing market

By way of introduction, Grainger plc, a FTSE250 business with a market capitalisation of c.£1bn, is the UK’s largest listed residential property owner and manager. Including our co-investments, Grainger has over £3bn of residential assets under management.

Grainger is not a traditional housebuilder. Since we were established in 1912, we have been investing in residential assets and holding them for the long term.

More recently, we have been a leading vocal advocate for greater institutional investment in the Private Rented Sector, particularly through the concept of Build to Rent – purpose-built rental developments.

We believe there is a very strong case for greater professional investment in the rental market.

Population growth, demographic trends, and changing lifestyle preferences and spending patterns have for over a decade – before the recession – been driving growth in demand for the Private Rented Sector (PRS). This is not a second class choice of tenure but often the tenure of preference for people at one end of the scale starting out in their career and the other people downsizing in retirement.

We expect growth in the PRS to continue.

Grainger is therefore focused on investing in the PRS, and supporting growth and professionalization in the sector. In the past year we have invested almost £150m into the sector and we currently have a portfolio of over 3,600 rental homes, worth over £1bn.
The attraction of the PRS for investors is its stable risk-adjusted returns, which have consistently outperformed other real estate asset classes over many years.

A bigger and better PRS, backed by institutional, professional investors, will significantly improve standards for the consumer. These types of investors are incentivised to retain tenants, and are therefore much more likely to provide high standards in management and customer service, including longer term tenancies.

From a public policy perspective, a mature private rented sector would contribute to a stronger economy and healthy housing market. In particular, the PRS supports greater labour market flexibility.

Through developing new PRS assets (also known as Build to Rent), this emerging sector could be a real and significant net contributor to new housing supply.

By way of example, Grainger has a secured pipeline of new Build to Rent homes of approximately 600 units (consented and under construction), and an additional 1,000 new rental homes in advanced stages of planning. The majority of these will be developed over the next two to three years.

This year, Grainger delivered one of the country’s first purpose-built PRS buildings, Abbeville Apartments in Barking, East London. Abbeville Apartments has been designed specifically for renting and consists of 100 apartments and appealing communal features such as a residents’ lounge, fitness studio, communal garden and a loading bay for moving in and out and will be held for the long term. It took less than 8 weeks to lease the building up fully, which demonstrates the appetite for high quality purpose built stock.

The PRS can also be unlocked using public sector land and it can also support new affordable housing delivery.

Grainger was chosen by the Royal Borough of Kensington and Chelsea to develop seven sites owned by the council. Following completion of the developments, Grainger will manage the homes on behalf of the local authority through a 125-year agreement, producing a long term recurring income stream for the council for many years to come to support local services. Across the seven sites, we will deliver 119 PRS homes, 12 affordable homes and 31 homes for private sale.

Grainger is also the development partner to the Ministry of Defence’s Defence Infrastructure Organisation (DIO) where we are responsible for delivering 3,850 new homes at the former Army garrison site in Aldershot – known as Wellesley. To help deliver this project quicker than a traditional development, we are delivering PRS homes alongside homes for private sale, allowing us to significantly accelerate the supply of new homes to this local area. Overall, Wellesley will deliver: 1,349 affordable homes, 2,501 private homes of which we anticipate up to 300 could be specifically built for the PRS.

Grainger strongly encourages the Committee to support further growth in the Private Rented Sector through institutional investment and Build to Rent.
Growth in the PRS this way will deliver new housing supply and it will significantly raise standards in the rental market for the consumer.

Thank you for the opportunity to contribute to your inquiry and we would be pleased to provide further evidence if it would be beneficial to the Committee.

Yours sincerely,

Nick Jopling

Executive Director, Property

16 December 2015
Grainger Plc; Residential Landlords Association; British Property Federation (QQ 215-228) – Oral evidence (EHMOE0012)

Grainger Plc; Residential Landlords Association; British Property Federation (QQ 215-228) – Oral evidence (EHMOE0012)

Submission to be found under Residential Landlords Association; Grainger Plc; British Property Federation (QQ 215-228) – Oral evidence (EHMOE0012).
To whom it may concern.

I am not sure if this is exactly what you are looking for, as my account is purely anecdotal and based upon my own experience. Myself and my girlfriend have both worked since we were 16, both of us, full time, both savers. What we currently are experiencing is the price of housing being elevated quicker than our ability to save. This is primarily driven by a few factors.

The first factor, is the extremely low interest rates, which allows those who have over borrowed relative to income to service mortgages at extremely high income multiples, by profession I underwrite finance agreements and the current mortgage agreements are extremely high risk, using two peoples wages and incredibly high income multiples, leaving people at the mercy of losing their home when losing only one partners job and also allowing house prices to extend beyond the reach of first time buyers.

The second factor, buy to let finance, in which “investors” are able to leverage finance against rental incomes, on an interest only basis, again, allowing house prices to escalate based upon a slightly warped scenario of income multiples. As the investors primary concern is capital appreciation, this decision is often made without a concern to yield, any price will be paid, as the investor does not have to service the mortgage with their own income and this then takes a property away from a potential first time buyer who must then rent the same property, they would have otherwise owned at a sensible income multiple.

The third factor, schemes like help to buy, two people earning decent salaries, with a reasonably large deposit should not need help to buy in a functioning marketplace, if the property market were left to its own devices, like any other consumer market, prices would fall to the point where people can afford to buy. Allowing people to stretch their incomes, using taxpayer funding, to buy a heavily inflated property price, is a very unusual policy.

Myself and my girlfriend will soon need to move far away from where we currently work, just to have a hope of buying decent accommodation, there is also a burden on employers, who are having to pay more and more to satisfy their employees “cost of living“ which is currently incredibly subject to government intervention on the housing market.

The removal of mortgage interest relief on landlords, is a step in the right direction, the possible rise of interest rates by the bank of England, is yet another positive step, but the property market needs to be able to function like a market, with sensible income multiples. It is a sorry scenario where a house can earn more in a year, in supposed value (divorced from the reality of the wider market) than two people working full time and paying tax on their earned income.

Many thanks for taking the time to read this.

8 November 2015
Inquiry into the Economics of the UK Housing Market

1  Greater Manchester Combined Authority (GMCA)

1.1  Established in April 2011, the Greater Manchester Combined Authority was the first Combined Authority in the country and brings together the ten local authorities in Greater Manchester in order to integrate and streamline our joint work on economic development and transport, increasing the transparency and accountability of our joint decision making. The GMCA builds upon the achievements of our ten local authorities who have been working together since 1986 as AGMA, the Association of Greater Manchester Authorities, and works alongside the GM LEP to forge a comprehensive and truly collaborative partnership unique in England.

2  Introduction

2.1  Given the scope of the task the Committee have set themselves, we have not attempted a comprehensive response. We have focused on making points particularly relevant from the viewpoint of strategic authorities seeking to accelerate the delivery of new homes, and to ensure that all of our residents benefit from the economic growth we are seeking to generate across Greater Manchester as part of the Northern Powerhouse.

2.2  One fundamental point, which may appear obvious, but which seems to us to be consistently over-looked or underplayed in setting national policy, is that the UK housing market is in fact a spatially complex and diverse series of more or less connected markets. National policy needs to better reflect that reality. The devolution of greater powers and responsibilities below national level, the ability to co-design programmes with national government to ensure they work better in different locations, and the expectation that national policy-making should be informed and influenced by a better understanding of the impacts on different local, city region and regional housing markets are all vital if that is to be achieved.

2.3  We would suggest that policy would benefit both from greater clarity and also flexibility about what we are trying to achieve in our interventions in the housing market, nationally and sub-nationally. Are we focused on increasing supply, or home ownership, or ensuring housing is affordable to working households? Are we committed to maintaining property values even where they appear unsustainable compared to local income levels? Do we have ambitions to improve the quality of what we are building now, and can we maintain and improve the quality of what’s already been built? Should we invest more in new specialist and supported housing as a route to reduce demand for health and social care services for vulnerable households and release their existing unsuitable homes for others? If ‘all of the above’, how do we prioritise, and to what extent should policy allow and encourage those priorities to differ in different local housing markets?
3 Affordable and ‘reasonably priced’ housing

3.1 The Committee’s questions around lower cost home ownership raise a series of important issues. Recent Government announcements have seen a strategic shift of resources and policy attention toward home ownership. GMCA shares the ambition to maintain and increase the share of owner occupation in GM. Our growth ambitions are intended to increase the number of economically active households in GM, enabling more of our residents to achieve and sustain their aspirations to own their own homes. With 30,000 students graduating from GM’s universities every year, we need attractive housing options that they and others can afford to access as they enter the workforce.

3.2 In that context, Help to Buy would appear to have been successful in the GM market as a means of picking up build and sales rates for private developers, helping restore confidence, with the number of purchases supported now approaching 3,000. The 2014-15 annual figures show net build in GM up to 5,420, the highest level since 2008, albeit still well short of the 10,000 or so new homes we should be building every year. Recent announcements see substantial resources allocated to Starter Homes and shared ownership products, with funding for affordable rent products much reduced as a result. Extending the Right to Buy to housing association tenants, with replacements funded by the sale of remaining high value local authority housing, follows the same policy direction. While we await details of how these new programmes will work in practice, we can point to some broad issues which this shift in strategy raises:

- There appears to be little consideration given to the reality of household incomes, debt and the less certain nature of employment in the modern economy. The phrase used in the Committee’s call for evidence is ‘reasonably priced housing’ – that must surely include some connection to the real incomes of households in each part of the UK housing market and their ability to devote resources to meeting housing costs. This is the approach apparent from lenders following the Mortgage Market Review, and would appear a sensible response to the role the housing market played in the events of 2007-08. Government’s new focus on shared ownership products, and a more flexible approach to the design of those products, may be helpful here. But by offering discounts to individual households purchasing at or near full market value properties at the point of sale, we are focusing subsidy on relatively small numbers of people without really understanding the impact this will have on local markets, or whether those households are able to sustain home ownership over the longer term.

- Starter Homes offer a one-off injection of subsidy (in cash and/or surrender of foregone planning gain from s.106 agreements) to help a single household achieve owner occupation. If Government statements so far are to be believed, after five years that subsidy will not be recovered on sale of the home. Looked at overall, this approach seems to offer notably poor value for local and national taxpayers’ money. While it may help to encourage new build of additional Starter Homes, there is no long term benefit in the form of affordable homes in perpetuity. One outcome could be to further increase property prices as the discount becomes built-in to market assumptions about what first-time buyers can afford. Certainly, it seems likely that some households already well able to afford home ownership
Greater Manchester Combined Authority – Written evidence (EHM0135)

...will benefit from a subsidy they don’t need to boost them further up the price ladder, a curious counterpoint to policy on ‘Pay to Stay’ in social housing.

- In the case of housing association Right to Buy, Council-owned social housing will be sold to fund replacement units, which may themselves be less affordable than the units lost. Experience of the existing Right to Buy scheme suggests that substantial numbers of the properties sold are now in the hands of private landlords. The promised replacement housing association units may, if delivered, have a longer life as ‘affordable housing’, but we are in danger of expensively churning properties between tenures for at best limited overall gain.

- As more than a third of new homes in GM since 2008-09 have been affordable, there is a concern that reduced Government support and housing association rent income risk damaging momentum in supply of new homes overall.

3.3 In planning policy terms, Government is consulting on changes to NPPF which will shift the boundaries in terms of what is considered as ‘affordable’ housing, to include Starter Homes. With GM’s average household income around £25,000 per annum and average house prices around £160,000, it is hard to justify a property with a sale price of up to £250,000 receiving preferential planning treatment on the grounds of ‘affordability’. To put that in context, seven out of every eight property sales in GM last year were below £250,000.

4 Planning for housing delivery

4.1 Ministers from all parties have in recent years focused attention on the planning system as a means of delivering housing, with the five year supply mechanism now a firmly established policy tool. As undersupply at national level has intensified since 2008, further pressure has been applied, so that continued under-performance allows developers and landowners to secure additional permissions on the basis that existing supply is ineffective. In GM, our work on the GM Spatial Framework will allow us to consider the housing land requirements of the city region up to 2035. We are currently consulting on strategic options, and our evidence shows identified supply capacity of 152,784 dwellings on sites considered by the ten authorities to be developable, deliverable and broadly compliant with existing planning policies. As higher density development returns to some parts of GM, particularly around the regional centre, we might expect that number to increase even without further sites being identified. More immediately, there are 45,000 outstanding planning permissions in GM. This compares to a annual housing requirement of around 10,000 new home sales per annum.

4.2 Government intends to apply a new delivery test on local authorities, “to ensure delivery against the number of homes set out in Local Plans”. In a GM context, we question the value of further planning relaxation as a means of delivering additional housing. In our view, the key barriers to housing delivery in GM are rooted in our relatively low values, often high costs associated with brownfield development on former industrial sites, in some places the need for investment in enabling infrastructure, and frequently unrealistic landowner expectations of values, sometimes stemming from acquisition costs in the pre-2008 market. This can be seen as a further example of the
ineffectiveness of a single national policy approach to hugely diverse local and regional markets. The devolution of a GM Housing Investment Fund has been a much more effective intervention in our market, and we expect to have committed £150 million of investment from the Fund in the first nine months of operation. Importantly, this is a lever which incentivises accelerated delivery of the homes we are funding, not just unlocking sites but adding pace to their build-out. Further investment tools to help us tackle brownfield remediation would undoubtedly help unlock another tranche of sites.

5 Social housing

5.1 The call for evidence sought input on the impact of the changes to social housing rents announced in the 2015 Budget. Our calculations suggest that, over the four years covered by the announcement, housing providers working in GM will receive in the region of £345 million less in rental income than would have been expected under the previously agreed 10-year rent settlement. Registered housing providers have been crucial partners in maintaining delivery of new housing through the trough in the market since 2008, and we are in discussion with them to identify how that investment can continue under this new regime. The GM Housing Providers Group are also closely linked to our public service reform agenda, seeking to achieve better outcomes for service users by better, more integrated provision, leading to reduced demand as individuals and households connect back into the workplace.

5.2 For many vulnerable individuals and households access to high quality social housing appropriate to their needs is a crucial and necessary component of their package of support, and we await with interest the outcome of the legislative process around the potential exemptions for a wide range of supported housing provision from the rent reductions. While the intention to reduce rents and Housing Benefit bills is understood, there is the risk of achieving false economies if this jeopardises the viability of supported housing provision which often achieves huge savings for other public services, including health, police, probation and social work.

6 The private rented sector

6.1 We would also like to comment briefly on the importance of the private rented sector (PRS). As is the case nationally, the PRS has grown substantially in number in GM as a whole over the last 10-15 years. While perceptions may be that this is a phenomenon restricted to city centre apartments and student housing, the numbers and geographical spread around the city region make clear that this is no longer the case. The PRS across Greater Manchester is increasing in size and professionalism, driven by shifting demand and affordability, and by the availability of funds from large-scale investors who see GM as an attractive and growing market. That investment is now being translated into new build at scale of both apartment and low-rise homes.

6.2 The problems of poor quality and bad management found at the bottom end of the market are still there, however, and with declining local authority resources, the enforcement action and other interventions needed to tackle those issues need to be as focused and effective as possible. Again, there are differences between districts and neighbourhoods in the spread, nature and severity of these challenges. We know, for
example, that some BME communities are disproportionately dependent on the lower end of the PRS market and we must be aware of the broader consequences for community cohesion. A mix of approaches will be needed, varying according to local circumstances, but perhaps including:

- Effective communication to landlords, agents and tenants of their respective rights and responsibilities, to promote self-regulation and good practice
- Working with partners including the main landlord and letting agent professional bodies
- Social lettings schemes, offering a professional management and lettings service to private landlords while rehousing tenants from the Housing Register, an option many novice or time-poor landlords find attractive
- Focused and pro-active enforcement action on the worst properties, landlords, and agents where persistent poor management justifies the use of the extensive legal powers available to local authorities.

6.3 Interventions need to be designed with the changing nature of the sector in mind. As the scale and variety of private rented sector housing in GM and nationally increases, our approach needs to reflect that complexity, and to encourage the growing investment in new-build homes in the sector which will be an increasingly important part of our new housing supply.

17 December 2015
Greater Manchester Combined Authority; Birmingham City Council; Lord Best (QQ 123-140) – Oral evidence (EHMOE0008)

Greater Manchester Combined Authority; Birmingham City Council; Lord Best (QQ 123-140) – Oral evidence (EHMOE0008)

Submission to be found under Birmingham City Council; Lord Best; Greater Manchester Combined Authority (QQ 123-140) – Oral evidence (EHMOE0008).
Summary

We take issue with the view of many commentators that the affordability crisis in housing is caused by insufficient supply of housing for the number of households. Rather we think the issue is that housing in the UK has become the preferred long-term investment, both for UK residents and for investors from overseas. It is this demand for housing as an investment, rather than as a home, which has driven up prices and meant that segments of the population in some locations cannot afford housing that is secure and appropriate to their needs. Meanwhile, many have benefited from the increase in house prices, seeing their personal wealth vastly increase. This has contributed to the increase in inequality between different parts of the UK, between the generations, and between those whose families own property and those whose families do not.

The environmental impacts of house building mean that we should seek to make the best use of our existing stock. We should tackle the affordability crisis by seeking to stem the flow of money that is going into housing as an investment. That flow of money is driving up prices but doing little to improve quality, or environmental sustainability. Possible measures include:

1. **Regulation of the private rental sector** – to control rents, improve quality and give more security to tenants, and to make investment in ‘buy-to-let’ properties less attractive.

2. **Increase the relative attractiveness of alternative forms of investment** – in particular to encourage investment in the low carbon future we need if we are to avoid runaway climate change.

3. **Reform property and wealth taxes** – to, at a minimum, transform council tax into a tax on property, paid by the owner, as a percentage (set locally) of the value of the property.

4. **Reduce the attractiveness of London (and other key places like Oxford) to foreign investors** – by abolishing ‘non-dom’ status, ending the ability of the City of London to act as a tax haven, and by restricting the right of non-resident foreign nationals to buy residential property here.

5. **Control the amount of credit available for mortgages** – through regulation of the banking sector and/or reform of the way money is created.

More information on these measures can be found in our report, *Tackling our Housing Crisis: Why Building more Houses will not Solve the Problem*, which can be downloaded from [http://www.greenhousethinktank.org/page.php?pageid=recentpublications](http://www.greenhousethinktank.org/page.php?pageid=recentpublications)
1. Private Ownership

How can we increase the supply of reasonably priced private housing in the UK?

1.1 We agree that the supply of reasonably priced housing needs to be increased, but not the supply of housing. We take issue with the view of many commentators that the affordability crisis is caused by insufficient supply of housing for the number of households. Rather we think the issue is that housing in the UK has become the preferred long-term investment, both for UK residents and for investors from overseas, and it is this demand for housing as an investment, rather than as a home, which has driven up prices.

1.2 Between 2001 and 2011, a period when house prices rose significantly, it is estimated that the number of households grew by 158,000 per year on average. House-building kept up with that growth, the number of dwellings increasing by an average of 161,000 a year (Holmans, 2013, p.15). Not only have we been building new homes, but we have been adding to the ones we already have, with loft conversions, extensions etc. So now there are more rooms per person than ever before, with more than enough to allow everyone to have a spare bedroom (Dorling, 2014, p. 64-65 and 153-154). Thus, while there may be some suppression of the number of households (young people, for example, who cannot afford to live independently), the major issue is not the overall amount of housing relative to the number of households but its distribution. Some people are ‘house rich’, with far more space than they need, while others struggle to find a decent home that they can afford. The English Housing Survey for 2013-14 shows that it is overwhelmingly owner occupiers who are ‘house rich’, with over half of them under-occupying their home, defined as having two or more rooms above the bedroom standard, compared with just 15% of private renters and 10% of social renters.

1.3 What has driven up prices is not the numbers of households relative to the supply of housing, but the amount of money that people want and are able to put into buying housing. That rose substantially over the first decade of this century as a result of an increase in the attractiveness of investment in housing compared to alternative investments, and a growth in the availability of credit resulting from securitization of mortgage debt.

1.4 The deregulation of the private rental sector through the Housing Act in 1988, coupled with the introduction of buy-to-let mortgages in 1996, enabled the explosion of buy-to-let in the following decade. The amount of money that has flowed into buying rental properties has been fuelled by people’s declining faith in other more conventional forms of investment. For example, it took until February 2015 for the stock market to recover to its peak of the end of 1999, just before the dot.com bubble burst. People’s trust in pensions was shaken by the collapse of Equitable Life in 2000 and earlier scandals, such as Robert Maxwell’s theft of hundreds of millions of pounds from the Mirror Group pension funds. Since 2000 a stagnant stock market and low interest rates have reduced returns to pension funds, with the result that many are now in deficit and many final salary schemes have been withdrawn. Low annuity rates with money purchase schemes have meant that people are getting little for what they have saved. Low interest rates to savers mean that many people’s savings have failed to maintain their value in the face of inflation. All these
factors have resulted in the UK population regarding housing as their preferred secure, long-term investment.

1.5 But not only have the savings of the UK population been poured into housing: UK property, particularly in central London, has in recent years become attractive to rich investors from around the world. In 2013/14, foreign investment in London’s property market reached almost £30 billion, and it has been reported that foreign investors bought one in five homes in Westminster, Kensington and Chelsea, and the City of London (London Evening Standard, 2014). While this flood of money is highly concentrated, mostly flowing into prime central London, it has a ripple effect on neighbouring housing markets that contributes to wider price inflation.

1.6 A further reason why the money going into housing has grown is the willingness of the banks to lend for house buying. In the UK, 97% of the money in circulation is created by banks when they lend money. Between 1997 and 2007, 87% of that newly-created money went into mortgages and finance, with only 13% going to productive activities which are captured by GDP.\(^1\)\(^3\)\(^6\) Over the last 40 years banks have increased the amount of money in the economy by an average of 11.5% a year.\(^1\)\(^3\)\(^7\) In contrast average inflation over that period has been 5.9%\(^1\)\(^3\)\(^8\) and growth in GDP 2.5%\(^1\)\(^3\)\(^9\), giving an increase in the money supply of 3.1% per year over what is required.

1.7 In the 1980s banks starting packaging up mortgage debt in complex financial products: bond-like securities which were sold on to other banks, enabling the bank giving the mortgage to make further loans. This greatly expanded the credit the banks felt able to extend, increasing the size of loans and driving up house prices. This really took off in the early 2000s, with the funding of residential mortgages through such securities growing from £13 billion in 2000 to 257 billion in 2007 (Wainwright 2010 p.5). That this increase in mortgage lending has driven rising house prices is illustrated in Figure 1. This shows that mortgage lending went up much faster than population growth, which rose slower than the increase in housing stock. As house prices rose banks felt even more confident about making loans – if the borrower defaulted they could always repossess a property worth more than they had lent, fuelling the rise in prices still further - until, that is, the bubble burst with the credit crunch of 2007/8. The sharp falls in house prices that followed indicate that house prices are driven by the amount of money people can and want to invest in housing, rather than being a function of the number of households relative to the numbers of homes.


\(^{137}\) http://www.positivemoney.org/how-money-works/how-banks-create-money/


1.8 Since the credit crunch low interest rates have reduce the attractiveness of alternative investments and bolstered house prices.\(^{140}\) Quantitative easing has funnelled new money to investors in the bond market, and it is likely that much of that money has been invested in housing, no doubt helping to drive the sky-rocketing prices seen in London.

1.9 The current crisis of affordability, in which segments of the population cannot afford a decent home to live in, can only be solved by tackling this flow of money into housing as an investment. That flow of money is driving up prices but doing little to improve quality, or environmental sustainability. Possible measures to tackle it include:

1. **Regulation of the private rental sector** – to control rents, improve quality and give more security to tenants, and to make investment in ‘buy-to-let’ properties less attractive.

2. **Increase the relative attractiveness of alternative forms of investment** – in particular to encourage investment in the low carbon future we need if we are to avoid runaway climate change.

3. **Reform property and wealth taxes** – to, at a minimum, transform council tax into a tax on property, paid by the owner, as a percentage (set locally) of the value of the property.

4. **Reduce the attractiveness of London (and other key places like Oxford) to foreign investors** – by abolishing ‘non-dom’ status, ending the ability of the City of London to act as a tax haven, and by restricting the right of non-resident foreign nationals to buy residential property here.

\(^{140}\) McKinsey consider that by the end of 2012 house prices in the UK may have been 15% higher than they would otherwise have been without the ultra-low interest rates, because the lower the rates the lower the cost of borrowing. McKinsey Global Institute 2013, p.3.
5. **Control the amount of credit available for mortgages** – through regulation of the banking sector and/or reform of the way money is created.

1.10 More information on these measures can be found in our report, *Tackling our Housing Crisis: Why Building more Houses will not Solve the Problem*, which can be downloaded from [http://www.greenhousethinktank.org/page.php?pageid=recentpublications](http://www.greenhousethinktank.org/page.php?pageid=recentpublications)

1.11 Finally, house prices and affordability vary greatly across the country, and these disparities have been increasing. At one extreme is London, where average prices almost doubled in a decade and were close to £500,000 in 2013. At the other extreme are areas of the north-east, such as Middlesbrough and Hull, where the average price in 2013 was £140,000, having gone up in the previous decade by around 55% (National Housing Federation 2014, p.21). The news is full of how house prices are soaring, but this is because they are soaring in London. In Lancaster, for example, there has been a real-terms decrease in prices over the last five years.

1.12 Any measures to tackling housing affordability should bear these disparities into account. Too often, policies to tackle London problems have been rolled out across the country to places where they are totally inappropriate. Local authorities should have the freedom to address the housing issues in their area, using as wide a range of tools as possible. National government can help by moving public sector jobs out of London and the South of England, and by balancing public spending across all the regions of England away from the South East bias it has at the moment, and having a spatial plan for England, which currently lacks one, to direct economic growth to areas where house prices are low.

1a) **How effective have Government schemes such as Help to Buy been in improving the affordability of housing?**

1.13 ‘Help to Buy’ has enabled people to buy unaffordable homes. It has not made housing more affordable, but rather increased the flow of money going into housing, which is helping to maintain and push up prices.

1b) **Are there tax measures that could improve housing supply and affordability?**

1.14 Taxing property wealth would help to drive down prices. At present, the only tax on property is the council tax. This retains elements of the poll tax that preceded it, depending in part on who is living in a property, rather than just on the value of the property. It is very regressive: for example band G properties currently pay only 2.5 times the amount paid by band A properties, even though they are worth at least four times more. It urgently needs to be reformed so that:

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141 For a start, it could move military bases so that more personnel were stationed in the north of England: at present over half are based in the south-east and south-west.

142 The blog by Thomas Forth, [http://www.tomforth.co.uk/wenevertried/](http://www.tomforth.co.uk/wenevertried/), contains numerous examples of government bias in spending towards London and the South East.
Green House Think Tank – Written evidence (EHM0129)

- it is a property tax, paid by the owner of the property rather than the occupant, irrespective of who is in it (though local authorities should be able to surcharge empty property). Renters will then only be liable for their rent, on which they will be able to claim housing benefit if they need this;

- it is charged as a percentage of the value of the property, rather than the complex current system of the charge for other bands being calculated from the charge set for Band D properties. There is an argument for properties still to be in bands, to reduce the challenges made to valuations, with the charge being a percentage of the value at the middle of the band; but bands should not be so broad that going from one to the other makes a big difference to the amount paid. Re-valuation, or re-banding, needs to be carried out on a regular basis. This should not be difficult, given the information on sold prices now collected by the Land Registry and freely available on the internet.

1.15 These changes should reduce the amount that is charged on lower value properties, and increase it on higher value ones, so that those able to pay more make a fairer contribution to local government finances. A further reform would be to make the tax payable on the value of land, rather than on the buildings built on it. Such a land value tax would be applied to all land, not just residential property, replacing both the council tax and non-domestic rates.

1b) i What impact will the proposed changes to inheritance tax have on housing supply?

1.16 The changes to inheritance tax rewards those who have stayed in the family home, rather than downsizing before the cut off date of 8th July 2015. It goes against the need to encourage older people left under-occupying their family home to downsize and free up housing for the younger generation of families. The intended regulations to prevent the discouragement of downsizing are likely to be complex. Overall the change rewards those who have put their money into a house when what is needed is discourage people from seeing housing as an investment and encourage them to invest in the real economy, and in particular the transition to a zero-carbon economy.

1.17 Housing wealth is currently a key driver of inequality: for a young person today whether their parents, and perhaps particularly their grandparents own a house and where is a key determinant of whether they can afford their own home. Inheritance tax should be reformed so that it captures and redistributes more of this wealth. One option would be to apply it to those receiving an inheritance (or gifts during the donor’s lifetime) rather than to the estate of the deceased. The rate would then depend on the income and wealth of the recipient. Gifts from private trusts should be included, to make the tax less easy to avoid. Income from this tax could be used to set up a fund to give every person a lump sum, say at the age of 25. This could be used to fund a deposit for buying or renting a home, evening up the difference between those with families who can provide them with money for deposits and those without.

143 Jones makes this case for a banding system for land value tax: the cost of appeals against valuations for council tax is trivial, whereas for non-domestic rates, which do not use bands, the cost of appeals is considerable. Jones, 2008, p.30.

1 b) ii. Have the 2014 reforms to Stamp Duty had an impact? Should there be further reform to Stamp Duty?

1.18 We have no comments to make on the 2014 reforms, but suggest that consideration should be given to abolishing stamp duty and replacing it with removal of the capital gains tax exemption on sale of a main residence. Removing this exemption and abolishing stamp duty would shift the tax burden onto those who have gained from the property market rather than those struggling to get into it.

1 c) Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules

1.19 We are not familiar with the details of these changes, or their impacts.

1 d) Planning: Are any further changes to the planning system needed to increase the availability of low cost housing?

1.20 Housing problems are local and require local solutions: the right policy for central London will be completely inappropriate for Morecambe or for rural Shropshire. For example, in Camden, central London, there is a policy restricting the extent to which houses that have been split into flats can be turned back into single homes.\(^{145}\) In the West End of Morecambe the local authority has been trying for the past decade to get rid of one bedroom flats in former guest houses and to turn divided properties into single family homes.\(^{146}\) Local Authorities need to be given the freedom to introduce policies appropriate for their area, rather than nationally imposed policies, such recent exemptions from planning control of conversion of farm buildings or offices into housing.

1.21 However, what is lacking at the moment is any regional dimension. Rather, local assessments of housing needs based on unrealistic expectations of local economic growth are driving greenfield housing developments. This is likely to lead to an oversupply of housing in regions like the North West, similar to that seen in the late 1990s. Then there were localized areas of ‘low demand’ where houses that had previously fetched £40,000 were by the early 2000s being sold for £10,000 or less\(^{147}\). These falling prices triggered a spiral of neglect and then abandonment, because housing markets do not behave as markets are supposed to, with demand increasing as prices fall: property is an investment good, bought in the expectation that its value will rise in the future. If prices start falling in an area this does not increase demand, but curtails it. Prices can fall so low that houses become ‘consumption’ goods, perhaps bought by landlords for cash (mortgages could not be obtained on such low-price housing), and lived in by those who have no other options. Such property is not maintained, as the expenditure on maintenance will not be recouped by an increase in value, so the quality of the stock and the area generally declines, prices fall even further and properties are

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\(^{147}\) For a summary of the issues facing low demand areas see http://www.jrf.org.uk/sites/files/jrf/F739.pdf.
eventually abandoned. While low-demand areas were located predominantly in the big northern cities where populations were declining, they could be found as localized pockets in all parts of the UK.

1.22 In the north-west of England it became apparent that a likely cause of low demand areas was the over-supply of new housing on peripheral sites. At the Examination in Public into the draft Regional Planning Guidance in 2001, it became clear that in many local authorities more housing had been built or given planning permission than the 1996-based household projections suggested was needed (Acton et al 2001, Section 7). The abandonment of areas of housing perhaps helped to maintain prices in other areas, by effectively removing housing from the market, but at great social cost. Subsequently, the final Regional Planning Guidance for the north-west required local authorities to review existing housing allocations and to introduce restraint policies to reduce the level of building (Government Office for the North West, 2003). These policies restricted housebuilding to sites where development would bring regeneration or other benefits, or provide particular types of housing that were in short supply. These were very successful in restricting peripheral development and encouraging development of derelict sites.

2. Private Rented Accommodation

2.1 Regulation of the private rented sector is needed to give tenants a secure, decent and affordable home, but also to reduce the attractiveness of buying properties as an investment to rent out. This will reduce the amount of money flowing into the housing market, which is pushing up prices, and encourage investment in other things. Regulation should include controls over rents (though we do not have a view on the exact form they should take), stronger rights for tenants, improved energy efficiency standards, and longer, more secure tenancies. In Germany, tenants’ rights are enforced with the help of strong tenants’ associations, which provide legal aid to tenants. Such an organization is desperately needed in the UK.

2.2 Along with more regulation of the private rented sector should go more powers to local authorities to deal with empty properties. Otherwise landlords may leave properties empty. The process for Empty Dwelling Management Orders (EDMOs) needs to be made much easier, in particular by removing the requirement that the property is causing a nuisance, and reducing the time a property needs to have been empty from two years to 6 months – reversing the changes to EDMOs made in 2012. It also needs to be made easier to bring properties back into use using EDMOs even where the owners cannot be traced, as in some areas the inability to trace owners is a block to tackling empty property. EDMOs should not be seen just as a means of dealing with problem properties, but of ensuring that the housing stock is used as housing and not left vacant.

2.3 We do not think it is necessarily undesirable for people to rent rather than own their home. However, renting in the private rented sector in the UK is currently not a good long term option because of the insecurity of tenure, high cost and in some cases poor quality. These need to be fixed.

3. Are new measures needed to increase the supply of social housing?

3.1 Yes we do need more social housing: housing that is affordable relative to local wages, good quality, with secure tenancies. The ‘right to buy’ for council housing stock should be ended, as this has significantly reduced the stock of social housing. It should not be extended to housing association properties. The latter will be a disaster for everyone - except for the investors who will no doubt end up owning many of those homes, renting them out at much increased rents and receiving vast sums from the public purse in housing benefit payments.

3.2 The viability assessments used at present by developers to avoid contributing to affordable housing should be reviewed. They assume that the price of land is a given, whereas if local authorities kept strictly to the requirement that developers should build social housing this would be taken into account in the land valuation.

For further information please see our report, Tackling our Housing Crisis: Why Building more Houses will not Solve the Problem, by Anne Chapman, Tom Change and Maya de Souza available at: http://www.greenhousethinktank.org/page.php?pageid=recentpublications.

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17 December 2015
Lord Green of Deddington, Chairman, Migration Watch UK; Professor Robert Rowthorn (Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005)

Submission to be found under Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005).
THE CRITICAL POSITION OF THE PRIVATE RENTAL SECTOR
AND ITS RELATIONSHIP WITH THE OVERALL HOUSING MARKET
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This paper, in response to the call for evidence, focusses on the expansion of the Private Rental Sector (PRS) to a position of dominance but having had very little proper policy attention. These observations are intended to redress that omission and identify the economic and social dynamics of the private rental sector and its effects on the housing market in general. There is a substantial reference to the PRS in London (about 900,000 households) not least because of its size but also because of the high quality evidence base (Housing in London) that the Greater London Authority updates annually. However the trends apply to all of the UK.

We are seeing the return of the historical dominance of the private rental sector. In London it was 46% of households in 1961, down to 14% in 1991 but is now overtaking social housing on its way to the DCLG’s forecast of 36% of London households in the PRS sector by 2019. Other factors, as will be discussed, may well upset that forecast but nevertheless, THE CONTINUED PROVISION OF THE LARGEST SOURCE OF RENTAL PROPERTY IN LONDON, AND INCREASINGLY ELSEWHERE, IS WHOLLY DEPENDANT ON ITS VIABILITY AS VEHICLE FOR PRIVATE INVESTMENT.

At the top of government there are contradictory reactions to this reality. The Bank of England is again warning (FPC Dec. 2015) of the threat of interest rate rises to the viability of the buy-to-let sector and the consequent risks to financial stability from a rapid drop in property values. The Chancellor on the other hand is enacting policies with significant financial disincentives against holding or acquiring investment properties and therefore increasing the very risks against which the FPC is warning.

These confusing signals will be discussed later but in the meantime it is necessary to define the PRS:

1. The PRS continues to grow largely at the expense of owner occupation. Strong rental demand, and the lack of alternative returns in a low interest environment, encourage an acceptance by landlords of lower rental yields and therefore a preparedness to pay higher prices for property, funded by cheap available mortgage finance, far outbidding the borrowing limits of aspiring owner occupiers. This market disadvantage has become entrenched. The income for the 45% of the work force who fall into the ONS’s classification for low skilled employment is so low that home ownership for this group is totally unrealistic for the foreseeable future so they must rely on the PRS as their only form of tenure. The inevitable consequence of these changes in tenure is the continued transfer of wealth to the owners of capital, albeit principally individuals.

2. There is a symbiotic relationship between substantial population movements and the PRS. For London in past years about 50% of total annual inward migration of about 400,000 was UK internal migration but outward UK migration from London runs annually at about 250,000,
50,000 greater than inward. International immigration is about 50% greater than outward and therefore already the primary constituent of the 100,000 annual adult population increase, especially from Europe, and as immigrants overwhelmingly rent, they constitute the substantial demand in the PRS market. This process is displacing other forms of tenure, particularly owner occupation, rather than increasing supply and is also increasing the proportion of foreign born adults, now estimated to be over 70%, in PRS households. 58% of children born in London are to foreign born mothers. Therefore any policy which encourages disinvestment from the PRS will jeopardise the supply of rented housing for ALL tenants, BUT DISPROPORTIONALLY FOR IMMIGRANTS, bringing unknowable social tensions as social housing could not cope. Whilst the poorest would be most vulnerable many of those denied better quality accommodation would not be poor but be part of the young international London workforce and comparatively well paid. There would be significant disruption across the whole of the labour market.

3. The distinction between Housing Need Housing Demand.

Housing need is obviously recognisable in the form of those who literally have nowhere to live or who are in totally unacceptable temporary accommodation (bed and breakfast) but fortunately these are a tiny proportion of housing requirements. However, the excess of demand over supply for housing is usually measured by the number of 'concealed households' in the form of young adults, couples and mothers with children continuing to live with parents, young adults trapped in sharing and mature adults obliged to share and so on. The leading authority in this area is the Cambridge Centre for Housing and Planning Research. Its report 'Housing Need and Effective Demand' makes, inter alia, the following points:

   a. After many years of falling numbers there has been a strong rising trend in concealed households in the past decade, now reaching over 3M.
   b. The much publicised figure of 240,000 new houses required annually (e.g. the Lyons Report) may be an overestimate as there is not sufficient data to forecast the household formation rates of immigrants i.e a tendency of families to live with families and higher birth rates.
   c. However the CCHPR states 'we are in a new era of household projections with the near dominance by the migration assumption in the underlying population projections.'

4. Rent Levels

   a. Earnings determine rent levels. Rents have to be paid out of real money. The proportion of earnings that tenants have to devote to rent is inelastic in relation to their earnings. Rents do not 'explode' unless earnings explode. The recent increase in median rents results from the rise in rents from a lower level in formerly less favoured rental areas, in other words more rents are high rather than all rents are higher.

   b. Migrants, either internal or international, are overwhelmingly young and form multi-income shared households which can afford higher rent levels than family households on similar earning levels. In the past this has resulted in the displacement of families (and all other household configurations) from the PRS who have either left London or who have increased the demand for social housing in London. Caps on housing benefit do not allow families to compete with multi-income households for adequate accommodation appropriate for the increasing
number of children in PRS households (now in 40%) which would suggest significant levels of overcrowding. Migrants, as they form families, become similarly disadvantaged as the pressure from new migration continues, aggravated and complicated by the annual London population 'churn' of 700,000. Accuracy in establishing the composition of this churn, and which is occurring elsewhere, is rarely mentioned but very disruptive, may improve when exit controls come in next year but there are severe shortcomings in the system. (Keith Vaz—Select Committee).

c. An individual landlord's costs (e.g. whether he is mortgaged to the hilt or has none) have absolutely no effect on the market rent he can charge. The claim that the new stamp duty penalty will raise rents is nonsense. Firstly it is a penalty which affects only new purchases and therefore by definition a tiny proportion of the total 'unpenalised' supply, 'the standing stock', in the market. Secondly that market can either take a rent increase or it can't. The price of fish has as much relevance to rents as a stamp duty increase which in reality is more likely to be knocked off a private vendor's selling price but it will put a brake on new developments (and therefore supply) where buy-to-let purchasers are a significant proportion of demand. This would provide an opportunity for commercial entrants to the PRS but not in the present anti-PRS climate.

Rent levels are set by what is pretty much a 'perfect' and highly price sensitive market-- and it can bare repeating--constrained by the income limits of tenants and the proportion of their income they are prepared to devote to rent. The 'living wage' may raise those limits and accordingly rents may well rise. A consequent rise in rental yields will tend to pressure buy-to-let landlords, in competition with themselves, to offer more for properties, with an even greater disadvantage to prospective owner occupiers but that is a consequence and not the cause of a rise in rents.

The 'living wage' will increase the UK 'pull' factor and provide further demand for the PRS although conventional economics would suggest some jobs will be squeezed out. The OBR estimates (last week) an increase in employment of 1.1M by 2020 with 75% of those jobs taken by immigrants.

5. The interaction between Supply and Demand.

So many of the discussions on this crisis continue to concentrate on the make-up of supply but there is no similar concentration on demand.

a. The PSR supply is growing, both and in London and elsewhere, with 40% of current mortgage approvals plus cash buyers frequently with converted pension funds. The extent to which demand is met is determined by the extent of that supply which regulates the pace of migration, whether internal or international to London. The bright aspiring young whether from Glasgow or Warsaw do not want to live in sheds but the quantum of their potential numbers should be noted. 250,000 migrants to the UK represents a movement of only 1 in 2000 of EU citizens. Small changes in migration intentions are significant.

b. Therefore unless it is believed that all who want to come to London from around the world have already come then any additional accommodation release as the result of new housing will
tend to be absorbed by that latent demand and simply replicate existing population movements, particularly from Europe and whilst the UK employment is buoyant.

c. b. above does not mean that it is not desirable to increase social housing, not least to those on housing waiting lists, and there should be an aim to redress supply and demand imbalance but this aim will be fatally compromised if accommodation consequently released is then taken largely by additional migrant labour in low pay work joining an existing low pay scenario with no prospect of home ownership. The provision of new privately funded housing, some of which will go to the PRS, is also desirable, but again the released accommodation, as now, is likely to be taken by migrants whilst UK employment is buoyant.

Investment in additional housing at this time therefore is at risk of vicariously funding and supplying the housing demands of those moving to London or the UK, essentially a housing transfer cost from their place or country of origin. Accordingly significant suspicion should be placed on the proposition that increasing housing supply in the UK is the primary method of redressing the imbalance with demand if a substantial constituent of that demand is external and unquantifiable. Substantial progress, and indeed any hope of redressing the imbalance requires management of that external demand, a concept that many policy makers either do not recognise or are unwilling to acknowledge.

6. The Risks to and from the Private Rental Sector.

The inherent policy contradictions, mentioned at the start of this paper, between the Bank of England and the Chancellor in respect of the PRS must be resolved or explained.

Essential reading is the B of E Financial Stability Report Dec.2015, just published, outlining concerns over the buy-to-let market, (pages 29-31) particularly its sensitivity to rises in interest rates from a prevalence of interest only mortgages. It reports that buy-to-let continues to drive mortgage growth, it notes a structural shift to the PRS and that population dynamics, including migration, have played a role. It goes on warn that should the viability existing investments in the PRS sector come under pressure to the extent that landlords start selling there will be a threat to price stability in all parts of the market. Accordingly the FPC 'stands ready to take action to protect financial stability using its powers of Recommendation'. This is not that reassuring as Dominic O'Connell, the Business Editor of 'The Sunday Times' has written. The buy-to-let mortgage horse has already bolted.

The Chancellor, on the other hand, is acceding to political pressure by adding to the disincentives to investors remaining in the PRS by reducing allowable costs, and attempting to discourage entry to this market by increasing stamp duty. Sentiment is especially important in the PRS because most landlords are not professional, owning mostly just one property and many others owning only a few. To date rising capital values have compensated for the risks, which for recovering a property from bad tenants can easily reach £5000 in lost rent and legal costs as eviction can only be via court order.

Each house owned in the PRS is proportionally a large chunk of a family's assets. Once house prices stall and if popular criticism of landlords continues as well as financial disincentives or even the perceived risk of some form of rent control then reports of a few sales could quickly
develop into a rush to the door. Unlike the owner occupier market, the decision to delay selling in a falling market is more difficult for a private landlord who will already have had to obtain vacant possession depriving him of an income to pay his mortgage. Most landlords are acutely undercapitalised for the size of their asset and therefore forced sales would continue with the increasing risk of also bringing down the owner occupier market as that is the market into which private landlords would be dumping their assets.

CONCLUSIONS.  1. The Physical Challenges of Providing New Housing.

it is entirely understood that politicians have to gain votes before they can exercise the power to change events but in respect of the current housing crisis it would be dishonest to hold out a prospect that any policy has much chance of progress, in the sense of restoring an adequate new supply of housing to balance with demand together with a more equitable distribution of property ownership.

Many have referred to the UK’s history of absorbing substantial population movements but many fewer have noted how long and difficult was the process, particularly, as always, for the poor. It took generations for the UK to climb out of Dickensian housing poverty following mass internal and international migration. Further immigration at the end of that century encouraged substantial emigration. Since then building houses has not changed much. They still require land, bricks, wood, glass, labour and finance and similar constraints over the supply of these factors applies just as much today.

The UK population has grown by 4.5 million in the past 10 years. The proportion of future growth attributable to net immigration has grown to 68% (direct and indirect) according to the ONS November 2015 release but based on the assumption of 240,000 annual net migration for the next 5 years, thereafter reducing. Last year net migration exceeded 300,000 but is very important to warn of the dangers of drawing popular but statistically unsound conclusions from such statistics. It does not mean that 68% of new housing will be occupied by immigrants. What is does mean is that the demand from the increase in population due to immigration is spread across the existing housing stock (the marginal effects) but nevertheless it represents substantially increasing pressure on housing with that pressure being greatest where migration is greatest.

(a) As noted in 3. above the commonly held figure of 240,000 houses needed to be built annually is questioned by the CCHPR but to build anywhere near that figure is problematical. The private sector now builds about 115,000 pa with the benefit of cheap construction and mortgage finance in a steaming market. What more could reasonably be expected. For public housing extensive borrowing to increase the current 20,000 units pa appears unrealistic given the size of UK indebtedness.

(b) Even if 240,000 were built annually (or any number) conventional economics would suggest that additional housing supply would tend to result in concomitant increased immigration of the aspiring young from a Europe with very poor employment prospects thereby simply replicating existing housing occupation patterns and pressures.

(c) If immigration is to continue, and employers’ interests, both government and private, continue to to advocate the need for international labour to support the UK’s comparative
success there will be growing long term strains on benefits particularly for housing from the current preponderance (about 80%) of migrants who are low paid (MAC 2014) replicating the benefit support required by their matching UK cohort. (UCL Dustmann 2014) Long term earlier migrants have tended over time to follow past UK owner occupation rates but a trend now unlikely to be achieved for the majority of more recent migrants and just as unlikely for their matching UK cohort.

CONCLUSIONS 2. Policy Challenges for the Provision of Housing.

A. The policy contradictions towards the PRS between the B of E and the Chancellor are dangerous. The Governor is clearly aware of a risk of significant mortgage defaults in the PRS sector, the knock on effects to the whole market and the consequent strains on financial stability. Set against those fears the Chancellor’s policies of reducing the profitability of the PRS are extraordinarily risky. It is a pretty big straw in the wind that Fergus Wilson, one of the biggest PRS owners, and thus atypical, has sold his entire empire to foreign investors.

B. It is essential that government understands the critical position of the PRS and in particular just how many people depend on it for a home (in London about 900,000 households). To adequately and fairly underpin its vital social function it urgently needs a comprehensive structure to balance landlord and tenant interests.

1. The Chancellor should recognise the size and importance of the PRS and the risks posed by singling it out for the imposition of financial disincentives.

2. There should be a transition to the European structures of tenant protection and landlord tax incentives in recognition that THE CONTINUED SUPPLY OF RENTAL PROPERTY DEPENDS ON AN ADEQUATE COMPETITIVE LONG TERM FINANCIAL RETURN TO OWNERS. Without such a policy existing housing provision will be precarious and future direct and desirable commercial funding will be impossible.

3. Increased security of tenure is an essential reform but both tenants and landlords tend to be wary of the commitment of 3 year leases. Instead tenants should have the right to renew subject to the landlord's right to recover for sale or serious breaches of lease conditions.

4. Rent rises on such renewal should be capped. Landlords' acceptance of capping would be directly related to the level of tax incentives. New lettings return to market levels. It is instructive to read the CCHPR's evidence to the GLA on landlords' reaction to possible restrictions which indicates that this is already the approach of many landlords to existing tenants. Income continuity is paramount.

5. Landlords should be registered and their properties subject to inspection.

6. Right to buy should be discontinued. Right to but to let should be encouraged as a method of releasing LA tied up stock thus increasing rental supply and transferring to the private owner the massive capital and maintenance costs of old blocks via lease service charge provisions. The sale proceeds go to new housing in their entirety. (the writer submitted a paper on this topic to the GLA in 2014).
7. PRS supply cannot continue to rely on property capital appreciation to conceal the true financial costs of maintaining that supply for the long term.

B. In respect of capital appreciation, and to summarise Adair Turner’s recent book comments, the current banking model creates credit mostly spent on second-hand property provoking a self-fuelling upward spiral to unsustainable levels. Turner, like many, is not confident that UK banking could really cope with a substantial housing crash with a lot of black swans in the air. There has to be effective control on the cost and availability of mortgage finance. A move to long term fixed rate mortgage financing would help.

C. Ideally a substantial reduction in house prices should be engineered, which would require far more market interference, but it would allow housing return to economic stability. Unfortunately that reduction is far more likely to come from a crash with unknowable collateral damage. A crash does not increase supply (in fact the opposite) nor would it automatically open the market for owner occupiers as the ability to pay the lower prices would be compromised by diminished mortgage availability from an underwater banking system. As always the bottom fishers would be the owners of capital.

AS STATED AT THE START THE FOCUS OF THIS PAPER IS THE EXPANSION OF THE PRIVATE RENTAL SECTOR TO A POSITION OF DOMINANCE WITHOUT ANY LOGICAL POLICY ATTENTION. It must be recognised that owner occupation is in retreat. No end can be seen to the current imbalance between overall housing supply and demand. Increases in supply seem to be reaching their limits but the demand from population increase will continue to outstrip supply. The number and the frustrations, overcrowding and social disruption of ‘concealed households’ is growing. The disappearance of prospects for owner occupation for the young, even with substantial incomes, denies them housing stability and the ability to build an asset and credit base against future family security and ambitions. These are the inevitable consequences of population increase overwhelming supply and it is a very sad policy failure. But we are where we are and the position of the PRS as a major provider of housing therefore becomes even more critical even as it continues to transfer wealth to the owners of capital as we regress to the social immobility of a Downton Abbey society.

It is depressingly clear that this is an intractable housing crisis. It may not be possible to do much good but it is possible to do harm and this is where the Chancellor should look carefully at the current failure to put in place a long term financial structure for the PRS, balancing the interests of both landlord and tenant. Focussing on supporting a diminishing number of owner occupiers to compete for ever increasing prices fuelled by cheap credit is a dangerous displacement activity.

Martin Grubb
15 December 2015
The writer is a subscribing member of the Institute for Fiscal Studies, a former international property manager, a private landlord, formerly with a small portfolio of properties, now reduced, and with a wife and son of Caribbean origin.
COMMENTS ON EVIDENCE GIVEN 16TH DECEMBER 2015

I wonder if your would allow me to make these comments on the last day for the submission of evidence following your evidence session yesterday, in addition to the paper I submitted on 15.12.2015.

I am not certain that either Professor Danny Dorling or Professor Paul Cheshire were entirely convincing in their apparent downplaying of the role of immigration on the current crisis.

A reference to the fact that we are all living longer, over which no one is suggesting we have policy of control, and which is certainly contributing to population increase is not a reason for ignoring consideration of policies in other areas of population increase where policy changes are possible.

In any event the ONS forecasts of 68% future population growth as being the result of immigration and would appear to identify what is really the major driver of additional household formation and therefore a significant contribution to the present housing crisis. Taken with the wage depression to which the numbers of migrants contribute (as per the OBR and leading economists in parliamentary evidence last year to the TSC) there must be an acknowledgement of the dis-benefits of migration as well as its undoubted dynamic advantageous effects on the economy if a balanced view is to be reached.

With respect to your lordships may I suggest that when those who may come before you are reluctant to acknowledge the housing problems which immigration exacerbates (personally experienced by the black immigrant members of my own family) the appropriate question to ask should be on the lines of "Is it your contention that were it not for the immigration of recent years wage levels would be even lower and housing costs and shortages even greater, and if so why?" It might be illuminating to shift the locus of the burden of proof.

Martin Grubb

17 December 2015
Submission to “Economics of the Housing Market”

From: Professor Alan G. Hallsworth

Writing in a personal capacity.

1.1. These observations relate specifically to planning (topic 1b) as an influence on the housing problems of mid-to-lower income couples with, or hoping to start, a family. The inability of such young families to find suitable housing is, or should be, a concern to all. A newspaper article in November, 2015, suggested that a whole generation might be priced out of the ability even to have a family at all. Given that we encourage immigration because we have an ageing population profile this is clearly unacceptable. The line: we encourage immigration because our own citizens are too poor to have children is hardly a compelling one.

1.2. In recent years the housing problem has been exacerbated – largely due to the unintended consequences of past and ongoing policy decisions and practises but, I argue, planning has been dominantly beneficial and should not be subject to change that is likely to carry unintended consequences.

Planning: a “problem”?

2.1. A popular line with the investment fraternity – and one that is likely to be extensively promoted to the Committee - is to rip up planning laws and/or green belts.

I have experience of this from the retail planning sector on which I have a number of academic publications. After 2008 it became increasingly possible for rich, space-hungry, superstore retailers to “over-build” stores in the absence of demand: roughly the obverse of the present problem. Planning rules were routinely ignored if “new jobs” were promised (a promise never checked up on). Within a few years, “over-built” stores were routinely being closed. Had past planning rules not applied, the chaos would have been far worse: planning had, in fact, curbed the worst excesses of the market.

2.2. Imagine, next, that every golf course in Surrey – a huge land area - were donated free to the nation for house building (admittedly an unlikely prospect). This would still not make low-cost housing possible (inescapable infrastructure/ building cost / interest rate and income/ mortgage ratio factors would still apply). We would simply get the wrong type of housing in the wrong areas (and London’s green belts, too, would dominantly provide this outcome).

2.3. A more likely fate for the former Surrey golf courses would be the (not unprecedented) buying up of stocks of new-build mid-price housing by Buy to Let speculators in order to turn putative home owners into lifetime renters (and how will they pay the rent in retirement?). More commonly with the existing stock, several transient/migrant renters are placed in what were once ordinary family homes. Surely hostels would be a better use of space? Back with the Surrey golf course scenario the most likely “worst excesses of the market” outcome would be the creation of yet more mansion homes for those already possessed of other homes in this country and abroad.
The real issues are not planning related

3.1. Though apparently amenable to resolution by more building on Greenfield sites the real issue is inappropriate housing occupation (over-occupation and under-occupation). The result is that both young families and Buy to Let speculators chase scarce single-family properties – especially in London. However, a rise in interest rates may soon be catastrophic in the short-term for any young family currently over-borrowed (and not just in the London market – though it is the most extreme case). The cause: young families are not the only buyers seeking single-family housing whilst (akin to hospital bed-blocking) existing owners have few incentives to move on. At present, Buy to Let speculators are out-bidding young families – after all, they are Buy to Let not Build to Let. Indeed, a sudden mass exodus by such speculators would, ironically, make matters worse for the over-mortgaged young family by initiating a house price collapse. Many feel that a gradual rise in interest rates is long overdue to cure the housing bubble. The risk would be worse if that rise were rapid since – as in any Ponzi scheme – a sudden collapse in confidence would most hurt those who are most exposed: young, recent buyers who have desperately over-bid for scarce properties. Incidentally, for bubble-deniers, perusal of online house price websites soon reveals how quickly prices have risen even in unfashionable parts of London – and especially during the post-2008 downturn. Again, this is primarily driven by shortages of properties coming to market. Even existing London owners with tiny mortgages compared to the current market price of their home remain constrained by borrowing limits and Stamp Duty etc. The gap to a meaningfully bigger property remains too wide so many are staying put. Thus the few properties that do come to market are driven up in price by several desperate buyers.

Additional thoughts

4.1. Under-occupation

Substantial increases in the cost of buying and owning very high-end properties (especially several of them) might help. In particular, the taxes on properties not permanently occupied by the owner-occupier should be massively increased. Problems in the West Country arise because essential housing is snapped up for holiday homes by those already possessed of one or more homes. Costs of owning additional homes should be massively increased.

4.2. What we need to do is get the right sorts of people into the right sort of housing. It should surely be possible to incentivise elderly under-occupiers to move out by selling to young families (who could face penalties for speculative re-selling in a space of, say, 5 years) and move into sheltered accommodation. It would also help to have a general policy agenda to tax overseas-based activities/transactions whenever and wherever they occur in this country (for house buying as much as online trading). This is superior to taxing profits since we know that these can easily be under-stated.

5.1. Rent controls.

An obvious way of pulling down basic rentals to affordable levels. However, one suspects there is little political will and little capacity either to enforce this or to monitor abuses.

6.1 Universities
Uncontrolled expansion alongside a propensity to study away from home has pressured many housing markets near metropolitan Universities. It is doubtful if this was ever fully thought through. Incentives to study from home for all or part of a degree programme might ease housing pressures.

1. Private Ownership:

a. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing?

The right to acquire (right to buy) scheme intensifies the deficiency of low cost housing and to replace these, especially in London outweigh the income from such sales significantly. The cost to replace will be at least triple the income and the rent value would have to reflect this, preventing them from being affordable. The replacement of lost housing units is very costly - it can cost 4 or 5 times the original price of each unit which needs to be replaced. 3. a. below.

3. Social housing: Are any measures needed to increase the supply of social housing?

a. What will be the impact of the Right to Buy for housing association tenants?

The impact of the Right to Buy for housing associations is vast as the costs of replacing units purchased under the scheme are exorbitant. It would make more sense if the ‘right to move’ was strengthened to allow a discount over a wider remit, freeing up social housing. Encouraging down scaling for under occupied homes. Freeing up rather than selling off. It would be practical, reducing the need of replacement social housing stock.

For Fully Mutual housing co-operatives, the Right to Buy scheme is not an option, as they are, as members already collectively own the properties. All members are the tenants.

b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget?

Housing co-operatives intentionally set their rents as low as possible, maintaining our properties, keeping them in good repair and receive no on-going subsidy. A by-product of this means that members in receipt of Housing Benefit also pay a low rent, reducing government costs. Housing Co-Operatives are only able to offer low rents because they are actively carrying out work (maintenance, managing rents, rent arrears, legal and sensitive issues) this is voluntary, members do this for no reward. They run their business through a series of committees, Housing co-ops are communities, some of which are longstanding (over 30 years). New members sign up to community participation and responsibility. Vulnerable members are supported by neighbours.

They have long term budgets (Hatchrow housing Co-Op have a 25-year plan) therefore the rent decrease of 1% repeatedly over 34 years gives a gross loss of 12% on the income. This results in budgets failing, Co-Ops failing. Our responsibility as landlords are being jeopardised. It will diminish the ability to save for our long term cyclical repairs, major works i.e replacing roofs. It will effect emergency repairs. The quality of the homes and standards the members work for to maintain.

17 December 2015
Charlotte Hawke – Written evidence (EHM0020)

Living in Bristol, I have had many experiences renting properties from private landlords and agencies. I’d like to comment on specific issues arising from these, and in turn how this is excluding me from buying my own property.

I currently live in the Bishopston area of Bristol and rent a two-bedroom property with my partner for £1000 per month (not including any bills). In eight years of renting, property prices have increased continuously, prices often being put up every time a contract is renewed. My partner and I are watching the rental house prices increase in other parts of the city and are anxious that the next time our contract is renewed the agency will advise our landlady that she can be charging more for her property, and so our rent will be increased. We will struggle to pay any more.

This is a situation many are going through, often accepting the extra costs due to no other properties being available (a general lack of properties in Bristol) or finding the money to move-the upfront costs of moving house deposits, agency fees are crippling and completely unmanageable without borrowing from family, friends or credit cards. We need more housing, caps on rents so people can afford to pay rent as well as general living costs, and proper checks on landlords so that they perform work that needs doing on properties. I would also like to see more checks on agencies and caps on the huge fees they are charging, especially to perform tasks such as printing and signing a new contract (every six to twelve months this costs us £100).

As a renter it feels I have no option or power in this situation. I also have no hope of saving for a deposit to buy a house, as all my money is taken up on renting. I would suggest this is why there is a current trend of a decline in home ownership.

Last year I trained to be a teacher and now work in two colleges in the South West as a Part Time Lecturer, which is similar to being a casual hours employee. Because of this I need to have a guarantor for renting and I am excluded from applying for most mortgages. I am working hard to try to get on a more fixed contract- but it does cross my mind that with so many of the country on variable or casual hours contracts, there is no flexibility in the system for these people to buy their own property. I also have no hope of being able to buy a property in the area I grew up in, and so to stay close to family, due to a lack of housing increasing demand and enabling house prices to soar. Many people keep saying that’s just the way it is, you’ll have to buy outside the city or on the outskirts, but I fundamentally believe I should be able to afford a property in the area I have always lived, community I have been a part of, and stay nearby to help out family when they need me. The impact of soaring property prices is not only financial, but social too.

In summary, yes we need more houses for rent, with caps on rent and proper checks on landlords and agencies. We also need more affordable housing to buy, again with caps or extra help to buy in specific areas or if you are stuck on a casual hours contract.

21 November 2015
1. Introduction

I welcome the Committee’s timely inquiry. There are many important areas which the Committee are covering, so I will focus on just one – the direct role of government in building the homes needed to fix the cost of housing crisis in our country.

First, because there can be no proper explanation or set of solutions for the housing crisis without a recognition of the changing role of local and national government. Second, because government policy is the area that we as politicians are immediately responsible for and so should be most attentive to. Third, because it is in area where I am able to draw upon my own personal experience, as Minister in the Treasury from 2002-7, Local Government Minister from 2007-9 and then as Housing Minister in 2009-10.

This is one area of housing policy that Labour is now looking at closely, alongside our work across the breadth of housing challenges including the decline in home-ownership which is the focus of the independent Redfern Review. ¹⁵⁰

2. Context

At the Conservative Party conference in 1950, during a housing policy debate, the delegates were clamouring for a concrete house-building target for their Party’s manifesto. They started to chant: ‘three hundred thousand’. Lord Woolton, the Conservative Party Chairman, consulted the head of the Conservative Research Department David Clarke off-stage - could it be done? Clarke said it could. So Woolton promptly announced the target to the conference. ¹⁵¹

What made possible David Clarke’s answer then, when his contemporary today would almost certainly say ‘no’? The answer, in large part, is public housebuilding.

In the long period of Conservative government from the autumn of 1951 to the autumn of 1964, ¹⁵²

¹⁵⁰ [www.redfernreview.org](http://www.redfernreview.org)

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Rt Hon John Healey MP, Shadow Secretary of State for Housing and Planning – Written evidence (EHM0158)

only in the first full calendar year did England build less than 200,000 homes; the average over the period was over 250,000, and in 1964 317,540 homes were completed.\(^{152}\)

The secret? Local authorities built more than three quarters of all homes during this time. Housing associations added still more. In the subsequent decade and half until the late 1970s when average annual completions numbered in excess of 280,000, private house builders contributed a greater share to total output, but local authorities and housing associations still provided almost half of all homes built.

By contrast, it is only after government backing for public housebuilding dwindled that our ability to build the homes at the scale required faded. Since the end of the mass council housebuilding in the late 1970s, there has only been one year in which we’ve built more than 200,000 homes – 1988 at the height of the unsustainable ‘Lawson boom’. And now, with council and housing associations only building some 25,000 units a year over the last five years, we are building only around half the total number of new homes that independent experts say we need.\(^{153}\) Indeed, the House of Commons Library has confirmed that over the last Parliament (2010-2015) the lowest number of homes was built under any Government since Lloyd George.\(^{154}\)

3. The present

The history of broad political support for public housebuilding is worth bearing in mind when we consider the current political context and in particular the Housing and Planning Bill – set to be the major piece of housing legislation in this Parliament, and which is currently being scrutinised in the Lords.

The Housing Bill pushes a profoundly anti-public housing agenda on at least three fronts.

The first is an extraordinary forced sale of council homes in Chapter 2 of Part 4 of the Bill. Margaret Thatcher introduced the right-to-buy to sell people the homes they live in. This sells council homes not to tenants, but to the highest bidder, including buy-to-let landlords and speculative overseas investors.

Councils that still have council housing, will simply be invoiced by George Osborne with an annual levy based on the value of the homes in their areas. So the worse the local housing

\(^{152}\) All figures refer to completions in England only and are from Department for Communities and Local Government table 244 - house building: permanent dwellings started and completed, by tenure.

\(^{153}\) Interestingly the present government itself, in the explanatory notes to the Housing and Planning Bill, refer to an estimate that between 200,000 and 300,000 homes are needed per year.

\(^{154}\) House of Commons Library research for John Healey MP, drawing on A.E. Holmans, ‘Historical Statistics of Housing in Britain’ and DCLG data.
affordability problem, the higher cost of their housing stock and the more they have to pay.

This measure pays for the second front - the much-trailed extension of the right-to-buy to housing association tenants. All the way through the passage of the Bill in the Commons the government have rejected even the most basic safeguards to make sure that any homes sold are properly replaced, like-for-like and in the local area.

The third front is perhaps the least recognised but could do the most damage. Private developers currently incur an obligation to build affordable homes to rent and buy in exchange for planning permission for their developments. This ‘section 106’ source of private funding built more than half of all affordable homes for rent and purchase over the last decade – almost 250,000.

Part 1 of the Bill diverts this private investment almost exclusively into new ‘starter homes’: houses for sale at up to £450,000 and out of reach for those on average incomes in most parts of the country.

All told, the housing charity Shelter predict that the Bill will mean the loss of 180,000 affordable homes to rent and buy over the next five years.\(^{155}\) The Chartered Institute of Housing predict that 195,000 homes for social rent could be lost over five years.\(^{156}\)

More profound still is the Chancellor’s decision in the Autumn Statement to stop all new grant funding for affordable rented homes from 2016/17, breaking a cross-party consensus stretching back to the ‘Addison Act’ of 1919.

So on all fronts, and notwithstanding some of the positive cross-party changes that were made in the last Parliament on localising HRA-based council housing finance, the government’s current programme is entirely hostile to public housing.

4. The case for public housing

So by way of constructive argument, here are my five pressing and positive reasons why I think they – and other governments who have run down the contribution of public housing – are wrong, and we why should instead be building many more public homes.


\(^{156}\) Private analysis for John Healey MP.
Rt Hon John Healey MP, Shadow Secretary of State for Housing and Planning – Written evidence (EHM0158)

First, numbers. There’s now a broad-based consensus that we must build somewhere in the region of 250,000 new homes a year in England.

But absent from this debate is an honest admission that there’s no chance of doing this through the private market alone, as I have outlined above. Public housing used to make up a large part of the new overall housing supply each year. If we are to build the houses our country needs, then it must do so again.

Second, affordability. For millions of households who find it hard to meet their rent or mortgage at the end of the month, who are living with friends or relatives because they can’t get a place of their own, or even who need help because they are at risk of homelessness, there is a housing costs crisis.

We know that just building more homes only feeds through into affordability weakly and slowly.157 So the type of homes built matters, not just the quantity, and that means building more public sub-market homes if we are to bring down housing costs in the short to medium term.

Third, work incentives. Housing costs are a critical factor in making work pay. The steep taper on housing benefit withdrawal is a disincentive to earn more, and higher private sector rents mean that disincentive lasts for longer.

It follows that lower rents in sub-market public homes can make it more worthwhile for people to improve their situation. My previous analysis has suggested that a two parent, one child family with both parents working part-time at the national minimum wage, and where one is offered full-time hours, would be £1,300 a year better off as social renters rather than private renters.

Fourth to boost jobs and the economy. With the British and world economy slowing, and interest rates still at near-historic lows, the opportunity for prudent public investment is overwhelming. Public spending can smooth the investment cycle and helps maintain output in a downturn. There are also positive externalities. According to government estimates, every £1m of building investment supports 12 year-long jobs.158

Fifth, investment in public housing can pay for itself. As I showed last year in a report for the Smith Institute, conducted with the support of PricewaterhouseCoopers, we could be building

157 There is evidence for this in, for example, the Barker Review of Housing Supply http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/barker_review_report_494.pdf
Rt Hon John Healey MP, Shadow Secretary of State for Housing and Planning – Written evidence (EHM0158)

up to 100,000 council and housing association homes a year by the end of this Parliament with modest upfront investment at a comparable level to when I was Housing Minister in 2009 and recycling housing benefit savings into building. That investment pays for itself in 26 years and then provides a profit to the Exchequer after that.\textsuperscript{159} Continuing to build at this scale beyond the present 5-year Parliament would multiply these savings.

5. Conclusion: my own experience

Talk of government playing a much greater direct role in commissioning and building the homes we need can seem unfashionable when the role of the active state and value of long-term investment seems to have slipped down the public policy agenda.

However my own experience in government is that there can be a considerable role for government, though it is clear in hindsight that the Labour came to recognise this only in the latter part of our time in office.

During my time as the last Housing Minister in 13 years of Labour government, we:

- undertook the largest investment programme in affordable homes to rent and buy in a generation, through the Homes and Communities Agency – some £9.3bn over the three-year Spending Review (2008-10) in today’s prices – which for comparison is about twice the average annual investment pledged by George Osborne for the period announced in the recent spending review (2016/17 onwards);

- added to this with £1.5bn of direct stimulus spending over two years largely switched from other departmental budgets to counteract the effects of the global downturn and recession;

- got local authorities - Conservative, Labour and Lib Dem - building again through the local authority new build programme;

- established the mortgage rescue scheme and homeowners support to keep homeowners in their homes.

All told, the affordable build programme provided almost 120,000 homes to rent and buy over 2009/10 and 2010/11, 60% of which were homes for social rent.\textsuperscript{160} The steps to help homeowners meant that the number of people having their homes repossessed was over a third fewer than the level of the peak of the early 1990s recession, despite the 2008 crash being more severe.


\textsuperscript{160} CLG Live Table 1000.
I would argue this adds up to a serious intent from government, at a time of economic crisis, to play a big part in meeting the country’s housing needs. Despite the special circumstances of that time, just as we saw after the Second World War, the policy tools sharpened in an emergency can be put to use in peacetime too.

However, to end as I began, the best housing or economic policy is balanced, long-term and capable of commanding wide support and cross-party backing – Bank of England independence, national infrastructure planning system or localisation of the HRA (housing revenue account). So with the case for public housing which cannot be just Labour or Conservative but a prospectus that both parties should seek to claim. For Britain has never really succeeded on housing unless Ministers have grasped the truth that government has to do a good part of the heavy lifting.

2 March 2016
The Chairman: Thank you very much for joining us for the second part of our session on as part of our housing inquiry. Perhaps I could ask you to introduce yourselves very briefly, giving your role.

Gwyneth Nurse: I am Gwyneth Nurse and I am director of financial services at the Treasury.

Mike Williams: I am Mike Williams. I am the director of business and international tax at the Treasury.

Stephen Farrington: I am Stephen Farrington. I am deputy director of the economics group at the Treasury.

The Chairman: We try to keep the sessions fairly tight, so you do not each need to answer every question.

One of the graphs that have come out is that there is a growing division in the housing market between those who are younger and those who are older. I guess it has always been the case, although it is getting more extreme, that younger households are debt-laden and older households are asset-rich in terms of housing. Looking at one of the other graphs, the number of households of owner occupiers that are mortgage-free now exceeds the numbers of households that have mortgages, which is the first time the figures have recorded that.

Lord Lamont of Lerwick: I think it is a very good thing.

The Chairman: I am not saying one way or the other, Lord Lamont—you are very welcome to come in. Does the Treasury have a view on this? Does it think it is a good thing or a bad thing? Should this policy be pursued? I ask this as a home owner myself.
Stephen Farrington: As you say, over the last 20 years we have seen an increase in real house prices of a factor of about two and a half times, which has basically generated a large capital gain for people who bought their houses 20 years ago and has created this divergence in wealth and income levels between younger and older cohorts. Interestingly, though, not all of that has been driven by constrained supply, which you touched on in your earlier session with DCLG colleagues. At least part of that has been an unexpected increase in housing demand, given the slightly unexpected increase in the rate of household formation over the last 20 years. There have also been more global factors and UK macro factors over that period, such as the sustainable fall in rental yields, from levels of around 4% in the 1980s down to about 0% now. The current level is clearly cyclical, but part of that decline is also structural. At least part of the appreciation of house and asset prices in the UK is being driven by a lower real risk-free rate. That is what has generated the outcome. Housing supply was never going to be the only part of the explanation of how to get around that if it is only one part of the explanation of what has driven the increase. That is why the Government have targeted their policies in particular on first-time buyers. Those individuals are, as you say, having to take on higher levels of debt, but they are also taking on a more valuable asset. So we have targeted our support via the Help to Buy policies to make it easier for first-time buyers to get on to the housing ladder. The evidence is that that seems to be working. We have seen increases in the numbers of first-time buyers over the last few years, and falls in the number of first-time buyers who need support to make those purchases.

The Chairman: So this is something that the Treasury is positively trying to rebalance, if you like.

Stephen Farrington: It is a complex mix of factors that have generated this outcome. We targeted our support on particular issues where we think there are areas of concern. That includes access for first-time buyers to get on to the housing ladder, so that is where we concentrate our resources.

Q70 Lord Lamont of Lerwick: I am going to skip the next few questions, if I may—I thought they were contiguous—and will go on to the buy to let market. I was slightly surprised at the Chancellor implying in, I think, his Budget speech—he certainly implied it at one time—that first-time buyers were being crowded out by buy to let landlords. He seemed to take a rather fixed view of the supply of rented accommodation. If he took that view, I do not know why he would not also be equally concerned about overseas buyers of London property. I am not suggesting that he should be, but the logic seems the same in both cases. Are the changes in taxation an attempt to address this problem as he perceives it?

Mike Williams: Do you mean the increased stamp duty land tax rate where you have a buy-to-let property?

Lord Lamont of Lerwick: Yes, and the higher-rate reduction.

Mike Williams: They reflect the concern that first-time buyers should not be crowded out of the market by people who may well already own a home and who may partly, as a consequence of that, find it easier to raise funds to buy to let, so yes.

Lord Lamont of Lerwick: But why not apply the same logic—I am not suggesting that you should—to Chinese buyers of flats across the river? Why take this view that there is a fixed supply?
Mike Williams: If you have a Chinese buyer who buying to let, they, too, will face—

Lord Lamont of Lerwick: They just buy to keep vacant.

Mike Williams: I wonder to what extend Chinese buyers are doing that. I am not sure that there is a lot of evidence for that. In general, they will be buying for investment, which was often implied buying to let on the basis that they will generate more income by doing that. They, too, will pay the stamp duty supplement in consequence, so it addresses a concern about foreign buyers as well as the concern that first-time buyers are being crowded out by British people.

Lord Lamont of Lerwick: I am just concerned that these changes might actually cut off a supply of rented accommodation. On the one hand, the Government are trying to encourage institutional investment, but the tremendous increase in buy to let has had beneficial consequences, and I am concerned that the changes that have been made will stop this supply of extra rented accommodation. On top of the tax changes, I think I am right in saying that the FCA has also brought into line buy-to-let mortgages with the affordability criteria applied to other mortgages.

Gwyneth Nurse: In fact, buy to let is not regulated in the main by the FCA; it remains outside conduct regulation. You may be referring to the mortgage credit directive, where we brought in a small portion of buy-to-let lending which we deemed to be to consumers. But overall it is quite a small element of the mortgage market, so at the moment it remains outside.

Mike Williams: I go back to your earlier point, Lord Lamont, about the housing stock. We need to look on the one hand at the future supply of stock. If we look at the stock that in reality is going to be largely what there is at any point, there is a concern, which the Chancellor expressed, about first-time buyers being crowded out. Given that there is a finite stock—

Lord Lamont of Lerwick: There is not a finite stock.

Mike Williams: There is a finite stock of existing properties.

Lord Lamont of Lerwick: But a lot of buy to let goes into new property.

Mike Williams: The supply of new build, the conversion of existing property or the renovation of existing property is a second objective, which the Government are concerned about. That is why we are consulting on whether the stamp duty land tax supplement should apply in circumstances where someone is buying a significant number of properties: in a sense, the equivalent of the core tenant in a shopping centre without which the shopping centre might not be constructed. There may be circumstances, and we want to address this through the consultation, where in reality—this goes back to Isobel Stephen’s point—people build only when they can sell; a developer may start a development only if they are sure that some landlord will buy, say, 20 of the properties over time. We are concerned about that, and we are concerned not to constrain the supply of additional properties.

Q71 Lord Sharkey: I would like to ask a non-contiguous version of question 3. Some witnesses have suggested to us that the reforms to the mortgage market have made lending too restrictive. Part of that restriction is under the control of FPC when it comes to major-value asset sales and so on. It seems to me that there are two questions here. First, are we satisfied that the reforms are doing what the Government intended, or are they in fact restrictive? The
other question is whether, because the Bank, via the FPC, has effective control over some of the key aspects of the mortgage market, it is possible that the Government’s intentions in terms of supply are thwarted by the actions of the FPC or the Bank.

Stephen Farrington: The Governor has been pretty clear in the evidence he gave in his financial stability report that he sees no conflict between the Government’s measures on Help to Buy generating demand in the housing market and the FPC’s efforts essentially to curtail the right-hand side of the distribution of risks to reduce the number of high LTV, high LTI mortgages. The Bank is required to give an annual assessment, and it has been pretty clear that the Help to Buy mortgage guarantee scheme, for instance, has not posed any challenges to the operation of the FPC’s policies.

Lord Sharkey: But is it not clear that changing the loan-to-value ratio has an effect on the total number of houses likely to be built?

Stephen Farrington: The link is not straightforward. We have seen quite large changes in loan-to-value ratios over the past 30 or 40 years that do not correlate particularly well with developments in housing supply and build ratios, for instance.

Lord Sharkey: I still find it difficult to work out quite whether the Government, the Treasury, have given the Bank so much independence in this area that there is an effective outside restraint on the Government’s ability to deliver the number of houses that they want to be delivered.

Stephen Farrington: I do not think so. The actions which the FPC is required to take are designed to curtail the potential risks of returning to the asset price bubbles that we saw pre-crisis by restricting riskiness in loans and falls in underwriting standards. I do not necessarily see a conflict between their maintaining those underwriting standards and government actions to supply houses.

Lord Lamont of Lerwick: But surely this is a double whammy. First, you get the tax changes, then you get these changes via the Bank, wiping out the buy-to-let sector just like that.

Stephen Farrington: It is not at all clear that the Bank’s actions have at all wiped out the buy-to-let sector.

Lord Lamont of Lerwick: You just need to read newspapers to see that people are being advised not to invest in buy to let.

Stephen Farrington: Buy-to-let houses could represent 18% of new lending and 15% of the stock.

Lord Lamont of Lerwick: For how much longer, I wonder.

Stephen Farrington: They have been increasing their share of the stock over the past few years while the FPC has been undertaking its actions.

The Chairman: Lord Griffiths, we seem to have moved to pick and mix on the questions.
Q72 Lord Griffiths of Fforestfach: I am afraid that the comment on platitudinous questions has totally thrown me, so I will ask something quite different. If you look back at financial and monetary policy over the past 50 years or so, the housing market has proved to be a key area of instability. It seems to me that under housing policy at present, from the Government’s point of view, there are so many schemes that are attempting to change structure, to increase supply, to help people to buy and sell on. At the same time, the Bank of England has gone in for quantitative easing, and we have very low interest rates indeed, which obviously will raise asset prices. The FPC’s action in relation to buy to let and so on was meant to reduce demand in order to ensure that the housing sector was not the place where you would generate potential instability. As Treasury officials, as you look at the picture as a whole—given that you are not responsible for monetary policy but you have to take it into account with fiscal policy—to what extent do you think at present we could see potential instability arising?

Stephen Farrington: I do not necessarily agree that there is a particular conflict between the Bank’s objectives on monetary policy and financial stability and the operation of quantitative easing and lower interest rates, which will have provided support to asset prices. We have seen that the FPC is operating on a different horizon. It is essentially attempting to pre-empt and snuff out increases in the credit cycle, which operate on a longer time horizon than the more normal cyclical effects that monetary policy is targeting, and we have seen that its actions have been relatively successful. In June 2014, for instance, house prices were rising by about 14% a year. The FPC made some recommendations, which have at least partly explained why house-price growth has moderated from that point down to 7% growth currently and to levels that feel—

The Chairman: Sorry, Mr Farrington, may I ask you to truncate your answer or make it fairly short, because there is a Division, unfortunately, and we will have to vote?

Stephen Farrington: Sure. House-price growth is close to 7% and is getting close to being aligned with household income growth in the medium term.

The Chairman: I apologise for this. It is all part of what we do. We will adjourn for 10 minutes, or until people are back, and resume then.

The Committee suspended for a Division in the House.

The Chairman: Perhaps I can suggest to Committee Members, given that we ought to finish the session by 5.30 pm, that we concentrate on the areas that you feel are particularly important to ask the Treasury about. Lady Wheatcroft.

Q73 Baroness Wheatcroft: It is often suggested that our obsession in this country with home ownership and putting our money into bricks and mortar means that people do not invest enough in companies, shares and value creation. Do you feel that is true? Are government policies exacerbating that? I would also like to hear your views on the new inheritance tax proposal that the family home can be passed on without inheritance tax. Is there a certain unfairness to that, not only in that not everybody has a home to pass on but that a family home
in the north of England may not carry anything like the value that would be passed on in the south of England?

**Mike Williams**: Let me answer the inheritance tax question. Why have the Government in effect privileged home ownership over other assets in inheritance tax? In reality, for most households affected by inheritance tax, the home is the main asset. That gives rise to some concern, at least among some people, that they would like to pass on their house to their children free of inheritance tax, and it is that concern the Government have responded to. Equally, in introducing that change, the Government foresaw that without action in this area there was a risk of discouraging downsizing. As you may have seen, Lady Wheatcroft, there is a provision that if you do downsize and sell your home, you will still be able to use the allowance when assets of equivalent value are passed on death to direct descendants. That was an attempt to avoid causing the market to clog up and people not to downsize when perhaps they would have liked to.

**Baroness Wheatcroft**: Is there a time horizon on that?

**Mike Williams**: In terms of how soon before death? No, there is no time horizon on that. There is no time limit on the period before death in which a person must have downsized or ceased to own the property in order for the treatment to apply. If you think of the circumstances for example of a voluntary sale when someone goes into care, the time period is outside anyone’s control and it would be quite hard to come up with a limit.

**Baroness Wheatcroft**: It is a way of passing on inheritance, of course, but could you address the disparity between the different regions, in that essentially the Government are allowing inheritance on a much greater scale in some parts of the country than in others?

**Mike Williams**: I think that is true. On the other hand, if you are to have inheritance tax, given the nature of it and how it is structured—which is not particularly unusual—the people with the largest-value assets on death will tend to be in the south. In a sense, to turn your question around, you are lifting a charge that is falling most heavily on the people in the south. In a sense, that is two sides of the same coin.

**Baroness Wheatcroft**: The first part of my question, if you would not mind, is another aspect of the same territory: is our obsession with bricks and mortar at the expense of more productive use of assets?

**Stephen Farrington**: It is certainly clear that a very large part of the UK financial institutions’ balance sheet is occupied with mortgage lending. That accounts for a significant part of the lending and the deployment of their capital. But one of the issues that we face here is that there are some measurement difficulties in the sector. That is why the Chancellor announced part of the productivity plan in the summer Budget, and we will be working with the Bank of England to produce a more definitive measure of the funds that are available for what he termed “productive investment”. We are specifically working on coming up with a measure so that we can more accurately target policy. It is a slightly undefined area at the moment, so we are working on that right now. We are hoping to come forward with some early results at the Budget.
Baroness Wheatcroft: Do you think there could be a change in tax policy as a result of that work to encourage more money to be available for “productive investment”?

Stephen Farrington: I would not want to pre-empt what the numbers say. We have yet to see when they will come out, but I have no doubt that they will inform policy in the Budget.

Lord Turnbull: Looking at the broad picture of how housing is taxed, there seem to be a number of oddities. If you looked at median principles, one of the things you would avoid is a heavy reliance on stamp duty. It seems to me that instead of dealing with the problem that the council tax gradient does not really go high enough, we have a proxy for it in that we tax high-value transactions. I have not moved house for 28 years and I have never paid the higher-rate stamp duty, but if you have to move or want to move, you are paying some very high figures. Economists would normally say that that is a bad thing. Does this not point to changing the balance between the taxation of transactions to more people paying a smaller tax every year; that is, an expansion of the council tax bands?

Mike Williams: The Government’s reform of residential stamp duty in the Autumn Statement of 2014 represented a quite significant reduction in stamp duty on house purchases. If you look at the people actually paying stamp duty, 98% paid less. The equivalent figure for London is 91%, despite the fact that the average property in London inevitably will cost more and so will attract more stamp duty. To the extent that the Government did that, your concern about stamp duty has been addressed. The other side of that is: should the Government have recouped that revenue through increased council tax? I think the Government have been clear both in their present configuration and in the coalition that they are keen not to significantly increase council tax, which obviously is a burden that some households feel quite acutely.

Lord Turnbull: But what we are left with is a changing pattern in wealth that has not been addressed since 1991. Is it ever going to be addressed? These historic values, given the change in the relativities of property values, do not provide a fair basis for taxation.

Mike Williams: I think the Government have been clear that their core priority is keeping down council tax, and they have not sought to revalue council tax. Even if you thought there was a case for a revaluation, candidly, now would not be the time you would embark on it, because we are in the midst of business rates revaluation. That is occupying a considerable part of the Valuation Office Agency’s time. Inevitably, it is occupying a considerable amount of the time of the private sector valuers as well. In the nature of things, some people will negotiate over the revaluations. I do not think you would want to do a council tax revaluation while everyone was engaged on this. Equally, one thing that we are looking at in the review of business rates administration is whether there is a means of resolving disputes between the parties of a valuation more efficiently. Almost certainly there are ways of doing that. Equally, before contemplating something as large-scale as a council tax revaluation, which would affect 23 million properties in England, making sure that you had an appeals system that worked better than the one we have now would be a very sensible thing to do. With the best will in the world, if you were to revalue 23 million properties, you would get disputes, and those disputes would have to be settled by appeals.

The Chairman: But you could still increase the bands or change how it works without changing the overall charge to the nation. If you did a band increase, without having to revalue everything, that would not involve a lot of the problems you are outlining, surely.
Mike Williams: I am not sure that you can easily do what you describe. When Wales introduced the additional bands, that was done as part of a full revaluation. If you do not do that, you may face difficulties in working out which properties you would put into the new additional bands at the top end of the council tax. I do not think it is that easy to do a partial revaluation in some circumstances.

The Chairman: Right. Lord Layard.

Q75 Lord Layard: We all know that there is a problem with incentives for local authorities to give planning permission. I gather that there is evidence that the new homes bonus has shown that they do respond to financial incentives, and there is a report out that says this. That amounts to something like £8,000 on average per dwelling. But obviously the difference in the land value of the site before it has planning permission and afterwards is on average something like £150,000. The average difference is just ginormous, which is an indication of the inefficiency in the allocation of resources connected with the withholding of planning permission. Of course, it is also an indication of the extraordinary inequity involved when the planning permission is given away and the landowner is given the present of £150,000. Is there a case for exploring ways in which the local community and local authorities can get hold of this difference in land value; for example, by having some right to buy at the lower price and sale at the higher price, or some other device? Would you agree that exploring ways of incentivising local authorities through exploiting that price difference could be really important in energising the housing market? We surely need something more than business as usual if we are going to get the numbers of houses that we need.

Mike Williams: In a sense, that is really a question for our DCLG colleagues. Clearly, it is important that local authorities have incentives to increase the housing supply, and we need to look at whether they have sufficient incentives. It seems to me that we will continually do that because otherwise we will not achieve what are quite demanding targets.

Q76 Lord Sharkey: I have a new question. I think the Prime Minister has said that he would like to build 1 million more homes by 2020-21. Does that seem reasonable—I mean, do you recognise the figure? Does the Treasury have a model of how many new houses per year in that period that works out as, by region and by tenure? Does your model also predict the overall effect of such a volume on average house prices?

Stephen Farrington: To answer the second part of your question on the impact on house prices, knowing the supply of houses would be only one input into forecasting the impact on prices, which will be determined by a range of other factors on the demand side—for instance, prospects to household incomes, changes in credit conditions and movements in interest rates—over that five-year period.

Lord Sharkey: But these are all things that you are used to building into forecasts.

Stephen Farrington: Indeed. I was going on to say that fortunately I do not have to do this, but the OBR has the unenviable task of having to make judgments about all those factors. It did that in its latest forecast, which was conditioned on the Government’s policy to build those 1 million houses by the end of the decade and made estimates of those other factors. That led it to produce a forecast for house price growth of around 5% or 6% a year on average over the five-year forecast.
Lord Sharkey: The first part of the question was about whether or not you have a view of how these new homes are likely to be phased over the five-year period and how they are likely to be distributed by region and by tenure.

Mike Williams: Again, the detail of how the Government will implement that aim is a matter for the DCLG rather than the Treasury.

Lord Sharkey: We will ask the DCLG, but I would have thought that since the OBR has produced the forecast about the effect on house prices, it will have had to have taken into account tenure, region and number by period. I would be surprised if the Treasury did not have access to that.

Stephen Farrington: It is not the case that the OBR will have needed that information. It is making broad, macro-level judgments. The uncertainty in the forecast dwarfs additional detail that you could supply on where you think that housing supply might come from. It is making a UK, macro-level judgment about broad trends in household incomes, supply, credit conditions and interest rates. Additional information about regions and tenure is a second-order question in terms of predicting where house prices are going to go over the forecast period.

Lord Sharkey: I understand that, but one of the reasons for asking the question is that the unfulfilled demand for housing varies enormously across the country. I would have thought that it would be an issue of concern for the Government to try to say what effects the measures they are taking will have on different parts of the country.

The Chairman: In effect, I think your answer is that you do this only on a national basis.

Stephen Farrington: We do not have a regional house price forecast.

Lord Sharkey: I was not asking about house price forecasts—

The Chairman: I think that probably answers—

Lord Sharkey: —I was asking about the numbers. The answer is no, I take it.

Stephen Farrington: Correct.

Q77 The Chairman: Perhaps I could wrap up with a fundamental question. One thing that particularly struck me when we went through the initial data for this inquiry was that if you look at the graph of housing starts since the 1940s, which I am sure we all know, in the periods when we were meeting the targets that we need to meet now, there was the private sector and there was the public sector bit on top of it. If you look at it very simply, the gap between now and then is the public sector bit; it is not there any longer and the private sector bit is pretty much what it was right the way through that period. Does the Treasury recognise that as evidence? If it does feel that the public sector has a role in delivering housing, whether through social housing or local authorities, how can that be afforded? How does the Treasury see that local authorities, which are under a lot of financial pressure at the moment, could be brought into this to deliver housing in whichever way the Government might think suitable, but bringing that ability back into UK housebuilding again?
Mike Williams: Again, in a sense that is covered in what Isobel Stephen said. I am not sure that we as the Treasury have anything to add to what she said.

The Chairman: It probably needs money, does it not, of some sort?

Mike Williams: On that level, there is a sense in which everything needs money. As Ms Stephen said, the Government have allocated a large amount of money to housing as part of the spending review. I do not think it follows inevitably that it requires public sector money. As we have seen in other areas—for example, Lord Lamont’s questions about private landlords—an awful lot of the money will inevitably come from the private sector. Some of that money, as we said earlier, will stimulate development, as opposed to someone coming along to a house that is already half-built or largely built. It will actually drive the developer to build homes, because it will be surer that when it has built them it will have a market for them.

The Chairman: Do any of these conversations about housebuilding come into any of the local devolution negotiations that the Treasury leads pretty strongly on, or is it not a factor?

Gwyneth Nurse: I do not think that any of us are particularly on the spending side of the Treasury, so I am not sure we are able to very easily comment on the devolution deals.

Mike Williams: It is worth noting that to the extent that the devolution of taxes is being contemplated, local authorities and city regions tend to like very stable tax revenues—not surprisingly—because they can more readily cope with that. They are less keen to acquire quite rapidly fluctuating sources of revenue, because they find that harder.

The Chairman: Okay. Thank you very much indeed. I will bring the formal public session to a close at this point. I will see if we can get five minutes with our special advisers to give us some feedback from the session. Perhaps I could ask our witnesses and other members of the public if we could go back into private session. Thank you very much indeed for your evidence.
ECONOMICS OF THE UK HOUSING MARKET

Submission by Lesley Hines

Personal details
During my career as a journalist I wrote (under my maiden name of Lee Brown) for specialist public sector publications, starting out with journals covering housing and town planning, then on social services and latterly health care. Since retirement I have been involved in editing local magazines, preparing the Parish Plan for our rural Gloucestershire community and voluntary work for the local centre for the elderly and disabled.

Introduction
1. This submission will deal primarily with the private sales sector (paras 2-9) and also housing for elderly persons (paras 10-11). The main thrust of the paper is that the need for affordable housing can partly be met through concentration on employment opportunities and improved infrastructure away from London.

Housing for private buyers
2. The Government has recognised the need for more affordable housing through a number of schemes, such as “Help-to-Buy” and “Shared Ownership”. But the limits on help with housing costs continue to differentiate between costs in London and the rest of the country, only serving to reinforce this widening gap.

3. The average cost of a 3-bedroom semi-detached house over the 12 months to October was as follows:
   East London: £448K
   Birmingham: £170K
   Greater Manchester: £170K
   Leeds: £174K
   Newcastle: £178K
   Plymouth: £181K
   Norwich: £197K
   Cardiff: £217K
   York: £224K
   Exeter: £243K
   Bristol: £281K

(Source: Rightmove from Land Registry figures)

4. While major employment opportunities and national infrastructure continue to be London-centric, this anomaly will be perpetuated. Recent initiatives to concentrate on a “Northern Powerhouse” and the establishment of Enterprise Zones should help in some measure. On the other hand, other Government decisions, such as the concentration of HMRC offices in fewer
centres, negate this.

[ Someone living in Devon will have to contact Milton Keynes, not Bristol, over their tax affairs. The speed of rural broadband does not provide an adequate alternative!]

HSR2 only serves to make it easier for people in Birmingham to get to London. The cross-Pennine route would bring benefits to a larger region. Smaller schemes, including electrification, increasing single track to double track lines, would also bring benefits to wider communities.

5. The housing market cannot be considered in isolation. Employment, transport and education opportunities all impact on the location and affordability of housing. Central, regional and local government must consider the viability of any housing scheme (large or small) against these criteria. If necessary legislation should be enacted to ensure this, and failure to do so should be adequate grounds for any scheme to be refused planning permission; or, if the planning authority is itself guilty of overlooking these factors, there must be machinery to ensure that it is brought to book.

6. In respect of para 5 above, is an example from a neighbouring planning authority, in this case a county council. Permission was given for eight units (terraced houses) to be built in a local village, four of which were for social housing, four for first-time buyers. The houses were within five minutes walk of the local shop and the primary school and on a bus route to the two main centres of employment.
The school had previously been refused planning permission to move its car park onto a neighbouring field, freeing up space for an additional classroom. Without this extra classroom the school had no room for the children who had moved into the new houses next door. Additionally the council’s subsidy for the rural bus service was cut, and so an hourly service was reduced to one every two hours, thus limiting employment opportunities.
While in this instance it was families who were disadvantaged the problems of inadequate infrastructure also impact upon young people who may not be able to access further education, training or employment. This is a particular problem for housing schemes on greenfield sites, or, as in the case above, on the edge of a village or small town.

7. Transport links are often already in place in what I would term “secondary” towns, those on the edge - within 30-40 minutes commuting distance – of a major centre. Examples, with average semi-detached house prices (as above) are: Bolton £135K (Manchester), Keighley £156K (Leeds) Bridgwater £165K (Bristol), Wolverhampton £139K (Birmingham). In many cases these towns have opportunities for brownfield development, for example old industrial sites, or abandoned retail parks, which could be encouraged either by grants or incentive schemes for the local authority or SME building companies.

8. Building should not be limited to large developers and it is good to see that this was recognised in the Autumn Statement with extended loan facilities. Very often local building firms can work effectively on infill sites and also have local knowledge to identify areas for small schemes. Local authorities should be encouraged to use simplified tendering processes for smaller schemes and local companies.

9. In respect of para 8 above, two examples of recent practice.
My local Town Council has already simplified its tendering procedure and stipulates that if, in
all other respects, the bid is equal, then a local company should be given preference. I understand this is now being trialled at District Council level. Unfortunately in another authority this new approach has not yet started. A brownfield site, owned by a local man had planning permission for ten two-bed houses. He had hoped that this would help either young people with connections to the area or older people wanting to downsize. The planning and building documentation was so onerous that two local builders decided not to go ahead. The site was eventually developed by a larger national company who provided four four or five-bed “executive homes.”

Homes for older people – private buyers
10. Currently there are numerous schemes offering retirement homes for sale as companies realise the changing demographic. As a personal observation from one who has a bus pass, I would say that these work best in an urban or semi-urban environment with easy access to public transport, health centre, library and community facilities. It's tempting to live in a large, converted country house, but a purpose-built flat is a better bet if you're old and cold.

Homes for older people - social housing
11. What is more worrying is the lack of social housing for the elderly and the dearth of sheltered housing, whether with a full-time warden or a regular call-in. Within my own county (Gloucestershire) one of the main providers (Two Rivers Housing which also cover Herefordshire), has cut down its warden-assisted places, providing a visiting “local agent” instead, who deals with all types of social housing in a specific area. Developments which were originally sheltered housing for the over 60s are now on offer to those over 50 as well. There is little new housing planned for this group. It would be interesting to know if this is a national trend, or purely local.

As the cost of keeping an elderly and/or infirm person in their own home is markedly less than in a care home or in hospital, perhaps the social care budget could also include this type of housing.

Conclusion
12. The economics of the housing market cannot be viewed solely in terms of building costs. Purchase prices or rents. It should be considered in a wider context, to include employment and infrastructure.

Where housing for the elderly is concerned the trade-off with health and social care costs should also be taken into account.

29 November 2015
If more were to be done regarding empty properties i.e. taxing those that own the building a higher tax bracket if the property is left unfit and empty, it would encourage them to sell or do up the properties for private rent.

Add a clause that states that if they say they are going to do up their property that have to do it within a specified timeframe and will be taxed the higher rate until such time as the property is ready to be let and habitable.

There are numerous empty properties sitting doing nothing, which have been abandoned and left to rot. There needs to be an easier way of finding out who owns these properties and bringing them back to the open market. The subsidy given to private developers should also incorporate this, if they do the leg work and acquire the properties i.e. doing the legwork then they will get a higher rate subsidy to bring it back into use as a dwelling (even higher if they make it an affordable rent dwelling).

Why in the 21st century we allow buildings to go to waste is beyond me – when we are actively encouraging private developers to ‘build’ more... often disused buildings are in prime locations where housing is much needed i.e. cities and surrounding commutable areas.

If this is the responsibility of local authorities then they should have funding cut if they are not actively sourcing the owners to sort out the problem.

7 December 2015
TUESDAY 26 JANUARY 2016

3.30 pm

Witnesses: John Stewart, Gary Day and Jennie Daly

Members present

Lord Hollick (Chairman)
Baroness Blackstone
Lord Forsyth of Drumlean
Lord Griffiths of Fforestfach
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Layard
Lord May
Lord Sharkey
Lord Turnbull

Examination of Witnesses

John Stewart, Director of Economic Affairs, Home Builders Federation, Gary Day, Land and Planning Director, McCarthy & Stone, and Jennie Daly, UK Planning Director, Taylor Wimpey

Q94 The Chairman: Mr Day, Ms Daly and Mr Stewart, welcome to the Economic Affairs Committee inquiry into housing. Thank you for joining us today. As we have taken evidence over the last few weeks, a picture has emerged of a business model that relies in part on holding a stock of land that has received permissions and that, hopefully, will rise in value; this is the point that has been made to us anyway. Therefore, there is an economic incentive on builders to hoard—I think that is the word that has been used—land. We have an opportunity today to hear from those who are very much in the house construction business to shine some light on that characterisation. It would be helpful if we could start off with the extent to which land hoarding—having a pipeline, which I think is the expression used in the written evidence
we have received—is an important and integral part of your business model. Would you like to start, Ms Daly?

**Jennie Daly:** Yes, thank you very much, Chairman. First, as to land hoarding or land banking, some of the misunderstanding is linked to the way that we report our land banks on an annual basis. As to the implication that housebuilders are land banking, given our economic models and the high cost of land, in my view it is simply not the case. Certainly I can talk in more detail with regard to Taylor Wimpey and give some assurances.

To address the point about how we report our land banks, or our land pipelines, generally we identify short-term land positions and long-term land positions. The short-term land pipeline, at least in Taylor Wimpey’s terms, is defined either by sites that have detailed planning permission and outline planning consent that is not capable of being implemented—you cannot start build with outline planning consent—or by sites that have a resolution to grant by a local authority but where there are still matters to be resolved, such as the completion of a Section 106 agreement. Of those subsets, only detailed planning consents that have all their pre-commencement conditions discharged and the regulatory permissions or permits in place are capable of being legally implemented. Those sites that we would hold in our short-term land pipeline that are capable of being developed, which we are not building on, would be a very small element when you go through that cascade.

**The Chairman:** You have 75,000, which was the number in your last report.

**Jennie Daly:** Yes.

**The Chairman:** Of that, how many would be, as it were, shovel ready, or whatever expression you use?

**Jennie Daly:** In our short-term pipeline we have 415 sites with detailed planning permission. They are the closest to being capable of implementation. Of that, we have 371—that is, 89%—that we are already on site and building, so part of that 75,000 includes sites where we are already on site and building. That is quite a substantial part of it; for probably about 60% we are on site already. In our pipeline, currently we have 34 sites that are fully discharged planning consents that are programmed to build imminently; effectively, we are gearing up to get on site now. We have eight sites that are waiting for planning conditions to be discharged, and I am sure that we will talk about some of the issues that we have on getting on site, the discharge of planning conditions with local authorities and the resource issues that are apparent there. In all that discounting, there are two sites that I am aware of in our short-term land pipeline where we have detailed planning consent and we are not currently either programmed imminently to go on site or are already on site. Those are two sites where we have particular viability issues and we are actively engaged with the local authority. When you look at that, it is such a small level that it is below the level of statistical importance or relevance.

We do that because, by the time we have detailed planning permission, generally we have already paid for the land; so our most expensive commodity is already now on our balance sheet, and we are incentivised to get building because only through building will we get a return. The housebuilding model does not sit well with land hoarding. Certainly in Taylor Wimpey’s case, and I know for the majority, if not all, of our peers, that would not be an appropriate business response to such a large and expensive commodity.
Q95 The Chairman: Let me put the question a slightly different way round. You built 12,454 houses last year out of a total of owned plots with planning permission, which may not yet be shovel ready, as it were, of 75,000. If you decided that you wanted to double the number of houses that you were building in a year and had the resources and workforce to do it, would you be able to do it, or are you saying that the number of houses with permissions that are ready to start building is substantially lower than the 75,000 and would not be enough to, say, double the housebuilding to 25,000?

Jennie Daly: Certainly those 75,000 units are not shovel ready. There is a proportion—probably just over 40,000—that are shovel ready, where we are on site and ready to go. There are a number of elements that would restrict our ability to double our contribution or build. You alluded to skills and production limitations, materials and other elements. It would be inappropriate to ignore the fact that we also sell into a market where we do not know our customer, so we have to look to market absorption. Some robust market areas could be capable of increases of skills and commodities where available. In other areas, where there is not the depth of market, there would be concerns about overprovision into the market and the fact that that would have a distorting effect on the local market. That would be of concern both to the local market property owners and to us.

The Chairman: Mr Day, what is your take on this?

Gary Day: The nature of our developments is completely different because we are in the business of providing or delivering specialist retirement housing. We are focused on centrally located brownfield sites—relatively small sites, often with an existing or former use. Our business model is based upon going straight for detailed planning consent. As soon as we get that planning consent, we would complete the purchase of the site and then we would aim to start on site within four months of grant of planning permission. We certainly do not have any land bank at all.

The Chairman: You do not have a land bank at all.

Gary Day: We are hand to mouth; so, no.

The Chairman: How do you build up a pipeline then?

Gary Day: By securing interest in land; that is where it all starts with us. Competition for the sorts of sites that we acquire is fierce. As I said before, our sites have an existing use, often non-residential, because we are centrally located within or on the edge of town centres, or there will be an interest for reuse or redevelopment of that site for a non-residential use. Competition for sites is hard for us, and good sites for the type of housing that we develop are hard to come by because there are particular locational criteria that make a successful retirement housing scheme. For us, it is making sure that we identify and contract on sites and bring them through the process as quickly as we can. We aim to double the size of our business within the next four years, so it all starts with land acquisition.

John Stewart: We did a survey exactly two years ago and gathered evidence from our 23 largest housebuilders on their land banks. Twenty-three companies provided us with data on 2,303 sites, which was 220,000 plots. The idea was to pin down exactly the question you have asked. We found that, for 79% of the 2,300 sites, work had started on site; 2.5% had not started
because they were not viable. This is two years ago. Jennie has quoted a couple; they are probably in that sort of category. Then, out of 2,300 sites, 3.6% were just awaiting start on sites. I do not think the evidence is there that housebuilders land bank in the sense that they get an implementable permission and then just sit on it.

It is difficult to get evidence broadly, but an organisation called Molior did some work for the GLA maybe three years ago and looked at this in the context of London. They found that virtually all the sites with a permission that had not started were owned by non-developers. That is a big issue. I am working with colleagues in some other organisations to try and commission some research into this at the moment because it is an area we need to understand properly and whether there are non-developers who get permission for reasons where they never intended selling for development. Until a piece of land that has permission gets into the hands of a developer or housebuilder, by definition it does not get developed. There are some data there we need to try to get hold of.

**The Chairman:** Did you collect any data about the land bank that Jennie Daly referred to, which is land that has been acquired that does not yet have permission but as to which the number of plots on it possibly has been calculated—as it were, the longer element of the pipeline?

**John Stewart:** I forget the precise details, but we collected the land-bank data, which is the short-term land to which Jennie is referring. We did not collect anything on the strategic land, which can be much larger, but, of course, that does not have planning permission so it is impossible to build on that. Of the land-bank data that we were given, as I say, 79% was sites that had already started on site. As far as I understand it, if I have a site of 200 units, once I have started and if I complete five, I still have 195 in my bank, and so it goes through until I have completed the last unit.

**Jennie Daly:** If I could add to John’s point, the LGA issued a report a few weeks ago, of which I am sure the members of the Committee will be aware. It was interesting that when Ed Turner, the spokesman for the LGA, was interviewed on BBC Radio 4 on the morning of the release, his criticism was very clearly not levelled at the major housebuilders. He was very specific and explicit in his statement that their concern was the permissions that were held by those who do not build homes. He specifically indicated that his concern was about speculators and not the home-building industry. That is quite important, coming from the LGA.

**John Stewart:** In truth, we do not know the detail of that—what proportion of unimplemented permissions are speculators, or whatever. It is a grey area—or a black area.

**Lord Lamont of Lerwick:** Ms Daly, you explained very clearly the difference between the strategic land bank and the short-term land bank, and then you said the business model for hoarding does not make any sense. I am not sure that I entirely understand that. With rising property prices, you are saying that it makes no sense, but would it not make sense for you to hold on to land and get an increased margin from it?

**Jennie Daly:** If one has a very clear crystal ball, that might be a business model, but as we do not know what is going to happen in the forward market, we have a very significant draw and fiscal lag on our balance sheet from buying land. The only way we can secure that return is to build into the market that we can see immediately. It is certainly not a model that we would support.
House-price inflation is with us currently, but it is not secure and is not something that we can bank on. We would be incentivised to return our capital for reinvestment.

**John Stewart**: Can I comment on that as well? If a company has bought and paid for land, has an implementable permission and sits on it for a year and does nothing, the cost of that land is, say, 10% a year to hold that land. When it starts developing a year later, it will have to recoup the 10% and earn its normal margin. You would have to assume astronomical rates of house-price inflation, and therefore land-price inflation, for that to work. As Jennie says, no housebuilder knows what house-price inflation is going to be 12 months or two or three years ahead. The housebuilders always tell me that they are judged by the City on return on capital. If you have capital sitting idle, costing you money, you are diluting your return on capital. That is not the way housebuilders work. They only earn their profit by developing. That is what they do. They buy land to develop it; they do not do anything else.

Q96 **Lord Sharkey**: Jennie Daly, could you tell us what percentage of your capital is invested in your short-term land bank and what percentage in what I think you called your strategic land bank?

**Jennie Daly**: Unfortunately, I do not have those figures to hand—my apologies. Long-term land banks tend to be secured by options; we talk about controlling rather than owning land. Only a very small proportion of long-term land will be held in ownership—probably around 10% or maybe 15%—and some of that is going to be linked to historic positions. The long-term land bank generally has no current planning provenance. It requires a substantial investment, of both our human resources and funding, to promote through our strategic development plan process. It has a very high level of attrition. The losses are sometimes absolute. Absolute losses are not our concern; it is delay in the planning process—and the development plan process in particular is very long. We can find sites that we are tracking through our pipeline being moved four and five years back because of delays in the local plan process. The long-term land bank is where I consider the real planning takes place. That is where we are engaging way upstream with local authorities, communities and other stakeholders to look at sustainable urban extensions, large-scale housing allocations—potentially new settlements—and then managing and funding those through the planning system. Those are held more lightly than our short-term land bank, hence the focus again on moving our short-term land bank into build as promptly as possible.

Q97 **Lord Layard**: I would like to ask you about planning permission. Almost everybody seems to think that there is a problem about the way the planning system works in the sense that it does not seem to produce enough land to build all the extra houses that are needed. Could you tell us your ideas about how the whole planning system, and not just planning permission, could be improved in order to get more houses built?

**Jennie Daly**: Yes. If I can start, I am sure that John and Gary will both have much to add. The planning process for housing starts, or ought to start, in the preparation of a local plan by a local planning authority. The local authority is charged under the National Planning Policy Framework to define their full, objectively assessed need—OAN, as it is called. That is quite a burden for each local authority to carry. We have found that from the very start of the process local authorities try to suppress the level of housing requirement that they need to find locally. That is then rolled into the local plan process in site-specific allocations, so we have an authority that...
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is seeking to achieve the minimum rather than the optimum or necessary housing requirement, allocating sites that are probably just capable of meeting that number and rationing their housing allocations. Once the site is allocated, we must apply for planning permission. We are finding increasingly that local planning authorities are woefully underresourced. Local government cuts have had quite significant impacts on local planning authorities. The processing of planning applications and the negotiation of Section 106 agreements has slowed in itself because there are insufficient people to process them. Once a decision is made, we have to discharge planning conditions to get on site. We have a system that rations the supply of housing from the very start, and then, if anything happens, if there are viability issues or technical deliverability issues on a site, there is no buffer in the system. Rather than having 100%, there is constant erosion of the amount of housing that arrives on site. To address that, local authorities could more meaningfully and truly address their objectively assessed housing need so that they allow a reasonable buffer for delays or unforeseen circumstances within the amount of housing that they plan for. They could plan for a wide range of site allocations both in size—small, medium and large—and across a wide and varied market area, but preferably on sites where the industry wants to build and there is a market. We have local authorities that consistently allocate sites that, for whatever reason, are incapable of coming forward, and, through planning applications and planning determinations, they allow that process to be steady and smooth so that there is a constant delivery of housing through the system. The system, in my view, is capable of working. The structure of the system, I think, as a planning practitioner, is quite reasonable. It is how it is gamed and how housing is effectively rationed through every stage of the process.

John Stewart: One of the most striking things about housing in the post-war period has been that up until the 1980s private housebuilding was very responsive to demand. From the early 1990s onwards that was completely taken away, and I have some stats here that I am happy to quote. Interestingly, the number of smaller housebuilders rose very rapidly in the 1980s. The plan-led system we introduced in 1991 has had a very serious impact. It has essentially gone from being driven by the private sector finding land and putting it forward to local authorities rationing and controlling the supply of land. I very much agree with Jennie; we need to get back to a situation where there is a much greater variety of sites. There has been an 80% fall in the number of small and medium-sized housebuilders since 1988, so it is a long-term structural change. That has a lot to do with the complexity of planning, the cost of finance and so on, but it also has a lot to do with local plans and the tendency to allocate just a few large sites. I absolutely agree with Jennie that we need to—

Lord Lamont of Lerwick: What happened in 1991?

John Stewart: What was called the plan-led system came in. This is all a bit technical, but—

Lord Lamont of Lerwick: We were in government anyway.

John Stewart: You were indeed, Lord Lamont.

The Chairman: Do not pull your punches.

John Stewart: Yes, I know—a Conservative Government. Prior to that we had what was called the presumption in favour of development. In the 1980s, in layman’s terms there was every incentive on you as a housebuilder—I used to work for a housebuilder in those days—to go out,
find land and bring it to the planning authority; and they had to have a very good reason to refuse. The little guys got out there and found sites, created sites and brought them forward. The 1991 Act said, “No, that is not going to happen any more. We will put local authorities in the driving seat. You have to have a plan, allocate your objectively assessed need and find all the sites”. Local authorities do not have the capacity or ability to do that, only housebuilders can do that, so you flip the whole thing round. You put local authorities in the driving seat, whereas the private sector had been in the driving seat. The tragedy was that it was at the very time when state housebuilding stopped. We said—and I can remember talking about it when you were in government—“Okay, it is now over to the private sector”.

Lord Lamont of Lerwick: It has been done with Scotland, you know.

Lord Forsyth of Drumlean: No, we did not have this in Scotland.

John Stewart: It was pretty deliberate: “It is now over to the private sector”—the Prime Minister felt that very strongly—“but, hang on a minute, we are going to give control of land to local authorities”. To me, that is absolutely the root cause of most of our problems, right back there in 1991. We need to get back somehow to a situation where we are incentivising the smaller housebuilders to find sites as well as the larger housebuilders. This issue about providing a range of sites of different sizes and different locations is central. I had a letter from a chief exec the other day ranting about a radio interview I had done, saying, “We allocated 4,000 plots and we are getting no delivery”. Apparently, it is on one or two urban extensions, and you automatically limit the sort of output you can get.

The other side of it, to which Jennie alluded, is the planning application process. Local authorities are desperately short of planning and legal staff. Housebuilders have been complaining about this for years, and I know that work that the IFS and the NAO have done has shown that within local authority cuts, which have been very significant—and there are more to come—planning and development is the category that suffered the biggest cuts. We have a Government who are trying to get more planning through more sites and the industry trying to do that, and at the same time local authorities are losing resources on a large scale. So there is the local plan context and then the planning process, the individual site process. Both of those are pretty seriously flawed.

Lord Layard: I do not think anybody is thinking of changing from the local authorities being in charge of this.

John Stewart: No.

Lord Layard: Is not the issue then how to give them the incentives to give more planning permissions?

John Stewart: Yes.

Jennie Daly: Yes.

Lord Layard: One obvious way is to make sure that they get a lot of money every time it happens.
Q98 Lord Layard: One suggestion there is that they should be the primary buyers of land at some price somewhere between the existing value and the uplifted value, and then they sell it on at the uplifted value and take the difference. That enables them to pay for a good planning department and to make their population happy with a development, which is otherwise not liked very much by the nimby people. What is your thought about some method—and there are a number of methods that have been suggested—for giving them an ability to take a great chunk of the price uplift through being essentially the initial buyer and then selling on?

John Stewart: There are two aspects to that. One is the capture of land value uplift by the local authority, and they do not have to be the buyer to do that. The other is what you are suggesting: that perhaps we should move to a completely different model where local authorities buy land ready for development and sell it to developers and capture the uplift that way. They already capture a significant amount of the uplift. We have planning obligations agreements—or Section 106 agreements—that housebuilders all talk about.

Lord Layard: But, if I might say so, obviously not enough. How can they have more incentive?

John Stewart: I am not sure that we know it is not enough.

Lord Layard: We know because they are not giving enough planning permission.

John Stewart: I am not sure whether, if they got more, they would give more planning permissions. I do not think that local people are opposed to housing because the local authority is not capturing enough of the uplift on land value. I think they are opposing local housing for other reasons, which are probably much more emotional and tied up with not wanting change, more traffic, more pressure on schools and so on. But we have a Section 106 agreement—

Lord Layard: That can be relieved if there is money.

John Stewart: Yes, sure, and there are already significant amounts of money captured—there have not been any stats for some years, but Christine will know what they are—through Section 106 agreements, which include contributions towards affordable housing, which have been very significant, to other non-affordable housing things. Of course, now we have the community infrastructure levy. It is open for debate whether what local authorities capture at the moment is enough, but I am assured by all the members I ever talk to that it is already very significant. You are alluding to the Tim Leunig model, I am sure, and we had lengthy discussions with Tim back in 2011. I am very happy to provide you with a paper, which I prepared at the time, looking at it. Should we move to a model where local authorities buy the land? Housebuilders, like any business, have to work within the world that they are given—the economic and policy environment. That would be a very radical change and I do not feel qualified to comment on that. That is a bit too dramatic.

Q99 Lord Forsyth of Drumlean: Can I ask this, going back to planning? You have been very clear about how the planning system and the resource constraints on the local authorities have limited the overall supply. To what extent have they also damaged the mix that is being demanded by the market perhaps requiring more flats or properties that are outwith the market?
Secondly, some people have suggested that if planning permissions were granted for a shorter period before they expired, this would encourage people to get on with building. What do you think about that?

**Jennie Daly:** There are two elements, if I can start with the last first, on shorter planning consents. We are already operating in an environment where planning permissions are now shorter than they once were. We are within three-year time limits where they previously were five. There are certainly challenges with that, particularly for larger sites, but even with small sites, the number of planning conditions, particularly pre-commencement planning conditions, which are the most frustrating for us as an industry to deal with, are still increasing. We can receive a planning consent for 200 homes that has over 50 conditions and expect that almost a third to half of those might require us to discharge something with the authority prior to being able to commence lawfully.

**Lord Forsyth of Drumlean:** Could you give some examples?

**Jennie Daly:** We have a number of developments. We have one in Wycombe District at the moment that has a significant number of pre-commencement conditions to discharge that we have struggled for well over 18 months to lawfully discharge. They were around things like material samples to be approved, which is often quoted, drainage details to be agreed and protection of trees. From a condition point of view, we would not necessarily say that those are not required, but there are some questions at times as to whether they are required prior to the commencement of development because some do not engage until later through the implementation and build. Certainly, if authorities are going to apply them, we would wish that they applied the resources to discharge them and allow development to start lawfully. There are certainly issues that I would be concerned about where local authorities have not demonstrated, and are not consistently demonstrating, that they have sufficient resources to service the discharge of those conditions, and other elements like Section 106s, and, indeed, some of the statutory providers—BT is often referred to as being slow—that would effectively allow us to reasonably implement slower planning consents. Albeit they have been falling, there are still a significant number of legal challenges, which take up time. Investment in planning processes is quite substantial. It can cost many hundreds of thousands of pounds to get a planning consent. To look at that and feel that we would need to go back, not through a fault of our own or our inability to get on site but because an authority has not been able to resource it, would be a concern.

On market mix, generally as a business we will identify what we think is the optimum market mix for any specific location and then a debate ensues with an authority. Some have very clear ideas and can demonstrate particular evidence that says they require certain types or sizes of homes; certainly Guy would talk about identifying housing for the elderly within that example. Some have policies that seek specifically to restrict the mix, and sometimes they sit reasonably well in the market; sometimes they do not and can result in schemes that are less than viable or less than attractive from a housebuilder’s point of view.

There are occasions where we are on sites where we can see that, either because the market has moved or because we miscalculated, the mix for which we have planning approval is not the optimum and we may be meeting some sales resistance as a result. Because planning is so slow,
we will continue to build that scheme rather than re-engage with the authority and re-plan for a more optimised market mix. That obviously has to be quite disappointing.

Lord May of Oxford: The second and third line of the paper we were given just before we started says that the Department for Communities and Local Government only publishes statistics on the number of planning applications submitted to local planning authorities and does not publish statistics on the number of units that are included on each application. In some sense, we probably should have discussed this before we went on to anything else, because it strikes me as an absolutely barmy way to go about doing these things. You do something on the one hand, but on the other you exclude discussion of something that is probably the trickiest bit of the whole lot.

John Stewart: The planning stats from DCLG are quite limited. They are primarily planning performance statistics. I think the stats are actually called the planning performance statistics. They are about the time taken to process planning applications. They are not about the quantum of permissions coming through, which is one of the issues that preoccupies us. Unfortunately, the stats are quite limited.

Q100 Lord Turnbull: Can I go back to the question of Section 106 capture of gain? By the time you get into a discussion with a local authority and they are beginning to argue about what conditions they want to impose, does the housebuilder already own that site?

John Stewart: Jennie might give a better answer on that one.

Jennie Daly: There will be some instances when we do. We take contracts in a variety of ways, sometimes unconditional, which is where we are taking more risk in the market, particularly if the planning outcome is less than clear. More regularly, we would have a contract that was subject to the outcome of planning. We would not have acquired the site by that point, but we will have to act in the best interests of the landowner.

Lord Turnbull: If the local authority is very insistent on a Section 106 and demands more than you hoped for in your plan, who bears the cost? Is it you or is it the landowner? If the landowner had already sold to you, the person who is making the gain is already off and free. Therefore, you are left with a rather sterile zero-sum game between you and the planning authority, whereas the whole purpose of the kinds of schemes that Lord Layard is talking about is trying to make sure that it is the landowner who gets less for this.

Jennie Daly: Yes, I understand.

Lord Turnbull: Have we set the scheme up in a way that enables that to happen?

Jennie Daly: From a landowner’s perspective, there is only one opportunity for the landowner to trade in the market; so the landowner will look to optimise their outcome. If planning is overly voracious or demanding in its Section 106 and value extraction, then I am afraid we will find that landowners are unwilling to transact in the market. We have seen that in past policy initiatives in the 1970s with taxation, where landowners effectively remove themselves from the market.
Lord Turnbull: Basic economics tells you that the price of land has a lot of rent in it—that is, unearned surplus, which grows over time. Surely it is the one group of people whose behaviour is affected least by the price coming down, or they are getting less for it, because they can either hold it or sell it.

John Stewart: But the landowner will have an expectation, which may or may not be realistic, and they will very rarely be forced to sell. They may well take the view that if the local authority demands are such that they are well below the price they are expecting, they will hold fire and wait until another day comes along. I presume they all know that land with planning permission is very scarce so they can afford to wait a while.

The Chairman: Mr Day, did you want to comment?

Gary Day: Yes. This is a particular issue for us with the nature of the sites that we purchase, because, as I have said before, there is often an existing viable use on that site or an alternative non-residential use that would be equally acceptable to the planning authority. In our case, if we are trying to purchase an existing business operation, which we often are, then there is an existing value. The incentive to dispose of that particular property will not necessarily be great if the land cost is reduced to a level that is too severe. Conversely, we do not operate on a level playing field, because we are in competition for other users of our land who do not face the same planning obligations. For example, affordable housing is only a contribution that is sought from residential development on a site; so we will lose sites. I have lost sites to National Car Parks, McDonald’s, storage companies, car dealerships, et cetera, because they do not have to incur that cost; of course their offer is more seductive than ours might be for that particular site.

The Chairman: Lord Kerr, can we move on to the next question?

Q101 Lord Kerr of Kinlochard: It has been suggested to us that instead of giving the local authority an incentive—Lord Layard’s question—you, the developer, or the landlord might be penalised through some sort of site value tax. You might use a stick rather than a carrot. I imagine that, on the whole, you would be against that.

Jennie Daly: That is a leading question. Yes, we would perceive that as being quite problematic for the same issues in that it would drive a certain type of behaviour. I would repeat that if we have a legally implementable consent, it is in our interests to implement that consent. Land is our most expensive commodity and it is certainly not in our interests to allow planning permissions to expire, given what I have said, which is that they are a costly and time-consuming endeavour for all parties. There are already very strong incentives for us to get on and build. If tax were to be applied to permissioned land, you would observe behaviour whereby we would not be submitting planning consents for large-scale sites and that we would, effectively, break down the sites for which we were applying for planning permission into ever-smaller component parts—phases rather than the overall site. That would have a number of unintended and negative consequences that are likely to result in a reduced build rate because we would be rationing our own behaviour in the market. It is likely, from a purely planning and environmental point of view, to lead to piecemeal small-scale development that is less likely to deliver significant infrastructure to underpin either transportation or community requirements, because it is large-scale development conceived and delivered at scale that tends to deliver the
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more meaningful contributions to our built infrastructure. It would also increase the workload of local authorities. It would have a considerable number of negatives.

Lord Kerr of Kinlochard: I rather thought you might take that course. Could I ask you whether, as has been suggested to us in other evidence, your rate of build-out, once you have the permissions, is surprisingly slow? The model looks as if you move in a workforce with the skills and numbers sufficient to do the operation over a considerable period of time, rather than moving in a massive force who are there for a much shorter time. Is that the case? Is the sensible business model to have a small number of people with each particular skill you need and have them there living in the area, working on the site for a considerable time, rather than move in a blitz, a crash programme, with a lot of people?

Jennie Daly: There are two elements to the question on build rates. There are individual sites or the generality of the industry. One is around skills and production capabilities and the difficulties that we have had as an industry with the loss of talent and skills through the last downturn specifically; but with every downturn the least resilient businesses disappear and, with them, the skills. There are skills issues. I would not say that we ration those skills, but we can only build to the pace at which the labour and commodity to deliver are available. At the other end of the spectrum we must build at a rate at which the market is capable of absorbing the product—the homes that we build. Some areas will be much more resilient and will have a greater depth of market; they may have a greater supply of skills, which will allow a much higher rate of build. Some areas will have a much more fragile market, and we will have to build to a pace that the market is capable of absorbing. We neither build to have a disruptive impact on the market by oversupply nor at a slower rate in order to suppress delivery and increase prices. That is not in our interests, and we have talked about how our return on capital is a measure against which most housebuilders are held to account.

There are a number of issues to do with the build rate, but I would go back again to the point that we covered when we were discussing planning. Build rate—the market absorption element—is also directly applicable to the number of outlets. You will hear both my business and our peers talking about the importance of sustaining outlets. Large sites can and do deliver substantial amounts of development. They can be very complex to deliver. Getting one started and opened can be quite a delaying process, but once they have opened and they gain build momentum they can deliver a significant number of homes; but the normal wisdom would be that most housebuilders would prefer to have five sites of 200 units than one site of 1,000 units. The combined build rate and sales rate from five sites of 200 is likely to be greater than the build and sales rate that one could possibly achieve, even if you were pushing as hard as you could, on a site of 1,000. That is one reason why we are so keen for local authorities to have a much broader church of sites on offer in their local plans rather than putting all their eggs literally in one basket.

Lord Kerr of Kinlochard: I understand all that. How do the factors pan out? What is the average completion rate on a large site? We were told in evidence that for a large site, defined as more than 500 units, it would be about 20% a year. You are talking about five years from the moment you start working on the site to the moment your last workman leaves. Is that right?

Jennie Daly: I am not being evasive, but it depends on where in the country you are. That might be very difficult to achieve in some parts.
Lord Kerr of Kinlochard: Take an average. Looking across all the projects that you have running now, what is your average completion rate on large sites?

Jennie Daly: Can you answer that, John?

John Stewart: I do not have any stats on large sites. Your illustration was 500 units. It depends how many sites you have. The number of sites is critical, as Jennie has said. If you have a town with one site but it is a very large site, you will get a certain output from that site—one site of 500 units. If you had five sites of 100 units each, you would expect to sell more. The pretty obvious reason for that is that they will each have different locational characteristics; there will be a different mix of product; there will be different housebuilders and a different specification. So you can offer a wider range of market product across those five sites than on one single site. But it entirely depends on the location. You could have a scheme of— I do not know—apartments in one of the outer London boroughs that could sell very rapidly; if it was in deepest rural England somewhere, it would sell extremely slowly. The average is not very helpful. It depends entirely on the local market and the number of sites.

Lord Kerr of Kinlochard: Whether it is helpful or not is for us to say. Are you prepared to put forward a figure?

Gary Day: Although it is not my area of expertise—it is that of my colleagues who are sitting next to me here—my assumption would be that the larger the site, the greater the infrastructure requirement. So there must be some timing issues around the provision of necessary infrastructure.

John Stewart: There are no hard stats, but on an individual site 50 a year would be a reasonable rate in a reasonably good market. When the market crashed, it could have been way below that; if it was first-time buyer apartments in a very prosperous town, it could be more than that; if it was bungalows in darkest Lincolnshire, it could be five a year. It depends enormously on the market and the number of outlets in that area. I must stress how important that is. If you have one housebuilder with one large site or five housebuilders with moderate sites, you will get a very different outcome.

Lord Sharkey: To clarify that, are you saying that you routinely address your build-out rates according to your estimate of what the market will bear in sale price?

Jennie Daly: Yes. We monitor our sales rate, and you will see in all the announcements that the large housebuilders in particular will define their average sales rate. If that is starting to fall away and the appearance is that there is no longer the demand in the market, we would start to mitigate how much build we would advance. If, on the other hand, the sales rate was picking up, there is a degree of elasticity and we can start to advance a greater build. The issue on build rates is directly linked to there being an end where it becomes inelastic; there is only so much work a site manager and his team are capable of delivering on a site. On large sites we would tend to have multiple outlets and multiple build teams, so you would be able to multiply those through.

Q102 Lord May of Oxford: Going on from what we have been talking about, in written evidence someone called Mr Stewart told us that the biggest constraint on housing supply was a lack of skills in the construction industry. This comes in front of me here with a rather
Home Builders Federation (HBF); Taylor Wimpey; McCarthy and Stone (QQ 94-110) – Oral evidence (EHMOE0006)

devastating sort of picture. It shows that from around 2001 to 2007 the number of starts and completions was rising. Then the whole thing turned around and the number of starts halved from 180,000 down essentially to half way to nothing in a couple of years. Do you not worry about that? What do you say about it?

**John Stewart:** Yes, we do worry about that a great deal. I should explain that starts are extremely volatile. Starts are new dwellings that you are starting, by definition.

**Lord May of Oxford:** To what extent is it just that there are not the people there?

**John Stewart:** In the latter part of 2007 we had the usual spring upturn, we fell away in the summer and never recovered. Then in 2008 it was a disaster. Total housing transactions roughly halved. Housebuilders are about 10% to 12% of the housing market and they got taken down with that, so they had to slash back their business. If you have a pipeline—

**Lord May of Oxford:** I am sorry to interrupt you. That is the case, but does that mean the number of workers halved in that time? Given that there are so many jobs available here, that strikes me as rather weird.

**John Stewart:** We do not have government stats for housebuilding in a box. We have construction statistics for employment but not for housebuilding. There must have been a very significant loss of jobs in the industry. We know there was, but whether it was a half or a third we do not really know. The particular characteristic of what we have seen over the last eight or nine years is that it was such a prolonged downturn. When I think back to the two previous downturns, they were relatively short. People left the industry, but within a year or two the industry began to pick up again and those people could come back in. We began to see the downturn in 2007; we began to lose people then, and it was 2010, 2011 and even 2012 before things began to recover. By then, quite a lot of people had got older and retired, new people had not come into the industry, and we lost people who, after that length of time, had gone off to other industries. So we do have a significant skills issue for the industry. The starts are particularly volatile because, of course, if I have a pipeline of work in progress and sales suddenly fall very sharply, I will almost stop starting anything new and carry on with the work in progress that I have. When I have my work in progress down to a new level that is commensurate with the current level of sales, which might be half what it was, then I might start some more. If you look at the graph of starts and completions, for completions there is a fairly subdued sine wave, but starts are extremely volatile. I do not know whether that answers your question.

**The Chairman:** Is there any prospect that the skills gap can be replenished quickly in order for the Government to achieve their target of a million homes by 2020?

**John Stewart:** “Quickly” is difficult. There is an enormous amount going on within the industry. Industry recognises—from Taylor Wimpey right through to HBF and so on—that there is a massive issue. It is probably the number one constraint on the industry. Individual companies are doing a lot, HBF is doing a lot and we are working with the Construction Industry Training Board as well, which is the main training body for the industry. I have quite a long list of things that we are doing, which I will not bore you with. I would be very happy to supply the Committee with a list of all the things that are happening. For example, companies are looking at recruiting people from the military. These are hard-working, skilled people, who might not
have the applicable skills, but they can be easily retrained to come into the industry. That is one illustration of the sort of thing that is going on. We have obtained funding from the CITB for non-site trade training. The CITB has tended to focus on carpenters, bricklayers and so on. To give you another example, there are plans to set up a centre of excellence where tradespeople will be able to train in what is effectively a warehouse. There is a lot going on with HBF, with the individual companies and with CITB, to address the skills shortage, but there are no short-term fixes to skills; it takes time to train people and bring them into the industry. That is probably the biggest challenge the industry faces.

The Chairman: To what extent would off-site construction ease the problem?

John Stewart: I do not think it is the problem. There are two ways of looking at it, I think. There is a radical way: “Let us completely change the way we do things and do it all off site”; or there is incremental change. The industry has engaged in incremental change ever since I have been involved in it, but we have yet to see a situation where suddenly there is a radical new way of doing things. A lot is tied up with the fact that, because of the nature of housebuilding and you are building to sell, it is very difficult to make that work. I am always told that it is more expensive to build that way because of the nature of housebuilding. It is not like establishing a car plant, which is fixed locationally and you produce 100,000 cars a year.

The Chairman: That seems to be a model that works in the United States, Scandinavia and Germany, so why would it not work here?

John Stewart: I am sorry; I am not familiar with the American or Scandinavian way of doing things.

Q103 Lord Forsyth of Drumlean: That is what I was going to ask. After the war, we addressed the housing problem, perhaps not in the most brilliant way with hindsight, with the construction of prefabs, which were then the new technology. In housing, we have seen the rise of timber-built housing as opposed to traditional construction, which has enabled faster construction of housing and a reduction in costs. I do not want the question to sound rude, but it seems very surprising that an industry faced with huge demand would not look at new technology and new building methods that might enable production more speedily. Is your answer to that that it is all about cost?

John Stewart: The industry has looked at these things; obviously all the larger companies have. I am sure Taylor Wimpey will have looked at these things. The key difference between what you are talking about with the post-war system building and the private sector is that, if you are developing a tower, as in the 1950s or 1960s for council housing, you will do that on a contract and build it as quickly as you can; of course many of them were a complete disaster. Then you can move the tenants into those, which is the way it worked in those days. If you are building to sale, you can only build what you can sell, otherwise you would have an enormous build-up on work in progress and probably go bust. Building to sale does not require that scale, and you are not building towers anyway; apart from in central London, we do not build that kind of housing.

Lord Forsyth of Drumlean: They were not all towers after the war either.

John Stewart: No, I appreciate that, but a lot of it was, whereas building the sort of housing that people in this country want, which is primarily houses and not apartments—although there is a
much greater proportion of apartments than there used to be—requires building to sale. It would appear from everything I have heard from the housebuilders that being able to build twice as quickly, for example, is a lot more expensive and does not help, apart from situations like central London where clearly you do build towers. The towers are not applicable to outer London suburbs or rural towns in England; they are just not appropriate. You are right to ask the question, but if you could crack a new way of doing things as a housebuilder—I have always said this—which gave you a competitive advantage, you would clean up in the land market, so why would you not do that? The fact that no one has found this radical new way of doing it suggests to me that there probably is not one.

Q104 Lord Griffiths of Fforestfach: I would like to declare an interest in that, as a director of Goldman Sachs International, we have provided financial advice and investment banking services to McCarthy & Stone and that, at present, as at today, we own 7.6% of its equity.

The question I would like to ask is about competition. You made a lot of the fact that, as a result of the recession, a lot of people have exited the industry. What is your view of the degree of competition today, compared with what it was, for example, before the financial crisis? Do you think we could have greater competition by encouraging small and medium firms to be active in the market, and what kind of things would you do to encourage that?

Jennie Daly: There is conflation in the question. One is around competition and whether you mean choice to the customer or capacity in the industry. I think in the framing of your question you are focusing on the capacity in the industry.

Lord Griffiths of Fforestfach: I do not see the two as being exclusive.

Jennie Daly: In that case, our view is that there is robust competition from a consumer point of view. New homes are a relatively small part of quite a big transactional volume. On an annual basis, there are 1.2 million transactions in the homes market, of which new homes make up about 10%. There is quite a substantial reservoir of choice for the individual consumer. On the loss of SMEs and small housebuilders, I could readily accept that there is a lack of capacity in the market, and that is because we are a capital-intensive business and linked to a cyclical cycle. Development is risky. We tie up significant amounts of capital, both in land and in our work on sites, and that puts us particularly at risk when the market starts to turn or when there are significant and rapid changes in government fiscal, housing or planning policy. We have said that in every downturn the least resilient disappears. As much as we are building our skills and looking to bring on new people, the more players there are in the market doing so is to the greater good, but the barriers to entry for small and medium housebuilders are significant. We are a large-scale business with a very substantial and professional staff, and we still find the process risky, difficult to predict and costly. For the smaller and medium-sized housebuilder, that is tenfold in volume and risk. The cost of achieving planning permission is a significant issue. The ability to achieve finance to proceed through the planning system is a significant issue for small and medium housebuilders.

Lord Griffiths of Fforestfach: Do you think that land banks are a significant barrier to entry?

Jennie Daly: No, I do not. As to the attraction of sites and markets, there is sufficient market and demand for smaller housebuilders to come in. A small site, below a certain threshold, is not attractive to a more volume market; Taylor Wimpey would have little interest in it. Very few of
our sites would be below 50 units, for example, which is exactly where the small and medium housebuilder would wish to invest. There is great opportunity, and certainly we see no barrier in the land market to them entering; it is more a matter of them being able to manage the cost of risk and their investment. Anything that would seek to remove or reduce those barriers would be of benefit to the small builders.

**Gary Day:** It is a very good point. The effort and resource, and the number of reports that have to be prepared, that go into securing planning consent for a 50-unit housing scheme is not that much different from the effort that goes into a much larger development, save for the fact that often you might not need to go through the outline planning process; it might be straight into a detailed planning application, but the details you have to submit are quite a strain and a constraint.

**John Stewart:** There is a big issue about smaller housebuilders; the numbers are extraordinary. For smaller housebuilders—and I define smaller as doing 100 or less a year—the peak was in 1988 and there were about 12,200. There are now about 2,400. There has been an 80% fall. It is very difficult to see them coming back in numbers. The corollary to that has been the increase in the share of the larger housebuilders; it has switched to the larger housebuilders. There is a lot of effort going in to try and get smaller housebuilders back, and there is some progress being made, but it is going to take time. You cannot suddenly go from 2,400 to 3,000, 4,000 or 5,000. One factor has to be planning and the tendency of our plan-led system since 1991—not everywhere—to allocate large sites. In some ways it is easier for a planning authority to do that and then to constrain development elsewhere. For the smaller housebuilders, that does not help very much because they do not do large sites; they only do smaller sites. We need to get back to a situation where there is a much greater variety of sites. It is a question of having as many sites as you can, catering for as many different markets in as many different locations, offering as many different levels of specification within a local market, and then you will begin to increase the output. If you could reduce the risk and the cost, and encourage that, you would get more, smaller and medium-sized housebuilders back in and that would begin to boost output. It is one of our preoccupations. It is very interesting talking to the large housebuilders, because they will often talk about the SMEs, and you wonder why they worry about that, but it is part of the market they are in.

**Q105 Lord Griffiths of Fforestfach:** To what extent do you think, because of the fact that the banking system was impaired by the financial crisis, that lack of finance is a constraint on going into or expanding the business?

**John Stewart:** Definitely; I think that is the situation. The impression we have—and this is very impressionistic—is that the larger housebuilders are well capitalised, well financed and they have facilities with the big banks, a multitude of banks. It is at the smaller end of the market that it has been extremely difficult. There have been improvements in the availability of development finance, and some companies—I have talked to family companies—say finance is not a problem for them, but finance is still an issue. In principle, there is more finance available this year than there was five, six or seven years ago, but often the terms are so onerous that a smaller housebuilder will find it very difficult to make that work. There is a range of issues that need to be addressed to bring the smaller and medium-sized housebuilders back in, and we are doing a lot of work with government in all those areas, but it is taking time; that one is not a quick fix.
Lord Sharkey: I want to ask about these small sites that might exist. Is it not the case that in our large cities there is a supply of relatively small brownfield sites that would be suitable for SMEs to build on?

John Stewart: There are sites, but if a local authority, let us say, allocates one or two large urban extensions and tries to constrain development elsewhere, it makes it very difficult for the small housebuilders. When I first joined the industry, back gardens were a major source of land for smaller housebuilders. You would buy up two big Victorian piles, knock them down and develop some housing. To try and discourage that, the definition was changed from brownfield to greenfield; back gardens in urban areas are now greenfield land, so it is more difficult to get those permissions. Added to that has been the difficulty, since the crash, of finance for small housebuilders. That has got better but still has not been completely resolved, and the finance terms that they face from the banks are very difficult. There is a whole mix of things that is constraining the ability for smaller housebuilders to come through, but everyone, including the Taylor Wimpeys, Barratts and McCarthy & Stones of the world, in every conversation I have, is not just talking about the majors; they are talking about the smaller housebuilders and how we need to encourage them back, because they realise that they cannot cater for the whole market on their own. As to the loss of SMEs—I cannot remember whether I quoted it—there were 12,200 in 1988, and now we are at 2,400; it is an 80% fall. That is astonishing.

Lord Forsyth of Drumlean: I should declare my interest as a director of a bank. When you talk about the terms being given to the small builders by the banks, do you mean the interest rate or the loan-to-value?

John Stewart: The interest rate can be high; the loan-to-value can be relatively low, so there is an additional requirement for funding. I am told there are entry fees and exit fees—I am not a banker—and all sorts of conditions where, superficially, the money is there but the terms are such that the first profit will have to go back immediately to the bank. For a smaller housebuilder, it becomes unfeasible. I understand that, often, you will have a situation where they will only let you build one site; then you have to develop out that site and repay all the money before you can get a second site. The Taylor Wimpeys or Barratts of the world do 300 or 400 sites a year; so they are very constrained in lots of ways.

Lord Forsyth of Drumlean: On your point about the big sites, going back to my point about mix, one is struck that, if you drive up the motorways in our country, you see these large developments absolutely hard against the motorway. Does that arise because the planners want to fill an envelope or is it because the land is cheaper? It seems quite crazy that we put people’s houses where there is the maximum pollution and the maximum noise.

Jennie Daly: As a rule, planners often see linear infrastructure as a barrier and so they will start to look at a new road or a motorway as an effective stop on a settlement. I do not think it has anything to do with the land price; it is where the planners choose to release land for development.

John Stewart: If the settlement has a boundary and there is a ring road built, the land between the existing boundary and the ring road will probably go for housing. That is what the local authority will allocate it for; the settlement extends out to the ring road. That is the way
settlements are planned. It is not particularly the housebuilder’s choice; it is just the land that is made available for which you can get permission.

Q106 Lord Turnbull: Picking up on this area of housing and the elderly, some witnesses have argued that longevity is a big contributor, that there ought to be a recycling process as older people move into smaller houses and then the larger houses will become available for families. It does not seem to be working. In our own neighbourhoods we all see elderly couples struggling to keep the house up and the garden down, and this process seems to be stymied. Is that because the properties to buy or to transfer into are not there in sufficient numbers? Are there sociological issues here in that people do not want to move out of their neighbourhood, or is it what I think is the biggest disincentive, which is: “I have to clear this house of 40 years of stuff that I have accumulated and I just cannot face it”? There are these obstacles, but how much is it because there are not the properties to move into?

Gary Day: My answer to your question could be a simple yes because it is all of those issues combined. When you look at the statistics in terms of the proportion of the older population who live in any form of specialist housing in the UK, which is 1%, compared with the USA, which is 17%, and Australia and New Zealand, which is 13%, there must be something happening here that is affecting supply and/or demand. Everybody has the right to live in the home of their choice. Yes, we do have an issue with a lack of genuine choice being made available for our older population to think more positively and proactively about moving in later life, downsizing or rightsizing, however we refer to it. There will be a majority probably still of older people who want to stay in their cherished family home. Some may say they are underoccupying existing housing stock, but if that is their choice they have a right to stay there. The important thing is to make sure that people understand the potential benefits of moving to a form of housing that better suits their needs and aspirations at that stage in their life, the health and social benefits that flow from that for them personally, and the social and economic benefits that flow through to the community as well, not least of which is releasing underoccupied stock for perhaps better use by families and improved health and sense of well-being and savings on the public purse. There are issues around people understanding the consequences of staying put and the potential benefits of moving.

Then we come to whether or not the appropriate choices are there. That is where perhaps today’s discussion is most relevant. In our submission to you, we have made the point that, in our belief, there is a lack of real recognition of the housing implications of our ageing population from a planning and housing policy perspective, both at central government level and certainly at the local authority level. The focus in housing policy terms is at the other end of the ladder. It is all about affordable housing and starter homes, which, of course, is very important, but so too are the housing needs of our ageing population, and we believe there is a lot more that could happen there.

We talked earlier about housing mix and the planning system. The planning system for us is not so much about the local plan process and release of large sites for development, although I never see a large site that has been released for development where there is an obligation to provide anything other than mainstream homes and an element of affordable housing. There is never an obligation or an expectation to provide some type of housing that is suitable for older people, whether that is the specialist housing of the kind that we deliver or other housing that people wishing to downsize might favour, such as bungalows or smaller cottages, for example.
do not think there is any strategic thinking around the housing implications for the ageing population. There is certainly no proactive planning, and there is a lack of recognition in the planning system of the wider social and economic benefits that flow from delivering better housing choices for older people. There is much more that we could do in planning to incentivise others to do more in this space, in my view.

Lord Turnbull: In your written evidence, you imply that you have one hand tied behind your back. When you are bidding against a retail outlet, a gym or something like this, they can often bid more than you and, therefore, they get the land and the right to make the application to the local authority. Presumably, the local authority cannot say, “I am not going to give it to LA fitness, because I think this other proposal for it to go to sheltered housing would be better for the community”. If you do not have the land, you do not have the right to make that application.

Gary Day: Yes. There are frustrations with processing planning applications and the time it takes. We have talked about the resources of planning departments, and we all have sympathy with local authorities in that respect. The issue for us with planning is that it has a direct or adverse implication on our ability to secure land in the first instance for exactly the reasons you are suggesting. I can give you an example of a wonderful site that we were very keen to acquire in a London borough. It was an existing public house, not one that was particularly welcomed by the local community; it had some social issues connected with it. We went to see the planning officers, who were supportive in principle, but the planning obligations that they presented to us, we thought, were extreme. In order for us to take that risk, we wanted a conditional planning contract; Jennie talked earlier about conditional planning contracts. It was subject to a planning contract. We presented that to the owner of the property, but they sold it to McDonald’s and it is a McDonald’s drive-through.

Lord Turnbull: The local authority has no right to say, “I know McDonald’s will pay more to this landowner than you can pay, but nevertheless we think it should go for this use”.

Gary Day: That is right, because it was equally acceptable for that property to convert into that use as it would have been to redevelop it into the use that we were proposing. The only way that you could possibly establish a preference, if a local authority has a preference for that type of use, is to allocate sites for different types of housing for older people, as I have mentioned before, and we never see that in any local plan. A more proactive planning regime and approach to, or a greater recognition of, the housing needs of older people might lead to something like forward planning for these types of housing solutions.

Lord Turnbull: Finally, in this space, are there any fiscal changes around equity release and inheritance tax that would assist you in this? Apart from people just steeling themselves up to make this move, one incentive seems to be, “House prices are going up. It is pretty cold in the winter, but, taking the family view, the longer I can hang on here, the better it is for us because we do not get taxed on this”.

Gary Day: I will make two points on that. There was a previous Select Committee, with which you might be familiar, chaired by Lord Filkin back in 2013, which produced a report called Ready for ageing?, which was a very welcome report from our perspective and one which I would encourage you to cast your eyes over. There were discussions in the inquiry sessions around
equity release. I think everybody would like to find some workable solutions, but there is a lot of mistrust out there due to pretty poor practice in the past. It is something that is worth further exploration; it could be something that would work for us.

As to other incentives or encouragement for people to downsize, there was a report, which I tried to circulate to you last week—I do not know whether you received it—which was launched two weeks ago by the International Longevity Centre - UK. It was one that we sponsored and is called *Generation Stuck*. It looks at the whole issue of downsizing and the hurdles—the things that people are worried about when they are thinking of downsizing. First and foremost, the report concluded that there are nearly 5 million older people who currently intend to downsize or are saying that they soon will start thinking about downsizing. There will be a massive potential demand or need; and in 2014 there were less than 2,000 units of specialist owner-occupied housing delivered to the marketplace. There is a huge potential unmet need and demand. People do worry about the cost of moving and there are recommendations that are made in that report, recommendations that have been supported by others in the past—other independent researchers and other organisations—around some sort of help-to-move scheme akin to the Help to Buy scheme. The Help to Buy scheme does not help older people move at all because older people cannot get access to mortgages, but most people looking to downsize are releasing substantial equity anyway so they do not really need financial assistance. Mental barriers are stamp duty and things like that. There could be different sorts of incentives or assistance around the actual physical moving experience or moving costs. All those are recommendations that are contained in that report to which I referred and we touch on them in our submission to you as well.

**The Chairman:** If you had not had any Section 106 obligations or infrastructure levy, would you have been competitive on the McDonald’s drive-through site?

**Gary Day:** The affordable housing obligation there was the main reason why we had an issue. The local authority wanted us to be policy-compliant; we were saying it would not be viable for us to be policy-compliant, so we did a viability assessment and it was not accepted by the officers. That meant there was a risk to us. The contract that we presented to the owner was a conditional contract, which would have allowed us to take that site through the appeal process. We were tying up the interest for an 18-month period with no guarantee to that landowner that we would deliver. We felt confident in our case and we regret the fact that we did not have the opportunity to take it through the system, but someone else came along, as I explained, and bought the site on an unconditional basis.

**Q107 Lord Sharkey:** In written evidence, the Home Builders Federation has told us that housebuilders have reported that between 35% and 40% of sales are currently from the Help to Buy scheme. I have two questions about that. First, do you think that that has produced a net increase, as far as you can tell, in new homes built, and, secondly, does not that very high percentage imply that the housebuilding industry is now dependent for revenue and profit on the continuation of this one scheme?

**John Stewart:** I confess we do not know what the true additionality is. It is not zero and it is not 100%. Where it is in there, whether a quarter or a third are truly additional—to know the counterfactual, “What would have happened if we had not had the scheme?”—is impossible to know. I know academics have tried to do it and have come up with certain numbers, but it is
very difficult to assess. It is very clear from the statistics that we have compiled that it had quite a dramatic effect at the time it was introduced. Housebuilders’ projections were such and it was quite clear that actual sales went up very much more rapidly. Many of them talk about being at the limits of production constraints on sites where they have Help to Buy. Help to Buy has enabled more people to buy than would have otherwise and, therefore, housebuilders to be able to build more homes, so there is a wider benefit apart from just the house bit.

**Lord Sharkey:** Or it enabled them to buy earlier than they would otherwise.

**John Stewart:** It enabled them to buy earlier or, in some cases, larger. That has quite clearly happened as well, where someone has bought a three-bed house versus a two-bed house. I am sorry; I cannot give you a precise number as to what the true additionality is from the scheme, but it must be significant—it is not trivial. We know that from talking to the housebuilders, and we know it from the data that we collect immediately before and after when it came on stream; it had a very dramatic effect on the amount of housing that was being produced. About 25,000 a year are being produced through the scheme at the moment. We also know from Wales, where they had a scheme much later, that things are much more difficult. Scotland has had an on/off scheme, which has come and gone, and it is much more difficult for them. It is clearly having a significant net effect, but I cannot measure it, I am afraid.

**Jennie Daly:** We would agree with John’s analysis certainly on the introduction of Help to Buy. We can see that there was a significant uplift in activity and that we were able to increase our delivery rates. If we were to try and quantify—it is quite difficult—we probably would be of the view that currently it is not adding a huge amount. Taylor Wimpey’s consistent view has been, and has been well expressed, that, while it is very welcome, we believe that we need to avoid a circumstance where this becomes a permanent element in the market. We have advocated that there needs to be a tapering. I feel the need to stress that that would need to be very carefully messaged and be a progressive withdrawal, because if it were to be removed quickly it would have a wholly negative effect on the market, probably to the extent that it would nullify any benefits that have come. We are advocates of a progressive tapering and removal now of Help to Buy. Last week saw the reintroduction of the Scottish Help to Buy, and it is interesting that it has a progressive ratcheting-down of the price cap. Again, I am not advocating that as the perfect model. I do not know, but it certainly would be something that we are watching to see how that is received and what the overall impact on the Scottish market will be.

**John Stewart:** Can I add something to that, which I think is very important? Because we have had an undersupply for 25 years, possibly longer, affordability has become extremely stretched in the context of house prices in relation to median incomes. The only long-term solution to that is to have a lot more housing. I am sure we would all agree with that. The question is how we get there, and it is a chicken-and-egg problem. Affordability in the round is not too bad at the moment because interest rates are at historic lows, but if you look at the relationship between house prices, affordability is still very stretched, particularly in some parts of the country, where we are now. In order to solve that, we need to build a lot more homes, but of course we cannot sell a lot more homes because affordability is stretched, so we are in a trap. I can see Help to Buy from the Taylor Wimpey individual company perspective, but there is a broader issue here. In order to speed up that process we need artificial intervention. If we just rely on the market, it will be decades before we solve the housing problem that we have in this country. Help to Buy, the new starter homes scheme and the new shared ownership scheme that is coming in are all
Home Builders Federation (HBF); Taylor Wimpey; McCarthy and Stone (QQ 94-110) – Oral evidence (EHMOE0006)

attempting—however effectively or not—to speed up that process so that you are allowing more people to buy than would otherwise be able to buy. Therefore, you can have more new supply—they are all targeted at new supply—and we can more quickly begin to right that balance between supply and demand. There is a wide public policy issue here, apart from the individual housebuilder’s benefits or otherwise or their attitude to the scheme. If we did not have Help to Buy, starter homes and so on, we would be for ever solving this housing problem because affordability is stretched. Of course, once interest rates start to go up, affordability will become even more stretched. At the moment it does not look so bad in the round, as I say, because interest rates are at a 300-year low.

**Q108 Lord Forsyth of Drumlean:** Mr Stewart, that is quite an interesting argument, but we have had evidence that has suggested to us that, if starter homes are able to satisfy affordable housing requirements under Section 106 agreements, this will reduce the availability of low-cost housing for rent. Would you agree with that?

**John Stewart:** I do, in that that is just a factual statement of what is going to happen. The Government have said that at the moment a proportion of housing on most sites, determined by the local plan requirement, has to be affordable, and the affordable mix—there is a definition—includes primarily affordable rent but some social rent and shared ownership. The Government have said they would like a proportion of affordable housing to be starter homes on every reasonably-sized site, as yet undefined. Starter homes will, by definition, replace some of those existing forms of affordable housing, such as social rent and affordable rent. The issue is fundamentally about the shortage of supply. We have an inadequate supply in relation to need and demand, and we are having to ration. The Government, rightly or wrongly—it is not for me to judge—have until now said that affordable housing Section 106 agreements must have a high proportion of rented, affordable rent and social rent; they have decided they are going to have a different approach and to have a market-based starter home to replace a large proportion of those. That is deliberate government policy. I do not think it is contentious; that is what is going to happen.

**Lord Forsyth of Drumlean:** Why is it not up to you to judge? You presumably know what you are talking about.

**John Stewart:** I hope I know what I am talking about. It is the point I made before. The housebuilders—and I reflect their views—have to work within the policy context that they are given. If the Government, from the Prime Minister down, say that from now on affordable housing is defined in the following document—in fact the starter homes requirement is going to be in the legislation—and affordable housing will require X% on all reasonably-sized sites, the industry has to make that work. Whether individually they agree with that or not is neither here nor there; they are companies who have to perform within the market and policy environment they are given.

**Q109 Lord Forsyth of Drumlean:** In the Home Builders Federation evidence to us, you say that without government subsidy it is not clear how more low-cost private rental accommodation can be provided. What would your advice be to the Government about how this could be done?

**John Stewart:** The difficulty with private rented—Jennie might want to comment on this as well—is that, having talked to housebuilders for many years on this one, because of the high
price of housing in this country due to the shortage of supply and, therefore, the high price of land, it is very difficult to generate a competitive land value if you are buying land against housebuilders who are bidding for that land to build for market housing, a development profit, which will be reduced if you are selling to an institution, and an institutional yield. You cannot make those three stack up or it is very difficult to make them stack up. There is not an obvious answer. Some of the housebuilders have made the private rented sector work, but most have not, and it fundamentally comes back to the problem of land and housing supply, which has made housing so high-priced. The capital value is so high that the institutional yield is very difficult to make work. There are ways the Government can help, or local authorities can help. It is very much like Gary’s point: if there is an affordable housing requirement, if you were to waive the affordable housing requirement for a PRS scheme, the PRS scheme might work. There is no hard evidence on this, but from talking to the housebuilders, in order to make private rented sector schemes work for institutional investors, as opposed to the one-off “mom and pop” operators, you need some sort of special requirement such as, “There is no affordable housing requirement or no community infrastructure levy requirement”. I remember talking to one of the major landlords and they said the local authority put the land in. In other words, they did not have to go out and bid for the land against other mainstream housebuilders, but it is very difficult to make private rented institutional schemes work.

**Lord Forsyth of Drumlean**: What about the Government providing tax incentives, as they do in the United States?

**John Stewart**: That would be one way of doing it. The maths does not work; that is the fundamental issue. Somehow you have to get a land value that persuades a landowner to sell, a margin for the developer—because, if you are selling 50 units to one institution, that will clearly be a lower margin—and the institutional yield that the institution wants. Somehow you have to make that work. It is extremely difficult, without something special going on, such as waiving affordable housing or tax breaks. I have not worked up any tax breaks, but there may well be ways of doing that. We have not cracked the private rented sector scale issue yet. There are some schemes coming forward and the Government have put money into this, but it has not been cracked on a large scale yet.

**Lord Forsyth of Drumlean**: I go back to what you were saying about these large sites earlier, when we were discussing the delay in building sites, which was because of the market in certain areas where you had to wait for people to come and buy the houses and so on. Listening to Mr Day talking about his specialist housing for the elderly, why, if there is a large site, do you not get together and have a mix of housing for rent and specialist housing for the elderly that is more like a community, and, therefore, you would not have to wait until people who wanted to buy came along on those sites? Why is it not possible for the private sector to work together to achieve that?

**John Stewart**: On a large site, there will be markets for different types of housing, depending on the location of that site. There will be, let us say, first-time-buyer housing, middle-market housing and there might be some quite large detached housing. Whether there is a market for retirement housing on that site—Gary is the expert—would depend entirely on the location of that site; clearly, a retirement housing scheme on the outer edges of the town, miles from the shops and from facilities, is inappropriate. Gary, I am sure you are more expert on that.
Gary Day: There are occasions where we work jointly with some of the major housebuilders and other smaller housebuilders. As to issues around the suitability of the site, most of the older people moving into our type of accommodation are moving from very short distances. The typical move is less than four miles. They want to stay within their existing community. With those that move further away, normally there is an existing or previous connection with that location; family is often the case. When it comes to delivering this type of housing on a larger residential development, it will only work once the local infrastructure is in place. For us, that means, basically, shopping and public transport facilities for our customers, and once the community of that development has been fairly well established. Unless there is forward planning, master planning and land set-aside, going back to my point about planning provision—forward planning for different types of housing meeting a range of needs, and my focus is on older people—or there is some land that is left over and the developers developing that site are looking for a different solution for it, it is only going to happen by agreement if the timing is right.

Lord Forsyth of Drumlean: It is down to the local authorities then.

Gary Day: The local authority could play a significant role in this and help deliver a lot more if it was accepted that that type of housing probably would not be delivered on day one; it may be five years down the road when the community has established and the facilities are there.

Jennie Daly: At the dawn of the institutional PRS debate, a number of housebuilders who were looking at the market as a potential opportunity looked at the use class itself. The use class, C3, which housing is in, has quite a broad breadth—a lot of what Guy delivers is C3 and absolutely 100% of what we deliver is C3. The private rental sector is also in the C3 use class. The planning authority will often apply requirements like affordable housing, parking standards and other burdens in exactly the same way, no matter what the nuances of that sector are. The major housebuilders suggested at the early stages that there was a different use class within the planning regulations to cover the private rental sector as it is conceived by the institutional players. The valuation issues that John has referred to are very live. Both the potential planning requirements to deliver affordable and other standards and the fact that they are looking at an investment model that cannot generate the same values seem to mean that they look for discounts to the market, and that can cause difficulties in competitiveness. There is also a clear locational restriction. PRS, at institutional level, is looking for a market that has rental growth effectively in-built, which is where it is confined to areas of the market in central and greater London and some of the larger regional cities, but very locationally sensitive. That means for the more suburban development on the edge of Leamington Spa or Warwick that there is not a robust appetite for PRS there, and there is a combination of issues and potential levers that could be addressed.

The other point is that the Government are clearly looking at institutional PRS, because of the way that they are applying the taxation issues to smaller investors. It seems to be implied in those incentives and the recently announced increase in stamp duty to small investors that small investors are poorer or less attractive than large-scale investors. If that is because the Government are of the view that large-scale institutional investors are more likely to create new product and drive new delivery, that is understandable, but it is not borne out at the moment. We are not seeing significant levels of new housing being delivered by PRS. I know that there is quite a lot of activity in the market and that might take some time, but we seem to have an
implied difference between small-scale investors, who deliver benefits to major housebuilders either in advanced funding or sometimes in their rapidity of sale so that we can increase our build, and large-scale investors. It is of some concern so see that difference being applied. We will not know what the impact is on the market until after April and the market calms down, but that is something probably worth monitoring as we go forward.

**John Stewart**: There is an issue there about the private rented sector and retirement housing in particular, which are very location-specific; you cannot just put them anywhere. It goes back to the point I was making before. If a local authority allocates one or two urban extensions, you are not likely to get any retirement housing and you are pretty unlikely to get any private rented. If we have a multiplicity of sites across the urban area, small, medium and large, you are much more likely to get a whole variety of housing, including traditional sheltered housing and private rented schemes.

**Q110 The Chairman**: If you could make one change to improve the supply of housing in the UK, what would it be?

**Jennie Daly**: I am going first so that John gets an extra go. I am going to be cheeky and say there are two things to be done on a very practical basis. I feel very passionately that our local authorities and their planning departments are grossly underresourced. I would wish to elevate in the minds of leaders how important investing in their local authorities is to the economic health and social well-being of their areas. That could be done quite quickly.

The second is probably more fundamental. We have talked about the peaks and troughs and the quite substantial impacts that they have on our industry, both in skills—the fact that we come to a grinding halt and slowdown in build rates in the downturns and then struggle to rebuild our capacities—and in human terms and in materials coming out. We would ask the Government to look at a cross-party agreement for a housing strategy, particularly for a housing strategy in the event of a downturn, such that there is effectively a toolkit of intervention that can be communicated to the housebuilders that could be available, to enable us to build the capacity now with confidence that that capacity can be retained for the long term. It is important to try and move out the cyclicality. I say again that we are of the view that we need some of the interventions that exist at the moment to be tapered out—we talked about Help to Buy—otherwise, if there is a need for further intervention at a different part of the cycle, there will be nothing left in the arsenal.

**Gary Day**: I certainly endorse the point on resources within planning departments, but with the sector that my interest is in, I would like to see a policy presumption in favour of schemes that are assisting or delivering better housing choices for older people. That starts with a strategy at the national level—at central government level.

**John Stewart**: With your indulgence, I will give you two answers. One of them is that we need to solve the planning resource issue. It is clear from evidence from several organisations that the planning resource has fallen as we need to get more planning permissions through, and that is acting as a significant barrier to housing delivery. There is the resource issue. That resource issue is not just more people—it needs to be a rethink of the way that works.

My more radical idea would be similar to what Gary said. At the moment, local planning authorities try to control all development land, and that is, in a sense, the nature of our plan-led...
system. For example, if a development is unpopular, they will try to allocate one or two urban extensions and then constrain development in the settlement. That is very damaging for housing supply. You need a multiplicity of sites and outlets within the settlement boundaries. I would like to see what we used to have in the 1980s—a presumption in favour of residential development, but now within settlement boundaries; then it was general. I think you have to say that. Housebuilders could then find sites of all sizes and that would put the onus or the responsibility back on the housebuilders; they are the experts; local authorities are not the experts at finding suitable sites. The presumption would put the expertise back to the housebuilders, and if we had the presumption it would encourage them to bring forward many more sites and different varieties of sizes and products. That one measure, I believe, would begin to transform the aggregate supply picture rather than the current situation where local authorities try to micromanage everything and open one or two large urban extensions, which, by definition is, very restrictive in the number of homes you can get, the variety of homes and the markets that you can cater for.

**The Chairman:** You would have the local authorities better staffed but doing less.

**John Stewart:** You might do that; I could not possibly comment.

**The Chairman:** Lady and gentlemen, thank you very much indeed. It was a very interesting session.
1. The Home Builders Federation (HBF) is the principal trade association representing the interests of private home builders in England and Wales. Our membership, which includes companies ranging from major national firms, through regional companies to smaller local firms, is responsible for more than 80% of the new homes built every year.

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

2. This question has two possible perspectives:
   - How to make housing in general more affordable (i.e. lower prices in relation to incomes) by ensuring the long-term imbalance between supply and demand is remedied;
   - How to increase the supply of lower, or ‘reasonably’ priced housing within the market as it is today, given that “reasonably priced” in many areas is very high in relation to incomes.

3. Three key outcomes would flow from correcting the long-term supply/demand imbalance:
   - House prices would eventually adjust to more ‘affordable’ levels against incomes, so that a much larger proportion of households would be able to afford adequate housing without state assistance. (There will always be a proportion of households for whom market prices or rents are unaffordable and whose housing needs can only be met with some form of subsidy. However since the late 1990s, the proportion of households unable to afford market housing has increased very significantly, so that in many areas households on middle or even higher incomes cannot afford to buy. Private rents have also risen to high levels relative to incomes in some areas.)
   - If the supply of housing was much greater, many more home builders, especially SMEs, would be able to build homes – i.e. industry capacity would expand;
   - And the industry would be likely to provide the widest possible range of products and prices, to meet the widest possible range of market demand, including providing more housing at the ‘reasonably-priced’ end of the open market.

4. So the fundamental question is what measures are needed to achieve a significant and sustained increase in home building levels?

5. The Coalition and the current Government have done a great deal to boost house building, including most notably the planning reforms under the National Planning Policy Framework (NPPF) and the boost to new home demand from Help to Buy Equity Loan, soon to be joined by the Starter Homes initiative, along with opening up shared ownership, under Help to Buy Shared Ownership, to the private sector.
6. Private house building levels have increased significantly since the crash:
   • Sales top 8 house builders: +49% (2010-15)
   • Private housing starts: +69% (2009-14)
   • Gross additions: +33% (2010/11-2014/15)
   • NHBC private warranty registrations: +97% (2009-14)
   • Private sector planning permissions (plots): +70% (2011-14)

7. However, the increases have been concentrated among the larger national and, to a lesser extent, regional house builders, with no significant increase from SMEs.

8. However more needs to be done to boost private supply. The following proposals, some quite radical, are largely focused on England. However some have relevance to Wales. (HBF does not cover Scotland.)

**Industry skills**
9. This is a serious constraint across the industry, at all levels (site trades, site management, professionals, management). This is an industry problem, which the industry must largely solve – and is seriously addressing – on its own, though with a key role for the CITB and broad support from Government.

**Planning applications: LA resources and reform of end-to-end process**
10. This is second-only to industry skills as a constraint on supply. LAs have a monopoly to grant permission, so house builders have no option but to deal with the relevant LA, however inefficient and lacking in resources, and LAs appear to lack incentives to adequately resource their planning departments and offer an efficient, speedy service. The answer is not simply ‘higher planning fees’. We recommend:
   • Increase LA planning & legal resources, but directly linked to improved service levels (e.g. staged fees and implementation fees)
   • Streamline and simplify the end-to-end application process to make resources go further - DCLG is considering a range of improvements – e.g. PiPs, S106 arbitration, planning conditions – but improvements on the ground are painfully slow
   • Encourage outsourcing of non-political planning processes to improve efficiency
   • Introduce competition into non-political processes (Building Control service levels were transformed when competition was introduced)

**Restoring private supply’s responsiveness to market demand**
11. Up to the late 1980s, private housing supply (output, numbers of SMEs) were highly responsive to market demand. Following the introduction of the plan-led system in 1991, this supply responsiveness was heavily constrained. We recommend:
   • A presumption in favour of residential development for all brownfield land within settlement boundaries – to energise the experience and skills of home builders, especially SMEs, to bring forward available, suitable and viable sites (expertise and knowledge LPAs cannot possibly have). If required, we can provide more information on the presumption.

**Local plans**
12. Up-to-date Local Plans and adequate housing numbers in Local Plans are crucial under our plan-led system to maximising numbers of sites/sales outlets, encouraging suppliers of all sizes and increasing supply:

- We strongly support the Government’s requirement for all LAs to have a Local Plan in place by early 2017 and the new ‘delivery test’
- Local plans should include an additional ‘implementation gap’ + a 20% ‘buffer’ (LAs often make downward ‘adjustments’ to objectively assessed need (OAN); and we need to avoid Local Plan housing totals being treated as a maximum, thereby potentially artificially restricting housing supply in an area.)
- Local plans should encourage the widest range of sites by size and location vs a focus on releasing a few large sites (The Spending Review proposal to amend planning policy “to support small sites” is a step in right direction, but does not go nearly far enough)

**Industry capacity: finance (SMEs; large-scale infrastructure)**

13. Improved processes and extended objectives for the Builders Finance Fund (BFF) would boost supply:

- Ensure BFF application processes are as simple and low-cost as possible for SMEs
- Keep BFF products under constant review to meet the changing needs of SMEs as the private finance market evolves
- Consider BFF funding for start-ups
- Consider a debt funding guarantee (as exists for the PRS)
- Introduce ‘Help to Plan’ funding (to fund SME upfront planning costs for detailed permission, possibly secured on the value of land with a PiP)
- We welcome the fund for large-scale infrastructure provision – infrastructure funding costs can delay, or even stop work starting on large-scale housing developments.

We welcome the Spending Review BFF extension to 2020-21 with the inclusion of Custom Build fund plus funding for large-site infrastructure.

**Land supply: public-sector land**

14. The OFT housebuilding study (2008) concluded that between a quarter and third of all potential residential land was controlled by the public sector, so it has an enormous role to play:

- Further simplification of disposal processes
- ‘Buy now pay later’ and JVs between developers and public land owners
- A master planner model is favoured by the industry for very large HCA sites, as is used by the Defence Infrastructure Organisation (DIO)
- HCA small site disposals to be at minimum possible cost & complexity for SMEs
- Custom build – further experimentation and simplification of HCA scheme

Much has already been achieved, both in streamlining HCA disposal processes and boosting the supply of public land, but more needs to be done.

**Estate renewal**

15. HBF supports efforts to promote estate renewal – potentially a large source of additional supply, especially in London: as well as improving housing standards and sustainability for residents, it relieves pressure on greenfield & Green Belt land and can boost values & supply in the surrounding area:

- Estate renewal requires a local authority to have a well prepared and well thought through plan for what is a highly complex process; the LA must work closely with the
developer throughout; and protection of tenants & right-to-buy owners must be addressed at the outset to ensure majority support for the redevelopment and to avoid reputational damage

a. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

16. Help to Buy Equity Loan has been transformational for private house building. Around 25,000 sales per year are being recorded in England, and house builders report that around 35-40% of sales, on average, are from the scheme. The scheme helps buyers in affordability terms in two key ways: improves access by overcoming the deposit gap by only requiring a 5% deposit; and makes monthly payments far more affordable than would be the case with a 95% mortgage, both because a 75% loan is smaller than a 95% loan, and because a 75% loan attracts a lower interest rate than a 95% loan.

17. The scheme has certainly not exacerbated the lack of supply of low-cost housing. Quite the contrary, it has boosted the supply of more affordable new homes, although the true scale of net additions to new build is difficult to pin down.

18. The scheme’s extension to 2020 (now 2021) has helped the industry not just with immediate sales, but it has given a degree of confidence about future demand which has allowed companies to plan for faster growth than would have been possible without the scheme; and it has allowed companies to build the sales benefits of the scheme into their land buying (impossible for most housing schemes if only available for two or three years); this in turn has helped the industry rebuild capacity more quickly than would otherwise been possible; and the fact that the scheme is open to all sizes of house builders, on a continuous basis (vs a single bidding date), has allowed large numbers of SMEs to benefit from the scheme.

19. The scheme was extended to 2021 in the Spending Review. Given the impact of the scheme, its withdrawal – if it is withdrawn – in 2021 will require very serious consideration if we are to avoid a sudden sharp drop in sales, and therefore production, of new homes.

b. Taxation: Are there tax measures that would improve housing supply and affordability?

20. While taxation (e.g. council tax) must have some influence on housing demand and supply, we do not believe the chronic undersupply of housing since the early 1990s has its origins in any particular taxes. We also do not believe there are any politically-realistic tax measures that would significantly boost supply, especially now the long-called-for replacement of the SDLT slab system with a slice system has been implemented.

21. There must however be some concern about two tax developments:

- The penal SDLT tax rates now applied to high-priced properties, along with various other fiscal measures, are reported to have slowed demand for high-value London housing and high-value housing more generally. There must be a risk these measures will damage the quantity of new housing being produced in London, a quantity which is still well short of estimated housing requirements.
- Changes to the tax treatment of landlords/investors (tax deductibility of mortgage interest restricted to basic rate, changes to the wear-and-tear allowance for furnished
properties, the recently introduced 3% SDLT surcharge in investment purchases for smaller-scale landlords) may damage – possibly quite seriously – the willingness of investors to buy property, and so disrupt PRS supply, without necessarily benefitting first-time buyers. The Chancellor must avoid any further measures until the consequences of recent changes, positive and negative, can be fully assessed.

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

22. We do not have a firm view on this question

ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

23. Replacement of the slab with a slice system will have reduced the tax payable by many first-time buyers, and so will have improved the accessibility/affordability of housing, although some of the change may be capitalised into higher prices given the overall shortage of housing, and so dampen the benefits. It always seemed contradictory to introduce measures to help first-time buyers, such as Help to Buy Equity Loan and its predecessors, while at the same time levying high rates of SDLT at the time of purchase. The obvious other reform would be to raise the SDLT thresholds in line with increases in house prices. Otherwise fiscal drag will, over time, gradually negate the benefits of the recent reforms.

24. To the extent that the 3% SDLT surcharge for investment buyers is capitalised into lower bids for properties, possibly reduces overall demand from investors, and perhaps even increases the supply of formerly rented properties coming back onto the market, it could have some beneficial impact on first-time buyers by making house prices more affordable. However we will have to wait and see. One factor will be the degree to which investors/landlords have been bidding against first-time buyers for the same types of properties in the same locations, or whether first-time buyer product/location demand is somewhat discreet from investor demand.

c. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

25. House builders have not generally reported any identifiable adverse effect of the MMR.

d. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

26. Yes. We have outlined our reform proposals in some detail above (Question 1).

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

27. This question, like the very first question above, has two possible perspectives:

- If the supply of housing was in balance with demand, rents would not suffer such strong upward pressure because many young people would be able to buy a home and so not be forced into the PRS, which would allow a better balance between PRS supply and demand, and so rents would be more affordable (‘low cost’ in the words of the question);
Or if the question is framed within the market as it is today, then it is difficult to see how ‘low-cost’ private rented units can be provided beyond what the market provides. Government schemes will produce additional PRS units, but the rents will have to reflect local market rents. In some markets these may be relatively ‘low-cost’, but in others they will be higher, depending entirely on the local market context and local market balance of supply and demand.

Unless the Government introduces direct private rental subsidies, it is not clear how ‘low-cost’ private rental properties could be provided beyond what the market provides.

a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

28. Please see our comments above. The impact on rents will depend on how landlords and investors respond, and the proportion of landlords on higher-rate tax relief. We are not aware of any data on the latter. Certainly the after-tax rental returns for higher-rate landlords will fall, which in principle could lead to some landlords attempting to raise their rents, or alternatively some may sell their investments which could lead to a fall in PRS supply which could in turn lead to upward pressure on rents in some local markets. So the tax relief changes (and changes to wear-and-tear allowances for furnished properties) will not lead to lower rents, and quite plausibly could put upward pressure on rents – though whether landlords would be able to achieve or sustain higher rents would depend on local market conditions.

b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

29. Without state intervention, it is difficult to see why the downward trend in home ownership would be arrested or reversed. While a range of factors have probably contributed to the fall in home ownership, which has occurred among the under-55s, and especially among the under 45s (home ownership has risen steeply, to very high levels, among the 55+ age group), the rising price of housing in relation to incomes appears to have been a key influence. The falls in home ownership among younger households date back to the mid-1990s, at a time when house prices were beginning to rise strongly. This has resulted in falling household formation among younger people, a very large increase in the number of young people living at home with their parents, and a steep rise in the number of households, and the proportion, in the PRS.

30. To reverse these trends would take a reversal of the affordability trend. Yet house prices are still rising ahead of income growth, and interest rates will, if anything, rise over the next few years. It is worth saying that, given the very high rates of home ownership among older households, and the steep falls we have seen among younger households, increasing home ownership will have to be achieved among younger households. More renters will have to be persuaded to buy, more young people persuaded to leave the parental home and buy a property, and household formation will probably have to increase.

31. Help to Buy Equity Loan must have helped some first-time buyers to access home ownership who would not otherwise have been able to do so (currently averaging around 22,000 sales to first-time buyers per year), although it is difficult to measure the true ‘additionality’ of the scheme. The new Starter Homes scheme, with a target of 200,000 homes by 2020, will add to home ownership numbers by largely replacing Affordable and Social Rented housing within Affordable Housing provision on private housing sites (via S106 agreements). The Chancellor also wants to see the new Help to Buy Shared Ownership scheme achieve 135,000 units, with
£4bn of funding, by 2020. A proportion of these sales will be to first-time buyers. Taken together, these three schemes should add significantly to first-time buyer numbers by making home ownership more affordable/accessible. However we are not yet sure how the three schemes will operate together. We have also not estimated the total additional contribution the three schemes will make to home ownership and whether this will be sufficient to halt the decline in ownership among younger households.

c. What are the advantages and disadvantages of restricting rent increases in the private sector?

32. We see no advantage. If rent increases were capped below market increases, investment in the PRS would become less attractive (some landlords would sell, others would not buy). The greater the restrictions vs market rents, the greater the damage to supply. And restricting supply, all else being equal, would add to upward pressure on rents, and so make the rental increase restrictions even more onerous, and so on in a vicious circle.

33. The solution to the housing undersupply crisis we have artificially created, and the affordability crisis this has generated, is not to add further controls and distortions to an already heavily distorted market. It is to allow/encourage housing supply to rise until we restore a reasonable balance between supply and demand, so that affordability will be much improved, the upward pressure on private rents will ease, and we will not need to seek short-term, and ultimately damaging policies such as restricting rent increases.

John Stewart
Director of Economic Affairs
Landbanking Survey

January 2014

The survey gathered data from 23 of HBF’s largest members (including 11 of the 15 largest UK house builders), with aggregate annual legal completions of approximately 48,000 units.

Aggregate results are for 2,303 sites, 218,271 plots.

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Prepared for House of Lords Economic Committee, January 2016
Solving house building industry skills shortages

27 January 2016

Introduction
The credit crunch in 2007-08 and subsequent recession led to a 41% fall in housing completions in England. Completions have risen sharply since the trough in 2010-11, but they are still around a quarter lower than their 2007-08 peak.

As a result, the industry suffered a major loss of skills at all levels: sites trades, site management, professionals, management. And because the downturn has been so prolonged compared with previous post-war housing slowdowns, many of those who left the industry will have retired or found jobs in other industries.

The industry has primary responsibility for solving its own skills shortages. Individual companies have a major role to play in recruitment and training. HBF has a valuable role to play at a collective level, working with individual companies, but also with the Construction Industry Training Board (CITB) which has significant funds raised through a levy on all construction activity, including house building. In addition, many skilled staff (e.g. quantity surveying, engineering or architecture) are educated in colleges and universities before joining the industry.

The following is a brief summary of the activities being undertaken by HBF and the industry.

Industry recruitment and training
House builders have significantly stepped up their levels of recruitment and training as the market has recovered:

- New apprenticeship engagements by the largest house builders have increased by more than two thirds in the last two years (HBF Survey of Major Home Builders). We estimate there are now around 2,000 new apprenticeships per year, which suggests around 5,000 in total on two or three year schemes.
- Graduate and other recruitment has also increased significantly
- A number of firms have been recruiting and training armed-services leavers with suitable potential (for example, Persimmon’s Combat to Construction scheme)
- Companies act as lead industry partners to provide education and skills for those interested in joining the industry at a number of University Technical Colleges

House building as a career option for young people
One area identified as needing immediate attention was information about the industry for young people looking at their career options. In response we have created a brand new housebuilding careers website (http://housebuildingcareers.org.uk/), showcasing the range and variety of careers opportunities within house building - trades, site management, professionals – which aims to attract the brightest and best young people and address the negative perceptions sometimes associated with house building as a career

HBF has initiated a range of measures aimed at young people, teachers and parents:

- Worked with the Geography Society to produce a series of GCSE-compliant house-building related lesson plans (available on the website).
- Created a section on the website for parents and teachers
- Written to, and provided posters for, every school, college and university in England to showcase the website
- Linked up with the careers service to get posters up in every Jobcentre promoting the website
- Launched a free-to-join HBF Student Membership category.
- Dedicated social media sites to engage with young people and direct them to the HBF website
- Worked closely with CITB on the housebuilding section of their new construction industry Goconstruct website which is aimed at attracting young people into construction, thus giving us two website ‘windows’ through which young people can view the career opportunities house building offers.

**Industry-wide skills initiatives**

HBF is also actively developing – and seeking CITB support for - a new industry-owned Home Building Skills Partnership (HSP). This major project will establish a skills infrastructure, led by senior industry figures, which can research, develop and implement collaborative initiatives to deliver industry-wide capacity building for the future. The initiatives will include:

- Further promoting careers, entry routes and apprenticeships
- Researching and developing means to boost home building supply chain skills capacity
- Creating a National Centre of Excellence for training in key site-based roles
- Recruitment of experienced workers – creating mechanisms to help firms recruit and train those with relevant previous experience or knowledge not currently working in home building – e.g. armed services leavers, those currently out of work, people with built environment qualifications
- Developing training standards/provision that fully reflects the requirements of home building
- Directly providing necessary intelligence to guide the provision of CITB financial and other support to areas where it can add most value
Restoring the market-responsiveness of private housing supply
Proposal for a presumption in favour of residential development for all brownfield sites within settlement boundaries

January 2016

We believe a proper presumption in favour of residential development for all brownfield land within settlement boundaries would help restore the market responsiveness of private house building, and so generate a significant increase in housing supply; it would be especially beneficial for SMEs who rely on smaller sites; and it would require no local authority (LA) intervention or resources beyond gearing up to deal with the increase in planning applications.

In the 1980s and before, when private house building was very responsive to demand and SME numbers responded dramatically to demand conditions (see chart below), there was every incentive for house builders to identify sites suitable for housing and bring them forward for planning. The presumption in favour of development meant a local authority had to have a very good reason to refuse a site submitted for planning.

Private Housing Completions (England)

Since the plan-led system was introduced in 1991, the focus has been on local authorities identifying and controlling the supply of land—in effect the presumption in favour of development was replaced with a presumption in favour of land in the Local Plan. One serious negative consequence (among many) of this shift in focus was that house building was made very unresponsive to demand (see chart above). While the coalition and current government have introduced a raft of reforms to boost housing supply, we must restore that responsiveness if we are to achieve the required scale of increase. House builders have been ejected from the driving seat and replaced by local authorities. We need to put house builders back in the driving seat.
There is no shortage of brownfield land; the problem is getting planning permission to develop sites for housing. So we must establish a climate — as in the 1980s and before — in which house builders feel there is a very good chance of getting residential planning permission for brownfield sites they have identified, whether or not sites have already been included in a Local or Neighbourhood Plan or on a Brownfield Register.

The current brownfield presumption is very limited as it only applies to sites identified in a Local Plan, a Neighbourhood Plan or on a Brownfield Register. This will not restore the responsiveness of supply to demand as all three documents rely on local authorities to identify brownfield sites for housing — i.e. they are all local authority led. This is problematic for several reasons.

- Local authorities do not have sufficient resources to run the current planning system, so even if Brownfield Registers were feasible, LAs are unlikely to have the resources to compile meaningful registers.\(^\text{161}\)
- The supply of brownfield land for housing is not fixed over time. Brownfield sites are developed, and new ones become available as their current use is no longer viable, so that the Registers will need constant updating.
- But most important of all, whether or not a brownfield site could/should be developed for housing is a matter of judgement.

This judgement is informed by three key considerations:
- whether a brownfield site would be available, i.e. whether the owner would sell, which can only be determined by discussions with the land owner(s);
- whether a site is suitable for housing under current market conditions, a judgement that must be based on development experience;
- the appropriate mix of housing for the site and local market and whether a scheme would be viable - the two key ingredients of viability are that the scheme generates (a) the required profit margin for the house builder, and (b) a land value sufficient to persuade the land owner to sell.

Only a house builder has the resources, expertise and experience to make all these judgements. In a sense, in the 1980s house builders ‘created’ site opportunities. Opportunities weren’t sitting there already identified. It took a house builder to spot a site, see its potential, approach the land owner and do a deal, design a viable scheme to meet local market demand and then take it to planning — though the crucial difference then, as noted above, was that there was every chance of obtaining planning permission so there was a strong incentive to “create” sites. By contrast, the plan-led system almost completely removed this incentive.

\(^{161}\) Every developed site in a town or city is, by definition, a brownfield site (e.g. Buckingham Palace, the Home Office/DCLG building). To compile a useful register of residential opportunities (as opposed to simply a list of brownfield sites), a local authority would have to apply judgement to assess the housing prospects of every developed site in the borough or district. Most sites in current use would immediately be ruled out (the Home Office building), while at the other extreme some sites will be vacant or derelict and obvious potential candidates for housing development. But there will be large numbers of brownfield sites in current use which could offer potential for housing redevelopment, but only if someone takes the initiative: spots the potential of the site, assesses its suitability for housing, opens negotiations with the land owner(s), designs a housing scheme suitable for the site and local market, works up a viability appraisal and eventually seeks a planning permission and agrees to buy the land.)
It is unrealistic to expect local authorities to have sufficient information about a site’s availability, suitability and viability to know whether most sites should be on the register. We have evidence of this problem from the National Land Use Database which generated wildly inflated numbers of supposedly suitable sites, a majority of which were in some form of current use and never likely to be developed for housing. At best we might expect local authorities – and local communities developing a Neighbourhood Plan – to be able to identify fairly obvious brownfield sites, such as those already vacant or derelict. Anything beyond these sites will be largely theoretical.

So to restore supply responsiveness, we need to encourage house builders, including SMEs, to seek out, or ‘create’ potential residential opportunities, to approach land owners and negotiate deals, to assess the most appropriate housing mix for a site, to work this up into a viable project, all in the knowledge that if the scheme is submitted for planning it has a very good chance of being granted permission. Our proposal for a presumption in favour of residential development for all brownfield sites within settlement boundaries would achieve just such a transformation.

We believe this one policy change would quickly bring forward large numbers of site opportunities by encouraging house builders, especially SMEs, to seek out new sites and expand their businesses, and ultimately boost supply without any need for local authority intervention or resources (beyond gearing up to process the increase in planning applications flowing from the presumption). As already noted, we need to put housing developers – the experts – back in the driving seat.

Our largely market-based system of housing delivery, largely reliant on the private sector to produce market housing (made even stronger now that most Affordable Housing will be market-based Starter Homes), can only produce the housing numbers we require if the market is allowed to operate. The market cannot deliver if the primarily raw material, land, is micro-managed and controlled by local planning authorities. Housing under-supply was an inevitable consequence of a plan-led system.

**Footnote on presumption definition**
We have used the term “within settlement boundaries” to ensure all villages, towns and cities are included. By contrast, the term “urban brownfield” would have implied only larger settlements (towns and cities). We restrict the presumption to sites within settlement boundaries because free-standing or remote brownfield sites (e.g. a redundant airfield within a greenfield area) will require special planning considerations. The presumption in the 1980s covered all land, not just brownfield. However a presumption covering greenfield sites is probably a step too far in 2016.

John Stewart
Director of Economic Affairs
TUESDAY 12 JANUARY 2016

3.40 pm

Witnesses: Andrew Rose, Fiona MacGregor, Isobel Stephen and Stephen Aldridge

Members present

Lord Teverson (Chairman)
Baroness Blackstone
Lord Forsyth of Drumlean
Lord Griffiths of Fforestfach
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Layard
Lord Monks
Lord Sharkey
Lord Turnbull
Baroness Wheatcroft

Examination of Witnesses

Andrew Rose, Chief Executive, Homes and Communities Agency, and Fiona MacGregor, Director of Regulation, Homes and Communities Agency, Isobel Stephen, Housing Supply Director, Department for Communities and Local Government, and Stephen Aldridge, Director of Analysis and Data and Chief Economist, Department for Communities and Local Government

Q59 The Chairman: Good afternoon. I welcome you to the Committee. Part of our report is on the housing market. First, although I have declared my general interests, I should declare a particular interest of my own: I chair a company that is currently seeking funding through the Builders Finance Fund, which is under the administration of the HCA. Perhaps I could ask the panel to introduce themselves in one sentence so that we know exactly what you do and what your responsibilities are. Perhaps we could start with Mr Rose.

Andrew Rose: I am Andy Rose. I am the chief executive of the Homes and Communities Agency.
Fiona MacGregor: I am Fiona MacGregor. I am director of regulation at the Homes and Communities Agency.

Isobel Stephen: I am Isobel Stephen. I am housing supply director at the Department for Communities and Local Government.

Stephen Aldridge: I am Stephen Aldridge. I am the director of analysis and data at the DCLG.

The Chairman: Thank you. Perhaps I could remind you that we are not expecting all of you to answer all the questions. I will leave it to you to work out for yourselves which to answer.

Perhaps I could start off with a broad policy question. One of the things that has been said to us on a number of occasions, one of the most basic questions, is why the Government seem increasingly to have decided that they ought to favour owner occupation over renting, which has come across as a major theme for our witnesses so far. Is that government policy? If it is, is it based on any specific evidence or research? This is fundamental to some of the areas that we are looking at in this inquiry.

Isobel Stephen: The recent spending review set out plans for investment of £20 billion in housing. Of that, £8 billion was invested in 400,000 affordable houses. Of those 400,000 affordable houses, we expect 100,000 to be homes for rent. In fact, we expect there to be more than 100,000, because where local authorities and housing associations get receipts from right to buy and high-value asset sales, we expect them to invest in houses that are appropriate for their local communities. However, it is clear at a political level that the Government are interested in home ownership. We know that 86% of people want to own their own home and that currently only 63% of people do so, so the Government are looking at that gap in aspiration, which they want to address.

The Chairman: Some witnesses have said, although some of our witnesses have disagreed with this, that the tax system, and perhaps some of the recent tax proposals, rather benefit home owners as opposed to renters. Is that a distortion in the market? Is it intentional? Indeed, do you agree with any of that?

Isobel Stephen: I will leave the specifics of tax measures to my Treasury colleagues who are talking to you later. I can say that the private rented sector is important in terms of the housing that is available for people. Nineteen per cent of people live in the private rented sector, and in particular the Government are interested in what the institutional private rented sector can contribute to supply, which is why we have both the Build to Rent fund and the private rented sector guarantee scheme, which support institutional investment in private rented sector accommodation.

Lord Lamont of Lerwick: Why would you be interested particularly in institutional investment in rented accommodation? Indeed, some people have thought that some of the Government’s recent moves have discriminated against small landlords, yet small landlords are among those whom one can encourage to come forward in a very short period of time and are a very large source of supply.
Isobel Stephen: I am talking about extra houses. Where institutional investors can take money and use it to build new accommodation which they then rent to people on a private basis, that adds to the overall supply of houses.

Lord Lamont of Lerwick: Making part of a house available might also add to the supply.

Isobel Stephen: But the private rented sector institutional investors can do that on a much greater scale.

Andrew Rose: I think that other markets have been very professionally managed and that large-scale rental schemes have provided very good accommodation. The Build to Rent fund approach came out of Sir Adrian Montague’s report a few years ago, which said that attracting institutional investment into the market would help to create professional asset managers at scale who will provide very high-quality accommodation. So I think it is a combination of the quality of the accommodation and the scale to make sure that we deliver the new supply that Isobel talked about.

Q60 Lord Layard: Professor Paul Cheshire talked in evidence about how the rises in house prices have transferred wealth from young to old and from poor to rich. This is obviously a big problem, a big social issue. Can anything be done about this without some new initiative in relation to the supply of building land?

Stephen Aldridge: I think the proposition is right. Compared with what has been happening to the incomes of older age cohorts, younger people’s incomes have been rising less rapidly. We also know that young people have become more dependent on their parents or others in order to get a foothold on the ladder of owner occupation. These issues were set out in David Willetts’ book, The Pinch, a few years ago, as some of the witnesses to this Committee have already said.

On the origin of these changes in the distribution of income and wealth, they might extend beyond just housing policy: there may be other reasons for them. There are things the Government can do to make a difference. You are absolutely right that increase in supply is vital; the Government have identified that as a key objective of housing policy. Although there is more to do, we have in recent years seen a significant pick-up in the numbers of first-time buyers, and, as we may no doubt get on to, there are a number of government initiatives that are intended to assist younger people to get on to the housing market ladder.

Lord Layard: You mentioned the increase in supply. Do you think that we can have an adequate increase in the supply of houses without some new initiative to increase the supply of land on which the houses can be built?

Stephen Aldridge: A number of changes have been made. We have seen planning reforms in recent years that are intended to make it easier or quicker to bring land into use for housing development. Some of the other questions that we might get on to later will touch on the way in which we assess demand and take account of market signals such as land prices, house prices and affordability and our approach to the provision of land for housing. Those sorts of changes have begun to make a difference to housing supply, and I think that is reflected in the trend in the numbers of housing completions and net additions to the housing stock.
The Chairman: From your answer, Mr Aldridge, you recognise that this redistribution from the poor and the young to the old and the rich is actually happening. Is the department concerned about this, or is it just a fact of life and the way it has to be?

Stephen Aldridge: There are two things. First, as I have already said, the reasons for it go beyond just housing policy. Secondly, as has already been pointed out, increasing housing supply is ultimately the key way to address rising house prices.

Lord Forsyth of Drumlean: This problem of asset-price inflation is not limited to housing, of course, and is in part a consequence of quantitative easing and low interest rates. No doubt Mr Aldridge will say that that is not his department, but what could be in his department is perhaps trying to find some basis on which to take forward respectable equity-release schemes that would enable people who have children and assets perhaps to help them in the housing market. Have you looked at that at all?

Stephen Aldridge: As far as I am aware, not recently. There are several government programmes concerned with making shared-ownership provision more readily available. Of course, under the Help to Buy equity loan scheme, there is a programme through which younger people can more readily gain access to mortgage finance in order to get a step on the ladder.

Lord Forsyth of Drumlean: That is my point. With Help to Buy, the Government give an implicit guarantee where they lend their balance sheet and thereby reduce the mortgage costs for young people. Could something similar not be done with elderly people—who do not have cash but do have equity in their homes—so that they were able to release cash to help youngsters who are competing in a market where asset prices have increased as a result of other factors?

Stephen Aldridge: In principle, that is right, although we have already seen a significant increase in the proportion of family members who help young people gain access to the housing market.

Lord Forsyth of Drumlean: Not all family members can do so because they do not have the cash, but they may have value sitting over their heads, which, if there were a scheme of this kind, could help. I am surprised that the Government have not looked at this.

Stephen Aldridge: There have been reviews of equity-release schemes in the past. There have also been problems in the past with equity-release schemes, as you will be aware. But it is not something that we have been looking at recently.

Q61 Lord Kerr of Kinlochard: Going back to the Chairman’s original question about a policy of moving towards greater owner occupation, if the underlying problem with the housing market is simply that there are not enough houses, how will policies such as leaning on the housing associations to sell property or insisting that councils sell higher-value properties help deal with the underlying problem? I see that they assist the move to owner occupation, obviously, but that seems to be a separate issue from the problem of finding enough houses. How is that going to help?

Isobel Stephen: Where either local authorities or housing associations sell their properties through either of those schemes, they will use the funds they get from those sales to invest in building more houses.
Lord Kerr of Kinlochard: That is not what the Bill says, though. The Bill does not impose any requirement on them to build new homes in the same area or to use that as the first charge on the money they make from the sale. The Bill says something different.

Fiona MacGregor: This is specifically for housing associations. As I think you will be aware, the National Housing Federation has come up with a voluntary offer on the right to buy and it is very keen that it remains voluntary and is not enshrined in legislation, because at that point it would no longer be voluntary. You will also be aware that there have been issues about the classification of housing associations by the ONS. There is a strong willingness to keep the deal on a voluntary basis. The NHF offer states that a proportion of the discount to the purchaser—70%—will be paid to the housing association at the point of sale to the tenant, and then 30% of the discount is paid at the point it starts a new replacement home. That is where housing associations can be incentivised to build out quickly, because it is linked to the payment of the discount. The NHF has also said that the sector has signed up replace where it can within two years.

Our analysis and our discussions with housing associations tell us that they are incentivised to build out quickly for a number of reasons. It speaks to their core social purpose of the additional supply of affordable housing, but if they are losing homes through right-to-buy sales they will want to make sure that they replace those assets both in relation to security for lending and being able to spread their fixed operating costs across the largest number of homes that they can. Our discussions with housing associations suggest that they are keen to be able to replace quickly, but they are also very keen that it is not enshrined in legislation.

The Chairman: I think we will come back to the right to buy later on in the session. Lord Kerr.

Lord Kerr of Kinlochard: I hear that some of them would like to keep it voluntary, but if the Conservative manifesto commitment was that expensive council houses “will be sold off and replaced in the same area with normal affordable housing as they fall vacant ... After funding replacement affordable housing on a one for one basis, the surplus proceeds will be used to fund the extension of right to buy”, why is that not in the Bill? If it is purely voluntary, is it not as likely not to work, as it has not worked up till now? One-for-one replacement in the areas of sales has not been happening.

Isobel Stephen: We have legislated in the Bill for the high-value asset sales but, as Fiona has explained, we have through a voluntary deal implemented the part of the manifesto that was to do with housing association right-to-buy sales. We will need to look at the demand for those right-to-buy sales because the manifesto also set out, and the Government’s policy is, that those right-to-buy sales should be funded by the high-value asset sales. We will need to make sure that the demand for right to buy does not outstrip the amount of money that is being generated by the high-value asset sales.

Lord Kerr of Kinlochard: It sounds a little unlikely, but I will drop the point in deference to the Chairman.

The Chairman: Did you want to ask anything else?

Lord Kerr of Kinlochard: No.
The Chairman: Okay. Lord Monks.

Q62 Lord Monks: I wonder if you could comment on the debate about targets. We have had evidence presented to us that between 200,000 and 300,000 new homes are required each year to keep pace with demographic pressures and so on. In the same breath, nearly all the witnesses have said, “Of course, we will never manage to do that”. The Government have lower targets. I wonder if you could comment on those and what the means will be to ensure that they will actually be met. The sub-question is: is the construction industry up to it?

Isobel Stephen: On the question about targets, the Minister’s aspiration is that there should be 1 million new homes. That is what we are working towards. Clearly, that is a step change from where we are now, because the last time we delivered 200,000 new homes was in 1988, which is obviously quite a long time ago. However, last year we delivered 170,000 additional homes, which is a 25% increase on the previous year, so there is some cause for optimism: we are at least moving in the right direction. In the year to September 2015, 250,000 planning permissions were granted for new housing. Would you like me to move on to the question about the construction industry?

Lord Monks: Yes, sure.

Isobel Stephen: As I say, there has been a step change over the past year, but there are at least three reasons why there is still quite a way to go with the construction industry. The first is that during the recession, a lot of smaller and medium-sized enterprises either went bust in 2007-08 or exited the market, so 50% of supply is concentrated in the eight largest housebuilders. Asking for the expansion of only eight players is quite an ask. Secondly, also as a result of the recession, we have had an exit of skills from the industry. That is something else that we need to be looking at. Thirdly, housebuilders have a natural tendency to build houses only at the rate at which they think they can sell them, for obvious and financially very responsible reasons. So we are looking at how we can incentivise housebuilders to build more quickly. That is why the Government are also very interested in new, different and off-site construction methods to try to think of different ways of sorting that problem out.

Andrew Rose: We spend a lot of our time talking to the housebuilders. As Isobel says, it is quite clear that they will build at the pace they feel they can sell at. A lot of the interventions are about trying to bring new suppliers into the market and creating long-term confidence so that people will build their supply chain, whether that is the number of housebuilders or the material side of things. One of the key things is bringing in new entrants. The direct commissioning announcement that was made last week is very much about trying to create smaller sites, bringing in new SME builders which we think will build at more pace and scale by diversifying into smaller sites. We are doing five pilots, one in London and four on HCA land, to try to encourage new entrants into the market. The Chairman mentioned the BFF, which is a fund very much targeted at the smaller builders. Then there is the supply of land, which is another thing that many of your witnesses have talked about. There is a big programme about really making sure that public sector land is released into the market, with a capacity for housebuilding of 160,000. As I am sure you have heard in many of these sessions, there is no one individual component of this, but for the housebuilding industry to get to the state that it will build that number on a consistent basis, an enormous amount of interventions are going on.
to create the confidence for it to build. One of the really important ones is bringing new entrants into the market, which was the key theme of the announcement last week.

**Lord Monks:** Do you believe that housebuilders are sitting on land purchases and storing the land, waiting for inflation to raise its value?

**Andrew Rose:** When I talk to them, they assure me that they are not. There is a lot of commentary about this. They would say, “We have working capital tied up in this land. Why on earth, if we could build it out and sell it, would we want to tie up working capital in land that we could build out at pace?” The message from the housebuilders is very strongly that they are not land-banking. Obviously, there is a suggestion that they are, but they would argue very strongly—

**Lord Monks:** They would say that, wouldn’t they?

**Andrew Rose:** They would say that, but there is a strong argument that if you are sitting on an asset that you can make productive, sitting on it is not the best thing to do with it, and that is the line that they take.

**Lord Sharkey:** Can you tell us what the historical correlation is between new planning permissions and houses actually built?

**Isobel Stephen:** The drop-out rate is, I think, around a third. But we are looking at policies to try to address that. You are right: just because we have granted planning permissions does not mean that they necessarily translate into houses being built.

**The Chairman:** Do you keep track of the stock of planning permissions unfulfilled? Do you keep that as a statistic?

**Isobel Stephen:** Yes.

**Baroness Blackstone:** I would like to know from anyone willing to put their head over the parapet whether you think that housebuilders are sitting on land with planning permissions. Regardless of what they say, you must have some evidence one way or the other. You must have some information about this.

**Isobel Stephen:** The evidence actually suggests that they are sitting on less land than they used to and that their land bank has got smaller. As I said, it is entirely rational for them to build out only at the rate they think they can sell the houses at, so we need to look at incentives. As Andy says, we talk to housebuilders all the time. We are in constant dialogue with them about how we can change those incentives in order to make sure that they build out more quickly.

**Lord Griffiths of Fforestfach:** Ms Stephen, perhaps you could expand on something you said in an earlier response. What is the potential of new technology to improve the pace of supply?

**Isobel Stephen:** The traditional housebuilders have not been very willing to invest in different technologies and that is partly because of their conservative—with a small “c”—tendency, because they need to keep their profit margins. But we think there is a lot of potential here. The Government are very keen on this. Off-site construction has quite a bad reputation for being
not very good quality and not very durable, but actually it has lots to recommend it in that you are able to have factories that are not where you are building your houses; that means there is less disruption for the local community where the houses are being built. It is a different type of skills base. The workers do not have to work outdoors. They are not affected by the weather. It is also quite flexible. You can have factories that construct entire houses or you can have a more modular approach. I understand that Barratt constructs bathrooms and airing cupboards off-site and then slots them into its houses. That is what works for it. That is why BIS has invested £22 million in a factory for Laing O’Rourke in Nottinghamshire. Laing O’Rourke estimates that we might be able to get 10,000 houses a year from that factory. There is quite a lot of scope there.

Lord Lamont of Lerwick: Following up on the questions that were asked about the ratio of planning permissions to houses built and whether you keep a record of all the planning permissions granted, what evidence, if any, is there that the Government’s changes to the planning regime have led to any increase in housing supply? I was talking to someone at lunch today who thought that there would be no effect at all and that small builders had gone out of business not just because of the recession but actually because they could not afford the planning delays. I know the Government have faced tremendous headwinds and controversy over this, but is it actually achieving anything at all?

Isobel Stephen: The changes were made in 2012 to create the National Planning Policy Framework. That introduced local plans. Where local plans are in place, on average they now account for 109% of the household demand that we think is in that area. Where the local plans are not in place, that figure is 86%. That suggests that where the local plans are enacted, it is making a difference.

Q63 Lord Forsyth of Drumlean: Going back to the original question about the targets, you gave a number of reasons why the targets might be difficult to achieve, such as the absence of skills, the lack of small builders and so on. How did the Government get these targets? Have they been drawn up on the basis of a business model that takes into account all these factors that you have described? How were they actually formulated?

Stephen Aldridge: Are you talking about both the supply target and the owner occupation target?

Lord Forsyth of Drumlean: I am talking about the commitment to build these houses in this Parliament. We have heard a number of reasons why it might be very difficult to achieve the target. Rather naively, I am assuming that these targets were based on an analysis of how these problems would be overcome.

Stephen Aldridge: The context for the target is: what do we know is happening to the demand and need for housing? The Committee has already heard that there are various ways of estimating what that is. The household formation projections, which have been the primary way of guiding the approach to housing provision, suggest a requirement over the next 20 or so years of about 200,000 additional households being formed each year. That gives you a starting point. We know, though, as you rightly say, that there are issues to do with the gearing up of the housebuilding sector to increase supply. The targets we have are aligned with the household formation numbers, not with some of the higher numbers for the requirement for
new housing. There is a balance between the evidence that tells us what the minimum requirement from the household formation projections is and putting in place measures to enable the industry to respond.

**Lord Forsyth of Drumlean**: My question is about how the targets will be achieved and whether, in setting these targets, the various problems have been looked at. Could we have a piece of paper that sets out how that is made up and what the assumptions have been?

**Isobel Stephen**: My apologies, I misunderstood the question. As I said at the beginning, the Government have invested £20 billion in housing through the spending review, which is to address some of the issues in the housing market that we have been talking about. If you would like us to write to you with more detail on that point, we could do that.

**Lord Forsyth of Drumlean**: Cash is one thing, but you need people with the skills to build, and the land. I imagine that the target reflects the practical reality of overcoming these problems.

**Isobel Stephen**: Yes.

**Stephen Aldridge**: There are practical measures to do with supply-side issues.

**The Chairman**: I think Lord Forsyth’s question is excellent. Perhaps I could ask you to take up his invitation to give us a concise paper on the things that need to change to get those targets. Very briefly, Lord Sharkey.

**Lord Sharkey**: Following on from that, do you have an economic forecasting model that shows the number of new houses required by 2020 that would achieve price stability?

**Stephen Aldridge**: We do have a housing market model. It was actually developed for us by an adviser to your Committee, Geoff Meen. It shows that the level of increase of supply that would be necessary to stabilise house prices would be very substantial indeed. There are genuine questions about whether or not that would be feasible over that period through a supply-side route alone.

**Lord Forsyth of Drumlean**: What does “very substantial” mean?

**Lord Sharkey**: Yes, what is the number?

**Stephen Aldridge**: The model cannot actually solve the level of supply that is needed to stabilise affordability levels. You have spoken in the Committee about 200,000 to 300,000 units a year. It would be beyond that level.

**The Chairman**: This is an important area. Baroness Blackstone first, and then Lord Kerr.

**Baroness Blackstone**: Perhaps I could add to your work and ask you to tell us, as well as indicating how you have reached the conclusions that you have reached on these targets and how they are composed, how you are going to reach the targets. Which parts of the housing market do you see as most difficult to respond to? Who is going to provide these additional homes? Are they going to be provided by private builders—large and small—the housing association sector or local authorities? It would be helpful to know how you see how these targets will be achieved in terms of who is going to build these houses.
The Chairman: Could you come back to us specifically on that as well?

Isobel Stephen: Yes, will do.

Lord Kerr of Kinlochard: After Lord Forsyth’s and Baroness Blackstone’s fiendish questions, mine is very simple and straightforward. You have told us that you keep data on planning consents. Could you send us a note telling us, over a convenient period of time, what these figures show? How much land has been permitted for housing development and how much of that land has been used?

Isobel Stephen: I can give you the number of planning permissions now, if that is helpful. There were 250,000 in the year to September 2015, which compares with 150,000 five years earlier.

Lord Kerr of Kinlochard: I am really trying to establish whether it is a canard, as I think you are saying, that developers seek planning permission and then do not build the houses. You say that on the whole it is a canard and there is rather less of that than there used to be. I am asking you to prove that.

Isobel Stephen: Okay.

The Chairman: We would be very interested to understand what the stock of unused planning permissions is at the moment. Lord Turnbull, are you very keen to come in at this point?

Lord Turnbull: I think you said earlier than one-third of planning permissions do not get built out. If you have 250,000 a year, that is probably going to lead to 170,000 houses, which is about what is being built at present, so we always have to allow for a gap between applications in order to hit any particular target. Will we need to increase planning permissions to 300,000 in order to get 200,000 houses built?

Isobel Stephen: Yes. It is actually even more complicated than that, because we are hoping that with some of our policies to close the gap in the number that get built out—sometimes they get built out, but it takes a long time—there are some conversions, from office to residential, that do not require permission, so they would not be captured in that number. The net additions figure I gave you earlier of 170,000 is houses that have been built but also houses that have been converted from office space.

Lord Turnbull: Are you—

The Chairman: I think we have to move on, actually.

Lord Turnbull: Is it my turn anyway?

The Chairman: No, it is not. I am sure, Lord Turnbull, you will find a method of asking your question in due course. Baroness Blackstone.

Q64 Baroness Blackstone: I want to move on to the issue of housing for the elderly. We all know that enormous demographic change is taking place and that more people are living much longer. There is plenty of modelling being done, and future projections. Do you think that enough work is being done on providing specialist housing for the elderly? Some witnesses have suggested that there is almost a gridlock, in the sense that there are lot of elderly and very old
people living in houses with two or three bedrooms, which are too big for them and very hard for them to manage, and they would move, freeing up this housing for families, were there sufficient accommodation of the quality that they would want in order to get them to move.

**Isobel Stephen:** Clearly, the Government are interested in older people living in appropriate accommodation, partly because it means that they can age better, more safely and more healthily, and partly, as you say, because of the efficiency of the housing market. It is important that we do not assume that older people necessarily want to live in older people’s accommodation.

**Baroness Blackstone:** No, I am not suggesting that.

**Isobel Stephen:** Local authorities have a responsibility, under both the National Planning Policy Framework and planning guidance, to take account of their local needs when they are planning for the accommodation that is being built in their area. They should be looking at what local older people want and making sure that the planning permissions they grant and the way that they are planning for accommodation takes that into account.

**Baroness Blackstone:** But local authorities are only a very small part of this picture, because on the whole those in local authority accommodation are very often in relatively small houses and flats compared with those in the private owner-occupied sector. What about that sector?

**Isobel Stephen:** I am talking about local authorities as planning authorities—

**Baroness Blackstone:** Oh, I see.

**Isobel Stephen:** —granting planning permission for new accommodation that is being built. They should be planning for what is going to be appropriate for their local population.

**Baroness Blackstone:** But are there enough builders coming forward with proposals to provide specialised accommodation for elderly and very elderly people, some of which will be supported—to use a jargon word—but some will not?

**Isobel Stephen:** Again, it depends on how the local authority plans it. It also depends on what the developers are providing and whether that meets the needs of people who are looking for new accommodation. I am sure that there is more we could do in relation to incentives, as we were discussing earlier, for older people to move, which are not necessarily financial incentives.

**Baroness Blackstone:** We have had some written evidence from McCarthy & Stone proposing that there should be a community infrastructure levy exemption for specialist housing for older people and that there should not be an obligation to provide affordable housing. What is your view on that? Are you in favour of it or not?

**Isobel Stephen:** We are currently undertaking a review of the community infrastructure levy. Liz Peace is doing that review for us. I expect that evidence such as that will be taken into account as part of that review.

**Baroness Blackstone:** So you do not know yet, until you have done the review?

**Isobel Stephen:** Yes.
Baroness Wheatcroft: What is your attitude towards the Government’s policy on inheritance tax and family housing? Given the desirability of encouraging older people to move into smaller properties, is there not a contradiction there?

Isobel Stephen: Can I ask that you direct your question about inheritance tax to my Treasury colleagues? I am afraid that is not part of our department’s remit. I do apologise.

The Chairman: I am sure we will. Thank you for the prompt. Lord Turnbull.

Q65 Lord Turnbull: I still find that too much of the conversation implicitly assumes that houses are built for people to buy them. Currently, 37% are renting and you have come up with a figure for the aspiration gap in the buying market—the people who want to be owner occupiers and cannot be. But if I had to make a judgment about where the greatest social harm is at present, it is not people who cannot quite afford the deposit in order to get into the owner-occupied sector; the most grievous deprivation is in the rented sector. I have not heard anything about what we are doing to increase the supply of good-quality rented property. The only scheme you have is one that initially takes rented properties from housing associations and then replaces them a couple of years later, thereby leaving the stock the same. Can you tell us something about what you can do to improve the supply of decent accommodation for rent?

Isobel Stephen: We have the Build to Rent fund and the private sector guarantee scheme, which provide finance for institutional investors to build properties that are suitable for renting. Often these properties are a good bet for investors because it is a long-term rental stream. They often build them to very high quality because they are building them to be rented out rather than to be sold, so they have an ongoing interest in them being of high quality. There are these funds available for investors.

Lord Turnbull: Quantitatively, what do they add up to? We have pages and pages of government initiatives, but how many houses are being built under these schemes?

Isobel Stephen: Savills has estimated that the build to rent sector could deliver 10,000 a year.

Lord Turnbull: That is not a big chunk out of 200,000.

Isobel Stephen: Yes.

Lord Turnbull: That is what I am saying. Quantitatively, the response of the rented sector is weak. No one has mentioned that there is one group of providers—housing associations—which, if you give them the money, will build the properties and rent them out. They do not wait around for the market opportunities. If you want to make progress in alleviating the suppressed demand for decent housing, that is the place to focus our efforts, is it not?

Fiona MacGregor: I think Isobel has said a number of times now that the Government made it clear in their manifesto that their priority was home ownership. Notwithstanding that, some funding remains available for affordable rented accommodation. The existing programme that has already been committed, along with a little bit of new money for affordable rented housing for vulnerable and older people, will add around 100,000 new affordable rented homes through to 2021. There remains some actual grant funding available for affordable rented housing. The other source of supply that we know housing associations are looking at—and you are quite
right, they are incentivised to build out rented accommodation—is that they will do what they can to generate surpluses through either market sale or shared-ownership homes, and they are telling us that they will use those surpluses to build, without grant funding, additional rented homes wherever they can. Indeed, as we have said already, in terms of replacing homes sold under the right to buy, it is their intention wherever possible—where it is the right thing to do in the market—to replace that with rented accommodation as well. There is a range of sources, not all of which get new grant funding, that will continue to contribute to affordable rented supply.

Lord Turnbull: You are talking about bits and pieces of things. Are they going to respond to the depth of the crisis in the rented sector that earlier witnesses have told us about?

Andrew Rose: For the registered providers, it remains a core area of activity for them to deliver rented social housing. Based on our discussions with them, we fully expect them to continue to do so. The focus is very much on the government initiatives, which, as we have discussed, are very much about home ownership. In the RP sector, low-cost home ownership is a big programme that is going to be coming in. But as Fiona says, that does not dictate to them what their tenure mix should be. They have surpluses. It is their core objective as charities. I think the expectation—certainly what they share with us—is that while there is no scheme necessarily designated and targeted for that area, it remains their core purpose, and we fully expect them to continue to build significant social rented property. That is what they are telling us they will do.

Lord Turnbull: Of the 200,000 a year, which is by and large the number that people think will simply stop the excess demand getting any worse—it does not deal with any kind of backlog—how many do you think would come from the registered social landlords?

Fiona MacGregor: I do not think I can give you a definitive answer at this point, for a number of reasons, partly because we have yet to see how providers are going to respond to the most recent set of announcements in the SR and Autumn Statement, which switched funding to prioritise shared ownership. We had some forecasts from them prior to those. We do know that around 100,000 affordable rented homes will be funded in the pipeline. It will be a bit of time before we can see the response in terms of volumes and numbers to what they do in right-to-buy replacement and what they can then do with their own resources through what they generate in surpluses from the shared-ownership programme and from market sale, so I cannot give you a definitive number at this stage.

Lord Turnbull: That 100,000—

The Chairman: Lord Turnbull, I think we need to move on.

Lord Turnbull: —that is a five-year figure?

Fiona MacGregor: That is right.

Q66 Baroness Wheatcroft: Isobel Stephen, I was intrigued to hear you talk about the factory that Laing O’Rourke has opened, with help from the Government—I think you said £10 million—and that this factory could generate 10,000 homes a year, which begins to make a difference. You said that the Government are very interested in these new forms of building
and off-site development. Is there a way in which that interest could be turned into something that amounts to policy, and make a difference?

Isobel Stephen: The factory was funded with government money.

Baroness Wheatcroft: One factory?

Isobel Stephen: One factory.

Baroness Wheatcroft: Could we have 10 of them?

Isobel Stephen: Potentially. That would mean reprioritising money that the Chancellor has already allocated in his spending announcements.

Baroness Wheatcroft: What was the investment in the factory?

Isobel Stephen: £20 million.

Baroness Wheatcroft: So we would need to reprioritise maybe £200 million—not a lot in terms of government spending, but it could make a difference.

Andrew Rose: There is another way into this, although it is not for me to decide, which is designating some of the land that we have available and identifying areas that can be used for that. We mentioned Laing O’Rourke. I have visited the facility and it is incredibly impressive. There are other organisations—Legal & General is another one that has shown huge interest in this area. The thing I keep hearing from people is that there is proof of concept here—once the concept is proved, people will step into the space. That is slightly squaring the circle. If enough people saw the opportunity for sites to develop that technology, I think the money would flow largely from the private sector and we may not need government intervention to do it. Certainly, we are getting a strong steer from some of the investors that we are talking to. One of the key tricks is making it clear that there is enough opportunity to provide housing on that basis. Under the affordable homes programme, something like one in five of the homes that are being built, where we have seen the plans come forward, are looking at alternative methods of construction. It is possible that if there is enough proof of concept we might not need too much government money to go into it, because the private sector will deliver a significant amount of it.

Baroness Wheatcroft: I am glad you mentioned affordable housing, because one of the concepts I have struggled with—throughout this inquiry, actually—is what constitutes affordable. I wonder if you could give us an indication of how you judge affordability. It used to be that one looked at the ratio of rent to income, for instance. Do you have any guidelines now as to what constitutes affordable and how that has moved over time?

Andrew Rose: I am going to defer to the department on this.

Stephen Aldridge: The department does not have a formal affordability target. As you say, it depends on the context. The interventions that we have described basically enable people to access housing at below the market price. The extent of that varies depending on the programme. In some cases we are targeting groups, as Lord Turnbull said, on the cusp of owner
occupation; in other cases we are providing a greater subsidy to help those on lower incomes. There is a degree of variable geometry in trying to make sure that different groups see the degree of support that is needed to enable them to access housing. There is no single approach to the provision of subsidised housing.

**Baroness Wheatcroft:** Does anyone in government have a guideline as to how much of their household income people should have to devote to getting a roof over their heads?

**The Chairman:** If we could have a concise answer to that, it would be very useful.

**Stephen Aldridge:** I could say that it was determined by the eligibility requirements for housing benefit, for example. That would give you an idea of what level of income was deemed appropriate in order to enable people to meet their non-housing costs while at the same time getting accommodation over their head. If it is helpful, we could give you a note setting out the position.

**Baroness Wheatcroft:** That would be helpful, thank you.

**Q67 Lord Griffiths of Fforestfach:** Moving on to the Help to Buy scheme, was it originally intended to help people get on to the ladder of buying a home, or was it also intended to have a supply impact? Whatever your response, how successful do you think it has been?

**Isobel Stephen:** The Help to Buy scheme was initially a response to the downturn in 2008 when it became quite difficult for people to access finance to buy their own homes. Initially, it was a demand-side measure. However, it was deliberately constructed in such a way that it also stimulated demand.

**Lord Griffiths of Fforestfach:** You mean supply?

**Isobel Stephen:** Yes, because the Help to Buy equity loan, which is what the department is responsible for, is to be used specifically for new build. You can gain access to the money only if you are purchasing a new-build house. We are about to publish an evaluation of the scheme, which is very positive. It suggests that there is 43% additionality of new-build properties purchased through Help to Buy Equity Loan. I know that some people have concerns about the distortive effects of the equity loan policy, but the evaluation also suggests that there is not such distortion. It accounts for only 2% of transactions in England, so it is a comparatively small part of the market.

**Lord Griffiths of Fforestfach:** It is not primarily helping people in the middle to upper-income categories?

**Isobel Stephen:** It is not. The average house price of somebody purchasing a house through a Help to Buy equity loan is lower than the average house price. There is no evidence that it is contributing to house price inflation.

**Andrew Rose:** Again, this comes much more from what I call the practitioner side, of visiting sites and seeing what is actually going on. We are talking about the equity loan scheme, which is the part that we are responsible for. With over 80% of first-time buyers, as Isobel says, the average price is below the average house purchase price. The other thing I have found is that
when you visit sites in the north, for example, you get a lot of feedback that if it was not for Help to Buy those sites would not have happened at all. It has had a big impact. A lot of people focus on the south-east, but actually Help to Buy has a much broader geographic spread. Certainly, the feedback I get when I visit sites in the north is developers and local authorities saying how powerful an intervention Help to Buy has been in those parts of the country.

The Chairman: We need to bring the session to an end. As we have the HCA here, it is particularly important to get an opinion on the final question. Lord Sharkey, perhaps you could take that on for us.

Q68 Lord Sharkey: The Office for Budget Responsibility has forecast that social rent reductions will lead to 34,000 fewer homes. What measures are you taking to boost the supply of social housing in the light of that prediction?

Isobel Stephen: I think I have set out the Government’s spending review plans to deliver more than 400,000 new affordable homes. That includes starter homes; it includes 135,000 homes for shared ownership; and, as Fiona has explained, it also includes more than 100,000 affordable homes for rent. But clearly, we want to keep a close eye through the regulator on how many homes housing associations are building and the OBR’s assessment of that.

Fiona MacGregor: The OBR itself said that forecasts by their very nature are quite uncertain. As I said earlier, we have had some forecasts from housing associations, although they are slightly out of date because they came prior to the SR announcements. The feedback we are getting from housing associations is that they are looking to mitigate the rent cuts through making savings in discretionary activity and that, wherever possible, they want to maintain supply, although, as we have alluded to a number of times, that might mean a slight change in the mix. We have not quite finished analysing the numbers, but once we have done that we will be able to tell you in aggregate what they are saying in the most recent forecasts about the supply numbers that they are proposing to build out.

Lord Sharkey: Does this not concern you a great deal? Earlier you talked a lot about the reliance on housing associations building between 10,000 and 20,000 new homes a year. If this deficit of 34,000 is accurate, does that not make the forecasts rather difficult to believe?

Fiona MacGregor: This was done reasonably recently and the OBR does not have access to the housing associations and what they are proposing to do. It was very much a data-driven analytical model, which it has said makes behavioural assumptions, and it does not know how they will play out.
The Chairman: Thank you very much indeed for your evidence this afternoon. We look forward to that additional information that we have asked for, which I will ask our clerk to write to you about to make sure that we have that clear.
Homes for the North (H4N) – Written evidence (EHM0100)

Homes for the North (H4N)’s response to the House of Lords inquiry into the Economics of the UK Housing Market: Executive Summary

Dear Lord Hollick,

Thank you for the opportunity to provide written evidence to the inquiry into the Economics of the UK Housing Market. I hope that our evidence and recommendations are useful, and Homes for the North would be grateful for the opportunity to discuss these further with the Committee.

H4N are an alliance of 20 large Housing Associations working in the North who want to deliver more homes across the North of England. Collectively, we already provide homes for almost one million people. Our recent financial forecast returns set out an ambition develop over 40,000 new homes nationally, on a variety of tenures, to 2020/21.

We have come together to provide new, practical ideas to increase the supply of high quality homes in the North, and to help people realise their aspirations. We believe that improving the supply and quality of homes in the North will contribute to economic growth, higher living standards, increased home ownership and stronger communities, and will help to make the Northern Powerhouse a reality. By improving the economic prosperity of the North through housing supply, we will be able to boost the national economy and ensure that prosperity is better balanced throughout the country.

Within our submission, we set out how we believe that the economics of the UK housing market as a whole can be improved, by outlining key factors and differences about the Northern housing market, and setting out the important role that Housing Associations and their partners play in dramatically increasing the development rates and delivery.

We set out how we anticipate the 1% rent cut will negatively affect our development feasibility and capacity, and risks the viability of supported accommodation services. We also explore alternative strategies to cut the housing benefit bill, particularly the importance of regeneration of areas, meaningful devolution and the role of the employability services we provide.

We also support the extension of the Voluntary Right to Buy to Housing Association tenants and believe that it is an important way to help some families to realise their aspirations of home ownership. We set out some important clarifications we still have about the terms and design of this scheme, which will help to ensure that it does not reduce the supply of sustainable affordable rented housing.

We stress that VRTB must be part of a larger framework of increasing home ownership opportunities and explore the role of alternative products that could remedy some of the other dynamics driving inaccessible home ownership. These include providing alternative routes to home ownership, helping people into affordable rented accommodation and ensuring secure, professional rental tenancies to enable deposit-saving.

Based on our evidence, our recommendations are that:
The unique features of the northern housing market should be recognised and considered as part of future national policy-making.

Devolution is a significant opportunity for the North and there should be further measures to increase the involvement of Housing Associations in devolution deals and their implementation in order to maximise this opportunity.

Housing Associations should have the scope, flexibility and support to be able to realise greater development ambitions and explore the new and creative products we could continue to develop.

Government should examine the cumulative role that each sector could play in gearing up to one million homes over five years and explore the ways in which partnership working could be incentivised.

Exempt specified and supported accommodation from the changes to Local Housing Allowance, the Shared Accommodation rate and the 1% rent cut.

Ensure that Housing Associations have the opportunity to complement, strengthen and improve devolution deals.

Ensure that housing related policies meet the diversity of need and demand for alternative and traditional routes to home ownership, in addition to rental products.

Starter Homes on new developments are seen as additional to existing s106 agreements.

Further the professionalisation of the private rented sector by increasing the number of large-scale, institutional investors in the private rented sector and the number of joint-venture partnerships.

Yours sincerely,

Mark Henderson
Chair of Homes for the North
Northern Housing Market

We welcome the House of Lords Economic Affairs Committee inquiry into the UK Housing Market. The fact we are facing a national housing crisis has been well-documented and we thoroughly welcome the government’s ambition and determination to take action to remedy this national problem.

However, as a group of Northern Housing Associations, we believe that there are **specific issues that face the Northern Housing Market** across all tenures. We believe it is important that these differences are recognised, in order to ensure that policy works throughout the country.

For the purposes of this section, we have adopted the definition of the ‘North’, comprising of the North East, the North West and Yorkshire & the Humber and ‘Rest of England’ comprising of Greater London, South East, South West, East, East Midlands and West Midlands regions. We acknowledge that there are clear population differences, so present most of the data below in terms of average per local authority within these regions. An additional point of note is that, clearly, there are high levels of diversity within ‘the North’ and ‘the Rest of England’ and we wish to stress that the housing and economic challenges across these regions are not homogenous and are thus not diametrically opposed to one another. However, the purpose of this section is to illustrate the broad, general differentiation between ‘North’ and ‘the Rest of England’ areas.

We make nine points about the differences between the Northern and rest of England’s housing markets:

1. **Development levels in Northern local authorities is higher**
2. **House prices for first-time buyers and all owner-occupiers are lower in the North than in the rest of England.**
3. **Dwelling type is not significantly different between the North and the rest of England.**
4. **Tenure structure of regions in the North are broadly similar to those in the rest of England.**
5. **The number of vacant dwellings in Northern local authorities is higher, and this has historically been the case**
6. **Northern local authorities have more people on their waiting list for housing; however this gap has narrowed**
7. **Median gross annual earnings in the North are, and have historically been, lower than those in the rest of England.**
8. **Labour productivity is lower in the North than in the rest of England**

1. **Development in Northern local authorities is higher**

Our first point of difference is that, as data for 2014 demonstrates, both the average housing starts and completions per local authority is higher in the North than in the rest of England. This suggests that the case for development in the North is strong, with public, private and Housing Association developers investing in the region. [Figure 1]
2. **House prices for first-time buyers and all owner-occupiers are lower in the North than in the rest of England.**

House prices for both first-time buyers and all owner-occupiers have been lower in the North than in the rest of England. However, the difference between the two (in percentage terms) has narrowed during the previous sixteen years. For example, in 1999, for first time buyers, the difference was 65% (or £28,000). In 2014, this was 59% (or £86,000). In 1999, for all owner occupiers, the difference was 65% (or £36,000). In 2014, this was 58% (or £120,000). [Figure 2]

3. **Dwelling type is not significantly different between the North and the rest of England**

In both the North and the rest of England, around 80% of dwellings are provided by the private sector. This figure is marginally lower in the North, and the proportion of dwellings provided by a Private Registered Provider (Housing Associations) is correspondingly higher. [Figure 3]. This further demonstrates the positive role that Housing Associations play in increasing housing supply at present in the North, and underlines the positive role we can continue to take going forward.

4. **Tenure structure of regions in the North are broadly similar to those in the rest of England.**

The 2011 census demonstrates that the proportions of owner-occupiers, social- and private-renters in the regions constituting the North and South are broadly similar. There is a smaller social-rented sector and conversely a larger private rented sector, in the rest of England. [Figure 4]

Figure 5 takes the same data and explores the differences in more detail. This demonstrates that there is a 2 percentage point difference in the average local authority social rented properties. There is similarly a 2 percentage point difference in the proportion of private rented sector tenures by a private landlord or letting agency.

5. **The number of vacant dwellings in Northern local authorities is higher, and this has historically been the case**

The average number of vacant dwellings in the rest of England is 51% of those in local authorities located in the North. This inequality has reduced since 2009, where the vacant dwellings in the rest of England were 55.5% of those in the North. [Figure 6] The cause of vacant dwellings is varied, however the impact of broader economic indicators in particular, such as unemployment, may correlate with increased vacant dwellings. It is also worth noting that vacant dwellings suggests a mismatch in housing supply and demand, with property types, locations or price-point not appropriate for the prospective tenant or owner.

6. **Northern local authorities have more people on their housing waiting list, however this gap has narrowed**

Comparing the average northern local authority waiting list with those in the rest of England, we can see there has been a historic gap. However, this gap has narrowed from a high point of 42% in 2008/09 to 31% in 2014/15. This is largely explained by declines in the Northern average since 2011/12. [Figure 7]
7. **Median gross annual earnings in the North are, and have historically been, lower than those in the rest of England.**

The median gross annual earnings have grown by 34% and 35% since 1999 in the North and the rest of England respectively. This means that the income inequality between the North and the rest of England not significantly changed over this period: with the annual earnings difference at £1,629 in 1999 and £2,640 in 2014. [Figure 8] This is similarly reflected in the difference of £2,738 in gross disposable household income between the North and the rest of England. [Figure 9]. These are likely to be linked to the comparatively lower cost of living in the North.

8. **Labour productivity is lower in the North than in the rest of England**

If the UK average is taken to be 100, GVA per hour worked is, on average, 89.9 in the North, compared to 100.9 in the rest of England. [Figure 10]. This suggests that there is scope within the Government’s renewed productivity drive for a particular focus upon increasing the capacity of the North and reducing this gap.

**Housing Associations’ capacity in increasing development of all tenures**

One issue which we will be campaigning on is the need to improve the supply and quality of homes in the North of England. Housing Associations have demonstrated, over recent years, that they are the primary developer of affordable housing in the UK and also that we have been able to consistently build, even when the economic climate is difficult and private developers have stepped away.

Figures 11 and 12 below detail housing completions from 1969-2014 and from 2005-2014 respectively. Two points are clear from this: firstly, that local authorities have previously been able to contribute significantly more to the annual development but were constrained following reforms in the 1980s. Secondly, that private development was sharply hindered, and has yet to recover from the shock of the 2008 financial crash (Figure 12). In contrast to this, Housing Associations’ development levels have remained constant, with the figures showing that between 2008 and 2009, Housing Associations increased their output by over 1,000 homes. This contrasts to the private developer’s fall of over 26,000 homes in the same period. It is clear therefore that there is a genuine capacity constraint within the private sector.

A second issue for H4N is the need to demonstrate how good quality homes for people of all ages and income can build stronger, more vibrant communities. The continued provision of affordable housing is a key part of achieving this aim. We know from our own experience the positive difference that having a secure, affordable and warm and safe home can make to individuals and families and believe that the provision of such is a necessary pre-condition of both economic growth and community cohesion. The multi-faceted role that Housing Associations can play in improving the lives of our tenants through the provision of a safe, and high-quality home; through supporting tenants to achieve their individual aspirations and in increasing health and wellbeing amongst our tenants and the communities in which we work.

From the perspective of Northern based Housing Associations, we believe there is an additional point to be made with regards to our ability to develop more cost effectively in the North, at
scale, for value and for a range of tenures. This is easier for us to achieve in the North than in over-heated housing markets, such as London.

**Role of Government policies in increasing development**

Government policies which support Housing Associations’ ambitious development plans will also result in a diversity of tenure needed to support successful communities, given our long history of providing affordable homes. Our immediate response, therefore, to the question of how to increase the supply of housing would be to ensure that Housing Associations have the scope, flexibility and support required in order to achieve their development ambitions, which will, in the vast majority of cases, be dominated by the development of affordable homes.

However, despite our strong record in consistently and successfully building new homes for development, of all tenures, we fully recognise that Housing Associations cannot address the scale of the demand alone. In England in 2014, nearly 1.4 million prospective tenants were waiting for a social housing home.

Therefore, our ambitions and record can go further still, and must exist within a wider framework to increase development where affordable tenures are accessible, and meet the diversity of housing demand. As Figure 11 demonstrates, there remains a genuine capacity constraint for some local authorities and private developers in building the volume of homes we need. We believe that Government should examine cumulatively the role that each sector could play in gearing up to building one million homes over five years and design policy which could incentivise partnership working.

**Impact of 1% rent cut upon development capacity**

The impact of the 1% rent cuts will hinder Housing Associations’ capabilities to develop the affordable homes they aspire to build. This was highlighted in the OBR’s report to accompany the Comprehensive Spending Review, which argued that the July measures alone would have cut the number of Housing Association new builds over the forecast period from 220,000 to 140,000. They conclude that this has been tempered by measures announced in the Spending Review and Autumn Statement, and the OBR expects 46,000 more than before the November measures. They note, however, that the final figure is still 34,000 lower than would have been seen in the absence of both the July and November measures.
As per our survey results, we similarly anticipate a change in our developmental direction following the 1% social rent cut announcement.

In the context of budgetary restrictions, some Housing Associations will struggle to develop in areas where the build cost outweighs any potential re-sale revenue or rental income stream. This is more likely to be the case in the north of England, where the housing market faces different issues to those of London and the South East.

We agree that it is right to ensure that tenants do not pay excessive rents. However, we would caution against the conclusion that social housing rents are a driving factor in the financial difficulties some of our tenants experience. When we compare social housing rents to market rate rents across the north of England, we can see that social housing rents are on average £203.82 cheaper per month. This is in addition to the positive outputs and impacts that social housing can achieve over and above private rental accommodation.

**Impact of 1% rent cut upon tenants**

By limiting the capabilities of Housing Associations to develop at social or affordable rent and therefore the number of these types of tenancies available on the market, it is *likely that there will be a consequent increase in the number of tenants overall who will be paying market rent, with an impact on Housing Benefit.* Therefore, the overall impact, when taken in the round, will be an increase in the number of people paying a higher rate of rent. When this is combined with policies such as Pay to Stay, it is difficult to conclude that the 1% rent cuts will deliver significant savings for social housing tenants.

Therefore, because of the likely *overall increase in rent paid and long-term negative impacts upon Housing Associations’ ability to build* discussed above, we believe that this policy will not deliver the reductions in housing benefit for the long-term.

There is a further issue for members of H4N who have specified accommodation in that the 1% social rent cut will not be exempt for tenants in specified, supported accommodation. This will
include tenants who have complex needs and vulnerabilities, and rent levels reflect the wrap-around support Housing Associations are able to provide, and upon which these tenants, and the Health Service, depends upon. Research from one large Housing Association suggests that, should the 1% social rent cut apply to their supported accommodation, over 100 of their supported accommodation services would no longer be viable. We would support exemptions for supported accommodation from the 1% social rent cut.

We note that the changes contained within the Autumn Statement and Comprehensive Spending Review to tie social sector rents to the Local Housing Allowance are an alternative way of reducing the housing benefit bill. However, we have very serious concerns that this may apply to specified accommodation, and believe that such properties should be exempted in order to ensure viability of high-quality service. We also have a concern that the extension of the Shared Accommodation Rate for single claimants under 35 without dependants to the social sector for tenancies will similarly have a negative impact upon the day-to-day living of those affected, and particularly for those currently living in specified accommodation and looking to move to general needs property.

Alternative ways to reduce Housing Benefit Bill

Maximising potential of devolution deals
We believe that a reduction in housing benefit bill can be better achieved on a long-term sustainable footing by infrastructure investment in communities, jobs and housing. We fully support the government’s ambitious work in developing the Northern Powerhouse, and we believe there is huge potential within this policy initiative to deliver the real, substantive change in northern communities. However, we believe that healthy housing markets are a crucial part of realising this possibility and that Housing Associations have a significant role to play in supporting this as part of the planning and delivery of devolution deals.

Housing Associations’ involvement in strengthening the devolution deals would help to ensure that devolution is a genuine vehicle to enable growth. One possible immediate suggestion H4N has to improve devolution deals is to address the issue of remediation of land and the cost associated within the North. We are keen to see ambitious and comprehensive regeneration in the North and we believe that one barrier at present is that there has been a market failure to invest in site clearance, due to low house prices failing to cover the costs of land purchase and regeneration. We believe there is scope for this issue to be addressed within housing zone schemes. We are keen to explore possible solutions to this and other issues in order to strengthen the devolution deals.

Increasing employability
Housing Associations play an important role in providing employability support to our tenants, working to build skills and empowerment. We have seen that the provision of such support leads to increased employment amongst our customers in a sustainable, long-term and fulfilling way. The pre-existing successful relationship we have with many of our tenants means that we are able to provide needs-led support that has proven to be more successful in increasing employment. The personal benefits this brings to our customers is clear, in addition to the boost it brings to regional and national economies.
Voluntary Right to Buy for Housing Association tenants

We support helping more people gain the opportunity to own a home of their own, regardless of their background and will be campaigning to increase access to home ownership across the North. In this regard, we support the voluntary Right to Buy (VRTB) for Housing Association tenants and believe that individual tenants will benefit from this policy.

However, we believe that it is crucial to ensure that VRTB is an enabling policy which does not hinder opportunities for home ownership for people outside of the target group. We know that around 70% of people aspire to home ownership, yet only 10% of Housing Association tenants will be able to access their voluntary right to buy immediately. Therefore, we believe it is important that VRTB exists alongside other routes to home ownership, such as shared ownership products and affordable rent for a variety of income levels, to enable households to save up for a deposit. We welcome announcements in the Comprehensive Spending Review and Autumn Statement to improve the number of shared ownership products developed.

In order to facilitate this, and support Housing Associations’ capabilities to deliver these products, it is important that 1:1 market rate compensation is achieved and paid at the point of sale. We additionally have concerns that, in some of our areas, compensation at market value may not actually meet the full cost of replacement. We would welcome discussions with relevant partners and the Government to discuss how best to approach this potential problem.

Much of the criticism of the original Right to Buy policy has been targeted at the low replacement rate and thus the ever-greater housing deficit which has developed. We believe that the guarantee of 100% market rate compensation for any Housing Association property sold under Voluntary Right to Buy is a crucial safeguard against such unintended consequences. At H4N, we remain confident that we will continue to be able to contribute to meeting the housing needs of the future and replace properties sold under Voluntary Right to Buy.

We believe that replacements must include all development over and above AHP2 and that this must count as one for one replacement. There are a number of issues regarding the definition of replacement properties that we additionally are seeking clarity on and hope that these will be considered:

- Will replacement homes delivered through S106 obligations count towards the one for one calculation?
- Will development that has been grant aided by the HCA or GLA in their 15-17 or 15-18 funding programmes count?
- Will developments that start in advance of the Voluntary Right to Buy sale count?

We additionally look forward to the publication of more details on the terms of the Voluntary Right to Buy, including potential exemptions. The terms of the pilot RTB details, including the exemption of developments under s106 agreements, appear to provide the flexibility and workability required and we would welcome the national extension to operate along these lines.

A further issue that needs to be considered is that the number of tenants able to exercise their Right to Buy or purchase a Starter Home is still relatively small. Shelter’s research concluded that a household outside of London would need to earn £55,000 a year in order to buy a Starter Home.
Home. This figure rises to £77,000 in the capital. We welcome initiatives which seek to address the housing aspiration for households in this demographic, but urge that the support must also address housing need for other income groups.

**Barriers to home-ownership**

One of the key barriers to other Housing Association, local authority and private rented sector tenants is **affordability of a deposit**. Therefore, we believe that there needs to be additional focus on alternative routes to affordable home ownership across the country for people who cannot afford to save up for a deposit. These could include shared ownership, both new developments and within existing Housing Association stock, equity routes and/or rent to buy products.

A further barrier to saving up a deposit is the **high cost of private rented sector rents** in some areas of the country. We would therefore advocate alternative private rented sector rental products which could help link the affordability of a rental property to the income of a household. This would leave more money left over at the end of the month for saving up for the deposit. The advantage of this type of approach is that it tackles affordability of homeownership issues across the income distribution, rather than simply identifying and addressing the needs of two particular groups, i.e. Housing Association tenants and first-time buyers. We note that the government recently announced products of this type and we would welcome further discussions to explore the role that Housing Associations can play in delivering these products, and extending their reach.

At H4N, we regard the low levels of home ownership as a phenomenon resulting largely from two distinct, but mutually reinforcing factors: low supply and low accessibility. The above recommendations will open up accessibility of home ownership to more people. However, fundamental changes in the proportion of home ownership will not occur without dramatically increasing the supply of these homes, across all income brackets, in a variety of areas and meeting the diversity of needs of those who aspire to home ownership.

**Increasing alternative routes to home ownership**

Many Housing Associations are keen to explore opportunities for alternative routes for home ownership and are keen to see how they can supplement their existing development plans with more products aimed at home ownership. However, in the context of 1% rent cuts and uncertainties about the future of government policy, many Housing Associations cannot realise these potential products. We believe that the deregulation and increased flexibility discussed previously will help to also achieve this aim.

We support the principle of the Government’s ambition to include Starter Homes in a new development. Ensuring that local communities have a tenure mix is a key part in delivering sustainable, cohesive communities and we believe that the additional inclusion of Starter Homes, supplementary to S106 social rental homes and homes for both outright sale and
market rent is an important way of doing so. However, we have concerns that Starter Homes may crowd out affordable homes for rent. As discussed, affordable homes are both in much demand and have the chance to help support more people in to long-term routes to home ownership. We would recommend that the inclusion of Starter Homes on new developments is in addition to existing S106 agreements. This would also prevent reductions in the accompanying infrastructure as a consequence of the exemption from CIL.

**Impact of other Government policies on home ownership**

The consultation asks for an assessment on a number of Government policies and policy proposals. We argue that initiatives such as Help to Buy and Right to Acquire have not seen a large-scale positive impact in improving the affordability of housing. However, we argue that this is because they have not been repeated at scale, nor have they been accompanied by the provision of a multitude of alternative products that meet the scale and diversity of demand in local areas. We would argue that these schemes should not cease, as we need as much tenure mix and housing development action on all fronts. However, the principal argument remains that any initiative should not be at the expense of other forms of housing.

On the issue of inheritance tax, we appreciate the arguments that the proposed changes due to come effect in April 2017 will reduce the number of older home owners ‘downsizing’. However, we would argue that there is an additional barrier, reflected in the fact that downsizing rate is low now before the changes have come into effect, is that there is a serious shortage of appropriate accommodation for older home owners to downsize to. Only by increasing supply, and the diversity of design and price, can we achieve a reversal in this trend and mitigate some of the potential unintended consequences of the inheritance tax changes.
Privately Rented Accommodation Trends

The consultation asks whether the current trend of a decline in home ownership and an increase in private renting continue.

As Figures 13 and 14 demonstrate, there has been:

- A steady increase since 1992 in both the number and proportion of homeowners who own outright from 25.1% to 35.7% in 2013/14.
- Between 1991 and 2005 a relatively small decline in the proportion of homeowners with a mortgage from 43.1% to 40.3%
- Since 2006, there has been a decline in the proportion and number of homeowners with a mortgage, at a rate of around 1 percentage point per year from 39% to 30% in 2013/14.
- The total number of home owners has declined from 68.2% in 1992 of the market to 63.4% in 2013/14.
- The number of tenants socially renting has not changed significantly between 1992 and 2013/14, however the percentage of the market has declined. The percentage change has been from 22.8% of market in 1992 to 17.3% in 2013/14.
- There has been a significant increase in the number and proportion of private renters. In 1992 this was 9% of the market, by 2013/14 this was 19.4%.

We argue that the continuation of these trends in the future are not quid pro quo. If we look at current policies aimed at increasing home ownership, much of the focus is on increasing the number of routes to home ownership for social housing tenants, rather than for those in the private rented sector.

Indeed, it is possible that if social housing shrinks as a proportion of the UK’s tenure mix, due to Housing Associations and local authorities continuing to undergo financial pressures, then the private rented sector will grow. A possible consequence of this could be an increasing housing benefit bill, as tenants move from paying social housing to private rented housing rates.

If we adopt the recommendations on increasing home ownership, and routes to homeownership, set out within this submission, then it is possible to reverse the decline in home ownership. In order to reverse the trend in an increase of private renting, we must tackle two different contributing factors. One factor is the excessive demand on social housing. Therefore, we must build more affordable homes for rent. The second factor is inaccessible home ownership. Therefore, we must expand these routes, linking rents to incomes, increase employability and pay of households, all while dramatically expanding the development of homes of all tenures.

Improving the Private Rented Sector

On the principle of restricting rent increases in the Private Rented Sector, we do not support this as we don’t believe that this is the most sustainable way of increasing the supply of low cost private rental properties. We are concerned that because it reduces the incentive for a landlord,
there is a potential for this measure to lead to a further reduction in supply. A further concern we have relates to the principle of the policy, a private market should remain free from Government rent setting. We know that the Government appreciates the principle of this, particularly in the context of the ONS’s recent re-classification of Housing Associations and we welcome swift moves to explore options for deregulation in order to preserve the independence of Housing Associations.

We believe that **moves to professionalise the PRS is a better, and more sustainable, route to improving affordability and standards within the private rented market**. By ensuring that our private rented sector is professional, we can ensure that the quality of our future homes, both for rent and for ownership, is maintained as we gear up to increasing the quantity.

We welcome the initiatives within the Housing and Planning Bill to deal with rogue landlords and we hope that local authorities will be supported in tackling these within their local communities. We believe that there is scope for the professionalisation of the sector to go further by increasing the number of **large-scale, institutional investors in the PRS and the number of joint-venture partnerships**. This could be in the form of management by Housing Associations; we have expertise in managing both social and private rental properties already and we feel we have important experience to bring to discussions of how to improve the quality and quantity of private rented sector provision.

These routes move the UK’s private rental sector away from being dominated by amateur landlords who may not have the experience, capabilities or ability to negotiate on economy of scale. We believe that **alternative private rental market products which link affordability to income is a way of attracting investment from alternative sources**, such as pension funds. The Flexi-rent model developed by Home Group offers a way of providing increased security of investment, ensuring professional and high-quality development and management and ensuring rent is affordable for tenants across all income brackets.
Appendix

Figure 1

Average housing starts/completions per LA

<table>
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<th>Year</th>
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<th>North Completed</th>
<th>Rest of England Started</th>
<th>Rest of England Completed</th>
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Figure 2

House prices (£)

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Figure 3
Figure 4

Figure 5
Average per region

- Private rented: Other
- Private rented: Relative or friend of household member
- Private rented: Employer of a household member
- Private rented: Private landlord or letting agency
- Social rented: Other social rented
- Social rented: Rented from council (Local Authority)
- Shared ownership (part owned and part rented)
- Owned: Owned with a mortgage or loan
- Owned: Owned outright
Figure 6

Average vacant dwellings per Local Authority

North
Rest of England

Figure 7

Waiting list average per local authority

North
Rest of England

Figure 8
Figure 9

Gross disposable household income per head, 2011/2 (£)

North

Rest of England

Figure 10
Figure 11

Labour productivity, GVA per hour worked
2011
(UK = 100)

Housing Completions

- Private Enterprise
- Housing Association
- Local Authorities
Figure 12

Housing Completions

- Private Enterprise
- Housing Association
- Local Authorities

Figure 13

Tenure trends (numbers)

- own outright
- with mortgage
- social renting
- private

Figure 14
Tenure Trends (percentages)

- own outright
- with mortgage
- social housing
- private renters

17 December 2015
Ms. Ayeesha Waller  
Clerk to House of Lords Economic Affairs Committee  
House of Lords  
London  
SW1A 0PW  

Dear Ms. Waller,

Response to House of Lords Economic Affairs Committee

Thank you for your letter to Jonathan Symonds of 1 February 2016 requesting HSBC to submit evidence to the House of Lords Economic Affairs Committee inquiry into the Economics of the UK Housing Market and in particular the consideration of ways in which the supply of housing, available to buy or rent, at a reasonable cost, can be increased. Mr Symonds has asked me to respond on his behalf.

HSBC shares your observation that the number of new build homes recommended by the Barker Report has not been met. In the annex to this letter we have responded to the specific questions you asked.

Please do let me know if we can help the Committee any further. Yours sincerely

Oliver Wall  
Regional Head of Political Engagement, Europe
Annex - HSBC Response to House of Lords Enquiry into the UK Housing Market

Q. Could a funding model or product be developed to assist local authorities and housing associations to build?

1. Department of Communities and Local Government statistics reflect that the consistent building of more than 250,000 homes per annum has not occurred since the 1970's. At that time local authorities played a significant role in building and holding housing stock. Since then, local authorities have built fewer homes and the majority of previously local authority-owned stock has been transferred to housing associations under local stock voluntary transfers (LSVT) arrangements. Given this move, we are unsure of local authorities' ability to re-engage quickly in housebuilding and become the "first responder" in providing housing solutions.

2. As outlined in your letter, the global financial crisis saw consolidation in the house building sector. HSBC has a strong presence in supporting both national and regional housebuilders with funding lines. In our discussions with them they point to labour shortages as their most significant constraint. If the local authorities recommenced house building, we believe that they would need to draw on the same labour pool as private sector housebuilders, who are also concerned about the lack of available skills. Additionally, as local authorities have traditionally only been involved in creating housing for the rental market, they would also be competing with the private sector in creating housing to directly sell on the open market.

3. The provision of social housing to house people who cannot afford to rent or buy a suitable home on the open market has largely passed to housing associations, a sector where, in our view, significant skills exist. They are especially strong relative to housing portfolio management but also increasingly experienced in house building particularly amongst the larger housing associations, who generally are increasingly sophisticated organisations.

Q. Has financing of local authority/housing association building been attempted by the private financial sector and, if so, what are the obstacles?

4. HSBC is a very recent entrant to lending to the housing associations where we work primarily with the larger groups. Housing associations have accumulated significant resources through both Government-provided housing grant receipts and housing benefit income receipts, as well as the capital value growth of the housing assets created or acquired. As a result, the larger housing associations have maintained access to finance from the banking sector or capital markets (bond issuance, private placements). Over the last two years HSBC has lent £0.5Bn to the larger housing associations on revolving credit facilities. We believe that the credit has primarily been used to fund the building of new houses.

5. As reflected in your letter, the housing association sector is facing reductions in revenue as a result of the 1% per annum cut in housing benefit (for four years from April 2016) as contained in the Welfare Reform & Work Act. This is driving sector consolidation; we are aware of six prospective mergers and believe more will follow. Many of the larger housing associations with whom we work are the result of mergers. Further consolidation is likely to result in a larger group of stronger housing associations that are able to pursue external credit ratings and access...
6. When providing private sector funding for housebuilding, investors and funders need to have clarity around what is being funded, for example whether the property is intended for rent or to buy, the returns available and when repayment will be made. They also consider the macro-economic outlook in order to determine the ability of borrowers to service and repay any debt. HSBC is a material stakeholder in the UK housing sector and our lending book is built on the ability of mortgage holders to service and repay. Similar consideration needs to be taken when lending in this sector, with funding likely needing to be broken down into short-term development finance (pending the properties being sold or occupied) and longer-term funding for rented assets. The other key issues are whether to fund corporates’ (to build) or individuals’ (to buy) equity and who provides this funding, where the provision of greater equity reduces debt and thereby makes any finance more affordable to borrowers.

7. The Government’s Help to Buy scheme stimulated sales and was an important factor that enabled the private housebuilding sector to recover. The Government’s starter homes initiative also addresses both the equity and affordability aspects as outlined in the preceding paragraph. It is difficult to see how the private (finance) sector could provide "enabling" equity in that way. Therefore, Government "enabling" involvement (either by way of providing cash or resources such as guarantees or the provision of building land) is likely to be needed to facilitate the deployment of more private sector finance in the housing sector. The Greater Manchester Housing Fund is an example of how this can work, with the fund being predicated on a carve-out of the Homes & Communities Agency's Builder's Finance Fund.

Q. Have forms of financing which would not increase the level of public debt been considered?

8. Following the Office of National Statistics re-classification of housing associations as public sector, any borrowing by either the local authorities or housing associations is now on balance sheet for HM Government. Any housing related funding taken on by local authorities will add to public debt unless the assets are transferred to third parties. HSBC would be willing to look at any proposals that would not increase levels of public debt and have deployed resources within the business to look at ways of possibly supporting devolved government structures (e.g. Greater Manchester & West Midlands), although our work is at a very early stage and primarily to date restricted to listening to proposals coming from those embryonic bodies.

9. We are of course aware of the Government’s wishes to see a re-classification of the housing associations as private sector as soon as practicable and the resultant reduction in Public Sector net debt of £59Bn. In that regard we feel it is important that the Government looks to continue to support the credit quality of the sector so that it remains attractive to investors and funders.

24 February 2016
The place for low cost housing - A Housing Forum enquiry into the provision of homes in mixed communities.

http://www.housingforum.org.uk/resources/influencing/housing-forum-reports/making-a-place-for-low-cost-housing---march-2014

The Housing Forum enquiry into the future financing and delivery of low cost housing has, over 9 months, explored the context, current approaches and future models for its provision against an increasing sector awareness regarding affordability.

What has become immediately clear is that we are in the midst of the most radical change in how sub market homes are provided since the creation of state supplied housing under Clem Atlee 70 years ago.

The combination of Welfare Reform and funding principles embodied in the ‘Affordable Housing Programme’ has created a new dynamic in the relationship between state, provider and occupant. Moreover the recent Housing and Planning Bill further reinforces this dynamic, while impacts of the global financial crash has applied a major brake on mortgage availability and prompted prohibitive deposit requirements for new entrants to the market, despite government assistance.

Moreover, while much attention has been given to the ‘squeezed middle’, there has been a serious decline in activity to support the needs of those who fall below this popular definition of the target group of interest to politicians and reformers.

The working group believe that mixed income communities are the lifeblood of strong, sustainable communities. Such are the complexities of the UK housing market, current changes in policy have the potential to effect dramatic impacts on those living in localities with high land and property values. Indeed, if the London property phenomenon continues as many predict, we may be witnessing the beginnings of a demographic shift in population based on economic circumstance that reverses the inward migration sparked by land enclosures in the eighteenth century. Such unintended consequences would have a profound impact on business, local economies, those in need of support from the low waged and importantly, those who provide services in locations to which those impacted migrate.

In addressing the issue, we set some key parameters for our enquiry.

Our interest is in housing that is affordable to those entering, or already in the housing market but are unable to access current planned or available supply either because of economic circumstance or time of life.

Furthermore we define affordable as 30%-35% of household income for those at the benefit cap of £26K or £32k if waged [acknowledging that even this is a high bar, for example a newly
qualified teacher earns less that £25k before tax in London]. At this level households have residual income to enable participation in the local economy and a level cica £650 per month for rent or mortgage payments.

We also acknowledge the regional variations in markets and have limited our enquiry to those of higher value where the supply of such housing is particularly problematic, inevitably that has meant a focus on London area.

We have noted recent data which suggests that homes delivered using 80% of market rent, reinforced by Mayor Boris Johnson last year, would mean a household income of £100k in Westminster, £80k in Camden and £40k in the cheapest borough, Barking and Dagenham. We also note the recent hints that the AHP may begin to acknowledge the affordability issue with a proportion of 'capped' rent products.

Key in our view, however, is the dramatic decline of supply of homes at ‘social’ rent which is more akin to the Housing Forum definition of ‘Affordable’. A report commissioned from Savills by the G15 group of the larger London housing associations forecast that the maximum delivery of affordable homes taking account of private, AHP and even resurgent Local Authorities, is likely to fall well short of expectations following a pattern reported in the DCLG statistics which shows completions for homes at ‘social’ rent fell from 34,190 to 9,577 between 2009/10 and 2012/13, with just 3,102 starts expected in the latter. The trend is clear and we believe will inevitably create an unsustainable division between those able to access housing which is affordable to their income and those who cannot.

We have explored the current models pursued by providers who see the link with household income as being key to the affordability issue and we have researched and met with organisations and funders crafting new approaches that can deliver these homes in an environment of reducing subsidy. While supporting and indeed celebrating these models, we consider that they will not significantly add to supply and emerging approaches, as yet, are unproven in terms of delivery at scale.

Our working group strongly reinforced the need for 'political determinism' and more routes to 'capital subsidy' to assist the viability of sub market homes for sale and rent, reflecting analysis elsewhere regarding the efficiency of ‘bricks and mortar’ funding in comparison to that to the person. We have therefore timed the publication of our report to coincide with the prospectus for the Affordable Housing Programme Round 2.

Our conclusion is that;

1. Current delivery mechanisms will fall short of the delivery of homes required in ALL tenures, even with subsidy, and delivery of low cost homes will be even harder hit.

2. That the delivery mechanisms are so fragmented/ new/ uncoordinated/ complex that it is very unlikely any minor or short term intervention or private sector led solution can really result in an intended outcome at scale or in the time required.
3. That, despite this inelastic supplyside, there is a phenomenal elasticity in demand. The real problems being created may take generations to manifest themselves.

4. That when they do, the danger will be a knee jerk government intervention programme similar to post war housing with the potential of ‘the wrong housing in the wrong place’, low quality and inappropriate loss of greenbelt.

Our current thoughts are that a rebalancing of strategy is necessary to reconnect the benefits of private sector within an umbrella of ‘political’ determinism.

For example, we are promoting the idea of a National Housing Investment Bank. The virtue of this would be to create a state backed institution able raise finance through bonds, ISA’s, on lending or even recycled tax [on Capital gains from overseas investors or SDLT for example] to invest in products like social housing [at social rent] and shared ownership and also development finance so far eschewed by retail banks. Moreover we are calling for the affordable housing’ asset class to be seen as ‘infrastructure’ and removed from the PSBR thereby increasing investment available from public institutions and LA's.

We feel that in some areas, a Local Housing Company -which could span several LA boundaries like the LLDC, with planning, CPO and finance raising/ investment powers may be appropriate to ensure that delivery of quality places that are aspirational and lasting which transcend short term political cycles and initiatives . Moreover we support the potential of Garden cities and New towns as an established and viable way of creating communities in new locations on establish transport links.

Ultimately the supply of housing appropriate to the needs and aspirations of all parts of the community requires both public and private investment with a clear and sustained oversight on outcomes that create economically active and sustainable places.

4 November 2015
Evidence to the House of Lords Economic Affairs Committee Inquiry into the economics of the Housing Market

Evidence by igloo Regeneration

December 2015

1 Introduction

The House of Lords Economic Affairs Committee is considering the effectiveness of Government measures on the demand and supply of housing with a focus on affordability.

This evidence specifically focuses on one aspect of the economics of the UK Housing Market, barriers to entry and innovation for enablers and developers of Custom Build housing and the need for a diversity of supplier models to maximise supply.

As a number of authoritative studies have observed, the UK housing market has relatively high barriers to entry, a limited number of dominant participants and business models that limit supply and inflate prices.

Igloo are taking forward the only larger scale pilot Custom Build site with HCA in Cornwall as a ‘proof of concept’ for this new approach (for the UK) to housing delivery and are bringing forward an initial portfolio of sites for Custom Build, with a variety of sources of development finance, in Glasgow, Sunderland and Nottingham.

Custom Build is not self-build. The Housing Minister defined it in October 2014 as follows: ‘The definition of “self-build” covers someone who directly organises the design and construction of their new home, while “Custom Build” covers someone who commissions a specialist developer to help to deliver their own home.’ Not a perfect definition but a workable one.

There are many forms of Custom Build.

The three principle forms (all of which can cater for groups as well as individuals) currently operating in the UK are;

1) **Individual Custom Build** where a small builder delivers a single home to an individual’s design either on a site owned by the customer or the builder,

2) **Custom Build Development** where a Custom Build Developer secures the site and planning and offers a basic house type with scope for customisation (eg Inhabit, Fairgrove, Modcell, Urban Splash, HAB) and

3) **Custom Build Enabling** where an enabler secures the site, planning permission, mortgages and a panel of HomeManufacturers and then delivers and markets the serviced plots (eg igloo, Cherwell).

The igloo Custom Build Enabling model is a bit like buying a car. The Custom Builder (customer) picks their plot (fixed price, first come first served), they then select their HomeManufacturer from a panel, choose their house model (small, medium or large), customise the design with the HomeManufacturer who then secures reserved matters planning permission and building regulation approval and delivers the home.
Igloo Regeneration – Written evidence (EHM0046)

While many HomeManufacturers use modern methods of construction this need not be the case and traditional methods are equally applicable. Homes can be detached, terraced or apartments.

This paper seeks, partly from the basis of study of overseas Custom Build markets but mainly from the experience of a UK development business and an emerging Custom Build market leader engaged with other similar businesses to explain how Custom Build can play a large part in increasing new supply in the UK Housing Market.
2 Executive Summary

1) The UK Housing Market is made up of a large number of weakly connected
neighbourhood markets mainly because most purchasers are tied to a particular location
and on average move less than 3 miles and only once every nine years.

2) There are rarely more than a single speculative volume housebuilder selling in one
neighbourhood market at a particular time.

3) 75% of the population will not buy a new home from any volume housebuilder.

4) Speculative volume house builders build at a long term average rate of around 2.6 sales
per month per site outside London. This slow absorption rate is due to the very small
number of prospective purchasers for any particular speculative volume housebuilder
standard house type in a particular location.

5) The available evidence suggests that while sub market rental has the highest absorption
rate (speed of finding occupiers), market rental is around ten times faster than market
sale and Custom Build is around 3-5 times faster than market sale.

6) In other developed countries, on average, around half of homes are Custom Build or
self-build and they build on average about double the number of homes per head of
population.

7) 53% of the UK population would like to build their own home at some time in their lives
(12%/7 million people in the next 12 months) but only around 10,000 succeed.

8) Around 10% of this market want to do the full ‘Grand Designs’ self-build approach.
Around 12% are happy with the minimal choice offered by a speculative volume house
builder. The remaining 78% of prospective new home buyers are not catered for in the
UK currently.

9) In the UK self-build amounts to around 10% of new home production and there is
virtually no Custom Build.

10) To be viable Custom Build requires sites in excess of 100 plots (to achieve an optimum
balance between consumer choice and HomeManufacturer returns on investment).

11) Regulation in the UK has been designed around the predominant supply model,
speculative volume house building. This has created a number of barriers to innovation
and market entry that have been comment on by bodies as varied as the Office of Fair
Trading and the Lyons Housing Review.

12) The current and previous Governments, with all party support, have sought, to date
unsuccessfully, to reduce the barriers to Custom Build (and institutional PRS).
13) This lack of success is based on a lack of understanding by both policy makers and public delivery agencies of; the economics of the UK housing market, Custom Build business models, the relative competitiveness of different supply models, barriers to entry and innovation and how to remove them to encourage a new supply sector to emerge while developing existing supply mechanisms.

14) This paper sets out 12 enabling technical changes covering the Self-build and Custom Housebuilding Act, the Housing and Planning Bill, the associated secondary legislation, education, mortgages, planning policy and guidance, public land and the role of the Competition and Markets Authority that will open the Custom Build sector to investment, market entry and innovation.

15) There are over 500,000 plots with planning permission that are awaiting sales at 2.6 per month per site, the likely impact of introducing supply models with absorption rates 3-10 times faster on the allocation of land in a five year land supply through the planning and on the scale and mix of housing supply models.

16) There is the potential to double overall housing supply (to a level sufficient to meet the UK’s housing needs) over a period of time determined by the pace, effectiveness and design of Government action to remove barriers to entry and by the pace of investment flow into the various supply models.

17) Custom Build alone could be delivering 15,000 – 60,000 homes per annum in around five years’ time.

18) At this scale we expect Custom Build to deliver a 10% larger house for 10% less cost.

19) Custom Builders build homes that are substantially more environmentally sustainable (energy efficiency and renewable) than speculatively built homes.
3 Statistics
1) The UK Housing Market is made up of a large number of weakly connected neighbourhood mainly because most purchasers are tied to a particular location and on average move less than 3 miles and only once every nine years (Champion).

2) There are rarely more than a single speculative volume housebuilder selling in one neighbourhood market at a particular time.

3) 75% of the population will not buy a new home from any volume housebuilder (RIBA).

4) Speculative volume house builders build at a long term average rate of around 2.6 sales per month per site. This slow absorption rate is due to the very small number of prospective purchasers for any particular speculative volume housebuilder standard house type range.

5) The available evidence suggests that while sub market rental has the highest absorption rate, market rental (Institutional PRS in London) is around ten times faster than market sale and Custom Build is around 3-5 times faster than market sale (Holland).

6) In other developed countries, on average, around half of homes are Custom Build or self-build and they build on average about double the number of homes per head of population.

7) 53% of the UK population would like to build their own home at some time in their lives (12%/7 million people in the next 12 months) but only around 10,000 succeed (IPSOS Mori).

8) In the UK self-build amounts to around 10% of new home production and there is virtually no Custom Build.

9) Around 10% of this market want to do the full ‘Grand Designs’ self-build approach. Around 12% are happy with the minimal choice offered by a speculative volume house builder. The remaining 78% of prospective new home buyers are not catered for in the UK currently. They want an easy way of custom designing a home based on a standard template with a spectrum of requirements for customisation including internal wall layouts (room sizes and number), external elevation treatments (including windows and doors) and internal detailing. (Dutch Planning Association)

4 Custom Build Enabling Business Model (HomeManufacturers)
10) To be viable Custom Build requires sites in excess of 100 plots (to achieve an optimum balance between consumer choice and HomeManufacturer return on investment). HomeManufacturers require on average a minimum of around ten to fifteen homes per site in order to recover the individual site set up costs and make a reasonable profit (they typically require a profit margin slightly above a builder (say 5%) but substantially
Igloo Regeneration – Written evidence (EHM0046)

below a developer (say 20%) because they don’t have sales risk or a significant requirement for capital (as they are paid in stage payments before they have paid their suppliers).

11) To give customers sufficient choice to meet the range of customer types, without giving them so much they suffer from the paradox of choice, requires somewhere between about five and fifteen HomeManufacturers per site.

12) Custom Build using the enabling model is disadvantaged compared with speculative volume house builders by the lower scale economies of multiple lower volume HomeManufacturers but advantaged by the lower profit margin on the construction of the house and in some situations by CIL exemption.

5 Relative Competitiveness of Different Housing Supply Models

13) Speculative volume house building derives its competitive advantage primarily from scale economies and access to capital.

14) Custom Build derives its competitive advantage primarily from providing customer choice with lower levels of developer risk and capital employed (currently also supported by CIL exemption).

15) Institutional PRS, at current levels of investor return requirements, only has competitive advantage in exceptional circumstances of large sites or buildings in high rental areas with low sales rates or where local authorities are seeking its delivery through viability testing in the planning system or through designation of public land.

16) So if a site was put on the market today it would almost always be bought by a speculative volume house builder as Custom Build investment is very limited and institutional PRS is uncompetitive. But where a Custom Build Enabler is active they are likely to be competitive for sites of 100+ plots.

6 Government initiatives

17) NPPF – The NPPF requires local planning authorities (LPA) to ‘plan for... housing based on....the needs of....people wishing to build their own homes’. It requires LPA’s to produce a Strategic Housing Market Assessment which ‘identifies the scale and mix of housing... which addresses the need for...people wishing to build their own homes’.

18) Planning Policy Guidance - this sets out how that need should be identified as follows: People wishing to build their own homes

The Government wants to enable more people to build their own home and wants to make this form of housing a mainstream housing option. There is strong industry evidence of significant demand for such housing, as supported by successive surveys. Local planning authorities should, therefore, plan to meet the strong latent demand for such housing. Additional local demand, over and above current levels of delivery can be identified from secondary data sources such as: building plot search websites, ‘Need-a-
Plot’ information available from the *Self Build Portal*; and enquiries for building plots from local estate agents. However, such data is unlikely on its own to provide reliable local information on the local demand for people wishing to build their own homes. Plan makers should, therefore, consider surveying local residents, possibly as part of any wider surveys, to assess local housing need for this type of housing, and compile a local list or register of people who want to build their own homes.”

19) Community Infrastructure Levy - There are further provisions to exempt self-build and Custom Build from Community Infrastructure Levy. This is known as the ‘self-build exemption’ and includes Custom Build as described in the planning policy guidance ‘The exemption will apply to anybody who is building their own home or has commissioned a home from a contractor, house builder or sub-contractor. Individuals claiming the exemption must own the property and occupy it as their principal residence for a minimum of three years after the work is completed.’ For Custom Build this requires each plot in a planning application to be a separate phase and also creates an unattractive repayment obligation for Custom Builders in the event that their personal circumstances change in the three year period.

20) Pilot Projects – the HCA is taking forward 11 pilot projects. Ten of them are for less than 15 units reflecting the confusion in the public sector at the time between self-build and Custom Build and the lack of understanding of the business models. The pilots were also frequently either on difficult sites or as small elements of sites being sold to speculative volume house builders. They have generally been of limited success. Igloo are taking forward the only large pilot in Cornwall where the Bristol office of HCA has a good understanding of Custom Build.

21) Vanguard Authorities – These 11 areas have focussed mainly on self-build with some, like Teignbridge, producing planning policies (allocating 5% of each site to self-build with no Custom Build allocation) which are damaging to increasing supply through Custom Build. Only two of these, Cherwell and Sheffield, have included Custom Build and both are struggling to deliver scalable Custom Build models quickly.

22) Custom Build Loan Fund – This £30m fund launched in 2012 was narrowly focussed on Group Custom Build and does not appear to have been either fully spent or evaluated. It had a cap of £3m per project which excluded Custom Build at scale. It no longer exists.

23) Custom Build Serviced Plots Loan Fund – This £150m loan scheme provides up to 75% debt funding for servicing sites that already have planning permission and are owned by a Custom Build enabler. Uptake has been slow and the interest rates used tend to be expensive for SMEs. It is about to be rolled up into the Housing Delivery Fund after little more than a year of operation.

24) Housing Delivery Fund – This newly badged loan fund announced in the Spending Review is likely to include monies previously announced for the funds above but the
Custom Build element will no longer be ring fenced although HCA is engaging with the industry in relation to Custom Build.

25) Right to Build – In the Self Build and Custom House building Act 2015 the Government gave local authorities the duty of creating a register of people wanting to build their own homes and of taking this register into account in their housing, planning, regeneration and land disposal policies. Draft secondary legislation introducing the registers (from end March 2016) is currently being consulted on. A significant concern about this approach is that its ‘opting in’ nature for buyers together with lack of publicity for registers and potentially a fee charge will create a perception of low Custom Build demand when compared to the overall demand for new homes. The vanguard authorities are seeing tiny numbers (on average 80 per register in three months but with most of these in one authority) signing up to registers compared with the Ipsos Mori style survey data.

26) Housing and Planning Bill – This introduces an obligation to provide planning permission for sufficient serviced plots to cater for the number of people on the register. This measure is likely to help increase local authority awareness of Custom Build but is also likely to confuse and potentially divert attention from the pre-existing NPPF and PPG requirements. It may also be open to abuse by speculative house builders securing permissions under these provisions but not then delivering serviced plots.

7 Barriers to Entry and Innovation

27) The primary barrier to entry is the difficulty of attracting finance to an unproven (in the UK) concept allied with the significant capital requirements of land purchase, planning and infrastructure provision. Some house builders are considering adapting their business models. A small number of local authorities are also attempting to be Custom Build Enablers on publicly owned land.

28) Related to this is the availability of appropriately structured mortgage finance. The volume mortgage providers have difficulty adapting their computer systems to stage payment mortgages. The small providers are naturally conservative and unable to scale up rapidly. The current approach to regulation also appears to give an excessive risk weighting to stage payment mortgages.

29) A secondary barrier to entry is access to land. A substantial portion of permitted land (there are currently over 500,000 plots with planning permission) is owned by speculative volume house builders. However this is unlikely to be a UK wide barrier in the short term as the small amount of capital investing in Custom Build will find sufficient public and privately owned sites to purchase. It will be a barrier in individual neighbourhood market where the available sites of a viable scale with planning permission will often be entirely owned by a speculative volume house builder.
30) A related barrier is the nature of public sector developer framework panels and their associated legal documentation. These panels (most of which igloo is a member of) are used by public land owners to avoid the expense and timescale of other forms of OJEU compliant procurement. The legal documentation is entirely written in a way that disadvantages Custom Build Enablers compared with speculative volume house builders. Indeed it is written in a way that results in the slowest possible housing supply. And the Government target ‘to release enough land for 150,000 homes’ doesn’t incentivise speed of supply through procurement.

31) Barriers to innovation are multiple. There are regulatory, cultural, financial and other barriers. Intellectual property is also difficult to establish in this area.

32) Regulatory barriers to innovation include the tax system eg VAT, SDLT and the CIL exemption which all require complex structures to approximate the treatment achieved by speculative volume house builders. The planning system, despite the policy and guidance, is not operating to designate suitably sized sites to meet the consumer demand for Custom Build.

33) Industry culture is also a significant barrier to innovation. Few firms are innovative and the multiple agents in the development process eg landowners, planners, valuers, lawyers, mortgage providers are all rewarded for not making mistakes which results in a very substantial resistance to change. And the nature of the development process means that just one of these actors can frustrate an entire innovative project.

8 Enabling Innovation, Market Entry and Housing Supply Diversity

34) The primary policy objective is increasing housing supply. One approach to this is to increase the diversity of the supplier base and this requires building new supply sectors like institutional market rent and Custom Build.

35) The work of economists like Ha Joon Chang on emerging markets gives some ideas of how this might be achieved. Many of Government’s policy measures are designed (inadvertently or otherwise) to deliver this protection of an emerging sector although it does not appear to be well informed by the potential participants.

36) As the Custom Build sector grows and investment flows there will need to be policy tests for the withdrawal of protection (eg CIL exemption) to provide the stable investment context (by removing or mitigating political and regulatory risk) early investors will require (in contrast to the chaos wreaked in sectors like renewable energy and housing associations).
37) By engaging with the active participants Government can identify the key technical changes necessary to increase investment flow and also better understand the trigger levels at which the industry will achieve self-sustaining competitive position through scale economies.

38) For example, where HomeManufacturers are delivering annual volumes of say 500 homes per annum it is likely that they are achieving scale economies. If there are ten of these it is likely they are delivering consumer choice (so long as there are at least five on each site). So 5000 homes per annum with this industry sector structure might be a trigger for the removal of CIL exemption.

39) The relative lack of competitiveness of institutional market rent means that it is likely that this will be limited to large buildings or large sites in relatively low sales rates locations although Government action to level the playing field with non-institutional Buy to Let will increase the universe of competitive situations for institutional market rent.

9 Scale of different delivery methods over time

40) The growth of the Custom Build sector is hard to forecast given the large number of variables including the speed and effectiveness of Government action that are difficult to forecast. The market is a non-linear, complex, dynamic, evolving system so forecasting is unlikely to be accurate and policy should focus on creating the conditions for growth rather than predicting or targeting an unpredictable future.

41) However we can draw parallels from other countries. If CIL exemption, combined with public sector land delivered specifically for Custom Build and privately owned sites designated for Custom Build and adequate loan funding via the Housing Delivery Fund can be delivered together the remaining variables are market and standard regulatory forces.

42) Our analysis suggests that it should be possible to build a number (say five to 20) of enabling businesses delivering say 3000 homes per annum over a five year period. This would result in a Custom Build sector output of 15,000 to 60,000 homes per annum subject to local plans continuing to maintain a five year housing supply.

43) At this scale we anticipate that Custom Build will be delivering on average 10% larger homes for 10% less cost. Custom Builders also specify on average more environmentally sustainable homes.

44) Institutional market rent, subject to barriers created by the current Government’s secondary objective of increasing home ownership by one million in this parliament, could generate output, probably at the lower end of this range (say 10,000-20,000 per annum) given the relatively lower competitiveness although this is likely to be enhanced by restrictions on non-institutional Buy to Let that will slow speculative sales.
10 Recommendations

45) Housing and Planning Bill – In clause 8(1) the anti-avoidance provision needs strengthening by the inclusion of a definition of person that includes related persons and companies to avoid companies who own land in one vehicle but build mainly to their own specification in another. This is less an issue for the current legislation where the definition only relates to the eligibility for entering names on the register but it will be of great significance if repeated for other purposes, for example in planning permissions.

46) Housing and Planning Bill – In clause 9(6)(c) the words ‘could include’ are used. This opens up the risk the sites that are not subsequently developed for Custom Build ‘use up’ the requirement to grant permissions under the Bill without delivering the plots to the market. These words should be replaced by the words ‘that must be wholly used for’ to at least ensure that the initial, likely to be three year duration, permission is exclusively for Custom Build.

47) Housing and Planning Bill – It is not clear to us that clause 9 will work to match the grant of serviced plot permissions to the number of entries on the register (or even whether it is necessary given the provisions in the NPPF and PPG that should (but aren’t currently) result in a greater number of allocations for Custom Build (because demand will be much greater than the opt in names on the register that most people won’t know about and which they may be charged to enter). It is likely that many of the permissions granted won’t be developed for Custom Build (as many housing permissions are not implemented) and that people on the register will find plots elsewhere or choose a different housing route. About the only thing we can be certain of is that a mismatch will rapidly develop with significant potential to bring the whole system into disrepute. We support the register simply as a blunt instrument to get local authorities attention on to Custom Build but we believe it is likely to be ineffective and potentially counterproductive to meeting the real demand in the medium term.

48) Self Build and Custom House Building Act secondary legislation – The secondary legislation concerning registers will shortly be published. The experience of the pilots is that the numbers signing up to the register will be substantially less than the effective demand for Custom Build. The secondary legislation should therefore not require anything other than the name and address of the person (this should include an email address) ie no local connection, requirement for a fee or to prove financial standing etc. A single national register would make the publicising of the register more cost effective and it would be better funded by Custom Build enablers, HomeManufacturers and developers buying data and advertising rather than the prospective Custom Builders. Using registers to enable communication between all providers of serviced plots and customers is critical.

49) Housing and Planning Bill secondary legislation – the secondary legislation needs to minimise restrictions on what amounts to a plot for the purposes of the duty to grant planning permissions (particularly if this definition gets used in other circumstances), to
minimise exemptions (there are virtually no authorities for whom Custom Build is an impossibility though mismatches between supply and names on the register will occur from time to time) and to minimise the ability of local authorities to restrict eligibility to frustrate the purpose of the register.

50) Education – The most effective tool in promoting Custom Build supply is education. We see daily examples of all levels of government confusing self-build with Custom Build for example which results in policy making that frustrates the ability to scale up Custom Build supply. We see similar examples amongst the industry institutional framework and supply chain including public land disposal, planning and market participants eg valuers, planners, lawyers, strategic land promoters and consumers. We believe this will transform as the first projects come forward beginning in 2016 and there will be a critical for role of price signals (eg in buying land) as well as for publicity across all media. This would be a cost effective way for Government to accelerate supply.

51) Mortgages - capital risk weighting – The Prudential Regulation Authority doesn’t recognise Custom Build (or self-build) in its recent supervisory statements and Custom Build has limited default data sets (although lenders anticipate that default rates are likely to be lower than for self-build and overseas evidence suggests they may even be below those of completed owner occupier mortgages). It is important for Government to play a role in dialogue with the PRA to ensure appropriate risk weightings for Custom Build stage payment mortgages.

52) Mortgages - Lender computer systems appear to be the main constraint to an effective volume Custom Build lending market. Standardising stage payments and processes and encouraging market entry from volume providers not yet in the market eg Nationwide would be helpful in levelling the playing field with speculative housing as the sector starts to grow.

53) Emerging sector enabling – Growth of the sector needs to be enabled by Government in an intelligent way to overcome the existing, mainly regulatory, barriers to growth. CIL exemption is a good example of this approach (but it requires streamlining with the removal of the need for individual plot phasing in planning permissions and substantially more flexibility in the potential repayment requirement. The sector may also require Competition and Markets Authority protection from speculative volume house builders via a watching brief (to avoid for example any similarities with the early history of electric cars or US trams – where the incumbents buy up and close emergent competitors etc)

54) Planning policy guidance – Intelligent practical guidance, which needs to evolve over time as the sector grows, is needed. Initially this needs to advocate whole large sites for Custom Build. Legislative change (ideally through the current Housing and Planning Bill) may also be required to allow officer delegated reserved matters approvals in short timescales (1-3 days) for reserved matters (or technical approvals) applications in
accordance with plot design codes, planning permissions in principle and local or neighbourhood development orders.

55) VAT – Custom Build currently has to use complex Golden Brick structures just to achieve close to parity with speculative volume house builders and self-build. This should be simplified to remove the regulatory burden that generates no revenue.

56) Public sector developer frameworks – The standard legal documentation for these frameworks and other forms of land disposal and developer procurement eg GLA, HCA does not allow Custom Build. Custom Build versions of these documents are required and procurement practice needs to evolve to increase the weighting to speed of completions through diversity of supply mix.

9 December 2015
1. Housing costs in the UK – both house prices and rents – are among the highest in the world, both in absolute terms and relative to average incomes. Since 1970, average house prices in the UK have gone up four and a half fold after inflation. In this, the UK is an extreme international outlier. No other OECD country has experienced a price explosion of such a magnitude.\textsuperscript{162} No other OECD country’s experience comes even close.

2. A similar picture is obtained for median multiples (MMs), the ratio of median house prices to median annual incomes, a standard measure of housing affordability. ‘Normal’ MM values in developed countries are between 2 and 3, and until the 1990s, this was true for the UK as well. Most English regions record MMs around 5, and in much of the south of England, MMs are above 6.\textsuperscript{163}

3. For over three decades, the UK has had lower rates of housebuilding (relative to population size) than any similar country for which comparable data is available.\textsuperscript{164} This is why the UK’s housing stock (when measured as the total residential floor space divided by the number of households) is now the smallest among comparable countries.\textsuperscript{165} The housing stock is not just inadequate in total, but much of it is also in the ‘wrong’ place, because what little development we have is skewed towards those parts of the country where the problem is least bad (and effective demand for housing is lowest).\textsuperscript{166}

4. There is an overall shortage of housing, and it is most pronounced in the areas where housing demand is highest. This is why we will not follow the distinction between tenures set out in the consultation document. There is no specific shortage of social housing, or private rented accommodation, or homes for first-time buyers, or housing of any other type, but an overall shortage of inexpensive housing across all tenures. This is indicated by the fact that the ratio of rents to house prices shows no systematic trend over time. Therefore, we do not need separate policy measures for this subsector or that subsector of the housing market, but a general increase in housing supply. What differs across tenures is the manifestations of the lack of supply. In the social sector, it manifests itself primarily through longer waiting lists; in the private rental sector, it manifests itself through soaring rents (and higher numbers of ‘rogue landlords’), and for would-be homeowners, one manifestation is the difficulty to raise a deposit and access housing finance. But the cause is always the same: demand vastly outstrips supply.

\textsuperscript{163} Ibid. p. 9.
5. The causes of the housing cost escalation are well-established. In a seminal paper in the *Economic Journal*, titled "The impact of supply constraints on house prices in England", Hilber and Vermeulen estimate that 35% of the average house price in the UK is directly attributable to planning constraints. (This is a national average. The share is far greater in London and the Southeast.)

6. Hilber and Vermeulen’s 35% figure must be seen as an absolute lower bound. In a number of ways, their study errs on the side of caution. Their definition of ‘natural obstacles’ for example, is a very encompassing one, which probably means that in several instances, low housebuilding numbers are wrongly attributed to natural obstacles when they should really be attributed to planning constraints.

7. What is worth noting about the Hilber & Vermeulen study is that their counterfactual is not a free-for-all system in which anyone can build anywhere. It is a system in which governments do shape development, but do not limit the overall supply of land. As Cheshire (2009, p. 11) explains in his international comparison of planning systems:

“In economic terms the distinctive difference between the English planning system and those of Germany, the Netherlands and the US is that the English system explicitly constrains the supply of land, and has done so over a long period. The German and Dutch systems, although they impose a strong regulatory framework, have imposed only a modest constraint on land supply (although as noted above the Dutch seem to have become more restrictive since about 1990).”

8. According to Shelter’s estimate, the Help to Buy programme has pushed up house prices by over £8,000. That figure may not be the last word, but there can be no question about the direction of the effect. It is a priori clear that increasing demand in a market with highly inelastic supply must necessarily increase the price, whilst having only a trivial impact on quantity. This is not even an empirical question, it follows from economic theory.

9. Boosting homeownership should not be a policy aim in its own right. The government’s aim should be to improve affordability in general: to allow construction levels that are high enough to lead to house prices and rents falling across the board. This may well result – and is indeed likely to result – in higher levels of homeownership, which one might see as a desirable side effect, but it should not itself be the aim. Housing policy should be tenure-neutral. The tenure mix should reflect people’s preferences and market conditions.

To use an analogy: If we had a statutory production ceiling limiting the number of cars that can be produced (coupled with an import ban), the cost of driving would increase across the board: it would be more expensive to buy a car, but it would also be more expensive to rent a car. The appropriate solution, in this case, would not be a ‘Help to Drive’ programme that subsidises and/or guarantees car loans, but to abolish the production ceiling.

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10. The changes to inheritance tax are a step in the wrong direction. By treating housing wealth preferentially relative to non-housing wealth, these changes will introduce further distortions, and further inflate demand without adding anything to supply.

11. The higher tax burden on buy-to-let landlords is also a step in the wrong direction. Letting a property is business like any other, and the cost of servicing the mortgage is a business cost like any other. Thus, the tax system should treat it as such.

12. The changes to Stamp Duty, which have abolished ‘cliff edges’ in the old tax structure, have been a step in the right direction. However, taxing housing transactions is the wrong approach per se. It reduces labour mobility and impedes downsizing.

13. Sensible tax changes would strengthen incentives to permit development by ensuring that local authorities gain from it. Broadly speaking, tax revenue ensuing from housing (and commercial) development should remain in the area in which it is generated. This could be achieved by, for example, the introduction of a local income tax, with local authorities setting the rate and retaining the revenue. Attracting residents would then become a way for local authorities to increase the local tax base, and permitting development would be a relatively easy and straightforward way to attract residents. A complementary option would be to replace council tax with a local Land Value Tax (LVT). Again, local authorities would set the rate and retain 100% of the revenue. This would also encourage completion for residents, and in addition, it would allow local authorities to capture a part of the ‘planning gain’ (the increase in land value when planning permission is granted).

14. Greenbelts are not just outdated, but conceptually wrong. The greenbelt should not be ‘reformed’ or have its boundaries redrawn, it should be abolished in its entirety. Protecting land from development should be done in a selective manner, on the basis of the environmental and amenity value of that land. The mere proximity of a plot of land to e.g. London, Oxford, Cambridge, Bristol or Bath is not, in itself, a valid reason for a presumption against development. The idea that cities sprawl outwards endlessly unless locked into a straightjacket has no factual basis whatsoever, and even if this were a legitimate concern, there are much more intelligent ways of encouraging higher-density development than blanket development bans.

15. The reason for the government’s failure in tackling the housing crisis is its unwillingness to confront organised ‘Nimbyism’. This is, to say the least, a short-sighted strategy, because rising housing costs cause far more widespread political discontent than a few Nimby groups could. In the short term, of course, the latter are far noisier than the people who are negatively affected by rising housing costs.

16. It has become almost a cliché to point out that everybody agrees in principle that the UK needs more housing, but that nobody wants those houses near them. But this is where political leadership is required. Repeating that cliché, like an unfortunate fact of life that nothing can be done about, is not enough. Public attitudes to housing are not immutable, and resistance to development can be overcome – but not if it is never publicly challenged.

17 December 2015
The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:
The Intergenerational Foundation (IF) welcomes the opportunity to officially contribution to the inquiry into the economics of the UK housing market. As a charity which researches challenges facing young people in modern Britain, IF is particularly concerned about the barriers which they face to finding decent, affordable housing. We are glad that the current government has placed such a strong emphasis upon boosting the housing supply, particularly through reforms to the planning system and adopting the official target of delivering a million new homes by the end of the current parliament. However, we fear that this target is likely to be missed unless the government is willing to adopt a more radical set of interventions than those which have been attempted previously.

Subdividing Homes
Our evidence to the inquiry consists of a new policy proposal, which is based on one of our current research projects. A forthcoming piece of research by IF – Unlocking England’s “Hidden Homes” (to be published in January 2016) – argues that the government could dramatically boost the housing supply at little cost by making it easier for people living in large houses to subdivide them into smaller ones.

The benefits of subdivision
Data from the 2011 Census suggests there are 4.4 million owner-occupied homes in England that have two or more spare bedrooms, potentially enough space to be divided into at least two flats that would comply with the new National Space Standards. Even if just 2.5% of these 4.4 million households subdivided their properties into two flats, it would produce more new housing than the entire private sector currently builds each year.

The report argues that making it easier for people to subdivide their homes would have the following benefits:

1) Providing a new supply of housing to help reach the 1 million homes target;
2) The new homes thus created would already be in the “right” places: predominantly areas with the highest future demand for new housing, and surrounded by existing communities, jobs and infrastructure;
3) It would avoid the controversies which surround building on Green Belts and providing adequate infrastructure to service new developments on virgin sites;
4) Homeowners would benefit from unlocking a proportion of their housing wealth, reduced household bills and lower Council Tax without having to leave their current areas;
5) It would help adapt Britain’s housing stock to match the trend towards a rapidly growing population where more people live in small households.

**Downsizing-in-situ**

Subdividing large homes would also help address the housing needs of Britain’s ageing population; evidence suggests that 1 in 5 older homeowners would like to downsize, and there are 1.8 million currently living with health problems which could make larger homes unsuitable for them, but the vast majority either don’t want to leave their existing communities or can’t find suitable homes to downsize into. Therefore, making it easier for people to convert large homes could help older homeowners “downsize-in-situ”, through adaptations such as converting the downstairs area of a large property into a smaller dwelling while creating a new flat upstairs for the owner to rent or sell. This would help adapt Britain’s housing stock to the needs of the 4.26 million over-65s who live in houses with at least 3 spare bedrooms by enabling them to remain independent for longer and making them financially better-off, while also reducing the housing inequalities between young and old.

**What needs to happen?**

Fewer than 4,500 houses are currently being subdivided each year, which suggests it is too difficult; the report argues that this is because planning and tax policies encourage people to use England’s housing stock inefficiently.

The key change which would need to be introduced would be to create a new householder permitted development right which allows owner-occupiers to subdivide their properties into smaller self-contained dwellings with only prior approval, rather than needing to obtain full planning permission as happens currently. The prior approval process is effectively a “light touch” form of planning permission which outlines a limited set of criteria that applicants need to comply with for permitted development to be allowed, removing the need for them to satisfy every policy in a Local Plan. At present, Local Plans often contain policies which make it difficult for people to subdivide their properties, such as requirements for all new units in an area to provide “family-sized” housing or to be in keeping with the prevailing local housing density.

It would be suitable for the government to hold a public consultation to formulate a set of prior approval criteria for this permitted development right, but the two key issues are likely to be that all new units created through subdivisions would need to comply with the National Space Standards (to avoid the proliferation of cramped, poor-quality housing), and they would either need to provide off-street parking or be zero-car to prevent it from exacerbating parking conflicts.

The report also suggests a range of tax reforms which could “nudge” people towards using England’s housing stock more efficiently. These would include removing the single person discount on Council Tax, granting private residence relief on CGT when people dispose of new units created through subdivisions, and zero-rating the necessary building works for VAT. It is
also suggested that the government could provide a financial incentive to encourage subdivisions by providing soft loans to pay for the necessary conversion works, which could be funded by re-directing some of the £7.6 billion which is being spent on the New Homes Bonus Scheme, for example.

**Conclusion**
Encouraging people living in large homes to subdivide them would not be sufficient to solve the housing crisis by itself, but given all the obstacles which exist to building enough new homes through more conventional means, it is an option which deserves further consideration for the reasons outlined above.

IF intends to publish this paper in full in early January 2016. We would be keen to provide evidence to the Committee in person if its members requested it.

**Author:** David Kingman, IF Researcher

If you would like to learn more about the work of the Intergenerational Foundation please contact:

Liz Emerson

10 December 2015
Submission to Select Commission on Economic Affairs
Inquiry into Economics of the UK Housing Market

Reference to Category 3: Social Housing/1% Rent Decrease

Our housing Co-op, Iroko, consists of 59 units housing approximately 160 people in accommodation ranging from 35 x 5 bedroom houses to studio apartments. We are a mixed community in terms of age, race, gender, sexual orientation and physical ability living in Waterloo. Iroko is a Fully Mutual Housing Co-operative, with shares allocated to and bought by members, constituting property ownership. Housing Co-ops differ from Housing Associations both legally and structurally and therefore require different consideration.

We maintain low rents because each member of the co-op is expected to participate in the running of the co-op to the level of their ability. This free labour and time commitment means our administration costs are minimal. We are prudent in our spending and would only increase our rents if necessary. As a tenant owned and managed organisation, our rules are such that each year our members vote on any changes in rents. If we can reduce rents we will. Large Housing Associations have access to other incomes which on average represents about 25% of their income source. (source NHF). As a Co-op, however, we are wholly reliant on rental income. When the impact of 1% annual rent decrease is compounded and compared with the increases the co-op predicted it would have applied over the same period, the result is a 12% decrease over the 4 years application of a 1% rent decrease. This loss would have severe financial implications, for example compromising our ability to maintain the properties and to implement necessary refurbishments. We may have to correct the shortfall by much larger rent increases post the 4 year period, which will then affect Housing Benefit payments to those co-op members in receipt.

Attached is a spreadsheet analysis of the predicted financial outcome of a 1% rent decrease for Iroko Housing Co-op.

Dearbhla Molloy
Management Committee Iroko Housing Co-op

16 December 2015
I wish to make a submission concerning Item 1) d “Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing? “

1) It is my opinion and experience that the present planning system gives far too much power to local authority planning officers and councils and is unnecessarily expensive for prospective developers. I presume that particular cases are not appropriate in this submission, though details of such a case could be provided. A quick inspection of any local authority’s planning portal will undoubtedly confirm the following.

2) In general terms I have found the planning process to be extremely expensive and fraught with uncertainty. I am part owner of a small prospective development site of four acres. My estate agent informs me that it would cost about £50,000 just to apply for planning permission. An application on an adjacent site has been turned down, on what appear to me, as a layman, to be entirely irrational and subjective grounds and which ignore the provisions of the NPPF. The cost of an appeal might be another £50,000. As a private developer I am not willing to risk such large sums on the possibility that permission might be refused. I believe this to be the case for many prospective small developments.

3) The entire process requires so many reports that it is prohibitively expensive. Many planning control officers seem to believe that their mission is to prevent development if at all possible, rather than to try to facilitate development. Given the large number of hurdles to be jumped (i.e. reports) it is just too easy for a planning officer to find some minor issue on which to hang a refusal.

4) The NPPF presumption in favour of development appears to be of little weight to some planning officers.

5) Changes are necessary to limit the powers of local councils and planning officials and to reduce the cost and number of reports required when applying for planning permission, particularly on smaller developments.

16 November 2015
Helen Johnson – Written evidence (EHM0062)

A planning application history so far - why we’re short of houses.

February 2012. Application for 67 houses, 60% affordable submitted to LPA. Accords with development plan (inspected and adopted). **Recommended for approval by Officers.**


June 2013. Appeal start date.

June 2014. Decision. (Yes, it took a year to go through the Inspectorate.) Appeal dismissed. The Inspector stated that the dismissal was in the context of the high amount of affordable. For example, it was explained that an hourly bus service (15-20 minute ride) to employment, major retail etc. running for 12 hours during the normal working day is not enough in the light of the high affordable element as people who live in affordable housing are more likely to be shift workers and therefore need more flexible transport.

January 2015. Developer applies with 60 houses and 25% affordable. Application **recommended for approval by Officers** as, again, it accords with the development plan.

April 2015. Refused by Planning Committee 5 weeks before general election.

October 2015. Appeal start date. Inquiry date **April 2016**

If this had been passed at the Committee meeting in 2013 there would now be people living in the houses. The following may be some of the reasons why we’re not getting the amount of housing we need:

a) **Both these applications accord with the Development Plan and had Officers’ evidenced recommendation.** The Planning Committee has been able to turn them down with un evidenced, vaguely worded refusals. (Nimby and political reasons presumably). The only way to challenge their decision is by appeal which many smaller developers can’t afford. I think the Planning Committee system should have extra accountability built in when a decision is made contrary to Officers’ recommendation. After all, it’s taxpayers’ money being spent by the LPA on the Appeal.

b) The amount of time it takes to go through the Appeal system - by the time it comes to Appeal, rules may well have changed and the Inspector has to apply the new guidelines. It took a year for the above application to go through the Appeal system. The appellant may well be disadvantaged and has spent a lot of time and money on a plan that probably no longer accords with newly introduced guidelines to which ‘weight’ must be given. It’s very frustrating to work with ever-moving goal posts. A fairer way would be to maintain the rules as they were when the start date was given and disregard new rulings which were brought in after that.

c) I wish someone could come up with a better idea than the 5 year supply. This seems to cause so many problems and is a moveable feast depending on who’s doing the calculations, whether
Sedgefield or Liverpool should be applied etc. The figures seem to vary for different applications. Too much time is wasted arguing about it.

I have not identified the site/LPA at this stage as it is in the Appeal system and I don’t want to jeopardise its chances but I can assure you that the above is a true account. I am the site co-owner.

15 December 2015
In respect of your investigation as to what issues are relevant to the supply of homes to buy and rent I offer the flowing first-hand experience;

We are currently in talks with a national housebuilder and local authority to develop 14 acres of our edge of town farm for residential house building. This could deliver up to 150 units.

We have just been faced with the facts of the deal by way of the compulsory contributions required by my family to achieve a planning consent.

In Wales we are expected to surrender 35% of the net available developable land for affordable housing. Land which we have toiled and scratched a living from over many years, we are now effectively expected to 'gift' to the nation. The last Labour government utilised allotted grant monies committed to the Housing Associations to part assist land release and building.

This indirect 35% tax is followed by the newly introduced Community Investment Levy coupled with the 106 community contribution. This could amount to a further 8% in total. All before capital gains tax, and personal tax is applied on the remaining proceeds. The sum total of tax and financial contributions we are being expected to make will be over 60% of the gross land value.

What other business sector today is punished to this extent. This is vindictive penalising of land owners (farmers in our case) contributing significantly to the availability of volume house building.

The prospect of us releasing the land is therefore questionable. I know of three land owners who have changed their minds in the last two years and decided not to develop and leave the land for grandchildren.

Yours

B. R. Jones

17 December 2015
Lord Kerslake, Chair, Peabody Trust; Local Government Association (LGA) (QQ 141-152) – Oral evidence (EHMOE0009)

Submission to be found under Peabody Trust; Local Government Association (LGA) (QQ 141-152) – Oral evidence (EHMOE0009).
RESPONSE DOCUMENT

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Inquiry into the Economics of the United Kingdom Housing Market - Call for Evidence

We reply on behalf of ourselves an estate, lettings and management agent, and around 100 landlords who rent residential property in Northern Ireland and the North East of England. The majority of our landlords' housing stock could be classed as “social” as most rents are under £500 per month.

OUR RESPONSE:

1 Private ownership: (a) (b) and (c).

Many of our landlords would be interested in a selling to tenants. Many have expressed a desire to allow private “Rent to Buy” schemes whereby a tenant starts renting and eventually buys the property. There is currently no government initiative in place to support such a scheme, whether financial or otherwise, nor any tax benefits which may encourage this. The main block to tenants buying property appears to be lack of deposit and inability to obtain a mortgage. Any government scheme to assist in either of these would be beneficial.

It is worth bearing in mind however that many tenants do not want to be tied down to owning their own homes, and some enjoy the flexibility of being able to move periodically.

It is also important to recognise that many tenants would be too “high risk” to ever obtain a mortgage.

2. Private Rented Accommodation.

We would start by reminding the Lords that private landlords represent a most necessary and substantial segment in the UK’s supply of rented accommodation and without them the UK would be plunged into a dire housing crisis.

Of course, supplying accommodation (in most cases this is social accommodation) is a by-product of the main objectives of a landlord, which of course are commercial. A typical landlord will invest in property not as a short term business, but as a long term investment, usually to boost a poor pension, or as an alternative to poor returns on interest rate linked savings or investment products. Most landlords own either only one or a small number of properties and are therefore far from “tycoons”. Currently many landlords make either a small profit, break even, or incur a loss. The word “landlord” is perhaps unfortunate as it often reminds one of the landlords of yesteryear who lived in grand palatial homes and owned large swathes of land including villages and towns. This often conjures up an image, in the mind of a social tenant, of a landlord who is wealthy and uncaring. In turn this formulates a position in the mind of the tenant of a “them and us” type attitude which just adds to the increasingly bad, and unfair, characterisation of landlords. Perhaps the term would be best replaced with something like “home provider”.

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Landlords generally ask for no special treatment, simply to be treated fairly and equally by government. Unfortunately, of late, landlords feel that they have been demonised, and that they are seen as almost predatory, with “poor vulnerable tenants” as their “prey”. The normal rules applicable to the commercial supply of most other products and services have been consistently and substantially adulterated by Parliament, devolved government, and local authorities, particularly of late. We are now in a position whereby the consumer (tenants) have a most unfair advantage over their supplier (landlords). Landlords feel that their human rights have been completely ignored in favour of tenants’ rights.

Legislation designed to restrict the bad practices of a few rogue landlords have had a detrimental effect on honest and law abiding landlords. Tenancy deposit regulations, registration schemes and now a most ill thought through restriction on eviction where repairs may be outstanding, all add cost and inconvenience to a landlord. Parliament has made no contribution to legislating against bad tenants. Currently the law very much supports a tenant who pays no rent and damages their rented home. It is lengthy, difficult and expensive to evict such a tenant. With the new Section 21 repairs clause, it could be next to impossible to evict such a tenant. In what world can this possibly encourage landlords to continue to invest in high quality social housing?

Where exactly is the landlord’s basic human right to his property in this case?

We reiterate, landlords seek no special treatment, simply fair treatment. Landlords want government to start levelling the playing field. We have had an abundance of laws to restrict unscrupulous landlords, now can we have the same level of effort put into protecting landlords against unscrupulous tenants? A fairer system would mean more landlords making more housing available and with less money to pay on unnecessary red tape and litigation, they would have more money to increase the quality of their housing stock.

(a) Tax relief reduction for mortgage interest

We believe that this will discourage some landlords to purchase buy-to-let properties. Others have expressed interest in selling. This will therefore in all likelihood decrease private rented accommodation.

(b) Stabilising the rental market

We refer to the above. Make renting fairer for landlords, decrease the administrative burden and encourage supply of social housing through tax benefits. Provide deposit and or rent guarantee schemes via local authorities for tenants who do not have the means to pay a deposit and rent in advance.

(c) Rent Controls

Rent controls are another method of distorting the normal commercial rules of supply and demand and place unfair financial burdens on a landlord. They interfere with a landlord’s right to receive the market rent for his property. Such a policy completely ignores the cost element in a landlord’s “business”. For example, many landlords make just enough rent to cover their mortgage. Rent controls could reduce rents to less than a
landlord’s cost. Result: landlords exiting the market and less accommodation available. Communist style rent controls have no place in a free market.

3. Social Housing

(b) As stated, private Landlords already provide a substantial amount of social housing in the UK. Incentives to encourage the continuation of this supply, along with protection and fairer legislation for landlords would greatly incentivise landlords to enter and remain in the private rental market. Further, particular incentives could be introduced to encourage private landlords to supply social housing, e.g. tax incentives, zero council tax when empty, provision of aforementioned deposit/rent guarantee schemes.

SUMMARY

Private Ownership

- Incentivise private landlords to offer Rent to Buy schemes
- Many tenants neither wish nor would be able to manage owning their own home

Private Rented Accommodation

- Reverse the mortgage interest tax relief restriction
- Decrease red tape for landlords
- Introduce legislation to protect landlords and make private rental fairer for landlords
- Abolish/do not introduce rent controls
- Understand the business of private renting and the impact on housing supply before introducing any further legislation detrimental to landlords
- Provide incentives for private landlords to supply good quality rented accommodation, particularly in the private sector.

Finally

We are perplexed by the constant term “housing crisis”. Having good quality social housing ready for tenants but sitting empty for months in the north east of England the term is completely alien to us.

24 November 2015
L&Q and G15; National Housing Federation (NHF); Sanctuary Housing Association (QQ 111-122) – Oral evidence (EHMOE0007)

Submission to be found under National Housing Federation (NHF); L&Q and G15; Sanctuary Housing Association (QQ 111-122) – Oral evidence (EHMOE0007).
1. The Labour Land Campaign
   1.1. The Labour Land Campaign (LLC) is a broad left voluntary organisation that is concerned with how land value arises, to whom it currently goes and how it can be collected to replace and/or reduce negative taxes that distort the economy including those on housing provision and affordability, jobs and wages, the environment and poverty.

2. Background to LLC’s submission
   2.1. This LLC submission focuses on a fundamental economic problem that is ignored by so many offering a solution to the ‘housing problem’ – private ownership of land and land wealth is a root cause of the UK housing problems. Land value is generated by the whole of society. All of us, whether as taxpayers, consumers, producers or investors create the demand for land which gives land its value. It is unfair that freeholders see their asset rise in value as the national or local economy grows and public and private services are provided whilst tenants see their rents rise and gain no benefit from the land values they have also helped to generate.

   - No home can be built without access to land
   - The rental or buying price of a home has two elements – (a) the value of the building (which reduces in value as it gets older and requires maintenance) and (b) the value of the land it sits on. This land value is determined by the desirability of the location.
   - Land is a free gift of nature with no cost of production
   - Land wealth currently goes to owners of land as their unearned income
   - Even though they are the major beneficiaries, land wealth is not created by landowners.
   - We cannot survive without land for homes, production, services, raw materials, food, leisure etc. Consequently, land wealth is created from our collective demand for land.
   - The cost of a home to rent or buy reflects the economic benefit current public services bring to that area including public transport, schools, roads, health care and leisure paid for through local and national taxes
   - Private investments and services also generate land value.
   - Rampant speculation in rising land prices forces up the price of land above its true economic value creating land bubbles, usually referred to as housing or property bubbles, thus encouraging homelessness, rogue landlords, empty homes, idle development sites that have planning permission for homes and other buildings, unaffordable homes for many all over the UK, the North-South divide with under investment in many deprived areas and a skewed economy
• The solution to the problems above can only be resolved by a shift in taxation off earned incomes on wages and production and onto the annual rental value of land.

3. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?
   3.1. Overpriced land causes homes to be unaffordable for a growing number of people all over the UK.
   3.2. Annual land Value Tax (LVT) will tax the annual rental value of every site according to its optimum permitted use, and hence idle development sites will be brought into use.
   3.3. With LVT, empty homes will be used and even the social sector will have an incentive to bring their voids into use more quickly.
   3.4. Similarly, empty commercial buildings may be brought into use as housing, creating jobs.
   3.5. Thus LVT will effectively increase the housing and land supply for homes and will deflate land prices making it more affordable for local authorities, housing co-operatives, Community Land Trusts, Housing Associations and private developers to purchase land for new homes.
   3.6. It should be noted that with a big enough shift in taxation off production, new and expanding businesses will be encouraged to invest in currently deprived areas which in turn will increase the value of the land in those areas which will result in an increase of the land value captured to maintain and develop public services in such areas.
   3.7. Speculation in rising land prices will cease and land prices will reflect true economic value as property investors seek other worthwhile projects to invest in.
   3.8. Land speculation and land hoarding are encouraged by the current tax system but an annual Land Value Tax, will encourage land to be used efficiently and sparingly with the demand to build on urban green spaces and rural green land greatly reduced.

4. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?
   4.1. LLC maintains that any form of subsidy or grant will capitalise into land value and this is illustrated in a research report published in September 2015 by Shelter (www.shelter.org.uk) ‘Help to Buy and the impact on house prices’ where it was found that “Help to Buy has added around £8,250 to the average house price”. It therefore follows that the cessation of these schemes will reduce inflated prices. However, this will not solve the underlying cause of unaffordable homes.
   4.2. LLC argues that the underlying cause of homes being unaffordable to rent or buy is inflated land prices. Speculators buying land and homes, not to use, but in order to benefit from future land price rises. Government schemes and private ownership of land encourage land hoarding, idle development sites and empty homes. These factors create an artificial shortage of homes which also pushes up the prices of those available

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to rent or buy. Council homes being bought (and being let to local authorities for ex Council tenants in many instances) and not replaced has effectively privatised social housing.

5. Taxation: Are there tax measures that would improve housing supply and affordability?
5.1. An annual Land Value Tax (LVT) will act as explained above: empty homes will be brought into use, idle development sites will be built and land speculation and land hoarding will cease.
5.2. LVT will help businesses to prosper and create jobs especially in deprived areas where more jobs would create a demand for empty homes.

6. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?
6.1. The changes to inheritance tax will encourage tax-free investment in housing as opposed to the other more productive investments which are heavily taxed. House prices will rise. There needs-to be more homes available to rent or buy for those wishing to ‘downsize’ and LVT will release development land currently kept out of its permitted use and good planning will encourage developments to meet specific housing demands.

7. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?
7.1. Average house prices will rise. The Telegraph reporting on the changes in December 2014 said “A snap poll of RICS members showed that property surveyors and agents in England and Wales believe there will be an increase of up to 5pc in sales over the next 12 months, as people put their homes back on the market hopeful of a higher price around the old tax thresholds and an easier sale.”
7.2. An annual LVT should replace other property taxes such as Stamp Duty, Council Tax and Business Rates and that other negative taxes such as Income Tax and VAT should be reduced to encourage efficient use of our land and good investments in the production and delivery of goods and services.

8. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?
8.1. LLC has not carried out any research into this change but does believe there should be effective controls on money lending to avoid individuals borrowing beyond their means but also to stop lenders from exploiting the land market as happened with the last property crash that saw irresponsible and greedy lenders fuelling land prices inflation alongside the normal causes of land price inflation. With LVT, lending agencies such as banks and building societies will need to examine much more closely the ability of the lender to maintain repayments rather than just using a rising land market to provide collateral for their loans.

9. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?
9.1. Robust planning works in harmony with LVT in that land in urban areas will be used more efficiently thus reducing the need to build into the countryside or destroy urban
green belts. Developers will be encouraged to build new homes on brownfield sites or refurbish existing homes or commercial buildings that will result in more affordable homes. The current requirements for ‘affordable’ homes to be included in developments is not satisfactory and is being avoided more and more plus ‘affordability’ should be defined by incomes and not as a percentage of market prices.

10. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?
10.1. LVT will increase the number of homes and make them more affordable. Responsible private landlords will not be deterred by LVT but those landlords only interested in collecting Housing Benefit and land price increase will reduce in number under LVT. It is essential that local authorities and the wider social sector are given the resources to build new homes and for these homes to remain in the public sector to ensure there are sufficient, really affordable and good quality homes available to future generations to rent.

11. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?
11.1. LLC maintains that rents cannot be increased as landlords normally charge the highest level of rent the market can stand. To charge more would result in those homes being vacated and remaining empty. Therefore private landlords will absorb the changes in their business accounts and operate more efficiently on smaller margins.
11.2. With LVT, changes to taxes or reliefs that affect landlords will be reflected in the land value.

12. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long-term rental culture?
12.1. People need to have secure tenancies that are also fair to landlords as well as a safe, well insulated and well maintained home to comply with standards that are enforceable by local authorities. People also need to have choice when deciding to rent or buy and whether to rent in the private sector or the public sector. LVT will discourage rogue landlords and make homes more affordable, whether to rent or buy. There must be a programme of building council homes that remain in the public sector.

13. What are the advantages and disadvantages of restricting rent increases in the private sector?
13.1. Tenants are entitled to have a home they know they can afford in the future and not be at risk of being evicted or priced out of the market because of soaring land prices reflected in rents as is happening in a number of areas at present. Landlords are entitled to a fair rent but they also have to be responsible and not be allowed to exploit their tenants because of land price inflation. LVT will act as a control on fair rents and good landlords win and good tenants win.

14. Social housing: Are any measures needed to increase the supply of social housing?
14.1. The privatisation of social housing has resulted in an increase in rogue landlords, soaring rents in areas of rising land prices and Housing Benefit going to private
landlords of £9 billion a year. An increase in social housing is a must in order for there to be a sufficient supply of homes that are really affordable all over the UK and which are of a good standard of building, insulation and repair. These new homes must remain in the public sector to ensure sufficient affordable homes for present and future generations.

15. What will be the impact of the Right to Buy for housing association tenants?
15.1. Homes will be bought and many will then be let for social tenants as happens under right to buy council homes. All social housing should remain as such and the private sector should be where people buy their home. LVT will make homes more affordable whether to buy or to rent.

16. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?
16.1. Any pressure on people to move out of their home because of high rents is morally wrong. To sell high value council homes in order to build new ones in cheaper areas is socially divisive and also morally wrong. Rents need to be fair and those tenants in social homes on higher incomes should pay a fair rent. However, with LVT being applied at a sufficiently high rate, the currently skewed economy will change; businesses will expand and new ones will start up and wages will rise. By investing in council homes and not paying housing benefit to private landlords, local authorities will have sufficient homes to offer to those who want or need to rent. Tenants also create land value as taxpayers and consumers and they should not be forced to pay twice for public services that give land its location value – once as taxpayers and again as tenants.

17. Conclusion
17.1. To find a sustainable, fair and sensible solution to housing problems that affect people all over the country, the government first has to tackle the land problem. Land ownership has for thousands of years been an underlying source of social and economic inequality for many and power and wealth for a few. By recognising land value is generated by the whole of society whether they own land or not, government will also recognise that the ability to hold land out of use in order to create an artificial shortage, or to speculate, distorts the whole economy. Land ownership should also carry social responsibility to ensure it is used efficiently, sparingly and to return its annual rental value to the public purse to invest in maintaining and developing public services. An efficient, unavoidable and unevadable tax system that has LVT at its core will encourage good land stewardship, good business decisions and worthwhile private investment in the production and delivery of goods and services.
17.2. With LVT implemented to replace current property taxes and reduce other negative taxes, housing, social and private, whether to rent or buy will become really affordable in all areas together with good planning and high standards of building and insulation and fair control of the rented sector will offer people real choice in where they live and whether they rent or buy their home. Non-property owners will also share in the land wealth they too create.

16 December 2015
Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

1. Put in very simply terms the housing market as it currently stands is broken, this is the result of successive governments failing to control a debt binge, in the form of interest only mortgages, which was always going to encourage speculators and eventually make housing unaffordable. The ONLY answer is to turn off the cheap debt supply, remove interest only mortgages. You cannot build your way out of this hole, not without preventing individuals from using cheap debt to gain ownership of multiple houses and then charge excessive rents to cover the costs of the loans that the individual has taken out to buy their portfolio. Building more homes will be a futile exercise without first ensuring that it is unprofitable for any one person to own more than one home.

2. Its a simple equation really, the ever growing millions of potential voters locked out of the housing market, vs. the relatively small number of landlords. If you look after the first group, you will be elected, fail them and you may just as well pack your bags for a generation.

Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

3. The government schemes have done exactly what they were supposed to do and have continued to inflate an already overinflated market by encouraging people to take on massive personal debts far beyond a level they will ever be able to pay back. This has exacerbated the problem of real low cost housing by ensuring that the return of house prices to more normal levels has been unable to occur. Cessation of these ridiculous props to the housing market will mean that the housing market can start to return to a more normal level.

Taxation: Are there tax measures that would improve housing supply and affordability?

4. Change the current tax laws to make being a single homeowner, or tenant, more tax efficient than being a multiple homeowner. This will cause a lot of landlords to release their portfolio and allow the market to correct itself naturally to the point that existed before cheap debt flooded the market.

Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

5. A few people will be substantially better off, as a population wide effect the result on the housing market will be minimal

Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?
6. No. This change would have had a positive impact but failing to reduce the availability of cheap debt to would be buyers neutralised this.

**Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?**

7. No and yes. No it did not restrict mortgages from those that could afford a mortgage, yes it did restrict mortgages from those that could not. Interest only loans for the purchase of houses is the key problem here, turn off the cheap source of debt and the housing market will correct.

**Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?**

8. Yes further change is required. The categorisation of gardens as brownfield sites was an unmitigated disaster, which would always lead to urban sprawl and ever higher density habitations. Building firms need to be forced to build not on valuable and useful gardens, fields, heathlands, woodlands and so on, but on real actual genuine brownfield sites, sites left by companies that were never forced to pay for the cost of cleaning up the environmental damage they caused when they left the area. The amount of time that companies can hold onto land-banks without using them also needs to be addressed as a mater of urgency. The ability of companies to buy up large amounts of land and then sit on it for decades if necessary, artificial increases the value of the remaining available land for development.

**Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?**

9. Stop paying private landlords excessive sums of money to put up people on the welfare system at the taxpayers expense. All this does is drive up the rental price for those not on the welfare system, some of those people that would have independently rented are then unable to afford the rent, forced to enter the welfare system and so this sorry, vicious cycle is perpetuated, whilst a small number of landlords reap the rewards for a poorly thought through social housing system.

**Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?**

10. Without regulations to limit what landlords can charge, it will be disastrous. That is not to mean that it is the wrong thing to do! It is entirely the correct thing to do, but the landlords must not be able to just offload their losses onto their tenants. If being a landlord is no longer seen as profitable, landlords will sell their properties, this will increase the housing stock available to buy for potential homeowners, house prices will correct and the problem is solved.

**Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?**

11. As long as successive governments pander to the vested interests in this country, rather than the disenfranchised electorate, and allow house prices to spiral ever higher, the number of people renting will increase. NO government should be aiming for “a stable long term rental
Dr Guy Lambourn – Written evidence (EHM0002)

culture”, renting should be a viable option, as should be private home ownership, sadly neither is in the current broken housing market.

**What are the advantages and disadvantages of restricting rent increases in the private sector?**

12. From the viewpoint of the majority of the voting populace of this country there are NO disadvantages, unless of course you count a minority of people i.e. landlords being unable to fleece the majority of individuals currently trapped in rental accommodation for life. The advantage to a government will be winning millions of votes from grateful renters.

**Social housing: Are any measures needed to increase the supply of social housing?**

13. Social housing should be for those individuals that are truly falling through the floor of society, there are already enough homes for this small and deserving group. There is no need to increase supply to allow yet more individuals who are perfectly capable of supporting themselves to be given additional help by the tax payer. The problem is not the number of houses, but the eligibility of those allowed to enter the system.

**What will be the impact of the Right to Buy for housing association tenants?**

14. This will encourage purchase of houses by individuals who by definition under normal circumstances cannot afford a home. Allowing these people to be given a tax payer subsidised house at reduced cost will distort the market yet further and disenfranchise anyone who has worked to buy their own home, with their own money, at full market cost. The result of this will be a loss of voters from the tax paying majority and a deepening of the social housing crisis when these previously social houses are released, at a tax payer subsidised profit to the prior tenant, onto the housing market.

**What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?**

15. Fewer new social houses will be built, this coupled with allowing purchase of social housing by existing tenants will further diminish the existing pool of social housing.

4 November 2015
Submission to the House of Lord Select Committee on Economic Affairs

Inquiry into the Economics of the United Kingdom Housing Market

For and on behalf of The Land Value Taxation Campaign
http://www.landvaluetax.org

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Executive Summary

1. Bricks and mortar are easily affordable for most households, so the housing market is best understood as a market in ‘location, location, location’.

2. The value of land at any location is created by the collective efforts of the whole nation – the national government which provides security and stability; local government which provides roads, schools and hospitals (all funded from taxes levied largely on output and employment and not landownership); private enterprise which provides spending and leisure opportunities and jobs; down to every individual neighbour who ‘keeps his front garden tidy’. Thus the value of location belongs equally to everybody (or nobody) and if individuals are allowed to buy, sell and collect this value from others it will inevitably lead to distortions, misallocation of capital and needless inequality.

3. It is the natural tendency of rents to increase slightly faster than general wage or GDP growth. In the absence of taxes on land values, it is also the natural tendency for land prices to increase slightly faster than rents and for ownership to become more and more concentrated in fewer and fewer hands. This is the trend that has reasserted itself over the last twenty years.

4. But it does not have to be this way. From 1945 until the 1980s house prices were relatively low and stable; owner-occupation levels increased rapidly from 30% to 60% and the number of social tenants increased from 20% to 30%. What is less often mentioned, but just as significant, is that the number of households renting privately fell from 50% to 10%.

5. In Appendix 1, we outline the “post-1945 policies” that prevented private individuals or businesses from collecting excessive amounts of location value from other household and thus led to a more equitable distribution of wealth. Nearly every household could benefit from the rental value of land they lived on. Capping house prices and mortgage costs enabled owner-occupiers to benefit directly from location values for a low cost. Capping rents in the private and social sectors enabled tenants to pay less than the unregulated rent. Just as importantly, by capping prices and rents, the amount of rent that could be collected directly by landlords or indirectly by mortgage lenders was restricted.

6. Besides non-fiscal measures, higher annual taxes on land values (such as Domestic Rates) and correspondingly lower taxes on transactions (such as Stamp Duty) were a key part of the post-1945 policies. As the name of our organisation suggests, we would like to see as many taxes as possible replaced with Land Value Tax. We suggest which existing taxes on housing, private wealth and construction should be replaced with an annual LVT in Appendix 2.
1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

Simply resetting the clock, accepting that the experiment has gone horribly wrong and reinstating the post-1945 policies with an emphasis on replacing existing taxes on housing, private wealth and construction with an annual LVT.

*a. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?*

Help to Buy is the most extreme form of subsidy and merely serves to push up house prices. Even the large homebuilders have regularly said that Help To Buy has vastly improved their profit margins.

Quite simply, the amount a first time buyer is prepared to pay for a home is its rental value, divided by the effective interest rate he has to pay, plus the value of any cash subsidies and capital gains he expects to receive as owner, minus any taxes he has to pay to become an owner (such as Stamp Duty Land Tax).

Help To Buy reduces the effective interest rate by one-fifth outside London (and by two-fifths in London if the changes proposed in the Autumn Budget 2015 come in) and thus pushes up prices by one-quarter (and possibly by one-half in London).

*b. Taxation: Are there tax measures that would improve housing supply and affordability?*

Yes. The most effective short-term measure would be to replace all existing taxes on housing, private wealth and construction with a fiscally neutral annual LVT (akin to Domestic Rates) on housing and developable land. We provide an estimate of the amounts and rates in the Appendix 2.

Martin Wolf of the FT explained some of the advantages of LVT at a committee hearing on 1 December 2015. In the context of this submission there are two main advantages: encouraging developable land to be developed and encouraging ‘right sizing’. The current tax system does precisely the opposite and discourages both.

On closer inspection, the UK does not have a physical shortage of housing. There are more bedrooms than there are people, so the problem is misallocation. There are too many small households in large homes and too many larger households in small homes. Too many homes are standing empty (whether derelict, because of inheritance wrangles, second homes or holiday homes). LVT would encourage more efficient use of available housing. When an individual moves to an area with better job prospects, the bulk of his additional earnings merely benefits landowners in that area in the form of higher rents or selling prices. LVT would extend

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the logic of the ‘bedroom tax’, which currently only applies to social tenants to all owner-occupiers and landlords.

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

An IHT exemption for a particular asset class pushes up the price people are prepared to pay for it. This measure will encourage people to remain in high value homes rather than trading down, but there will be a special rule that extends the exemption to down-sizers so it is difficult to estimate the net impact.

ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

Buyers’ budgets are fixed and must cover SDLT (or LBTT in Scotland) and the purchase price. So SDLT reduces purchase prices and is borne by the seller not the buyer (even though the legal incidence is on the buyer), so a reduction in SDLT on lower priced housing just pushes up purchase prices by the amount of the SDLT saving and does not help first time buyers, although it does help liquidity.

SDLT is a tax on land values but it is not an annual LVT (it is a crude LVT payable in advance for an undetermined period of ownership) so it is a tax on transactions and therefore discourages transactions. At the top end of the market, SDLT is now so high that it discourages transactions, full stop. The number of transactions taking place in prime central London has fallen disproportionately. SDLT encourages people to keep a house to rent out rather than selling it to a potential owner-occupier and discourages down-sizing and trading up. If landlords and second home buyers are made to pay 3% extra SDLT, this will tilt the playing field slightly back in favour of owner-occupation, although it is a very crude measure.

c. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

Mortgage restrictions were a key part of the post-1945 policies. First time buyers were treated most favourably and buy-to-let lending based on future rental income was more or less unheard of.

Limiting the size of mortgages puts downward pressure on prices and taken in isolation is much to be welcomed. However, it must be borne in mind that first time buyers and landlords are competing for the same homes. If there are borrowing restrictions for first time buyers but not buy-to-let landlords, this pushes down prices that landlords have to pay and so reduces owner-occupation rates.

It would be very helpful if the amount that a buy-to-let landlord can borrow against any particular home were restricted to an even lower amount that the amount a first time buyer
can borrow. In September 2015 for example, buy-to-let landlords acquired nearly 30% of net new homes coming onto the market\textsuperscript{172} and since 1996 the overall figure is 83%\textsuperscript{173}.

d. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

The large homebuilders set output at the profit maximising level, which means they restrict the number of new homes to one-tenth of total sales in a year\textsuperscript{174} to avoid flooding the market with new builds and eroding the new build premium. In 2007, 150,000 new homes were built against total sales of 1.5 million total sales; in 2009 50,000 new homes were built against total sales of 500,000. They have maintained this ratio since the 1970s. If they are granted more planning permission, this does not change their profit maximising output level one jot. As a result of this, the large homebuilders now have land banks sufficient for at least ten years’ output.

Although new construction levels in the private sector are currently low (about 120,000 a year) the long run average since 1945 is not that much higher (160,000). The only reason why new construction was double that level in the 1950s and 1960s was because another 150,000 council homes were built each year.

We would like to add that although many assume that increasing supply for a given demand will reduce prices, there is little evidence for it in real life. This is because of agglomeration benefits. London is a city with 3.4 million homes, a population of 8 million and millions more within commuting distance. It is the presence of all these people that makes London attractive to businesses, which creates more job opportunities, which draws more people in etc etc, all of which pushes up location values in London. If more homes are built where prices are already the highest (London and the south east), the extra agglomeration benefits will push up values and cancel out the dampening effect of there being more supply.

The best ways to significantly increase new construction, assuming that to be a desirable goal, are to:

a. Levy LVT on land suitable for development i.e. land which already has planning permission and land which would be granted planning if it were applied for, with a corresponding reduction in existing taxes on construction.

The current system of taxation encourages land to be held out of use while it rises in value, incurring no tax. The lion’s share of taxation is only triggered when land is sold to a developer (capital gains tax, SDLT), when planning is applied for (planning fees, Community Infrastructure Levy, s106 agreements), when construction takes place (PAYE, CIS payments less VAT refunds) and when finished housing is sold (more SDLT and corporation tax).

Landowners and land bankers would now face higher holding costs and be encouraged to sell land to developers or to develop it themselves. The construction industry would in turn pay far less tax.

\textsuperscript{172}http://www.theguardian.com/money/2015/nov/11/buy-to-let-mortgages-cml-lending-landlords-loans
\textsuperscript{173}http://www.cityam.com/230662/why-war-buy-let-will-make-housing-crisis-worse
\textsuperscript{174}http://www.pieria.co.uk/articles/can_affordable_housing_break_the_10_to_1_ratio
b. Increase the construction of social housing by local councils and housing associations (see question 3).
2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

We simply do not agree that this is a desirable objective. What most tenants really want is affordable housing to buy and live in, which is your objective 1, “to increase the supply of reasonably priced housing in the UK”.

We also do not believe that this is an achievable objective. Rent controls and more security for tenants were a key part of the post-1945 policies – and we would welcome their return – but overall they led to a rapid shrinking of the private rented sector and a corresponding increase in owner-occupation rates.

The post-1945 policies show that the best and only way to increase the supply of low cost rental accommodation is the provision of more social housing.

\[a. \text{Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?}\]

No of course not. Rental values are created by the efforts of the whole community and supply and demand and cannot be dictated by landlords. Any increase in taxation on landlords will be borne by landlords and not lead to higher rents. Research carried out into the impact of Business Rate exemptions in Enterprise Zones has shown this to be the case. Landlords can accept the lower net returns or sell up.

\[b. \text{Will the current trend of a decline in home ownership and an increase in private renting continue...?}\]

This trend is the inevitable outcome of the post-1945 policies being abandoned and will continue until and unless those policies are reinstated. The ‘cost’ to tenants of renting is not just the rent; it is the fact that house prices go up while they are renting. So after a year of renting, a tenant has not just lost a year’s rent but finds it even harder to buy his own home a year later. Tenants are running to stand still. The calculation for landlords is the opposite – they have collected one year’s rent and the equity in their homes has increased tax-free, enabling them to leverage up and outbid potential owner-occupiers i.e. those who will now become their tenants.

An annual LVT could be used to dampen price rises and thus reverse this inbuilt advantage that landlords currently have over first time buyers.

\[b. \ldots \text{How can the Government encourage a stable long-term rental culture?}\]
\[c. \text{What are the advantages and disadvantages of restricting rent increases in the private sector?}\]

As we saw while the post-1945 policies were in place, rent controls benefit existing tenants in the short term. In the medium and long term, rent controls discourage landlords from entering the market and the end result is an increase in owner-occupation rates.
Whether this is a disadvantage or an advantage depends on whether you are a tenant who would like to own his own home or a landlord. Taking society as a whole, the advantages clearly outweigh the disadvantages.
3. Social housing: Are any measures needed to increase the supply of social housing?

Yes. The expansion of the council housing sector was another key part of the post-1945 policies.

By paying less than the unregulated rent, council tenants could also benefit from location values in the same way as owner-occupiers who could buy homes for less than their unregulated value.

Unlike Housing Benefit paid to private landlords, social housing costs the taxpayer nothing, as the rents collected are more than enough to cover running costs and the small amount of interest needed to pay for construction. Net construction costs to the government are also reduced by the taxes paid by the construction industry.

The main measures needed to enable and encourage the provision of more social housing would be to allow councils to borrow against future rental income; to retain all the rents from social housing in their area; and to end Right to Buy.

a. What will be the impact of the Right to Buy for housing association tenants?

There is no need to speculate. The mass council house sell-offs of the 1980s and 1990s led to a short term increase in the number of owner occupiers, but since then, many ex-council homes are being rented out privately. The pattern will repeat itself if the experiment is tried again, so the main beneficiaries will be the banks who can now earn some interest on the loan for the initial sale and then much more each time a home is resold for its unrestricted market value.

Those lucky enough to buy in the initial wave will be able to cash in significant capital gains or collect rental income in future from those who would otherwise been entitled to social housing for affordable rent.

b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

There have been four other major changes affecting housing associations and their tenants.
   a. Government grants have been steadily reduced over the past five years.
   b. Rent increases will be restricted to one per cent a year for most tenants.
   c. Housing Benefit payments are being restricted.
   d. Better off tenants will be expected to pay higher market rents.

Overall, housing associations and their tenants will not benefit and the changes will lead to a significant reduction in the number of new social housing units being built every year, so the brunt of the burden will be on all the future tenants who would have been eligible for a housing association home but who will now be forced to pay higher rents in the private rented sector.

Appendix 1: The Post-1945 Policies

Fiscal policies

1. The UK has never had true LVT on residential properties. However, Schedule A taxation of notional rental income (until 1964) and Domestic Rates which were highly progressive (the tax on the most valuable homes was a hundred times as much as on the cheapest) were a low-level approximation of LVT.

   Domestic Rates were abolished in 1989/90 (with the exception of Northern Ireland where they still continue) and replaced in 1991 with Council Tax, which is more akin to a poll tax on each home of around £700 plus a very small percentage of the value of the home up to around £1 million.

2. Rental income was historically taxed at much higher rates than now and at higher rates that earned income.

   Rental income is now taxed at lower rates than any other form income. Unlike employment income, it is not liable to two layers of National Insurance. Unlike self-employment income it is not liable to one layer of National Insurance and Value Added Tax. Unlike other investment income, interest paid was an allowable expense and ten per cent of a landlord’s gross income was exempt under the ‘wear and tear allowance’ rules (the generosity of these reliefs will be reduced from April 2016 onwards).

3. While annual taxes on housing were much higher, other taxes on private wealth and transactions in land were much lower. Capital Gains Tax was introduced in 1965, with an exemption for people’s main residences. With lower house prices, very few estates were liable to IHT (or its predecessors). Insurance Premium Tax was introduced in 1994. Until 1997, Stamp Duty on residential purchases was nearly always a flat 1% and about half of transactions were below the threshold. The ATED on high value housing was introduced in 2013.

   Schedule A tax, Domestic Rates and higher taxes on rental income only collected a small part of rental values, but there was a bundle of other measures, which – as a package – achieved a similar result using non-fiscal measures:

Rent controls and tenants’ rights

4. The government had controlled rents since 1918 with a series of Rent Acts. Landlords could not collect all of the rental value so part of the rental value went to tenants for ‘free’ and as of right.

5. The rent caps reduced the amount which landlords were prepared to pay for a home, pushing down prices for first time buyers, so part of the rental value went to first time buyers for ‘free’ and as of right.
These controls were abolished with the Housing Act 1988 which also reduced security for tenants.

Social housing

6. Rent controls are a blunt tool, with their own unintended consequences, so local councils built 150,000 units of social housing each year, which were relatively easily available at very affordable rents. This kept a lid on the rents that private landlords could charge for comparable properties they owned. By the 1970s, 30% of households lived in council housing.

7. Since 1980, new construction by local councils and Housing Associations has slowed to a trickle and has not kept pace with disposals under Right to Buy. Housing Association rents have always been higher than for council housing and both are steadily increasing in the long term.

8. Until the council house sell-offs, there was no need for Housing Benefit and banks earned very little from the social housing stock. Social housing was always a break even for the taxpayer as the rents collected were – and still are – sufficient to cover the cash cost of providing social housing.

The mortgage market

9. There were mortgage restrictions to stop first time buyers entering into a borrowing arms race and bidding land prices back up to their unregulated value. Until the 1980s, the average loan-to-income multiple was as low as two.

10. Building societies (responsible for over 90% of the mortgage market until 1990) operated a ‘recommended rate’ system, which “tended to keep lending rates below the market clearing level such that was a deliberate rationing of mortgage loan supply” 176. The system was abolished after the Wilson Report of 1980.

11. In the absence of these restrictions, MIRAS and its precursors would have merely pushed up gross interest rates and mortgage volumes. With those caps in place, MIRAS genuinely saved owner-occupiers money.

12. Buy-to-let lending was virtually unheard of until the late 1990s. Until then, landlords had to take out business loans from banks at higher interest rates and banks did not include the potential rental income as part of landlords’ earnings when assessing affordability. This changed rapidly in the late 1990s and buy-to-let landlords are now seen as a better credit risk than potential owner-occupiers.

The UK housing market today

The post-1945 policies were dismantled over decades and the inevitable long-term results are as follows:

1. Rents have been rising faster than wages since the Housing Act 1988.

2. The number of households renting privately, which was at an all-time low of 9% in the early 1990s, has doubled to 18% and is increasing steadily.

3. The number of households in social housing – which cost the taxpayer net nothing – has fallen from a peak of 30% to 17% and is set to fall further.

4. Housing Benefit and its localised replacement ‘Local Housing Allowance’, which cost £1 billion a year when introduced in 1990 now cost the taxpayer £20 billion a year, nearly half of which goes to private landlords (who in many cases are renting out ex-council housing).

5. House prices have doubled relative to earnings – from a long-term average of three-times-earnings to six-times-earnings today.

6. Average first time buyer mortgages have doubled from two-times-income to four- or five-times-income.

7. The banking sector has swollen to a dangerous size, lurches from one crisis or scandal to another and is bailed out by the government, taxpayers and savers every time.

8. Owner-occupation levels, which reached an all-time high of 71% in 2003, have fallen to 63% over the last twelve years. The fall among younger people has been particularly catastrophic. As recently as 2004, 59% of under-34s were owner-occupiers and the figure is now only 36%.  

Appendix 2: Replacing existing taxes with LVT

In the long run, we would like to see taxes on employment and output reduced and annual LVT increased. In the context of this submission, we would like to turn the clock back to the post-1945 policies - reduce taxes on non-land wealth and transactions in land and replace them with a higher annual LVT (a more sophisticated version of Domestic Rates). The taxes, reliefs and subsidies for housing, private wealth and construction which should be replaced with LVT are as follows:

**Taxes revenues 2014-15**

<table>
<thead>
<tr>
<th>Description</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Tax – England</td>
<td>24,558</td>
</tr>
<tr>
<td>Council Tax – Scotland</td>
<td>2,400</td>
</tr>
<tr>
<td>Council Tax – Wales</td>
<td>1,400</td>
</tr>
<tr>
<td>Domestic Rates - Northern Ireland</td>
<td>900</td>
</tr>
<tr>
<td>Stamp Duty Land Tax</td>
<td>8,054</td>
</tr>
<tr>
<td>Capital Gains Tax</td>
<td>5,559</td>
</tr>
<tr>
<td>Inheritance Tax</td>
<td>3,804</td>
</tr>
<tr>
<td>Stamp Duty (shares)</td>
<td>2,926</td>
</tr>
<tr>
<td>Insurance Premium Tax</td>
<td>2,965</td>
</tr>
<tr>
<td>Annual Tax on Enveloped Dwellings</td>
<td>116</td>
</tr>
<tr>
<td>TV licence fee</td>
<td>3,600</td>
</tr>
<tr>
<td>Income tax paid by landlords (estimated)</td>
<td>5,000</td>
</tr>
<tr>
<td>Community Infrastructure Levy</td>
<td>1,000</td>
</tr>
</tbody>
</table>

**Reliefs and subsidies for housing**

<table>
<thead>
<tr>
<th>Description</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Benefit/LHA paid to private landlords</td>
<td>-8,685</td>
</tr>
<tr>
<td>Council Tax benefit/rebates</td>
<td>-4,912</td>
</tr>
<tr>
<td>Mortgage interest support</td>
<td>-300</td>
</tr>
<tr>
<td>Help to Buy notional interest</td>
<td>-240</td>
</tr>
</tbody>
</table>

**Required revenues from annual LVT**

<table>
<thead>
<tr>
<th>Description</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Required revenues from annual LVT</strong></td>
<td>48,145</td>
</tr>
</tbody>
</table>

The total rental value of all UK housing is approx. £300 billion a year, of which two-thirds is pure location value, so the effective tax rates would be about 25%. Some people are unfamiliar with the concept of “location, location, location” values, so as a rough guide, tax bills can be expressed as approximately 0.75% of current selling prices.

We are familiar with all the arguments against annual LVT. They are all without foundation or relate to transitional issues rather than structural ones, but to address some of the most common ones:

1. 0.75% is not a particularly high figure by international standards. Expressed as a percentage of current selling prices, it is no higher than Domestic Rates would have been had there been regular revaluations; Domestic Rates in Northern Ireland; or the Annual Tax on Enveloped Dwellings. Households in median value homes will see little change in their total bills.
2. Valuations can be carried out quickly and cheaply using information held on HM Land Registry and other databases. This was shown by the Council Tax revaluations in Wales and Domestic Rates revaluations in Northern Ireland a decade ago. At its simplest, the existing Council Tax system can be adapted - all homes/residential plots would be put into the eight bands by size rather than absolute value and then Band D council tax can be set at different amounts in each valuation area. For example, a three-bed semi-detached house in Teesside in Band D worth £100,000 would have an annual LVT bill of £750 and an otherwise identical three-bed semi-detached house in Twickenham in Band D worth £1 million would have a bill of £7,500.

3. We accept that there are some low-income pensioner households who have had the good fortune to own a home that has rocketed in value but who do not have sufficient annual income to pay a higher Council Tax/LVT bill. Clearly, such households would be allowed to defer payment of the tax, to be paid as a lump sum on death or the next sale, similar to the scheme that was in place in Northern Ireland but which was phased out as only a few dozen pensioners took up the scheme.

The number of such households is usually greatly exaggerated. The average income of a UK pensioner household net of income tax is £17,500. Assuming that 20% of net income is not an unreasonable burden, it is only those households living in top decile housing (home worth £500,000 or more) who would need the deferment option.

4. The diametrical opposite of the elderly widow in a high value home is a young couple who have recently maxed out on a mortgage to buy their first home. The effect of the tax change would be equivalent to an increase in their mortgage interest rate of up to 0.75%. Some say that this would tip them over the edge.

We would argue that mortgage interest rates have fallen to all time lows and it is not unreasonable to expect borrowers to have budgeted for such a modest increase. That said, the simplest way round the problem is to cap interest rates for those who took out high loan-to-value mortgages before the tax change is introduced.

5. The bulk of the taxes listed above are directly or indirectly on housing, so there is no reason to assume that streamlining them into a single tax would have any noticeable effect on prices, whether that is desirable or not. There is growing political support for house price rises to be dampened in future, and adjusting LVT rates would be the best tool to achieve this.

6. Council tax currently only makes up a small part of local government revenues. Under LVT, residents in higher value areas would be expected to contribute a larger share directly towards the cost of local services, with a corresponding reduction in central government grants (and central government tax revenues).
Lord Hollick  
House of Lords,  
London  
SW1A 0PW

17th December 2015

Dear Lord Hollick,

Leeds City Region Response to Call for Evidence – House of Lords Select Committee on Economic Affairs: Inquiry into the Economics of the United Kingdom Housing Market

I am writing in response to the House of Lords Select Committee Inquiry into the Economics of the United Kingdom Housing Market.

Leeds City Region local authorities and the Leeds City Region Enterprise Partnership (the ‘LEP’) share the Government’s ambition to maximise housing delivery in order to facilitate prosperous housing markets and to underpin wider economic growth. This response is being submitted on behalf of these organisations and the West Yorkshire Combined Authority.

To realise the Leeds City Region’s economic growth ambitions and deliver transformational change the LEP, supported by our 10 local authorities and the West Yorkshire Combined Authority has submitted an ambitious Growth Plan to Government recognising the need to double the rate of house building in the city region and accelerate bringing forward development sites, especially brownfield sites.

Appendix A contains detailed answers to the specific questions set by the Committee, with the headline messages being:

- Welcoming the Government’s emphasis on building more homes, which will not only increase the supply of much needed housing, but will also support the economy by bringing in investment and supporting jobs and apprenticeships;
- Concerns that the changing policy focus on ‘Starter Homes’ as affordable housing, will lead to an increasing number of households, particularly the more vulnerable households, who cannot access good quality housing as they will not be able to afford to purchase homes, even at discount prices;

178 This response has been submitted on behalf of the Leeds City Region local authorities of Barnsley, Bradford, Calderdale, Craven, Harrogate, Kirklees, Leeds, Selby, Wakefield and York.
That the policy changes are likely to significantly diminish the supply of affordable homes (particularly specifically social rented stock), which could result in risks to the long term sustainability of Registered Providers whom have been the main provider of suitable housing for households on lower income levels;

That the absence of measures to promote and secure the quality of provision in the private rented sector will mean this sector will continue to be characterised overall as providing the worst decline in the scale and quality of the private rented sector alongside an increase in costs; and

That as part of a wider approach to accelerating housing delivery, a greater emphasis by Government on incentivising development and making land banking less palatable for landowners and developers is needed.

I trust that these comments are useful in support of the Committee’s call for evidence and should you require any further details please do not hesitate to contact me.

Yours sincerely

Councillor Val Slater
Chair, Leeds City Region Planning Portfolios Board
Appendix A: Leeds City Region Response

1. General Comments

1.1. The City Region welcomes the increasing emphasis by Government on building more homes, which will not only increase the supply of housing but will also support the economy by bringing in investment and supporting jobs and apprenticeships. There are general concerns about a range of related policy proposals outlined within the emerging Housing and Planning Bill. Whilst we accept the Bill is a specific piece of legislation we consider that the implications of the Bill, if taken forward in its current form may have a negative impact on the number and specifically the quality of new homes delivered in the Leeds City Region.

1.2. The issue of quality homes is something that the LEP and our partner districts feel has been overlooked in recent government announcements and revisions to the planning and housing sectors. The issues facing the housing market and chronic shortage of new homes are well documented and noted. However the race to deliver more homes should not be at the expense of delivering a quality range and mix of housing types that provide sustainable development and are suitable to meet identified local needs.

1.3. We also consider that the proposals within the Bill may impact the LEP in delivering the growth ambitions outlined within our Strategic Economic Plan (SEP). Collectively the main concerns relating to the Bill are:

Starter Homes (Affordable Housing)

1.4. The increased investment announced in the spending review and autumn statement is very positive and welcome. We will be keen to take advantage of the opportunities this provides to deliver significant number of new starter homes across the city region; particularly in places with stronger housing markets such as York where issues of affordability are prevalent.

1.5. However, the delivery of new starter homes should not be at the expense of delivering units for affordable rent. LCR still has over 70,000 applicants on local authority housing registers (at April 2012) which represents a considerable need for social rented properties. Many of these people/households may not have the means to access the proposed starter homes, which are likely to be available at a price that is out of reach for many residents within LCR. Added to this the reductions in rents for social housing providers is likely to reduce the supply of new affordable housing being delivered in the future.

1.6. The new measures to revise the definition of affordable housing to include starter homes are noted from a plan making perspective. However, liaison with our own districts demonstrates that this further change to the plan making regime is likely to result in delays in the examination and adoption of Local Plans as these changes come into force. This is noting that the proposal is likely to require changes to emerging
policies and potentially trigger the need for updated sustainability appraisals and viability assessments.

1.7. The introduction of the concept of the Starter Homes product is anecdotally having an impact on new supply. Some developers are holding back to see the specific policy arrangements and details of how this will work. There is potential for initial starter home supply will be taken up by those who were going to buy anyway. This will effectively subsidise their ability to access higher cost properties once the limits on market price have been lifted after 5 years. Capping the amount of equity growth that can be realised would ensure that such properties are not out of reach for people who cannot afford to access homes on the open market in the future. It is also considered that starter homes should be restricted to eligible buyers in perpetuity.

Planning Proposals

1.8. The Bill sets out provision for Councils to prepare brownfield land registers. We note the benefits of a nationally consistent register of sites from a transparency perspective. However, when the register is considered in cumulative with the proposed ‘Permission in Principle’ these measures are not considered sufficient to boost housing delivery.

1.9. We have also have concerns regarding how Permission in Principle will affect the delivery of satisfactory site mitigation measures (e.g. highways and flood risk infrastructure).

1.10. In our view the proposals also conflict with the principles of localism. As the proposals seek to diminish the influence of locally elected members in the planning process.

1.11. The proposed measures (specifically Permission in Principle) are considered to be more appropriate to areas with high demand for housing and strong economic viability, i.e. London and the south-east. In LCR region there is a significant quantum of land with extant planning permission. Therefore acquiring planning permission is not seen as a barrier to delivery of new homes.

1.12. Our own research has shown that the planning process is not a barrier to housing delivery in LCR. We currently have approximately 60,000 units with permission, over 38,000 of which are on brownfield land. In many cases these sites are not progressing to development notwithstanding extant planning approvals being in place. We consider that viability and access to development finance are the key issues hindering delivery of sites with permission.

1.13. Many of the measures proposed as part of our ongoing devolution negotiations (e.g. the proposed Housing and Regeneration Fund) will seek to address these issues buy unlocking unviable sites.
1.14. We also highlight that the emphasis of Government policy needs to be redirected towards incentivising development and/or making land banking less palatable for developers and landowners. This could include the following measures:

- **Additional investment** for site clearance\(^{179}\), decontamination works and essential infrastructure. Funding would be used to kick start development on high risk sites where commercial lending is not an option. We already have a track record of delivery through the Growing Places Fund, where over 100 hectares of land has been remediated for a potential 2770 new homes;
- **Additional flexibility** for packaging sites and sharing risk – working together with other organisations including the Homes and Communities Agency;
- **Stronger CPO powers** to allow the LEP to support authorities in bringing forward strategic sites where land banking is an issue (as outlined in our devolution submission); and
- **Support for Local Authorities to investigate barriers to development**, purchase sites and build homes directly in areas of market failure.

1.15. In relation to the ‘Permission in Principle’ proposal, it is considered that this largely duplicates the existing Outline and Reserved Matters regime and offers little tangible benefits in the context of enhanced housing delivery. Furthermore, the complexity of operating two similar development consents systems in tandem is likely to be confusing for users and a drain on limited local authority resources.

1.16. The proposal to make permanent the existing temporary ‘office to residential’ Permitted Development (PD) rights is not considered to be particularly helpful. It is noted that this measure has delivered additional residential units. However, this process risks reducing already limited supplies of employment sites in key locations. The plan making process strives to ensure an appropriate balance of uses within communities and are robustly tested to ensure the correct approach is undertaken. The PD rights undermine this process and are inconsistent with the localism agenda which is aimed at giving communities decision-making power. Furthermore, the PD rights do not allow for the delivery of affordable homes. Therefore, many of the properties delivered via this route are fully aligned to localised needs.

2. **Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?**

2.1. In consideration of this issue, our views regarding the proposed Bill should be noted as our view is that they are likely to have an adverse impact on the delivery of new homes (across all sectors).

\(^{179}\) As an example, the LCR’s Devolution ‘Asks’ included provision for a 10 year £400m+ single housing and regeneration consolidated and revolving budget to unlock and accelerate site development.
Aside from the measures outlined in the Bill, the following points outline our consideration of the measures needed to increase the delivery of new housing across all types.

Land banking by strategic land buyers and developers is considered to be one of the most influential issues slowing the delivery of new homes. This process is intrinsically linked to the business models of private companies as they seek to manage supply and demand for their products. Our view is that a combination of enhanced powers for local and/or combined authorities is required alongside revisions to the wider development system to incentivise delivery of sites.

It is noted that some measures recently announced by the government support the growth of SME house builders. In principle this approach is welcomed as it supports the general expansion of companies operating in the market – thus potentially reducing the impact of land banking among larger, volume house builders. However there is a need to consider the wider implications of these changes for local authorities and the delivery of quality homes.

Stability in the plan making system is considered to be key in allowing local authorities to make timely progress in identifying suitable land for housing development. It is well documented that progress in this area has been slower than anticipated in some locations. Whilst some of this delay may be down to local issues, the consistent stream of revisions of the plan making system only compounds this delay. As part of the proposed Bill further changes are now proposed. This is likely to lead to further delay in the plan making process as each successive change often requires emerging or adopted local plans to be altered, triggering further rounds of public consultation, sustainability appraisal and viability assessment.

Earlier sections of this response outline that LCR has a significant supply of housing sites with permission. It is clear from our research that additional investment is required for site clearance, decontamination works and essential infrastructure. Funding of this type could be used to kick start development on high risk sites where commercial lending is not an option.

National Green Belt policy has been in place nationally for a number of years. Our strongly held view is that the purposes and principle of Green Belt policy should be maintained within the planning system. However there would be benefits in undertaking a national review / inquiry into Green Belt policy and its suitability given the length of time it has been in place and changing socio-economic circumstances.

Green Belts in some locations that are tightly drawn around current urban areas. Thereby unnecessarily constraining development opportunities in otherwise sustainable locations which may be suitable for alternative uses whilst being consistent with national

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180 Including various tools / mechanisms to incentives development of stalled sites, including CPO Powers, tax raising powers and innovative use of planning permissions to capture planning ‘betterment’ for reinvestment in further housing development.
Green Belt principles. In LCR a number of proactive and ambitious districts have been able to tackle this issue as part of their plan making process. However, many Council’s across the country are not in this position. As a result, it is considered that opportunities to make longer term strategic decisions about key growth of settlements may be being overlooked across the country.

**Government Schemes – Help to Buy (HtB)**

2.9. Take up of the help to buy scheme has been strong in the City Region. Leeds stands out as the **second most successful LA in England** (after Wiltshire) in terms of completions, followed by Wakefield and Bradford in LCR terms. The percentage of first time buyers is 86.4% which is higher than the national average of 82%.

2.10. However it needs to be considered if HtB created inflation in the new build market, and conversely has it depressed prices in the second hand market, as the 20% equity loan effectively cancels out any new build premium.

2.11. Leeds Wakefield and Bradford may be successful because in these location HtB is sufficient to allow new entrants to the market. In addition, HtB may also enable purchasers to “trade up”, i.e. buy in a better/more expensive area or buy a larger property than they could otherwise afford. This could in turn lead to a preference for developers to provide specific house types e.g. 3 bed semis for couples etc. As there is no restriction on property size (as there is for shared ownership), only a property price cap and basic affordability check, HtB is attractive to these groups.

2.12. HtB did have the effect of accelerating build out rates when initially introduced.

2.13. **Taxation: Are there tax measures that would improve housing supply and affordability?**

2.13.1. It is still too early to say if the changes to inheritance tax due to come into effect in April 2017 will have any affect. The proposal may in the longer term stimulate supply requirements for smaller properties.

2.13.2. The reform of stamp duty will have marginally assisted affordability, but barriers to affordability remain in a lower wage economy. Further reform would be helpful but overall supply of affordable housing to buy is the real key to improving access.

2.13.3. Tax incentives to develop off site manufacturing for the delivery of new homes will be a welcome measure that may act as a means of accelerating housing supply.

2.14. **Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?**
2.14.1. The introduction of the changes via the Mortgage Market Review has tightened the rules on access to mortgage finance, we would not recommend that rules are relaxed at this time.

2.14.2. The current growth of the housing market has relied (in part) on a period of sustained low interest rates. Future policy should consider the impact of interest rate rises on mortgage costs and repossessions. A rise in repossessions is likely to put increased strain on local authority budgets in dealing with people who will lose their homes. Furthermore, in the future there is likely to be less social housing stock to accommodate those in need.

2.14.3. The wider effects on the economy of reduced disposable income brought about by increased housing costs through interest rates rises should also be of concern.

3. **Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?**

3.1. In contrast to the market for home ownership, the private rented sector in the Leeds City Region saw consistent growth in average rents in the period after the economic downturn, as barriers to ownership led to an increase in – and to an extent, normalisation of – renting. In the decade 2001-2010 the quantity of privately rented housing in Yorkshire and the Humber increased by 90%, a rate that was higher than the average for England (85%). The sector’s rate of growth in the region still lags that of all other northern regions.

3.2. There can be no doubt that the reduction of tax relief, and increase in stamp duty for private sector landlords will in some cases be a disincentive for the provision of new private sector rented accommodation. Private sector landlords may decide that increasing their rents is the way to address this disincentive. There is also no incentive to help the improvement in the quality of private rented sector stock. Funds from the reduction in relief or increase in stamp duty could be diverted to support funding for the improvement in older (and low yield) private rented sector stock to improve quality and sustainability, particularly given the recent reductions in incentives for greener homes.

3.3. **Will the reduction of tax relief available to private sector landlords announced by the Chancellor of the Exchequer in the 2015 budget increase the cost of privately rented accommodation?**

3.3.1. It is likely this may have some effect of reducing the supply of private rented accommodation in the Leeds City Region, it is felt however that it is more likely that this will translate into higher rents for tenants with the costs of this measure being passed on to tenants via rent charges. Reducing the rate of the growth in private renting may allow prospective homeowners to compete with buy to rent.
3.3.2. Added to this the three percent increase in stamp duty for anyone purchasing buy to let or second home announced in the spending review and autumn statement will have an effect of dramatically slowing the rate of growth in the buy to let and private rented market.

3.4. **Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long-term rental culture?**

3.4.1. Given the above factors and announcements on support for starter homes and help to buy, we can foresee a decline in the private rented sector and buy to rent. A stable long-term rental culture can be encouraged by protecting the rights and responsibilities of both landlords and tenants and by the provision of resources to local authorities to ensure the quality of private renting is raised and maintained.

3.5. **What are the advantages and disadvantages of restricting rent increases in the private sector?**

3.5.1. The administration required to oversee any restriction of rent increases in the private sector would be significant. This issue is worth detailed consideration in the context of reductions in funding and staffing in the public sector.

4. **Social housing: Are any measures needed to increase the supply of social housing?**

4.1. Within the LCR there are still over 70,000 applicants on local authority housing registers (April 2012). An over emphasis on starter homes to buy alongside the reductions in rents for social housing providers and expansion of Right to Buy (RTB) Scheme has the capacity to dramatically reduce the supply of affordable homes available and being newly built.

4.2. It is also important to point out that the reduction in stock through enhanced right to buy will not only diminish the affordable housing supply which is already diminished, it will place greater pressure on people to secure accommodation in the private sector and in some cases it will place households who do not qualify for universal credit and who are unable to purchase on the open market in greater housing and financial stress, with higher housing costs and knock-on effects for the local economy.

4.3. Starter homes could be accompanied by *starter homes for rent* [in addition to rent buy] on developments which would be capped at 80% of market rent (or higher in certain circumstances) and leased to LAs or RPs to manage, with the developer as sitting partner. This could enable the developer to achieve a longer term rental stream and cash flow.

4.4. **What will be the impact of the Right to Buy for housing association tenants?**
4.4.1. The impact of Right to Buy (RtB) for housing association tenants will be mixed. Those able to take advantage of the RtB discounts to purchase will be able to enter home ownership. There is concern that the reducing supply of both local authority and housing association will result in longer waits for social rented housing and the potential for an increase in homelessness or to drive people into poorer quality private renting. We are also concerned that many of these properties sold will eventually end up as buy to rent or second homes, replacement on a 1 to 1 basis is critical to maintain the balance in the housing market.

4.5. **What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternative changes to social housing rents needed?**

4.5.1. The changes to social housing rents will different levels of impact on LA’s and RP’s across the Leeds City Region which will include the:

- Slowing the development of new social housing by LA’s and HA’s and housing growth overall
- Reduction in services and staffing levels
- Impacts on repairs and maintenance
- Reducing the ability of social landlords to engage in wider service deliver.

17 December 2015
Brandon Lewis MP, Minister of State for Housing and Planning, Department for Communities and Local Government; Damian Hinds, Exchequer Secretary, Her Majesty’s Treasury (QQ 237-257) – Oral evidence (EHMOE0014)

Brandon Lewis MP, Minister of State for Housing and Planning, Department for Communities and Local Government; Damian Hinds, Exchequer Secretary, Her Majesty’s Treasury (QQ 237-257) – Oral evidence (EHMOE0014)

Submission to be found under Department for Communities and Local Government; Her Majesty’s Treasury (QQ 237-257) – Oral evidence (EHMOE0014).
Brandon Lewis MP, Department for Communities and Local Government – Further supplementary written evidence (EHM0167)

Brandon Lewis MP, Department for Communities and Local Government – Further supplementary written evidence (EHM0167)

Following my appearance before the House of Lords Economic Affairs Committee on 22nd March 2016, along with Damian Hinds, Exchequer Secretary to the Treasury, I agreed to provide further information on a number of issues raised. I am grateful for this opportunity to clarify a number of points, and have set out responses to specific questions below.

Lord Layard requested an outline of assumptions made to calculate the how 1 million homes will be built by 2020, and the increases Government assumes will take place in house building by each sector (public, private and housing associations) in order to reach the target.

No. DCLG has also provided a response to similar questions asked by Committee of Isobel Stephen (Director for Housing Supply). This was provided to the Committee on 9 February.

The Department does not publish forecasts of housing supply.

However, we set out below DCLG-led programmes and their expected gross contribution towards housing supply. All programmes brought forward though the recent zero-based Spending Review were subject to a consistent Treasury-led scrutiny process, which helped to determine the scale of investment and to verify our assumptions of what they could deliver. From this we have made an overall assessment of total supply.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Delivery (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Help to Buy: Shared Ownership</td>
<td>135,000 starts</td>
</tr>
<tr>
<td>Starter Homes</td>
<td>200,000 starts</td>
</tr>
<tr>
<td>Affordable rent</td>
<td>100,000 starts</td>
</tr>
<tr>
<td>Home Building Fund</td>
<td>25,500</td>
</tr>
<tr>
<td>Public Sector Land programme</td>
<td>Release land for 160,000</td>
</tr>
<tr>
<td>Large scale developments (Ebbsfleet,</td>
<td></td>
</tr>
<tr>
<td>Bicester, Brent Cross, Northstowe,</td>
<td></td>
</tr>
<tr>
<td>Barking Riverside)</td>
<td>55,000</td>
</tr>
</tbody>
</table>
The figures shown represent the total gross number of units that will be delivered by these programmes. It is important to ensure that where programmes have the potential to overlap with each other or may displace market delivery, this is taken into account when estimating the overall number of new units delivered. For example, a proportion of units unlocked by the Home Building Fund may be Starter Homes. A recent external evaluation provides estimates of the supply additionally of these schemes and shows that, of all the new build units delivered by the Help to Buy Equity Loan scheme, 43% were additional¹; and that the remaining 57% would have been delivered by the market in the absence of the scheme.

It is important also to mention housing that will be delivered by the market, outside of any direct Government programme, since housing built by private developers is expected to account for the majority of homes built by 2020 (including private sector contributions to the aforementioned Government programmes). Private enterprise housing starts in England increased by 71% to 112,310 between 2008-09 and 2014-15². Given favourable conditions in the wider economic landscape, due in part to the planning and other Government reforms being enacted, the Department expects private deliver to maintain its momentum over the spending review period.

Lord Sharkey raised the issue of borrowing ‘head room’ for local authorities. We have agreed to provide further information on the calculation of the figure of £3.4bn - £3.5bn – at which we estimate the borrowing ‘head room’ for local authorities available within the Housing Revenue Account (HRA) system.

The current estimate of £3.4bn - £3.5bn available to local authorities with a Housing Revenue Account is based upon the latest data supplied by local Authorities in annual returns for 2014-15.

Individual local housing authority borrowing caps were included in the Limits on Indebtedness Determination 2012, which was published as part of the overall settlement under the HRA Self-financing Determinations, published in February 2012.

Each local housing authority holds housing-related debt, which is reflected in its HRA as its HRA Capital Financing Requirement. An authority’s borrowing head room is the difference between the borrowing cap and its current HRA Capital Finance Requirement.

² Source: DCLG Live Table 208
We also agreed to check the consistency of the figure of £30bn - £35bn, which the Committee had been told was the amount which Local Authorities held in capital reserves, and to provide advice on whether these reserves could be deployed for housing.

DCLG collect data on Local Authority revenue reserves, but not capital receipts reserves.

Local Housing Authorities are free to use their own HRA Reserves to finance capital expenditure on building new homes in their HRA, which will generally be social or affordable housing owned and maintained by the authority itself. The HRA is ring-fenced and authorities have no general discretion to breach the ring fence. Where an authority holds substantial reserves in its General Fund, it cannot use those reserves to build housing stock that should otherwise be accounted for in the HRA. The authority could, however, use General Fund reserves to finance new build where it is intended to sell the houses, or it could fund grants to other organisations for new build, in return for agreed nomination rights.

Capital Reserves are held separately and are made up from a number of sources including Right to Buy Sales. Other than those receipts that are applicable to the one-for-one replacement scheme that commenced following the reinvigoration of the Right to Buy in 2012, which must be used for one-for-one replacement of additional housing units sold under the reinvigorated scheme, retained capital receipts can be used for any purpose including the building of new houses.

Lord Teverson asked for comment on the £25bn spent on housing benefit each year, and whether it could be better used to build affordable social housing and reduce housing benefit expenditure in the medium to long term.

It is, of course, necessary for Government continue supporting low income and vulnerable households with rental payments through the Housing Benefit system alongside taking action to support delivery of the new affordable homes that this country needs. The two are not mutually exclusive and this Government is committed both to supporting over 400,000 affordable housing starts by 2020-21 and also reforming the welfare system.

The government made significant reforms to Housing Benefit in the last Parliament, aimed at putting Housing Benefit expenditure on a sustainable footing and announced further reforms at Summer Budget and Autumn Statement 2015.

Reforms to Housing Benefit announced at Summer Budget and Autumn Statement include freezing Local Housing Allowance rates for 4 years from 2016/17 (as part of the overall Working Age Benefit Freeze), lowering the total amount of benefits that an out-of-work household can receive from £26,000 pa to £23,000 inside London and £20,000 outside London, and capping the level of Housing Benefit in the social rented sector at the applicable Local Housing Allowance rate (that which currently applies in the private rented sector). Social sector rents are also being reduced by
1% each year for 4 years from 2016-17, which is expected to achieve an overall saving of £1.5 billion from Housing Benefit by 2020/21.

As a result of these changes, the Office for Budgetary Responsibility forecasts that spending on Housing Benefit inside the welfare cap will fall by 0.2 per cent of GDP.

The Government has been clear that the most vulnerable will be protected and supported through welfare reforms. £870 million of Discretionary Housing Payments will be made available across the Parliament to help local authorities protect the most vulnerable. For those in supported housing, we have announced a 1 year deferral from both the local housing allowance cap and 1% social rent reduction as we undertake a review to make sure that appropriate protections are put in place.

In parallel to this, we DCLG have committed £8 billion to deliver over 400,000 affordable housing starts by 2020-21, focusing on low cost home ownership.
Incentives for downsizing - oiling the wheels of the housing market system

A major disincentive for older downsizers is the process of deciding to move, finding the right place, and then actually going through with it. The first two obstacles already reduce the potential for downsizing, and the market has not yet effectively geared up to cater adequately for this group, but even when empty nesters have decided they want to move and found somewhere suitable the process of sorting and completing a move can cause many to give up, and just go home to their half empty house.

A real hurdle for owners in the potential downsizer group – many outright owners with substantial equity -is whether to sell first, then buy; or buy first, then sell. Not being able to sell in time to buy the desired new home, or not being able to find somewhere suitable to buy in time to complete an agreed sale can be real ‘deal breakers’.

The extent of this is not monitored, but anecdotal evidence suggests that it is quite common. Estate Agents routinely press owners to put their homes for sale first, but this is not appealing – who wants to risk having to rent, live with relatives and store their possessions, incurring costs without a known limit, or be rushed into buying something when they don’t have to move?

For older people who have lived in their current home for many years, finding somewhere suitable first is the more comfortable option. There is much to consider before moving; – how much stuff acquired over decades can we fit into the new place, and what should we get rid of? Do we need to re-decorate, renew, replace to make it saleable, etc. Putting your home for sale can have repercussions - neighbours notice, and concerns are raised.

Knowing where you are moving to helps with all these nitty-gritty decisions. So it is much preferable to find somewhere to buy first, then sell, with a short period of overlap to allow a more organised and comfortable single move. There may also be some necessary adaptations to be made which are easier done when the new property is empty.

This all poses a major problem of how to manage finances to do this. Many potential downsizers are ‘asset rich, income poor’, but few have savings in an accessible form to be able to own two homes, - all the equity that will pay for the new place is in the old place.

Getting a mortgage to cover such an overlap is met by blank looks and inflexible policies by most lenders. How can you service a mortgage with only a pension income, how can you pay it off by age 75 when you are already 63?

So there is here a potentially fruitful, low, secured risk market for lenders, and a policy instrument for government to improve the functioning of the housing market system. Make this an explicit ‘downsizer loan’ for a fixed period, such as a few months’ Such ‘downsizer incentives’ could be at lower Loan to Value ratios because many in this group have some savings and resources -, and available only if the new home were smaller and cost less than the value of the old one. Fees and interest would be paid from the proceeds of the sale of the family house. Loans could be secured on the higher value of two properties, - or even both for nervous lenders.
Promoting and underpinning loans to incentivise downsizing would release supply from within existing stock onto the market. It would also have a stabilising and price reducing effect because those holding such loans would be under more pressure to conclude sales quickly and at reasonable prices as charges and interest mount over time, but if they had paid a reasonable and lower amount for the downsized home would be in little danger of negative equity –just a bit less serendipitous profit on the increase in value of their erstwhile family home.

Rather than supporting loans at the entry level, increasing demand end of the housing market system, - such as through the much criticised ‘Help to Buy’ - , this would provide a ‘pressure release valve’ at the downsizing end, lowering overall consumption of housing and increasing supply; (though the two approaches are not necessarily logically mutually exclusive).

Such incentives would benefit greatly by being supported and promoted by government and offered by respectable mainline lenders. It is imperative that such an initiative is seen as honest and good value, as opportunistic charges can proliferate when such large sums are in the offing181.

While rates of new building have lagged behind growth in household numbers for many years, and an increase in supply of the right types of housing in the right places at the right levels of affordability should eventually help improve the supply:demand balance, since new building is only ever about 10% of sales, and less than 1% additions to stock annually this will take a long time. More stock is undoubtedly required in the long term, but most ‘supply’ is of resales and relets – which usually also generates demand as most of the households moving out also require a home to move into, unless they are leaving the housing market entirely in some way.

So to also consider this aspect of supply is potentially more fruitful, and probably less controversial. It is essential to always remember that most households in this potential downsizer group do not have to move, and are usually in a strong position in the housing market and already have an often very nice home, which leads to rather different drivers and perceptions compared to young households entering the market. Incentives at this end should not require loan guarantee risks for public money, and are likely to have more positive effects on the whole inter-related system by intrinsically increasing supply of existing stock, so avoiding adding to price inflation.

30 November 2015

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181 http://www.keyrs.co.uk/move/our-role/
HOUSE OF LORDS SELECT COMMITTEE ON ECONOMIC AFFAIRS

Inquiry into the Economics of the UK Housing Market

Call for Evidence

Response from Liverpool City Council

2. Privately Rented Accommodation

Q.2b Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

The recent increase in the number of people renting in the private sector (PRS) is largely a function of two key factors. Firstly, the credit crunch and recession of 2008 onwards severely restricted the amount of mortgage finance available for potential house purchasers and what was available was subject to more stringent criteria. This resulted in more housing demand being met in the PRS rather than in owner occupation. This was probably more towards the higher-quality end of the PRS as this would have been a closer alternative to owner occupation in terms of quality and location.

Secondly, the reduction in the amount of social housing funding and thus supply following the 2010 Comprehensive Spending Review (where the Coalition Government cut housing capital expenditure by 75%) would have pushed households in areas of housing shortage into the PRS as well. This would have more likely to have been the poorer quality PRS which would have been a “tenure of last resort” for the very poorest households who traditionally would have relied on social housing. This was compounded by the under occupancy welfare sanctions (“bedroom tax”) whereby households who had an extra room and couldn’t either be rehoused into a smaller social house or absorb the benefit cut, would have moved into the PRS.

The PRS, therefore, cannot be viewed as a homogenous tenure. The question posed by the Committee above appears to relate, therefore, very much to the better quality, more expensive PRS as this is viewed as an alternative to home ownership, whether through choice or by necessity. The relationship between home owner occupation and private renting is not homogenous across the UK either. In areas where housing demand and prices are high, it is very probable that the home ownership will continue to decline along with a corresponding rise in private renting due to the lack of wherewithal of potential house purchasers to buy a house, particularly in raising the funds needed for the deposit which is now probably the major barrier to owner occupation. The changes in working practices are also likely to mitigate against an increase in home ownership, particularly the increased use of practices such as zero hours contracts which make the securing of a mortgage from a lender very difficult. Flexibility of working practices will also mean that private renting is more convenient for people who may need to move more for work purposes.
In those parts of the country where incomes and house prices are lower than the national average, however, a different relationship between home ownership and private renting may play out. Notwithstanding the issues around employment flexibility, it is more likely that those who aspire to home ownership will be able to purchase their own home in these areas as prices are lower. However, the reduction in the amount of social housing, to be further exacerbated by the right to buy being extended into the housing association sector (and funded by the sale of higher value council housing thus meaning that in effect two social rent houses are removed from the sector for each right to buy) will mean that the PRS will continue to grow and increasingly become the tenure of last resort for those on the lowest incomes.

In creating a stable, long term rental culture, lessons can be learned from countries like Germany where home ownership is relatively low and renting very popular. Good quality, well maintained homes with secure, long term tenancies would prove sustainable in the long term as tenants would be able to remain in communities (with the facilities they use such as schools and medical practices) and so contribute to better quality neighbourhoods with less churn. Good quality homes with secure tenancies would also be attractive to PRS providers, including institutional investors, as it provides a regular income stream with reduced voids. Improved regulation of poor quality landlords is also required and the recent Housing and Planning Bill’s proposals to address the issues of rogue landlords are welcome in this regard. Accordingly, the Committee should be looking to reach conclusions around the length of tenancies and legislation to ensure that landlords are of a good quality in order to create a more stable culture in the PRS.

Q.2c What are the advantages and disadvantages of restricting rent increases in the private sector?

It is assumed that this question relates more to those parts of the UK which experience high housing demand and a relative shortage of housing supply as one would find in those parts of the country where prices are lower and housing more plentiful, private rents would be dictated by that type of market and so would need to remain competitive and thus any increases would be small.

The principal advantage in restricting rent increases in the PRS is that such a restriction would be likely to reduce the welfare bill. As a consequence of the reduction in the number of homes available at low cost social rent, this has meant that the number of lower income households having to move into the PRS has increased. Market rents are higher than social rents and so given that lower income households would be eligible for housing benefit (HB), this has meant the HB bill has increased exponentially in order to cover this additional cost. As rent levels have increased so has the HB bill which means that HB is in essence a subsidy to landlords. Should rent levels be restricted then the HB bill should be better managed. The recent growth in the number of HB claimants has been from working households in low paid jobs. Restricting rent increases would therefore be a major benefit to those working families most in need.

A potential disadvantage of restricting private rent levels is that this could act as a disincentive to both potential and existing landlords to enter or remain in the sector. This could compound housing shortages in higher demand areas.

Following the Chancellor’s announcement in the Comprehensive Spending Review Autumn Statement on 25th November 2015 that the Government would be introducing a Stamp Duty
rate of 3% for buy to let properties, the issues of rent restrictions will need to be looked at in the whole context of PRS finance, particularly in lower demand areas.

3. **Social Housing: Are any measures needed to increase the supply of social housing**

It is assumed that the Committee are referring to homes available for social rent as opposed to other forms of affordable housing which has a wider definition and include Affordable Rent, Shared Ownership and is now likely to include the recently announced “Starter Homes”.

As a general answer and at risk of sounding flippant, the main measure needed to increase the supply of homes available for social rent is funding, both in the form of capital resources from Government and easing borrowing conditions for both Housing Associations (HA) and local authorities (LA). As referred to above, the 2010 Comprehensive Spending Review cut the housing capital budget by 75%. This has seen the number of additional homes for social rent in England fall from 33,180 in 2009-10 to only 10,920 in 2013-14\(^{182}\). Funding is only part of the solution however as there needs to be a clear policy direction from Government to focus on homes for social rent. The Coalition Government shifted focus toward Affordable Rent which is housing costing 80% of local market rent rate. The CLG Live Tables show that this tenure increased from only 930 additional units in 2011-12 to 19,740 additional units in 2013-14 thus showing the impact of Government policy and funding priorities.

In his 2015 Autumn Statement and Spending Review, the Chancellor confirmed the Government’s direction of travel away from the provision of homes for social rent; in this case, towards the provision of Starter Homes and shared ownership. The Chancellor confirmed that 400,000 affordable housing starts would be delivered by 2020-21 but that these would be focused on low cost ownership. Of this 400,000, half would be Starter Homes and of the remainder, 135,000 would be for shared ownership. The number of homes for social rent will therefore continue to decline unless there is a change in policy and funding priorities.

**Q.3a  What will be the impact of the Right to Buy for housing association tenants?**

Much of the detail of Right to Buy (RTB) for housing association (HA) tenants is still subject to evolution of detail. Eligibility criteria are still to be finalised and the full impact of the voluntary agreement between Government and the National Housing Federation still needs to be assessed. The Government has recently launched a pilot of RTB in the HA sector and it is assumed that this will provide more information on how RTB will be implemented – not least issues around the scale of demand and financial implications of replacement grants and provision of new replacement properties.

In answer to the Committee’s question, for those existing eligible tenants who wish to exercise their right to buy, given the scale of the discount available would mean that this would be very favourable way to own a property. For those in high value areas, it would represent a significant financial windfall. For prospective social tenants, and for those on waiting lists, the situation would not be so good as the sale of a social rented under RTB would mean one less social rented property in the housing stock. In fact, the impact of HA RTB is exacerbated by the fact that it is to be funded by the sale of higher value Local Authority owned stock so in fact RTB in

\(^{182}\) Source: DCLG Live Table 1000: Additional Affordable Homes provided by type of Scheme; England
the HA sector would mean the loss of more than one social rented home every time a property was sold. Given that the tenure of replacement homes is more likely to be either affordable rent or shared ownership, the loss would be permanent.

There needs to be a note of caution around RTB in the HA. For those tenants exercising their right, this would mean that they would then be responsible for the upkeep of their properties. This can prove to be an unforeseen or unplanned financial burden, exacerbated by the fact that very often these households are lower income ones.

7 December 2015
Lloyds Banking Group; Council of Mortgage Lenders (QQ 178-190) – Oral evidence (EHMOE0010)

Lloyds Banking Group; Council of Mortgage Lenders (QQ 178-190) – Oral evidence (EHMOE0010)

Submission to be found under Council of Mortgage Lenders; Lloyds Banking Group (QQ 178-190) – Oral evidence (EHMOE0010).
Dear Ayeesha,

Economics of the UK Housing Market

Thank you for your letter of 1st February 2016 inviting Lloyds Banking Group to contribute to your Inquiry. Accordingly, we are pleased to submit our response, which is attached.

Alasdair Gardner, one of our Regional Managing Directors at Lloyds Banking Group, who is responsible for Housing, would be very pleased to respond to any additional questions that the Committee may wish to raise.

Kind regards.

Yours sincerely,

Andrew Bester
Group Director
CEO, Commercial Banking
LLOYDS BANKING GROUP PLC

HOUSE OF LORDS – ECONOMIC AFFAIRS COMMITTEE:
ECONOMICS OF THE UK HOUSING MARKET

Response to letter dated 1st February 2016

17th FEBRUARY 2016
1. LLOYDS BANKING GROUP

Lloyds Banking Group (the Group) is pleased to take this opportunity to provide evidence to the House of Lords’ Economic Affairs Committee inquiry into the economics of the UK Housing Market.

The Group is committed to Helping Britain Prosper as a leading provider of financial services to individual and business customers in the UK.

Its main business activities are retail and commercial banking, general insurance, and long-term savings, protection and investment. The Group provides services under a number of well recognised brands including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows and through a range of distribution channels including the largest branch network in the UK and a comprehensive digital proposition.

The Group is UK focused with over 90% of its business in the UK and through support from the Group, Lloyds Banking Group's charitable foundations across Britain awarded grants of £16.5m in 2014.

2. EXECUTIVE SUMMARY

The Group provides a significant amount of funding to the housing industry, through various retail and commercial channels. The Group is the largest residential mortgage lender in the country and participates in Government Help to Buy schemes. The Group's Commercial Banking division is a major lender to the full range of UK house builders from SMEs through to public listed companies, as well as directly to Local Authorities and Housing Associations.

The Group is committed to Helping Britain Prosper and boosting the housing supply. Uoyds Banking Group Commission on Housing Report (Jan 2015) recommended a target of 2 to 2.5 million new homes by 2025 and identified key policy responses necessary to generate a higher and sustainable level of housing production.

The Housing Growth Partnership has been established as a £100m joint venture between Lloyds Banking Group and the Homes and Communities Agency in an effort to ensure SME builders have access to equity capital to fund new developments. The right financing structures can help ensure access to capital and
promote construction of new homes.

3. LLOYDS BANKING GROUP’S (LBG) SUPPORT TO THE HOUSEBUILDING INDUSTRY

*Residential Mortgages*

Lloyds Banking Group provides over £250bn of residential mortgage lending supporting nearly three million families with home ownership.

As part of our strategy to support home ownership the Group has made a public commitment under its 'Helping Britain Prosper' plan to support;

- 1 in 4 First Time Buyers
- 1 in 4 Mortgages on New Build homes

The Group is an active participant in Government-backed schemes including Help to Buy Shared Ownership, Help to Buy Equity Loans and Help to Buy Mortgage Guarantees. In total it has advanced over £6.5bn to help more than 45,000 customers buy their home under these schemes, 75% of whom were first time buyers.

*Commercial Banking*

Within its Commercial Banking division, the Group offers facilities to 33 of the UK’s largest house builders with £2.33bn of lending. We also provide approximately £500m of lending to SMEs for residential development. In addition to these facilities, portfolios of loans have been supported and then acquired by investors including Scottish Widows. We support 61 local authorities in the Local Authority Mortgage Scheme to help residents buy properties.

We also support housing associations with loan agreements in excess of £12.5bn and £550m of revolving credit facilities provided in 2015. At a time where attractive terms are available in the market, our Capital Markets team is the
leading bookrunner of social housing bonds, having raised £1.23bn of bond financing in 2015 with a market share of 40%. This helps clients to manage their typically long-term borrowing requirements in a manner which is efficient for both them and the Bank.

The Group recently announced the launch of the Housing Growth Partnership which is a dedicated £100m investment fund dedicated to supporting smaller and / or new house builders. The partnership is a 50:50 joint venture between Lloyds Banking Group and the Homes & Communities Agency. This forms part of our public commitments under its 'Helping Britain Prosper' plan to support;

Lloyds Banking Group provides a range of banking services to Local Authorities including day to day banking operations, treasury services and card payments.

We are committed to this sector and have grown our market share for primary customers in this sector (full banking relationships) from 17% to 30% in the last two years; in a market where others have retreated. In 2015 alone 60 Local Authorities moved their banking to Lloyds Banking Group.

We now have some form of relationship with 85% of Local Authorities, including both primary and secondary relationships.

Our specialist Relationship Teams bring expertise and experience to support Local Authorities and help them to achieve efficiencies and seek new and innovative financial solutions. We continue to increase our dialogue with Local Authorities with the aim of supporting them to achieve their strategic aims, especially within a changing environment.

As a lender to Housing Associations and Local Authorities we aim to engage with our clients and other key stakeholders to widen the scope of appropriate funding models. These models could be developed to assist Local Authorities and Housing Associations to build housing available to buy or rent at a reasonable cost.

The committee has asked for Lloyds Banking Group's view on how different funding models or products could be developed to help Local Authorities and Housing Associations to build more homes. In our view, a successful model would need to accommodate the following key features, inter alia, in order to meet the
"reasonable costs" objective:

- Reduction in land costs from the overall cost of developing new homes, for example by contribution of land suitable for development by a Local Authority
- Access to cost effective development finance and longer term competitive funding for rental models, achieved by linkage to Local Authority, Housing Association or other high credit quality covenants
- Provision of a degree of flexibility and control by Local Authorities to determine the mix of tenures according to local needs and requirements
- Accommodation of scale through the ability to contract out development to appropriate counterparties and also consider alternative forms of housing, e.g. prefabricated housing units and offsite construction methods
- Provision of assets in which Local Authority or other pension schemes could potentially invest
- Achieving economies of scale where sufficient scale will enable benchmark bond issuance in the capital markets
- Achieving the appropriate public/private risk share for construction and/or long term financing
- Taking advantage of market rate dynamics (low inflation, negative real rates).

### 5. HAS FINANCING OF LOCAL AUTHORITY / HOUSING ASSOCIATION BUILDING BEEN ATTEMPTED BY THE PRIVATE SECTOR AND, IF SO, WHAT ARE THE OBSTACLES?

As noted in Section 3, Lloyds Banking Group already supports a number of housing associations with loan agreements in excess of £13.5bn. The Group has observed the development of a number of innovative ideas, e.g. Manchester City Council, Greater Manchester Pension Fund (Matrix Homes JV); Greater Cambridge City Deal Partners and the emergence of various private funds set up to address the housing issue. Many of these appear to include some of the key features outlined in Section 4.

Factors to be considered include:

- Inclusion of land costs in overall development costs and required debt and equity funding returns mean that many models struggle to find development opportunities that can genuinely deliver housing at "reasonable cost"
- The creation of Local Authority and Housing Association commitments must be consistent with existing leverage restrictions or covenants taking into account any reclassification resulting from impending changes to
accounting standards, e.g. IAS17 and operating leases

- Financing solutions must allow for regulatory requirements on Registered Providers such as Right to Buy

6. HAVE FORMS OF FINANCING WHICH WOULD NOT INCREASE THE LEVEL OF PUBLIC DEBT BEEN CONSIDERED?

As noted in Section 3, Lloyds Banking Group have recently launched a new innovative Housing Growth Partnership in conjunction with the Home & Communities Agency, which is looking to support house builders with £100m of investment funding.

Over and above this, the Group considers that properly arranged private sector finance could enable house building supported by Local Authorities or Housing Associations which might not increase the level of public debt. Off-balance sheet structures typically involve a third party (for example a joint venture) purchasing or leasing land from a Local Authority or Housing Association, financing the development of the affordable housing and appointing a managing party (which could be the same Housing Association or Local Authority) to sell or rent the properties. Development costs can be funded by equity or debt at the third party/joint venture level, and can be supported by the Local Authority’s credit covenant. Any credit support or enhancement provided must be consistent with banking covenants or similar restrictions on financial indebtedness.

Similar structures might involve the third party leasing the houses back to the Local Authority or Housing Association under an operating lease. While these structures would not be included on the balance sheet of the Local Authority or Housing Association under current rules, changes to accounting standards are likely to bring the lease liability on balance sheet.

The Group would be pleased to further support the Committee’s work on all aspects of its current enquiry. The Group will also be providing further evidence on 1st March 2016 when Mr Stephen Noakes, Managing Director, Retail Customer Products appears before the Committee.
Dear Lord Hollick

Thank you for the opportunity to give evidence to your Committee on the UK housing market. Set out below is the information requested by the Committee on council reserves and the housing revenue account.

Reserves

On the issue of reserves held by local government, the Committee has requested information on the following points:

• The reasons for an increase in reserves.
• Whether there are any restrictions on what local authorities can spend money in their non-ring-fenced reserves on?
• Whether this money could be used to fund the building of social housing (owned by the local authority) or private housing (for sale)?

Councils hold reserves for a number of reasons. In establishing and managing these reserves, chief financial officers (CFOs) follow technical guidance issued by CIPFA as well as having regard to the statutory duties of councils to provide services. Sections 31a, 32, 42a and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the reserves needed for meeting future expenditure when calculating the budget requirement. Under section 25 of the Local Government Act 2003, Chief Financial Officers also have a duty to report on the robustness of estimates and adequacy of reserves when the authority is considering its budget requirement.

As at 31 March 2015 (latest figures available) councils' potentially useable reserves amount to £17.1 billion of which £3.7 billion are general reserves and £13.4 billion are earmarked reserves. The equivalent figures at 31 March 2010 were total potentially usable
reserves £10 billion of which £2.7 billion were general reserves and £7.3 billion were earmarked reserves. The rise in general reserves was therefore £1 billion. A significant proportion of reserves relate to Shire County Councils which are not housing authorities (£3.9 billion of the 31 March 2015 total).

General reserves (currently £3.7 billion) are held for contingency purposes. They are primarily used as a working balance to help cushion the impact of uneven cash flows, to avoid unnecessary temporary borrowing, and as a contingency to cushion the impact of unexpected events or emergencies. Individual councils set their own levels of general reserves according to local circumstances. In assessing the adequacy of reserves the CFO needs to take account of all strategic, operational and financial risks facing the council, increases in general reserves may therefore reflect increasing financial uncertainty faced by councils. At present the average level of general reserve is 7 per cent of expenditure. This is enough to cover 25 days of expenditure.

Earmarked reserves of £13.4 billion are held for a number of purposes, such as:

- Sums set aside for major schemes such as capital developments or asset purchases
- Insurance reserves
- Reserves of trading and business units
- Reserves retained for service department use
- Reserves for unspent revenue grants.

The nature and purposes of these reserves means that from year to year funds will flow in and out as projects progress, grants are received, insurance costs are incurred and on the other hand capital receipts are set aside for future capital investment, insurance funds are topped up to prudent level or authorities seek to set aside funds which will allow them to invest to generate future revenue savings. Some authorities will have accumulated reserves as part of a plan to ease future budget reductions and to allow longer term savings to come to fruition.

However, it is not a proper use of reserves to just draw down to support revenue budgets with no clear plan for how the gap will be bridged in future years when reserves are no longer available. These reserves are outside of the Housing Revenue Account ringfence and therefore cannot be used by Housing authorities to pay for social housing. Otherwise reserves may theoretically be used for any services that a council has a power or a duty to provide, within the overall financial constraints faced.

Local authority borrowing

As you noted, the Committee has heard evidence that local authorities' capacity to borrow to build social housing is limited by the debt cap on the housing revenue account. You therefore requested information on the following points:

- What restrictions are placed on local authorities' ability to borrow to build (a)
On point (a), councils with housing stock were given control of their rent accounts through the introduction of self-financing in 2012. The process of transferring control from central government to councils allowed them to retain all their rental income, but also set a limit on local authority borrowing. Caps on individual local authority borrowing for housing vary significantly and bear no relation to housing pressures or the ambition within those authorities to embark on house building programmes.

In regard to point (b), housing for private sale, the Prudential Code is a professional code of practice to support local authorities in taking capital investment decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. Borrowing to build housing for private sale is covered by the Code under the principle that local authorities can only borrow what they can afford to repay.

Securing finance is only one consideration for councils with the ambition to build housing for private sale. Suitable land will need to be identified and brought forward for development.

Entering into commercial activity such as house building will require the development of a suitable delivery vehicle, for example a council owned housing company or a partnership with another housing provider.

- Do you have a position on whether the debt cap on the housing revenue account should be altered and, if so, how?

Councils need stability and confidence in their long term finances in order to invest in new housebuilding. We have yet to see the full financial impact of government policy changes on council housing rent accounts, including rent reductions and the forced sale of high value council assets. The LGA has called for local authorities to be given a wide range of flexibilities in managing their housing stock including lifting the borrowing cap.

Our view is that the centrally set cap is unnecessary. Councils have a track record of responsible and restrained borrowing under the Prudential Code. As a result, any risk is minimal and manageable. Councils can be trusted to borrow responsibly as shown by their positive track record compared to central government and their ability to deal with reductions to their core funding.

Under current arrangements local government borrowing for social housing counts toward the Public Sector Net Debt (PSND). Housing Associations are classified as non-profit private bodies and their borrowing is not counted a public debt, even though they are borrowing against future rental income in the same way as councils. In other countries public corporations are controlled separately and their borrowing is regulated.
by their own business plans and prudential borrowing rules. Moving towards international debt measures would bring the UK into line with other countries and would not affect the way our debt is viewed internationally. The change would recognise the fact that public corporations are different entities to government. This would allow councils and Arms Length Management Organisations (ALMOs) increased freedom to borrow to invest in housing, within prudential rules, and put them on a level playing field with housing associations.

- The Minister for Housing told the Committee that local authorities’ nationally have £3.4-3.5 billion headroom in their HRAs. Do you agree with this figure and is this sufficient to allow local authorities to borrow to build housing?

The LGA is a membership organisation and we work closely with councils who own housing stock. However, we do not require them to provide the LGA with data on their housing revenue account balances. Feedback from councils indicates a mixed picture on borrowing headroom and significant local challenges, masked by the national figure given by the Minister. Some councils have chosen to reduce their debt since 2012, a sensible financial strategy to manage debt repayment costs. Others have used their headroom to support new building and are now constrained by the limit of their borrowing caps.

As noted above, borrowing capacity was not allocated with regard to housing need or future building programmes. Councils need to be given the tools and flexibilities to adapt to the Government’s changes to rents and the measures in the Housing and Planning Bill. Lifting the borrowing cap should be part of a wider strategy to help local government embed the principles of self-financing and secure long term investment in affordable new homes.

I hope the information provided is useful and informative as your Committee agrees its recommendations. Further to our conversation in the House of Lords, I would be delighted to have a further discussion with Lord Forsyth of Drumlean and you on how councils can help tackling the housing crisis by building more homes.

Should you have further queries about the information provided or if you would like to arrange a meeting to discuss the issues in more detail, please contact Sebastian Hribar in my office.

Yours sincerely

The Lord Porter of Spalding CBE
Chairman
Local Government Association (LGA); Peabody Trust (QQ 141-152) – Oral evidence (EHMOE0009)

Local Government Association (LGA); Peabody Trust (QQ 141-152) – Oral evidence (EHMOE0009)

Submission to be found under Peabody Trust; Local Government Association (LGA) (QQ 141-152) – Oral evidence (EHMOE0009).
We are Oxfordshire residents, with experience in economics and strategic planning. Having been actively involved in a number of planning matters in Oxfordshire, we have become increasingly dismayed by the apparent ineffectiveness of the planning system as it now operates.

We confine ourselves to comments in response to your Question 1d. Planning: “Are any further changes to the planning system necessary to increase the availability of low cost housing?”

1. It is our opinion that too much is being expected of a planning system which has effectively been sidelined and emasculated by changes imposed in recent years. The planning system is expected to “deliver” new houses, including ‘affordable’ housing. However, this is simply not possible as local planning authorities can only ensure that they have allocated sufficient land for the assessed need in their areas. They do not and cannot build houses.

2. Most housing is now built (delivered) by large private housebuilders who will undertake developments when and where it is most profitable to do so. Since the 1960s private housebuilders have built, on average, rather less than 150,000 houses annually, the actual number fluctuating in response to general economic conditions. Despite relaxations in the planning system, the number built has remained relatively stable and, if anything, has fallen in recent years. It appears, therefore, that there is a natural limit to the number of houses that private housebuilders will provide despite national policy and relaxations to the planning system. (It should be noted that it was only when local authorities were building 100,000 or more houses per year that the total annual figure reached 300,000 in the late 1960’s. Of course, local authority provision has virtually ceased since the mid-80s.)

3. Local Planning Authorities are now obliged to have a local plan in place and a 5 year housing land supply. If they do not then developers are likely to win appeals to build on unallocated, unsuitable and unsustainable sites. Local Authorities are therefore desperate to have approved plans in place. However, perversely, if developers fail to build the houses that are planned and for which sufficient land has been allocated, the local authority is penalized through the planning appeal process. This surely cannot be right and it results in wholly inappropriate development, usually of expensive (i.e. not low cost) homes on the most profitable green field sites, which harms the environment and places huge strains on local infrastructure. This iniquitous arrangement should be changed.

4. Furthermore, Local Plans are now obliged to allocate land to meet so called “objectively assessed need” which is derived from Strategic Housing Market Assessments which often set unrealistically high levels of housing need (frequently because they are based on over-
optimistic assumptions about economic growth). SHMAs are also undertaken for individual areas (such as Oxfordshire) in isolation from other areas and there appears to be no mechanism for co-ordinating the assessments of need to ensure that they are realistic at regional and national level.

5. For example, in Oxfordshire the future need was assessed at around 5000 homes per year, whereas if Oxfordshire was to take its proportional share of forecast national population and household growth the requirement would be around 2000 homes per year. It should also be noted that, historically, housebuilding in the County has also been about 2000 per year. The methodology to arrive at the 5000 figure relies on many dubious assumptions each of which tends push the figure higher. It has been severely criticised at Local Plan examinations, and yet it appears to have been accepted by Local Authorities desperate to get their plans in place. If “objectively assessed need” is being similarly overestimated in other areas, the national total is likely to be too high and unachievable. By setting unrealistically high targets through the SHMAs the local authorities are set up to fail resulting in the consequences described in paragraph 3. Because this is likely to produce expensive, unsustainable developments on green field sites it does little if anything to improve the provision of low-cost housing.

6. It is particularly worrying that SHMAs are almost invariably produced by one of a small number of consultants. Oxfordshire’s SHMA was drawn up by GL Hearn, which is primarily a property consultancy. The same consultancy, indeed the very same people who drew up the SHMA, is also advising private developers at local plan examinations and planning appeals. It is clearly in the developers’ interests for SHMA figures to be exaggerated which must present the consultants with a serious professional conflict of interest. Such work used to be undertaken by professional experts working at local, regional and national levels. This ensured both true objectivity, untainted by potential conflict of interest, and consistency of forecasts across different spatial levels. There should be a return to a similar system.

7. SHMAs are effectively undertaken outside the local planning process. In Oxfordshire the SHMA covers the whole County, but is used only at District level on different occasions when each Local Plan is examined. Because there is no strategic planning at County level there is no opportunity to question the overall methodology or challenge the overall figure. This is profoundly undemocratic.

8. Another aspect to the lack of co-ordination at regional and national level, is the absence of any effective regional policy across the UK. Such a policy could, by seeking to spread economic growth across the country, help in improving housing affordability. In Oxfordshire, for example, the economy is relatively strong and the increase in jobs which has resulted in relatively high house prices. (To an extent therefore it would be reasonable to plan for rather more that national average growth, but certainly not at 250% of the national average as proposed by the SHMA). However, planning for large numbers of further jobs in the County (as is happening) can only result in additional demand for housing, making houses yet more expensive, as well as putting huge pressure on infrastructure and the environment. Yet there are many areas of the country where jobs are needed, where there is plentiful land for employment and housing development, where houses are relatively inexpensive and where the natural environment is also attractive. Such
areas, and the pressurized areas such as Oxfordshire would both benefit from a more equitable distribution of economic growth – a win-win outcome. Some form of regional policy should therefore be adopted.

9. Cramming more and more development into London and the South East cannot continue in definitely. It is not 'sustainable'. In an era when so much activity is “knowledge-based” and where high speed internet connections are available almost everywhere, people and businesses can communicate easily over long distances without the need for physical proximity. New variants of regional policy could be developed such as the ‘economic twinning’ of towns in different regions where one town has excessive growth and the other has the capacity to accommodate the growth. This would probably not be popular with the development industry, which has a vested interest in stoking demand in areas already under pressure, but it is likely to help in the provision of more affordable housing.

10. The planning system needs to be strengthened as suggested above and not further weakened to create the conditions in which more low cost housing can be built.

17 December 2015
London Borough of Islington – Written evidence (EHM0141)

Inquiry into the Economics of the United Kingdom Housing Market - Call for Evidence

Summary of the submission from the London Borough of Islington – December 2015

1. Development Plans are the key tool for authorities to address economic, social and environmental issues, such as the pressing need to increase housing supply and affordability. However, frequent and significant changes to planning legislation, policy and guidance are undermining the ‘plan-led’ system and the ability of local authorities to deliver sustainable development and affordable housing in the midst of a housing crisis.

2. Key changes include:
   - Office to residential permitted development rights
   - Restrictions on small site affordable housing contributions and the vacant building credit
   - The ability to reduce affordable housing requirements after planning consent has been granted

3. The way viability is currently operating in the planning system is disproportionately elevating landowner windfalls and developer profit at the expense of delivering planning requirements. A key impact of these changes has been to increase land values, whilst delivery has not matched the significant increase in consented homes, and house prices continue to rise. There are tangible social and economic costs to society as housing needs continue to grow.

4. In addition, further proposed policies will restrict the ability of authorities to deliver sustainable development and meet objectively assessed housing need, which are key goals set out in the NPPF. These include:
   - The delivery of Starter Homes at the expense of genuinely affordable housing
   - Permission in principle
   - Reduction in social rents by one percent per annum for the next four years.
   - The extension of the ‘right to buy’ to housing association properties

5. Planning has the ability to address key modern day issues, produce good quality places and create long-term value, but the Development Plan needs to be recognised as the primary tool for achieving this. To help local planning authorities address issues with housing affordability and supply, the Committee is asked to consider making the following recommendations to government:
• Reaffirm the primacy of the Development Plan-led system and its importance in achieving sustainable development.

• Require more transparency in viability appraisals, promote the EUV+ approach to land value and support the use of viability review mechanisms on non-policy compliant schemes.

• Reassess the emphasis placed on viability in the NPPF as a matter of priority, as it is currently operating in a way that prizes short-term gain for land owners and developers above the development of sustainable communities, and inhibits the delivery of sustainable development.

• Increase capital funding for affordable housing in order to address housing need, and reduce the social and economic costs of homelessness.

• In high value areas such as Inner London, enable the cap on the price of Starter Homes to be set at a local level rather than through national regulations.

• To ensure that Starter Homes go to people who are genuinely unable to afford housing on the open market, allow the price of Starter Homes to be determined by the income levels of residents in the local area.

• Secure Starter Homes as such in perpetuity.

• Limit permission in principle to the land use only and allow applications for technical details consent to be considered against Development Plan policies.

• Reduce uncertainty in the development industry and enable councils to meet objectively assessed housing need by not pursuing the appeal against the High Court’s decision on small sites and the vacant building credit.

• Avoid increasing land values, and a loss of premises for existing businesses, by revoking office to residential permitted development rights, in particular the proposed extension of this to demolished as well as converted buildings.

• Fund the extension of the right to buy to housing associations centrally, rather than through the forced sale of councils’ affordable housing stock.

• Implement measures to ensure consented schemes are delivered within reasonable timeframes.

• Greater transparency is needed on landownership, as well as measures to discourage land speculation, for example, through the use of and amendments to CPO powers.
House of Lords Select Committee on Economic Affairs
Inquiry into the Economics of the United Kingdom Housing Market - Call for Evidence

Submission from the London Borough of Islington

December 2015

1. Introduction

1.1 The goal of the planning system, as articulated through the National Planning Policy Framework (NPPF), is to achieve sustainable development. Councils, in their role as statutory Local Planning Authorities (LPAs) with responsibility for plan-making, decision making and enforcement, are ‘on the front line’ of the planning process. As such, they are well placed to witness the impact of changes to housing and planning policies on the supply and affordability of housing in their local areas.

1.2 A number of challenges are currently undermining the operation of the Development Plan-led system, and limiting the ability of LPAs to respond to the pressing need to increase housing supply and improve the affordability of housing.

1.3 As the planning system is integral to the delivery of new housing, these issues are relevant to the Select Committee’s call for evidence. This submission particularly relates to questions 1a (How effective have Government schemes been in improving the affordability of housing?); 1d (Are any further changes to the planning system necessary to increase the availability of low cost housing); and 3 (Social housing – are any measures needed to increase the supply of social housing?).

The Islington context

1.4 The London Borough of Islington has accommodated very high levels of development in recent years, consistently exceeding housing targets within the London Plan and is now the most densely populated local authority area in the country. The borough’s Development Plan sets out its aspiration to continue to deliver high levels of housing and employment growth in a sustainable way, by ensuring that development is supported by sufficient infrastructure, provides housing that meets the needs of local people and addresses environmental impacts.

1.5 Despite exceeding our housing targets, the cost of a home in Islington is amongst the highest in the country. In the relatively few ‘lower value’ parts of the borough a new one bed flat costs around £500,000 and a two bed flat costs in excess of £600,000. In high value areas new build properties can often cost close to or well in excess of £1 million. It is also worth bearing in mind that the cost of a new home can be significantly higher than this in large parts of Central London.

1.6 The share of Islington’s households renting privately rose from 18.6% to 28.2% in the ten years to 2011 (ONS Census)\(^\text{183}\). Despite the growth in Islington's rental market,

rents are significantly higher than those across Greater London. The GLA London Rents Map indicates that in August 2015, Islington median rents for a one-bed home were £340 per week or approximately £1,473 per month, compared with £276 a week or £1,196 a month across Greater London. For a three-bed home, Islington median rents were £575 a week or approximately £2,492 a month compared with £403 a week or £1,746 a month across Greater London.\(^{184}\) Considering this alongside the high costs of purchasing property in Islington, it is evident that the need for affordable housing in the borough is particularly high.

1.7 Despite its commitment to deliver sustainable development in line with the National Planning Policy Framework (NPPF), the borough has experienced increasing challenges to implementing its adopted Local Plan. This submission draws from discussions with other authorities arising from the council’s involvement in various groups, including the London Borough Viability Group. Islington chairs the London Borough Viability Group and would be happy to provide further evidence and respond to any queries the Select Committee may have.

2. **Operation of the Development Plan-led system**

2.1 Under law, planning applications are determined in accordance with the Development Plan and material planning considerations (in London this comprises the London Plan and the Islington Local Plan). Plans are consulted on extensively, viability tested and subjected to Public Examination. They inform the public, provide consistency and direction to applicants and establish the basis of delivering sustainable development. In short, Development Plans are the key tool for authorities to address economic, social and environmental needs through the built environment.

2.2 However, frequent and significant changes to planning legislation, policy and guidance including: Starter Homes, permitted development rights, the strong emphasis given to ‘development viability’, restrictions on small site affordable housing contributions, the vacant building credit and the ability to reduce affordable housing requirements after planning consent has been granted, have created uncertainty and inconsistency within the operation of the plan-led system. These forms of de-regulation, and other forthcoming proposals, fall outside of, and conflict with, the ‘plan-led’ process and are undermining the ability of LPAs to implement their Development Plans and deliver housing that is affordable to their communities.

3. **Implications and consequences of the de-regulation of planning**

3.1 Whilst a key intention of amendments to the planning system is to boost housing supply, a significant consequence of regulatory changes, particularly in London and the south-east, has been increasing land values. This is because a reduction in planning requirements effectively increases the ‘residual’ land value of a proposal generated once development costs have been deducted from development values. This raises land owner’s expectations, making it harder for developers to bid for and acquire land, and acts as a constraint on delivery.

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\(^{184}\) Median borough and London-wide rents taken from the London Rents Map: [https://www.london.gov.uk/priorities/housing-land/renting-home/rents-map](https://www.london.gov.uk/priorities/housing-land/renting-home/rents-map)
3.2 Figure 1 compares changes in average build costs (TPI Index), land values and house prices in London since 1997. Land value would be expected to be largely a factor of changes to sales values\textsuperscript{185} and build costs. However, the graph shows that in the last four years, land values have risen at an extremely high rate, due to significant increases in house prices and various changes to the planning system entailing a reduction in planning requirements.

Figure 1: London land prices, house prices and build cost indices (1997-2015)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{London land prices, house prices and build cost indices (1997-2015)}
\end{figure}

Sources: Build Cost Information Service, Land Registry, Savills Development Land Index\textsuperscript{186}

3.3 A particular impact of these changes and resulting increases in land values, together with the significant reduction in the national affordable housing budget and the introduction of affordable rented housing charged at rents of up to 80\% of market rents, has been to reduce the ability of local authorities to secure affordable housing that provides for those in housing need\textsuperscript{187}. The number of people accepted as homeless is increasing\textsuperscript{188}, whilst a lack of affordability is also impacting on the

\textsuperscript{185} Increase residential sales values would increase land values, whilst increasing build costs would suppress land values.

\textsuperscript{186} http://www.savills.co.uk/land-index/development-land-index.aspx

\textsuperscript{187} See for example, APSE and TCPA (2015), Housing the Nation:
http://www.tcpa.org.uk/data/files/Housing_the_Nation.pdf

\textsuperscript{188} DCLG (2015) Statutory Homelessness: April to June Quarter 2015 England:
competitiveness of the economy. The Confederation of British Industry (CBI)\(^\text{189}\), London Chamber of Commerce and KPMG have for example raised concerns about the difficulties that businesses are experiencing in recruiting entry and mid-level staff due to the high costs of housing in the capital.

4. Development viability

4.1 The NPPF requires that the costs of planning policy requirements should allow for competitive returns to a willing land owner and willing developer to enable development to be deliverable\(^\text{190}\). LPAs are required to assess the likely cumulative impacts of policies and standards on development, which should not put implementation of the plan at serious risk, and should facilitate development through the economic cycle\(^\text{191}\).

4.2 Since the introduction of the NPPF, viability has become a standard and increasingly dominant part of the planning system, but there are concerns with how it is operating in practice. The emphasis placed on viability in the NPPF has led to the increasing use of viability appraisals to reduce affordable housing requirements. This has created short term financial gain for land owners at the expense of the longer term value generation that could be achieved by following a plan-led approach that takes wider economic and community needs into account.

*Viability appraisal inputs and assumptions*

4.3 In areas like Islington with high rates of delivery and a buoyant market, it seems counter-intuitive that the majority of schemes are said to be unviable, even where the proposed level of affordable housing is low. Part of the issue is that viability models are highly sensitive to their initial inputs. Given the financial incentives involved, it is likely that developers will opt for pessimistic but reasonable and defensible assumptions in viability appraisals. The result of this is that, whilst every individual assumption may be reasonable, collectively the inputs modelled in appraisals will be systematically biased. Costs that are cautiously high and values that are conservative will have a big impact on the residual value and the amount of affordable housing that an appraisal indicates can be delivered.

*Land value*

4.4 There continue to be huge differences in the approach to valuing land, particularly since the introduction of guidance by the Royal Institute of Chartered Surveyors (RICS) in 2012 which promotes a market value approach to land value\(^\text{192}\). The ability to lower affordable housing provision through viability arguments is creating uncertainty in the land market. When bidding for land and factoring in the uplift in value that may come from the grant of planning permission (‘hope value’), the developer who makes the

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\(^{190}\) NPPF paragraph 173

\(^{191}\) NPPF paragraph 174

most bullish assumptions around value growth, minimising affordable housing, and maximising density, will outbid others and acquire the site.

4.5 The purchase price (or an aspirational sum sought by a landowner), together with other land transactions which may not adequately reflect Plan requirements, the circumstances of the application site and assumptions of value growth (whereas planning appraisals are based on current day values), are being used as market evidence by applicants to justify inflated land values. When applied as a fixed cost in appraisals (rather than land value being the residual) it becomes inevitable that Plan policies are found to be unviable.

4.6 This transfers developers’ risk onto the planning system and the community without a corresponding reduction in the developer’s profit, introduces circularity and pre-determines the outcome of the assessment.

4.7 A recent RICS research paper identified a misapplication of the 2012 RICS guidance and warns that under this approach ‘landowners and developers can manipulate the situation to their financial benefit’193.

4.8 It is also an approach that is in direct conflict with Planning Practice Guidance which states that:

‘In all cases land or site value should reflect Development Plan Policies, planning obligations and CIL’. 194

4.9 A further problem with the use of market land transactions to justify fixed land value figures is that, these typically incorporate assumptions about future increases in residential values when buying land. This inflates land prices but this value growth is not reflected in planning viability assessments which government guidance states should be based on current values and costs in most cases. This mismatch between market land values (on a growth basis) and development (sales/rental) values on a current day basis again distorts the outcome of viability assessments and artificially reduces the level of affordable housing that is deemed to be viable.

4.10 Changes are needed to national, regional and industry guidance on viability so that this supports rather than weakens delivery of the Development Plan. This must establish an approach to land value based on existing use values with a premium (‘EUV+’) to encourage release of the site, with planning requirements recognised as a pre-requisite to securing the consent from which any additional value is derived.

4.11 Local authorities also have a role to play. Guidance setting out information requirements and an appropriate methodology provides clarity to applicants and provides the right framework for robustly assessing viability appraisals. A number of LPAs are taking steps to introduce greater transparency so that members of the public are more involved. In London, boroughs have formed a viability group so that they can share expertise, take a consistent approach and build up their capacity. Islington recently consulted on a draft Development Viability Supplementary Planning Document, which will be adopted early in 2016.

194 PPG Viability, Paragraph 23
4.12 In view of the emphasis placed on viability in the NPPF, it is important to note that the NPPF also requires that LPAs will:

‘for market and affordable housing, illustrate the expected rate of housing delivery through a housing trajectory for the plan period and set out a housing implementation strategy for the full range of housing describing how they will maintain delivery of a five-year supply of housing land to meet their housing target’.

4.13 Therefore, the starting point in any consideration of land value should be that LPAs have planned to meet their fully assessed housing need, including their need for affordable housing, through their five-year housing supply. Residential land is required to contribute towards meeting affordable housing need, which should have a direct impact on land value. This places a major and deliberate depressant on land value compared with an unconstrained market. Appendix 1 illustrates the differences between land value and affordable housing provision in constrained and unconstrained markets.

Viability review mechanisms

4.14 As discussed above, viability assessments are being used by applicants to remove or lower local authority requirements for affordable housing. For example an Islington scheme with no affordable housing was approved on appeal due to viability, despite the council’s evidence indicating that this could be supported. In this instance the council has been able to review the achieved sales values for the development, which show that the council’s independent assessment was more accurate than the applicant’s, and a significant amount of affordable housing could have been provided. This demonstrates the importance of securing viability review mechanisms which can reassess viability at an advanced stage of development based on actual values and costs to determine whether additional affordable housing contributions can be made to deliver a more policy compliant scheme.

Development viability - conclusions

4.15 Public sector budgets have been cut severely, affecting the ability of councils to effectively carry out their functions. In contrast, developers are typically extremely well resourced. In some cases this has accentuated an imbalance within the system whereby short-term private interests seeking to maximise value on individual sites are prioritised at the expense of effective planning for the wider area and the public interest.

4.16 Together with the other forms of deregulation discussed in this submission, the current operation of viability in the planning system is disproportionately elevating landowner windfalls and developer profit at the expense of planning requirements. This is undermining the ‘plan-led’ system, and the ability of local authorities to deliver sustainable development and affordable housing in the midst of a housing crisis. Even for authorities with the political will and resources, the scale of current challenges is making it increasingly hard to secure affordable housing.

Recommendations

195 NPPF paragraph 47.
- There is a need for greater transparency – the assumption should be that information will be publicly available unless it can be fully demonstrated that this would not be in the public interest.
- An approach to land value should be established based on existing use value with a premium to avoid ever increasing market land values which undermine the delivery of sustainable development.
- The use of viability review mechanisms on non-policy compliant schemes should be supported.
- The emphasis placed on viability in the NPPF should be reassessed as a matter of priority, as it is currently operating in a way that prioritises short-term gain for land owners and developers at the expense of affordable housing.

5. Small residential sites

5.1 The impact of deregulation on the ability of LPAs to implement their Development Plans is exemplified by recent national policy changes which restricted the ability of local authorities to secure affordable housing on small developments and introduced a ‘vacant building credit’. These changes were implemented through a Ministerial Statement and the Planning Practice Guidance (PPG) rather than through the NPPF or legislation and have now been found to be unlawful at the High Court. Incompatibility with the plan-led system (the ‘Statutory Scheme’), together with inadequate consultation and consideration of equalities implications, were the grounds of challenge brought by West Berkshire and Reading councils and upheld by the High Court.

5.2 The Department for Communities and Local Government (DCLG) have been granted leave to appeal this decision, which is creating further uncertainty for developers. This is both because land owners are unlikely to release sites while they await the decision, and because some LPAs have been trying to compensate for the loss of affordable housing contributions by making amendments to their local plans and CIL charging schedules and are now unsure of how to proceed. To end this uncertainty and facilitate delivery DCLG should not pursue the appeal, given that the challenge was upheld on four separate grounds. Small site contributions do not restrain development as they are subject to viability testing. Instead they generate funding which is important for the delivery of affordable housing.

Recommendation

- To reduce uncertainty in the development industry and enable authorities to meet objectively assessed housing need, the appeal against the High Court decision on small sites and the vacant building credit should not be pursued.

6. Office to residential permitted development rights

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197 Eileen O’Grady. West Berkshire District Council and another v Secretary of State for Communities and Local Government. Estates Gazette. 15 August 2015.
6.1 In October 2015 the Government announced that office to residential permitted development rights (PDR), which were introduced in 2013 and were due to expire in May 2016, would be made permanent. A new provision permitting developers to demolish office buildings and rebuild them for residential use, provided the replacement is of a similar size was also introduced.

6.2 One concern with the PDR in Islington, and other central London boroughs, is that developers are benefitting from high market values for residential properties without providing any affordable housing or contributing to infrastructure. This is driving land values up, and not just for PDR sites. At a recent Public Inquiry in Islington the appellant used sale prices for several PDR sites to justify the amount they had paid for their site. The council had to point out that it was not appropriate to use these sites as examples of comparable market transactions, as the absence of affordable housing requirements and planning obligations makes them more attractive to potential purchasers.

6.3 Permitting the demolition and replacement of buildings under the PDR is likely to push land values up further, as developers will no longer be constrained by the layout of office buildings and will compete for buildings that can be developed free from affordable housing requirements and planning obligations.

6.4 A report prepared by London Councils lists the key consequences of the PDR which include the loss of key, occupied office space; the loss of new affordable housing supply; and the introduction of poor quality new housing.\textsuperscript{198} The report estimates that 39% of approvals granted under PDR were for fully occupied office buildings, meaning that the policy is affecting viable businesses. Between May 2013 and April 2015 approval was granted in London for at least 100,000 square metres of wholly occupied office floorspace, and 834,000 square metres of office floorspace in total. In addition permission has been granted for 16,600 dwellings, without any requirement for the provision of affordable housing. In Islington, two thirds of the units granted permission will be studios or one bedroom flats, which does not meet the assessed need for housing in the borough. In Croydon, the PDR has resulted in permission being granted for very small units, the smallest being just 13.4 square metres.

**Recommendation**

- The Government should avoid increasing land values and promote space for economic growth by revoking office to residential permitted development rights, and in particular should not pursue PD rights for schemes which entail the demolition and redevelopment of buildings.

7. **Starter Homes**

7.1 Islington Council strongly supports the principle of enabling ordinary Londoners to buy and rent homes in our borough. However, we believe that most middle income Londoners will be unable to afford any Starter Homes that are built in Islington and

similar parts of Inner London. We are also extremely concerned that the delivery of Starter Homes is likely to be at the expense of other genuinely affordable forms of housing.

7.2 Appendix 2 (Scenario Testing of Starter Homes in Islington) contains our assessment of the affordability of the Starter Homes product in Islington. This analysis can be applied to similar parts of Inner London and other high value areas. It indicates that a couple who both earn the median Islington salary of £35,000 would need a deposit of £170,000 to buy a £450,000 Starter Home (even assuming that they could get a mortgage of four times their joint income).

7.3 A household earning just over £100,000 a year (equivalent to two people with earnings above the 75th percentile in London) could afford a £450,000 Starter Home. This assumes that the occupants of this household can borrow four times their income and can access a 10% deposit. The Mayor of London currently sets an income threshold of £71,000 for a one or two bedroom intermediate home. It is therefore our view that the Starter Homes product cannot be considered to be a form of affordable housing in Inner London. In its proposed form it would fail to provide for the housing needs of the majority of middle income Londoners and would be significantly less affordable than other forms of intermediate housing notably shared ownership. As we also note in Appendix 2, the very high private sector rents charged in Inner London make it extremely difficult for middle-income residents to save for the large deposit that would be needed to purchase such a home.

7.4 Islington Council is therefore opposed to the introduction of the Starter Homes product in its current form because (despite its name) it will be completely unaffordable to most ordinary Londoners. In many parts of our borough, a 20% discount from the market price would simply not reduce the value to £450,000, which is unaffordable in any case, let alone reduce the price to the level which is affordable to the vast majority of first time buyers. To bring the price down to under £450,000, discounts would often need to be much higher than 20%, and such discounts could only be delivered if little or no other genuinely affordable housing is provided.

7.5 More generally, new build properties routinely attract a premium of 20% above ‘secondhand’ homes199, so the discount applied to the Starter Homes may do little to aid their affordability in other boroughs and parts of the country. Research carried out by Shelter states that families on the new National Living Wage will be able to afford a Starter Home in only two percent of local authorities200. Similar research by Savills suggests that a couple on an average salary would struggle to buy a home at a 20% discount in almost half of all council areas in England201.

7.6 Notwithstanding the borough’s concerns about the affordability of the units, if the aim of the policy is to provide housing at more affordable prices for first time buyers, it is unfortunate that the discount is not secured on properties in perpetuity, or even on a long term basis. Instead, after 5 years owners of the units can sell them on the open market. An outcome where a relatively affluent few would receive a windfall of
hundreds of thousands of pounds at the expense of the needs of the wider community is unacceptable. A reduction in the delivery of genuinely affordable housing will deepen rather than address London’s housing crisis.

7.7 S106 agreements currently require developers to work with Housing Associations (HAs) to deliver the agreed amount of affordable housing. If the definition of affordable housing is changed to include Starter Homes, and LPAs are compelled to accept them, developers are likely to favour them over other forms of affordable housing as they can sell them directly and realise a greater profit than they can from selling units to HAs. As HAs become excluded from this process, they will have to compete with private developers for development sites on the open market if they wish to continue operating. To be able to compete it is likely that HAs will have to provide more housing for sale on the open market. The impact of this, in tandem with the 1% cut per year to social rents that HAs will have to fund for four years from April 2016, will be to further reduce the provision of housing for rent at affordable levels.

7.8 The existing lack of housing available to rent at affordable rates has led those who cannot afford to buy their own homes to rely on the comparatively more expensive private rented sector, with the result that the annual housing benefit bill has grown. The consequence of removing LPAs' ability to require affordable rented housing from new developments will be to increase the number of people looking to the private rented sector for accommodation, some of whom will require assistance from housing benefit. Others will not be able to find anything they can afford, leading to an increase in both hidden and statutorily homeless households. Local authorities have a duty to house households accepted as statutorily homeless which will further increase the housing benefits bill.

7.9 Changing the definition of affordable housing to include Starter Homes will reduce local authorities’ ability to provide for those in greatest need. It will incur social and economic costs as homelessness and the welfare bill increase, whilst benefitting landowners, developers and households with good incomes, none of whom are in need of state assistance.

Starter Homes and the Housing and Planning Bill

7.10 The Housing and Planning Bill gives the Secretary of State new powers to intervene in plan making and to require that planning permission may only be granted if Starter Homes are secured as part of a development. The Secretary of State will also be given powers to determine the number of Starter Homes that are delivered. These changes give unprecedented powers to the Secretary of State to intervene in plan making and the making of planning decisions. We are concerned that these changes will undermine the plan-led system that provides transparency and accountability to local people, and stability and certainty to developers. In our view these detailed matters are best

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204 Ibid, page 30.
determined by a local planning authority having had regard to its planning policies, broader statutory duties and other material considerations. The Secretary of State already has substantial powers to intervene in these matters if they wish to do so.

7.11 The ‘compliance directions’ clause in the Housing and Planning Bill would give further power to the Secretary of the State to cancel policies in adopted Local Plans without consideration of the impact that this may have on other policies, including those promoting the supply of new housing, or the national objective of achieving sustainable development. There is no explanation of what an ‘incompatible’ policy would be, and the explanatory notes make no mention of transitional arrangements or how the delays to plan-making that would inevitably arise from this clause would be moderated.

7.12 The introduction of such a power through primary legislation would clearly undermine the established process for local plan making and calls into question the Government’s stated objective of devolving power to the lowest appropriate level. Local plans, as set out in the NPPF, should meet the full, objectively assessed needs for an area. It is clear that the intention is that starter homes should be prioritised above all other local policy requirements/priorities for affordable housing. Not explicitly stating this in the primary legislation is potentially misleading and this approach would embed a fundamental conflict in the legislation. This needs to be resolved at the primary legislation level rather than leaving critical issues such as this to secondary legislation.

7.13 In devising a mechanism to comply with the duty it must be ensured that Starter Homes are embedded in the process in an integrated carefully planned way, not on an ad hoc basis as would be achieved by a compliance direction, and critically that the flexibility to deliver other forms of affordable housing is retained. This is necessary to ensure that local plans can meet objectively assessed need and that developers have the certainty that they can bring forward the most suitable mix of tenures for their scheme/area.

7.14 Attempting to achieve a national objective through the issuing of compliance directions would remove the ability of local communities to have a real say in the decision-making process, with the likely result that new development would be resisted by local people because it would seek to deliver top-down targets at the expense of legitimate local objectives and concerns.

Conclusion

7.15 Islington Council recognises that there is a pressing need to deliver affordable homes for ordinary Londoners. However, as currently proposed Starter Homes will be unaffordable to most middle income Londoners and we are concerned that delivery of this form of housing will inhibit the delivery of genuinely affordable housing.

Recommendations

- In high value areas such as Inner London, the cap on the price of the home and site specific proportion of Starter Homes should be set at a local level rather than through national regulations. There should be a recognition that some sites in a particular area could deliver Starter Homes which are affordable to the target group, whilst other sites might not be able to do so for the reasons set out above.
To ensure that Starter Homes go to people who are genuinely unable to afford housing on the open market, the price of Starter Homes should be determined by the income levels of residents in the local area.

Starter Homes should be secured as such in perpetuity.

8. Permission in principle

8.1 Through the Housing and Planning Bill the Government is seeking to introduce automatic permission in principle for brownfield sites. LPAs will be required to compile a register of brownfield land suitable for housing, and keep it up to date.

8.2 Islington is opposed to the introduction of permission in principle because it further undermines the plan-led system and centralises planning powers away from local authorities who are democratically accountable to local communities. It will also serve to drive up land values as land owners’ expectations of the competitive return they should receive will increase if there is automatic consent for residential development.

8.3 Notwithstanding these concerns it is Islington’s view that permission in principle granted via a national development order should be limited to the land use only. This will give local communities and developers’ certainty regarding locations for development and acceptable land uses whilst ensuring that the legitimate planning considerations that are fundamental to the assessment of a proposal at a local level are properly and thoroughly assessed. The inclusion of any more detail than land use and indicative capacity figures would be overly prescriptive and would undermine the stated aims of permission in principle.

8.4 It is unclear from the drafting of the Housing and Planning Bill if applications for ‘technical details consent’ may be considered against the relevant development plan policies. This is important to ensure that the permission in principle process does not result in development that is of a lower quality than that delivered through the outline or full planning permission process. Details such as design quality, residential amenity, affordable housing and other requirements typically set out in relation to residential development in development plans are critical to the success of housing and must not be undermined by the permission in principle process.

Recommendations

- Permission in principle should be limited to the land use only.
- Applications for technical details consent should be considered against Development Plan policies.

9. Extension of the ‘right to buy’

9.1 In October 2015 the Government announced that the ‘right to buy’ would be extended to include Housing Association (HA) tenants. They have proposed to compensate HAs who lose units through the right to buy using money generated by the sale of ‘the most expensive’ council-owned social housing units. In London, councils will be required to
sell 1 bedroom units valued over £340,000, 2 bedroom units valued over £400,000 and 3 bedroom units valued over £490,000 as they become vacant.

9.2 In high value areas such as Islington, this policy could mean that every social housing unit that becomes vacant will have to be sold. The Government has stated that units will be replaced on one-for-one basis but it is unclear how the receipts generated will be sufficient to both provide replacement HA and council properties and contribute to an intended brownfield regeneration fund. As an indication of the problem, it has not been possible to replace units sold under the current right to buy system on a one-for-one basis.

9.3 Research carried out by Liverpool Economics on behalf of the London Boroughs of Camden, Enfield, Haringey and Islington following the announcement of the policy suggested that ‘even if the new policy to replace homes worked, there would be a time lag of at least two years from the sale of a home to it being replaced’. This will exacerbate current problems with housing supply and affordability, instead of alleviating them.

9.4 Islington has its own new build housing programme, aimed at delivering homes that will meet the identified needs of its residents. The borough is unsure of the impact that the extension of the right to buy will have on newly completed units that have not yet been occupied, all of which will have market values in excess of the thresholds outlined above. Rather than creating uncertainty, the Government should be supporting local authorities in the direct delivery of affordable housing.

**Recommendations**

- The extension of the right to buy to housing associations should be funded by the government rather than through the forced sale of affordable housing by councils.
- The Government should increase capital funding for affordable housing in order to meet housing need, reduce the social and economic cost of homelessness, and housing benefit costs.

10. Increasing Housing Supply

10.1 Recent measures announced by the Government are aimed at increasing housing supply, but recent figures indicate that while the number of additional consented homes has increased significantly in recent years, delivery has tailored off.

10.2 A body of evidence identifies constraints in housing supply due to issues such as land speculation. Developers, particularly the large housebuilders, can both phase the release of sites, and delivery on individual sites. By controlling the rate of delivery, supply does not exceed demand and house prices continue to rise. Removing

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209 BBC (2015), Why can’t the UK build 240,000 houses a year?: [http://www.bbc.co.uk/news/magazine-30776306](http://www.bbc.co.uk/news/magazine-30776306)
planning requirements has not led to a reduction in new build house prices, but a number of large housebuilders including Bovis Homes\(^\text{210}\), Galliford Try\(^\text{211}\) and Redrow\(^\text{212}\) have recently announced record profits.

10.3 KPMG’s UK chairman has spoken of the need to encourage owners to ‘let go of land banks’\(^\text{213}\), and in a joint report Shelter and KPMG have suggested that ‘getting more developable land into the hands of those with the incentive and the ability to build rapidly must be a key objective of housing supply reform’\(^\text{214}\).

10.4 Greater transparency is needed on the use of ‘land options’ and measures to encourage the release of sites, for example, through the use of and amendments to CPO powers to enable acquisition at values that facilitate the delivery of sustainable development\(^\text{215}\).

**Recommendation**

- Measures should be introduced to ensure that consented schemes are delivered within reasonable timeframes.

- Greater transparency is needed on ‘land options’ and measures to discourage land speculation through the use of and amendments to CPO powers.

11. Conclusion

11.1 The ability of local authorities to deliver sustainable development and affordable housing has been hampered by the deregulation of the planning system. Planning can still address modern day issues, produce good quality places and create long-term value, but the Development Plan has to be recognised as the primary tool for achieving this. To help local planning authorities address issues with housing affordability and supply, the council respectfully requests that the Committee recommends that the government takes the following steps:

- Reaffirm the primacy of the Development Plan-led system and its importance in achieving sustainable development.

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\(^\text{210}\) [http://www.insidehousing.co.uk/house-builder-posts-9-profit-increase/7011323.article](http://www.insidehousing.co.uk/house-builder-posts-9-profit-increase/7011323.article)

\(^\text{211}\) [http://m.insidehousing.co.uk/business/finance/results/galliford-try-reports-20-rise-in-profits/7011787.article](http://m.insidehousing.co.uk/business/finance/results/galliford-try-reports-20-rise-in-profits/7011787.article)


\(^\text{213}\) [http://www.ft.com/cms/s/0/d53bd03c-4745-11e5-af2f-4d6e0e5eda22.html#axzz3mZxPN7pU](http://www.ft.com/cms/s/0/d53bd03c-4745-11e5-af2f-4d6e0e5eda22.html#axzz3mZxPN7pU)


RTPI, Delivering Large Scale housing: Unlocking schemes and sites to help meet the UK’s Housing Needs, September 2013. [http://www.rtpi.org.uk/media/630969/RTPI%20large%20scale%20housing%20report.pdf](http://www.rtpi.org.uk/media/630969/RTPI%20large%20scale%20housing%20report.pdf)

- Require more transparency in viability appraisals, promote the EUV+ approach to land value and support the use of viability review mechanisms on non-policy compliant schemes.
- Reassess the emphasis placed on viability in the NPPF as a matter of priority, as it is currently operating in a way that prizes short-term gain for developers above the development of sustainable communities.
- Increase capital funding for affordable housing in order to address housing need, and reduce the social and economic costs of homelessness.
- In high value areas such as Inner London, enable the cap on the price of Starter Homes to be set at a local level rather than through national regulations.
- To ensure that Starter Homes go to people who are genuinely unable to afford housing on the open market, allow the price of Starter Homes to be determined by the income levels of residents in the local area.
- Secure Starter Homes as such in perpetuity.
- Limit permission in principle to the land use only and allow applications for technical details consent to be considered against Development Plan policies.
- Reduce uncertainty in the development industry and enable councils to meet objectively assessed housing need by not pursuing the appeal against the High Court’s decision on small sites and the vacant building credit.
- Avoid increasing land values, and promote space for economic growth, by revoking office to residential permitted development rights.
- Fund the extension of the right to buy to housing associations centrally, rather than through the forced sale of councils’ affordable housing stock.
- Introduce measures to ensure that consented schemes are delivered within reasonable timeframes.
- Greater transparency is needed on ‘land options’ and measures to discourage land speculation through the use of and amendments to CPO powers.
APPENDIX ONE: The effect of land value constraints on affordable housing delivery

Figure 1: Affordable housing delivery if land value is constrained

Figure 2: Affordable housing delivery if land value is unconstrained

Source: BNP Paribas, 2015
APPENDIX TWO: Scenario Testing of Starter Homes in Islington

Table 1 Shared Ownership Sales in London 2013/14, recorded on CORE

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tr>
<td><strong>Total number of sales</strong></td>
<td>2,342</td>
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<tr>
<td><strong>Median deposit</strong></td>
<td>£14,000</td>
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<td><strong>Median mortgage amount</strong></td>
<td>£79,200</td>
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<th>Age breakdown of household head</th>
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<tr>
<td>18-29</td>
<td>768</td>
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<tr>
<td>30-39</td>
<td>1,070</td>
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<td>40-49</td>
<td>296</td>
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<tr>
<td>50+</td>
<td>125</td>
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<tr>
<td>Age not recorded</td>
<td>83</td>
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</table>

<table>
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<th>Income (joint income of household head and partner, if applicable)</th>
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<tr>
<td>&lt; £20,000</td>
<td>3%</td>
</tr>
<tr>
<td>£20,000 to &lt;£30,000</td>
<td>20%</td>
</tr>
<tr>
<td>£30,000 to &lt; £40,000</td>
<td>34%</td>
</tr>
<tr>
<td>£40,000 &lt; £50,000</td>
<td>22%</td>
</tr>
<tr>
<td>£50,000 or more</td>
<td>20%</td>
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**Existing Analysis**

In August 2015, Shelter published research[^1] identifying those areas of the country where Starter Homes would be affordable to those on the average wage and the national living wage. Their research considered areas to be ‘unaffordable’ where a 20% discount on the median house prices would exceed the Starter Home price cap, which in London is £450,000. Islington like much of Inner London was identified as ‘unaffordable’.

To further understand the characteristics of first-time buyers who would be able to access starter homes in Islington, we have carried out further research looking in more detail at local incomes and local lower quartile new-build house prices.

**Local Incomes**

The latest data from the Annual Survey of Hours and Earnings (ASHE) is from April 2014, as follows:

[^1]: Shelter
London median gross weekly wage of £660.50. This equates to gross annual earnings of £34,346\(^{217}\) per annum for an individual, and £68,692 for a two-person household with both individuals receiving the median London wage.

The Data Store from ASHE puts Islington total full-time weekly median gross earnings at £679.30\(^{218}\), higher than the London median. This equates to gross annual earnings of £35,324 for an individual, and £70,647 for a two-person household with both individuals receiving full-time median Islington gross earnings.

As male and female gross weekly earnings differ (£671.70 per week as compared to £559.30 per week), a two-person household composed of one male and one female earning their respective gender’s gross weekly earnings would have gross annual earnings of £64,011.

The level of earnings for a two-person household is broadly equivalent to the Mayor of London’s threshold for access to intermediate housing of a maximum household income of £71,000 for a one or two bedroom unit. Households needing a 3-bed or larger unit can have a maximum income of £85,000.

**Affordability Analysis**

A generally accepted definition of affordability is that rent should not exceed 35% of net income. The following are some scenarios relating to the affordability of private rents for households with two earners and no children at the median income across London, and in Islington.

For the below scenarios, private rents data is sourced from the Valuation Office Agency at [https://www.gov.uk/government/statistics/private-rental-market-statistics](https://www.gov.uk/government/statistics/private-rental-market-statistics) and presented as £ per calendar month, based on the year to 2015Q1

<table>
<thead>
<tr>
<th>Location</th>
<th>Mean</th>
<th>Lower Quartile</th>
<th>Median</th>
<th>Upper Quartile</th>
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<tbody>
<tr>
<td>Inner London</td>
<td>£1,876</td>
<td>£1,235</td>
<td>£1,560</td>
<td>£2,102</td>
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<tr>
<td>Outer London</td>
<td>£1,308</td>
<td>£925</td>
<td>£1,200</td>
<td>£1,473</td>
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<tr>
<td>Islington</td>
<td>£1,900</td>
<td>£1,387</td>
<td>£1,731</td>
<td>£2,242</td>
</tr>
</tbody>
</table>

**A. Two incomes, no children, London median earnings**

In 2014 the median gross annual earnings in London was £34,346\(^{219}\). A dual median income household would be able to afford £1,362 rent per month. For this household only the lower quartile rent in Inner London is affordable leaving £127 per month to go towards saving for a deposit and stay within the 35% of net income threshold.

However it is very unlikely that enough properties at the lower quartile exist to satisfy demand. Such a couple could ‘afford’ the median rent in **Outer London** of £1,200, but would

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not able to comfortably afford the **median Inner London** rent of £1,560, facing a **£198** per month shortfall.

Due to the lack of supply or the very low quality of lower quartile rented dwellings, most households are likely to go above the 35% affordability threshold, often significantly above. This compromises their ability to save for a deposit, locking such households into expensive and insecure private rented accommodation. The **median Inner London** rent would cost this household **40%** of their net income.

**B. Two incomes, no children, Islington median earnings**

Median earnings for residents of Islington are higher than for London as a whole. The median gross annual income is £35,324, compared to £34,346 in London as a whole.

The **median rent in Islington is unaffordable** to a household comprised of two people earning the median Islington income. The **median rent swallows up 43%** of household income of two people both at median earnings for Islington residents. Such households face a **£330** per month shortfall between spending 35% of their net income on rent and the actual median rent of £1,731. This £330 per month is money that could be used to save for a deposit.

A couple comprised of two median Islington earners with a household income of £70,647 can afford the **lower quartile** rent in Islington with a surplus of £14 assuming that 35% of their net income is spent on rent.

Given that by definition, we know that these households live in Islington already, this shows that a large number of Islington’s private renters spend an unaffordable percentage of their income on rent, choosing to cut back on discretionary spending and/or saving.

All these calculations apply to couples with no children. A couple with young children is likely to need to spend money on childcare or have one individual work part-time, drastically reducing their income or raising their essential outgoings.

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**Table 2 Shortfall/surplus of rent against 35% benchmark**

<table>
<thead>
<tr>
<th>Rent Level</th>
<th>Mean</th>
<th>Lower Quartile</th>
<th>Median</th>
<th>Upper Quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London</td>
<td>£606</td>
<td>£35</td>
<td>£290</td>
<td>£832</td>
</tr>
<tr>
<td>Outer London</td>
<td>£38</td>
<td>£345</td>
<td>£70</td>
<td>£203</td>
</tr>
<tr>
<td>Islington</td>
<td>£630</td>
<td>£117</td>
<td>£461</td>
<td>£972</td>
</tr>
</tbody>
</table>

| Inner London | £475  | £166           | £159   | £701          |
| Outer London | £93   | £476           | £201   | £72           |
| Islington   | £499  | £14            | £330   | £841          |

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Two person household on London median earnings
C. Two incomes, no children, earning above the median

There is no available data for distribution of income by region or local authority, so we have used figures from earnings distribution for the whole UK from the ASHE. For the whole UK, earnings at the 75th percentile were 141% of median earnings. Therefore to estimate 75th percentile earnings in both Islington and London as a whole the median figures have each been increased by 41%. This assumes that both Islington and London have the same income distribution between the 50th (median) and 75th percentiles, the accuracy of which is not known. Using this method, the 75th percentile earning in London overall is **£48,428**. In Islington it would be **£49,806**. A two person household earning at the Islington 75th percentile would have a joint income of **£99,612**.

D. Indicative mortgage calculations for starter homes

We have assumed the Starter Homes product is intended to help first-time buyers on the median wage. However, at the London price cap of £450,000, saving a deposit of even 5% of the purchase price (£22,500) would take many years given the high cost of renting. The £427,000 mortgage needed to pay for 95% of the £450,000 starter home is greater than the **£282,589** maximum mortgage loan amount of four times the dual median Islington earnings by **£144,911**.

Even if in a dual Islington median income household could save up a £90,000 deposit in order to borrow 80% of £450,000, which is £360,000, the maximum mortgage loan amount of four times the joint income is still **£77,411** short of the £360,000 that would be required.

A household of two people both earning the median income for Islington residents, living in a property at the lower quartile of private rents, saving 10% of their monthly income, would take 153 months, or just under 13 years, to save a deposit of £90,000. This assumes no contingencies like having children, paying for care for older relatives, unexpected expenses or events. For those paying above the lower quartile in rents, the time taken to save £90,000 will be even higher, and in actual fact may even be impossible given the percentage of income taken up by rent.

High rents make it more difficult to save, and the distribution of median earnings is weighted significantly towards those in the 40-49 and 50-59 age brackets220, with the biggest gap between the 22-29 and 30-39 brackets. Therefore it is likely that households that have formed as dual-median earners and have reached that median earnings level are already in the 30-39 age group.

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Even if such households could commit to such a long-term savings plan, it is very likely that they would be well over 40 years old by the time they had a sufficient deposit, and would still not be able to borrow a sufficiently large sum to cover the rest of the £450,000 purchase price. This is also assuming that by 2028, £450,000 is still the upper limit on the price of a Starter Home in London, which appears highly unlikely given that residential values in London have increased by 22% since 2010.\(^{221}\)

A household of two adults, both median Islington earners, saving 10% of their income and paying lower quartile private rent (an option unavailable for many) could save £21,194 in 36 months. Added to the maximum mortgage loan of £282,589, possibly available at four times their joint income, this would give a theoretical absolute maximum price for a home they could afford of £303,783.

However, reputable online tools such as Money Saving Expert estimate that such a household would only be offered a mortgage of up to £240,000, which added to the deposit of £21,194 would give a maximum purchase price of £261,194. It is worth pointing out that this ability to save is only for households living at the lower quartile of rents. Those paying the median rent in Inner London face a £198 monthly shortfall between their rent and the figure of 35% of net income that defines affordability. These households would, and do, find it very difficult to save.

Taking the 30 lowest price new-build one and two bedroom apartments currently advertised for sale on Rightmove in Islington, the average price for a one-bed was £496,962. For a two-bed it was £613,250. These are located primarily in the north of the borough outside of the highest value areas on the fringe of the City of London, and as the prices are a ‘snapshot in time’ it is highly unlikely that new properties coming to the market will be priced lower.

To bring a new-build property at the lowest end of the market within the London price cap of £450,000 for a Starter Home would require a discount from these values of 9% for a one-bedroom and 27% for a two-bedroom. The suggested 20% discount on market value that is a defining feature of starter homes would bring the cost of a one-bedroom new build apartment in Islington at current values to £397,569. This would still leave a household of two people both earning the Islington median income £93,786 short of the maximum amount they could borrow at four times joint income with a deposit based on three years of saving.

The same household at the 75\(^{\text{th}}\) percentile in Islington would, however, be able to access the required mortgage amount with a marginal headroom of £19,737. This demonstrates that while in theory there would be available purchasers for the starter homes product in Islington, in practice such households would need to be comprised of two high-earning individuals, i.e. already very highly-paid people who are capable of finding housing on the open market.

At the values seen in Islington the starter homes product will not be available to those on median incomes even if they are a household of two people with no children or other outgoings, i.e. credit high student loans.

E. Single income earner at £50,000

Not everyone who wishes to access low cost home ownership will be part of a household of two incomes. To assess affordability of starter homes for a single person with high earnings, we repeated these calculations for someone earning £50,000. This is around the 75th percentile of earnings (someone earning £48,428 is at the 75th percentile of earnings in London as a whole).

Someone earning £50,000 would be able to affordably pay £992 per month in rent – that is 35% of their net earnings. This person would need to spend 42% of their net income on the median rent in Outer London, and 55% in Inner London, so it is more likely that they would be living as part of a larger household with friends, family or other non-related adults in order to afford the rent.

At four times their income, the maximum loan to be advanced would be £200,000. Online tools such as Money Saving Expert estimate the range of lending available to be between £162,500 and £225,000, so £200,000 represents a rough midpoint between these estimates.

Someone earning £50,000 saving 10% of their monthly net income could save a deposit of £10,200 over three years and £17,000 over five years. If you add the higher of these figures to the £200,000 maximum mortgage loan, the highest price this person is likely to be able to obtain a mortgage for is £217,000. This is still £180,569 short of the £397,569 that would represent a 20% discount on the cheaper end of the new-build one-bedroom apartment market in Islington.

F. Existing non-market home ownership options

The income threshold for shared-ownership products in London is set by the Mayor. The limits are currently £71,000 for one or two bed dwellings and £85,000 for three or more bedrooms. This shows the thresholds above which the Mayor considers a household to be able to meet its needs through the market and not to require eligibility for intermediate products.

Two-times the median income for Islington residents is £70,647 or almost at the threshold for smaller dwellings. Therefore according to the Mayor’s current policy, nobody above the median income requires access to sub-market products. A one-bedroom Starter Home at the maximum 20% discount from market value of £397,569 would be out of reach to people at the top of the intermediate income threshold in London.

If Starter Homes are required at a defined percentage on ‘every reasonably sized housing site’ as per the Prime Minister’s suggestion, this will crowd out the provision of intermediate and affordable rented housing due to viability concerns, meaning that government policy has shifted from providing a route into home ownership though intermediate (shared
ownership) product to one that only households with a minimum of two-times the 75th percentile even in a high-wage borough like Islington would be able to access.

18 December 2015
To the Economic Affairs Committee of the House of Lords

Dear Sir/Madam,

1) Thank you for the opportunity to contribute to this call for evidence for the inquiry into the economics of the UK housing market, helping to ensure that our scarce resource can best be used to meet the needs of London and Londoners, suggest new ways in which under-used housing can be returned to good use and in which housing can be provided to residents at a price which allows them to live fulfilled and successful lives. We believe that such housing must remain a community asset, rather than simply providing opportunities for private profit as that model has failed to maintain a housing supply that meets London’s needs.

We will therefore be responding only in connection with the economics of housing and the demand for homes in the capital.

2) London Federation of Housing Co-ops is a membership funded organisation supporting approximately four hundred co-operatively owned or managed housing organisations in the capital. These organisations vary in size from less than a dozen units to thousands of properties. Properties may be freehold, leasehold, managed on behalf of a landlord, on a short-life basis or a combination of these. LFHC provides an umbrella for these groups to meet and develop common approaches to the needs of their members and tenants.

3) The main thrust of our argument, beyond pointing out the benefits of co-operatively managed housing will be to argue that in London there are planning pressures and constraints which cause the most densely populated areas to be considered for higher densities yet as there is some, albeit overloaded, infrastructure in place, while less densely populated areas with less infrastructure are developed at far lower densities. This planning is only 4-5 years ahead and a broader debate around planned development of the area within the M25 (possibly incorporating Green Belt areas) over 30-50 years should be a more reasonable timescale so low density housing is not clustered around future transport nodes or demolished after only a few years.

**Question Responses**

4) **Question 1 Private Ownership:** What measures can be taken to increase the supply of reasonably priced housing in the UK?

The first part of our response amounts to a truism – a decision needs to be made as to whether housing costs should be guided by market forces. If we accept that providing access to suitable housing is a human right, then we must accept that housing does not exist in a completely free market. Housing prices will not be reasonable on the private market if demand is high and the supply constrained.
5) Speaking as Londoners, housing everywhere else in the country is affordable, compared with prices in the capital. From our perspective the construction of sufficient properties outside the capital remains a planning issue. While co-operative housing options would provide rental properties and sustainable communities which would match the proposals for private ownership if co-housing models are used, pursuing private properties in London has not had the benefits that people have sought. Apart from pleasing a particular group of constituents it is not clear what the benefits would be of giving large subsidies to particular groups within the population to purchase a property and it would be helpful to have clear aims and targets that such initiatives could be tested against.

6) The primary method of achieving affordable housing must be to provide public land to meet public policy requirements and taking the benefit to the community as a ‘value benefit’, rather than simply seeking the highest capital receipt. In the long term this means considering the overall costs of developments to the public purse, moving away from seeing social housing as a residence of last resort or of treating regeneration as a largely commercial venture for private gain.

7) **Question 1a) Government Scheme:** How effective have government schemes (help to buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

These schemes have provided one-off subsidies to the lucky recipients, but have not contributed in any way to reducing house prices. Instead, by reducing the number of properties available for social rents they have restricted supply and, worse, where they have been returned to the private rental market they have been at vastly inflated prices. Recent surveys have shown 33% of ex-council stock is now privately rented, but in our experience in central London the proportion may be much higher. Relatively few house the original purchasers and when estates are regenerated the local leaseholders are often unable to purchase properties locally with the money from the sale of the property that is demolished.

8) The demand for housing in London is such that developers rarely have difficulty selling properties, whether the new buyer intends to live in them or not. The only possible effect of subsidies to purchase these properties on the price is to maintain or increase them.

Shared ownership schemes in London do not provide a ladder to full ownership in the vast majority of cases, rather they can be a very expensive form of ‘key money’ to gain access to housing. This model means that in the case of any breach, they do not enjoy very great security and can stand to lose the whole of their investment. The amount of rent paid reflects the purchase price of the land and the combined rent and service charges can be eye-wateringly high, even where 20-30% has been ‘purchased’.

9) **Question 1b) Taxation:** Are there tax measures that would improve housing supply and affordability.
i) **Will the proposed changes to inheritance tax due to come into effect in April 2017 have any effect on ‘downsizing’ or housing supply in general?**
   We have no data on which to base a comment.

ii) **Has the 2014 reform of stamp duty land tax improved the affordability of houses for first time buyers? Should further changes be made to the rules?**
   We have no data on which to base a comment.

10) **Question 1c) Mortgages**: *Has the introduction of the mortgage market review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?*
   We have no data on which to base a comment.

11) **Question 1d) Planning**: *Are any further changes to the planning system necessary to increase the availability of low cost housing?*
   Planning decisions need to be made based on plans which go much further into the future. Currently densities of developments are based on the infrastructure currently available (or actively in development), so developments around local nodes may be of low density, whereas once the infrastructure is in place the land values sky rocket. There needs to be planning so that the costs of housing are minimised, rather than providing windfalls to those with property in lucky locations.
   Other planning is on 30-50 year plans (including that of social landlords and developers themselves, so it is only reasonable for public policy to be on a similar basis.

12) **Question 2 Privately Rented Accommodation**: *What measures can be taken to increase the supply of low cost private rental properties in the UK?*
   In London this is a tautology. Private rented sector housing is very expensive. Demand is such that there is limited choice and landlords have limited incentive to improve properties.
   Beyond windfalls for the original owners, very high rents mean landlords purchase for high prices, so there are not always large margins available, again reducing the incentive for investment and good property management. This results in insecurity of housing as tenants are evicted at the end of a term while landlords seek higher rents while for many residents the properties may be in poor condition.
   The SHMA reports that turnover of tenancies in the PRS is considerably higher than in social housing tenures while there are considerably more health-related issues caused by properties.

13) Other countries within Europe have successfully implemented measures of rent control, strict building controls and security of tenure. In the UK social landlords and local authorities have complied with such regulation while providing accommodation at much lower costs than the PRS over many years. Such regulation of and limits on the PRS are needed if the sector is to provide the accommodation that is needed.

14) **Question 2a) Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?**
   We have no data on which to base a comment.
15) **Question 2b)** Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture? We have no data on which to base a comment.

16) **Question 2c)** What are the advantages and disadvantages of restricting rent increases in the private sector?
   One significant impact would be to reduce the cycle of house price inflation if the rental income is not considered to be a golden goose.
   If the rent on the **property**, not the **tenancy**, is fixed, then tenants would have greater security because the temptation to evict a sitting tenant who does not agree to a rent increase would be reduced.
   The cost to the public purse would be reduced if housing benefit costs do not continue to rise.
   The perceived land value of property would not increase so quickly which would make the development of more reasonably priced accommodation more viable.

17) **Question 3)** Social housing: Are any measures needed to increase the supply of social housing?
   The primary requirement has been agreed in principle, though not yet universally in practice. That is that when considering the best return for land on disposal, consideration should be given to benefits to the local community and to meeting public policy requirements. A substantial proportion of the land should be made available for community groups (including co-ops), other social landlords and local authorities to develop social and affordable housing whose value will remain in the community, rather than sold off to developers who can most maximise profits and raise the highest receipt. Research shows that highest short term receipts do not yield the best long term value for money.

18) **Question 3a)** What will be the impact of the Right to Buy for housing association tenants?
   There is no evidence that landlords will be able to replace properties like for like or one for one. Current research shows RTB properties being replaced at a rate of 1:10. The only conceivable result in London is therefore that the number of social housing properties would be reduced, increasing the mean average rents.

19) **Question 3b)** What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?
   The changes to social housing rents were a knee jerk reaction to a number of organisations carrying significant surpluses, but that situation was not universal.

20) The impetus appears to be to force smaller organisations to merge, though we would query whether that would reduce costs. Smaller organisations with significant tenant involvement may operate with much lower levels of costs and provide greater satisfaction levels amongst tenants.
21) Where organisations already have very low rent levels and have actually been constrained from increasing their rents to target levels by the previous rent regime, it is rather perverse to require them to reduce their rents further. It would be more logical to reduce the target rent (if really necessary), but then allow organisations to converge on that level with modest rent increases each year.

22) Requiring small organisations which are cost effective to merge might well reduce the provision of affordable housing, while possibly being a poisoned chalice to organisations with higher costs if they cannot increase rents. If organisations increase rents when a property is re-let, then it is defeating the declared object of providing affordable housing.

23) To conclude:
   a) Housing and infrastructure planning should be on a longer basis, ideally 30-50 years.
   b) A proportion of public land disposed of should be used for social housing, whether by community groups, social landlords or local authorities.
   c) Small housing organisations should be able to make reasonable rent increases, for example in line with the previous rent regime, especially where rents are below target levels.
   d) The private rented sector should be much more heavily regulated, including limits on rents and rent increases, quality standards and better security of tenure.
   e) Housing co-ops should be supported to help provide quality housing.

Yours sincerely,

Greg Robbins
Secretary

17 December 2015
The London Forum of Amenity and Civic Societies (London Forum) is a charity established by the Civic Trust in 1988 to support, network, inform and represent over 130 community groups in London.

The following brief submission is made in response to the invitation to give evidence to the House of Lords Economic Affairs Committee for its inquiry into the UK housing market. This input to the Committee is a few days late but London Forum hopes it can be taken into consideration. We would be pleased to give evidence, if required.

We have given evidence to the Commons' APPG on Housing and the Built Environment in London which is relevant to your inquiry.

The following key points were made to MPs by London Forum about the Housing and Planning Bill.

The Bill introduces 'Starter Homes', particularly on brownfield land and in other housing schemes, the Right to Buy for tenants of Housing Associations’ properties which Lord Kerslake has opposed, the re-focusing of DCLG budgets on home ownership for first time buyers and further reductions in the household benefit cap, even as rents rise.

London Forum considers this is a massive switch of subsidy from providing rental homes for people on low wages to providing homes to own by those on higher salaries.

That needs to be considered from a social equity viewpoint.

In second reading of Bill and in Bill Committee many points of concern were raised by MPs. The Minister, Brandon Lewis, dismissed many objections and seems not to accept that enforced local authority sale of vacant high value rental homes to pay Housing Associations for the discounts that they have to give on Right to Buy would harm housing availability.

London Forum draws the committees' attention to the attached statements by the Local Government Association on the problems that the Housing and Planning Bill would cause. The key issue is a predicted shortfall of £6bn in the funding of local authorities for building low cost rental homes. Those are the homes that are essential in London because few people could buy a home there now and the private rented sector rents are too high for people on average wages.

Also, the Minister has introduced 1% reduction pa in rents, so boroughs face up to £20M income reduction.

The aim of the Government seems to be for one new Council house for every one sold but we need more than that and the new ones must be built where they are most needed. Boroughs without development areas will lose out and the money from sale of properties must be ring-fenced for the borough of origin or for London.
‘Starter homes’ may be forced into any site available for development but with no Community Infrastructure Levy contributions, so local infrastructure, including schools, and facilities for new residents will be inadequate. The Starter Homes are to be made available at a discount to first time buyers under the age of 40 and could cost £450,000 in London. They are available, therefore, only to young people earning over £70,000 annually.

The Government seems not to realise that what it calls affordable housing and the new Starter Homes, both at 80% of rents/prices in London are beyond the means of most people.

The Housing and Planning Bill fails to recognise London’s need for homes at rentals affordable to those on low/medium incomes.

The delivery of those homes has failed: London’s 2011-15 target was 8,000 but 4,221 were delivered plus only half of the other 13,000 ‘affordable’ housing planned and those are at an average 80% market rent. The ‘intermediate’ housing target was 5,280 but only 2,390 were delivered even though shared equity purchase is important. The market housing target of over 16,000 was exceeded but a lot are empty as ‘buy-to-leave’ investments of people not living in the UK.

On 16th November Savills reported that "Over the next five years at least 70,000 new households a year (26,000 annually in London) will be unable to afford to rent or buy market housing unless assisted. This means that 350,000 households in England will need some form of sub-market housing by 2020".

The big risk is the depopulation of Central and Inner London of key workers. When they move out, they may not be able to afford the transport fares to their job and their essential contribution to the capital's economy will be lost.

We must find the best way of providing homes in London that those on lower incomes can afford to rent.

The Housing and Planning Bill must be amended to prevent harm to London’s housing market.

London Forum hopes that Members of the House of Lords will consider the points above when discussing that Bill.

We believe that in response to the Committee's questions 'Are changes to the planning system needed to increase the availability of low cost housing?' and 'Are new measures needed to increase the supply of social housing?' the answer is "definitely", including changes that must be made to the Bill to ensure the delivery by Local Authorities of more social housing. If the is not done, the benefits costs will rise and key workers will be driven out of London.

On the Committee's question 'Will the current trend for a decline in home ownership and rise in private rental continue and is it desirable?' London Forum suggests that the trend is
inevitable but it will be suitable only with strong landlord and letting agent regulation and control over rents and security of tenure. The recent changes introduced by the Government for increased taxation of those buying properties to let could increase rents and result in some landlords evicting tenants in order to sell their properties. If local authorities had sufficient borrowing powers, they could acquire such homes as social rented ones.

13 January 2016
London Tenants Federation – Written evidence (EHM0099)

Written submission – House of Lords Select Committee on Economic Affairs Inquiry into the Economics of the UK Housing Market – Call for Evidence

Introduction

0.1 London Tenants Federation (LTF) is an umbrella organisation. It brings together borough- and London-wide federations and organisations of tenants of social housing providers. Its membership also includes the London Federation of Housing Cooperatives and the National Federation of Tenant Management Organisations. A number of its member organisations involve both council and housing association tenants and a few (a minority) are also involving some private tenants.

0.2 LTF’s key focus is engaging its member organisations in London-wide strategic regional housing, planning and community related policy. It facilitates a consensus voice for tenants of social housing providers in the capital. LTF has had representation on the Mayor’s Housing Forum since 2005 (although the Forum rarely meets now). Its delegates are often invited to attend (as panel members) London Assembly housing and planning committee meetings. Its members have attended, by invitation, almost all the Examinations in Public, relating to the London Plan, since 2007.

0.3 LTF has strong links with other community and voluntary sector organisations in London that also have an interest in housing, planning and community related issues.

0.4 LTF members are particularly concerned that successive governments have failed to deliver genuinely affordable social-rented homes to meet evidenced need in London and that the market has failed to deliver homes to meet targets set in the London Plan.

0.5 LTF is particularly concerned about governments’ failures to consider fully, in a detailed evidence-based fashion, how national housing and planning policy might impact on different regions of the country. Particularly of concern for LTF members is impact on availability and affordability of homes in London for those in the bottom half and more by income that consistently appear to be disregarded. General failures to delivery sufficient social-rented homes to meet evidenced need has been compounded by promotion of ‘regeneration’ and ‘renewal’ of social housing estates that have resulted in severe loss of social-rented homes and their replacement with luxury housing.

0.6 The backlog of need for social-rented housing continues to increase even with the time assessed to address need, through the London Plan, being stretched to 20 years. The results of this are ongoing increases in homelessness, street homelessness, overcrowding and households being forced into so-called ‘affordable’ rent homes and private rented homes which they will never be able to afford without claiming benefits to meet the cost. In addition households that should be able to access genuinely affordable social-rented homes in the capital are being displaced from their communities, family and support networks, some to places outside London.
Research carried out for Shelter in 2010 provides evidence that inner London is pretty much unaffordable to private tenants that are dependent on Local Housing Allowance and inner London boroughs have been moving homeless families out to outer London boroughs and outer London boroughs moving their homeless families outside London since 2011/12.

0.7 LTF members are concerned that policy is failing in terms of Resolution 42/187 of the United Nations General Assembly defined sustainable development as meeting the needs of the present without compromising the ability of future generations to meet their own needs and (ii) the UK Sustainable Development Strategy Securing the Future set out five ‘guiding principles’ of sustainable development, particularly around supporting strong vibrant communities, by providing the supply of housing required to meet the needs of present and future generations.

0.8 This submission necessarily focuses mostly on London.

1. **Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?**

1.1 No private housing in London is reasonably priced. It is inaccessible to an increasing number of households despite relatively high levels of financial support from government both for homeowners, buy to let landlords and delivery of private sector housing. The cost of home ownership in London is double the national average. Savills say that some London households that earn £60,000 cannot afford to buy or rent market housing in the capital and that in a typical London borough, market rent levels would need to be reduced by half to make them affordable to households excluded from the housing market.

1.2 Government funding to support homeowners and delivery of market housing is consistently much higher than that for social housing tenants and delivery of social rented homes. While delivery of new social-rented homes has been supported by government grant, ongoing management, maintenance and repairs to social housing tenants’ homes is covered by tenants’ rents and even where rents may be covered by housing benefit this is at a much lower cost than it would be should they be housed in the private rented sector.

1.3 Homeowners get capital gains tax relief and pay no tax on the value of their homes (except council tax, which tenants also pay). The combined effects of taxes, including stamp duty and inheritance tax and the various tax reliefs, was a net subsidy in 2013/14 of over £14 billion. A further £723 million was provided in 2012/13 in renovation grants, right to buy discounts, support for mortgage interest payments and low cost homeownership subsidy.

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1.4 The total package of financial support from Government for private sector housing investment amounts to more than £30 billion (for 2013/14) while that for delivery of affordable homes is less than £1b a year. This includes (for private sector housing) £518 million in grants, £13.7 billion in loans and £16.5 billion in guarantees. It covers subsidy for help-to-buy equity schemes and mortgage guarantees, right to buy, private rented sector guarantees, built to rent, loans for infrastructure to unlock large housing sites, funds to start small housing developments, local growth fund, locally led Garden Cities, housing zones, new homes bonus, ‘Getting Britain Building’, Custom Build investment and service plot funds and NewBuy guarantee schemes.

1.5 The failures by Governments to support delivery of sufficient social-rented homes has, over the last 10 years or more, resulted in huge numbers of households who can only afford social-rented homes being housed in over-priced private-rented homes – increasing the cost of housing benefit in London. The authorities have known this for a very long time. By 2005, 60,000 homeless households in London were living in temporary accommodation and in 2008 the Greater London Strategic Housing Market Assessment identified that 46,700 households had been placed by their boroughs in private rented homes (covered by housing benefit) that would otherwise only have been able to afford social rented homes. This amounted to 90% of the increased use of the private rented sector from 2002-2007.

1.6 The backlog of housing in London (according to the GLA’s 2013 SHMA) was 121,399 made up of 60,893 social-rented homes, 45,705 intermediate homes, yet only 14,801 market homes. The backlog of social-rented homes is the equivalent to almost 13 years’ average annual delivery of social-rented homes (for 2007-13). The backlog of need for intermediate housing is the equivalent to 11 years average annual delivery of intermediate housing. The backlog of need for market housing, however, is the equivalent of less than one year of the average annual delivery of market housing.

1.3 London Plan social rented housing targets are consistently only 50% met while those for market housing (certainly for 2007-13) were 92% met and those for intermediate housing 83% met.

**Government Schemes (a)**

1.4 Low cost home ownership schemes such as right to buy and right to acquire have certainly made home ownership affordable to households who would not otherwise be able to afford market costs of home ownership. However, the ongoing problem has been the failure to reinvest the capital receipts into delivery of new social-rented homes to replace those sold. Even though promises have been made by the current government that each RTB home would be replaced, at a London Assembly Housing Committee meeting on 16th July 2015 LB of Islington’s Executive Member for Housing

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223 Figures from the UK Housing Review 2015 http://www.york.ac.uk/res/ukhr/
225 Link to the Strategic Housing Market Assessment 2013 on this link (under Housing) https://www.london.gov.uk/what-we-do/planning/london-plan/london-plan-technical-and-research-reports
said that ‘in terms of the RTB programme, the number has been something like one new home built for every ten that have been sold. That is not necessarily even replacing a like-for-like property; it could be replacing a good family home for social rent with a one-bed affordable rent home’. 

1.5 Shelter’s ‘Forgotten Households - Is Intermediate housing meeting affordable housing needs?’

found that intermediate housing was not meeting the need of those who are not able to afford market homes.

There are most certainly issues around the redirection of grant funding from delivery of social-rented homes to intermediate housing. From 2006 the delivery of social-rented homes in London as a percentage of the total homes delivered was reduced to support delivery of more intermediate homes. Between 2003/04 and 2005/06 a total of 68,067 homes were delivered in London; 22% (14,926) of homes were social-rented and 10% (6,801) intermediate. Thereafter roughly equal percentages of intermediate and social-rented homes were delivered each year.

In London, households with annual incomes up to 66,000 can access intermediate housing with up to 2-bedrooms and households with annual incomes of up to £80,000 can access intermediate housing with up to 3-bedrooms. The fact that the Independent Planning Inspector found these acceptable in terms of the London Plan undoubtedly demonstrates the madness of London’s housing market. However, redirecting grant funding to higher income households has resulted in less for lower income households.

1.6 There is no evidence that delivery of starter homes at up to £450,000 will address London’s chronic housing need. The official impact assessment published on 7th December reveals that for every 100 starter homes built with section 106 funding, between 56 and 71 fewer households will be able to move into social or affordable rent homes or other low cost (presumably intermediate homes).

1.7 According to Savills, buyers on median incomes would face a cash shortfall in 48% of areas across England and almost all of London and the SE when buying a starter home. A couple seeking a mortgage up to 3.5 times their income would come up short in all London boroughs and would face a shortfall of more than 30% in two thirds of them. £450,000 is 12 times the median London household income level. Savills have also assessed that in London, some households that earn £60,000 cannot afford to buy or rent and that in a typical London borough, market rent levels would need to be reduced by half to make them affordable to households excluded from the housing market.

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228 Figures derived from the Annual Monitoring Reports of the London Plan.
Planning (d)

1.8 Unfortunately the planning system is being altered to facilitate the delivery of starter homes that will make life increasingly harder for households that are in housing need in London, particularly those that have below median household income levels and can really only afford social-rented homes. The proposal to amend the NPPF to have starter homes included in definitions of ‘affordable housing’ is ridiculous. Like the inclusion of ‘affordable rents’ at up to 80% market rents these are just not affordable to the majority.

1.9 LTF notes that the introduction of affordable-rent homes was based on a short term maximisation of so called ‘affordable’ housing within the constraints of massive cuts in grant funding, regardless of whether or not need is being met. This was highlighted in the National Audit Report ‘Financial viability of the social housing sector: introducing the affordable homes programme’ (July 2012) which assessed that over a 30 year period, continuing to fund the previous National Affordable Housing Programme offered the highest ratio of benefits to costs and hence best value for money. LTF would like to see clauses 3-6 of the housing and planning bill relating to starter homes removed and for the House of Lords to challenge the proposed changes to the NPPF.

1.10 The conclusions of and recommendations of the Government’s Public Accounts committee 12.10.12 which considered the financial viability of the social housing sector included that ‘the department has not done enough to understand the full impact of higher rents than before of up to 65% of market rents in London and 80% elsewhere. This will affect tenants’ ability to afford the new housing and may exclude some of the poorest from accessing this new housing. Where higher rents are paid through increased housing benefit, tenants may find themselves caught in an even stronger benefit trap where it has become even harder to find sufficiently well paid employment to make working worthwhile, countering the Government’s objective of ensuring that the benefit system makes work pay.’

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

2.1 LTF members are most concerned about the needs of households who have ended up in private-rented homes but will never be able to afford those homes without access to housing benefits. LTF feels that everyone should have a right to a secure and stable home in a community where they may safely raise their families and grow old in.

2.2 Please see graph below showing how public expenditure on housing benefit has grown as investment in social housing has fallen over a 35 years period.

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231 [http://www.publications.parliament.uk/pa/cm201213/cmpubacc/388/38804.htm](http://www.publications.parliament.uk/pa/cm201213/cmpubacc/388/38804.htm)
232 Graph provided in a presentation by John Perry (CIH) to London Tenants Federation November 2015
2.3 LTF members would support legislation to ensure that private rents are fair.

**Tax relief for Buy to Let Landlords (a)**

2.3 LTF members support the reduction in tax relief available for buy to let landlords. That money should be invested in delivering new social-rented homes.

3. **Social housing: Are any measures needed to increase the supply of social housing?**

3.1 A full long-term analysis of the financial costs and benefits to health and wellbeing of delivering social-rented homes – rather than supporting delivery of affordable rent homes, higher cost private-rented homes and starter homes – should be commissioned.

3.2 Grant funding for social-rented homes should be provided to address chronic evidenced need. In London this would require funding to deliver 28,850 social-rented homes per annum to meet existing need and to address London’s backlog of need over a five year period.

**Impact of extension of Right to Buy on social housing need and supply in London (revised a)**

3.3 LTF members find it incredible that having legislated for Local Authorities to be self-financing, the impact of the extension of the Right to Buy to housing association tenants will constrain councils in their ability to determine the future of their stock through (i) forcing them to cover the costs of discounts for housing association tenants exercising the right to buy and (ii) directing them to sell off their most valuable properties.

3.4 When councils became ‘self-financing’, in 2012, they took on the existing council housing debt plus an additional £7.6 billion of national debt (which is serviced through council tenants’ rent payments) on the basis that councils would have a better deal in terms of the future funding of management, maintenance and major repairs to their
homes, which had as far back as 2005/6 been assessed, by the Building Research Establishment, as being underfunded.

3.5 The treasury also benefited through the previous national HRA redistributive system in allocating £1.9 billion less to local authorities to cover the cost of management, maintenance and repairs of council homes than was paid by council tenants between 1997 and 2008.

3.6 Around a third of London council homes have been sold through right to buy and nationally around 1.89 million homes have been sold since 1980. Despite the £60 billion or more capital receipts gained from RTB (principally by the Government) the majority of those council homes have not been replaced and are thus no longer in supply for future tenants.

3.7 Councils already cover the cost of discounts given to their own tenants exercising their RTB (from their own resources) and in some cases still have to pay any remaining capital receipt over to the Treasury rather than be able to re-invest in housing locally.

3.8 Tying in an unreasonable and unjustified financial relationship between housing association tenants gaining a right to buy and local authorities having to sell high value properties to foot the bill is grossly unfair interference in local authority finance which LTF is totally opposed to. This appears to be more about getting rid of remaining social rented homes than supporting low income households to buy. LTF is extremely concerned about the ongoing loss of social-rented homes in London and the impact of this section of the Bill.

3.9 Government’s assertion that a new home will be built for each home sold through the right to buy is simply not occurring (backed by DCLG data) and replacement of social-rented with affordable-rent homes can’t but add to an increasing housing benefit bill in London.

3.10 The London Mayor’s office has estimated that the policy of forcing the sell-off of the most expensive council homes in London will result in the loss of 3,000-4,500 council home per annum. Around two-thirds to three quarters of these will be from inner London. The boroughs most affected will be Islington and Camden. In the first five years it is likely that 34% of Islington’s stock and 38% of Camden’s stock would be sold. With less stock more homeless households will be forced to outer London boroughs and thus the impact on temporary housing, social services and more would then be higher in outer London boroughs.

3.11 A further detrimental impact is the ability of boroughs to deliver new housing and the likelihood that new council homes would also be ‘high value’ council homes.

3.12 Implementation of both the voluntary RTB and selling high value council homes will be extremely damaging for communities.

**What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed? (b)**

3.13 LTF notes that these changes are now only compulsory for council tenants.

3.14 LTF suggests the proposed changes are unfair, unworkable and will ultimately result in tenants in London either struggling to exercise their right to buy or trying to keep their households incomes lower than £40,000 a year.

3.15 Long-term social housing tenants (those who have been renting for 20 or 30 years) will already have paid a phenomenal amount in rent and are likely to have paid, in rent, more than the original cost of building their home.

3.16 Social housing tenants should not be expected to pay the highly inflated market rents in the capital. According to the GLA datastore the average monthly market rent in London for the year prior to quarter 1 of 2015 was £1,308 in outer London and £1,876 for inner London. Social housing tenants’ rents cover the ongoing costs of management, maintenance and repairs to their homes (and indeed the paying off of loans taken out to build the homes in the first place).

3.17 Sensible alternatives to year on year increases in housing benefit expenditure would be (i) for government to stop lining the pockets of private landlords (much through housing benefit) and legislate to ensure rents in the private sector are fair and (ii) provide sufficient grant funding to deliver social-rented, rather than affordable rent, homes that are genuinely affordable.

3.18 The government already knows that long-term delivery of social-rented homes rather than affordable-rent homes would better reduce overall government costs.

3.19 There are huge risks that families living in social rented homes with household income levels of £40,000 or more could, depending on rental increases, end up have to claim benefits to meet the cost of their rents.

3.20 In London, £40,000 is not a high income level. £40,000 is just above the median household income level (39,100 in 2013) and almost £12,000 less than the average household income in London. £40,000 is the equivalent to two relatively low incomes. This could be an adult tenant and an adult child who might be attempting to save for a deposit for a mortgage or for private rented accommodation. A rental increase could prevent this from occurring, possibly resulting in ongoing or unsolvable overcrowding in a home.

3.21 Most social rented households with above £40,000 household incomes can’t afford to buy or rent from the private sector. Savills estimates that 60.1% of the 27,108 affected households in London will never be able to meet afford market rent or to buy their
homes under the Right to buy. There is risk that households will put in the Right to Buy (rather than pay high rents) but will end up struggling to keep up mortgage costs.

3.22 The risk is greater at a time when, through public spending cuts, people are losing jobs. Low income households are increasingly employed on short-term contracts or with zero hour contracts.

3.23 The proposal that rents will not be adjusted frequently appears not to understand the precarious nature of employment particularly for low income households in London.

3.24 Pay to stay proposal is a disincentive to seek to find work if jobs are lost or to increase income levels. LTF’s analysis around household income gain or loss for a household with an income of £40,000 or more a year (compared to a household that earns just less than this amount) with step changed increased in rents, shows how rapidly any additional income would be taken away in rent. The question for many households would be why bother to earn more if all or a large proportion of it is taken in higher rents.

3.25 Households that are managing to pay rents but perhaps also have to pay relatively high childcare costs may find that they are better off with only one rather than two adults being in employment, if rental costs are too high.

3.26 Difference in treatment of those who exercise their right to buy. It would appear extremely unfair that £100,000 discounts will be given to those who can afford to exercise their right to buy (should they choose to) while taking higher rents from those who for the most part will not be able to exercise the right to buy their homes. The £100,000 is a guaranteed handout to any that choose to move after five years having exercised their right to buy. While we wouldn’t blame tenants for taking advantage of this, the contrast in the government’s treatment of households that have an income of £40,000 or more, but may not be able to buy (perhaps because they are too old to get a mortgage) and who have nothing to look forward to but higher rents, is dramatic.

Henry Talman

LTF Director and Treasurer

On behalf of London Tenants Federation

17 December 2015
London, Birmingham, Glasgow, and other big cities in the UK are struggling to cope with the problem of homelessness and the lack of affordable housing. Getting people out of shelters and giving them a decent roof over their heads are laudable public policy goals that have proven difficult to implement.

The recent focus on vouchers and other rental subsidies as a means to alleviate the problem have had unintended consequences, such as the so-called crowd out effect. With the city willing to pay rent for homeless families in need of cluster-site housing, landlords will happily push out their regular tenants in favor of a steady stream of government-funded tenants, thus reducing the supply of affordable units and forcing low-income residents to find new housing.

In my view, the housing affordability problem should not only be analyzed solely under the lens of the effectiveness of rental subsidies. For instance, home ownership subsidies could play an even more important role with positive side effects. Recent studies have confirmed that homelessness decreases when there are more vacancies. A home ownership subsidy allows low-income individuals to qualify for a subprime mortgage, but it also expands the stock of housing available to them when these houses/dwellings enter into the market. In addition, an increasing access to the owner-occupied housing market will reduce pressure on the rental market, thus reducing the crowd-out effect problem.

Home ownership subsidies have already captured the attention of local governments around the world. For example, the Federal Housing Finance Agency (FHFA) in the U.S. recently set goals for the next two years meant to expand the availability of mortgages to low-income buyers. But many affordable housing advocates expressed concern that these targets do not go far enough in helping to promote affordable and sustainable home ownership for low-income families.

Even with the FHFA embracing the idea of expanding the availability of mortgages to low-income buyers, the role of subprime mortgages in the recent housing collapse may cause justifiable resistance to looking at these vehicles as a means of tackling the affordable housing problem. My view is that that disaster was the result of a lack of proper regulation and supervision. Subprime mortgages can help local governments deal with the affordability problem if housing subsidies are accompanied by other policies to reduce income inequality – the real underlying problem.

A recurrent question is which tools the government has to keep the housing market and, implicitly, the subprime mortgage market, under control. In my recent research ("A Theory of Subprime Mortgage Lending, with Applications to the Rise and Fall of the Subprime Conduit Mortgage Market", joint with Timothy Riddiough), the following effective tools are proposed. First, the government can vary the home ownership subsidy to control the
amount of credit flowing into the economy and prevent over-borrowing by low-income households. Second, the government can carefully track the fraction of originated mortgages that are kept by conduit lenders in their portfolios – when this fraction increases, lenders have more incentives to originate better mortgages and acquire more soft information that screens the borrower’s default risk. Third, the government can also monitor the quality of mortgages originated for distribution by relying on observable hard credit scoring technology, such as credit scores and credit history, to prevent situations where lenders experience a rapid deterioration of their balance sheets. Finally, to cool the owner-occupied housing market, the government can also choose appropriate land use regulations, such as minimum house size, to prevent borrowers with small loans from buying a house.

The subprime conduit market could channel low income subsidized mortgages by pooling and tranching them into mortgage-backed securities (MBS). In a low interest rate environment and with the housing market recovering, investors would be interested in these high yield products. Liquidity from secondary MBS investors would then quickly reduce the mortgage spread and borrowers’ down payment. Home affordability would increase as a result.

Subprime mortgage securitization may be a far more effective means of alleviating the affordable housing crisis than committing pounds without clear programmatic direction. Any move in this direction must be accompanied with the right instruments to regulate both the housing market and the mortgage lending intermediation sector.

8 December 2015
Professor Stephen Malpezzi – Written evidence (EHM0143)

A Submission to the UK House of Lords Select Committee on Economic Affairs

Regarding the Inquiry into the Economics of the United Kingdom Housing Market

December 19, 2015

Professor Stephen Malpezzi

James A. Graaskamp Center for Real Estate

Wisconsin School of Business

University of Wisconsin-Madison

Thank you for the invitation to submit to this important inquiry. I will focus on just a few of the questions, mainly those regarding private ownership, specifically whether further changes to the planning system are necessary to increase the availability of low-cost housing. I will also make a few comments on measures to increase the supply of social housing.

Research from many countries confirms housing’s importance across many dimensions. Housing is an important share of the tangible capital stock (typically about half), an important share of investment (often on the order of 3-5 percent of GDP) and a leading indicator of business cycles. On the consumption side, it’s often 20-30 percent of household income, and often substantially more for lower income households. While there is some debate about magnitudes, there is substantial evidence that better housing conditions are associated with reduced morbidity, better performance of children in school, and greater civic engagement, even after controlling for other correlates of such outcomes such as income and family structure. Collections of houses and their related services – that is, neighborhoods – are important elements of the social fabric and can also be drivers of improved social conditions. Better matches between available housing and demand for labor are efficient and welfare improving; while poorly performing housing markets can choke off regional economic development.\(^\text{236}\)

\(^{236}\) Brevity requires that I make a number of assertions grounded in a large research literature; and report stylized facts without detailed references. Some references are provided at the end of this note, but more detailed discussion and references on any of these points can be provided upon request.
In 2014 the United Kingdom\textsuperscript{237} built 2.6 dwellings per thousand inhabitants, up from the worst post crisis numbers of about 2 per thousand. Recent years (2008 to 2014) have seen the lowest per capita dwelling production found in the data back to 1969. In the 1980s through 2007, production per thousand people was never below 3, and usually between 3½ to 4½ per thousand. In the 1970s, per capita production was even higher. Comparisons with other countries find the UK one of the lowest production countries on such a basis, even after controlling for national growth differences.

This decline in housing production took place at a time of significant increases in population. While there has been a modest decline in UK population growth from a local 2011 peak of 0.8 percent \textit{per annum} down to about 0.6 percent in 2014, this is still the highest population growth since the 1960s.\textsuperscript{238}

With low and slowing production, and increasing population growth, it’s no surprise that UK housing prices are very high by many norms and standards, whether we examine price changes over time, or prices relative to incomes. Rents are also high by such standards. London is a particular problem.\textsuperscript{239} Many have linked lagging supply in the face of strong demand and high and rising prices to the planning regime and other elements of the regulatory framework for land-use and urban development.

Of course UK planners presumably restrict growth for what they consider sound reasons, what market economists refer to as market failures, particularly negative externalities. Regulations by themselves are neither good nor bad. Some specific regulations have benefits which exceed their benefits, and these may need to be strengthened, and certainly enforced; bad regulations are those where costs exceed benefits. It is the latter that we will term “excessive” or overly stringent, and will be our immediate focus.

One of the most oft-cited regulatory issues is the Greenbelt, most famously the one around London but of course there are greenbelts around other UK cities. UK greenbelts are huge; they use about 12 percent of the nation’s land, compared to the 10 percent of UK land that is urban and built upon. Studies of greenbelts in the UK and other countries have noted they often impose high costs relative to benefits; they are often relatively ineffective at improving environmental quality, and generally raise urban transportation costs.

Another obvious concern is the quantitative restriction put in place by planners on the number of dwellings constructed, especially but not only in the south east of England.

One of the lessons of regulatory cost-benefit studies across a number of countries is that sometimes such excessive costs are obvious, such as greenbelts and quantitative restrictions, but sometimes they are subtle. For example applied research in Malaysia

\textsuperscript{237} There are important differences in planning regimes and practices among the constituent countries of the UK. Brevity also requires we abstract from these important differences today.

\textsuperscript{238} Immigration and higher fertility have increased UK growth rates from zero levels in the 1970s. The recent refugee crisis and potential changes to immigration policy could obviously change population growth rates, as well as affecting employment, incomes, and other determinants of housing demand. Many (not all) economists see increased immigration as a net plus in the long run, with short run adjustment costs; obviously a full discussion of these important questions are beyond our scope today.

\textsuperscript{239} These high costs are one reason for this Inquiry, and will be very familiar to readers, so I will not present data here. See Hilber (2015), for example.
showed that at the time of that study the length and arbitrary nature of the approval process was very costly and conferred little benefit. (This process was later reformed by the Malaysian government.) Less noticed were the significant costs of apparently minor corner setback and back alley requirements for subdivisions, which were found to be surprisingly costly and, again, unrelated to significant benefits.

A well-designed planning and regulatory environment controls concrete and identifiable market failures at reasonable cost. A poorly designed system “inelasticizes” the housing market without conferring much in corresponding benefit.

In Figure 1, a heavily regulated market with fairly inelastic supply has an initial demand shock characterized by the demand curve moving from D1 to D2. Given this demand shock in a very inelastic short and medium run supply, little supply response is observed and prices increase substantially from P0 to P1. But over the very long run, there is some elasticity even in the most convoluted markets. Eventually, markets and governments do respond to extraordinary price increases and supply shifts out. This results in a housing price crash from P1 to P2.

Contrast this with Figure 2, which is more or less the same except that the markets are more elastic. The initial increase does give rise to a price run up over the medium term, as one would expect, but the run up is much less. Therefore the boom and bust cycle is moderated. These are indicated by shifts from P0' to P1' and back down to P2'.

These processes are not merely a theoretical curiosity. Take the example of Korea: a country with an extremely stringent regulatory environment that has greatly inelasticized supply. Many studies have documented the especially convoluted Korean regulatory system and their relationship to a very inelastic housing supply.

But at some point, as prices skyrocket and shortages become more apparent, the Korean government responds as it did with the Two Million Houses Program in 1990. This has the effect of shifting an inelastic supply curve to the right in a series of discrete jumps. Figure 3 illustrates. After the crash from P1'' to P2'', the process starts over again. As demand grows further, prices rise again to P3'.
Thus a world in which government responds to rising housing prices by one-time programs to get the market moving, or who simply increase the target number of planned dwellings without more fundamental reforms, can be characterized as occasionally shifting an inelastic supply curve to the right. This leads perforce to a boom and bust cycle. Reform measures that tackle the root causes of inelastic supply have the effect of flattening the supply curve and moderating the boom and bust cycle, reducing risk for investors.

Virtually every cross country survey of housing supply elasticities that includes the UK finds it to be one of the least elastic markets. Under such conditions, it’s very difficult for me to see the economic rationale behind broad-based subsidies to demand such as the 2013 Help-to-Buy legislation. Generally it’s a bad idea to lay on new broad-based subsidies under conditions of inelastic supply. Such subsidies would better be focused, I think, on demand-deficient low income households, e.g. through further reform of housing benefit (Kemp 2007).

New construction is of course not the only supply-side issue. Much of the UK housing stock is old; some aging stock has historical and architectural value, but much is simply not up to modern standards. Upgrading and redevelopment, with appropriate guidelines for historic preservation, is indicated. Historic preservation guidelines, like other regulations, need to strike a balance.

Some of the potential gains from improving the utilization of already developed land can be illustrated by a brief consideration of density.\textsuperscript{240}

Much (though certainly not all) of the concern about the negative externalities associated with housing development is associated with London and the southeast of Britain. Chief among these is congestion and other externalities associated with density (Miles 2000). However, comparisons using data collected by Alain Bertaud suggest that, while London is very dense compared to U.S. cities, and compared to small cities, London is not very dense relative to other large European cities. Figure 4 illustrates with data from London and Paris.\textsuperscript{241} Density is not just about planning rules like floor area ratios, though those do matter. There is also a path-dependence related to infrastructure that must be recognized. But recognizing that London’s density is not high for such a large metropolis suggests that there might be further changes in infrastructure and redevelopment policy that may be as important as more greenfield development. Density is

\textsuperscript{240} Density and height are correlated but they are not the same thing. Central Paris is very dense without much height, for example.

\textsuperscript{241} These data are 25 years old. Two things are certain: (1) London and Paris have grown, and their densities have evolved; (2) even in a 25 year period, the qualitative differences we see in Figure 4 will remain robust. Creating a larger and updated comparative dataset based on Bertaud’s methods is a very fruitful idea for future research.
not a target or decision variable itself, but rather a diagnostic outcome. I do not argue that the planner’s job is to hit a specific density target, or to make London look more like Paris; but rather to ask the questions, why such a difference, and what are the consequences?

Build more, but even if the greenbelt policy is reformed, do not focus solely on greenfield development. Redevelopment, infill, and improved use of the existing stock of housing will surely make important contributions to London and the Southeast, and other rapidly growing areas like West Yorkshire, and Leicester, but will probably matter even more in slow growth cities like Glasgow, Liverpool and Reading.

Given space constraints, I will make just a few comments on the provision of low-cost housing. The United States has significant experience with some of the policies I have seen put forward, including tax increment financing, inclusionary zoning, and community land trusts. There are devils in the details. In the U.S., TIF has often been poorly targeted and had adverse consequences on local government finance; inclusionary zoning has rarely resulted in significant net new low cost housing development but rather served as an additional tax on housing capital; and U.S. community land trusts have often combined the high transactions costs of owning with the financial benefits (lack thereof) of renting. If time and interest permitted I could prepare specific comments on these topics in the future.

Broadly, I would focus more on the basics: reducing barriers to supply (both new construction and from the existing stock), reduce rather than increase the risk premia associated with housing investment (in this regard I’m puzzled by the Housing Association right-to-buy proposal, although I’m not familiar with all the details), and further reform of housing benefit.

It would also be useful to integrate reform of land use regulations and planning with reform of local government finance. By global standards the UK has high transactions costs on house sales but modest property tax revenue from council taxes. The highly centralized UK system relies very heavily on intergovernmental transfers, with the disadvantages that implies. (For example about three quarters of London’s local government expenditures are funded from central government transfers, whereas only about 30 percent of New York’s are the result of such intergovernmental transfers.) The council tax is ripe for reform, although a detailed discussion is beyond the scope of this note. The band system is regressive, compared to a simpler ad valorem property tax system. An ad valorem system could link the property tax better to ability to pay. The strange discontinuity in bands means that at least in theory a £1 pound change in valuation can lead to a large increase or decrease in tax bills. And (as in our own California’s Prop 13 system), it’s simply bizarre that properties are so rarely revalued.

Finally, let me comment very briefly on next steps. There is always more to learn from research, international comparisons (including among the countries comprising the United Kingdom itself), and careful reflections upon practice. I have indicated some of these above, and could certainly contribute to a more detailed research agenda if called upon. But it’s hardly the case that this note contains anything unknown to the many fine researchers and policy analysts from the UK from whom I have learned over the years. The short list of references below only scratches the surface. The Barker reviews of the early 2000s, the St George’s House Consultation of 2009 organized by the Building and Social Housing
Professor Stephen Malpezzi – Written evidence (EHM0143)

Foundation, and the very recent International Review of Land Supply and Planning Systems financed by the Rowntree Trust, as well as the longstanding and still growing academic literature, are examples that demonstrate that the largest barriers to reform are not lack of knowledge or research, but of careful dissemination of those ideas, including both the public and professionals (politicians as well as planners), and of the development of an appropriate political program to improve the efficiency and fairness of UK housing and land markets.

Selected References


________. "The Spatial Distribution of Population in 57 World Cities: The Role of Markets, Planning and Topography." Forthcoming.


20 December 2015
Tony Mano – Written evidence (EHM0008)

I would like to comment on the Social housing topic:

I believe that the impact of the Right to Buy for housing association tenants would be very beneficial to the tenants, housing associations, the property market and the UK economy in general.

10 November 2015
Housing Idea: Affordable Housing Levy – An alternative to the viability process

Introduction

The London Housing market suffers from a significant demand/supply imbalance, which has resulted in exponential house price inflation relative to household earnings and restricting accessibility such that housing supply has become the pre-eminent political issue for London. There is some way to go to achieving the Mayoral target of 42,000 New Homes to be delivered each year for the next 20 years.

The reasons for this are much cited. This paper concentrates on one aspect of the current planning process, the use of financial viability reports in calculating affordable housing levels, and sets out how a new process could increase the speed and scale of housing delivery.

Delivery and the ‘Viability’ Process

Whilst the GLA and Local Authorities (LAs) have set policy requirements for affordable housing a financial viability process exists to enable sites that would otherwise not be brought forward (by reducing affordable levels). The process was originally envisaged for exceptional economic circumstances yet it has become commonplace. Criticisms include:

- Assessments can be skewed in the favour of applicants, i.e. inflated developer profit requirements, manipulation of cost/sales comparables, failures to account for HPI.
- The process is increasingly complex and prolonged, adding further cost and delay to the planning process. The increasing use of review mechanisms means further rounds of analysis with additional uncertainty around financial contributions for both developers and local authorities.
- Negotiations are often outsourced to third parties outside of LAs, leading to an internal skills gap and loss of accountability.
- Negotiations are often undisclosed due to commercial sensitivities contributing to a lack of transparency and increasing public concern in the process.

In the context of the London residential market, which is characterised by prices at record levels it is hard to conceive that many sites should qualify for reductions in affordable housing levels, save for those blighted by extreme levels of contamination or delivering significant other forms of public benefit. The reality is that most consented sites come forward with a reduced quantum of affordable housing, as a result of protracted viability negotiations between third party firms.

Affordable Housing Levy – an alternative to the viability process
It can be argued that the viability process is an anachronism in the current marketplace. In its place we propose a banding system which would generate fixed financial contributions for affordable housing. At its simplest this would be an extension of the current CIL mechanism and would broadly work as follows:

1. GLA and LAs work together to agree fixed quantum of affordable housing to be delivered within geographically defined zones or bands. This would include a fixed tenure split between rented and intermediate products and would be calculated as a percentage of Net Sales Area (a per unit basis for calculation being open to manipulation). In essence, a higher % of AH would be allocated to higher value areas and vice-versa.

2. GLA/LA’s, in conjunction with bodies such as RICS, determine on an annual basis a ‘standard’ cost for the development/construction of residential accommodation (again based on NSA). This would include finance costs, professional fees and profit but exclude land costs which are accounted for in the banding system above.

3. The Affordable Housing Levy (AHL) for a scheme is then a simple calculation based upon a scheme’s location and NSA.

\[
\text{Affordable Housing Levy (\text{\pounds})} = \frac{\text{Quantum of Affordable Housing (\%)} \times \text{Net Sales Area (sqf)}}{\text{Cost of Development/Construction (\text{\pounds} per sqf)}},
\]

The outcome would be a banding system across London that could simply be used to calculate payments in lieu of affordable housing (see below for an example of how this might look). The tariff would be fixed (as with CIL not open to negotiation) and payable at implementation (or in tranches on multi-phased schemes).

On large-scale developments where there is a desire for on-site affordable the banding system could simply generate a fixed quantum of affordable accommodation. The system could also be applied, depending on national planning policy, to smaller schemes (less than 10 homes) which currently avoid affordable housing obligations.

**Affordable Housing Levy Bands**
The introduction of an AHL as outlined above would provide all parties with absolute clarity concerning the cost of affordable housing when evaluating a site, reducing the need for protracted viability negotiations and the potential under-delivery of affordable housing.

‘How to spend the money’ – alternative routes for Affordable Housing delivery

A move to a system which prioritised financial payments in-lieu rather than on-site delivery would result in the establishment of a substantial budget which could be used to deliver affordable housing in a number of new ways.

Public Sector Land

The public sector is the single largest owner of land / buildings with development potential in the Capital. Whilst significant progress has been made by the GLA on land within its control (98% having been released for development) significant assets remain.

Public sector land is brought to the market in a number of different ways including frameworks, OJEU compliant tenders, and straightforward land disposals, meaning that significant value is lost to third parties. Control of the development process is also lost, meaning that developments can come forward with a reduced quantum of affordable housing and suffer significant delays as a result of protracted planning negotiations and “land-banking”.

As an alternative, contributions from AHL could be allocated to the development of public sector land and enable the sector to bring forward land within its control for development rather than dispose of it. It is not proposed that these are brought forward as mono-tenure affordable housing schemes, with the GLA/LA determining the desired tenure split, but the
pressure to include high levels of market housing to ensure viability would be significantly lessened. In terms of promoting/development, it is envisaged that this would be outsourced by a specially created GLA development body via a series of panels, as it currently does for specific projects. Firms would tender to secure places upon the panels, including those for professional services, marketing and construction. A major positive of this method of delivery is its ability to transcend the cyclical nature of development.

Regeneration Schemes

There are a wide number of opportunities to regenerate existing estates in LA/RP ownership, not only to improve the quality of accommodation but to increase housing density. As with public sector land the viability of these projects is often reliant on cross-subsidy from market tenures, which in some locations can be a significant obstacle to schemes coming forward. The use of AHL contributions could enable a greater number of these regeneration/densification schemes to come forward.

Grant Funding

The reduction in grant funding for affordable housing has resulted in RPs (and now LAs) increasingly relying on cross-subsidy from open-market sale. Whilst some organisations have embraced this structure others, especially smaller RPs, have reduced their development programmes in recent years (due to lack of skills/experience and board appetite). AHL contributions could be used in-lieu of traditional forms of grant funding to enable organisations and affordable housing delivery that otherwise would not come forward.

8 December 2015
Perhaps the House of Lords economics affairs committee should consider some of the following in its investigation into the housing market?

1 Councils used to build approximately 50% of the houses UK needed each year and they build hardly any now. In those days it was possible to buy a house on two times your salary.

2 Is there any reason for private builders to build the number of houses we need?

3 Right-to-Buy of council houses reduced the number of council houses available to rent, and we now rely a great deal on private landlords for rental property. They can charge what they like and this may be a reason why housing benefit now costs taxpayers billions more.

4 Right-to-buy with a discount is unfair to the rest of the population. Council tenants pay a lower rent than private tenants, and can then buy the house at a discount whilst private tenants have to pay a high rent and also save a deposit for a house. It also reduces the number of council houses available to rent.

5 Is extending the Right-to-Buy to housing association tenants an expensive mistake for taxpayers?

6 With the population of the UK rising at around 500,000 per year, then perhaps the best option is for the government to build a lot of council houses again? Additionally, many people will be on low wages because of the jobs that they do and they will probably never be able to buy a house and it could therefore make sense to build a lot of council houses again rather than relying on private landlords.

16 December 2015
Submission to be found under Home Builders Federation (HBF); Taylor Wimpey; McCarthy and Stone (QQ 94-110) – Oral evidence (EHMOE0006).
ENCOURAGING THE DELIVERY OF RETIREMENT HOUSING –
POLICY SUBMISSION, ECONOMIC AFFAIRS COMMITTEE, 16 DECEMBER 2015

KEY POINTS

- A radical review of local and national housing and planning policy is required to deal effectively with the impact of the UK’s ageing population. The current system limits the supply of retirement housing as it does little to recognise demographic change, account for the unique nature of specialist housing for older people, or proactively encourage this form of accommodation across all tenures.

- The right planning policy could encourage the provision of retirement housing and increase supply from just 7,000 units per year currently across all tenures to 18,000 per year (Savills, EAC, 2015). The majority of what is currently being built is for social rent, while 76% of older people are homeowners (JRF, 2012). Indeed, just 1,919 owner-occupied retirement units were registered with the NHBC in 2014.

- This would make a sizeable contribution (c13%) to overall housing supply (currently c140,000 units per year). Unlike Starter Homes and some other forms of housing, building retirement housing also releases dependent properties, creating a ‘two for one’ benefit.

- There is a rising demand for retirement housing. 58% of UK homeowners aged 60 and over are interested in moving home and one quarter, over 3.5 million people, have a particular interest in buying a retirement property (Demos 2013). Yet only around 128,000 retirement properties have been built for owner occupiers in England and Wales (Age UK, 2014). 60% of all household growth over the next 20 years will be by older people (DCLG, 2015), suggesting this is where the focus of policy should be.

- The UK faces a significant demographic challenge affecting all areas of public policy, and housing and planning policy should evolve to meet this challenge. The number of people aged 65 and over is set to grow by over 50% by 2033 (ONS), placing increasing pressure on public resources, health and social care. Retirement housing provides significant social and economic benefits; including freeing up local family housing, improving the health and wellbeing for older people, supporting local high streets, creating jobs and improving the energy efficiency of homes. It can therefore save public funds, particularly in the areas of health and social care.

- Planning policy needs to urgently look at how it can meet the accommodation needs of the ageing population. National planning policy covers this issue in passing and very few local authorities have suitable policies in place to encourage retirement housing across tenures.

POLICY RECOMMENDATIONS

- Recognise the role and benefits of suitable housing for older people, including retirement housing, by publishing a national strategy to encourage its supply across all types and tenures

- Require local authorities to proactively plan for retirement housing across all tenures and to monitor both the policies that are put in place locally and the delivery of this form housing

- Review the impact of planning obligations to provide affordable housing, Section 106 and Community Infrastructure Levy policies on owner-occupied retirement housing and how they restrict supply of this form of accommodation, including exempting retirement housing from CIL payments and lifting affordable housing requirements on new developments to increase provision

- Introduce a ‘Help to Move’ package, like Help to Buy, that removes the financial restraints on older people downsizing, including a Stamp Duty exemption for those moving to a retirement property.
ABOUT MCCARTHY & STONE

McCarthy & Stone provides 70% of all owner-occupied specialist retirement and Extra Care accommodation for older people in the UK\(^{242}\). We have built c.50,000 dwellings across more than 1,000 developments nationwide over the past 37 years.

We deliver three award-winning types of specialist housing for older people:

**Retirement Living** (since 1977) – Similar to traditional ‘Category II’ type sheltered housing, but built to Lifetime Homes Standards. It comprises self-contained one and two bedroom apartments and includes a House Manager, communal lounge, communal laundry, CCTV camera entry system, 24 hour emergency call system, guest suite and lifts to all floors. Residents have active, independent lifestyles in a safe but private environment. Developments are for those aged 60 years and above and the average resident age at purchase is 78 years.

**Assisted Living (Extra Care Housing)** (since 2000) – We are the largest provider of Extra Care Housing for homeowners in the UK. The accommodation is as above but is designed for the frailer older person; is to full wheelchair housing standards; and includes additional services such as 24-hour staff attendance/oversight, a table service restaurant, function room, spa/treatment room/hairdressing salon, and one hour per week of domestic assistance, with optional/flexible domestic and personal care packages available from the on-site team. Developments are for those aged 70 years and above and the average age at purchase is approximately 83 years. Schemes are managed by a CQC-registered joint venture between McCarthy & Stone and Somerset Care Group.

\(^{242}\) NHBC (2015)
Ortus Homes (since 2014) – These developments are for the more active retiree who doesn’t want to downsize into a traditional retirement housing scheme. Apartments are also built to Lifetime Homes Standards and are ergonomically designed with innovative features to support residents as they age and prevent them noticing their physical age day-to-day. These developments typically have fewer units of accommodation than Retirement Living or Assisted Living schemes, consisting predominantly of two bedroom units with increased car parking provision (minimum of 100%). Developments are for those aged 60 years and above with the average age of purchaser being 71 years.

*All new developments from August 2015 are sold with 999 year leases, effectively making them a form of freehold.

THE DEMOGRAPHIC CHALLENGE

The number of people aged 65 and over in the UK is set to grow from 11.4 million in 2014 to 17.2 million by 2033, an increase of 51%, while the number of people aged 85 and over is set to grow from just over 1.5 million in 2014 to almost 3.5 million in 2033, an increase of over 131%.243

There are currently 24 local authorities with more than a quarter of their populations aged 65 and over, and the figure is expected to increase to 83 by 2022. The trend of growth of the populations aged 65 and over applies across all UK regions, with an average of over 20% growth expected between 2012 and 2022.244 This will place significant financial pressure on public resources, health and social care services.

While there is a widely reported general shortage of housing, with the total number of households who need a home in England growing by approximately 250,000 annually, this is

243 Source: Population projections by the ONS (2012 based)
244 Source: ONS: 2012-based Sub national Population Projections for England (May 2014)
particularly acute amongst older people as 60% of total household growth to 2033 is expected to come from households headed by someone aged 65 or over.\(^{245}\)

Empty bedrooms in the homes of retirees are forecast to exceed 10 million by 2026, which will be a growing stimulus for those who want to downsize\(^{246}\).

**MISMATCH BETWEEN SUPPLY AND DEMAND OF RETIREMENT HOUSING**

58% of UK homeowners aged 60 and over are interested in moving home but many feel restricted by a lack of supply of suitable alternative accommodation\(^{247}\). Other reasons cited for not moving include the cost of alternative accommodation and the cost of paying Stamp Duty and land and buildings transaction tax.\(^{248}\)

Research by Demos shows that one quarter of UK homeowners aged 60 and over express particular interest in buying a retirement property, a total of 3.5 million people, for reasons that range from moving closer to family, to reducing the risk of accidents by moving into purpose-built accommodation\(^{249}\). This research is also supported by many other reports. The 2006 Wanless Review concluded that 27% of older people would consider this form of accommodation if it was available\(^{250}\). In 2012, a YouGov poll for Shelter said that 33% of people over 55 are interested in it.\(^{251}\) Shelter noted that if demand for retirement housing remains constant, supply will have to increase by more than 70% in the next 20 years. The need to look at encouraging this sector is therefore indisputable.

The ability to live independently was voted one of the highest essential factors for those choosing a new home in retirement\(^{252}\). Furthermore, those aged 60 and over hold approximately £1.2 trillion in housing equity, with £400 billion of this tied up in homes of those who want to downsize, which indicates that alongside a strong inclination to move, providing the options to allow them to access this wealth through downsizing, could help older property owners to address the challenge of funding care in later life\(^{253}\).

\(^{245}\) Source: DCLG (NPPG, 2015)
\(^{246}\) Source: Intergenerational Foundation: Hoarding of Housing (October 2011)
\(^{247}\) Source: Demos: Top of the Ladder (2013)
\(^{248}\) Source: Legal & General and CEBR: Last Time Buyers (2015)
\(^{249}\) Source: Demos: Top of the Ladder (2013)
\(^{250}\) Wanless, D. (2006) Securing Good Care for Older People: Taking a long term view, Kings Fund
\(^{251}\) Shelter (2012) A better fit? Creating housing choices for an ageing population
\(^{252}\) Source: Knight Frank: Retirement Housing (2014)
\(^{253}\) Source: Demos: Top of the Ladder, 2013)
As of April 2014, there were only around 128,000 retirement properties built for owner occupiers in England and Wales. In 2014, the NHBC recorded just 1,919 new retirement property registrations, compared to a total of c140,000 new housing completions, with just 7,000 units delivered across all tenures. The UK has one of the lowest downsizing rates of any developed country and only 1% of the population aged 60 or over is living in specialist retirement housing, compared with 17% in the US and 13% in Australia and New Zealand; all of which face similar demographic trends.

THE BENEFITS OF SPECIALIST RETIREMENT HOUSING:

1. Freeing up local housing:

✓ On average, McCarthy & Stone customers release a dependent property back onto local markets worth £303,772, and in the process release £58,853 worth of equity from their purchase of their new property. For every 5,000 purchases of retirement properties, larger housing worth £1.5 billion is freed up.

✓ Most of our homeowners free up a family home when moving to one of our schemes, with 60% moving from homes with three bedrooms or more. On average, customers move from within 4 miles of the development, so schemes help to free up much-needed family homes in the local area, and ultimately help first time buyers through the trickle-down effect in housing chains.

✓ Houses that are freed-up are often refurbished and made more energy efficient by their new owners.

✓ Retirement housing also makes efficient use of previously-used land (for instance, all of our c1,000 developments and c50,000 unit sales have been on centrally located brownfield sites, in response to our homeowners desire to live in well-connected, urban areas).

2. Improved well-being for older people:

✓ 64% of residents in retirement housing said their health and well-being had improved since moving.

✓ 92% said they were very happy or contented.

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254 Source: Age UK: Buying Retirement Housing Factsheet (April 2014)
255 Source: NHBC figures (2014)
257 Source: Knight Frank: Retirement Housing (2014)
McCarthy & Stone – Written evidence (EHM0072)

✓ 83% believed they maintained their independence for longer262.
✓ 51% of residents report lower or noticeably lower heating bills263.
✓ Specialist housing is able to address many of the challenges of late life through careful design.

3. Improved health for older people:

✓ Residents have fewer visits to health professionals and return home more easily after stays in hospital264.
✓ 75% of residents in specialist retirement housing have not stayed overnight in hospital since moving. 60% who had stayed in hospital said that they had found it easier to return home since moving265.
✓ One of the NHS’s biggest costs is overnight stays of older people.
✓ The annual cost of falls among older people is £1 billion each year and almost two thirds of general and acute hospital beds are occupied by people aged over 65.266
✓ Each year a resident postpones moving into residential care, the state can save on average £28,080267.
✓ As a result of keeping homeowners away from residential care, the Institute of Public Care estimate that £1 million per annum in care costs.268

4. A positive economic impact and supporting local high streets

✓ Older people are essential to the health of a local community. Most of our residents have family and friends in the locality, and the average distance moved by purchasers of our properties is 4 miles or less269.
✓ Specialist housing sustains local shops and services. More than 70% of residents said their development was more convenient for local services and 78% used local shops more than once a week270.

261 Source: University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
262 ORB, A better life (2004)
263 Source: University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
264 Source: University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
265 Source: University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
268 Institute of Public Care, EIA report for McCarthy & Stone (2014)
270 Source: Institute of Public Care, EIA report for McCarthy & Stone (2014)
Each development injects on average £8.64 million into the local economy through jobs and materials during construction, and £343,000 in New Homes Bonus payments\textsuperscript{271}. These same schemes average £670,000 per year in local spending by residents, £125,000 more than a general needs housing scheme, and £69,000 in council tax for local facilities\textsuperscript{272}. Around 60 local companies are employed during construction, supporting local jobs, with additional job opportunities created when the scheme opens. 17 jobs are created from a typical Assisted Living (Extra Care) development\textsuperscript{273}. Funding for owner-occupied specialist housing can be provided through the release of the £1.2 trillion of housing equity held by older people\textsuperscript{274}.

5. **A sustainable form of development**:

- Low parking requirement and built on centrally located brownfield sites.
- 51\% of residents report lower, or noticeably lower heating bills\textsuperscript{275}.
- Houses that are freed-up are often refurbished and made more energy efficient by their new owners.
- High density / efficient use of land.
- By providing much-needed new specialist housing for older people and consequently ensuring more beneficial use of the existing housing stock, there is less pressure to release greenfield and other more sensitive sites for new housing development.

**WHAT IS RESTRICTING SUPPLY AND WHAT CAN BE DONE?**

**A lack of national and local planning policy focus**

The House of Lords’ 2013 report ‘Ready for Ageing’ highlighted how pressing this issue is in policy terms, observing that “Central and local government, housing associations and house builders need urgently to plan how to ensure that the housing needs of the older population are better addressed and to give as much priority to promoting an adequate market and social housing for older people as is given to housing for younger people.”\textsuperscript{276} Yet from a national planning policy perspective, the importance of addressing the housing needs of an ageing population is only acknowledged in passing in both the National Planning Policy Framework (NPPF) and National Planning Practice Guidance (NPPG). Given that 60\% of all household growth will be in this area, the housing needs of older people should instead be

\textsuperscript{271} Source: Institute of Public Care, EIA report for McCarthy & Stone (2014)
\textsuperscript{272} Source: Institute of Public Care, EIA report for McCarthy & Stone (2014)
\textsuperscript{273} Source: Institute of Public Care, EIA report for McCarthy & Stone (2014)
\textsuperscript{274} Source: Demos: Top of the Ladder (2013)
\textsuperscript{275} Source: University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
\textsuperscript{276} Source: House of Lords, Committee on Public Service and Demographic Change: Ready for Ageing (March 2013)
the focus of both documents, which is what we would like to see and what society as a whole should want.

Due to this lack of national focus, evidence suggests that the importance of this area is not well-communicated to local authorities. A recent review of planning policy within the top 30 local authorities in England that are expected to have the greatest share of those aged 65 and over by 2037 found that only 6 councils (20%) had strong policies in place regarding the needs of the ageing population\textsuperscript{277}. In addition, a report by the Homes & Communities Agency in 2014 found that just 14% of councils had a policy in their Local Plan for encouraging owner-occupied retirement housing\textsuperscript{278}. This clearly demonstrates how behind the curve a considerable number of local authorities are regarding the needs of an ageing population within adopted and emerging planning policy.

Due to this lack of planning, few local authorities take the specialist nature of this provision, or the benefits that it provides, into account (this is explored in more detail below), and this in turn results in a lack of encouragement for developments in this area, as well as a difficult ride for planning applications that do come forward.

Without greater policy encouragement, housebuilders will not look to develop in this market. Local authorities need to urgently review how they can meet the accommodation needs of the ageing population through their local planning policy. We believe this will only happen with a dedicated national strategy to address this issue. In addition, we would like to see the Housing & Planning Minister write to all Local Authorities to ask them to focus on the housing needs of older people, including the delivery of owner-occupied retirement housing, and to report back on current and planned activities and policies within this area.

Viability constraints caused by CIL and Section 106 payments

It is very difficult for retirement housing to compete with mainstream housing development because the Community Infrastructure Levy (CIL) and Section 106 system are not designed to accommodate or support the unique viability features of this form of housing. Planning contributions are the biggest cost on new development in this sector after land purchase and construction, and so have a major impact on the success or failure of new developments. As a result, older homeowners are being denied the opportunity to live in specialist housing that better meets their needs and aspirations in later life, and overall UK

\textsuperscript{277} Source: Barton Wilmore: An ageing nation – Are we planning for our future? (September 2015)
\textsuperscript{278} Source: HCA: report for the Vulnerable and Older People Action Group (2014)
housing output is also restricted. Addressing these issues by removing CIL and Section 106 obligations (as is being done with Starter Homes) would help to increase provision in this important area.

CIL charging schedules, where they refer to “residential uses”, set a charge based on the square meterage of gross internal floorspace. While this rate may meet the viability test for standard residential sites, retirement and older people’s housing have very different densities, build costs, sales rates and include the requirement to provide communal and staff areas that are not a feature of typical residential development. This undermines the viability of many sites and risks preventing delivery of older people’s housing, and the aims of the Government. As such, any CIL charging schedule should properly assess the viability of specialist housing independently to standard residential development. Better still, specialist housing should be viewed in the same light as Starter Homes and other forms of affordable housing and thereby be fully exempt from the burden of CIL.

However, to-date most local authorities have not carried out a viability appraisal of retirement housing as part of the evidence base which supports the CIL charging schedule. Those local authorities who have undertaken a viability appraisal have appraised Extra Care but not sheltered housing and have generally found that, like care homes and other C2 uses, new build sale Extra Care housing cannot support a CIL payment. To address this, we would like to see:

- A CIL exemption for communal areas within specialist housing for older people across all tenures. This is already the case in social housing, but it is not the case in owner-occupied retirement housing. We also note that Starter Homes are completely exempt from CIL payments to encourage this form of housing; given the pressing need to build more housing for older people, the same incentive should be extended to owner-occupied retirement housing.

- At the very least, retirement housing needs to be correctly tested as part of the process when local authorities prepare their Charging Schedules, and we would like to see new guidance issued accordingly to Local Authorities and the Planning Inspectorate.

A more detailed paper on the impact of CIL charging schedules is available if needed.

With regard to Section 106 payments, planning policy is currently used to encourage the provision of affordable homes for groups particularly disadvantaged in the current housing
market, as this has clear social value. But building homes for older people that improves their health and wellbeing also has obvious social value.

Recent reports by Demos\textsuperscript{279} and the University of Reading\textsuperscript{280} have recommended that \textit{owner-occupied retirement housing should be treated as a form of affordable housing}, and given ‘enhanced planning status’ alongside low-cost home ownership for younger households because of the need for this type of housing and its associated social and economic benefits. Demos suggest that developments of retirement properties should be exempt from paying Section 106 charges towards affordable housing, and a proportion of the charges levied from other private developments should be put towards helping develop older people’s housing. This would in turn reduce the costs of these properties, making them more affordable, and stimulate new developments and support those who wish to downsize.

Currently the additional costs of Section 106 charges are often passed on to the buyer in the form of higher prices, and research by the University of Reading concluded that as a lot of affordable housing provides accommodation for younger people, elderly middle income households were subsidising younger buyers and the process was ‘discriminatory’ against older people\textsuperscript{281}.

There are also many other challenges with delivering this form of housing over and above traditional housing, which are worth outlining in some detail. This includes the need for specific design features and services, such as building to Lifetimes Homes Standards or above, including HAPPI design features, ramps, lifts, large shared areas, wider corridors to allow wheelchairs to pass, laundries, guest suites, restaurants, lounges, mobile scooter storage rooms, secure entry systems and CCTV. Some c30\% or more of a specialist housing scheme for older people is communal space and thus non-saleable.

In addition, schemes typically need to be completed before sales are made as older people are less inclined to buy ‘off plan’ without seeing a dwelling, the communal facilities and/or meeting staff, meaning the sales process can take longer, and phasing is not possible as with general needs housing as developments are typically apartment blocks. There is also on-site care and support provision as well as the need for individual care packages and developments with higher levels of care often receive most of their income over the life of

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\textsuperscript{279} Source: Demos, Wood C: Top of the Ladder (2013)
\textsuperscript{280} Source: University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
\textsuperscript{281} Source: University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
\end{flushleft}
the scheme. A considerable amount of up-front working capital is required before revenues come on-stream.

Schemes are more than simply bricks and mortar – it is the “lifestyle” provided to the residents who chose or need this type of housing that ensures a successful housing scheme. So the planning requirements are therefore significantly diverse and few providers can be successful in this market which is the main reason for under provision – unless special planning provision is made.

Specialist housing for older people also needs to be near shops, services and transport links, where residents wish to live, and this impacts on land prices. Good sites are: hard to find; in short supply; in demand by a variety of uses including leisure and office uses (which do not pay affordable housing contributions and often have a lower CIL rate); in higher value areas; and tend to have higher development costs (often in conservation areas, in need of decontamination, or with archaeological interests that needs appropriate protection). Hence, when seeking to secure sites for development, retirement housebuilders are significantly disadvantaged as they cannot operate on a level playing field with others who are competing for the same type of sites.

**Taken together, providing this form of accommodation is very different from general housing.** We feel these points, as well as the social and economic benefits noted above, mean that the appropriateness of levelling S106 obligations against specialist housing for older people should be reviewed, as is being done with Starter Homes.

There would also be significant economic benefits which would outweigh any loss in affordable housing contributions. Professor Ball at the University of Reading notes that the UK needs to build many more specialist homes for older people than it does at present, with the potential of generating a build rate of 16,000 such houses a year – which at time of a dearth in house building cannot be overlooked. Such an increase would provide additional construction jobs as well as free up much-needed family housing and release it back onto local housing markets. Savills also notes that if supply of retirement housing could be encouraged it could reach 18,000 units per year\(^{282}\).

**Disincentives in the tax system preventing older people from moving**

Costs of moving in later life are a major disincentive to downsizing. They include legal and surveyor fees, Stamp Duty and removal costs. A number of organisations\textsuperscript{283} have suggested that Stamp Duty should be scrapped for downsizers to support those who want to move, while the Institute of Public Care (IPC) has also suggested there should be a council tax abatement for those downsizing or for buyers of specialist retirement properties\textsuperscript{284}. The costs of such measures would be recouped by a housing chain reaction, generating additional Stamp Duty as families are able to move into properties vacated by older people.

A Stamp Duty exemption for older people downsizing into specialist accommodation would cost little but would greatly encourage the take-up of specialist housing and increase the number of people downsizing, as well as free up under-occupied housing. The number of housing chains this would create (with sales further down the chain still qualifying for Stamp Duty) would more than offset any loss of income for the Treasury. A 2014 review by the Institute of Public Care noted that exempting older people from Stamp Duty would benefit them and the housing market, whilst the benefit to the HMRC would be significant – an achievable 20% increase in the number of older people moving, netting the revenue an estimated additional £644m per annum. Neither is this a new concept as abolishing or offering relief on Stamp Duty has been introduced before - there was a Stamp Duty “holiday” for first time buyers from March 2010 through to March 2012.

In addition, the All Party Parliamentary Group for Housing and Care for Older People published a report in 2014 that called for a ‘Help to Move’ package for older people, along the lines of DCLG’s Help to Buy policy for first time buyers, calling for three key measures to help older people move:

- An equity loan, based on the Help to Buy approach, for those facing affordability issues in later life. The Group found no reason why the Help to Buy facility of an additional loan, on the same terms as Help to Buy, might not be targeted more directly at older people (e.g. through improved awareness raising and advice schemes) to kick-start an enlarged housebuilding programme for older downsizers. The difficulties older people encounter in accessing mortgage lending, even when they can afford the repayments, excludes many older people from moving. A Help to Move equity loan would address this problem.

- Stamp Duty exemptions for older people, as discussed above.

- Comprehensive financial advice, linked to the new duty on local authorities to provide advice under the Care Act from April 2015, and which should incorporate guidance on newly introduced pensions freedoms.

\textsuperscript{283}Chartered Institute of Housing, The Intergenerational Foundation, All Party Parliamentary Group on Housing and Care, Royal Institute of Chartered Surveyors, The University of Reading, Demos.

\textsuperscript{284}Source: Institute of Public Care: Identifying the Health Gain from Retirement Housing (2012)
We call on the Government to introduce a ‘Help to Move’ package, like Help to Buy, that removes the financial restraints on older people downsizing, including a Stamp Duty exemption for those moving to retirement housing. Such a policy would send a clear message from the Government that older people choosing to move to more appropriate housing is a socially positive and beneficial act, and is likely to encourage more older people to proactively consider their housing options in later life.

16 December 2015
Lord Green of Deddington, Chairman, Migration Watch UK, Professor Robert Rowthorn, Fellow, Cambridge University, Professor John Muellbauer, Oxford University and Professor Tony Champion, Professor of Economic Geography, Newcastle University

**Q78** The Chairman: Gentlemen—Lord Green, Professor Rowthorn, Professor Muellbauer and Professor Champion—welcome to the Economic Affairs Committee. As you know, we are conducting an inquiry into the housing market. Today brings us very much to the demand-side of the housing market, so we are interested to hear your contributions on that. Perhaps I might start.
We heard from Professor Dorling that one of the biggest factors behind the demand is increasing longevity. He said that this is often underestimated, but the fact that we are all living longer is proving to be one of the major factors—indeed, the largest factor—on the demand side, along with fertility and births, and immigration. Who would like to comment on that? Professor Rowthorn?

**Professor Robert Rowthorn:** I think you have to distinguish between the demand for housing and the size of population, because there is not the slightest doubt that longevity is much less important than migration for population growth. The ONS—the Office for National Statistics—produced a number of projections. It has one projection for which it assumes no change in mortality at all, so no increase in longevity. That knocks about 2.7 million off the population projection for the next 25 years. If on the other hand you assume that there is no migration, it knocks off 6.4 million. That means that in population terms, if we take the projections of the ONS as a starting point, longevity is only about 40% as important as migration. Migration is much more important than longevity for population size. Of course, that is not quite the same as demand for housing, because longevity may mean more people living on their own, for example, and more single-person households. Immigration might not mean that in the same way. You must distinguish between housing demand and population. But in terms of population there is not the slightest doubt that migration is much more important than longevity.

**The Chairman:** Obviously the focus of our inquiry is the demand for housing. Would you say that longevity is one of the principal factors behind the demands for housing?

**Professor Robert Rowthorn:** Well, it is certainly an important factor, but even then it is not as important as migration. If migration is almost two and a half times as important as longevity for population, it is unlikely that changing house sizes will offset that.

**Lord Green of Deddington:** Can I add to that, Chairman? First, thank you for your invitation. We were extremely surprised by that remark, which we thought was very misleading indeed. As Professor Rowthorn pointed out, the ONS projections are very clear. On the principal projection, 50% of the increase is the direct effect of immigration and another 17% or 18% is the effect of the future children of future migrants, so you are looking at 67% or 68% being the direct result of immigration. Obviously, as I think you touched on just now, that is critical to the household projections, which I am sure we will come to, particularly because household size has been fairly steady since the 1990s. That means, of course, that immigration has become the key driver of household growth, because it is now the key driver of population.

The last point on this is that you can demonstrate that, if you like, by looking backwards. If you look at the Labour Force Survey and the household data, you find that between 2000 and 2014 about two-thirds of the additional households had a foreign-born head of household, or HRP—household reference person—as it is called nowadays. In fact, in recent years that percentage has been even higher, so there is absolutely no question that international migration is the major factor in the demand for housing.

**Professor John Muellbauer:** I agree very much with those points, and Danny Dorling is clearly wrong, looking both backwards and forwards. One other thing to point out is that the
Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); 
Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of 
Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005)

long-term implications depend a lot on what counterfactuals you take, and what you 
assume is given. In the long run, the mortality rate and birth rate are not independent of 
each other, so doing these calculations can be quite misleading, particularly over a long 
perspective.

Professor Tony Champion: We have moved a little into the household projections side. In 
the breakdown of the anticipated growth in household numbers through to 2037, there are 
the 2012-based projections for those by age. This breakdown was produced about a month 
ago by DCLG. It shows that 77% of the net increase in total households is due to the increase 
in households headed by people aged 65 and over. So if you look at the household side of 
things by age, you get quite an emphasis on the ageing push. Obviously, some of these 
people will be former immigrants and will be contributing to this, but just by itself it looks 
like a strong growth.

The other thing about the LFS data on the increase in the number of households headed by 
foreign-born people is that what you are seeing there over a given period is to some extent 
a lag effect of previous arrivals of immigrants. When they arrive, they tend to live at quite 
high density in quite large households, but the longer they live here the more they tend to 
spread out and get more space. So the increase in the number of households headed by 
foreign-born people is not just a product of immigration in the same period but the knock-
on effect of previous immigration, which I think contributes to the high growth that Lord 
Green talked about.

The Chairman: That brings us to another issue in the same bundle. When you talk about 
migration numbers and the impact on housing, are you talking about it in connection with 
the first generation or subsequent generations? The ONS takes a rather cautious view on 
this and looks at first generation only, but I think you were talking about the impact in 
subsequent generations. Could you help us navigate our way through that?

Professor Tony Champion: I am not sure I can personally. There will be a combination of 
both: the new households forming in old age groups from previous immigrants, as well as 
the impact of the second generation coming through.

Lord Green of Deddington: I think we are touching on the Boris problem. In talking about 
this, the ONS is careful to say, as I mentioned, that 50% are entirely new immigrants and the 
other 17% are the future children of future immigrants. But then you run into the problem 
of the children of immigrants who have already arrived and which of those you include. I am 
not sure it would be helpful to go too far into that. Arguably, Boris is an immigrant and his 
children would obviously be the children of somebody not born in the UK. I am not sure it 
helps to unwind backwards like that. We have to start from where we are and look at what 
the impact of currently expected rates of immigration will be.

Q79 Lord Forsyth of Drumlean: In your evidence to us, Lord Green, you drew attention to 
the difference in projections on numbers between DCLG and the ONS. Could you explain 
why that has occurred and what the remedy might be? It is not clear to me why the DCLG is 
doing this at all, actually.
Lord Green of Deddington: For a start, they were using obsolete population projections from three or so years ago—three or so years behind what the ONS looks at. That explains part of it. They also used different assumptions, which were lower. Professor Rowthorn is the expert on this. His paper takes account of all that and explains the differences, but those are the basic reasons.

Lord Forsyth of Drumlean: Do you think they should be doing it?

Lord Green of Deddington: That is a wider question and quite an important one for this Committee, because, to be frank, we have not been much impressed with the DCLG’s approach to this whole issue. It seems to us that like quite a lot of people in the public service, they are nervous about any issue that touches on immigration. They do not like talking about it. They certainly give it no prominence in their work. I think they may have their own reasons for that. Our view is that you might like to consider as a Committee whether this kind of work is better brigaded with ONS work. They are considerably interrelated, and I am not sure that the DCLG has quite the resources or the will, if you like, to bring it together properly and give us the best view of the impact on housing. Of course, if you cannot have a sensible and reasonably accurate projection of housing demand, you are never going to tackle the housing crisis. We are constantly behind the game, because nobody has focused on the impact of immigration on housing.

The Chairman: You are saying, are you not, that the ONS has sufficient depth and accuracy of data to be able to do not just first generation but subsequent generation impact assessments on housing.

Lord Green of Deddington: They would do it much better, I think. They have the depth of knowledge and the range of other related activity. I think, frankly, that the DCLG struggles with this, and it would make sense to move it.

Lord Lamont of Lerwick: One of the points that the ONS makes is that the impact of immigration is only one element of the impact of migration in a broader context. It refers particularly to births to and deaths of people who had migrated to the UK before 2014, how to account for births to and deaths of UK-born people who had emigrated and subsequently returned to the UK, and how to account for births to and deaths of UK-born people who had parents or grandparents who were themselves immigrants, and the corresponding figures for foreign-born people descended from UK emigrants. Have you looked at all that and taken it all into account as well?

Lord Green of Deddington: To be frank, they are pretty minor points. They were produced by the group of academics who advise on what the immigration assumptions should be. We have looked at it briefly. One of my colleagues is, as you know, the professor of demography at Oxford, and while from a strictly academic point of view it is right to point to these issues, we do not believe that they are of any huge importance.

The Chairman: Do you want to ask the second question, Lord Lamont?

Lord Lamont of Lerwick: In view of what has been said, I do not think there is much point in asking how important net migration is.
**Q80 Lord Forsyth of Drumlean:** One of the things that has been suggested to the Committee is that in looking at the effect of migration on demand it is important to consider the length of time a migrant stays in order to assess the effect on the housing market. Could we have your thoughts on that?

**Lord Green of Deddington:** It has some effect in the sense that most migrants start with rented accommodation and move on to owning their own property. The really important factor is population. The net migration figures of course include those who come and take away those who have gone, so at the broad level of trying to assess what housing demand will be 10 or 20 years ahead, I would not have thought it was a major factor, but my colleagues might do better on this.

**Professor Robert Rowthorn:** It is not just the people who come and go, it is the fact that those who come have children, and if they are typically young when they arrive, considerably later on they die, so they have a net impact on population. If you look forwards beyond 25 years and make, say, 50 or 60-year projections, you find that for each net migrant there is a 40% or so greater net effect on births minus deaths. Even on a 25-year perspective, it is about a third as important in births and deaths as the people who flow in. A report on this for the House of Commons neglected that issue. I tried to reverse-engineer the DCLG projections for households to see what assumptions they had made, but they say very little about their migration assumptions. They tell you the number, but they give virtually no information on what they assume about births and deaths or about household size. I circulated a paper that I wrote, which you might have seen, that has projections in it that take births and deaths into account, which the ONS does. The ONS has an actual document that points out that they take this into account. When you talk about the effect of migration, you have to talk about the induced effect on the natural population growth rate.

**Lord Forsyth of Drumlean:** Absolutely. We are not supposed to form opinions on the evidence here, but I was quite startled by something Professor Cheshire said: “Short-term … migrants tend to live at incredibly high densities, in multi-occupation, so they do not take up much space”, and that housing demands differ by country of birth. That does not seem to me to be a long-term factor, but perhaps that is wrong.

**Lord Green of Deddington:** Certainly not. One would hope that if people are coming to join our community they will in due course live as we live. It does not go into the statistics, because if 10 people are living in one house they are still one household. It is not until they split up that you get that effect.

Professor Rowthorn touched on one point: the DCLG does not give a very full account of its methodology, which means that it is very difficult to unwind it and see whether it makes sense or not. If you are dealing with the ONS, it is much more open about how it does things.

**Professor John Muellbauer:** One of the problems of demographic projections is that they ignore the economic impact on migration itself. Imagine you were in the Irish ONS in 2007 and you were going to project net migration for Ireland for the next 10 years. Just think how grossly wrong you would have been, because Ireland has seen a huge outflow of net migration as jobs have dried up in the building industry and elsewhere in the Irish economy.
Recently, some of those migrants have come back, but economic conditions matter a great deal for international migration, so that is very important to bear in mind.

The other thing is that these demographic projections are often linked with the numbers: house numbers, units and people. Of course, it is much more complicated than that. Demand for housing has much to do with income—people with a higher income demand more space—so we have to think more broadly about housing as a composite good that is not just a unit. Composition of the population matters a great deal. I agree entirely with Paul Cheshire that if short-term migrants live at very high densities they have a much smaller impact. If the outflow is retired British people, most of them owner occupiers retiring to Spain, let us say, if they actually sell up rather than retain their property and leave it empty, and the housing comes back into use, the impact on total housing demand could be relatively small. So you could have positive in-migration of people with a low impact on housing, a smaller out-migration of people with a large impact on releasing supply, and a zero effect on demand. Of course, if you have large levels of in-migration, that point is overwhelmed by the size of in-migration.

Lord Green of Deddington: Yes, the argument only works if you assume that migrant families live in much larger numbers than native families. However, over the years British immigration has been pretty steady at between 60,000 and 100,000. It is pretty unlikely that there will be huge changes to that. The changes have, of course, been in net foreign migration.

Professor Tony Champion: Just a couple of points. The first is the general impact of the components of population change on housing. Immigration is focused on people principally aged 20 to 40, so they have an immediate impact on the housing needs of the population, whereas natural change—births, shall we say—has a 15 to 20-year lag at least. That is an important point.

I want to pick up on a point that Lord Forsyth made in correctly distinguishing between different types of migrants. He talked about short-term migrants, and we have had experience over the last decade of a very high number of short-term migrants from the accession countries of the European Union. Many of those were indeed short-term migrants, although some have stayed, and their impact on the housing situation was pretty limited because they wanted to make as much money as possible to send or take home, so they did not spend that much money on housing. The broad distinction that is normally made is immigration from rich countries as opposed to immigration from poor countries. The immigrants from rich countries normally have a very similar impact on housing numbers to the growth of the native population, because they have the economic wherewithal to buy in at the same level to owner occupation and so on. A few right at the top of the ladder, of course, have immense buying power in central London, whereas the arrivals from poorer countries, and the asylum seekers and refugees whom we hear so much about now, have the capacity and the need to group together in large households, at least for the first few years. As we mentioned before, the hope is that if they stay they will become more like the home-born population in their housing needs.

Q81 Lord Griffiths of Fforestfach: I want to move on to the issue of an ageing population and the housing market. The projection from the DCLG, as I think Professor Champion
Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005)

hinted earlier, is that the number of households headed by someone over the age of 65 is going to increase considerably over the next 20 years. There are two questions. First, what is the implication of this for the housing crisis—or for the housing market, to be less pejorative? Secondly, are we doing enough in policy to shape the more effective housing arrangements that we could have? America, for example, seems to have more of those than we do here.

Professor John Muellbauer: One point to make in support of Danny Dorling, who spoke at length about this issue, is that the UK tax system discourages the efficient use of space. Stamp duty impedes mobility and the planning system greatly slows down the market’s ability to respond. We have a highly dysfunctional system of tax—and, indeed, of supply, because the planning system is so poor at responding to market issues. Clearly we need a shift in the housing mix towards apartments, sheltered accommodation, granny flats and so on to deal with this issue, but at the moment the institutional framework is very much set against responding efficiently in that way.

Lord Sharkey: So you would have a change in tax policy to deal with it.

Professor John Muellbauer: A change in tax policy and in the supply side. We will talk more about the supply side later, I think.

The Chairman: It seems to me, on the basis of the longevity figures that we have seen, that there is clearly a demand there. It is surprising, is it not, that the market has not responded to that. Do you put it all down to the dysfunctionality of the tax system?

Professor John Muellbauer: Many people have said how dysfunctional the British arrangements in the housing market are, both on the tax side and on the supply side, and commented on the inability of the market to respond quickly—it can take four or five years to get a planning agreement through to actual development—because of the way the industry is organised, which has a lot to do with the history of the industry and the way it is structured.

Professor Tony Champion: The extra point to make is in relation to the investment potential of the housing that older people are occupying. If they hang on to their larger house, they are going to reap greater benefits over the next few years—or they would have done in the last boom period—than if they downsized immediately. If they have thoughts about passing on a large inheritance estate to their children, it is in their children’s interest for them to stay as long as possible in a large house that is gaining money. I read last week that people living in the Home Counties are seeing their house prices rise in a year by more than the cost of their seasonal rail card, or some comparison along those lines. While there is still a shortage of supply, which, along with reasonable demand, guarantees that their house price is going to increase, there is a great disincentive to move, along with the tax issue.

Q82 Lord Lamont of Lerwick: Slightly at a tangent, you mentioned the planning system and how it does not really work. The Government have made big efforts to liberalise planning. Do you think those efforts fall short of what is required? What further specific changes in the overall regime do you think could be put into practice?
Professor John Muellbauer: I think the most important change would be to allow a national authority, a land bank, to buy land on the open market with existing uses and existing use values, and in the end to be able to change the permissions to develop. This would capture the planning gain. Previous witnesses have talked about a hundredfold planning gain for agricultural land near Oxford. If a farmer gets planning permission, there is a hundredfold increase in the land value. If most of that were captured by the nation, you could build infrastructure and schools and supply affordable housing to low-income people. It would all make complete sense. Not only that but, at the same time, you could change the definition of national debt to make it a net debt. If you were able to net off the saleable value of assets like land, which obviously a land bank would have acquired, from gross debt in the fiscal target that the Treasury pursued, an increase in land purchases would actually reduce the debt rather than add to it. The subsequent revaluation would be highly beneficial to the national accounts.

The Chairman: This is alchemy.

Lord Lamont of Lerwick: Magic.

The Chairman: But it seems to me that there is an element of insider dealing if you have a national land bank that buys land and is then able to procure the planning consent on that. Are you not depriving the people who own that land of some of the benefit of the planning consent?

Professor John Muellbauer: Well, the Oxfordshire farmers who previously sat on the hundredfold gain would be deprived, there is no question about that. The Oxford colleges that own some of that land would lose out as well. Someone has to lose.

Lord Forsyth of Drumlean: When you talked about the tax changes necessary to address the problem, you mentioned stamp duty. Were you thinking particularly of stamp duty, or of the inheritance tax allowances tied to property, or what?

Professor John Muellbauer: The recent changes in inheritance tax are dysfunctional because they increase the demand for land as an investment. Uniquely in the world, we have a property tax—we call it council tax—which has zero marginal tax rates for the wealthy. No other country in the world has this. Not only do we have zero marginal tax rates but we have a highly regressive structure lower down all the way to the bottom, so the poorest in the poorest housing pay the highest tax rates as a fraction of value. Furthermore, we have the 25% discount for single people and we do not link the tax rates to market values. We use 1991 valuations to try to figure out what the rate should be. This is the craziest system imaginable. When foreigners hear about this, or when foreign economists come to the UK and are told about it, they think we are completely mad.

Lord Griffiths of Fforestfach: You may be right in saying that it is a crazy system, but if we are to take away the incentives that already exist for people to stay in their houses because of capital appreciation, and if we are to have what is in effect a revolution in fiscal policy for housing, it seems that that will take decades to implement.
Lord Griffiths of Fforestfach: My question is whether it is really a solution or an ideal, academic proposition.

Professor John Muellbauer: Well, Jim Mirrlees is a Nobel Prize winner and certainly a star academic. His and his committee’s views on the reform of the British tax system are pretty thoroughly thought through. We can look at other countries. In the US, if I were living in Princeton, New Jersey, I would be paying property tax of probably $40,000 a year, which is more than four times what an Oxford person would pay in the UK. Property tax rates in the US are much higher than in the UK, and this is an advanced capitalist society. Why are we so different?

Q83 Lord Sharkey: Professor Muellbauer mentioned Paul Cheshire earlier. Professor Cheshire pointed out to us that, “The population of London since 1951 has increased by less than 5%. Real house prices ... have increased sixfold”. He therefore asserted that, “it is not population that drives house prices. It is the fact that people, as they get richer ... choose to consume more housing space” and gardens. Do you agree?

Professor John Muellbauer: Very much so. What matters is what we might call income per house: population multiplied by average income divided by the housing stock, measured in some way. I do not like measuring housing stock in units. The national accounts definition of housing stock, the capital stock figures and constant prices, is a more sensible way of measuring the housing stock for the population. Income per house is what really matters. Of course, the income component of that—the average income per head—has risen much more than population in the period under discussion. That has been a major factor in the increased house prices. About two-thirds of the rise in house prices in the UK since 1980 is attributable to rising income per house.

Baroness Blackstone: Is it not also the case that in France and Germany income per household has gone up very substantially as well? Similarly, both these countries have had quite high levels of migration over a 30-year period, and they both have increasing longevity, so why have their house prices gone up by so much less than those in the UK? It must be supply factors.

Professor John Muellbauer: That is a very good question. You are absolutely right: income per household has gone up similarly in Germany and France, but the housing stock has risen far more in Germany than in the UK. Paul Cheshire estimated that Germany released nearly three times as much housing land since 1980 compared to the UK for a broadly similar population.

Lord Lamont of Lerwick: Could I ask Lord Green and Professor Rowthorn to comment particularly on the Cheshire quote about London?

Lord Green of Deddington: I do not quite understand this argument. The population of London has gone up very substantially since 1981 when it was 6 million. It was 8.5 million in 2013. We have an extra 2.5 million people.
Lord Lamont of Lerwick: He said that the population since 1951 increased by less than 5%. Is that incorrect?

Lord Green of Deddington: He took 1951, but it declined because, as you may remember, there was a policy of moving people out of London, a lot of slum clearance and so on, which will have affected the situation substantially. If you start in 1981—you can start where you like—it was 6 million and it is now 8.5 million. That is 2.5 million extra people, and that must have something to do with the increase in house prices. There is another factor which I am not quite sure how to interpret. The population has gone up because we have a foreign inflow of 100,000 a year and a UK-born outflow of 60,000 a year. You have a change in the composition, if you like, of the population of London. Some of those may be very rich and bidding up the prices. Some may be very poor and living in huddles. I do not know, but that is the reason for the change in population. The sheer increase in numbers must have something to do with the prices.

Lord Sharkey: Could I press this point a little and ask the panel in general? We are now quoting two different starting points. Clearly, the figures will reflect the starting points that have been taken: 1981 or 1951. Do you know of a long-run study that can help us resolve the question of the true driver of house prices and whether it is mostly income per household? I think Professor Muellbauer said that was about two-thirds of it.

Professor John Muellbauer: Income by house not per household.

Lord Sharkey: I see. Or, as I think Lord Green asserted, does the rise in population play a much greater part?

Professor John Muellbauer: Other factors need to be mentioned as well. Financial liberalisation is an important one. When Mrs Thatcher came to power in 1979, there began a really radical change in the whole credit architecture of the UK. Mortgages are now available at far lower loan-to-value and far higher loan-to-income ratios than would have been true in, let us say, 1977. That was a radical change in the credit market architecture, and it had a big effect. Interest rates obviously play a role as well. In addition, the demand from wealthy foreigners has been a factor in the London market. There are other things apart from income per house that drive the market.

Lord Green of Deddington: You can also look at rents, because they are not so much affected by the financial changes in interest rates and so on and so forth. They are of course going up. They have gone up very substantially.

Lord Forsyth of Drumlean: Why would rent not be affected? Surely rent reflects the capital value of the property to some degree.

Lord Green of Deddington: Oh yes, but not as directly as far as the individual householder is concerned. It is not your mortgage payment going up in a steady way; it is your rent.

Professor John Muellbauer: International comparisons are really crucial here. Baroness Blackstone mentioned France and Germany. I have been working with economists at the Bundesbank and the Bank of France on modelling the German and French housing markets...
Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005)

along with the rest of the household portfolios. It is very clear that Germany has had essentially no financial liberalisation, so the credit market architecture in Germany is pretty much as it was at the time of unification. Real house prices in Germany have been flat, although in just the last few years there has been a bit of boom. The main reason for that flatness, and the difference between Germany and the UK, is the vast release of housing land and the lack of credit liberalisation. Those two factors are really dominant in explaining the British/German difference. In France, what is interesting is that there has simply been a fairly high degree of mortgage liberalisation. Credit conditions in the mortgage market have liberalised to a considerable degree, so French house prices have risen much more than German house prices, even though in income terms income per head has evolved fairly similarly. Again, like the UK, France has not built as many houses as Germany. Comparing these three countries and the differences on the credit side and supply side of housing is crucial in explaining what happened in Europe.

**Lord Green of Deddington**: There is another crucial difference, which is that the population of Germany is flat and unless it continues to get high immigration it will decline by 25% in the next 25 years. In France, the population is growing quite fast, rather like ours. Italy and Poland expect their populations to fall. I cannot remember what Spain’s is. So the significant difference in population growth is presumably a factor in all this.

**Professor Tony Champion**: I just wondered whether there is any similar analysis going back to the 1950s and 1960s comparing the British and German housing markets. I imagine that they would be very much more similar at that time. When we had the planning system set up in 1947 and the household and population projections of that time, it was on the basis that there was going to be no long-term population growth and there was going to be decanting of population from large cities through slum clearance out to new towns and expanded towns. Sufficient land was made available in the development plans of the late 1940s and early 1950s for 20 years’ building supply under those assumptions. Professor Sir Peter Hall produced a landmark study in 1973 suggesting that things were already beginning to bite at that time, because population growth had turned out to be faster during the 1950s and 1960s than anticipated but the land supply situation had not changed. What we have had since the 1970s is a further ratcheting up of that supply issue.

**Q84 Baroness Wheatcroft**: Clearly, rising household incomes have been one factor in driving up prices, but is there any research that you can point to that shows how the proportion of household income that is taken up by housing costs has changed over a period in this country and how that compares with other European markets?

**Professor John Muellbauer**: Well, okay, how does one measure housing costs? There is the rental market and the owner-occupier market. The retail prices index committee struggled for many years with the question of how one measures the cost of owner occupation. Obviously, you can think about cash flow costs: what is the cost of financing a mortgage? In the UK, with floating rate mortgages, we have to think not only about this year’s cost. At the moment, housing looks, on the face of it, to be reasonably affordable. If you can get a 100% mortgage with very low interest rates, housing does not look that expensive. But of course if we move from a floating rate regime to more normal interest rates, even if they are lower than they have been for the last 20 years, that would change those calculations a great deal. So it is a very difficult question to answer. In Germany, with fixed-rate mortgages, it is more
straightforward because you know for the next 10 years what your outgoings are going to be. In Germany, mortgage interest rates are even lower than they are in the UK. In Germany, the current outgoings in terms of cash flow would be quite low; even lower than here.

Baroness Wheatcroft: Obviously, mortgage rates make a huge difference to the potential outgoings. Would it be any easier to try to get a pattern for the value of owner-occupied homes in relation to household incomes?

Professor John Muellbauer: Sorry, can you rephrase that question?

Baroness Wheatcroft: If what one is trying to get is a picture of the proportion of household income that goes on housing, and I take your point that it is difficult to measure the cost of a mortgage over time because it will fluctuate, can we get any handle on what proportion of household income goes on housing now, both owner-occupied and rental, and how that compares with, say, 20 years ago and with overseas?

Professor John Muellbauer: I am sure it must be the case that for renters in the UK, rents now, as a fraction of income, are probably the highest they have ever been. Rent levels are far, far higher than in Germany. The international comparison would certainly point to rented housing being far cheaper in Germany than it currently is in the UK.

Professor Tony Champion: There also may be the question of what is actually being paid and what the potential to be paid on housing is. I get the feeling that, over the last few years, through the recession and its aftermath of austerity, people have been much less willing to consider paying out a certain proportion of their income on housing compared to the situation earlier in the 2000s, when growth prospects seemed to be unlimited, the future looked buoyant and people were prepared to take bigger risks. The recession in 2008-09 was, I think, a real shock. There was an impact on employment and an increase in the number of people in less secure work now. People have to be really brave, in many cases, to take out mortgages, particularly if people start talking about interest rates going up in the near future.

Baroness Blackstone: I do not really understand why that should be. Since interest rates are still very low, historically lower than they have been for a very long time, even though there is some talk about very small increases in interest rates, the value of the houses they will buy is going up in most parts of the country, certainly in London and the south-east. So what is the disincentive to them trying, if they can get a mortgage, to buy a place, other than that prices may be so high they cannot get into the market? I do not understand the point you are making about what would demotivate them in relation to interest rates.

Professor Tony Champion: I am not an economist, as you can see, but I just had the feeling that people were becoming more uncertain in this situation. A lot of people are buying and the rates of buying have been going up, including those being supported by the Government to do it. But at the margin, I think there may be quite a large number of cases of people who may not be prepared to make that step and who are therefore putting extra pressure on the private rented sector.
Baroness Wheatcroft: How effective, particularly in London, do you think the investment market is in pushing up property prices?

Professor John Muellbauer: Certainly, at the top end of the market, it is dominant. Buy to let is also quite a big fraction of the market. As you know, London has the highest fraction of renters of any location in the UK, so the investment market is clearly much more important in London than it would be in most other cities, apart from maybe Oxford and Cambridge.

Lord Turnbull: I want to come back to Professor Rowthorn’s estimates of the impact of migration. You are telling us that it almost certainly boosts GDP. GDP per head probably does not change very much, but possibly in the early years it is slightly beneficial. There are various other benefits, such as a better dependency ratio and economies of scale—it costs the same to defend 70 million people as it does 60 million people—and the debt ratio improves. So you have a choice: are you telling us that these are the number of houses that you have to build, or are you saying that what you really have to do is do something about migration, as Andrew Green would say? There is a missing variable in all this, and I want to know whether or not it is in the figures. If you have an extra 10 million or 20 million people, you have to invest in a great deal of infrastructure, some of which is housing and some of which is roads, rail, hospitals, etcetera. That initially is a cost to society. Have you built that into the figures, and how would that change this choice as to whether working on migration or building houses is the right solution?

Professor Robert Rowthorn: As you know from previous conversations, I have not done that. It is quite important, because if you have as a starting point an underpopulated country with a lot of infrastructure, such as roads and railways, that is underutilised, population growth from whatever source, whether it is immigration or birth rate, is beneficial, because you can tax a large number of people to cover the costs of that infrastructure, or, if you charge them through with rail fares, for example, they pay it in that way. But of course you come to a certain point where infrastructure gets overloaded, and if you get more population growth you sometimes have to have very big investments; they are not marginal. I have to say I did not take that into account at all when I considered the fiscal aspects of the problem. I am not sure why I did not; I should have done. Maybe it was too difficult, but I will have another go at it.

Lord Green of Deddington: Chairman, I cannot resist reminding you that it was this very Committee that produced a landmark report in 2008 on the impact of immigration on GDP per head. It found that there was no significant benefit for the resident population. Nobody has laid a glove on that since, and we have quoted it continuously.

Lord Teverson: Perhaps we could get back to internal migration. As a resident of rural Cornwall, I sometimes wonder whether, if what was going on in London and the south-east, as has just been referred to, was not happening, we would find this an issue at all—although, believe me, there are all sorts of issues down my way. What proportion of the problem relates to internal migration in the UK? As has been said, in the 1950s and 1960s there was a movement out. Even towards the 1980s, people moved into rural areas. Now, there seems to have been a moving back in. In certain parts of the country we hear that rows of houses are being knocked down because there is no market for them. Is this issue in
Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005)

part a question of solving the northern powerhouse or of better distribution of the economy? Could we solve it through all that?

Coming back in particular to London and house prices, is it those internal migration flows or is it foreign investors that have really caused the big change in house prices here?

**Professor Tony Champion**: I think I am meant to know something about internal migration, so I will start. That is a lot of questions. In answer to the pre-circulated question on what has changed in internal migration recently, one of the things that has changed, surprisingly perhaps, is there is no longer any net migration from north to south. Migration was running at something like 40,000 a year in the 1970s and 1980s, then it went down to 20,000 in the 1990s, and in the whole period since 2000 it is net to the north on balance. North-south migration fluctuates during the economic cycles, but basically it is not contributing to the pressures on growth in the south-east. It is international migration and population natural change that is doing that, particularly for London. That is one change.

The urban-rural shift, as it is sometimes called to contrast the north-south drift, has notably slowed since 2008. It was slowing a bit before then, but it has slowed very much since then. The prime driver for that is lower outflows to some extent from other cities but principally from London. That has obviously led to more people staying in London, which has fuelled London housing prices and issues. Migration out of London is accelerating again now. It has got up to the sort of long-term average that Lord Green mentioned of 60,000 to 70,000, but it was at 100,000 in the early 2000s and it looks as though it is heading that way again. If this continues, there will be an impact on the housing situation across the country, particularly across the south, over the next few years, because the population of London will not increase quite as fast as the population projections have suggested, because the internal migration assumption for internal migration is based on the last five years’ average of migration, which in the 2012 projections that underpin the household projections was for 2007 to 2012, when this process was running at a much slower level than average. The corollary of that, of course, is that more people are going to arrive in Cornwall and points in between, and to some extent in the north, which could provide some sort of basis for helping to power up the northern powerhouse, but the main pressures are going to be felt in the rest of the south, and the south-east in particular.

**Lord Teverson**: Do we understand the reason for that change in the London population, which presumably is a major part of those changes? Is it cultural? Is it because of commuter rail fares? Is it fashion? Why do people decide to live in or outside London?

**Professor Tony Champion**: The normal pattern is that the population has a sort of life course. People move into London in particular at the early stages of their career, usually after leaving university, because there is an outflow of UK students from London to universities in the rest of the country. They come back, and others come with them from other universities and the rest of the country. After a few years, if they want to try to buy a family-sized house and start the family off, that is the trigger to get out into a place that is cheaper but still within commuting distance, near to good schools and so on.

**Lord Teverson**: A life cycle.
Professor Tony Champion: Yes.

Lord Green of Deddington: In some areas, people are not very happy with the schools, which adds to the factors that have just been mentioned.

Lord Lamont of Lerwick: Presumably a lot of this is due to the rapid acceleration in London house prices. Houses are simply unaffordable.

Lord Forsyth of Drumlean: I was just going to make that point. You say that it is surprising. Is not surprising to me at all that more people are not moving from the north to London because they cannot afford to buy in London. Nor is it surprising to me that more people are cashing in and leaving London to move to where they can get a decent house, provided they can find employment outside.

Professor John Muellbauer: The economics of this is really interesting. As you say, it is the ability to be employed. Earnings are very important for regional migration, but they are offset by housing-market constraints. Regions such as London that have had the biggest earnings growth and the lowest unemployment rates—for skilled workers, that is—are the places where house prices have always risen the most. So the rise in house prices has choked off in-migration and is encouraging out-migration, but what is interesting, I suggest, is that our research suggests that it is not just the level that is important but the expected rate of change. People keep moving to London, even though London has become expensive, as long as they expect appreciation in London to continue, so provided they can get a mortgage and have some capital they will still be willing to buy in London. If London were to reach a plateau, having got to this extreme—the highest ever ratio of London prices relative to the rest of the UK—and expectations were to shift, you might see quite a large regional outflow from London. It is the incoming foreign migrants whose first destination is typically London who are the major part of the story. They are the ones who put pressure on rental accommodation and house prices in London. That then encourages other people to go for the capital gain and move out. In our research, London was the place where they seemed to be some direct connection between supply constraint—in other words, the amount of housing per working-age population that was available—and regional migration. The regional outflow from London is partly due to the fact that when you have a lot of in-migration from abroad, that pushes the amount of housing relative to the working-age population to extremely low levels, and that pressure is partly what explains the regional migration.

Lord Forsyth of Drumlean: Does this explain the paradox of employers complaining that they cannot get skills, and therefore we need more migration to provide those skills, because the indigenous skills are being forced out due to the increasing cost of housing?

Professor John Muellbauer: That is absolutely right.

Q87 The Chairman: One of the areas of skills shortage to which our attention has been drawn by witnesses is that of the house construction market. Some witnesses suggested that if the Government are to achieve their target of 1 million new homes between now and the end of this Parliament, almost 1 million new, skilled construction workers will need to come into the country. Have any of you a comment on that?
Professor John Muellbauer: In Spain, they definitely managed to do that. During the great housing boom in Spain, dysfunctional as it was in relation to the Spanish economy in the long run, they certainly managed to attract vast numbers of migrants, many of whom worked in the construction industry in Spain and fuelled that great boom.

Lord Green of Deddington: Significant numbers of them went home again.

Professor John Muellbauer: Yes.

Lord Green of Deddington: That is not always our experience. There is no question about this. To go back a bit, the number of skilled people in our economy has declined significantly over the last eight years. That is because we have not trained them and because, when it comes to serious training, employers have very substantially reduced what they are prepared to do. There is a whole report on that by Baroness Wolf, which gives a very clear graph of what has been done. If at short notice, and within the period of training a bricklayer or whatever, you want this huge expansion, then yes, that would suck in bricklayers, probably from eastern Europe.

Q88 Lord Turnbull: We have discussed a whole series of measures at various points. Have each of you one measure—with Lord Green I suspect I can guess which one—to put top of the list?

Lord Green of Deddington: I think you guessed. There is no question that a significant and effective reduction in net foreign migration would make a huge difference to the housing market.

Professor Robert Rowthorn: It would have a very large effect, but I am not convinced that we have the instruments to produce that.

Lord Green of Deddington: Ah, well, that is a different question.

Lord Turnbull: Then, of the instruments we do have.

Professor Robert Rowthorn: If you put aside the migration one, I would say a very big public investment in social housing.

Professor John Muellbauer: I have already shot my bolt: the national land bank combined with a change in the Treasury’s measurement of the debt to GDP ratio.

Lord Turnbull: You would put those above reforming council tax?

Professor John Muellbauer: Yes, they are even more important than reforming council tax, which I have been a long proponent of, as you know.

Professor Tony Champion: I think I am more general. I would like to see any mechanisms for reducing the disincentives of people moving house when they feel it is about time to. That would include one or two of the things here. I do not know whether you could actually move that in the other direction and increase incentives for people to move to a more appropriate house. The supply side would obviously be key to that, with houses for them to
move to. I have heard comment in the media that there are people prepared to downsize housing at older age if the opportunities were available, despite the investment potential of hanging on to their houses. I do not know of any studies that tried to measure how effective such a programme of building more bungalows or apartments for old people would be.

Lord Turnbull: We seem to have a vicious circle. While we have inflationary conditions, people will hoard housing. The inflationary conditions need to be brought under control. Then two things could happen: one is the migration of families, and the other is that the elderly could decide that it is a good time to sell and move on.

Baroness Wheatcroft: Professor Champion, to what extent you think stamp duty might be one of the contributors to making people disinclined to move house?

Professor Tony Champion: I do not have any expertise in this. I saw that Paul Cheshire identified this as the key to the big slow-down in the rate at which people move or change address over short distances. Interregional migration gross flows have maintained themselves over decades, but the proportion of people moving each year over short distances has really reduced since the 1970s. I have been doing research back to then. He mentioned it in his contribution here before Christmas. He mentioned it in the context of stamp duty, but I am not an expert.

Professor John Muellbauer: Housing turnover is definitely affected by the level of stamp duty. There is quite a big impact there. You are quite right in arguing that.

Q89 Lord Forsyth of Drumlean: I am anxious about the changes that the Chancellor announced on inheritance tax, which are tied to a family home under £1 million. At the moment, if people pass on wealth to their children and survive for seven years they do not have to pay inheritance tax. Professor Champion, have you thought about what might happen if that were reversed and, almost the opposite of what the Chancellor is doing, there were a scheme that enabled people who downsized to have some kind of shelter from inheritance tax?

Professor Tony Champion: I have not really thought that far from my migration expertise. What you say sounds very sensible to me, but I defer.

Lord Forsyth of Drumlean: I do not think Professor Muellbauer would like it.

Professor John Muellbauer: Well, your proposal would keep privileges with the privileged.

Lord Forsyth of Drumlean: Yes, but I am just worried about housing.

Professor John Muellbauer: Yes.

Professor Robert Rowthorn: I think one should be rather careful of encouraging turnover of accommodation, moving from one place to another over short distances. It depends on how short those distances are. If people frequently move a mile from where they live in the course of their lives, it disrupts communities and social networks. Social networks arise because people live in the same place and interact with the same people all the time. I know this because in my street, for example, virtually everybody has moved within the last 20
Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005)

years, at a big social cost. It is one thing to say that we want to use the housing stock more efficiently so that people move to smaller dwellings, but that should be in the context of being able to move to smaller dwellings very close to where they already live, instead of having to go a long distance. Particularly as you get older, you get isolated if you move several miles. I think that is why a lot of people do not downsize. It is not simply that they want to cling on to a large house. They have friends living locally but cannot find anywhere to live locally.

Baroness Blackstone: Professor Rowthorn, could you say just a bit more about how you think a big increase in the building of social housing should take place? Who will do it, and how will it happen?

Professor Robert Rowthorn: Well, the present policy is the opposite: it is to encourage the sale of properties from housing associations and the like. It seems to me that a big expansion could be publicly financed, but I am not a housing expert. It was the sort of question that I prefer not to be asked and I was asked to answer it, but I think that would be an important step. It is all very well saying that people will get on the housing ladder, but a lot of people at the moment are close to the minimum wage. Even if they get the “living wage”, that is not what I would regard as a living wage, and it is certainly not enough to buy a house anywhere in the south of the country. They will be in rented accommodation of some kind. In general, they would be better off in social housing.

Lord Teverson: From an economist’s point of view, has the increase in the rented sector encouraged greater economic mobility in the country over that period? Has it had the benefit that people can move around more easily and avoid all the disruption that they had as owner-occupiers perhaps earlier in their life?

Professor John Muellbauer: The work on mobility by tenure does suggest that mobility rates are substantially higher for people in the rental sector. So presumably, all things being equal, you are right that the increase in the rental sector in the tenure structure has increased mobility. But of course there are many other factors that impact on mobility.

Baroness Blackstone: But do you agree that mobility in the private rented sector is driven by very poor quality in the housing that people are occupying? They move to try to get away from it and get something better.

Professor John Muellbauer: And of course short-term tenure—typically two-year or less tenures in the UK structure—is very disruptive. In Germany, with longer contracts and much more stable relationships between landlords and tenants, you have a much more stable environment in which, if people move, it is more to do with jobs and families rather than because the apartment is not satisfactory.

Q90 Lord Lamont of Lerwick: Can I ask your opinion about the buy-to-let phenomenon, which we have seen a tremendous increase in? We referred to it earlier as investment buying, but it is investment buying with a view to it being let, not investment through it just being held. Has not the buy-to-let phenomenon actually, to some extent, increased the supply of rented accommodation?
Professor John Muellbauer: I am sure it has had an effect on both the demand side and the supply side. One of the big changes in the late 1970s was when the banks decided to lend on much more generous terms to buy-to-let investors. I am sure that that change in credit conditions added to the demand side. Of course, it has also to some degree expanded supply. As we know from the work of Geoff Meen, among others, the response of the UK building industry to higher house prices has been anaemic, to say the least. Much of the housing that has been bought by those investors is not new build but existing housing.

Lord Lamont of Lerwick: But there has been some. In Manchester particularly, and in Liverpool and Leeds, there has been quite a lot of new build.

Professor John Muellbauer: That is perfectly true.

Lord Forsyth of Drumlean: So when you say more generous terms, what do you mean? On the whole, buy-to-let interest rates have been higher because the risks are higher.

Professor John Muellbauer: I am talking about loan to value ratios.

Lord Forsyth of Drumlean: So did you mean on more risky rather than more generous terms?

Professor John Muellbauer: You could put it that way.

Professor Tony Champion: The private rented sector is, of course, crucial for labour mobility. I have seen figures that show that the private rented sector has doubled in importance in the housing market since 1991 when it was 7%; it is now 14%\(^{(285)}\). That is a big step forward in terms of increasing labour mobility. If that sort of change had not happened, I think the London skills shortage would be much greater today than it is. It is London that really depends on the private rented sector. The other cities do to some extent. One of the key things for getting the northern powerhouse under way is to provide more incentives for people who are prepared to or can only live in rented housing to go to those places and have the rented housing to accommodate them. Obviously, the pressure on rented housing in London from other sources besides migration from other parts of the UK is possibly one reason why it is difficult to get more people, particularly less skilled people, to come to London: because of the cost. It is crucial and it needs to be manoeuvred so that it can increase labour mobility further.

Lord Turnbull: Is 14% a national figure?

Professor Tony Champion: Yes.\(^{(286)}\)

Lord Turnbull: What is the London equivalent?

Professor Tony Champion: If you take the GLA area, I would say it is something like 50%, but I would look to the experts on that.\(^{(287)}\)

\(^{(285)}\) Note by witness: the share did double, but the correct numbers are 9% and 19%.

\(^{(286)}\) Note by witness: the correct, current number is 19%
Q91 Lord Layard: A number of you have mentioned the importance of the supply of land for housing, in which case obviously a crucial issue is how we can get more and faster planning permission granted. One obvious way of doing that is to give the people who give the planning permission some of the share in the price uplift that comes when the planning permission is granted, meaning the local authorities. That is rather different from the sort of nationalised approach that Professor Muellbauer suggested. I do not know what the comments of any of you are on this proposal that local authorities should, by some mechanism or other, be given a substantially greater share—the lion’s share—in the price uplift.

Professor John Muellbauer: You are talking about Section 106, which has been in existence for quite some time and has not, I think, been tremendously effective in giving local authorities that share. Because the negotiations over Section 106 take such a long time, it has slowed the whole process of the delivery of housing and made the system much less responsive to market forces. There are much better ways than Section 106.

Lord Layard: I am talking about a proposal that has some features in common with yours: that local authorities should have the power, just as they have the monopoly over giving planning permission, to be a monopoly buyer of the land for development but then immediately to sell it on for development and get the difference in price. But it would be the local authority that was involved in all that, not a national land bank. I do not think that you would want to think of it as a bank either. You would want to think of it as a process.

Professor John Muellbauer: It is a localised version of the national land bank. It still seems to me pretty important that local authority investment in land is accounted for by it being treated as an asset from the point of view of the national balance sheet. Otherwise, it looks as though the country is going heavily into debt, when in fact it is doing something sensible in buying up land and providing and reissuing land for the long term.

Lord Layard: Well, the version of the proposal that you must know from Dr Leunig is that the local authority takes out an option on the land and buys it on the same day as it sold it, so it would never have the necessity to raise finance to buy the land.

Professor John Muellbauer: You would need some complicated finance to finance the option.

Q92 Lord Griffiths of Fforestfach: One issue that has come up in various answers to various questions is the difference between house prices in Germany compared to those in the UK. If you look at a period of globalisation from say the late 1970s, it seems that the difference is genuinely dramatic. The house prices in the UK have increased by, I think, a factor of up to 10 compared to Germany. The argument has been that the Germans increased the amount of land available for housebuilding—I think you said by a factor of three, but it is a huge amount. Secondly, you said that the credit market in Germany has not really been as competitive or, to put it differently, has been more regulated than in the UK, which has

Note by witness: The 2011 census figure for London was closer to a quarter, not a half: GLA put it at 26.4% of households then, compared with the national figure of 18% in 2011.
Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005)

been much freer. Thirdly, there were hints that the nature of, for example, rental in Germany is different from that here, so there has been a sort of cultural element. So there are these three factors. Clearly, the remarks were very supportive of what happened in Germany in contrast to what happened here. The question is: what do you deduce from that as to what we could do here to improve our situation?

Professor John Muellbauer: The German system is radically different from that of the UK. One other difference apart from those three is that in Germany, essentially, home equity loans are not legally impossible, but hardly any are available. In the UK, if the value of your house rises you can borrow more on the basis of that increased collateral. You can spend it, do up your house, send your children to private school or whatever. In Germany, that is essentially close to impossible. It is at least very hard to find a bank that will give you an extension of a loan on an existing home. The structure of the German economy and the way in which the housing market interacts with the rest of the economy is very different from the UK. The housing booms that we have here are part of a system-wide response, in which credit conditions ease and house prices rise. That feeds into more borrowing and spending, which fuels the economy and boosts the business cycle. We have a much more unstable boom and bust type of economy compared to Germany because of that difference in the way the economy operates.

Now, moving from the UK system to the German system is not something that I would recommend just like that. For one thing, the German system does not function quite as well as it might. It seems to me that the German system is probably too restrictive in the way it deals with household finance. In my view, the UK system in the past has been too liberal. The combination of the tax treatment of housing in the UK and the way the supply-side has been mishandled has fuelled the way the rest of the economy operates by making these booms and busts in house prices worse than they would have been otherwise.

In reply to your question, one starting point would be: first, to change the supply side; secondly, to change the tax system; and, thirdly—much as the Bank of England’s Prudential Regulation Committee is doing—to be careful about loan conditions in the mortgage market.

Lord Green of Deddington: Just to add to that, there are two other substantive differences. One is that England is almost twice as populated as Germany—1.8 times, I think. Secondly, I think I am right in saying that in Germany there are more regional cities and not quite the same concentration as in London and the south-east. Both those points might play into that.

Q93 Lord Lamont of Lerwick: I wonder if I could ask about the impact of foreign buying on London. I notice today that Zac Goldsmith has announced that he will not allow houses built on public land to be sold to people who have been resident here for less than three years. I have been in touch with developers who are developing quite near to here, and quite a high proportion of houses seem to be reserved for foreign buyers. It may be a very central London effect, but is this not part of what is driving the move out of the centre of London to outer London, and out of outer London to other areas of the country?

Professor John Muellbauer: Absolutely. That is very much the case. The top end of the London market typically leads the rest of the London market. There is a trickle-down effect
Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005) from the top end. If you have foreign buyers who essentially buy a bank account and park their money in a rising asset in London, and the housing is withdrawn from general use so you do not have workers in London living in that supply, you are contracting the supply side and pushing up rents in central London. Of course, in the longer term, a lot of the new build coming on-stream in London is to satisfy that part of the market. Much of that new build is not as functional as it might be and is drawing resources away from other building that would have supplied the middle of the market.

Lord Lamont of Lerwick: Some builders argue that building these very high-end properties provides the finance and development for what they may do subsequently in lower-cost units.

Professor John Muellbauer: They would say that, wouldn’t they?

The Chairman: Thank you very much indeed. It has been a very illuminating session. Thank you for participating today.
Immigration and Housing

Summary

1. Discussion of the housing crisis has generally focussed very largely on supply while the factors behind demand have often been ignored. The average household size has changed little since the early 1990s so population growth is the key driver of household growth and immigration is the key driver of population; in recent years two thirds of the additional households have had a foreign born head.

Detail

2. The Office for National Statistics (ONS) estimate that, between 2000 and 2014, two-thirds of the growth in households in the UK has been from households with a foreign born Household Reference Person\textsuperscript{xxv}. The same figures show that in recent years there has been a marked acceleration in the proportion of additional new households that had a foreign-born HRP.

Table 1: Proportion of additional households in UK with a foreign born HRP

<table>
<thead>
<tr>
<th>Period</th>
<th>Proportion of additional households with a foreign born HRP</th>
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<tbody>
<tr>
<td>1996-2000</td>
<td>46%</td>
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<tr>
<td>2000-2005</td>
<td>47%</td>
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<tr>
<td>2005-2010</td>
<td>67%</td>
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<tr>
<td>2010-2014</td>
<td>95%</td>
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</tbody>
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3. Looking forward, an estimate of household growth can be deduced from the ONS population projections for the UK which are revised every two years.

4. The level of net migration is the main variable in future population growth. The latest ONS principal projection, produced in 2014, has a long-term assumption that net migration will be 185,000 per annum. There are also variant projections with a ‘high’ net migration assumption of 265,000 and a ‘low’ assumption of 105,000 together with a projection based on zero net migration. They are illustrated in the graph below.

Figure 1: ONS Population projections at various levels of net migration

5. The zero net migration projection can be compared with the other projections to give an estimate of the impact of future net migration on population growth. Under this latest principal projection of 185,000 per annum, 68% of projected population growth is as a result of future migration\textsuperscript{xx}. 
6. However, this immigration assumption already looks very low. Net migration has averaged 242,000 over the last ten years and the latest figure for net migration to June 2015 is 330,000. The Committee might therefore like to consider the impact of the higher net migration scenario of 265,000 on future housing demand and even, perhaps, the current level of a third of a million.

7. Household projections, although based on the ONS population projections, are currently the responsibility of the Department of Communities and local Government and are produced every four years or so. The latest variant household projections (for England) were published in December 2015. (They were, however, based on the 2012 ONS population projections). Their zero net migration scenario produced 95,000 fewer households per year than their variant projection based on net migration of 225,000 per year so, under the latter projection, 40% of the total projected household formation will be due to future immigration.

8. This projection contrasts sharply with the 66% which actually seems to have occurred (see paragraph 2). The DCLG give very little detail as to how they arrive at their projections but they have clearly used obsolete projections and very low assumptions. The Committee may wish to explore this significant gap.

9. It will be apparent from the foregoing that immigration is a major factor in housing demand; it is also the only factor over which the government can have any significant influence. This is never given prominence in government publications, indeed it is seldom mentioned in the context of housing. That may explain why the impact of immigration on housing demand does not seem to be generally understood. We believe, therefore, that it is important that the Committee’s report should give it the attention that it deserves.

13 January 2016
Q200 The Chairman: Mr Johnson and Dr Miles, thank you for joining us this afternoon. I am aware that one of you—if not both of you—has to be away sharply at 4.30 pm, so we will do our best to get through the questions and give you an opportunity to answer all the points that we want to raise. Can I start with the Office for Budget Responsibility’s forecast that the household gross debt to income ratio will rise to 160% by 2021? We heard last week from Sir John Cunliffe, who has a keen interest in these matters, that although the household debt to income ratio is quite large he believes that the Financial Policy Committee is
Dr David Miles (Professor of Financial Economics, Imperial College London); Institute for Fiscal Studies (QQ 200-214) – Oral evidence (EHMOE0012)

equipped with the necessary powers to keep the ratio safe at that level. That should be set in the context of the Governor saying that one of the things that most concerns him about the economy is the level of mortgages. Dr Miles, would you like to start by giving your thoughts on the direction of travel and the risks therein?

Dr David Miles: As you know, the stock of mortgage debt relative to household income has fallen quite significantly relative to where it was just before the financial crash. It has been fairly stable over the last few years, but it is probably around 20% of GDP lower than it was just before the crash. The immediate direction of travel right now is more or less flat, at a level significantly lower than it was eight or nine years ago.

I do not particularly take issue with the OBR forecast that it is likely to rise from here on. When house prices are going up significantly faster than incomes, which is something one might expect to last for a long period of time, it is very likely that the stock of debt will creep up a bit relative to incomes, unless the Financial Policy Committee decides that it does not want to let that happen. I have no doubt that it has the tools, if it so wishes, to stop the ratio of debt to household income rising. The issue is not so much whether it has the tools to stop the debt to income ratio rising very sharply—clearly, it does—but what the side-effects would be if it felt that it needed to use them and what the balance is between the advantages of preserving financial stability versus some potential knock-on impact to the wider economy that could be more negative.

I am thinking particularly of a stark example. You could get into a situation where the FPC decided that, if its overriding aim was always to reduce to very low level the chances of an affordability of mortgage problem, it should impose some kind of cap on new mortgages relative to people’s incomes that was significantly lower than the recent flow of deals. If it were to do that, there is a question about what the wider impact would be. The people who then could not get into the housing market would be looking for somewhere else to live, and that might be happening at a time when the supply of rental property was squeezed. The FPC has the tools to what you might call preserve safety. If you mean, “Can it reduce to very low levels the probability of a widespread mortgage affordability issue?”, the difficult question for the FPC—I know that it is fully aware of it—is: how do you trade off the benefits of that versus some potential negative side-effects of really trying to keep the lid on the stock of mortgages?

The Chairman: Mr Johnson?

Mr Paul Johnson: I do not have anything to add, quite honestly.

The Chairman: I come back to the question of the level. As you say, it is somewhat below what it was and it has been stable over the last three or four years. Do you see a situation in which it could rise above the level that it reached in 2007-08?

Dr David Miles: If over the longer term house prices rose slightly faster than people’s incomes, which is not implausible for the UK—I am not saying that it is inevitable, but it is not implausible that that might happen for a very prolonged period—it is quite likely that the stock of mortgages relative to household incomes would rise gradually over time. At some point—it may not be for another 15 or 20 years—you get back above the level we
were at just before the financial crisis. It depends very much on what happens to house prices relative to people’s incomes.

The Chairman: That would tend to put a lid on house price rises, would it not?

Q201 Lord Lamont of Lerwick: You are trying to balance two factors—the risk of another house price bubble and the effect of its crashing, versus pre-emptive action to stop that, which you think would have wider effects and could be damaging to the economy at large. What exactly do you mean by that? Are you referring to the number of individuals who have a stressed situation? We are dealing in macro numbers, so it is a percentage of GDP, but the relevant issue might be the percentage of mortgage holders who are near a very stressed situation, and for whom a rise in interest rates as a preventive measure might result in a lot of people being unable to pay their mortgages, a lot of repossessions, et cetera. Is that what you meant?

Dr David Miles: I meant that there is always a risk that interest rates rise quite sharply—more sharply than people thought—in a short period of time. If you want to reduce the probability that a substantial number of people will find that a problem to live with, you can reduce it to very low levels by putting very tough limits on how much people can borrow relative to their income. You can make the probability of a problem virtually zero if you put a low enough limit on how much people can lend relative to people’s incomes. If you push that to the exclusion of any other consideration and say, “The only thing I care about is reducing that risk to virtually zero”, you will end up with an enormous cost. The difficult job the FPC has been given is to try to trade off some residual risks that there is none the less a problem against the benefits of allowing people to borrow enough to become home owners. I am just saying that there is a trade-off. It cannot avoid that.

Lord Lamont of Lerwick: To some extent, it is already doing that. It is already happening.

Dr David Miles: Yes.

Lord Lamont of Lerwick: Do you have any estimate of the number of borrowers who are so extended that even a very modest rise in rates of 0.5% or 0.75% could cause them severe difficulty?

Dr David Miles: My view is that at the moment that risk is significantly lower than it has been in the past. It is quite low, partly because with the introduction of the Mortgage Market Review there are now much tougher tests on new mortgages than there have been in the past as to whether people can afford them if interest rates go up. It is also true that usually the people who get into most difficulty when interest rates go up sharply are those who have borrowed most recently, because they tend to be the people with a larger mortgage relative to their income. They have not had time to pay any of it off, and their house may be worth only a bit more than the mortgage. The number of people who have been taking out new mortgages and the number of new owner-occupiers has been quite small in recent years. For both of those reasons, the number of people who are at risk over the next few years is rather limited, in my view.

Q202 Lord Layard: If mortgage finance involves that risk of instability, is there a role for greater outside equity? How can that be promoted?
Dr David Miles: There is a lot to be said for financing part of the purchase of housing with an equity contract, which means that the amount you need to repay on that part of outside financing goes up and down with the value of the house. Obviously that does not happen with a standard mortgage, which is one of the reasons why people with standard mortgages are quite exposed to the risk of house prices moving up or down.

The equity contract has a lot of attractions, because it is a form of risk-sharing with the person who provided the outside finance. As I suspect you know, there have been quite a few attempts in the UK and other countries over several decades to get a mortgage market going with this feature. They have not worked very well in the past. The most successful thing has come from the Government, with the equity loan bit of the Help to Buy scheme, which has that characteristic of risk-sharing. The interesting question—I am not sure that I have a very good answer—is whether or not that scheme, which has proved rather attractive, will be followed by a growing private sector market in equity funding for people buying properties.

One reason why it has not worked very well in the past is that it has been a rather asymmetric form of contract. In the past, those deals normally had the characteristic that I would lend you some money to buy the house and if house prices went up I would take a share—maybe quite a large share—of the upside. If house prices went down, you as the home owner would take the hit and would have to pay me back all the money I had lent you. In the past, they were not really a very attractive form of risk-sharing. The Government scheme is a more symmetric risk-sharing. If house prices go up, you pay the Government back more; if house prices go down, you owe them less. The interesting question is whether proper risk-sharing contracts might arise in the future. There have been some attempts. A few years ago, there was a company that attempted to offer a deal similar to the government deal; I think its name was Castle Trust. It has been a slow process for the company, although it is trying to make a go of it.

Q203 Lord Kerr of Kinlochard: I have a question for Professor Miles. You have written that one of the reasons for house price inflation is the availability of mortgage finance. Are you sure that that is the chicken and not the egg?

Dr David Miles: They interact, in the sense that one of the drivers of mortgage debt having risen quite sharply over recent decades is that there is strong demand for property and property prices have gone up. At the same time, the terms on which mortgages are available are a driver of the level of demand, so there is an interaction between the demand side and the price of the finance available.

There is a common view that we sometimes hear—a mistaken one; you were not putting it forward yourself—that interest rates were kept at too low a level in the decade before the financial crisis and that was a major driver of house prices having risen so much. I am not terribly persuaded by that argument. Interest rates in the UK in the 10 years leading up to the financial crisis were, if anything, slightly higher than those in most other developed economies. On the whole, they were slightly higher than those in the eurozone and in the United States. What happened before the financial crisis was not so much that the rate of interest that the central bank set was obviously too low but that, particularly in 2005, 2006 and 2007, there was a rather frenzied scramble for market share by the mortgage lenders.
Frankly, that meant that they were offering mortgages to new buyers—not to existing buyers—at a cost that was almost certainly losing them money on every mortgage, in the hope that some of those people would get a very good deal upfront but that a few years later some of them would not notice when they quietly put the interest rates up. That form of pricing and rather unfortunate competition was a driver of the rapid rise in house prices in 2005, 2006 and 2007. The world has moved on. I suspect that the model of competition—that model of pricing—where you offer new buyers who want to borrow a lot a lower interest rate than existing buyers who are a much safer bet has gone. I would not say that it has gone for good, but it will not come back for a very long time.

**Lord Kerr of Kinlochard**: Thank you. Can I ask Mr Johnson something completely different? It is about second-hand homes. We have seen evidence that in the late 1980s about 2 million second-hand homes came on to the market every year. Now it is only about 1 million. What is the cause of that? Should the Government be doing something to try to encourage people to move on?

**Mr Paul Johnson**: There is a problem of supply or turnover in the housing market. The lack of willingness to sell, despite the extraordinary prices around, is creating a lack of supply. Clearly a number of things underlie that. One that is quite important, no doubt—although I cannot give you the scale of how important it is—is stamp duty, which is a much bigger fraction of the cost of a house now than it was back in the 1980s. If you look, for example, at the Office for Budget Responsibility’s projections of the amount of revenue that the Government will get from stamp duty, you see that it is very dependent on the number of transactions. The number of transactions that it has been projecting has been coming down year by year—partly, no doubt, because of the scale of stamp duty, but partly, it seems, for extraneous reasons. I would certainly put stamp duty high on the list of suspects as regards the reasons for the lack of turnover in the housing market.

**Lord Layard**: I want to come back to the role of finance in determining the prices of houses and housing land. Obviously in the short term there is an effect from the availability of finance, but how much of the strong long-term upward trend in real house prices can you attribute to financial factors?

**Dr David Miles**: Part of it. This is a slightly vague response to a profoundly difficult question, but there is quite a significant chunk over the last 20 to 30 years. It is not so much the Bank of England, which can set the short-term nominal interest rate; it is more what we might call the global real interest rate, which has been on a downward trajectory for probably 30 years. Thirty years ago, the real interest rate on longer-term government debt was probably about 3% or 4%. It is now marginally negative. That is an enormous change—not just in the UK, but in most developed economies. If you think of the value of a house as the present discounted value of the future rents that you might get from owning it, when you change that discount rate by as much as taking 3% off it, it is probably worth a lot on the level of house prices.

Long-term real interest rates coming down is a phenomenon of the last 25 to 30 years, but house prices were going up in the UK even before that. Over the very long term, more important, probably, than the decline in real interest rates over the last 20 or 30 years is the whole issue of the supply of land, how many houses we build and restrictions on building in
the areas where house prices have gone up most, around London. Obviously that is an enormous factor.

Q205 Baroness Blackstone: I would like to go back to the point you made about stamp duty. It has been put to us, and it is very obvious to anybody who knows anything about the housing market, that there is a lot of underoccupation by older people. There are a variety of reasons for that, but would you favour having a relief on stamp duty for older owner-occupiers, to encourage them to downsize?

Mr Paul Johnson: There are a number of blockages to downsizing. Stamp duty is certainly one of them, because you need a big difference in price to release equity. We also undertax big houses through the council tax system. More expensive houses are much less heavily taxed than less expensive houses. There is no annual charge on you for occupying an expensive house. Clearly there are issues around how you would do that in an acceptable way, but the cost to you of continuing to occupy a big house is very low, even if you have a tax that is proportional to the value of the property, rather than regressive. Within the remit of the tax system, those are clearly two changes that you could make that would incentivise more moving and make doing so less penalised. I do not know whether you would want a particular relief for older people. There will be a case simply for making a revenue-neutral shift from stamp duty to council tax.

Q206 Lord Lamont of Lerwick: I go back to Lord Kerr’s chicken and egg. I rather sympathise with Lord Layard’s implication that the longer-term culprit is more likely to be land. If you go back to the period when the Government started their schemes for first-time buyers and Help to Buy, a lot of people criticised those because they were adding to demand, but, at the same time, mortgage availability for first-time buyers was on very restrictive terms and the amount of mortgage lending was very small. Did the Government really have any alternative but to take that step? In a way, it kick-started the market.

Dr David Miles: I have a lot of sympathy with that. As you rightly say, at the time those schemes were launched, the amount of net new mortgage lending in the UK was extraordinarily low. Indeed, even now, when there has been quite a lot of repair in the financial system, the amount of net new mortgage lending is running at much lower levels than in the 10 or even 15 or 20 years before the financial crisis. I do not think that one could look at the most recent experience of relatively rapid rises in house prices over the last couple of years, relative to consumer prices, and say that it is clearly being fuelled by an explosion in mortgage lending encouraged by government schemes.

Q207 Lord Forsyth of Drumlean: Mr Johnson, you made the point that it does not cost older people who are living in the family home a lot to live there, but surely there is the opportunity cost of the property. Instead of staying in a six-bedroom house that is worth £3 million, they could decide to downsize and cash in the money, so there is an opportunity cost. Surely that is not an argument for putting a tax on them. They are choosing to deploy their capital in a way that suits them.

Mr Paul Johnson: Clearly you are right; there is a big opportunity cost in doing that. The role that stamp duty plays is significantly to reduce that opportunity cost. Indeed, the structure of council tax also reduces the opportunity cost, because it rises less than proportionately
Dr David Miles (Professor of Financial Economics, Imperial College London); Institute for Fiscal Studies (QQ 200-214) – Oral evidence (EHMOE0012)

with the value of the property. You make an important point. It is important not to overstate the role that the tax system plays. We have known for a long period, and from other countries’ experience, that quite often older people are reluctant to downsize, for all sorts of other reasons. There is no golden bullet that will suddenly result in a massive change in behaviour, but at the margin it is clearly pushing in that direction.

**Lord Forsyth of Drumlean:** Are the changes in inheritance tax not far more important, because they encourage people to hang on to the property? The tax implications are far more important than the stamp duty.

**Mr Paul Johnson:** All those things push in the same direction—towards investing in owner-occupied property, staying in owner-occupied property, not moving out of the owner-occupied property you are in and, in particular, not downsizing. I struggle to say which of those is bigger, but it is clear that all the signals in the tax system push the same way.

**Lord Forsyth of Drumlean:** I have a question for Dr Miles. Perhaps I am wrong in this, but when I was young, at the end of the 1970s, you could buy a one-bedroom flat in Pimlico for what you would now pay in stamp duty on that flat. The big change that started the market after the secondary banking crisis was when the building societies started to lend on conversions. Prior to that, they would not lend more than 60% or 70%, if you were lucky, and you had to have a building society account for at least a year or two years before they would give you more. Is the issue not the availability of credit, as well as the cost of credit? I am now criticising something I supported; deregulation and the availability of credit has been an important factor in driving this.

**Dr David Miles:** Yes. I would not want to deny that. You are right. The major deregulation in the mortgage market in the UK is a phenomenon of the very late 1970s and the early part of the 1980s—a period of very rapid increases in house prices. I suspect that most of that freeing up of the availability of finance had played through by the end of the 1980s. It may well have been a prime driver for a lot of inflation, but clearly house prices have gone up enormously in the period from 1990 to today as well. I do not think that there has been the same pace of further financial liberalisation in the UK—there may have been rather little, actually—after the enormous liberalisation in the 1980s. There have been other factors at play in the last 25 or so years, since the early 1990s, one of which is the global decline in real interest rates. The other is the interplay of rising incomes, rising population and restrictions on housebuilding.

**Lord Forsyth of Drumlean:** Remember that in the 1990s interest rates got up to 15%.

**Dr David Miles:** They did, in the early 1990s—absolutely.

**Lord Lamont of Lerwick:** In the 1980s.

**Lord Forsyth of Drumlean:** Sorry.

**Dr David Miles:** They came back down again.

**Q208 Lord Turnbull:** Can I come to fiscal policy? This whole problem looks to me like grandmothers and babysitting—one is able and not willing, and one is willing and not able.
You have the large builders, who have the planning permissions and the access to finance, but they are not really interested in accelerating their rate of build very much. Then you have local authorities and registered social landlords, who are absolutely keen to expand their building—for rent, for shared ownership or even for ownership. The argument against allowing the latter is that you have to relax their borrowing. Are there ways in which either local authorities or housing associations can expand their capital that do not add to the recorded figures for public sector debt? If it does add to public sector debt, does it matter? Public sector debt is net of the assets that you are financing. If you have an increase of £1 billion in public sector debt and there is £1 billion in housing assets, what the hell? Why do we worry about that?

**Mr Paul Johnson**: I am afraid that, as you know, it is a fact of the way the national accounts work that, if we sell an asset for what it is worth, that appears to reduce debt and borrowing and, if we pay for an asset what it is worth, that appears to increase debt and borrowing. That is the way the fiscal aggregates work. In saying that, it is clear that that is not the only thing one should think about. The overall government balance sheet and the change in that clearly matter and should be taken into account when you are making those sorts of decisions. You can take that into account in all sorts of decisions, whether on building roads or building houses. Houses are actually easier to value. They have a clear resale value in a way that a lot of other government infrastructure does not, so they are closer to something you can value immediately, with a clear value on the balance sheet that could be shifted off. I certainly have sympathy with the idea that the way we currently consider the government balance sheet is not wholly rational. I do not think that the answer is to come up with all sorts of fancy financing plans to get things off balance sheet. We have tried that in all sorts of areas, but it tends to end in tears in one way or another, and to end up being much more expensive. We have to think about what the appropriate things to worry about on the balance sheet are and how to value them.

**Lord Turnbull**: Do housing associations really belong on the public sector balance sheet? There has been some quirk that dragged them on to it, and there is some consideration as to whether that should be reversed. Why are they not in some other sector, outside general government? Their borrowings elsewhere are underpinned by the rents that they can charge or housing benefit. It seems to me that we have unnecessarily maximised the presentation of disadvantage of housing association activity.

**Mr Paul Johnson**: The intention is that they do not stay on the government balance sheet. Whether they are on or off should not make a great deal of difference to what the appropriate policy is. It is important to be clear: even if they are off the government balance sheet, it is pretty clear that public policy and the taxpayer underpin that debt to a substantial extent, for exactly the reason you describe—a very large majority of people in housing association accommodation receive housing benefit, so effectively it is paid for directly by the taxpayer in any case. The impact of housing benefit in this whole thing is incredibly important in understanding the way in which the money works around the system. Even when they are off balance sheet, housing associations can borrow at pretty low rates, essentially because the market believes that the Government will continue to support them through the housing benefit system.
Lord Turnbull: The other way in which they would fund themselves, if they were allowed, would be by recycling of properties, but that is getting capped as well.

Mr Paul Johnson: Yes. If you make them work as separate institutions, they ought to have the freedom to bring in money as a result of selling properties, given that they are meeting a public policy requirement.

Lord Turnbull: The effect of restricting the building of housing for rent is that waiting times go up, which is a hidden social problem, and rents go up and the housing benefit bill goes up. We are always saying that we do not want that, but we are feeding the thing that is driving the housing benefit bill.

Mr Paul Johnson: Of course, housing association and council rents are set by regulation. In a reversal of policy, they are set to come down by 1% a year for the next few years, having gone up over a long period.

Lord Turnbull: Is that not a short-term response? It reduces the growth of rents temporarily, but if it reduces the rate of housebuilding, you have made the problem worse five years down the line.

Mr Paul Johnson: You are right. If it reduces the resources available to housing associations, as it will, it is likely to reduce the number of new properties built. Of course, in the private sector, the way in which, historically at least, the housing benefit system interacts with the private rental system has been potentially damaging, in the sense that there is some evidence that the availability of housing benefit up to a level has an effect on rents themselves. Of course, we are now moving to a different system, in which housing benefit levels are pretty much decoupled from rent levels in the private sector. Potentially, that has much bigger social implications going forward. Whereas historically people had their rent paid, prospectively and, to some extent, already, increasing numbers are not getting their full rent. That is a big change in both housing policy and social policy.

Lord Turnbull: All these things have in common a kind of time preference—the time preference of dealing with the thing that benefits the Government in the short term at the expense of where they want to be a decade hence.

Mr Paul Johnson: As regards the Government position, there are a lot of time preference issues that have changed. There has been a long period of seeing rents in the social sector rise. In the short run, that is a little bit cheaper for the Government, because some people in the social sector are paying full rent. With a focus on the benefit bill, the Government want rents to fall, in order to get the benefit bill down, but there is a cost, both in lower housebuilding and in lower rents being paid by those who are not on housing benefit. As with most of these things, there are pretty much inescapable trade-offs.

Q209 Lord May of Oxford: I would like to follow this up in a slightly curious direction. As I understand it, the current tax system supports landlords over ordinary home owners in a way that makes renting a very safe investment. Through various bits of luck, I won some rather nice prizes a little while ago. After thinking about how to invest them, we invested them in buying things to rent. I now feel that that was a slightly immoral thing to do. We could afford to do it, and it worked extremely well. That kind of encouragement to build
houses to rent makes it harder for people who are not so well-off. It would be much more moral if similar incentives were offered for investing in industry perhaps—or am I just way off-track?

Mr Paul Johnson: There are two different issues. I do not think that there are tax benefits to buying to let relative to buying as an owner-occupier—indeed, rather the reverse.

Lord May of Oxford: It seems to me not to be in our general interest.

Mr Paul Johnson: If you buy to let, you pay income tax on the return and capital gains on what comes out when you sell it at the end, which is not the case for owner-occupiers. The current system is clearly more tax favourable towards buyers and owner-occupiers than it is towards buy-to-let landlords and renters. The tax system is not, and was not, even before the recent changes, more generous to people buying to let.

There is a second issue, related to the other point that you were making, which is about equity between those who are well-off and have generally been lucky in the housing market over a period, in the older generation, and those in the younger generation, who may not yet be in the owner-occupied housing market. You might want to tip the scales of the tax system further in favour of young people who want to be owner-occupiers, against people with substantial sums that they can invest in buy-to-let property. That will be a deliberate tipping of the scales towards owner-occupation to an even greater extent than is the case at the moment. If you want to make an argument, that is the argument you should make. I do not think that it is reasonable to make the argument that the tax system as it stands favours buy to let.

Q210 Baroness Blackstone: First, do you think it right for the Government to support one form of tenure over another—in other words, to be so particularly committed to owner-occupation, as against other tenures? Secondly, is there a case for a capital gains tax on owner-occupiers when they sell?

Mr Paul Johnson: The first question is really a political one for Government, which I am not going to express an opinion on, except to say that current policy has resulted in a situation that has provided an unintended windfall to a particular group of the population, particularly those over 40 or 50 and those who are relatively well-off. The long-run impact of that will be that inheritance becomes increasingly important to the younger generation’s ability to get into the housing market and, indeed, to its well-being in later life. That is an unintended consequence of a whole lot of things in the end, but particularly of the inadequate supply of housing. In the long run, all of this comes down very substantially to issues of the supply of housing.

Capital gains on owner-occupation is a very complex question, in the sense that it depends on what tax system you want to get to. At the moment, you can think of housing as being taxed a bit like an ISA. You buy your house out of income, after it has been taxed, and then you pay no more tax on it. That is not a silly way to tax something, but it has had the effect historically that these huge unearned gains have been completely untaxed. Think of the pension tax changes that are not going to happen next week. The way we tax pensions makes a lot more sense, because you buy them out of untaxed income and, if you do
terribly well, you end up paying tax at the end. There is a case for taxing some of the excess returns that owner-occupiers have achieved. There is a very difficult case for saying you should do so retrospectively. People bought on one set of presumptions, so you would probably want to do it only prospectively.

Baroness Blackstone: How would you make that work?

Mr Paul Johnson: It would be very difficult. First, yet again you are entrenching privilege for a particular generation and punishing the next one. The second problem with it is that it could only possibly work if all parties were committed to it. If you thought that any party that might get in within the next 20 years was going to stop doing it, you would not sell your house before then, for sure, so it might reduce transactions in the market even further. You might want to have lots of ways of rolling this up as you move up through the housing market. In practical terms, it would not be straightforward.

Dr David Miles: I very much agree with what Paul Johnson said. Even before the tax changes that are about to come into effect for buy-to-let people, the tax system seemed to me strongly to favour owner-occupation. That will become exacerbated very soon, with the extra stamp duty on buy-to-let and the other tax changes. There is no good reason at all for having the tax system favour one form of tenure over the other. It is not as if having a lower owner-occupation rate is a disaster in itself; far from it. There are many successful countries that have much lower owner-occupation rates than the UK. Indeed, across the world as a whole, an absolutely crude correlation would suggest that some of the poorest countries in the world have the highest owner-occupation rates. There is no evidence at all that having a high owner-occupation rate is in itself a good thing for economic performance, welfare and happiness.

Q211 Baroness Wheatcroft: We have heard repeatedly that builders do not build out their estates fast enough; in fact, a third of planning permissions do not even get acted on. If the Government are to reach or get anywhere near their housebuilding target, do you think there is a motive for putting a tax on planning permission, or on the land that has it?

Dr David Miles: I hesitate, because I have always been puzzled by the argument that you hear—very sensible people put it forward—that builders have incentives to sit on land and so on. I scratch my head a bit to think about what economic incentive they might have to do that. Leaving land with permission to develop and not developing it could make sense if you were convinced that land prices were about to go up very sharply, but why would that be a rational thing consistently for housebuilders to believe? If they believe it, why do other people not believe it, so that it is already reflected in the value of the land they have to buy? One gets into all kinds of funny puzzles as to why they would do that.

Baroness Wheatcroft: I do not think we have had a clear picture emerge. One argument that we have heard from smaller housebuilders is that more houses would be built if the major builders could be persuaded to let them have a bit of the site—obviously at a fair
price. One way of encouraging them might be to have a tax on the land. If you are not persuaded by that, do you think that there is an argument for moving away from our current taxation on property to taxing the land, rather than the homes? Mr Johnson referred to the fact that council tax does not effectively bring in enough money from those in very large houses. Should we re-examine the whole issue?

**Dr David Miles:** On the second question, there is a very strong argument for having property taxation, possibly even as a flat common percentage per year of whatever the value of the property is. That might be just the land value, or it could be the overall value of the property—the land plus the structure built on it. There is a lot to be said for that. If you were to levy that tax at somewhere between 0.5% and 1%, you could probably raise as much revenue as is raised from stamp duty and council tax added together. I looked at some numbers before coming here. I thought that a number somewhere between 0.5% and 1%, as an annual tax on the value of a property, was likely to bring in at least as much as the sum of stamp duty and council tax.

**Baroness Wheatcroft:** Would you put that tax on land that had not yet been built on as well?

**Dr David Miles:** I guess that one would. In a sense, it would be a tax on residential land, whether or not it had been built on. This is a very simplistic point—Paul Johnson will probably sort me out on it—but here is one argument for a number of the order of 1% being a plausible estimate of how much one might tax each year the value of the land. It goes like this. One thing that is not taxed at the moment is the implicit rental that owner-occupiers receive from living in their own house. Suppose you could measure that and wanted to tax it. If you thought that it should be taxed at the average rate of other goods that people consume, you would use the VAT rate, which would be 20% of whatever you thought the imputed income of living in the house for a year was. If you thought that the imputed income was something like 5% of the value of the property, which is about the average rental rate on properties, you would get 5% times 20%, which would get you to about 1%.

**Baroness Wheatcroft:** That is interesting. Mr Johnson?

**Mr Paul Johnson:** There are two things. There is certainly a case for thinking about council tax in exactly the way that David describes—as standing in place of VAT on owner-occupation. If you are renting you are paying VAT, or if you are buying anything else in the economy, but if you are in owner-occupation you are not, so why not think of council tax in that way? Actually, I am not sure that that is true of renting. If you think about other goods and services that you consume, you pay VAT, but you do not do so for occupying a house, except through council tax, which is a bit like VAT, except that it is not flat rate but regressive. That is a useful way to think about it.

There is a separate question, which is about the taxation of undeveloped land. As you know, it has a very long history in economics. There is a strong case for land taxation, for precisely the reasons you describe. The correct tax to levy on some land would be its value if it were used to its maximum economic extent, which is precisely how you would think about any undeveloped land that housebuilders held. It seems to me that there is a case for that.
Baroness Wheatcroft: That is interesting. Thank you.

Q212 Lord Forsyth of Drumlean: If you introduced those taxes, would they not in the end just be passed on to the purchaser and thus add to the problem, which is that people cannot afford to buy houses?

Dr David Miles: They might reduce house prices, at the point at which you brought them in. Let us say that it is a 1% tax every year on the value of property. It would have differential effects on more and less valuable houses, but to the extent that it corrects a degree of undertaxation of housing, because people in owner-occupied housing do not pay tax on the implicit rental income that they do not have to pay to themselves—

Lord Forsyth of Drumlean: But why should they?

Dr David Miles: Because they are consuming a good, in the same way that, when you go to the supermarket and buy a load of goods there, you pay VAT on most of those.

Lord Forsyth of Drumlean: We do not have a system where we get our revenue through a consumption tax model. We have a system where we tax people on their income.

Dr David Miles: Not with value added tax. That is where I got my number of 1%.

Lord Forsyth of Drumlean: I know. I find it quite difficult to understand the idea that, if people save all their lives, work very hard and buy themselves a house, the state has the right to tax them because they are enjoying the house they worked for. What is the justification for that?

Dr David Miles: If you work very hard, earn income and then buy a TV, you pay VAT on the TV.

Lord Forsyth of Drumlean: Yes, but you do not get taxed on your TV every year.

Dr David Miles: No, but you were taxed on the income that you had to earn to buy the TV—and then you pay more. I think it is analogous.

Mr Paul Johnson: Part of the issue is retrospection, as against what is prospective. The change is very difficult. You earn your income in the expectation that if you buy a whole bunch of things you will pay VAT on them, but you buy your house—or you bought your house in the past—in the expectation that you are not going to have a series of taxes levied on it. It is a profoundly difficult and important issue. In a sense, you are absolutely right. It is very difficult for the state to come along 20 years after someone has bought a house on the basis of a set of assumptions, and to start charging extra tax. On the other hand, there are profound consequences of not doing that, as regards the concentration of wealth in a particular generation, the importance of that unearned wealth and the inheritance that results from it—as a result of blind luck, frankly, on the part of the people who, to a large extent, have benefited from that. There are two big ethical issues that weigh against each other. We need to think quite a lot harder about where we come down on that, because which way we do it makes a big economic difference.
Q213 Lord Layard: You are discussing an alternative source of income for local authorities. If so, would one not want to structure it in a way that incentivised them to deal with the housing shortage and the shortage of permissioned land? Your tax on all land is a tax on land that was already permissioned. Would it not be better to focus it on newly permissioned land—marginal permissioned land—to incentivise them to permission more land?

Mr Paul Johnson: If you did it on all permissioned land, it would have that effect on the newly permissioned. There has long been a case in favour of that kind of planning gain, essentially. The worry—as you know, this is why it never worked terribly well in the past—is that holders of land hold on to it in the hope and expectation, which has always been proved true, that the tax is got rid of. In principle, I agree with you rather strongly. In practice, I do not know how policymakers bind their hands and the hands of their successors to be absolutely definite to those who might be affected that this will exist for ever more. That is a serious practical problem.

Lord Lamont of Lerwick: I have some sympathy with the view that housing, particularly capital gains, may be undertaxed vis-à-vis other assets, but obviously it is politically very difficult. I wonder whether the whole business of housing being undertaxed is not a bit of a red herring. When you go back a few years, you see that there have been big changes in the taxation of housing. First, we had mortgage relief being denied for equity release. Then we had interest deductibility for higher-rate payers taken away, and salami-ed away from basic rate payers as well. At the time, it was thought that all of that would stop the rise in house prices, but it has had absolutely no effect at all. There must be something more fundamental than the tax system that is driving up house prices.

Mr Paul Johnson: There is. The fundamental issue is the supply, for sure.

Lord Lamont of Lerwick: Yes. All this talk about taxation is a bit of a waste of time.

The Chairman: Lord Sharkey, you had some questions not about taxation.

Q214 Lord Sharkey: I was not going to talk about taxation; I was going to take you back briefly to what incentives builders might have or what might cause builders to build out faster. You said that there were none you could think of in their business model. What, therefore, do you think are the key factors that determine the rate at which builders actually build houses?

Dr David Miles: I am not sure that I have anything very helpful to tell you about that. I am not really on top of the facts, as regards how much undeveloped land they are sitting on, what that stock is relative to the flow of completions over a period such as a year, whether the stock of undeveloped land relative to the flow is higher now than it was, or whether it appears to be higher in periods when there is an expectation of land prices going up. The facts are very murky on all this. I continue to scratch my head about what their incentives might be, to be honest. Although one often hears the statement that they sit on land and that there are land banks and all the rest of it, I do not find it terribly convincing.

Mr Paul Johnson: I am as puzzled as David, quite honestly. We know one empirical fact about the number of houses being built: the gap between the number being built now and
the number that was built when most houses were being built, in the 1960s and 1970s, is entirely accounted for by the fact that the public sector is no longer building houses. It is not that the private sector is building any fewer; nor, on the other hand, is it building a lot more to fill the gap. There seems to be a remarkable regularity. More houses were being built in the past, but the difference between now and then is essentially the difference between public sector housing now and public sector housing then. I do not understand or know why private housebuilding has not filled that gap. It is an incredibly important and interesting question.

**Lord Teverson:** I have just done my own calculation. If I had 1% tax on the non-mansion I live in, my annual expense would probably be four times what it is at the moment, which shows the political barrier there may be to that. I understand entirely the theoretical economic argument, which I am sure a publication such as the *Economist* would love, but it is probably fairly difficult to deliver. There is also the issue of doing valuations. Governments tend to avoid uprating of valuations. I have a question for Dr Miles, primarily—or first. Is there an inconsistency between the setting of interest rates to meet inflation targets, as the Bank of England or central banks are expected to do, and the setting of rates necessary for stability in the housing market? You stressed that there is a particular divergence when you have a particularly hot housing market that is moving, in colloquial language, out of control. Interest rate policies can then be very blunt and can have counterconsequences in that area.

**Dr David Miles:** There could be an inconsistency. If interest rates are the only effective tool to try to prevent bubbles and volatility in house prices, clearly there can be a problem of consumer price inflation running at beneath some desirable level, as is the case now, and house prices rising very fast at the same time. That has happened at times in the past. There could certainly be an inconsistency. You can make one of two choices. Either you say, “We just have to live with that. When it happens, we have to sacrifice one for the sake of the other”, or—I think this is the road we are going down, and it is a better road—you make sure that you have some other policy levers, besides interest rates, to try to keep a cap on potential bubbles and volatility in the housing market. That is where the Financial Policy Committee and the tools that it has come in.

My view is that, to a large extent, not the Financial Policy Committee but the Mortgage Market Review, which came into effect almost exactly two years ago, may reduce the problem substantially in future. The key element is that lenders now have a clear and explicit responsibility to assess affordability of mortgages. Can people live with interest rates suddenly going up by 3%—I think that is the number they have to deal with at the moment—relative to when they took out the mortgage? If that works in the way it is supposed to work, the potential difficulty is very much reduced.

**Lord Teverson:** From what you are saying, it seems that you think that the balance has been struck fairly effectively so far, using some policy instruments to correct others.

**Dr David Miles:** Time will tell; it is very early days. My impression is that it has been a very big shift. Lenders now have an explicit responsibility to assess the affordability of the mortgage. I think they will take that responsibility very seriously. After all, no lender wants to get into a position four or five years from now where interest rates have gone up, a
bunch of people are finding it very difficult to pay the mortgage and claims management companies are ringing those people and saying, “You must have been mis-sold the mortgage, because it was the responsibility of the lender to see that you could live with interest rates being substantially higher. You have not been able to live with that, so we will handle a claim for you. The lender has mis-sold you the mortgage”. Given the experience of PPI, lenders take that extremely seriously.

**Lord Teverson**: In a way, that itself creates an intergenerational problem, does it not? The restrictions make it very difficult to have the start in life that we all had but that the next generation does not.

**Dr David Miles**: You are right. It cuts off a potential short-term get-out of the problem of not building enough houses and having house prices go up. You can try to get around that problem temporarily by having a financial system in which people borrow ever more relative to their incomes and can still get into the housing market, even as house prices move up very sharply. You can try to play that game for a short while, but it always ends in disaster.

**Lord Teverson**: It is like a lot of government interventions. To a degree, it is like putting sticking plaster on sticking plaster, is it not?

**Dr David Miles**: In a sense, the mortgage market review means that it is not an option even in the short run to try to go down that road.

**The Chairman**: That brings us to the end of the session. Gentlemen, thank you very much.
Kathy Miller – Written evidence (EHM0025)

Private Ownership:

1. Contributing factors to cost in New build housing and conversion.
   Planning System, Design Principles, Monies required from developers, Health and Safety registration, Much higher building reg standards, Cost of building materials, Skilled labour

Planning

Is the main area which needs changing to allow more houses to be built. Nimbism is one of the biggest hurdles. Nimby’s are encouraged to get up petitions, consult MP even employ Planning consultants to stop any new housing and this also applies to one small house, as to not would mean they would not be re-elected. The localism bill gives Nimby’s much more power and the message object to everything. The Planning officers should hold much more power on getting Plans passed without continuously having plans taken to the planning committee by local members. This could be done via any development below 10 dwellings is left to the planning officer and will not be taken to committee, or a different committee in another area decides on the plans at committee. Or a set amount of houses are required to be built from small infill sites and a set number from conversions.

Appeal inspectors should support new buildings sometimes it would appear they do not on small houses on infill sites.

Design Principles

This should allow for a design which is different from the street scene. The modern designs are cheaper to build but normally can’t get pass the planning officer’s. Why does every house need to look the same. Modern design should be welcome for energy efficiency and speed of build. Smaller units are also in demand but hard to get passed the planning officers and Nimby’s go overboard on them. Studio units are energy efficiency and helps FTB and the sole persons (which are on the rise). Few people now want big gardens to maintain. They are also much cheaper to buy. Why does studio’s require parking? Not everyone as a car they should be exempt from providing parking.

Monies required from developers

Whatever amount this is gets added to the end house price. We have just had a development finished, currently 3 bed semi is 180,000 to 220,000. These houses are 242,000 that in turn will push up the other 3 bed semi’s.

Health and safety is necessary but is very costly to a development.
Building Regs is necessary but again adds to the cost of a development

Cost of building materials. Continuous increases but modern design could reduce these costs if allowed to be built.

Skilled labour. In every recession the skilled labour is lost.

Government schemes

I personally don’t think council houses should be sold off. Many people try to get social housing and the ones that do then are given up to 100,000 free to buy. I also believe this then adds more numbers to the Nimby’s. I have seen first hand objections from people that have bought their social house. I question the government’s reasons for wanting everybody to own their own home? Many people are happy to rent and this takes stock away. I also question the government’s 20% interest free loan to FTB this as helped to pushed prices up and if house prices crash the 20% could easily be wiped out. These FTB are being saddled with high mortgages. The government are encouraging people to borrow large amounts of money and creating a stigma against renters. I cannot tell you the number of times I have heard “we own are house, we don’t want renters here it will reduce are house values”

Taxation:

Inheritance tax although it is welcome I don’t think it’s correct to give this and hit other areas. It has been done for votes and not for the good of the country. I strongly suspect that eventually the government will put a CGT on house owners. Yes it could encourage people to down size. Some older people might, to have a good retirement and so spend money which would help the economy, instead of the possibility of losing it to nursing homes

. I think the stamp duty land tax as been welcome by all, it would have helped FTB in expensive areas but not the low wage FTB who would not be able to afford the higher priced property.

The Tax measures which would most improve housing supply is help the smaller builders with finance. It is not available at low enough rates to borrow and you have to jump through hoops to get it. Extending the interest free development loans to small builders to pay back at the end, would be a step in the correct direction. A consultant supplied at a small fee via the government to help the smaller builders gain the planning required this might also deter the objections to planning. These small builders would utilise all the small infill plots without the need to extend into the green belt.
Another area would be to give roll over relief to buy to let landlords. Many landlords buy run down property and do up. This would also increase housing standards at the same time as releasing property into the market. They could also reduce VAT to 5% for renovations/capital expense.

Mortgage Market Review changes are far too tight many people our unable to get a mortgage due to it.

2. Privately Rented Accommodation:
   a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation

   **Without doubt** this measure will increase rents as within every other business the costs get added to the end price, in this case rents. The use of the word tax relief is flawed it is a cost to a business that is being removed.

   Many landlords will be made bankrupt by this decision so the rental market for individual landlords using mortgages will contract. This will be picked up by landlords who do not need mortgages who buy with cash. This will be seen as a welcomed opportunity to them but the rents will still rise due to supply and demand.

   The portfolio landlords with mortgages who remain will not be able to take anyone who is a risk. The few that house the housing benefit renters or the low paid relying on tax credits, will only be taken as a last result. Another consequence of this will be mortgaged landlords being unable to maintain their properties. **This policy is the biggest direct attack on landlords and the poorer renters in society ever seen by any government.** Unbelievable it is supported by Labour. The government has capped Housing benefit rents for four years, already it is below the market rent. It has been deemed as social cleansing of the poor and mortgaged private landlords. The four year phasing in period is for the rent to build building schedule, not the reason given by the government.

   This announcement which was not in the manifesto as caused massive mistrust of this government. Landlords looking to incorporate have to weigh up the costs of this with possible CGT and SDLT payable.

   Government have repeatedly attacked the private rented sector and continue to do so. They have been the subject of untold negative propaganda which has succeeded in the increased venom against them.

   The end result of this is we will have big corporations controlling the rental market. They will dictate the market rents and as with all other areas privatised, rents will raise to please the share holders. This is all backed by the government.
b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

This government is doing all it can to make everyone a home owner at the expense of renters. 
A possible reason given by a political Journalist

. At the moment, Conservative policy is to create a housing bubble. Inflated housing prices create a boom in construction and that makes it look as if the economy is growing. But it can only be paid for by saddling homeowners with more and more mortgage debt 
If the government pays off its debt, what it’s basically doing is transferring that debt directly to you, as mortgage debt, credit card debt, payday loans, and so on. Of course the money is still owed to the same rich people. But now those rich people can collect much higher rates of interest.

Everyone will just keep pushing the debt on to those least able to pay it, until the whole thing collapses like a house of cards: just like it did in 2008.

Unless there is change in the affordability criteria many will still be left renting. As the government is doing everything to help the big corporations to build all over the UK, these renters will be renting from corporations. The low paid and housing benefit people I have no idea what plan the government is hatching for these unfortunate people.

The government needs to recognise the Private Rented Sector for the business it is and not keep calling it an investment. The sector should enjoy the same tax incentives as all sole trader businesses, holiday lets, bed and breakfast etc.. This would also give the government NI payments.

c. What are the advantages and disadvantages of restricting rent increases in the private sector?

I see many disadvantages the standard of accommodation will be reflected in the rental paid. It will put off investing within the rental market. Many landlords who have long term tenants rarely increase rents, but a policy like this would result in yearly rent increases.

Social housing: Are any measures needed to increase the supply of social housing? 

a. What will be the impact of the Right to Buy for housing association tenants? 
b. What will be the impact of the proposed changes to social housing rents announced
by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

I believe that social housing needs to increase, not affordable housing which is not affordable to the low paid. The right to buy I do not support, the houses that will replace them will be affordable not social housing. There is nothing wrong with living in a social house and I wish the government would stop putting out indirect negative comments on this issue.

Is it correct that these tenants are able to buy at massive discounts while some people are unable to get a house? I believe the government wish to get rid of social housing providers.

By restricting rent increases Social landlords are already laying off staff.

25 November 2015
Increasing the supply of reasonably priced housing in the UK.

This can be achieved. It requires the following strategies.

1 / Seek to eliminate ‘development costs’.
There was a time when we spoke of ‘building costs’ of new homes. The costs of bricks and mortar, timber & tiles and the fitting out and finishes.
Today there are so many additional ‘development’ costs driven by compliance. Additional drawings, surveys and reports for planning applications. Method statements for tree works health and safety. Building standards compliance and new home warranties. Service information, Indemnity insurances and bonds.
The cost of a new home is increased by these development costs and crucially the time taken to tick all these boxes which is often spent by highly paid professional consultants. Many planning conditions requiring further planning applications and written permission prior to commencement of works are unnecessary.

Many development costs and planning conditions could be erased.

2 / Allocate sites specifically for certain housing categories.
The RICS suggested this some years ago. Planning permissions should specify the category of residential development granted whether it be for Private rent, social housing, homes for the elderly, first time buyer housing or indeed a mix. This would depend on a planning authority’s housing needs. The value of the site would thereby be ascribed by the category of residential development permitted. This would enable sites for social rent for example to available at lower cost as the planning permission would limit the value of the site.

This would be a relatively simple change to subordinate legislation.

3 / Take positive action to identify ‘grey belt’ land for development.
By Grey belt I mean (That colourless wasteland that surrounds our urban areas without the energy of the urban build environment or the tranquillity of the rural idyll) There will be small pockets of land here that are virtually serviced. Little additional infrastructure will be required.

Some Local authorities are calling in proposals for sites. This is a welcome pro active approach and should see some better use of Grey belt land.

4 / Offsite production and Design common denominators
Eric Lyons, the architect who designed the new village of New Ash Green in Kent spoke of ‘common denominators’ in housing. Those repeated designs and components that reduce cost. Offsite production of houses to repetitive designs would reduce costs of design and construction.

Repetition should be embraced .Use of common denominators and offsite production of houses should be encouraged.
5 / Increased densities.
Britain seems obsessed with two storey housing. In France some of the more beautiful urban areas are four and five storey. Kensington and Chelsea is the most expensive residential borough in London. Yet it is one of the most densely built in the country.

*We should introduce a planning presumption that any single storey house may be demolished to be replaced by up to three storey house unless there are compelling reasons not to allow it.*

6 / Government schemes.
Shared ownership is an excellent scheme operated by most Housing associations and should be encouraged. Stair casing should be made as easy as possible. Subsidy of Shared Ownership tenants in stair casing is the proper way to encourage Right to buy. Housing associations should be given freedom to transfer tenants from their rented models to Shared ownership models with the prospect of eventual ownership. Shared ownership tenants should be given the freedom to sub-let rooms.

Right to Buy Housing Association houses is a flawed concept which is highly controversial seeming to favour a small group of people. It is unloved by professionals as it weakens the ability of Housing Associations to carry out their functions and potentially reduces housing association stock.

*Allow Housing associations to control their own disposal of housing through their shared ownership model.*

7 / Taxation.
Stamp Duty Land Tax is in practice a tax on the sale price of a house. If SDLT is raised the vendor will receive less for his house when reduced he will receive more. However the buyer pays this tax and he perceives it as a burden when on completion he pays over SDLT to the revenue. It is thereby a disincentive to demand. Knight Frank have recently reported substantial decreases in transaction volumes in the high end housing markets in London. The raising of SDLT levels on high end housing and its reduction on low cost houses has merely distorted the relative prices of houses.

SDLT is an efficient tax to collect in a nation where land is subject to compulsory registration. It is therefore essential to retain it but essential to get it right. I doubt whether the receipts of SDLT since the changes were implemented have increased the tax receipts.

*Incentives need to be introduced to increase transaction levels. Further reform might be directed at socio/ economic goals. For example certain houses could qualify as SDLT free. Houses sold for demolition and redevelopment for example.*

Community Infrastructure levy is calculated at a set rate per square metre of additional accommodation permitted. It is a blunt instrument of local taxation based on infrastructure.
requirement and does little to encourage the provision of house building particularly of smaller sites where development values are only marginally in excess of existing use values.

*Community infrastructure levy should apply only to larger sites.*

8 / Privately rented accommodation.
We are starting to see more large professional landlords coming in to the Private Rented sector. We will thereby witness more professionalism and consistency in management, more build to let schemes, longer term tenancies and security of tenure. The reduction in tax relief to small landlords is not therefore disincentive to supply of new homes to the private rented sector.

*Encouragement of stable rented accommodation comes from, Larger landlords with long term strategies, and Build to let schemes designed for rentals.*

9 / Social Housing.
Social housing is housing let at low rents to those who simply cannot afford to pay market rents for their housing. Right to buy has no place in this category.
The objective has to be to reduce rents as much as possible so that tenants can afford them without resorting to Housing Benefit. This might be achieved by;
*Building far more Social housing schemes recognising 1 and 2 above. Designing and building cheaply. Allocated social housing sites*
*Imposing strict occupancy conditions on tenants. No cars where parking is limited, no smoking in blocks of flats, alcohol ban for certain tenants.*

The requirement for percentages of affordable housing as a condition of a planning permission is established. Local Planning authorities should adopt a flexible approach to making housing affordable. For example discounted housing. The sale of new homes to first time buyers at discount to market price. This might be an affordable requirement that would benefit the developer and the local authority.

Local Planning authorities have long been requested to recognise viability when dictating affordable requirements. They should be willing to be flexible.

9 November 2015
Submission to be found under Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005).
Response to House of Lords Select Committee on Economic Affairs Inquiry into the Economics of the United Kingdom Housing Market

From National Association of Estate Agents (NAEA) and Association of Residential Letting Agents (ARLA)

December 2015

Background

1. Association of Residential Letting Agents (ARLA) - As the UK’s foremost professional body for letting agents ARLA represents 8,000 members including 3,000 Principals, Partners and Directors of letting agencies. ARLA campaigns in the best interests of consumers – for mandatory regulation, client money protection, independent redress and professional indemnity insurance. Using an ARLA member provides landlords and tenants with higher professional standards and financial safeguards than the law demands.

2. National Association of Estate Agents (NAEA) - Membership of professional body NAEA provides consumers with high professional standards and integrity in all property transactions. NAEA has a high media profile, analysing market trends and speaking on property issues on behalf of more than 7,000 estate agents including 3,500 Principals, Partners and Directors from across the UK property sector.

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

3. To increase the supply of reasonably priced housing in the UK we need finance, suitable land, time and skill. We need to stop thinking of housing policy in five year election cycles and adopt a long term approach to this critical issue.

4. For instance, bricks and other materials must be ordered a year before a home can be built and the UK needs skilled workers to ensure that properties are built to a high standard. Consequently, there must be a continued partnership with industry
and the education sector to boost apprentice numbers in order to attract more people into the construction industry. Funding must also be provided to support their training. This is particularly important to increase the number of brick layers and carpenters who are desperately needed.

5. Local authorities must ensure that homes are built on suitable land that is located along existing transport corridors. These developments must provide schools, hospitals, local shops and green spaces for communities to use and enjoy. These developments must also include cycle ways and good bus routes connecting local towns, villages and cities. Local authorities should also identify and bring back into residential use empty housing, buildings and where appropriate converting empty shops into flats to help regenerate town and city centres.

6. It is also imperative that the supply of reasonably priced housing coincides with infrastructure improvements. The opening of new train lines, dual carriageways and bypasses will not only help to increase the supply of housing but reduce traffic levels as well as noise and air pollution. They can also link centres of employment for people to work and build communities.

7. Unused public sector land should be released for residential developments in towns and cities across the UK. This is particularly relevant in London where demand for housing is extremely high. The Greater London Authority, Transport for London and the National Health Service could all release land for development.

8. The cost of materials to build homes must be reasonable and regulations must not be so onerous that they result in unaffordable housing as an unintended consequence.

9. Those able to access reasonably priced housing still require large sums of money to pay for deposits and solicitors’ fees. With house prices still outstripping wages people need support in accessing finance to purchase property once they are built.

A. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to require) been in improving the affordability of Housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

10. Since the start of the economic downturn, we have consistently called on the Government and the banks to look at more comprehensive ways to improve access
to funding for prospective homeowners, especially for the important first time buyer market.

11. When Help to Buy was first announced in the March 2013 Budget we welcomed the unveiling of the scheme. Following the launch of the equity loan the NAEA Housing Market Report published in June 2013 showed that the average number of house hunters increased in April, reversing the downward trend seen in the previous two months.

12. The number of sales during April also increased, with nine sales recorded per branch, which was up slightly from eight in March (this was the highest number of average sales recorded since June 2011). The percentage of overall sales to first time buyers also increased from 19% in March to 23% in April. In addition, for the third consecutive month, the supply of homes increased marginally, with the average number of properties per branch increasing from 60 in March to 61 in April. However, these figures shouldn’t be taken in isolation and there is insufficient evidence to conclude that this increase was just due to Help to Buy. This is because at the time lending rates were low and there were also a wide variety of mortgage products on offer.

13. The Help to Buy ISA announced during the Chancellor’s March 2015 Budget is another strong initiative from the Government, allowing first time buyers to raise a deposit. It especially benefits couples who are buying for the first time as both are eligible to open a Help to Buy ISA, which potentially means a £6,000 bonus from the Government towards owning a new home. However, in the long term, in order to help first time buyers find their feet in the market the issue of supply needs to be addressed and more houses need to be built.

14. In October 2015 we were pleased when the Communities Secretary, Greg Clark announced that the 1.3million housing association homes made available for purchase under the Right to Buy will be replaced on a one-for-one basis, which will help increase supply in the housing market. However, it is important that these replacement homes are built within the same local authority boundaries where the original home was sold. As a result the Government shouldn’t look at major cities across the UK as whole entities. The Government must ensure that housing stock is retained and grown evenly across city regions.

15. We believe that Shared Ownership can, in the right circumstances, offer a way of avoiding the high costs associated with buying a property. By splitting the deposit, maintenance fees and mortgage repayments, it can make owning a home a more realistic aim for many would-be first time buyers. However, it’s important to
remember, that this option requires a lot of trust, transparency and good planning between all parties involved.

16. Due to a drop in the number of first time buyers back in January 2013 we encouraged first time buyers to consider shared ownership. However, we believe that when highlighting this option it’s important that people are aware that there are mortgages that exist specifically for this type of purchase and should shop around for the best deal.

17. In December 2015 we welcomed the news that the Government would put the proposed plans for the expansion of shared ownership into action. Without the loosening of existing restrictions, a potential 175,000 aspiring homeowners would not have the opportunity to own their own home. Furthermore, without the changes this would also restrict existing shared ownership homeowners the opportunity to move up the housing ladder.

B. Taxation: Are there tax measures that would improve housing supply and affordability?

18. Because of the extent of housing demand in London we think that the Stamp Duty raised from London property sales should be kept in London to invest in more housing. This is an idea that if successful could be rolled out to other major cities throughout the UK where demand is at its highest.

19. It’s also vital that the Government works closely with mortgage lenders to ensure that lending criteria are appropriate and that sufficient lending is available to those who are looking to buy a home.

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

20. We fear that the Chancellors’ decision to raise the inheritance tax relief threshold to property worth less than £1million could have unintended consequences on helping buyers move up the housing ladder. This is largely because increasing the threshold will create tax incentives for home owners to stay in property for longer periods of time, which will have a knock-on effect lower down the property chain.

ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?
21. In December 2014 we were very pleased that the Chancellor decided to abolish the cumulative slab tax and introduce a graduated band tax. In January 2015 the NAEA Housing Market Report showed that the Stamp Duty reforms announced at the start of December had helped to boost the middle market and encourage prospective home buyers. NAEA member agents recorded the highest level of registered home buyers per branch in December for 10 years, while agents reported a rise in the number of properties sold in the bands of up to £250,000 and £251,000 to £925,000.

22. NAEA members also reported that the number of house buyers registered in December was on average 360 per branch, the highest level for that time of year recorded in the last 10 years. The last time the number of house buyers registered per NAEA member branch was this high for December was in 2004, in which 360 house hunters were similarly recorded. The seasonally high figures suggest the changes made to Stamp Duty announced in December 2014 helped to encourage prospective buyers in a typically quieter month for the housing market.

23. Another promising sign was the slight increase in percentage of sales made by first time buyers in December. NAEA member agents reported that the percentage of sales made by first time buyers increased by 2%, from 24% of total sales in November 2014 to 26% in December. Out of those sales made by first time buyers in the month, almost half (48%) were aged 18 to 30, suggesting a higher proportion of younger first time buyers had been encouraged onto the market than the previous month, when just 38% of sales were made by first time buyers aged 18 to 30.

24. However, the number of houses available per NAEA branch was seasonally low at just 45 properties per branch, compared to 50 in the previous month and 47 the year before in December 2013. The lack of supply, and ultimately lack of choice for prospective buyers saw NAEA members’ record on average just 5 sales per branch in December compared to eight in November (the previous month).

25. The Committee may also be interested to know that sales figures provided to us from members in Scotland allowed us to examine the operation of Scotland’s new Land and Buildings Tax since 1 April 2015. Figures from our members showed that whilst we expected the new rules to help first-time buyers and the lower end of the market, the figures we obtained showed that fewer properties costing up to £145,000 were sold in 2015 (since the new rules came in) compared to the same period in the previous two years.
C. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

26. The new rules that came in under the Mortgage Market Review introduced stricter guidelines for lenders and led to two thirds (65%) of NAEA member estate agents reporting a decrease in the number of buyers. This was the direct result of a slowdown in acceptance of mortgages, with it now taking an average of 50 days to receive a mortgage offer. This increases the risk that sales will collapse and puts unnecessary pressure on all transactions within a chain.

D. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

27. The planning system has for a long time suffered from a lack of consistency. The Government’s decision to deregulate planning laws to force through construction in local communities will help in the short term but in the longer term the Government needs to introduce a national house building plan.

28. The Government must also ensure a level of consultation with residents is retained in the planning process to ensure houses are built that meet the need of the local community.

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

29. In order to increase the supply of low cost private rental properties in the UK more homes must be built and institutional investors should be encouraged into the residential property sector.

30. The private rented sector should be treated as an ‘entrepreneurial business activity’ for Capital Gains Tax purposes. This would allow landlords to take advantage of the same level of roll-over relief available to other businesses when reinvesting in the sector and limiting Capital Gains Tax to gains released from a business as profit.

31. Local authorities need to be empowered to be able to effectively fine home owners who leave properties sitting empty, such as by raising the severity of penalties the longer the property stays empty.
32. Home owners and landlords should be incentivised to maintain and make improvements in their properties, thus improving the quality of housing stock in general. The Government’s decision to end funding to the Green Deal Finance Company is disappointing and could mean that the Minimum Energy Performance Standard (MEPS) regulations may become impossible to implement. This is largely because the Green Deal allowed landlords to make their properties energy efficient at no upfront cost. Furthermore, maintenance costs are lower in energy efficient properties and tenants that do not have to pay significant sums of money to keep their homes at a comfortable temperature generally stay in properties longer, thus void periods are reduced.

33. ARLA believes that full mandatory government regulation of sales and letting agents is the quickest and most effective method to eliminate unprofessional, unqualified and unethical agents from the rental market. We think increasing supply of rental properties and raising standards across the industry must go hand-in-hand.

**A. Will the reduction of tax relief available to landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?**

34. After the Chancellor’s announcement in July we said that at a time when the supply of rental property is already struggling to meet demand, it is dangerous to try and reduce growth in the rental market.

35. The Chancellor has also replaced the Wear and Tear Allowance costs with a new system of Tax Relief, which means that landlords can only deduct the exact amount they incur. The unintended consequence of this, combined with the reduction in income tax relief, is that landlords will seek to recoup their costs by putting up rents. Consequently, tenants will have to save for longer to be able to afford a deposit for a house because more and more of their income will be spent on rent. Therefore these policy changes will have the opposite effect of the Government’s stated policy aim of more owner occupiers.

**B. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?**
36. ARLA’s Private Rented Sector Report from October 2015 showed that the number of letting agents reporting rent increases for tenants fell to a quarter (25%), compared to 32% in September. This meant that the number of rent hikes in October was the lowest reported this year. However, as typical at this time of year demand dropped, but we expect demand to pick up again after Christmas.

37. Next year we hope to see the number of tenants experiencing rent hikes remain low with supply and demand levelling out. However, a lot rests on the economic and political agenda. We’re still waiting for new houses previously announced by the Prime Minister, whilst changes to landlord tax proposed under the Finance Bill are very likely to discourage new landlords from entering the market.

38. The announcement in the Chancellor’s most recent Autumn Statement for stamp duty tax on buy to let properties to be increased by 3% from April 2016 is catastrophic news for the private rental sector. To make owning a buy to let property financially viable, landlords will need to pass on the increased stamp-duty costs to tenants, who will in turn see less spent on maintaining their property and see increased rents. The changes will also deter new landlords from entering the market, pushing the gap between dwindling supply of available property and growing demand even further apart, which will also – in turn – push up rental costs.

39. In order to encourage a stable long term rental culture the Government must build more houses to bring down the cost of renting. It’s also important that existing landlords who want to expand their property portfolios have new investment channels to tap into and there is a more flexible tax regime putting private landlords on a level playing field with the social rented sector and owner-occupiers.

40. It’s essential that Housing Enforcement teams are properly resourced to remove rogue landlords and agents from the sector. Figures from Shelter show that only 428 landlords from across all of England were prosecuted last year for housing offences. Therefore, it is essential that prosecuting bodies are given the powers to become revenue generators for local authorities rather than revenue drains. The fines collected should be kept by the enforcing body and ring-fenced with the money going towards further enforcement.

41. The Government should promote the benefits of being a better landlord and encourage consumers to use trained and qualified landlords and agents. ARLA has long campaigned for more appropriate regulation of the letting industry. To improve the sector and provide a better service to both landlords and tenants, we believe
that all letting agents should be professionally qualified and required to undertake regular Continued Professional Development. A scheme akin to the London Rental Standard should be placed on the statue books and made mandatory for every agency. Such regulation will ensure fairness, a level playing field and, we believe, the removal of those agents who bring the industry into disrepute.

C. What are the advantages and disadvantages of restricting rent increases in the private sector?

42. We don’t see any advantages in restricting rent increases or introducing any rent stabilisation measures, such as longer minimum fixed term tenancies in the private sector. This is because flexible tenancies and rent prices driven by market forces have led to the success of the private rented sector across the UK.

43. In addition, we know from our members that landlords appreciate good tenants and would avoid raising rents to retain them. ARLA’s Private Rented Sector Report in March 2015 showed that the average time tenants stayed in a property is 17 months and a third (31%) of agents reported that they had successfully negotiated a rent reduction for tenants. Therefore, if, for example, rent controls were introduced to rise only with inflation, instead of tenants getting a potential reduction they may be more vulnerable to automatic increases.

44. Furthermore, institutional investors who are crucial for building new homes could be deterred from investing in the private rented sector, which could lead to a slowdown in the construction of new apartment blocks. As a consequence property may switch towards other uses such as offices.

45. It is estimated that there are around 100,000 remaining tenancies in the UK still subject to ‘rent control’ which applied to landlords before the introduction of the Housing Act 1988. Whilst the gap between the rent charges on these properties compared with similar unregulated property near to them underlines just how much private rents have overtaken prices and earnings since the 1980s, the fact that many of these properties are in very poor condition, as it is not in either the landlords or the tenants interest to maintain them, clearly highlights the problems with rent control.

46. If restrictions on increases to rent were introduced it’s likely that landlords would start new tenancies with higher rents to prevent losses later in the tenancy. Higher rents would be essential to ensure mortgage payments and maintenance costs could be met.
47. The only way we are going to get rents and houses prices under control across the UK is by a massive house building programme.

17 December 2015
My submission to this enquiry is written as an individual; I am a mother and grandmother, so have experienced over the years seeing the varying changes in housing and property and people’s problems. My submission is drawn from what I see about me and what I deduce from the various media and in local planning issues. There have always been injustices of some kind in housing, but today’s injustice in our planning and housing has severe effects on families and communities. I acknowledge that the situation is not aided by uncontrolled immigration that has its effect in obvious ways but also makes planning for future years very difficult. Occasionally my words are repeated in this submission, which is necessary because the subject of discussion overlaps.

1. Private ownership; What measures can be taken to increase the supply of reasonably priced housing in the UK?

a. I do not think that some Government schemes are working. ‘The Help to Buy’ has helped some. But ‘Right to Buy’ scheme is wrong; people already living in social housing have reasonable security of tenure and living with reasonable rents. But those in the private sector are paying increasingly high rents which is trapping them; if they do wish to move to another rented place, the costs involved make it difficult to move on for most people as there are agents fees, administration fees, deposits etc. neither can they afford to buy their own home as costs of renting simply make it unaffordable to save to buy their own home.

b. Taxation. People who own second homes should be taxed more heavily than the chancellor proposed in the recent budget. If some people can afford to have a second/third home that is sitting empty for a significant part of year then they can afford to pay higher taxes. It is simply unfair that many people cannot even own one small home when others can own two or three.

c. Planning.

Planning should guide developers into building houses that people need. Developers are increasingly building for the ‘buy to let’ market which is reducing the homes of the type that are actually needed.

Building estates in rural areas where there is no infrastructure e.g. schools, work, education and medical facilities social life, entertainment is resulting in residents relying on cars, this increases emissions and so is not sustainable. It is important not to forget growing children, they want a social life with sports facilities and activities that most teenagers want. If they are isolated from these facilities it often contributes to social behavioural problems and increased crime rates and disfunction within families.
In areas of high tourism these houses end up as ‘investment properties’ or ‘holiday homes’ which do nothing at all to alleviate housing shortage and often have a negative effect on local communities.

It appears that planners in councils do not actually plan as they should, they simply negotiate developers’ ideas which are ‘anything as long as it is houses’ without a thought about many important factors are involved. Development sites are often too high density with houses that are too small and so unfit for purpose.

Some possible options that could be considered:-

- Starter homes with space to extend the house in the future.
- Homes for people who wish to move from family homes as they grow older. Often referred to as ‘downsizing’, these people do not want poky little places, they want houses that are easier to live in as they grow older; smaller gardens; access to amenities: or flats with a balcony so having easier access to outside. Just talk to people and find out what they want.
- Family homes possibly with annexe for older relatives which would could be mutually beneficial to both generations and the nation by aiding social care. But consideration would need to be given to the time when the older person died and how the property would be used subsequently. Possibly an annexe that could function independently of the main house.
- Sheltered homes such as those owned by ‘Abbeystead Homes’ which are an excellent model of how to run sheltered homes.
- Reasonable sized family homes built in lower density than is often normal at the present.

2. Privately rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

Although measures need to be actioned to prevent the rapid increase in ‘Buy to Lets’ as too many have been detrimental to the property market, because they have been built for the wrong reasons; not as permanent homes for people to live in but merely as investments for landlords. Too much restriction too quickly could lead to increased rents, which is trapping people into the ever increasing cycle of constantly moving into new rented accommodation with increasing costs.
Giving people more opportunity to rent for longer periods, so they may settle into normal family life. More restrictions are required to control ‘bad’ landlords and agents with their often unfair administration fees and deposits.

3. **Social Housing**: Are there any measures needed to increase the supply of social housing?

   The Right to Buy is a wrong policy; people living in social housing usually pay a much lower rent than the private renting sector, they also have greater security of tenure. So why give them very significant discounts? Surely it would be better to help them with the same “help to buy scheme” in the way that the private sector is helped. Also it removes too many houses from the social housing pool which are then not so easily replaced.

   Reducing the rents for social housing reduces income for the Housing Trusts /Councils; people who have high earnings need to be encouraged to move on so giving less well off people the opportunity to have a home. If high earners are reluctant to move then probably they should be expected to pay a higher rent.

**Further Comment**

It is possible that there is another avenue that could be explored that may help the housing shortage. Of course it is necessary to plan for the future, but there are times we need to look back to see what worked before and how it can be adapted to suit present day needs. For instance large employers e.g. Bournville, Sunlight and other large companies would build homes for their employees and also provided leisure and health facilities for them. It is appreciated that we cannot do that in the same way in present times, but are there various methods that could be examined to perhaps expand this idea? Either building homes for rent or buying, helping with home loans, using a shared equity. Employers would not lose out, whether to rent or buy costs would be reimbursed when selling and would remain an asset if rented. There must be a pathway somewhere in this suggestion that could help all sides. Large companies should learn to have more responsibility in their role in the community, country and to their employees and it could possibly improve relations between employers and employees if handled responsibly and sympathetically.

In this area of East Devon, there are too many houses being bought as second homes or ‘buy to lets’. It is disheartening to see these houses sitting empty for significant periods. When houses are built that are ‘the wrong houses in the wrong places’ then they are not fit for purpose for permanent family living, so they inevitably end up as second homes for investment purposes.

Developers very often in areas of high tourism build houses that are not suitable for people to buy and live in as family homes because:-
a. They are far too small and poky, with no storage facilities, garden space or provision for car parking.
b. They are built in the wrong places - with no proper infrastructure’ people need to get to work and schools also to leisure and shopping facilities. All the things that a family needs.
c. Developers are building for the investment market generally, they should be building homes fit for family living as permanent homes.

The new builds in the UK are considered to be the smallest in Europe, which is a disgrace. New builds in UK were found to be just 76sq.m in size on average, 87.7sq.m in Ireland 109.2sq.m in Germany and 137sq.m in Denmark. Co-author of a report on housing sizes, Malcolm Morgan stated “In extreme cases, overcrowded homes causes physical illnesses such as depression and asthma. Less extreme cases causes anxiety or stress, or impact on children’s and social emotional development” To live healthily and happily and safely as a family they need space in their homes, some outdoor space - to grow vegetables tend a garden, for children to play; to have sufficient parking in which as cars are not going to go away any time soon. Bus services in the rural area I live are not fit for purpose so people have to uses cars, to reach hospitals, shops, and all daily necessities.

I do not know why planners, developers, councils and Government do not understand this, They simply seem to want build any houses as long as it is houses they don’t care what they are like or for the people who have to live in them.

Another factor occurring more frequently in current times in this area - but obviously will occur all over the country. When an old person dies, where at one time the family inherits the property they would usually have sold it. But now they just keep them as second homes or rent them out, ten per cent of houses in our road come into that category now. Part of the reason for this is that interest rates are so low that there is no incentive for people to sell and either invest their money or use it to move to other larger properties. This is also partly due to peoples’ distrust of banking institutions. It might appear to be an insignificant factor, but if this is occurring all over the country, then it is not insignificant, it is contributing to the stagnation of the property market.

16 December 2015

289 Britain’s ‘shoe-box’ houses smallest in Europe. Building Research & Information Journal. www.architectsjournal.co.uk
1. Introduction to the National CLT Network and Community Land Trusts

1.1. The National CLT Network is the Charity for Community Land Trusts (CLTs) in England and Wales. It is a membership body and provides funding, resources, training and advice for CLTs and advocates on behalf of the CLT movement to create the right conditions for CLTs to grow and flourish.

1.2. CLTs are local organisations set up and run by ordinary people to develop and manage homes as well as other assets important to that community, like community enterprises or workspaces. The CLT’s main task is to make sure these homes are genuinely affordable, based on what people actually earn in their area, not just for now but for every future occupier.

1.3. East London CLT in Mile End, for example, is providing 23 homes for sale at prices that ensure that the annual housing cost will be no more than one third of median income (currently £31,378). A two-bedroom flat will be sold at £181,111, compared to the average price of a two-bedroom flat in Tower Hamlets of £471,080. In St Minver, Cornwall, homes have been self-built for sale at less than 35% of market value; a discount that will benefit every successive buyer.

1.4. There are currently over 170 CLTs, half of which formed in the last two years and, by 2020, 3000 new affordable homes will have been developed by CLTs. This is in urban and rural areas.

1.5. These CLTs are making an important contribution to meeting housing need. In many areas CLTs are overcoming the ‘NIMBY’ problem by building support amongst interest groups as diverse as landowners, conservationists, environmentalists, employers and communities themselves. Votes in favour of CLTs’ preferred sites are attracting over-whelming support.
1.6. This is because CLTs are led by the community, trusted by the community and have at their core the principle of developing homes that are affordable to local people in perpetuity. These qualities are enshrined in the statutory definition of a CLT and differentiate them from even the most consultative and community-based of mainstream housing providers.

1.7. This submission is concerned only with the potential impact on the CLT movement of the Government policies on the demand for and supply of reasonably priced housing across the UK, including Starter Homes, the Right to Buy and the policy to reduce social housing rents by 1% every year from 1 April 2016.

2. Impact of Government policies on the demand and supply of reasonably priced housing across the UK

2.1. Starter Homes

2.1.1. We fully support the ambition to bring home-ownership within the reach of as many people as possible, including First Time Buyers. Many CLTs already help achieve that ambition by developing homes for sale that are aligned to what local people earn in an area.

2.1.2. We are concerned though that the new Starter Home initiative, as outlined in the Housing and Planning Bill, will make it very difficult to provide shared ownership or other affordable low cost ownership homes to meet local need. Starter Homes will be permitted to count as affordable housing and, because they will generate a higher land receipt than affordable rented or shared ownership housing, they will lead to an increase in land prices. Landowners and developers will most likely look to set the land price as near to 80% of market value as possible.

2.1.3. The Rural Productivity Plan (August 2015) states that Starter Homes will be developed on rural exception sites. Some early calculations informed by the RICS guidance on valuing affordable housing suggests that Starter Homes will double the price of rural exception sites. This would make it unviable to provide affordable housing or would require a significant proportion of market housing to achieve the land price that can be achieved if the whole site is developed as Starter Homes. This could have a very serious effect on rural CLTs, the majority of which develop on rural exception sites, and could reopen the way for more local opposition to new homes in rural settlements that CLTs have successfully overcome.
2.1.4. It is vital that there is a sufficient supply of sites at a land price that make it possible to develop affordable housing, including by CLTs.

2.1.5. We are pleased to see that regulations of the Housing and Planning Bill will confer discretions to Local Planning Authorities and that certain types of residential development will be exempt from Starter Homes.

2.1.6. **We urge that Starter Homes are not required where there is evidence that Starter Homes will not meet local housing need and that there is an exemption from Starter Homes on rural exception sites.**

2.2. **Right to Buy for housing association tenants**

2.2.1. Many CLTs are not registered as a Registered Provider with the Homes and Communities Agency and so they are not at risk of being effected by the Right to Buy. However, eight CLTs are Registered Providers, three are in the process of registering and at least another 45 are working in partnership with housing associations and have granted the association leases over their land.

2.2.2. If the Right to Buy was to be applied to CLTs, it would go against their basic aim of keeping homes affordable in perpetuity, would have a significant impact on the current supply of CLT homes and would have a severely dampening effect on the future growth of the CLT movement.

2.2.3. We are therefore pleased that the voluntary deal between the Government and the housing association sector gives CLTs the discretion not to sell a CLT home.

2.2.4. However, many CLTs are still nervous that an exemption in a voluntary agreement leaves them very vulnerable to coming under pressure to sell their CLT homes.

2.2.5. **It is therefore important for the stability of this small but vital sector that the deal gives the strongest possible protection for CLTs and that there is an exemption for CLTs on the face of the Housing and Planning Bill.**

2.3. **Proposal to reduce rents in the social housing sector by 1%**
2.3.1. The proposal to reduce rents in the social housing sector by 1% each year for four years from April 2016 will effect CLTs that are Registered Providers (RPs) themselves and CLTs that have worked with, or are currently working with, housing association partners.

2.3.2. There are eight CLTs that are RPs. For these CLTs the decision to register as an RP was driven by the conditions of applying to the Homes and Communities Agency’s grant programmes, including the Community-led housing element of the 2011-2015 Affordable Homes Programme. The same rationale applies to the two CLTs that are in the process of registering as an RP.

2.3.3. All these RPs have very small numbers of homes, tight business plans, very prudent running costs (some of which are delivered by volunteers at zero cost) and no other stock to help absorb the loss of income.

2.3.4. The proposal to reduce their rents will mean that these CLTs now face a very uncertain and, in some cases, disastrous future. For half of the 8 CLTs that are RPs, the rent reductions proposal would lead to severe financial difficulties and, in two cases, insolvency within three years.

2.3.5. The Welfare Reform and Work Bill states that the rent reduction will not apply to RPs where the Regulator determines that compliance would jeopardise their financial viability. However, before a waiver is even considered, organisations are urged to explore merging with a housing association. For CLTs, as legally constituted organisations working in a defined local area and where volunteers have invested hundreds of hours of volunteer time to develop their own affordable housing projects, a merger with a large housing association would undermine their core ethos.

2.3.6. We therefore urge that the 8 CLTs that are RPs are made exempt from the rent reductions proposal as set out in the Welfare Reform and Work Bill.

3. Further information

3.1. For further information regarding this submission please contact:

Catherine Harrington
National CLT Network

17 December 2015
3. Social housing: Are any measures needed to increase the supply of social housing?

a. What will be the impact of the Right to Buy for housing association tenants? Not answering this as not relevant to our organisation.

b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

1.0 Introduction

1.1 The National Federation of ALMOs (NFA) (www.almos.org.uk) is the trade body which represents all housing Arms' Length Management Organisations (ALMOs) across England.

1.2 There are currently 39 ALMOs which manage around 542,808 council homes in 42 local authorities. The NFA represents the interests of ALMOs at the national level and provides advice and training for members.

1.3 ALMOs were first established in 2002 to manage council housing through not for profit companies set up and wholly owned by the local authority.

1.4 ALMOs were established to deliver investment in council owned stock without having to pass the ownership of it out of council control. ‘Decent Homes’ funding was made available to those ALMOs that were able to demonstrate a high level of performance and sound financial management, which eventually was all of them. When housing management organisations were being audited, ALMOs generally achieved higher inspection ratings than local authority managed housing or housing associations.

1.5 A defining feature of all ALMOs is that tenants have a significant say in how their estates are managed. At least one-third of all ALMO Board members are tenants with the remaining positions filled by councillors and independents often with business and housing experience.

1.6 Over the last 4 years ALMOs have built 2,000 new homes and were scheduled to deliver at a further 9,000 for their parent councils over the next five years.
2.0 Executive summary

2.1 ALMOs can play a major role in ending the country’s housing crisis and the NFA believes that measures are needed to boost the supply of social housing. These should centre on leaving unmodified the housing revenue self-financing arrangements put in place by the Government in 2012 and abolishing the restrictions on borrowing.

2.2 Council house building starts are at a 23 year high as a result of allowing councils to keep their rental income for local investment under the 2012 Housing Revenue Account (HRA) self-financing agreement.

2.3 The Chancellor’s 1% cut to social rents each year from 2016/17 to 2019/20 has gone back on this agreement and will see councils suffering an income loss of £2.4 billion by 2020.

2.4 Measures in the current Housing and Planning Bill requiring councils to sell off their high value voids to fund Right to Buy and not allowing them to keep the extra revenue generated from charging tenants on higher incomes the market rent will further decrease the amount of resources available for investment in new social housing.

2.5 Prior to these measures plans were in place for ALMOs to build at least 9,000 homes for their councils over the course of the next five years. Early indications suggest that these will now be cut to a handful of new starts.

2.6 If the Government relaxed borrowing rules or removed the cap altogether, councils could access capital that would be well within the levels sustainable from projected incomes from rents.

2.7 An NFA commissioned report shows how the building of 100,000 new social homes a year will create a net surplus for the Exchequer by 2035 through savings that would come from a burgeoning housing benefit bill which currently stands at £24.4 billion.

3.0 Question 3b: What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

3.1 Housing self-financing led to boost in new council homes

3.2 Council house building starts in England are at a 23 year high; however the recent renaissance in council house building looks unlikely to continue.

3.3 In 2012 the last government introduced a new regime of HRA self-financing which was supported by all political parties. Under this, councils were relieved of any future need to give to or receive from government any payments of housing subsidy.
This was in exchange for a one-off debt settlement based on the net present value of its housing stock. In return, councils won the right to keep rent income in full and invest it.

3.4 The self-financing settlement was based on a valuation of each council’s housing stock that gave a total value of £29.2 billion to council housing in England. This valuation was based on the assumption that council rents would rise annually by 0.5% more than the Retail Price Index broadly in line with the expected long-term growth in tenants’ incomes. It was also assumed that councils would be allowed to complete the convergence of individual rents to the target rents set in Government guidance through an additional increase of up to £2 a week where necessary.

3.5 Impact of rent reduction

3.6 In the 2013 Budget, the Government announced that the future basis for rent setting would be the Consumer Prices Index with councils allowed to increase rents by 1% more than the annual change in CPI, and the allowance for convergence would be terminated from 2015-16. Although this meant a significant loss of income over the 30 year business plan period, councils accepted these changes and adjusted their business plans to accommodate them, including by making savings in spending on management and maintenance.

3.7 The 1% rent cut each year from 2016/17 to 2019/20 announced by the Chancellor in the July Budget cannot be accommodated so easily. By 2020, councils will have suffered an income loss, compared with previous expectations, of £2.4 billion, and, even if rent setting returned to the previous basis thereafter, a further £30 billion would be lost from the remaining years of the business plan. If these changes had been anticipated in the self-financing settlement, council housing in England would have been valued, not at £29 billion, but at £6 billion less.

3.8 As a consequence, the Government is decreasing the amount of investment going into new social and affordable rented homes and threatening councils’ and ALMOs’ ability to continue their new build programmes at all. This will only further decrease housing supply across the country and push up rents in the private rented sector and house prices in the owner-occupied market.

3.9 Discussions with our members at this early stage suggest that they are all reviewing their business plans.

3.10 For example, Cheltenham Borough Homes estimates that the proposed rent reductions will reduce HRA resources as at March 2020 by £6.8m. Assuming a return to CPI plus 1% from April 2020 and no other means of recovery, the 30 year impact on the HRA will be in the region of £110 million. In London, Tower Hamlets Homes’ initial modelling shows that the 1% reduction in social and affordable rent for four years will lead to a loss of rental income in the HRA in excess of £26 million over those four years. Early feedback from some other local authorities in London indicates that this is not an unrealistic projection in terms of the scale of the rent
loss. The modelling also suggests that the 1% reduction in social and affordable rent will, all other things being equal, lead to a loss of rental income in the HRA of over £95 million over the next 10 years.

3.11 Prior to all these changes affecting the self-financing arrangements, plans were in place for ALMOs to collectively build at least 9,000 homes for their councils over the course of the next five years. Early indications suggest that these will now be cut to a handful of new starts.

3.12 Impact of measures in Housing and Planning Bill

3.13 To compound the reduction in resources, under measures in the current Housing and Planning Bill, councils are being forced to sell off their high value voids to pay for grants to Housing Associations to compensate them for the Right to Buy discounts.

3.14 Making councils pay the money over to Housing Associations via the Government will further decrease their ability to provide housing in their own local communities and will unfairly re-distribute housing resources away from stock owning councils towards those areas which have already transferred their stock to a Housing Association.

3.15 As a result of a further measure in the Bill, tenants on higher incomes will in future have to pay the market rent, known as ‘Pay to Stay’. While Housing Associations will be able to keep the extra income this generates, councils and ALMOs are being forced to hand this over to the Treasury. This further erodes the ability of ALMOs to self-finance their housing work and invest in new homes.

3.16 Borrowing controls

3.17 Through the debt ceiling that the Government imposes on councils it is preventing them from capitalising on the borrowing potential linked to their housing stock to fund new build.

3.18 The caps place an upper limit on the borrowing that councils can make which can be supported by the income from their self-financed housing revenue accounts even if under the ‘prudential rules’ that apply across local government they could afford to borrow more. The caps are arbitrary in their effects; some councils have higher caps than they need, others have caps which are set far below what they could borrow prudentially.

3.19 Borrowing to finance investment in new homes would be well within the levels sustainable from projected incomes from rents. Local authorities adhere to the Chartered Institute for Public Finance and Accountancy’s (CIPFA) “Prudential Code for Capital Finance” which have enabled them to develop a record of responsible borrowing with virtually no defaults.
3.20 In 2013, the NFA in association with the Chartered Institute of Housing, the Local Government Association, the Association of Retained Council Housing and the Councils with ALMOs Group prepared a report demonstrating the potential to use council housing self-financing to raise £7 billion to build 60,000 new homes.

3.21 Council house building programme would be financed by welfare savings

3.22 In June, Capital Economics published a report on behalf of the NFA and the Campaign for Social Housing (SHOUT) titled: ‘Building New Social Rent Homes.’ The report found that the building of 100,000 new social homes a year would create a net surplus for the Exchequer by 2035. Savings would come from a burgeoning housing benefit bill which currently stands at £24.4 billion but is forecast to rise dramatically to £197.3bn by 2066 without action being taken to boost social housing supply. For every £1 invested in building new social housing, £2.84 of economic output would be stimulated, of which 56p would go straight to the Exchequer.

3.23 Of the 100,000 new housing units for social rent, 24,500 would be built by local authorities or ALMOs, the remainder by housing associations. The modelling is based on 85,000 of these receiving a government grant of £59,000 per unit.

3.24 In the policy’s earliest years, the additional borrowing needed to fund the new homes will be greater than the welfare savings or the additional tax revenues from the construction activity. The net impact of the policy on public borrowing should peak in 2019-20 at 0.13% of GDP or £2.9 billion (nominal terms). Thereafter, its impact on net borrowing will decline sharply, and, with improvements to the welfare bill accumulating each year, by 2034-35, the policy is set to create an in-year surplus for the government.

3.25 By 2030-31 public sector net debt will be only 0.5 percentage points of GDP higher than it would be under current policies. By 2040-41, the debt levels will be the same under either policy and, thereafter, the policy of 100,000 new social homes each year will start to pay down the debt with public sector net debt as a proportion of GDP 5.2 percentage points lower than it would be on current policies after 50 years.

14 December 2015
Written evidence submitted by the National Federation of Builders – 17 December 2015

The National Federation of Builders (NFB) represents small and medium constructors and house builders. With over 600 members The House Builders Association (HBA) is the house building division of the NFB.

NFB members deliver a variety of supply options and not just private housing. These include affordable rents, social housing, long term affordability and low cost homes.

The NFB is submitting this evidence to draw attention to the underlying issues around affordability, specifically a lack of supply. Small and medium enterprises (SMEs) once built the majority of homes in the United Kingdom; now building only 30 percent the nation is experiencing a housing supply crisis.

We cannot overstate the importance of tackling supply though the release of small sites and infill, streamlined planning, better access to finance and a more skilled workforce, however we recognise the importance of providing low cost housing and creating the environment to deliver this.

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

   1.1 We must move from stimulating demand to stimulating supply. House building was at its peak when SMEs built 60 percent of our homes, they now build only 30 percent.

   1.2 A lack of conversation around delivering a level playing field between volume and SME house builder has caused a lack of supply to raise prices beyond affordable levels.

   1.3 Supply has slowed due to an emphasis on large sites. These can take up to a decade to deliver, both in terms of units and infrastructure upgrades. Not enough focus has been on quick delivery small sites within existing communities.

   1.4 A major contributor to house price increases is build/land cost; efforts to reduce financial burdens have not been felt by the industry. Application costs have increased, costly condition discharges more frequent, development contributions unclear and inconsistent, delays constant and service costs astronomical.
1.5 Service costs are a particular burden as SME developers have been pushed from turn-key sites (sites ready for delivery) onto brownfield. As an example, one member developing a contaminated brownfield site moved a telecommunication box two metres, they waited over ten months and paid over £60,000.

1.6 The cost of land continues to be a major stumbling block and developers have moved from pre-application speculation to strategic planning. The majority of SMEs do not land bank and many are now struggling to plan one job ahead, especially with costly and onerous pre-applications.

1.7 The SME business model needs to be recognised as different from the volume housebuilder. The shrinking of the SME market has had a direct impact on local planning as well as the local economy. This is especially poignant in rural locations such as the South West and cities such as London where house prices are far outstripping development opportunity, especially for SMEs.

1.8 The HBA believes too little emphasis is placed on understanding the mechanisms for supply and points to the following points as major obstacles.

- Land costs must be tackled to immediately increase development opportunity
- Increased planning opportunities within current infrastructure need further focus
- Planning must be streamlined
- Exemptions for SMEs should be seen as supply positive and not anti-affordable
- Access to finance/opportunity must become more SME friendly
- Frameworks should consider varied delivery models
- The skills shortage must be recognised as industry wide, from bricklayer to planner.

2. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

2.1 Help to buy has increased opportunities for private ownership and is welcomed by the house building industry. Similarly, shared ownership has been important in stimulating demand but would be considered more successful in increasing supply due to project collaboration opportunities.

2.2 A willingness to collaborate on build costs is an important feature in any development.
i. The HCA has an important role to play in delivering homes and the government must learn from its regional successes and failures.

ii. The ability for the HCA to bring development sites forward is a key component to building lower cost homes. They have the mechanisms to seek suitable financial arrangements in the long and short term and support SMEs to deliver quickly.

iii. Schemes such as the Builders Finance Fund (BFF) have not yet found success due to banks offering more favourable terms and less onerous administration. Just over £1 million of the £525m BFF has been drawn down.

2.3 The major concern is that products supporting demand are championed so heavily while supply is at crisis point. This is a clear indication that the supply side of the market is failing. Too few measures recognise supply being tied to affordability. The HBA believes we should be concentrating on levelling the playing field for all developers before focusing on schemes to bandage miscalculations.

3. Taxation: Are there tax measures that would improve housing supply and affordability? Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general? ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

3.1 Reduction of VAT on renovation and repairs would strengthen the current housing stock.

3.2 We currently build some of the most energy efficient homes in Europe. In the coming years it will be imperative to consider tax measures that will support our burgeoning energy efficiency market and sustain the industrial strategy. This will assist old and new homes to be affordable in the long term. Unlike the Green Deal it’s important developers and not just homeowners are able to support that market.

3.3 Increased capital from inheritance tax changes will no doubt stimulate demand. It is important that small sites are unlocked to deliver supply. The strengthening of self, custom and community build hold potential for affordable housing.

4. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

4.1 Delays and charges must be reduced as they cause increased build costs thus higher sale prices. Examples of these include but are not limited to,

i. The introduction of charges for individual condition discharges, unsurprisingly there has seen an increase of requests.

ii. Pre-application cost increases, especially when given conflicting advice.
iii. Delays, which affect everything from labour/material shortage to renegotiated viability assessments.
iv. Disproportionate developer contributions.
v. Large site focus moving resources away from SMEs and into long term delivery projects. Some projects can take a decade to deliver and require large infrastructure upgrades.

4.1 Planning must recognise the importance of organic development. If neighbourhoods supported 5-50 homes built annually we would not see community infrastructure exacerbated by large developments. We would be able to strategically plan infrastructure improvements.

4.2 Unfortunately the planning system has not been working for SMEs, despite the sector welcoming the National Planning Policy Framework (NPPF). Supply allocations are unviable, small sites are not coming forward, planning is onerous, neighbourhood plans are at odds with emerging local plans, finance is project specific and local authorities are understaffed.

5. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

5.1 Encouraging mixed use developments will immediately increase supply.

5.2 Building more family homes will move people from rented to private ownership. This is especially poignant in London where commuter zones outside the city should be further developed. St Albans and Slough are strong examples of this strategic success.

6. Social housing: Are any measures needed to increase the supply of social housing?

6.1 Absolutely. Social housing supports many people at various times of their lives. It’s imperative we continue to unlock that potential and stimulate affordability through various mechanisms. Social housing also helps renters save for home ownership as well as reducing the potential costs associated with housing benefit.

6.2 Strengthened compulsory purchase orders could see some large sites being split with mixed tenure established. This would aid housing associations who struggle to secure development and deliver opportunities to various development models such as affordable housing.

6.3 While local authorities will been encouraged by devolution ambitions, especially when borrowing against their own portfolio, they should consider what best value really is. Some HBA members express frustration when working with local authority departments because construction knowledge can be very limited. The loss of
quantity surveyors also plays its part in failed cost analysis and this can result in lengthy delays for fairly straightforward projects.

6.4 It is important that projects are not delayed and the right project goes ahead. Changes or rethinks can be extremely costly, especially when projects have already begun. Collaboration between developer and client should not be underestimated, even when a contractor is used.

17 December 2015
Q111 The Chairman: Mr Orr, Mr Montague and Mr McDermott, welcome to the Economic Affairs Committee inquiry into housing. Thank you very much for joining us today. May I start by asking you about affordability, which is a word that is bandied around a lot but seems to mean quite different things to different people? Indeed, when we had the Department for Communities and Local Government in, we were told that it was something akin to variable geometry, which was a somewhat surprising description.

You are in the affordable housing sector. When you look at or think about affordable housing, how do you gauge affordability? Do you look at income? Do you look at market rent and have a discount from that? How do you think about what affordability is and how
to supply affordable housing to the market, which is one of the principal concerns of this inquiry?

David Orr: There have been different definitions of affordability over the years. Indeed, in a previous generation, the National Housing Federation itself tried to define affordability and did so on the basis of residual income—how much money you have left after paying your housing costs to be able to live. Such definitions have gone. I do not know about DCLG’s definition, but affordability has become a word that now means anything to anyone and has no real traction.

We did some work last year with the Joseph Rowntree Foundation on what an affordable rent would be for people who are in low-paid employment and I think that is a decent starting point. If you are in full-time work in low-paid employment and if you have a rent that you can afford to pay from your income and still have enough to be able to live on, then I think that would constitute an affordable rent. But, of course, if you have an income of £1 million a year, a penthouse costing £5 million a year may well be affordable.

David Montague: L&Q is a charity and we provide homes for sale for market rent but our charitable purpose is met by providing genuinely affordable housing. We share the view of David and the National Housing Federation. Our rents, where it is our decision where to set them, are based upon an assumption that they should be no more than 35% of our resident’s net income. That is the basis on which we set our rents. In London, that is broadly equivalent to 60% of the market rent. In Westminster, it will be 20% to 25%, in Bexley it will be 70% to 75% but, on average, it is around 60% of the market rent. The reality is that more often than not our rents are set not by us but by the GLA or by local authorities but, where we have the choice, that is how we set our rents.

Ian McDermott: I do not really have anything to add to what has been said other than that, as a charity, discharging our charitable purpose requires us to be meeting a need that cannot be met elsewhere. That relates back to the definitions that have already been given.

The Chairman: So if the calculation is by reference to a percentage of income, then clearly, in very expensive areas, it is very difficult to build affordable housing, hence your examples about Bexley and Kensington and Chelsea. Does that then push you, or force you in some way, to build affordable housing in areas that are not the most highly valued?

The corollary of that is: is it impossible for you to provide affordable social housing according to the definition that you have provided today in areas of central London, for instance, or maybe other city centres as well?

David Montague: It is far more difficult to provide genuinely affordable housing in central London and I think it is inevitable that affordable housing will be built in more affordable places. Much of the housing that we provide in London tends to be—well, certainly not in the most expensive central London boroughs.

Ian McDermott: May I add to that? I think that there is a distinction between the provision of social housing that exists at the moment and the provision of new social housing. We certainly provide social housing in places such as Westminster. What is much more challenging is the provision of new affordable housing in those areas.
Q112 Lord Lamont of Lerwick: May I ask about the extent to which the reduction in social rents will affect your ability to provide social rented housing? I see that the OBR has estimated that there will be 34,000 fewer new builds by housing associations as a result of the change. I think that Mr McDermott’s Sanctuary Group has said that the changes have meant that your development programme in future would have less social renting and more low-cost home ownership. I am not quite sure what the reasons why one should substitute for the other would be.

Ian McDermott: It has a number of effects. First is that it obviously takes income, and therefore capacity, out of the organisation. Over the next four years we estimate that that will be in the region of £134 million. By the time you get to 2020, we will be losing about £54 million a year so it takes out capacity. Secondly, it makes the equation for rented housing more difficult because we borrow money over a 30-year period against the rental income. If that rental income is reduced, the amount of internal subsidy that we have to provide for any individual home will be greater. Therefore, not only is there less money but the affordable rented housing that we provide becomes relatively more expensive in terms of the amount of internal subsidy that we need to provide.

To respond to that, we are keeping our numbers very high but we are doing things that require less internal subsidy. The point is, social rented housing requires us to provide a significant internal subsidy. The less capacity we have, the less we are able to do that and the more that we have to cross-subsidise with other, more commercial activity.

Lord Lamont of Lerwick: What about efficiency savings? Again, perhaps surprisingly, the Sanctuary Group had thought that it was in a relatively strong position to mitigate the changes that have taken place, is that right?

Ian McDermott: Yes, that is right. We have done a lot, really, over the past two years to streamline our organisation to invest in our infrastructure and our IT systems to reduce our back-office costs. Going forward, we think that we are in a competitive position in terms of the cost base of the organisation. There is still more work to be done but we have certainly done an awful lot. Much of the recovery of the capacity that we have lost by the rent reduction will be made up by efficiency savings—not all of it; as I say, we will have to do more commercial activity to make up the shortfall, but a significant proportion will be made up by efficiency savings. We have already made the investment that allows us to make those efficiency savings. It is a moot point as to what an efficiency saving is. The only other thing I would say is that we will stop doing some of our community development activity, for example, which comes out of our operating costs. Whether you consider that to be a saving or not, there are good things that we were doing previously that we will not be doing going forward.

David Orr: Perhaps I may say something about efficiency and the expectation of what people believe will happen. I just want to give an example. A number of years ago, a housing association in West Bromwich employed six neighbourhood wardens. The association monitored very closely the impact of the wardens in terms of the cost of providing the service and the savings that were made elsewhere in the public purse. There were substantial savings: there were savings to schools because there was much less vandalism, and there were savings to the police because fewer cars were abandoned. There were a
whole lot of savings of that kind. That programme was partly supported by government finance. For a variety of reasons, the government finance stopped and the housing association could provide only three neighbourhood wardens. Costs began to rise. Neither the police nor the education department were able to provide support because the money came from different budgets—you know how this operates. That organisation is now looking at an efficiency saving by removing the last of the three neighbourhood wardens, so there will be none. The overall cost to the state is likely to be greater but the association will be able to demonstrate that it has saved money. It is a moot point whether you could properly call that an efficiency saving.

There are of course savings to be made in any business anywhere in the world, and there are costs that you can drive out by being more efficient, but some of the changes that will be made will be reductions in service. I think housing associations are focusing very clearly on building new homes at the expense of some of these broader neighbourhood support services.

**David Montague:** Perhaps I may add to that. From an L&Q perspective, prior to the Budget we had a development programme for 50,000 homes. Half were for either market rent or market sale and the other half were genuinely affordable, so that is 50:50. The Budget took £55 million a year out of our rental income, similar to Sanctuary. As a direct consequence, we are now delivering 60% commercial and 40% affordable. We are driving efficiency hard but one thing that we have to do is provide more market rent/market sale housing to cross-subsidise less affordable housing.

**Q113 Lord Forsyth of Drumlean:** The Government have a target of 1 million homes to be built by the end of this Parliament. How much do you think housing associations are, or could be, capable of contributing to that target?

**David Orr:** We have done some fairly detailed analysis of information provided by members across the country. Post-Budget, provided there are no other adverse changes, I think that we might be able to provide as many as 300,000. However, as David has pointed out, a high proportion of those will be market product rather than affordable housing for rent.

The investment in a programme the Government have set up for 135,000 new homes for shared ownership will help enormously and is very welcome. But there is a major shift going on from housing associations building for social rent to them building for other tenures and doing a relatively small proportion of social rent. However, we think that 300,000 is possible in this Parliament with a fair wind and with no other changes.

**Lord Forsyth of Drumlean:** We had some evidence from someone at the Policy Exchange. He thought that you could do 100,000 a year. This is actually less, is it not?

**David Orr:** Yes, although 75,000 a year compared with where we are at the moment and where we have come from would be a pretty impressive outcome, given the changes that have been imposed on the sector. To get anywhere near 100,000 a year, I think that we would have to be involved in trading housing at a scale that would begin to affect what was happening in the market, and it would require easy, quick access to land and planning in a way that is not credible at present.
Lord Forsyth of Drumlean: One thing that private sector builders and others have told us is that a constraint on building these houses is the shortage of skills and people who know how to build houses, partly because of the impact of the recession. If you were to build 75,000 houses a year, to what extent would that take away resources from the private sector and limit its ability to meet its requirements?

David Orr: That is a good question. It may take some away. Some capacity is not being used at present because people have left the industry and are reluctant to come back. If there were wage inflation, some of them might come back, but of course wage inflation means that costs go up. It is also possible that people from other parts of the EU who were involved in construction a few years ago would come back.

David Montague: In the housing association sector, there is the ambition and the desire for the financial capacity to do much more. David has set out what the sector as a whole intends to achieve. My own organisation has trebled over the last year. G15, the 15 largest housing associations in London, currently has a pipeline of 93,000 homes. We have committed to doubling that number to 180,000, which is £50 billion-worth of investment. So there is a strong desire to do more.

You are right: the two things that will hold us back are land and skills. I think that between us we can sort out the land, and I think that we are beginning to reach a tipping point. We are seeing efforts from government getting close to yielding the land that we need to build these homes. If we can work together to have a guaranteed supply of clean, consented land, then between now and that pipeline being available, we can start to build the skills that are necessary. It is not just about skills; it is also about off-site construction. We need to develop a long-term strategic relationship with the people who can build off-site.

Lord Forsyth of Drumlean: But you agree with the figure? You cannot do more than 75,000 a year?

David Montague: I will defer to David on that.

David Orr: That is the combined figure that we have heard, adding together the ambition of members across the country.

Lord Forsyth of Drumlean: And that is not a constraint that arises from funding; it arises from the permissions and the lack of skills.

David Orr: If there were more funding, it might amend the balance of delivery, so we might see more affordable rent and a bit less market product. It might increase at the margins the number of new homes built but I think that we are now in a position where land and skills are the major constraints.

Lord Forsyth of Drumlean: Do you think that there is scope for altering your funding model in some way to help to increase the supply of lower-rent—I do not like the term “affordable”—properties that ordinary folk can afford to live in?

David Orr: We have moved in a very short time from a model that was predicated on government providing some up-front capital subsidy matched by private borrowing by
housing associations—as a means of providing the subsidy that you need to have lower-rent homes—to a model where predominantly it will be a matter of housing associations trading their assets or making profits and, by doing those two things, generating the surpluses, or the profits, that then become the subsidy for providing the lower-rent homes.

There is a complete truth here—that subsidised housing requires subsidy. If it does not come from the public purse, we have to see whether we can find it in other ways. The most obvious way is in the equity presently held by housing associations in properties that are listed in the accounts at a relatively low value because they are listed at their net present value—they are listed at their income value rather than their vacant possession value. In the main, housing associations want to continue to provide rented homes, but if we can use some of that trapped equity and turn it into cash by trading, that will create potential. So the business model is rapidly changing before our eyes.

Lord Forsyth of Drumlean: I do not understand that. By trading, do you mean selling them?

David Orr: I mean by selling.

Lord Forsyth of Drumlean: But would that not make the problem of providing housing in central London and other places of high value more difficult?

David Orr: If you have a property that you can sell for £500,000 and you may have borrowing against that property of £150,000 or £200,000, then you have £300,000 that you can use to invest in new supply. So there is a timeline gap.

Lord Forsyth of Drumlean: I understand that point, but if it is worth £500,000 it is likely to be in an area where you have most pressure in trying to provide social housing. With your £300,000, which is over and above the written down cost in your accounts, you will not be able to replace it in the same area, so you will move people further out of central London.

David Orr: If you look at the sums, if you can find the land, expensive though it might be, it is possible to provide in high-value, high-cost locations. The challenge for housing associations is making the decision between whether you re-provide a small number in high-value, high-cost places or a bigger number in lower-value, low-cost areas. I do not think the answer to that is obvious. That is quite a challenging debate.

David Montague: From a slightly different perspective, housing associations are very attractive in terms of bond investors—people like to invest in housing associations. We can raise the capital to invest, it is not a lack of capital that prevents us from building more homes. Having said that, I agree with David that, of course, we could do more with public subsidy.

The Chairman: The Homes and Communities Agency, using data from the global accounts of housing associations, estimated that from 2015 to 2019, there will be 285,000 new units, not 375,000, which is the 75,000 a year. They have a graph that shows that, in fact, the number drops from 75,000 or 76,000 a year in 2015 down to 40,000 in 2019. That is based on data provided by the housing associations. That seems to fit rather oddly with your comments.
David Montague: I have not seen the data but I would imagine that is about the pipeline. There are homes that are coming out of the ground and if we build up that pipeline it will reduce over time. But there is also capacity within our balance sheets to do more and I think that is what David is talking about.

Q114 The Chairman: You anticipated my follow-up question, which is that you are not constrained by the lack of finance in what you can build and what you want to.

David Montague: Certainly not from a London perspective. There is a wall of finance that wants to invest in housing in London. For us, it is about access to opportunity, access to land and access to skills.

The Chairman: I think what you are saying is that to attract that money you have to change the mix of your housing.

David Montague: That is correct, and we are doing that. So 50%, or 60% now, of what we build is either market rent or market sale and the profits that we make fund affordable housing. We have a model that works very successfully and which is tried and tested. We can do more of it but we need the land to do it with.

Q115 Lord Griffiths of Fforestfach: That leads on to my question. If you wanted to provide more low-cost homes, what reforms would you suggest should be made to the planning process?

David Montague: Perhaps I could try to answer this, although I am sure that the others have plenty of ideas. I have a small number of ideas—housing associations, housebuilders, local authorities, together, have a responsibility for promoting the benefits of housebuilding. At the moment, the voice of opposition is often heard more loudly than the voice of support. We need to find a way of incorporating the voice of those people—and the communities—who will benefit from new housing.

Where local authorities struggle to deliver, the urban development corporation idea might have some role to play. In the same way that there are time restraints up to the receipt of consent, there should also be time limits post-consent for Section 106 agreements for all the post-application conditions that need to be met. They tend to go on for rather a long while and, if we could focus on sorting out those things sooner rather than later, we could build a lot sooner.

Lord Griffiths of Fforestfach: I would love to hear from the others, but what would particularly accelerate that process? Is there a lack of resources within the planning system to deliver? If we had more people working on it, could we have a quicker delivery?

David Montague: Yes, local authority planning departments are underresourced and there is also a lack of focus on delivery post-consent. Between us, we need to sharpen up that post-consent part of the process; it can often take a year before you can actually lay a brick after consent.

David Orr: The whole thing takes far too long. If we could find a way of speeding up the delivery of planning consent it would make an enormous difference. I have often thought
that, if, after a period of time has elapsed, you do not have planning consent, it should be deemed granted. That would speed things up quite a lot. Planning departments are under pressure; it is not just about the officers.

I have been in rural Shropshire today, helping to celebrate a new development by a small rural housing association. I was talking to a farmer there who has a site that could have 32 homes on it—in that area that would make a huge difference. She was extremely frustrated that one member of the parish council has been digging her heels in and it has now gone to the Secretary of State. We have to find ways of being able to stop that kind of institutional sloth being introduced into the process.

Ian McDermott: I would distinguish between two issues: the supply of land and identification of sites within local sites, which I think is the bigger challenge, and the planning process itself. Outside London, we find that the planning process is not that bad, it takes three or four months to get through the planning process. It is much more of a challenge in the capital than it is elsewhere.

Q116 Lord Lamont of Lerwick: We had evidence last week from the private housebuilders. They said that the introduction of the plan-led system, which I understand happened in 1991, had caused a serious impact on housebuilding, with local authorities rationing control of land. They said that the pre-1991 system where, as they explained it, the onus was on private developers to seek out appropriate land for building, was preferable. Do you have a view on that change in 1991?

David Montague: I cannot say that I am expert on planning in 1991. Our preference would be that a 10-year supply of land was identified in advance, which seems to go against what the housebuilders are saying. If we were guaranteed a supply of land, if we knew where it was for the next 10 years, we would gear up to deliver. We would employ the apprentices and we would invest in homes growth and so on. It is the certainty that would support us.

The Chairman: And that would be identified in the local plan. Is that what you are saying?

David Montague: Yes.

Lord Layard: Do you think that local authorities would be more willing to supply land and to give planning permission if there were some sort of simple system whereby they got more of the planning gain when they did it, so that they would have a financial incentive that would help them to answer the critics in the local area?

Baroness Blackstone: May I ask a supplementary question? How far do you think Section 106 provides that very incentive to get agreements and give planning permission for housebuilding?

David Montague: Section 106 is an important part of ensuring that affordable housebuilding so we increasingly rely on it. Although we are unsure about how the introduction of the starter home initiative will affect affordable rented housing, so there is a question mark over the effectiveness of Section 106 going forward. I am sure that local authorities—
Baroness Blackstone: Do you mean because the Government are changing the policy?

David Montague: Yes, because the starter home initiative will count as affordable housing and it is likely, although we await the details, that starter home initiative homes will be top-sliced and then there will be a viability test applied to the rest of the site. If that is the case, it will make it harder to produce affordable housing as part of what remains—though I stress that we have not seen the detail yet.

Local authorities could be incentivised to provide and you have suggested one way; another might be that they retain a stake in that land and enjoy—or share—the long-term rewards of investment along with the housing associations and housebuilders.

Q117 Lord Lamont of Lerwick: I am in no way against Section 106. I see its importance, but is it not correct to say that the reduction was made because the Government, having talked, consulted, and looked at the situation, came to the conclusion that the way it was being applied was holding back the housebuilding programme and industry and that was why they had to make the change? Surely it is important to recognise that.

David Orr: That is a contentious proposition.

Lord Lamont of Lerwick: It is the Government’s view, is it not?

David Orr: There are many developers, even among the larger ones, who will tell you that a Section 106 consent and an affordable housing obligation gives them certainty in the sale of a significant proportion of what they build and it cash flows some of the early part of the development. Some of us were frustrated by the level of consultation and debate. The introduction of the starter home as an affordable product in planning terms, which will in practice be there before anything else, will get first priority. That, added to an obligation on planning authorities to ensure that they deliver starter homes, whether or not within their own plan they think that that is helpful, is going to make it more difficult to deliver shared ownership or social rented housing under Section 106. It has been a fairly successful mechanism which is being changed without proper consultation and consideration.

The Chairman: Can you give us some idea, from your experience, of the amount of the gain in value from permissioning that is taken up with Section 106 obligations? Is it a quarter or a half? Do you have any sense of the amount of the gain in value captured by Section 106 and infrastructure levy arrangements?

David Orr: It varies, and it is the subject of gaining, so it is very difficult to put a figure on it. It has been reducing. It is maybe around 25% at present. It has been more; it has been less. It is very much a case of sticking your thumb in the air.

The Chairman: Would you recognise that level of capture of the increase in land value?

David Montague: I am afraid that I do not have those figures with me. I would have to look at them.

Ian McDermott: My sense is that that sounds about right but I would want to go away and check those figures before committing to them.
David Orr: We shall do likewise and, if we can find something solid, we will send it to you.

The Chairman: If you could, that would be very helpful.

Q118 Baroness Wheatcroft: The right to buy in relation to housing associations came as a surprise to some people when it was first announced by the Chancellor. I think that you, Mr McDermott, and indeed the Federation, are largely in favour, but what do you think the effect of this will be? Is there not a degree of unfairness to those in private rented accommodation, who will not get the benefit of buying at that sort of discount?

Ian McDermott: I think that you can distinguish between the propositions of right to buy, one of which is the economic one. Selling assets at full market value does not seem to me terribly controversial, and certainly Moody’s and Standard & Poor’s, the credit rating agencies, judged independently that it brings a credit positive to housing associations. So as an economic proposition, it seems to me that that is fine. In terms of it as a piece of public policy, we accept that that was the wish of the democratically elected Government, so we accept it for what it is and we can make it work, whether or not it is a good thing. I would also distinguish between the policy of the right to buy and the funding of the right to buy, which we do not necessarily support.

Baroness Wheatcroft: by the sale of council houses?

Ian McDermott: Yes.

Baroness Wheatcroft: Do you believe that the replacement homes will be built as we are led to expect they will be?

Ian McDermott: We will certainly build them, and in fact in our key local authorities we are offering to replace homes that are sold under right to buy by other non-developing landlords. So we are working closely with the local authorities and making our offer very clear with them. I think there are challenges in particular local authorities. To go back to the example that I gave earlier, Westminster is particularly challenging. Replacing any stock lost within Westminster will be very difficult. Elsewhere it will be much easier, but our ambition is to replace within the local authority and to work with the local authority on that replacement.

Baroness Wheatcroft: Mr Montague, are you sanguine about this?

David Montague: We support the voluntary deal that the National Housing Federation negotiated. We think that, certainly compared to a statutory deal, it is better for housing associations, better for housing association tenants and, in the long term, better for social housing. Like Sanctuary, we are less positive about the way that it is funded, but at worst it is neutral in on L&Q’s finances and we will make it work. The sector as a whole is committed to one-for-one replacement as part of the voluntary deal.

David Orr: I am completely certain that one-for-one replacement will be delivered and, with a fair wind, it might be better than that. However, although, as colleagues have said, we negotiated the voluntary right-to-buy deal, and I am very pleased that we did, we negotiated it from a position where the Government had made it very clear that there
would be a statutory right to buy and it would go through Parliament. Critical in negotiating that deal has been ensuring that any selling housing association gets full vacant possession value, and that will be the case for the first time in the 35-year history of right to buy.

Wherever the Government get the money, it is not a particularly efficient or fair use of public subsidy. It was absolutely right that we negotiated the deal, and there is sufficient flexibility in it that it should be able to work for the majority of people. However, you asked why it would be axiomatic that it is okay for the person living on my left-hand side in a housing association home to get a £70,000 discount while the person living in private rented housing on my right-hand side gets absolutely nothing. There is a political question to be asked about that.

Baroness Wheatcroft: But you said that that was not an issue for debate at all.

David Orr: It was not an issue for debate.

Lord Turnbull: I have a question regarding one-for-one replacement. This relates to you and the housing associations. You say that you can replace the properties that you sell, but there is also the sale of properties by third-party councils. Will they also be able to achieve one-for-one replacement? Both parties to this scheme that are selling but, overall, are they going to be able to achieve one-for-one replacement?

David Orr: That is difficult for us to say. We do not have the same access to the values of local authority housing stock as we do for housing association stock. The commitment that we made as part of the deal for one-for-one replacement is that if 10,000 homes are sold, 10,000 new homes will be built. That is all. We did not say where, in what geographies and in what tenures, because delivering that would be incredibly restrictive. The truth is that if Westminster or Kensington and Chelsea manage to sell vacant properties, they might generate quite a lot of income from that.

One of my big anxieties about the right-to-buy deal is that, with a housing association operating in a low-value area, the discount is going to make the purchase extremely affordable. Some people will have to find £15,000 or £20,000 and no more to buy their home. Even if it is sold at vacant possession market value, if the amount is £50,000 or £60,000 an association will not be able to replace that home. There is a real danger that good-quality social housing will diminish, particularly in those low-value areas. So there is a challenge for us collectively to work out how we deal with that. It will be easier in high-value areas to generate the income that allows new supply if you can access the land.

Baroness Wheatcroft: Mr Montague, I was interested in the point about Westminster, but the replacement housing is likely to be in much less desirable areas.

David Montague: That really depends on the effectiveness of the partnership that we create with local authorities. G15, the group of the 15 largest housing associations, has just made a new offer to London in which we are committing to 180,000 new homes, but that has to be done in partnership. Together, we have to deal with a shortage of land. If local authorities and the GLA together can guarantee a pipeline of the right land, we can guarantee new affordable homes. Together, the G15 group has committed to protect social housing in London, and that is housing association and local authority stock combined.
Lord Forsyth of Drumlean: Why did you agree to this deal with the Government?

David Orr: We could have fought it and said that we think it is a bad idea and does not bear close examination.

Lord Forsyth of Drumlean: Which is what you think.

David Orr: I would be very happy to go on the record to say that I think a statutory right to buy imposed on housing associations would have been a bad thing. It is fundamentally wrong for the Government to determine what stand-alone, private, social enterprises may or may not do with the assets that they own. That is a decision that purely and solely should be reserved for their boards. We negotiated the deal to retain that potential, so it is the boards of housing associations that will determine whether a property is sold. The fact that we were able to negotiate a deal where the property is at full market value sale means that most housing associations in most places will be able to generate cash that will allow them to build more homes. So there are opportunities, but the critical thing is that the decision still rests with the housing association.

Q119 Lord Forsyth of Drumlean: It is years—a lifetime—ago that I was on Westminster City Council, in the 1970s. In those days a flat in Eccleston Square cost, I think, £15,000; it is now £750,000. We struggled as a local authority to find housing for key workers—for nurses, porters and other people—in central London and that problem must now be greatly exacerbated. We relied on Peabody and a whole range of other organisations. Listening to the evidence that has been given, it seems both ends are showing difficulty. If you sell high-value properties, replacing them in Westminster is going to be a problem and, of course, you are going to lose properties in less expensive areas, as you have just described.

Unless you are alchemists, I do not see how you are going to be able to serve the community that you are meant to serve, which is people who need housing at a price which they can pay their rent. Although you say you can do it, and although you will be taking the decisions, will not the decisions that you are taking ultimately result in less supply of the kind of housing that you are in business to provide?

David Orr: If I had a straight choice between the Government providing £2 billion to provide discounts to allow people to trade social rented housing or to use that subsidy to build new homes, I would choose to use it to build new homes.

Lord Forsyth of Drumlean: So what would the effect of that be?

David Orr: If we were using that £2 billion as a means of helping people into owner-occupation through shared ownership—I will have to check the figures—we could honestly build hundreds of thousands of new homes. The total amount of subsidy required to make shared ownership work in most parts of the country is very small, but it gives people a stake in their home and it means that they would be asset holders and, therefore, on the property ladder. That option, however, was not presented to us. The option that the Government presented was a clearly stated commitment to legislate for the right to buy. It is not just that the legislation would have required housing associations to sell even if, strategically, they thought it was a bad idea, the legislation had the potential, at least, to change charity law
National Housing Federation (NHF); L&Q and G15; Sanctuary Housing Association (QQ 111-122) – Oral evidence (EHMOE0007)

and no longer to require the sale of charitable assets has to be covered by the full market value.

This is not a comment about this Government at this moment, but the statutory obligation to sell would have been written into law. The provision of the discount at that level would almost certainly not have been written into law, so we might have found ourselves in a position 10 years hence where there was still a requirement to sell, even though the discount money was not forthcoming. There are far too many dangers attendant on that.

**Baroness Wheatcroft**: Had there been any element of consultation or any hint of this coming before it was announced?

**David Orr**: None. The announcement of the right to buy being extended to housing associations was made in the Conservative Party manifesto. It was the headline issue in the press release that accompanied the launch of that manifesto. I had heard two or three days in advance that this was being considered—I am obviously not a very competent lobbyist because I tried to persuade them to do otherwise and failed. But there was no consultation with the sector; until the point at which we began to talk to the Secretary of State about a voluntary arrangement, there was none. That was the point at which a conversation started.

I want to address your question, Lord Forsyth, about the alchemy. Many, many housing association homes are valued at existing use value for social housing. It is about 35% of their market value. If you sell at market value, there is actually quite a big gap between the book valuation and the real valuation—the cash that might be achieved. In many parts of the country, though by no means all, the passage of time and the fact that property accrues in value in almost all circumstances means that there is considerable asset value which is tracked if you regard the property as something to be held for rent in perpetuity. That has been both the government and sector view for 35 of the last 40 years. The change has come very recently. We are all trying to recalibrate this and rethink the model. But the combination of being able to build for sale and for market rent and the ability to tap into some of that tracked equity has the genuine potential to release quite a lot of investable cash. I think it is possible, but it is almost inevitable that the pattern of provision will change and that we will see more shared ownership as new supply and less social rent, and we will see more in lower-value areas and less in higher-value areas. Though I think that there remains a real commitment by both local authorities and housing association to ensure that there is social housing for rent in high-value markets in London and elsewhere.

**Q120 Baroness Blackstone**: Policy Exchange has suggested that there are too many housing associations and that this leads to inefficiencies. I suspect I know what you will say but, nevertheless, I want to ask the question: whether to do all the things that you have just been describing, which is a complex set of decisions that have to be taken by housing associations on the balance between new housing for market rent, for market sales, for affordable housing for rent, would it not be better if there were some mergers and acquisitions? There have been some, but would it not improve the number of houses being built and make the decision-making a bit easier, because larger organisations are more likely to have all the resources needed to take these difficult decisions, rather than sticking to the very long tail of extremely small housing associations that we have at the moment?
**David Montague:** The diversity is one of the sector’s strengths. Having said that, the combination of rent reductions and right to buy has triggered a wave of consolidation, the likes of which we have not seen before. We will see much greater consolidation in the sector over the coming years—it is already happening. There is a great deal that consolidation can offer. Larger associations can shoulder risks that smaller associations perhaps cannot and they can attract capital in a way that smaller associations cannot. But small associations have something to offer as well and it would be a shame if we were to lose that diversity completely. There is a great deal more that we can do and, regardless of whether we consolidate, the sector is keen to do a lot more. The greatest risk is that we get distracted as a result of consolidation and spend the next few years talking about systems, processes, culture and that kind of thing, rather than homes.

**Ian McDermott:** Could I just say that the answer to your question is almost certainly yes—nobody would design the system that we currently have for the provision of housing, it would not make sense. Last year, Sanctuary built more than 3,000 homes, the equivalent of two average-sized housing associations. We certainly did not add to our cost base the costs that would be associated with two average housing associations.

There is a tendency to look at the sector and all the organisations as an amorphous mass but the truth is that a lot of the bigger associations are doing all that they can to maximise their capacity and to contribute towards the provision of housing overall and there are lots of smaller associations that are doing some interesting work. But there are associations that are not using their capacity; the trick is not to brand the whole sector as either inefficient or efficient but to be more strategic and specific in identifying those associations that are perhaps not doing their fair share of heavy lifting.

**Lord Turnbull:** Am I right in thinking that the sum total of all this is that the rent control, the right to buy, and the way that your own business models are developing—you have managed to reconcile all those? The bit that I am not convinced about is that, in my view, the point of greatest social pressure is in the rented sector, where the affordability problems are greatest. That is the bit that will suffer; you may achieve one-to-one, but it will not be one-to-one of the same mix of tenure, I think you were saying. The tenures that are probably more attractive to people who are slightly better-off but not rich are the things you will be moving to and we will be leaving untreated, and possibly worsened, the problem of the poorest sections of the community and the rents that they have to pay.

**David Orr:** I have been regularly asked in the last few months, given all the changes that the Government have made, whether it means that the mission of housing associations has to change. The answer to that question is no, it does not mean that. But it does mean that the various changes that the Government have made makes the delivery of the mission much harder.

Housing associations will remain—and do remain—committed to that core, central provision of good quality, affordable housing for people on low incomes, which has been supported to a greater or lesser extent by Governments of the left and the right ever since the 1974 Housing Act introduced housing association grant. It has gone now. This Government want to use the housing investment money that they have to support people in owner-occupation. That is a political decision that they are entirely entitled to make, but
National Housing Federation (NHF); L&Q and G15; Sanctuary Housing Association (QQ 111-122) – Oral evidence (EHMOE0007)

housing associations will have to use the assets and resources that they have to try to continue delivering a product that, for 40 years, has been supported by upfront capital investment from the Government. Is it going to be more difficult? Yes it is. Will there be less of it than we would want? Yes there will. But it is absolutely clear that the delivery of new, affordable rented homes will continue.

David Montague: I agree with everything that David has said. We have seen a pivotal shift away from renting towards home ownership. All the incentives focus on home ownership, all the disincentives focus on housing for rent. The average L&Q tenant earns £14,000 a year and, even with a £100,000 right to buy discount, the vast majority of our tenants will not be exercising their right to buy. As a charity, our main focus is on provision.

Lord Turnbull: Would you say then that the area of social pressure, or social harm, which is most acute is the one that is being least well addressed?

David Orr: I think that you could argue that case. Right now, today, the area of greatest pressure is the provision of supported housing for people who are vulnerable and who need support to be able to live effectively in the community. In the comprehensive spending review, the Chancellor announced that social housing rents would be eligible for housing benefit only to the level of the local housing allowance cap. If that is indeed the case for supported housing, then we will lose half the supported housing in the country.

I was at another event recently where I described this as another example of an introduction of flamboyant uncertainty. The Government have studiously refused to say whether they intend it to be for supported housing. They say that they want to protect supported housing; they could clarify their position by saying that the cap refers to people of working age in general needs housing and everyone could breathe a big sigh of relief. As we are today, however, because of that decision and that announcement, new supported housing schemes that were due to go on site are being pulled; they are not going ahead. People are negotiating new support contracts and they are unable to do so because they do not know what their future income stream is. If the Government and the nation want housing associations to make the best contribution that they possibly can, avoiding introducing such areas of uncertainty without consultation would have a considerable impact.

Lord Turnbull: We have also heard from McCarthy & Stone about the elderly—we are getting older but the process of recycling properties is slowing down. There are various sorts of fiscal incentives—such as house prices rising—that mean you delay that. Are you finding that this area, because providing that kind of accommodation is more complex and has higher costs, is also being sacrificed?

David Orr: There has been a significant—and welcome—growth in the last few years in extra-care retirement villages. It is accommodation that is much needed and very welcome. In fact, in some of those extra-care retirement villages, the introduction of a shared ownership offer has been incredibly welcomed, because people who are cash-poor but asset-rich can downsize and release a whole lot of cash from selling their home but retain an investment in the property. If you are targeting that market at people who are wealthy enough to be entirely self-funding, then that works. It also worked until recently for people
who have some reliance on housing benefit, but the LHA cap decision means that extra-care retirement villages are not going on site because of the uncertainty that has been introduced.

If we are to look at the provision of housing in the round, one thing that housing associations and colleagues in voluntary organisations in the care sector and in local government have done quietly and extremely well is the provision of supported housing in the community. That is under severe threat.

David Montague: The provision of older people’s housing is supported and encouraged by the NPPF and by the London Plan. As a large charity we think that we have a responsibility to provide for older people. It is far more uncertain at the moment than it has been in recent years, so we are going to wait and see what the outcome is of the current discussion around LHA and rent reductions.

Baroness Blackstone: What do you think will happen to these vulnerable people if housing associations are no longer able to provide supported housing for them, as they have done for many years?

David Montague: I guess that the responsibility will fall to local authorities through the social care budget.

David Orr: And provision that does not exist.

Baroness Blackstone: Yes. Local authorities do not have provision for these sorts of people. Presumably they will be homeless on the streets.

David Orr: This is provision for people with learning disabilities, people with autism, people who have been drug or alcohol users and people who are fleeing domestic violence—a whole range of people who for whatever reason at this point in their lives need some support to live in the community. If you have a form of autism that means that your behaviour is extremely difficult to manage and you are living in a housing association property with a separate organisation providing care—there are a number of examples of this—the rent reflects the cost of that provision. It does not reflect the market; it does not reflect what is happening in the private rented market for young professionals; it reflects the cost of delivery. That might be a rent of £185 a week which is presently covered by housing benefit. If you are under 35, you will be entitled only to the shared accommodation rate, which might be £60. I am thinking of a specific project here and that project will close if this measure is introduced. The cost of residential care for people in those circumstances might be as much as £50,000. The cost to the state of doing this will be vast, not to mention the cost to the individuals who will be affected by it.

Q121 Lord Turnbull: That relates to my last question. What is this ONS dispute all about? Why did they do the strange thing of reclassifying you as being in the public sector? The Government agree that you should not be there and you do not want to be there. Your memorandum welcomes the Government’s commitment to doing this. What needs to be done to sort this issue out and how much damage is it doing?
David Orr: The short answer is that a whole range of deregulation measures need to be legislated. These deregulation measures have been introduced in the Housing and Planning Bill and, with any luck, they will get Royal Assent some time in the next two or three months. The ONS will reconsider and come to the decision that we all hope it will, saying that of course housing associations are private bodies.

Lord Turnbull: The reason it has given is that it thought that the state had too much influence over these matters.

David Orr: Indeed. That is the basis of the classification decision. At various points in the past, the state in one form or another has sought to interfere to a greater or lesser extent. Although the timing was not helpful, the decision is helpful because it clarifies precisely where we are and it will allow us to deal with the problem.

Lord Turnbull: Is it doing any harm at the moment?

David Orr: In the short term, no, but if it does not get fixed very quickly, it has the potential to.

Ian McDermott: Perhaps I may add one thing, which is a comparison between the regulation in Scotland and that in England. In Scotland the rent charged by housing associations is not a matter for the regulators; they are free to set their own rents. You might therefore assume that rents are high, whereas in fact they are lower. One area where Sanctuary would like to see deregulation is that of allowing landlords to set their own rents. I know that this was partly to do with housing benefits but there are other ways in which the housing benefit bill can be controlled. Allowing housing associations the freedom to set their own rents will add to the overall capacity of the sector and enable us to add more value to the economy.

David Montague: Housing associations borrow something like £5 billion a year. Naturally we would be concerned about how that borrowing would be treated if this problem was not resolved, but it seems that it is being resolved.

Q122 The Chairman: Mr Orr, has the federation made a forecast of the impact of all the measures on the supply of social housing for lease and supported housing, and the extent to which it will decline over the next five years?

David Orr: It is quite difficult to do any accurate forecasting because there are too many moving parts at the moment. In regard to supported housing we have done some analysis of what the impact might be if the LHA cap is imposed in the way that in bald terms is proposed at present. We have a briefing on that which we could make available to your Committee.

The Chairman: That would be helpful. Looking at your forecasts for your organisations over the next three, four or five years, to what extent is social housing for rent and supported housing declining as a percentage of the number of units that you will build?

David Montague: I mentioned earlier that we have a 50,000 home programme. Prior to the Budget, 50% was social housing; post-Budget, 40% is social housing. We are going to do our
best to get back to 50% but we are going to have to fundamentally change the way we do things.

**Ian McDermott**: For us, it has changed significantly. Historically, the majority of what we provide has been social rent or affordable rent housing. Going forward, it will be shared ownership and affordable home ownership. So the balance has changed quite fundamentally.

**Lord Layard**: I want to come back to the land shortage point that you raised before. What kind of land do you most want to get your hands on that you do not currently easily get your hands on? Were you talking about brownfield sites inside existing built-up areas or greenfield sites or even green belts? Can you say anything about where you want to put houses but are having difficulty in doing so?

**David Montague**: Our preference would be brownfield land. In London there is the capacity for 400,000 homes on brownfield sites. We can do a great deal more in London. We think that the NHS and the MoD need to look more carefully at their land holdings. We could do far more with that land. It strikes me that the NHS has a health crisis; we have a housing crisis. It has land; we have money. There is a lot that we could do together. It is about managing more effectively the land bank that exists within the public sector.

**Lord Layard**: This is what we ask you at the end. What one thing would you change in order to enable housing associations to build more houses?

**David Montague**: For me, it would be access to land. If we can be guaranteed a 10-year supply of clean, serviced, consented land, we will guarantee homes, apprenticeships, economic growth and jobs.

**Ian McDermott**: David has just stolen my answer. I guess that it would be greater freedoms and flexibilities to run our own business as we think fit. As organisations, we are in a different position from that of private developers. We are able to plan for the medium and long term. We work at quite a steady state and can operate throughout the different cycles of the development. Having long-term access to land sites and allowing us to provide those numbers over a sustained period will be the most important thing.

**David Orr**: In addition to my two colleagues, I think that government has to get out of rent setting and leave housing associations to be properly in control of their own financial affairs. The impact of government involvement in rent setting has been that we have a complete shambles. When you look at the extent to which the Government are controlling the impact on housing benefit through the measures they are taking, there is no justification for them to be involved in rent setting.

If I might add one word of warning, the new model for delivery and for using the commercial potential of housing associations to generate those surpluses means that they are very dependent in a way that housing associations have never previously been on what is happening in the market. In the past, where there has been a market collapse, the availability of grant has allowed housing associations to keep on building. If there were a market collapse in two years’ time, that would no longer be the case.
The Chairman: You are more at the mercy of the market.

David Orr: We are at the mercy of the market.

The Chairman: On that slightly uncomfortable note, thank you very much indeed for joining us this afternoon.
National Housing Federation – Written evidence (EHM0144)

21 December 2015

SUBMISSION:

Economic Affairs Committee inquiry into the economics of the UK housing market
1. Executive Summary

Britain is in the midst of a housing crisis that has been a generation in the making. As a nation we have failed to build enough homes for decades and we are currently building less than half the number we need each year. This is holding our economy back and leaving people from all walks of life and all parts of the country struggling to afford a home of their own. Housing associations have a crucial role to play in tackling this. Last year they built one in three of all new homes in England, 50,000 houses. They want to do even more and have an ambition to significantly ramp up the number of homes they build.

We were therefore delighted that the Government made housing a top priority and welcomed the Chancellor’s announcement in the Spending Review of £6.9 billion over the course of this parliament for new affordable homes. This will make a real difference and housing associations look forward to working in partnership with the Government to deliver the new homes the country needs. They are well placed to do this. Associations are the most successful public-private partnerships in England’s history, having secured £76 billion in private investment for new homes over the past thirty years. This has allowed them to build affordable homes in every part of the country and add £13.9 billion to Britain’s economy every year.

Housing associations are already having a big impact and are committed to doing even more. In order to achieve their housebuilding ambitions across all tenures they need to remain strong independent businesses. It is therefore crucial that the recent ONS decision to classify housing associations as public bodies is reversed swiftly and unequivocally and we welcome the Government’s commitment to doing this.

Housing associations have an ambition to deliver:

- A range of housing options for people at every stage of their lives, including homes for shared ownership, sub-market rent, supported housing, and market rent or sale

- A significant scaling up of housebuilding to play their part in helping government achieve its ambition of building 1 million new homes including 400,000 affordable homes over the course of this parliament

To help us achieve these goals we are calling on the Government to:

- Ensure swift reclassification, removing housing associations from the public sector and restoring their status as independent private bodies

- Give housing associations freedom over the rents they set and the way they use their assets so that they can have the certainty they need to scale up their delivery with confidence

- Give local authorities greater local control over the mapping and release of land at a price that can deliver homes across every tenure so that housing associations can work with them to deliver affordable homes
Exempt specified housing from the 1% rent cut and limit the Local Housing Allowance cap on housing benefit to general needs housing for those under pensioner age.

2. **Government schemes: How effective have government schemes been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing?**

- Housing associations look forward to playing a central role in delivering the Government's ambition of 135,000 Shared Ownership homes, as it is the most affordable and low risk route into home ownership.
- The voluntary Right to Buy agreement between housing associations and the Government will support housing associations to enable tenants who wish to be home owners to achieve that aspiration. It will also give housing associations the flexibility to protect certain stock and increase the supply of housing through replacements.
- Help-to-Buy equity loans do not appear to help those on lower incomes or those excluded from the market into home ownership.
- Starter Homes must be additional to other tenures of affordable housing, particularly sub-market rent.

Housing associations have a strong track record of supporting people, including their own tenants, onto the housing ladder. They have helped over 275,000 people to buy their own home over the last thirty years and want to do even more. Associations work at the forefront of making homeownership affordable for people across the country. They have built and sold over 82,000 shared ownership homes over the past decade and have created innovative new products for first time buyers, from rent to buy schemes to equity purchase plans. Almost a quarter of all housing association tenants currently expect to be able to buy a home in the future. Housing associations look forward to working in partnership with Government to support many more people into home ownership.

**2.1 Shared Ownership**

Housing associations created the shared ownership model and are in a strong position to significantly scale it up over the coming years. Shared ownership homes have been built almost exclusively by housing associations who have sold over 82,000 of these homes over the last 10 years. There are now over 275,000 shared ownership properties in England’s housing market, and housing associations have an ambition to build even more.

Shared ownership is the most affordable, sustainable and low risk route into home ownership for people who are unable to afford to buy a suitable property on the open market. Not only does it help people who are priced out of the open market, it also represents good value for money for government. As such, Shared ownership is an example of a housing product which increases the supply of genuinely affordable housing. We therefore welcomed the Chancellor’s announcement in the Spending Review of £4 billion to deliver 135,000 new shared ownership homes. This, alongside the relaxation and removal of local eligibility restrictions, will make a real difference and housing associations look forward to working in partnership with the Government to significantly increase the supply of these homes across the country.
Shared ownership allows people to buy an initial share of between 25% and 75% in a home and pay a subsidised rent on the remainder. Research by housing charity Shelter shows how using shared ownership to purchase a 25% share of three-bed property is affordable for 95% of households on a median income$^{290}$, and the Federation’s own research indicates that in all regions, with the exception of the North East, shared ownership has lower monthly costs than renting privately$^{291}$. Furthermore, the average household income of a shared ownership purchaser is around £27,000 p.a., compared with £39,363 p.a. for a first-time buyer on the open market. Based on the average first-time buyer house price, to buy a 25% share, a shared owner would need a deposit of only £5,375 – compared to £21,500 on the open market.

2.2 Right to Buy

Housing associations are committed to helping their tenants achieve their aspiration of home ownership. The sector therefore agreed to a voluntary agreement with the Government on Right to Buy. This enables tenants to access low cost home ownership while ensuring that housing associations are compensated by Government for the full market value of every home sold. This will allow associations to deliver one-for-one replacements, making sure that the policy does not compromise the supply of desperately needed affordable homes.

The agreement will ensure that every housing association tenant will have the right to purchase a home at Right to Buy level discounts, subject to the overall availability of funding for the scheme. Housing associations will sell the tenant the property in which they live but, crucially, will have discretion not to sell, for example where a property is in a rural area and could not be replaced, or where it is adapted for special needs tenants. Housing associations can then use the market-value sales receipts to build the homes that are required to meet local needs.

Housing associations are working with the Government on the detailed implementation of this agreement. Five pilot schemes are currently up and running in order to test the implementation of Right to Buy before it is rolled out to all housing association tenants in 2016, when the Housing and Planning Bill gains Royal Assent. The Federation has set up a formal sounding board made up of housing associations, which is run jointly with the Department for Communities and Local Government, to lead the implementation process. There are also a number of sub-groups tasked with working on the more detailed elements of implementation, such as the applications process and portable discounts.

We have been working with the Government to make sure that learning from the pilots is part of the core job of these implementation groups. We have had many offers from housing associations across the country, all keen to help work up the detail of the agreement. Through these processes we will ensure that the voluntary right to buy achieves its core aim of enabling tenants into home ownership, but also protects housing association’s independence and the supply of affordable housing.

$^{291}$ http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/SharedOwnership-MeetingAspiration.pdf
2.3 Starter Homes

The Government has announced its intention to deliver 200,000 Starter Homes, where first-time buyers under the age of 40 can buy a property with a 20% discount on market value. While we welcome the Government’s commitment to extending home ownership to those who are currently priced out of the market, it is unclear whether Starter Homes will extend the opportunity of home ownership further down the affordability chain and beyond those who are already being assisted by a Help to Buy equity loan.

As an untested product, it will take some time for the impact of Starter Homes on the overall supply of affordable housing to be known. However, Shelter suggests that, based on the price cap, they will be unaffordable in 58% of local authorities to households on an average income and 98% of local authorities to households on the national living wage. Research from Savills suggest that a 20% discount to the average house price makes it possible to borrow enough to buy a Starter Home in just 45% of all local authorities in England.

If the Bill goes through as it currently stands Starter Homes can be used to satisfy section 106 affordable housing requirements, and local authorities will only be able to grant planning permission where a proportion of Starter Homes are provided. Section 106 has traditionally played a critical role in delivering affordable housing. Therefore, there is a real risk that Starter Homes will be built at the expense of traditional affordable housing for sub-market rent and shared ownership. This would exacerbate the shortage of low cost housing, particularly in rural areas. This reduction is likely to directly impact the Government’s commendable ambition to deliver 400,000 affordable homes. We are therefore calling for the Government to ensure that Starter Homes are delivered in addition to and not at the expense of other tenures of affordable housing. To aid this we have suggested amendments in the Housing and Planning Bill to give local authorities flexibility to plan and set housing targets to meet objectively assessed local need.

2.4 Help to Buy

The Help to Buy equity loan, which allows people to buy a home with a 5% deposit and 20% equity loan, has proved enormously popular with would-be home owners, having helped over 56,000 households into home ownership between April 2013 and June 2015. It has predominantly benefitted first-time buyers (though almost one fifth of sales were to non-first-time buyers), and has also improved developer confidence, underpinning over 30% of total sales. However, it is much less clear how much it has genuinely improved affordability – particularly for those previously priced out of home ownership.

In its evaluation, the National Audit Office showed that the average household income of people buying through the Help to Buy equity loan was £44,700 p.a.292 More recently, government statistics show that over 50% of Help to Buy equity loan purchasers have had a household income of over £40,000 per annum. These are both higher than the average first-time buyer’s household income, suggesting that Help to Buy equity loans are not

helping people who are genuinely priced out of the market, but simply helping existing owners to buy larger properties or buy in a higher value location.

This latter point is confirmed by the National Audit Office’s evaluation which questioned how many sales under the Help to Buy equity loan would have gone ahead in any case, without assistance. This is perhaps not surprising given Shelter’s research showing that the Help to Buy equity loan is unaffordable to 50% of households on a median income. This was a particular issue in London, where only 5% of sales had taken place. The Government has responded by introducing London Help to Buy, where the equity loan has been doubled to 40%. This will significantly improve affordability, but it still risks only helping the same income group that is able to currently access both the open market and shared ownership.

Taken together, this has led to concerns that whilst the Help to Buy equity loan has undoubtedly boosted demand and confidence in the housing market, the extent to which it has directly led to additional housing being built is unclear. By increasing demand, without a proportionate increase in supply, there is a risk that it has exacerbated house price inflation and made home ownership less affordable, even though it only represents a small proportion of total property transactions.

3. Rents: What will be the impact of the proposed changes to social housing rents? Are any additional or alternate changes to social housing rents needed?

- Specified housing should be exempt from the 1% rent reduction to ensure viability of services
- The LHA cap on housing benefit should only apply to general needs housing for those under pension age to ensure the viability of supported housing
- Pay-to-Stay should remain voluntary to avoid undue Government control over housing association businesses and ensure it is credit positive
- Housing associations should be given the freedom to set their own rents which reflect local market conditions and customer circumstances

### 3.1 1% rent reduction

Housing associations will do all they can to continue to build the homes the country desperately needs. However, it is important not to underestimate the challenge this reduction in rents represents. The 1% reduction in housing association rents over the next four years will reduce revenue by £3.85 billion over that period. This policy breaks a ten year commitment set by the previous government in which rents would have increased by a maximum of CPI +1%, and which gave associations the long-term certainty needed to attract private investment for housebuilding.

The impact of the rent reduction on supported housing is particularly stark. Many housing associations are cutting back on plans to develop new supported housing, while others will be forced to close schemes or to reduce the service they offer to their client groups, including homeless people, people with disabilities or those fleeing domestic violence. This is likely to result in a serious lack of provision for people with complex problems and high
support needs, leading to increased pressure on the NHS and a rise in homelessness. This accommodation operates on very low margins and significant efficiency savings have already been made in response to reductions in care and support funding. Supported housing saves the taxpayer an estimated £640 million but, even before the rent reduction, there is a current shortfall of 15,640 supported housing placements, or 14% of supply. If current trends continue that shortfall will double by 2019/20, and the rent reduction will only exacerbate this.

It is therefore crucial that housing for vulnerable people (known as ‘specified accommodation’) should be excluded from the rent reduction requirement.

3.2 Housing Benefit capped at Local Housing Allowance (LHA)

In the Spending Review the Chancellor announced that the Housing Benefit component of Universal Credit will be capped at the maximum Local Housing Allowance (LHA) rate. We await details on how this policy will work in practice. However, we are concerned that this will have an adverse impact on the affordability of some properties, and especially those in areas where private rents are low and social rents are close to or exceed the LHA. It is also likely to have a significant impact in places where there are low and high value areas sitting adjacent to each other. In Bradford District, for example, the LHA is constant across a highly diverse geographic area.

Our initial analysis indicates that at current letting rates, around 70,000 social tenants, including 49,000 housing association tenants, could be affected by the cap each year. Applying the shared accommodation rate would also mean that social housing becomes unaffordable for some single people, as those under 35 will only be entitled to LHA based on the rate for a room in a shared house rather than on a one bedroom flat. This would result in a £23.13 shortfall per week for the tenant to pay. The average weekly rent for a general needs one bedroom housing association flat in England is £84.51 per week, but the data from the Department for Work and Pensions shows that the average amount awarded to under 35s on the Shared Room Rate is only £61.38 per week. As LHA is localised, this discrepancy will be much higher in some areas than others.

It is crucial for the sustainability of schemes that the LHA rate does not apply to supported and sheltered housing, where rents and service charges are higher due to the specialist nature of the buildings and the needs of the people living there. These costs are fixed and management and maintenance costs bear little relation to the local housing market which determines the LHA rate. If the LHA cap did apply to supported housing this would leave a gap between the amount of rent and service charge payable and Housing Benefit available to tenants.

New Discretionary Housing Payment (DHP) funding was announced in the Spending Review, in order “to protect the most vulnerable” tenants, potentially meaning affected tenants would have to rely on DHP to make up this difference. DHP is a short-term and discretionary fund, and therefore subject to local fluctuations and decisions. Currently, the £125 million
fund is expected to cover several different circumstances, \(^{293}\) and its allocation is entirely dependent on the local authority’s choices. The extra £70 million committed over 2018-19 and 2019-20 does not come close to filling the gap for supported housing, which we estimate to be around £86.6 million. By its very nature, therefore, DHP cannot provide the long-term assurance that both tenants and supported housing providers need. It is vital that the Government clarifies its intention as soon as possible.

### 3.3 Rent freedom and flexibility

Housing associations have an ambition to build many more homes and deliver genuinely affordable housing for people in need. Having the freedom to set our own rents would allow them to better deliver these aims, as it would provide greater certainty for raising finance and allow associations to set genuinely affordable rents for their tenants. The overall impact of announcements from successive governments has meant that the current approach to rent setting is not fit for purpose.

The premature end of rent convergence means that there is inequality for tenants and disparity across the sector with some housing associations unable to bring their properties up to a consistent formula rent. Elsewhere the introduction of affordable and intermediate rents has meant that housing associations are unable to flex their rented offer to meet demand and affordability. Housing associations want to be able to set rents that reflect local market conditions and customer circumstances. Rents would be set to offer genuinely affordable rents whilst creating the most effective income stream. This would enable associations to provide a wide range of rents that meet local housing need and respond to different markets whilst also maintaining some control over the housing benefit bill. All of this would be backed up with clear, transparent, published rent policies.

In line with this ambition is the flexibility for housing association boards to be able to determine differential rent levels where it makes sense to do so locally. We understand the Government’s position that those with higher incomes who can afford to pay more for their rent should do so; however, we believe that the ‘Pay to Stay’ policy should be voluntary. The scheme as it is currently proposed would be very complex and costly to administer; for many associations the increased administrative costs will outweigh any benefit from increased income. In light of the recent decision by the ONS to class housing associations as Public Non-Financial Corporations, it is particularly important to avoid further control over housing associations in the form of a mandatory pay to stay policy. As independent social businesses, housing association boards should be free to manage their own revenue and assets.

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4. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

- Permission in principle should be extended to all land suitable for housing.
- When allocating sites with permission in principle, local authorities should be able to specify criteria such as density, housing mix, affordable housing requirements and any infrastructure requirements. Any pre-commencement conditions should also be identified in order to speed up starts on site.
- The viability process should be fair and transparent, and Planning Practice Guidance should be updated to reflect this.
- Local authorities should be given the freedom to plan to meet objectively assessed needs taking into account need at all levels of the market, and should be given stronger powers to determine the mix of affordable housing via Section 106 agreements.

### 4.1 Section 106: inconsistent performance

The planning system plays a vital role in the delivery of low cost housing through development contributions via Section 106 of the Town and Country Planning Act 1990. As grant funding to subsidise new affordable housing is increasingly rare, developer contributions play an increasingly important role in the delivery of low cost housing. However, the performance of Section 106 is highly dependent on both the policy context and, arguably more importantly, the stability of the economic market.

Research undertaken by the Joseph Rowntree Foundation\(^{294}\) has shown that in 2006-07, 32,000 affordable homes were completed through Section 106 agreements, which represented 65% of all affordable homes. However, in 2013-14, just 16,193 affordable homes in England were completed through Section 106 agreements, representing 37% of all affordable homes. High land values and planning uncertainty as well as changing markets have had the effect of reducing contributions. Although some of the recent announcements contained in the Housing and Planning Bill and the Spending Review have the potential to overcome some of these issues, we remain concerned about the impact this downward trend will have on the delivery of sub market rental homes.

### 4.2 Increased certainty

Certainty in the planning system is a key factor in increasing the delivery of affordable housing. We were therefore pleased to see policies within the Housing and Planning Bill that have the potential to deliver this certainty, such as Permission in Principle and the local register of land. A number of measures would support these changes and have further positive implications for land values and the delivery of low cost housing:

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• Local authorities should be allowed to specify criteria such as density, housing mix, affordable housing requirements and any pre-commencement conditions that development must meet when giving permission in principle

• Sufficient testing of a site should be undertaken before giving it permission in principle to ensure that it is appropriate for development

• Local registers should be used as a method of keeping the five year land supply for housing up to date

• A duty should be placed on local authorities to regularly update the register to ensure that it remains up to date and relevant

We understand that the Government’s intention is for brownfield sites to benefit from Permission in Principle. However, the clauses within the Housing and Planning Bill as it is currently drafted would in theory allow any site to be given permission in principle. The Federation believes that in order to increase housing delivery across the country, any site suitable for housing should be zoned.

4.3 A standardised approach to viability

The Spending Review included plans to introduce a more standardised approach to viability, which is welcome as the policy regarding development viability within the NPPF has resulted in a trend of developers watering down Section 106 contributions, on the grounds that a policy compliant scheme would not be viable. A standardised approach that is both transparent and fair has the potential to increase the delivery of low cost housing, and the Planning Practice Guidance should be updated to reflect this. Yet at the same time, the Government also announced the extension of the mechanism that allows developers to appeal unviable Section 106 agreements until 2018, which could counter this positive move and result in decreased delivery of low cost housing. A more sensible approach would be to encourage local authorities to use a phased approach to development. Review mechanisms or particular land agreements could also be used in order to claw back any unforeseen profits over and above that agreed in the initial viability assessment, which could be re-invested to provide more low cost housing.

4.4 Local plans

Key to the planning system is a local plan. This is a fundamental element to both making the plan-led system work effectively and meeting the housing, employment and regeneration needs of local areas. We therefore welcome the push from the Government to encourage local authorities to get a plan in place, and believe that any local authority with a pre-NPPF local plan should be required to produce an updated plan. We believe that the local register could play a key role in ensuring that enough sites are allocated to meet housing need, and identify a five year housing land supply. The new test, announced in the Spending Review,
to monitor housing delivery at a local level against housing targets set out within the local plan will assist in allowing targeted intervention where local areas are not delivering.

5. Conclusion

Housing associations are the most consistently successful public private partnerships in England’s history. They are dynamic businesses committed to social good, with a strong track record of building new homes and investing in local communities. They want to do even more to help deliver the homes this country desperately needs.

This submission sets out the measures that are needed to ensure that housing associations can achieve their ambition to significantly ramp up the number of new homes they build each year. By remaining independent social businesses in control of their assets and income streams, associations can continue to play the fullest role possible: providing safe, supported homes for the most vulnerable in society and achieving their ambitious plans for the future.

Britain remains in the midst of a housing crisis. Housing associations look forward to working in partnership with the Government to tackle it once and for all.

21 December 2015
The National Housing Federation welcomes the opportunity to expand further on our points surrounding Section 106 and planning gain. Section 106 has traditionally played a critical role of delivering affordable housing and we hope this supplementary information will provide further detail on why this is the case.

In 2013/14, some 37% (or 16,193) of affordable homes were delivered through Section 106. In the ten years to 2013/14, a total of 234,279 (or 52%) of all affordable housing was provided through Section 106. Affordable housing helps developers access sites; facilitates agreements with local authorities; and improves the financial viability of schemes by providing early and certain cash flow thus boosting financial capacity.

The Committee’s particular query regards the land value gain after Section 106 planning permission has been granted. As David Orr said to the Committee, it is difficult to provide a definitive figure because of significant local variation. Developer contributions are negotiated on a site by site basis and are subject to a range of variables such as local plan policies, previous land use, density and cost of remediation. All of these factors make it difficult to suggest what proportion of gain in value from planning permission is taken up by Section 106. This supplementary information therefore aims provide an explanation of how Section 106 works based on the experience of our members (housing associations), which will address the points made by the Committee during the evidence session.

The Department for Communities and Local Government (DCLG) publishes a document entitled ‘Land value estimates for policy appraisal’295, and this details post planning permission residential land value estimates along with agricultural and industrial land value estimates. DCLG has made assumptions that units provided through Section 106 cost on average £15,000 per unit, allowing some broad conclusions on the relationship between post-permission land values and the cost of providing affordable housing. As there are such local variations in the land values and cost of affordable housing units, we would recommend this document for some examples of definitive figures, should the Committee require further detail.

Another point made during the Committee session suggested that affordable housing requirements can hold up housebuilding; we would argue that this is not the case. In fact, in a number of cases Section 106 affordable housing can help to facilitate development. Indeed, the key issue - that both developers and housing associations share - is the price they are forced to pay for land. A range of factors contribute to this, including:

295 DCLG, 2015: Land values for policy appraisal
National Housing Federation – Supplementary written evidence (EHM0160)

- a lack of sites identified through the local plan process;
- over-reliance on and lack of incentives for private landowners to release land;
- public land owners working in silos and focusing on receipts; and
- a lack of transparent information on ownership.

Any of the above, or a combination, often means that sites are too expensive to allow the developer to support all the necessary planning obligations, despite the fact that these obligations are based on an objective assessment of local housing need. This is compounded by the residual land value model, where a developer estimates how many homes they can get on a site, how much they can sell each one for, what their costs are and what their desired profit level is. As the developer exists as a commercial business, it is understandable that often affordable housing that is left as the only negotiable feature. Equally, it isn’t uncommon for developers not to factor the full planning obligations into the price paid for land, on the basis they will be able to negotiate it out later.

The National Planning Policy Framework (NPPF) is unhelpful in this regard as it overemphasises viability from the point of view of the developer at the expense of policy compliance. As such, it has tipped the balance in favour of the developer at the expense of affordable housing. Also unhelpful is the clause contained in the 2013 Growth and Infrastructure Act which allows developers to appeal to previously agreed affordable housing contributions where they are deemed to make a scheme unviable. This clause was initially intended to help sites that were stalled by economic uncertainty at the time of the recession. Despite a number of factors which indicate that the market has recovered, the Government intends to extend the provision to appeal until 2018. We believe that this goes against to original intentions of the clause which were time limited arrangements to provide a kick start to development, and will further encourage developers to appeal agreed affordable housing contributions, thus causing further delays to housebuilding.

In order to address these issues, more certainty could be provided through the planning system to send clearer expectations to developers which in turn is reflected in the price paid for land. There is a strong positive link between affordable and private housing providing justification for such interventions.

The Government’s focus on getting up-to-date local plans in place is welcome, though we would be keen to see them go further to ensure every local authority has a post-NPPF local plan in place. This would guarantee that all local authorities are planning to meet objectively assessed housing need. Beyond this it’s important that local plans are viability tested at the outset. In doing so affordable housing contributions will become an integral part of development costs and will be factored into the price paid for land.

Ultimately, the process of demonstrating viability should be more transparent and planning applications should go to committee and/or appeal based on the viability assessments submitted with the application, rather than allowing the applicant to update the assessment as the application progresses. Where the viability of a scheme is questionable, the use of review mechanisms should be encouraged to allow any unforeseen profit to be clawed-back for the delivery of additional affordable housing.
The National Housing Federation is the voice of England’s housing associations. Our members provide two and a half million homes to more than five million people and invest in a diverse range of neighbourhood projects that help create strong, vibrant communities. Around half of all associations provide supported housing. This includes everything from women’s refuges to dementia services, from specialist support to help older people live independently to veterans’ services.

This briefing outlines the vital work that associations do in this area and seeks clarity that the Local Housing Allowance (LHA) cap will only apply to general needs housing and not to supported housing.

The importance of supported housing

Supported housing provides vital help for tens of thousands of people up and down the country. While the services range widely, they all play a crucial role in providing a safe and secure home with support for people to live independently and get their lives back on track. This includes:

- providing the support older people need to maintain their independence
- providing emergency refuge and support for victims of domestic violence, helping them to stabilise their lives and engage with other services
- working with homeless people with complex and multiple needs to help them make the transition from life on the street to a settled home, education, training or employment
- supporting people with mental health needs to stabilise their lives, recover and live more independently
- supporting people with learning disabilities in the longer term to maximise their independence and exercise choice and control over their lives

The Homes and Communities Agency has previously commissioned work to understand where vulnerable and older people would go if specialist housing was not available, and to understand the financial benefits of it. This found a net positive financial benefit of about £640 million overall. Yet, despite this, there is a current shortfall of 15,640 supported housing placements or 14% of supply. If current trends continue that shortfall will double by 2019/20.

It is therefore crucial that we establish a new system for paying benefits to cover housing costs in supported housing. This will ensure that funding for these vital schemes is put on a firm footing for the long-term. The LHA cap does not deliver this and in fact puts vital services at threat.
Clarity that the LHA Cap will not apply to supported housing

- In the Spending Review the Chancellor announced that the Housing Benefit component of Universal Credit will be capped at the maximum LHA rate. We are seeking urgent clarity from the Government that the cap will only apply to working age tenants in general needs housing and not to those in supported housing.

- While the Housing Benefit entitlement will change from 1 April 2018 onwards, the cap will apply to tenancies signed after 1 April this year. This is a matter of months away and housing associations are already making decisions about the future of vital supported housing schemes based on the impact the LHA cap could have on them.

- We estimate that more than 50,000 households could be affected over the course of just one year, losing an average of £68 per week each, if the LHA cap applied to supported housing. In a survey of housing associations, respondents identified 82,000 of their own specialist homes that would become unviable and be forced to close. Across the sector this equates to an estimated 156,000 homes – 41% of all of this type of housing. This is because supported housing operates on very low margins and its rents and service charges do not fluctuate between different areas to the same extent as market rents.

- Faced with threat of the LHA cap, the vast majority of housing associations with plans to develop new supported housing are concerned they will have to cancel these developments. Housing associations are stretching every sinew to deliver these schemes and are exploring innovative ways to continue these vital projects. However, despite their best efforts many, including some with diggers already on the ground, simply do not stack up if the LHA cap applies.

- Many other associations are concerned that they will be forced to close schemes or reduce the services they offer their client groups, including homeless people, people with disabilities and those fleeing domestic violence. This is likely to result in a serious lack of provision for people with complex problems and high support needs, leading to increased pressure on the NHS and a rise in homelessness. It is therefore crucial that Government clarifies that the LHA cap will only apply to working age tenants in general needs housing.
Case studies

Saxon Weald Housing Association – Extra care housing scheme

Nine out of ten extra care schemes run by Saxon Weald Housing Association for frail older people (305 flats out of 350 in total) would become unviable if the LHA cap applied to supported housing. This would have a significant impact on the lives of some of the area’s most vulnerable older people.

For example, Bert is an 86 year old widower with a combination of physical frailty and mild dementia. Bert can live independently in his apartment with the help on the on-site care team and the scheme manager. He particularly benefits from the scheme because he was lonely and isolated where he lived previously after he lost his wife. Bert is dependent on housing benefit to pay his rent. In the event that the LHA cap was introduced Bert would not be able to pay the top up required and would be evicted and he would be placed in residential care. Not only would this be inappropriate for his needs but the cost would be significantly higher than the current cost of his accommodation and the help he needs to remain independent.

North Star Housing Association – Women’s Refuge

For four years North Star Housing Association has been running a 12 unit refuge of high quality housing for women fleeing domestic violence. This project is always full. The reduction in LHA leaves this scheme short by £96,000 per year and the housing association runs another four in the North East. All these refuges would be forced to close if the LHA cap applied to supported housing.

24 February 2016
The Economics of the United Kingdom Housing Market

By Dr Angus Armstrong, Director of Macroeconomics, National Institute of Economic and Social Research, 14th December, 2015

1. This note addresses a number of the areas outlined in the call for evidence.

2. Housing is always at or near the top of our political agenda. This is entirely appropriate. Adequate housing is essential for the security and well-being of our families. Indeed, the United Nations Declaration of Human Rights recognises adequate housing as part of citizens’ right to an adequate standard of living.

Home ownership rates

3. Housing is complicated because houses perform a number of functions at the same time. First and foremost, they provide shelter. An obvious measure of success is whether there is enough for everyone. In 2013 there were roughly 27.5 million dwellings (excluding long term vacant houses) and 26.5 million households. But there are problems on the horizon. According to the Office of National Statistics (ONS) the number of new households is projected to increase by 250,000 per year over the next decade while the number of net new houses completed over the last decade averaged 175,000 per year.

4. The share of households who are owner occupiers has fallen from 69% to 63% over the last decade. This headline figure masks very divergent trends. Ownership among people under 34 have fallen by around 20% while those over 75 have actually increased. The decline in the overall owner occupation rate has been offset by a rise in households in the private rented sector which has doubled to 19%. The switch in tenure coincides with a steep rise in the number of households who own second homes which they rent to the private sector.

5. A new trend is the rise in the number of households with shared families. For example, where children stay at home with their parents and their partners. This was relatively steady until 2006 but has since started to rise by around 7% per year. The sudden change in trend suggests this has more to do with affordability than preferences. Overcrowding is almost exclusively found in rented homes rather than owner occupied. At the same time a remarkable phenomenon called ‘under occupied’ housing is on the rise. An ‘under occupied’ home is defined as having two or more spare bedrooms. According to the English Housing Survey, 61% of those who own their house outright are said to ‘under occupy’, compared to 39% of mortgage holders and only 15% of private renters.

6. This evidence suggests that housing is increasingly seen as a store of wealth. Owners are happy to ‘under occupy’, many households are buying second properties and the older generation are not releasing equity by leaving owned property towards the end of their life. Meanwhile, prices are preventing those in the early years of adulthood, who have most
housing risk, from becoming owners. This suggests that the market is becoming less efficient in allocating housing.

**Housing returns and taxation**

7. Housing is also the most important asset we own. Households have more wealth invested in housing than any other asset including pensions. In 2013 the value of households’ and non-profit institutions’ dwellings was £4.4tn (ONS data). This is 60% of the entire net wealth of the UK. It is not only British households that invest. In a world where secure assets with a positive yield are scarce, UK property is popular with overseas investors. It has essential attributes such as complete records of ownership and courts which uphold property rights. According to Property Week, the annual amount of overseas investment has risen from around £6bn per year a decade ago to £32bn in 2014.

8. Indeed, housing has been a sound bet for decades. Over the last twenty years the price of an average house has risen by 7.3% per year, higher than a 6.3% total return (dividends reinvested) in the FTSE100 stock index. However, assuming a modest rental yield net of depreciation and repairs of 2% takes the return on housing significantly higher and less volatile.

9. The difference is even greater when considering the after tax return. Home owners pay council tax and stamp duty when they move (1% on the average home) and no other taxes other than council taxes which are small relative to overall housing costs. Owners of financial assets pay income and capital gain taxes. Therefore the after-tax and risk-adjusted rate of return on housing is far in excess of other investment options.

**Intergenerational fairness**

10. There is surprisingly little, if any, credible economic evidence that owner occupation leads to better economic outcomes such as better education, health, fewer social problems to mention a few. Owner occupiers are likely to be wealthier and have better outcomes, but there is no evidence this is caused by housing tenure. The evidence that ownership limits labour mobility is also not very conclusive.

11. Ownership can adversely affect other citizens through intergenerational fairness. The 50% rise in house prices over the last decade benefits the existing owners at the cost of those wanting to become owners. The younger generation, perhaps simply not old enough to own in 2004, now have to save 50% more, or £93,000, from after-tax income just to afford an average UK home. This explains the divergent owner occupation trends noted earlier.

12. There are parallels between the government debt and house prices. The burden of servicing and repaying the public debt and paying more for housing falls on everyone in future generations. Even those who rent are not exempt; house prices and rents move together. Yet there is a contrasting desire to repay government debt but support housing demand and house prices. Over the last decade the increase in public debt was £1 trillion and the increase in the value of dwellings was £1.3 trillion.

**Economic cycles and growth**
13. A second way rapidly rising house prices can impose costs on others is through economic and financial instability. A simple approach to valuing home ownership is the user cost of capital. This adds up the cost of borrowing, essentially the interest charge, plus the cost of wear and tear on upkeep and minus the expected rise or fall in price. If the user cost is less than the cost of renting, then it makes sense to own. When house prices are expected to rise strongly the user cost can fall to zero or even negative.

14. According to the IMF, housing cycles in the UK have the greatest amplitude of OECD countries. This matters because aggregate demand is highly correlated to house price cycles. A recent Bank of England blog has discussed the correlation between house prices and job losses.296 There are disputes about the cause, but no doubt about the correlation. The consequences for financial and economic stability are at the heart of the UK’s boom and bust history.

15. Another reason concern about rising house prices is the consequences for long term income. If a greater share of savings is being invested in property, less may available to support the nation’s capital stock. Less investment over the long term results in diminished supply and income potential.

16. One option is to borrow from abroad to invest in our capital stock. But borrowing needs to be serviced which ultimately reduces incomes. Assuming we do not borrow from overseas, our national savings rate last year of 12.5% and capital to output ratio of 2.2 and a depreciation rate of 4%, implies long term income growth of 1.7%. Rising house prices can crowd out productive investment.

**Planning and supply**

17. Over the long term we clearly need more housing supply as household formation exceeds new supply. Yet as long as the Government chooses not to build council houses, supply depends on choices made by private agents. For all the effort of successive governments to increase private supply, the outcome has been disappointing. In 2013, the last year of data, the number of new houses completed was 138,000. This is well below the 177,000 average over the last decade, and the projected 250,000 new households each year over the next decade.

18. The real question is why supply continues to fall below target. Perhaps the most compelling answer is the planning system. While all governments seek to overhaul the system, with so much wealth in the housing stock there are strong interests of owners to proceed with caution. Some studies note the increase in the planning and appeals process just as policy makers are trying to shorten it.

19. It is worth noting that the private sector is supplying roughly the same number of houses it always has. The average private house build over the last decade was only slightly less than the average for the last forty years. The big change is that local authorities no longer supply 30,000 new homes per year. With the government able to borrow at close to

zero and owning the land to build homes on, it is hard to believe that public house building would not make a significant contribution to public finances.

20. Even if housing supply targets were achieved, this would not solve some of the amplitude of cycles. Houses last for around fifty years, so the market is dominated by stock rather than flow of new supply. Even if targets are achieved the flow of new houses is less one percent of the stock. Indeed, if the construction industry were also more pro-cyclical, expanding when house prices are rising, this may even make economic cycles bigger. The trick is to find a way of dampening demand.

Housing taxation

21. The biggest distortion to the housing market is our tax system. Efficient taxation of investments leaves the after-tax and risk-adjusted returns equal across assets and equal to our natural preference to consume today rather than tomorrow.

22. Unlike other assets, there are no capital gains or limits to investing in a house. If a capital gains tax were introduced, this would reduce the gains in an upturn and losses in a downturn so dampening cyclicity. Capital gains tax would also reduce the resistance to planning, reduce ‘under occupancy’ and even increase the flow of savings in productive investment.

23. The gains could be indexed, investment in the property would be exempt and the gains would only be paid on final sale or even death. This would avoid any incidence on ‘cash poor’ home owners. The revenue gained could fully offset the scrapping of our tax on labour mobility we call stamp duty. Of course this requires political courage. But it is not enough to say we cannot fix our housing problems.

24. These ideas are unfortunately in the opposite direction of recent policies. Changes to inheritance tax laws allow couples to transfer even more wealth in housing to descendants’ tax free. As well as creating another tax advantage to owning, this favours affluent families and worsens the intergenerational inequality.

Housing finance system

25. Housing finance is simple in theory but hard in practice. And just about every country does it differently. In theory, young households want a long-term loan to fund the purchase of a long-term asset. Middle-age and older households are looking for safe long-term assets to invest in for their retirement. The ideal contract between generations is fixed in real terms, and second best is fixed in nominal terms. Floating rate debt is third best for both sides.

26. But in practice, this is harder to achieve. When the young move house, or when interest rates fall, they pay-off the existing mortgage which shortens the duration of pension savings and introduces re-financing (or pre-payment) risk. Long term investors now have to price non-stationary credit risk (risk falls as the mortgage is repaid) which interacts with refinancing risk. This is all possible, but expensive.
27. No country in the world has found a satisfactory solution without state involvement. In the US Fannie and Freddie removed residual credit risk (before the Clinton housing reforms of the 1990s) meaning investors only had to manage prepayment risk (in the end, interest rate risk). In Canada the residual credit risk is managed through insurance, where the ultimate insurer of last resort is the state. In Germany the state implicitly supports Pfandbriefe (covered bonds) which have not defaulted in over 200 years.

28. Of course the state may solve market failures, but it is also sadly adept at introducing policy failures. In the US the agencies were eventually charged with holding sub-prime and even the quality of Pfandbrief is not what it used to be. But the key point is that in each case mortgages are funded by long term domestic investors.

29. House purchases in the UK are almost exclusively reliant on bank finance at short term interest rates. Housing used to be funded by ‘sticky deposits’ from building societies. All changed in 1986 when Building Societies were allowed to demutualise to increase competition with banks. The funding structure of former building societies either replicated banks or were much worse (like Northern Rock). This was all in the name of greater competition with no thought given to stability issues in finance. As a consequence housing finance involves a greater maturity mismatch of assets (mortgages) and liabilities (funding) and greater leverage.

30. Interest rates influence the user cost of capital (discussed above) through mortgage costs and expectations of price appreciation. Mortgages are priced on short term interest rates which are move volatile than longer term rates. It is no surprise that our house price cycles coincide with the fortunes of the banking sector. Every downturn in the property markets coincides with serious stresses on the banking system.

31. A more stable housing market will require less maturity mismatch and leverage. Mortgage supply would be more efficient if funded by longer term sources of finance. Most other countries manage this. It requires leadership in the design of the financial system to meet the economic objectives of the citizens who underwrite the system. The Treasury has the capacity to develop a housing finance system which delivers housing stability and less financial vulnerability.

Sub-market price housing

32. Some families cannot afford to participate in the private sector housing market. Housing Associations (HAs) are not for profit private organisations which provide rental accommodation at below market rates and some property development. They emerged as buyers of block sales of council houses and increasingly developed new properties. They fund this from retained earnings and a grant from central government to the tune of around £1bn per year. HAs are the third largest source of housing providing homes to 10% of households and 20% of new housing supply.

33. In October 2015, the government became landlord to 10% of households. The ONS re-classified Housing Associations (HAs) as public sector corporations, meaning that the state also inherited £60bn of new public sector debt. The proximate cause for the re-classification was probably the government’s decision to extend ‘Right to Buy’ from council
tenants to HA tenants. This meant that HAs could no longer fly under the radar as de facto public bodies since the Housing and Regeneration Act of 2008.

34. But public ownership is unlikely to be the end of the story. The government has said it will take whatever actions necessary to reverse the re-classification decision. There is a precedent for re-re-classification: Further Education Colleges were re-classified in 2010 then re-re-classified in 2012. Convincing the ONS will require significant change in the governance of HAs and possibly privatisation. The danger is that these changes undermine our already second rate housing finance system.

35. While the HA funding model evolved, it is surprisingly sound. They have a steady stream of income from social rents paid straight from the state to the HA. Because the homes are rented there is no prepayment risk, and the grant is subordinate to private debt which gives investors comfort that their credit risk is limited. Therefore, HAs have been able to aggregate their borrowing ant tap domestic long-term investors such as pension funds and insurance companies.

36. The vital statistics are that HAs own £133bn in assets mostly funded by £28bn of equity, £44bn of historic government grants and £60bn of domestic long-term loans. Sure, there are probably efficiency gains, but HAs have almost no dependence on short term funding. So much for theory: what about housing supply? Chart 1 compares housing supply from private developers and HAs. Private developers’ completions fell by 45% in the crisis period while completions by HAs have been a steady rising trend. Over the crisis period housing completions by HAs actually rose by 12%, providing counter-cyclical support to the economy and the construction sector.

37. The lesson of the re-re-classification of Further Education Colleges is that government must relinquish control well beyond the proximate cause of the re-classification in the first place. In other words, government will have to step much further back than simply dropping ‘Right to Buy’. The risk is that the government may have to step so far back from control of HAs that they are no longer be able to rely on long-term private funding. This will lead to an even greater share of our housing market being funded by short term finance. The risks is that a misuse of ‘greater competition’ leads to even more cyclicality. Ask any developer what their greatest barrier to more development is and they will say – cyclicality of the housing market. The upshot is we may be making a bad housing finance system even worse.
Policy choices

38. There are options to address the market failures in the UK’s housing market. We do not have to accept rising intergenerational inequality, macroeconomic and financial instability and low investment rates in productive assets. But changes will require more that stating housing supply targets which are never met. Moving to a better taxation and housing finance system would make a significant improvement to our economic performance and welfare of citizens.

Dr Angus Armstrong.

14 December 2015


NLA written evidence House of Lords Economic Affairs Committee:

- Economics of the UK Housing Market

December 2015
Executive Summary

The National Landlords Association (NLA) exists to protect and promote the interests of private residential landlords.

Working with more than 60,000 individual landlords from around the United Kingdom we provide a comprehensive range of benefits and services to our members and strive to raise standards in the private-rented sector.

The NLA seeks a fair legislative and regulatory environment for the private-rented sector (PRS) while aiming to ensure that landlords are aware of their statutory rights and responsibilities.

Q: Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

- The reduction of tax relief available to private landlords, accompanied with the 3% stamp duty surcharge announced in the Autumn Statement, will detrimentally affect landlords and tenants alike.

- As a result of these policies, existing landlords will be forced to choose one or more of the following options:
  
  - Increase rents as they have no choice but to pass on some or all of their increased costs to existing tenants.
  - Sell some or all of their portfolios, resulting in existing tenants losing their homes.
  - Postpone (or even cancel) plans to refurbish or refurnish properties – further hurting sitting tenants.

Q: Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture.

- The NLA believe that prior to the recent budget and legislative changes, successive Governments encouraged a stable long term rental culture by not unnecessarily interfering in the market.

- Now landlord’s confidence in the UK’s PRS has reached an modern low according to our latest polling.

- The NLA believe that the imposition of mandatory longer-term tenancies by government, would be detrimental to both the sector and the overall policy objective of creating a stable renting environment. The current regulatory framework allows for longer term tenancies for those tenants that want them, and not all do.
Q: What are the advantages and disadvantages of restricting rent increases in the private sector?

- The NLA believe the introduction of rent controls would be a dangerous throwback to the past.
- Evidence shows that the re-introduction of rent control in the UK will fail and will cause irrevocable damage to the housing sector, and to those that need to be housed.
Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

1. The National Landlords Association (NLA) welcomes the opportunity to provide evidence to this inquiry. Our evidence focuses exclusively on the private rented sector (PRS) part of the inquiry remit (section 2).

2. We also asked members to submit their views on the questions asked. These are included in Appendix 3. These are individuals’ own contributions and do not necessarily reflect the views on the NLA. However, they provide genuine insight into the position of providers of private accommodation.

3. The impact of the Chancellor’s decision to restrict the relief a landlord can claim to the basic rate should also be measured alongside his decision to impose a 3% stamp duty surcharge on purchase of second and/or buy to let properties in the recent Autumn Statement.

4. As well as impacting on landlords, these changes will also detrimentally impact thousands of tenants. As a result of these policies, existing landlords will be forced to choose one or more of the following options:

   a. Increase rents as they have no choice but to pass on some or all of their increased costs to existing tenants
   b. Sell some or all of their properties, resulting in existing tenants losing their homes. These tenants will then be searching for a new home in a smaller market with higher rents.
   c. Postpone (or even cancel) plans to refurbish or refurnish properties – further hurting sitting tenants

5. This belief is backed up by the latest polling of our members\(^{297}\) which amongst other things found.

   a. Changes to BTL mortgage interest tax relief will result in property divestment - 1 in 4 (26%) landlords report they will sell property as a direct result of the changes to the finance tax relief regime.

   b. Approximately 6 in 10 landlords will increase rents as a result of the finance tax relief changes, whilst the impact is most pronounced for landlords in the highest personal income tax brackets.

Please see Appendix 1 for more information and the full results of our polling.

\(^{297}\) Appendix 1 NLA Landlords survey Q3
\(^3\) Full figures can be found in Table 1 which accompanies this evidence and on our website [http://www.landlords.org.uk/news-campaigns/news/osbornes-turnovertax-result-in-rent-hike](http://www.landlords.org.uk/news-campaigns/news/osbornes-turnovertax-result-in-rent-hike)
6. A significant volume of landlords will be forced to sell property as a result of these changes. This may represent all or some of their property portfolio. In our most recent survey of our members, 26 per cent stated they would have to sell some properties and 5 per cent are already planning to exit the sector completely.  

7. The NLA has estimated that in excess of 341,000 landlords will be directly impacted by the change, with many more unaware of the effect that the Chancellor’s policy will have on their future business opportunities.  

8. This is likely to remove upwards of 615,000 units of rented accommodation from the private rented sector – as a direct consequence of Mr Osborne’s decision – at a time when the Government is committed to increasing supply to meet demand.  

9. Perhaps more concerning for those relying on the PRS for their homes is the impact the change will have on rents. Using polling figures from our quarterly landlord and tenant surveys the NLA have produced regional figures on the amount rents will have to rise if all the costs were passed onto tenants. The full results (and workings) can be seen in Table 1 however key sections can be found below.

<table>
<thead>
<tr>
<th>Region</th>
<th>TYPICAL HOUSEHOLD RENT</th>
<th>ONS PRIVATE RENT INFLATION</th>
<th>AVG. PROPERTIES</th>
<th>AVG LTV</th>
<th>PCM REQUIRED INCREASE (£)</th>
<th>RENT INCREASE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>£1,133.60</td>
<td>4.10%</td>
<td>7</td>
<td>41%</td>
<td>£112.75</td>
<td>9.95%</td>
</tr>
<tr>
<td>Scotland</td>
<td>£510.08</td>
<td>1.60%</td>
<td>10</td>
<td>52%</td>
<td>£48.45</td>
<td>9.50%</td>
</tr>
<tr>
<td>East of England</td>
<td>£612.39</td>
<td>2.70%</td>
<td>12</td>
<td>43%</td>
<td>£49.94</td>
<td>8.15%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£530.76</td>
<td>2.10%</td>
<td>8</td>
<td>54%</td>
<td>£40.58</td>
<td>7.65%</td>
</tr>
<tr>
<td>South East</td>
<td>£777.06</td>
<td>2.70%</td>
<td>9</td>
<td>42%</td>
<td>£59.31</td>
<td>7.63%</td>
</tr>
<tr>
<td>South West</td>
<td>£682.11</td>
<td>1.80%</td>
<td>8</td>
<td>47%</td>
<td>£50.03</td>
<td>7.33%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>£588.25</td>
<td>1.90%</td>
<td>9</td>
<td>55%</td>
<td>£42.79</td>
<td>7.27%</td>
</tr>
<tr>
<td>Yorkshire &amp; the Humber</td>
<td>£524.63</td>
<td>0.90%</td>
<td>13</td>
<td>50%</td>
<td>£34.23</td>
<td>6.52%</td>
</tr>
<tr>
<td>North East</td>
<td>£453.71</td>
<td>0.50%</td>
<td>12</td>
<td>51%</td>
<td>£27.93</td>
<td>6.16%</td>
</tr>
<tr>
<td>North West</td>
<td>£537.62</td>
<td>0.70%</td>
<td>12</td>
<td>51%</td>
<td>£32.42</td>
<td>6.03%</td>
</tr>
<tr>
<td>Wales</td>
<td>£550.47</td>
<td>0.50%</td>
<td>9</td>
<td>45%</td>
<td>£29.68</td>
<td>5.39%</td>
</tr>
</tbody>
</table>
10. Taking each region in turn, the impact is likely to be most pronounced in London, where average rents are already in the region of £1,134 per calendar month and will need to rise almost 10% to cover the cost of the tax change.

11. The North West of England and Wales are likely to be least effected, although will still witness rises of 6%.

2b) Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture.

12. In July 2015 Price Water House Coopers (PwC) conducted research that concluded that by 2025, there may be slightly more people renting privately than owning with a mortgage and that the total UK owner occupation rate was projected to fall from a peak of nearly 70% before the financial crisis to around 60% of households by 2025.4

13. The NLA believe those figures will need to be revisited following changes to Stamp Duty and the restriction on mortgage interest tax relief, coupled with Right to Buy and the Help to Buy ISA’s, however it is too early to do so now.

14. The NLA believes that prior to the recent changes, the successive Governments actually encouraged a stable long-term rental culture by not unnecessarily interfering in the market. It is not so much existing regulation that impacts on landlord and tenant behaviour but rather changes in that regulation and uncertainties about future changes.

15. That is exactly the situation we have now with the recent budgetary changes as well as new PRS regulations included in such legislation as the current Housing and Planning Bill, Immigration Bill, and the recent Deregulation Act. There is also reportedly more action planned by the Bank of England regarding buy to mortgages.

16. In our latest landlords survey we found confidence in the UK’s PRS has reached an all-time low, falling by 22% points since the previous wave of research. Similarly, landlord’s optimism in their own letting business has fallen to its lowest point for 7 years.5

17. Business confidence has collapsed as a result of these changes. Our polling found that landlords managing the largest portfolios (20+ properties) feel most affected, and consequently now feel least optimistic about their near term prospects (-29%) than all other segments.

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5 See Appendix 1 Pg 2
18. We note that some of the evidence presented to the Committee has talked of how longer term tenancies might help produce a stable long term renting culture. It should be noted that the current regulatory framework allows for longer term tenancies and seems to work quite well in the majority of cases.

19. We draw the committee’s attention to the independent findings of the English Housing Survey which found that for private renters the average length of residence was 3.5 years.6

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5 See Appendix 1 Pg 2
20. Furthermore, during our own tenant polling, private renters who had moved in the last three years were also asked why their last tenancy had ended.

   a. 78% of those tenants asked said their tenancy ended because they had wanted to move. b. ONLY 8% because they had been asked to leave by their landlord or agent.
   c. JUST 2% moved because of rent increases by the landlord

21. The NLA is in favour of longer term tenancies, provided they are able to co-exist with flexibility.

   However ‘one size does not fit all’. Some tenants do not want to be tied to a long rental contract for instance. When surveyed tenants were evenly split on whether they would have preferred a longer tenancy.

22. The NLA’s tenant survey also shows that the vast majority of tenants (55%) were happy with the tenancies offered and did not see the need to ask for a longer tenancy.

23. Equally it shows that when tenants had asked for a longer tenancy a good percentage of the landlords had agreed to it. Approximately 23% of tenants surveyed had ever asked for a longer tenancy, and only 5% had had their request refused.

24. Given this combination of independent figures and our own research, the NLA believes that legislation imposing longer-term tenancies would be detrimental to both the sector and the overall policy objective of creating a stable renting environment.

| c) What are the advantages and disadvantages of restricting rent increases in the private sector? |

25. The appeal of rent controls is simple. Unfortunately, while the concept is simple, the practical and economic consequences are incredibly complicated and difficult to model.

26. For many years, rent control was considered an out-dated practice from a bygone age, with a history of failure and complications around the world. In the UK specifically, the various Acts which introduced rent control in the private-rented sector had a dramatic effect on the proportion of households renting from a private landlord.

27. As chart 1 below illustrates, the sector shrank dramatically after the introduction of controls in the Rent and Mortgage Interest Restrictions Act 1939, and continued to decline as the legislation was tightened through the 1950s, 60s and 70s. It was not until the reforms of the 1980s that the private-rented sector turned the corner.
6 Table 1.1
7 English Housing Survey 6.21 Reasons for Tenancy ending
8 Appendix 2 – Question 33
9 Appendix 2 – Question 34
28. Even so, the initial pace of change was slow. The modern rented sector only really developed after the enactment of the Housing Act 1996 when the Assured Shorthold Tenancy became the default tenancy and lenders felt secure enough to expand mainstream lending to individuals.

Chart 1 Impact of Rent Control in the UK

30. In order better to understand the interventionist policy proposals that were put forward during the General Election, in 2014 the NLA commissioned independent research into this issue from the London School of Economics (LSE) and Christine Whitehead and Kate Scanlon.

31. The full report is due to be published in 2016 however their interim 2015 report found that rent controls and similar policies, which are thought to work well in other countries, cannot be easily replicated in the UK’s private rented sector.  

32. The report looked at evidence from the UK as well as from other countries where stronger regulatory policies are already in place, including Germany, Ireland, San Francisco, New York and the Netherlands.

33. Particularly, the interim report concluded that that:
In Ireland – which apparently provided the model for the Labour Party’s proposals in their 2015 election manifesto – controls introduced in the last few years have had very limited effect. The country is experiencing a housing crisis, with rapidly rising rents and a near-standstill in new housing production.

In Germany – often cited as the best example of a country with a stable PRS – the system of indefinite security and in-tenancy rent stabilisation has in the past been cushioned by low house prices and demand. Moreover, initial rents can be well above current market levels in high-demand areas.

In San Francisco and New York – the main beneficiaries are older middle class households and the young hardly get a look in.

34. Independent academic evidence from Ireland, Germany, France, the Netherlands and San Francisco, five places where there is more legal control of rents and tenancy length than in the UK, suggests that it is not so much existing regulation that impacts on landlord and tenant behaviour but rather changes in that regulation and uncertainties about future changes.

35. It also suggests that most countries have tax regimes that are more generous to landlords than in the UK, especially given the changes to be introduced in the next few years. These help to ensure that landlords in those countries look to remain in the market.

36. The fact is whilst rent controls may exist in other countries, other regulatory measures such as housing supply, tax incentives and legal frameworks mean that any comparisons with the UK is like comparing chalk and cheese.

37. Were a future government to introduce such a policy, the impact would undoubtedly be a reduction in the number of properties available to rent and the exit from the market of a large number of responsible landlords who simply are not prepared to deal with inevitable reduced income or the higher costs that will follow as service providers, such as mortgage lenders and insurance providers, seek to off-set their risk.

38. As the cost of renting to the consumer would be artificially kept below the level needed to ensure that the landlord can (for example) maintain the properly, and inevitably squeezing profitability out of the equation, investment will move away, towards other markets and assets better able to provide a reasonable return.

39. The impact of rent controls would be felt more widely than simply by those who rent or let. In many parts of the country there is a shortage of all types of property for people to live in. Rent control will not increase the number of properties but will have the opposite effect. It will drive
investment away from these areas and further reinforcing the divide between high and low demand areas, as developers will no longer be able to cover the risk of new projects by selling off-plan to landlords keen to invest in residential property.

40. Unless there is an increase in first-time buyers willing, and – perhaps more crucially – able to buy to compensate, housing development will fall away, further restricting supply and making it even more difficult for those seeking housing, both to rent and to buy.

41. The policy of rent control has failed whenever it has been introduced; the re-introduction of rent control in the UK will fail and will cause more damage to the housing sector, and to those that need to be housed.
NLA / BDRC
Landlords Survey
Q3 2015

Appendix 1

NLA Submission to the Lords
Economic Affairs Committee.
The PRS has not seen a fall in business optimism like this since 2007

Business confidence has collapsed. Landlords managing the largest portfolios (20+ properties) feel most affected, and consequently now feel least optimistic about their near term prospects (-29%) than all other segments.

Business expectations for the next 3 months % rated ‘GOOD/VERY GOOD’

‘Own letting business’

Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3
06 07 07 07 08 08 09 09 10 10 10 11 11 11 11 11 11 12 12 12 12 13 13 13 13 13 14 14 14 14 15 15 15
The PRS has not seen a fall in business optimism like this since 2007

Q10 How would you rate each of these aspects of around your own letting business for the next 3 months?

Base: All answering (1688)
An increasing proportion of landlords find it difficult to keep up with legislation

Perhaps unsurprisingly given the volume of announcements since Q2, an additional 7% of respondents endorsed the difficulty of keeping up with legislation, this is especially the case for single property landlords (61%).

- I always look for new sources of advice for landlords: 81% True, 8% False, NET +73
- My properties are my pension: 78% True, 11% False, NET +67
- I find it difficult to keep up with all the changes in legislation: 53% True, 31% False, NET +22
- I have a clear ‘exit plan’ when it’s time to leave the rental sector: 30% True, 26% False, NET +4
- I think of myself as a property investor rather than a landlord: 30% True, 53% False, NET -23
An increasing proportion of landlords find it difficult to keep up with legislation

Q42 Thinking now more broadly about the private rental sector, how do you feel, personally, about the following statements?

Base: All answering (1640-1680)
The proportion of landlords planning to sell has doubled

Whilst the % of landlords looking to expand their portfolio in the next 12 months has softened slightly (-5%) the proportion planning to sell property has doubled from 7% to 15%. In particular it’s the existing portfolio landlords (20+ properties) that are looking to reduce their property holding, with over 1 in 3 planning to divest (+21% on Q2).

Purchase behaviour in the last 3 months (%)

- Increase no. of properties: 17 (+9%)
- Reduce no. of properties: 8
- No change: 75

Planned purchase behaviour in the next 3 and 12 months (%)

- 3 months: 16
- 12 months: 24
- Not sure: 10%
- 2% on Q2

No purchased properties
1.8 properties

No sold properties
1.4 properties

In particular it’s the existing portfolio landlords (20+ properties) that are looking to reduce their property holding, with over 1 in 3 planning to divest (+21% on Q2).
The proportion of landlords planning to sell has doubled

Q12 If you have made changes to your portfolio in the last three months...?
Base: All (1712)

Q13a/b In the next xxx months, do you intend to...?
Base: All (1700-1704)
Tenancy duration remains stable at 2.5 years

Tenants who could be deemed vulnerable, including those who are retired, LHA claimants and other benefit recipients, tend to stay longest, with the average tenancy duration for all these groups being over 3 years. Students have the shortest average tenancy length at 1.6 years.

**On average, how long does a typical tenant stay in your property? (%)**

- Under 6 months: 1%
- Over 6 months up to 1 year: 15%
- Over 1 year up to 2 years: 30%
- Over 2 years up to 3 years: 25%
- Over 3 years up to 4 years: 13%
- Over 4 years up to 5 years: 5%
- Over 5 years: 10%

Mean years

Q3b On average, how long does a typical tenant stay in your property?
Tenancy duration remains stable at 2.5 years

<table>
<thead>
<tr>
<th>Category</th>
<th>Mean years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired</td>
<td>3.3</td>
</tr>
<tr>
<td>LHA</td>
<td>3.1</td>
</tr>
<tr>
<td>Older couples</td>
<td>3.1</td>
</tr>
<tr>
<td>Other benefit recipients</td>
<td>3.1</td>
</tr>
<tr>
<td>Blue collar / manual workers</td>
<td>2.9</td>
</tr>
<tr>
<td>Older singles</td>
<td>2.9</td>
</tr>
<tr>
<td>Families</td>
<td>2.9</td>
</tr>
<tr>
<td>Migrant workers*</td>
<td>2.8*</td>
</tr>
<tr>
<td>White collar / professionals</td>
<td>2.6</td>
</tr>
<tr>
<td>Young couples</td>
<td>2.6</td>
</tr>
<tr>
<td>Young singles</td>
<td>2.4</td>
</tr>
<tr>
<td>Executive / company lets*</td>
<td>2.6*</td>
</tr>
</tbody>
</table>

Base: All (1712)
Changes to BTL mortgage interest tax relief will result in property divestment

1 in 4 (26%) landlords reported they will sell property as a direct result of the changes to the mortgage interest tax relief regime. The same proportion have yet to identify the impact on their lettings activity.

Impact of tax relief change on lettings activity (%)

- Increase no. of properties
- Reduce no. of properties
- No change
- Sell all properties (5%)
- Don’t know/depends (26%)

Personal Income Tax Band

- 0%
- 20%
- 40%
- 45%

- 39%
- 39%
- 34%
- 22%

- 6%
- 4%
- 5%
- 7%

- 6% 26% 24%
- 19% 25% 25%
- 13% 25% 24%
- 6% 25% 24%
- 0% 41% 30%
Changes to BTL mortgage interest tax relief will result in property divestment.

Q29ii What impact, if any, do you think this change will have on your lettings activity? Will you...

Base: All aware of change in BTL mortgage interest tax relief (1222)
6 in 10 landlords will increase rents as a result of the interest tax relief changes

There are likely to be widespread rent hikes to help mitigate against the increased taxation impact. Regardless of the respondent’s own tax situation, the majority propose to levy an increase in rents, this is even more pronounced for those in the highest tax brackets.

Impact of tax relief change on rent charged to tenants (%)

- Increase rent charged: 58%
- Decrease rent charged: 0%
- No change: 27%
- Don’t know / Depends: 14%

Income tax band

- 0%: 56%
- 20%: 52%
- 40%: 69%
- 45%: 85%

- 0%: 0%
- 20%: 0%
- 40%: 0%
- 45%: 0%

- 0%: 28%
- 20%: 32%
- 40%: 21%
- 45%: 7%
6 in 10 landlords will increase rents as a result of the interest tax relief changes

Q29v And what, if any, changes do you think you will make to the rent you charge tenants as a direct result of the changes to mortgage interest tax relief?

Base: All aware of change in BTL mortgage interest tax relief (1222)
Mortgage interest tax relief changes will be detrimental to property maintenance

1 in 3 landlords reported they will spend less on portfolio maintenance as a result the tax relief changes. There is a negative impact regardless of the landlord’s personal tax status.

Impact of tax relief change on amount of money spent on maintaining rental property(ies) (%)

<table>
<thead>
<tr>
<th>Impact of change</th>
<th>No change</th>
<th>Increase amount spent</th>
<th>Decrease amount spent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>53%</td>
<td>3%</td>
<td>30%</td>
</tr>
<tr>
<td>Don’t know / Depends</td>
<td>13%</td>
<td>11%</td>
<td>14%</td>
</tr>
<tr>
<td>Net: Will impact amount spent</td>
<td>33%</td>
<td>24%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Personal Income Tax Band

<table>
<thead>
<tr>
<th>Tax Band</th>
<th>No change</th>
<th>Increase amount spent</th>
<th>Decrease amount spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>65%</td>
<td>2%</td>
<td>22%</td>
</tr>
<tr>
<td>20%</td>
<td>57%</td>
<td>3%</td>
<td>27%</td>
</tr>
<tr>
<td>40%</td>
<td>47%</td>
<td>5%</td>
<td>39%</td>
</tr>
<tr>
<td>45%</td>
<td>59%</td>
<td>0%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Net impact: 33%
Mortgage interest tax relief changes will be detrimental to property maintenance

Do you think the mortgage interest tax relief changes will have any impact on the amount of money you spend maintaining your rental property(ies)?

Base: All aware of change in BTL mortgage interest tax relief (1222)
Most mitigation activity will begin when the taxation changes take effect

The majority of landlords will start to take the relevant actions when the changes to taxation begin to be rolled out. However, around 1 in 4 stated that they would begin to protect themselves from the impact with immediate effect.

**Change in rent**
- Will change rent: 44%
  - Immediately: 25%
  - When the changes start being phased in: 44%
  - Once the changes have been fully implemented: 10%
  - Don’t know/not sure: 20%

**Change to BTL mortgage(s)**
- Will change to BTL mortgages: 37%
  - Immediately: 19%
  - When the changes start being phased in: 47%
  - Once the changes have been fully implemented: 8%
  - Don’t know/not sure: 25%

**Change in property upkeep**
- Will make changes to property upkeep: 25%
  - Immediately: 24%
  - When the changes start being phased in: 51%
  - Once the changes have been fully implemented: 17%
  - Don’t know/not sure: 8%

**Change number of properties**
- Will change number of properties: 23%
  - Immediately: 25%
  - When the changes start being phased in: 44%
  - Once the changes have been fully implemented: 10%
  - Don’t know/not sure: 20%
Q25: How long have you lived in your current home?
Answered: 818  Skipped: 293
Q25: How long have you lived in your current home?
Answered: 818  Skipped: 293

<table>
<thead>
<tr>
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<tr>
<td>Less than 6 months</td>
<td>8.44%</td>
</tr>
<tr>
<td>7-12 months</td>
<td>6.60%</td>
</tr>
<tr>
<td>13-24 months</td>
<td>9.29%</td>
</tr>
<tr>
<td>2 years but less than 3 years</td>
<td>6.60%</td>
</tr>
<tr>
<td>3 years but less than 4 years</td>
<td>13.08%</td>
</tr>
<tr>
<td>4 years but less than 5 years</td>
<td>11.00%</td>
</tr>
<tr>
<td>5 years but less than 9 years</td>
<td>2763%</td>
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<tr>
<td>10 years but less than 19 years</td>
<td>14.18%</td>
</tr>
<tr>
<td>20 years but less than 29 years</td>
<td>1.47%</td>
</tr>
<tr>
<td>30 years and more</td>
<td>1.71%</td>
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Q29: How long was your initial tenancy agreement?

Answered: 821   Skipped: 290

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<tr>
<td>No fixed duration</td>
<td>18.27%</td>
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<tr>
<td>Less than 6 months</td>
<td>0.49%</td>
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<tr>
<td>6 months</td>
<td>37.03%</td>
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<tr>
<td>12 months</td>
<td>37.15%</td>
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<tr>
<td>18 months</td>
<td>0.73%</td>
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<tr>
<td>24 months</td>
<td>2.56%</td>
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<tr>
<td>More than 24 months</td>
<td>3.78%</td>
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Total: 821
Q30: Were you happy with this agreement length?

Answered: 829   Skipped: 282

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<tr>
<td>Yes</td>
<td>79.49%</td>
<td>659</td>
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<tr>
<td>No</td>
<td>11.82%</td>
<td>98</td>
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<tr>
<td>Unsure</td>
<td>8.69%</td>
<td>72</td>
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<tr>
<td>Total</td>
<td></td>
<td>829</td>
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Q31: What happened at the end of this tenancy agreement?

Answered: 815   Skipped: 296

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<th>Answer Choices</th>
<th>Responses</th>
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</thead>
<tbody>
<tr>
<td>The tenancy ended early</td>
<td>0.12%</td>
</tr>
<tr>
<td>My landlord renewed the tenancy</td>
<td>32.15%</td>
</tr>
<tr>
<td>Nothing - the tenancy just continued</td>
<td>48.96%</td>
</tr>
<tr>
<td>I decided to move</td>
<td>1.35%</td>
</tr>
<tr>
<td>My landlord ended the tenancy</td>
<td>1.72%</td>
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<tr>
<td>I had to move because my landlord increased the rent</td>
<td>0.25%</td>
</tr>
<tr>
<td>NA</td>
<td>15.46%</td>
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Q33: Would you have preferred a longer tenancy?
Answered: 767  Skipped: 344

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<td>38.98%</td>
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<td>No</td>
<td>35.98%</td>
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<td>Unsure</td>
<td>25.03%</td>
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<tr>
<td>Total</td>
<td></td>
</tr>
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<td>Answer Choices</td>
<td>Responses</td>
</tr>
<tr>
<td>----------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Yes - she agreed</td>
<td>16.83%</td>
</tr>
<tr>
<td>Yes - she refused</td>
<td>5.20%</td>
</tr>
<tr>
<td>No - I've always been happy with tenancies offered</td>
<td>54.95%</td>
</tr>
<tr>
<td>No - I've never felt comfortable negotiating</td>
<td>14.36%</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>8.66%</td>
</tr>
<tr>
<td>Tot</td>
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Q44: Why did your last tenancy come to an end? (please select the best fit)

Answered: 718  Skipped: 393

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
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<tr>
<td>I've never had a tenancy end</td>
<td>31.06%</td>
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<tr>
<td>I decided to move to a bigger/smaller home</td>
<td>24.09%</td>
</tr>
<tr>
<td>The rent increased and I could no longer afford to stay</td>
<td>3.20%</td>
</tr>
<tr>
<td>I had to move for work / study</td>
<td>7.38%</td>
</tr>
<tr>
<td>End of the academic year</td>
<td>0.97%</td>
</tr>
<tr>
<td>My circumstances changed</td>
<td>15.60%</td>
</tr>
<tr>
<td>My landlord ended the tenancy - I don't know why</td>
<td>0.97%</td>
</tr>
<tr>
<td>My landlord ended the tenancy because she/he was owed rent</td>
<td>0.84%</td>
</tr>
<tr>
<td>My landlord ended the tenancy to sell the property</td>
<td>15.88%</td>
</tr>
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<td>Total</td>
<td>718</td>
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</tbody>
</table>

18 December 2017
Inquiry into the Economics of the UK Housing Market

Written Evidence from the New Economics Foundation

Thursday 17th December 2015

The New Economics Foundation (NEF) is a UK think tank promoting social, economic and environmental justice. Our aim is to transform the economy so that it works for people and the planet. NEF is fully independent of any political party.

Summary

Housing policy in the UK has been characterised by interventions to boost mortgage finance in the hope of enabling those on lower incomes access home ownership and stimulate the private sector to build more homes. These interventions have worsened the situation by boosting house prices and have made little difference to the rate of home building as yet.

For over two decades there has been a dramatic decoupling of house prices from average earnings. Average house prices are now almost 9 times incomes and as much as 20 times in more desirable areas such as the South East. Effective interventions into the dysfunctional market need to respond to the demand-led drivers of increasing house prices. These are:

- Financial deregulation and innovation have lifted the constraints on purchasing power from mortgage debt, allowing price rises to race ahead of median wage increases
- Households with moderate incomes have to compete with speculative buyers, including overseas investors and buy-to-let landlords, who bid up prices
- The promise of capital gains from home ownership in the face of stagnating wages, weak pensions and welfare provision has reinforced demand for ownership amongst the general population – to the extent that ordinary households continue to borrow many times their annual earnings in order to get a foot on the housing ladder
- Demand has been boosted by government subsidies like Help to Buy (see section 1.a, which further inflate prices by boosting debt-based purchasing power)

This has created growing economic inequality, distorted the efficient allocation of capital and threatens financial instability. The overall effect of state-led interventions so far has been to shift the debt burden away from banks, who have been encouraged to lend more cautiously, whilst the state itself takes on more financial liability in the form of home ownership subsidies and equity.

Nevertheless, the threat of mortgage default still has implications for financial stability, since real-estate assets are the largest component in the balance sheet of banks and levels of household debt to income remain very high. The solution to the current problem is for
government to target the causes of the housing crisis, not subsidise prospective buyers to cope with its symptoms, which merely exacerbates the problem.

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

1.1 The UK has experienced some of the highest increases in house prices of any advanced economy over the past two decades (figure 1). Given the diversity in changes to house prices across countries, it is clear that any claims about the causes of house price increases being ‘global’ or ‘secular’ (for example historically low interest rates) need to be challenged. Rather we propose there are specific dynamics at work in the UK (and some other advanced economies) that have led to the current housing crisis.

Figure 1: House price index for nine advanced economies since 1970 (1970=100)


1.2 The debate on solving the affordability problem in the UK has been focussed on supply side reforms. Whilst we agree there are supply side issues, there is an urgent need to tackle the demand side drivers of house price inflation which are currently receiving much less policy attention. These are:
- Financial deregulation and innovation lifting the constraints on purchasing power
- Increased willingness of households to take on mortgage debt at levels many times higher than in the past, as other sources of financial security have declined
- The promise of capital gains enticing new buyers into the market, in particular in the south-east of the UK, and the ripple effect of growing inequality

These demand side dynamics interact and reinforce each in a ‘doom loop’ that leads to ever higher but ultimately unsustainable house prices, as illustrated in figure 2. We now explore each of these dynamics in more depth.

Figure 2: Feedback loop between financial sector and house prices

Financial deregulation and innovation have lifted the constraints on purchasing power in the UK housing market, exacerbating the affordability crisis and increasing the risk of economic crises.
1.3 The funding available to back people's desire for home ownership is not limited by the amount of money already in circulation. A significant (and still increasing) proportion of the money used to buy houses is created through bank lending. This is particularly the case for buy-to-let landlords and first time buyers. Given the current house price to income ratio in the UK of 9:1, purchasing power in the housing market is to a large extent determined by households' willingness and ability to access mortgage credit.

1.4 Since the mid-1990s, UK banks have significantly increased their lending to domestic and commercial real estate relative to total lending, incomes and GDP growth (see figure 6 below). The spur for this increase in mortgage lending relative to incomes has been financial deregulation, liberalisation of the mortgage market and financial innovation, including the increasing use of securitization to sell on mortgage debt to non-bank investors whilst also accessing international wholesale markets for additional funding.

1.5 The feedback loop between the banking sector and house prices lies at the heart of any discussion of the economics of the UK housing market. The central loop (in green in Figure 2) is simple – if banks expand their supply of mortgage loans at a rate beyond general incomes and the creation of new homes, this will inevitably lead to increases in house prices. As house prices rise, households are forced to take out larger mortgage loans to get on the housing ladder, boosting banks’ profits and capital. This enables them to make even more loans and further bids up prices relative to incomes. The process continues until there is an economic shock and incomes can no longer keep up with repayments, leading eventually to mortgage defaults, house price falls, bank lending contracting, recession and, potentially, a financial crisis. This relationship therefore matters not only for affordability but also for financial stability.

1.6 Whilst there are of course a number of causes of house price growth, it is clear that in the UK mortgage credit is a major contributor. Figure 3 shows the close correlation between the rate of new loans for house purchase and the rate of house price growth. An IMF study of 36 advanced and emerging economies (including the UK) found that a 10 percentage point growth in mortgage credit as a percentage of GDP was associated with a 16 percentage points higher growth of real house prices.

Figure 3: House price inflation and mortgage lending

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300 Dolphin, T. and Griffith, M. (2011), Forever blowing bubbles? Housing’s role in the UK economy. IPPR
1.7 It is possible that UK policy makers have neglected the financial sector driver of house price inflation because of a widespread misunderstanding of the nature of the monetary system and the role of banking lending in determining purchasing power, particularly in the housing market. A 2014 survey of MPs found that 71% of MPs thought that only the government was able to create money, for example. Only 1 in 10 MPs accurately understood that banks create new money every time they make a loan, or that money is destroyed whenever individuals or businesses repay loans. 301

We consider what might be done to address this problem under question 1.c on the Mortgage Market Review (MMR).

The willingness of ordinary households to take on ever larger mortgage debt has increased for a number of reasons.

1.8 Successive governments have reduced the value of state pensions, and encouraged citizens to assume responsibility for their own costs of care in old age. In this context, it is inevitable that people seek their own asset 'cushions' – their own 'insurance' against the risk of unemployment, ill-health or an insufficient pension. What’s more the experience of rent hikes and insecurity in the private rented sector (PRS), and a depleted and oversubscribed social rented sector means that for families in particular, home ownership is the only tenure option that offers sufficient stability. 302 These factors, combined with widespread expectation that house prices

302 YouGov polling for Shelter in 2011 found that nearly half of families with children in rented accommodation worry about unaffordable rent increases, and more than a third worry about their contract being ended before they are ready to move. Shelter (2012). A better deal Towards more stable private renting http://england.shelter.org.uk/__data/assets/pdf_file/0009/587178/A_better_deal_report.pdf
will continue to rise, has made home ownership a critical financial ambition for many.

1.9 Government schemes to boost purchasing power among aspiring home owners – for example via the various Help-to-Buy equity schemes – has further put upward pressure on prices. Put simply, if everybody is standing on tiptoes, nobody gets a better view. We cover this in more detail in question 1.a.

Promise of capital gains enticing new buyers into the market and the ripple effect of growing inequality

1.10 As shown in figure 4, economic inequality has risen rapidly in the UK over the past three decades, tracking the inflation of house prices. The falling overall wage share and redistribution of incomes away from lower- to high- income households, has meant that in the UK economy, more money is flowing to those with lower marginal propensity to consume (the owners of assets) and less to people with low incomes who have a higher MPC (whose spending on basic needs like food and energy bills takes up a larger chunk of income). Therefore the cycle of house prices inflation and inequality can lead to a decrease in the overall consumption rate of a country.303

1.11 One of the feedback loops in this trend304 is increasing socio-economic sorting into neighbourhoods, or ‘ghettoisation’, and an increased polarisation of house prices between areas.305 More attractive neighbourhoods take on the property of luxury goods as people are willing to pay excessively high prices to access them. Inequality levels are in turn exacerbated by the capital appreciation of home owners in these increasingly affluent areas.

1.12 The promise of capital gains has enticed new buyers into these areas – most noticeably buy-to-let landlords and overseas investors, the latter usually able to buy outright and gain from speculation. Estate agency Knight Frank estimated that overseas buyers spent £2.2 billion on new-build central London property in 2012 accounting for 73% of all transactions.306 We discuss this driver of house price inflation in more detail in questions 1.b and 1.c.

1.13 Finally, the UK domestic construction sector further fuels, rather than mitigates, rising house prices. It is dominated by a small number of very large private developers driven by short-term profits over and above the provision of affordable housing according to need. These companies utilise the well-known ‘residual land value’ model which means land value will always be derived from current house prices. This process is why we see land value prices rise far faster than house prices.

1.14 Taking these factors into account, we are unlikely to see any stabilisation of prices and therefore any increase in effective supply whilst demand remains at such inflated levels. Any new supply, unless it is on a vast scale, is likely to disappear into the 'black hole' of demand, without making a serious dent in the backlog of housing need.

1.15 A policy landscape to address this would need to include the following:

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- Limiting property speculation by making clear that the government is committed to stopping house prices from rising further – through fiscal (e.g. capital gains taxes) and monetary/macropudential measures

- **Addressing the structural problems with the banking system that exacerbate house price inflation**

- Improving conditions and security of tenure in the PRS

- Investment in jobs and infrastructure outside of London and other places of high demand, to rebalance the economy and spatial demand

- Ensuring secure and attractive pensions and alternative saving/investment options so that people are not so dependent on housing wealth to pay for retirement/old age care

- Increase non-market housing stock both by increasing social housing provision and supporting the expansion of alternative models of ownership

*We provide detail to these recommendations under the specific questions outlined.*

a) **Government schemes:** How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

1.16 We have focussed our response on the Government’s Help to Buy Scheme. This has not been effective in improving the availability of affordable housing. In fact is has further increased house prices, by as much as £8250 for the average house.\(^{308}\)

1.17 The Government has responded by altering the scheme, as announced in the Autumn Statement, by raising the limit on who can participate. Now households with incomes of less than £80,000 outside, and £90,000 inside London are eligible, as they are largely the only households who can afford entry level house prices even when sharing ownership. These are not the low to middle income prospective buyers the Government initially set out to help when it launched the scheme.

1.18 It is irresponsible to encourage households to take on mortgage debt many times their annual earnings. The increased debt burden of younger groups has less pay off in terms of long term financial security or wealth accumulation,\(^{309}\) and poses risks to financial and economic stability.

1.19 A large proportion of mortgage holders face higher costs today than in the 1990s when interest rates were far higher. A 2012 study for the Resolution Foundation

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found that one-in-five mortgagors – or 2.4 million households – spend more than one-quarter of their gross income on repayments, up from around one-in-ten in the late 1990s when the base rate was 7 per cent.\textsuperscript{310}

1.20 Given that four-fifths of mortgages are currently subject to variable interest rates, a very significant number of households could be in difficulty if interest rates were to move from their historically low levels. The Bank of England has held mortgage rates at 0.5% for six years now, a record low, with unintended consequences for other aspects of the economy. It is likely that one of the main reasons for not raising rates is fears about the ability of vulnerable households to survive any kind of increase.

1.21 The threat of mortgage default has important implications for financial stability, since assets whose value is tied to residential real estate are a very large component in the portfolio of financial institutions. Numerous studies have found that rising asset-market credit and asset prices are strongly correlated to financial crises and the recessions following asset market busts last longer than other types of financial crisis.\textsuperscript{311}

1.22 Although it is true that UK banks now hold much more capital in relation to their assets than in the run up to the crisis, this is just one measure of financial resilience and not necessarily the most useful. Research by NEF has shown that the UK has the least resilient financial sector in the G7 from a systemic perspective because it has 1) a larger financial system relative to GDP 2) a more interconnected financial system, as measured by intra-financial and international lending assets; 3) the most complex financial system as measured by very high levels of securitized assets, a high proportion of which are mortgage backed securities (see figure 5); 4) a higher proportion of mortgage assets as proportion of total assets; and 5) a higher level of household debt to income than other countries.\textsuperscript{312} All of these factors mean that the UK is highly vulnerable to economic, financial and house price shocks at a systemic level, even if individual banks are better capitalised.

1.23 The Office of Budget Responsibility have reported that lending to households continues to pick up ‘mainly as rising house prices lead to more secured mortgage lending, which makes up the majority of household debt.’\textsuperscript{313} Given UK household debt to GDP is already one of the highest in the world, new government proposals to guarantee mortgage purchases would appear to undermine the UK’s financial resilience.\textsuperscript{314} Mark Carney recently told the Treasury Select Committee that rising

\textsuperscript{314} Mckinsey. Debt and (not much) deleveraging. 2015. Available online at: http://www.mckinsey.com/insights/economic_studies/debt_and_not_much_deleveraging
household debt was a potential cause for concern — and the IMF has also sounded the alarm on this issue in its recent review of the UK economy.

1.24 What’s more, the increasingly complex nature of the Government schemes mean many of the households involved are not fully aware of the debt burden they have taken on. A YouGov poll in 2014 found that only 3 in 10 first time buyers actually understood how Help to Buy worked.

1.25 These funds for homeownership subsidies are being introduced while other subsidies for people struggling to access housing on lower incomes are being cut. Government efforts should be redirected into stabilising the PRS and increasing social and other forms of non-market based housing to ease demand pressures that are pushing up house prices.

a) Taxation: are there tax measures that would improve housing supply and affordability?

1.26 Buy-to-let mortgage lending had increased by more than 40% since the 2008 banking crisis, while owner-occupied lending had increased by 2% over the same period. The Bank of England has warned that this demand, and the upward pressure it puts on prices, poses serious risks for overall financial stability.

1.27 The growth of buy-to-let borrowing is not surprising given the returns on offer. One analysis showed that buy-to-let investors could have seen a compound annual return of 16.2% since 1996. This profitability is based not only on capital gains, but historically low interest rates, a captive market of households that cannot get into social housing or onto the housing ladder, and a highly advantageous regulatory and fiscal framework.

1.28 The unearned profits made on the ownership of property need to be more effectively taxed to make land a less attractive speculative investment. Some steps have been taken by the last and current government to address this issue, in particular for second homes, but much more could and should be done. Since government investment, via tax-payer money, in the south east is one of the main sources of such windfall gains there is a moral as well economic duty upon the state to address this issue and prevent further increases in inequality.

1.29 Stamp duty creates a lumpy pricing distribution as home-owners are able to adjust prices up or down depending on where the tax kicks in. Although the recent change has reduced stamp duty payable on the majority of house purchases, any downward move in stamp duty merely makes space for prices to rise further, meaning that the

overall impact of affordability is likely to be non-existent. With the promise of rental returns in the PRS is so strong that the tax is unlikely to deter new buy-to-let uptakes.

1.30 We therefore suggest that a removal rather than reduction of mortgage interest relief is required, as well as increasing council tax on empty and second homes. Council tax bands must also be updated – they have not been reviewed since 1991.

1.31 Figure 5 shows the growth of land prices ahead of property. The long term view of a reappraisal of council tax banding should be to stabilise house prices through capturing the value of land.
Figure 5: regional house and land prices

Source: ONS House Price Index, March 2014: Annual Tables 20 to 39, Table 25 Housing market: mix-adjusted house prices, by new/other dwellings, type of buyer and region, United Kingdom, from 1993; DCLG, Live tables, Table 563: average valuations of residential building land with outline planning permission (final version) (discontinued)

a) Mortgages: Has the introduction of the Mortgage Market Review (MMR) changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

1.32 The control of mortgage credit is the main mechanism that the state can use to intervene in the housing market. We welcome many aspects of the MMR as more effectively constraining risky lending but concerned that these effects will be cancelled out by the contradictory Government schemes – not least Help to Buy - that are pushing up house prices.

1.33 The overall effect of these state-led mechanisms is to shift the debt burden away from banks, who have been encouraged to lend more cautiously, whilst the state itself takes on more financial liability in the form of home equity loans. The alternative option, that is a fall in subsidies for home ownership that might have led to a fall in house prices, does not seem to have been considered.

1.34 As remarked on by the Council for Mortgage Lenders (CML) “whatever the effects of the MMR, they seem to have been relatively modest” - since the introduction of the new rules, gross advances in mortgage lending have increased by 9 per cent each year.\(^{320}\)

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\(^{320}\) Mortgage Strategy (2014) Cover story – MMR: One year, many changes [https://www.mortgagestrategy.co.uk/cover-story-mmr-one-year-many-changes/](https://www.mortgagestrategy.co.uk/cover-story-mmr-one-year-many-changes/)
1.35 Figure 6 shows that UK domestic mortgage lending (green line) has expanded from 40% of GDP in 1990 to over 60% now, while lending to non-financial firms has stayed between 20% and 30% of GDP. The UK also saw a huge rise in lending to other non-bank financial corporations (yellow line) in the lead up to the financial crisis but this has contracted considerably since the crisis.
Figure 6: Disaggregated nominal credit stocks as % of GDP in the UK

Sources: National central bank data, NEF calculations

1.36 Although the general pattern in advanced economies in recent decades has been a shift towards mortgage lending, there are exceptions to the rule. Figure 7 shows the equivalent breakdown of credit stocks for Germany where bank lending to non-financial businesses is significantly higher than mortgage lending at 40% of GDP. It is worth considering the reasons for this divergence to illustrate the challenge facing the UK housing market.

1.37 Little attention has been paid by financial regulators and policy makers (including in the MMR) as to the structural causes of this pattern of increased mortgage lending. Deregulation and liberalisation of the banking sector in in the UK in the 1980s and 1990s led to a wave of mergers and acquisitions and the eventual domination of the sector by a small number of very large shareholder owned banks. These banks have converged on a business model with a strong preference for lending against assets – in particular property or land - which they can claim in case of default. In contrast, in Germany two thirds of bank deposits are controlled by either cooperative or public savings banks - ‘stakeholder banks’ that focus on business lending. Lending activities are de-risked through establishing strong relationships with businesses, rather than asset-based collateral, as in the UK.321

Figure 7: Disaggregated nominal credit stocks as % of GDP in Germany

Sources: National central bank data, NEF calculations

1.38 In addition, Germany has a different land economy to the UK with a relatively elastic supply of land and a diverse construction industry - including private and cooperative developers and a strong self-build industry. Only two thirds of Germans own their own homes with the majority enjoying a well-regulated PRS offering much better quality and security than the UK. The result is average house prices have changed little in Germany over the last few decades. In fact, as shown in figure 8, the house price to income ratio actually dropped in Germany during the 2000s, in contrast to an unsustainable expansion in the UK.

1.39 It is therefore crucial that the structural problems with the banking system that exacerbate house price inflation are addressed. More impactful interventions into the mortgage market would therefore include ensuring that ‘risk-weighted’ capital requirements no longer amplify incentives towards mortgage lending. Together with macroprudential policy and credit guidance, the government and Bank of England should mandate a refocus of the banks and the wider economy on productive investment, including the building of homes. Breaking up one of our part-nationalised mega-banks into a network of regional banks owned by local stakeholders and focussed on SME business relationship lending is one option for achieving this.322

322 NEF. Reforming RBS. 2015. http://b.3cdn.net/nefoundation/141039750996d1298f_5km6y1sip.pdf
Other policy solutions to mitigate against the financial risks of house price bubbles, could be implemented through changes in the distribution of mortgage credit. Changing the mortgage system to one where terms between borrower and credit issuer are fixed for longer periods could be a significant policy improvement. Currently in the UK, lenders aim to improve their ROI by using fixed term mortgages for only a short period, between 1 and 10 years, and many of these periods could be interest-only periods. This can lead to "short-termism" in borrowers, always looking to refinance or trade up houses near the end of these periods.

Alternatively, removing interest only periods, and shifting to 25-30 year fixed interest and payment mortgages would allow a period of long term stability for the borrower, and also orientate expectations towards staying in a home for a long period.

These changes can be made gradually, slowly phasing out riskier mortgage products, which would allow for a slow-down in the market, rather than just a sudden drop. This is not a silver-bullet, but shifting expectations around what the home represents, and a slow-down in the market, could be achieved through the mortgage credit mechanism.

Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

The responsiveness of supply to higher levels of demand is low in the UK by international standards because the business model of UK builders, who rely heavily

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on land-banking and low output as a strategy for maintaining profit margins and managing risk. This strategy of drip feeding supply is possible because of the lack of diversity and competition in the building sector, a result of many decades of mergers and acquisitions. The scale of the land banks held by the market leaders, and lack of transparency around land holdings, makes it difficult for smaller builders to enter the market.

1.44 As a growing percentage of the cost of residential development has been taken up by land prices, and prices have become more volatile, UK builders have become more risk averse in their development strategies, limiting production as a way to maintain prices and profit margins. The high up-front costs and the length of time it can take to assemble a site, secure planning, design and build large housing schemes expose developers to the risk that the housing market will turn before the homes are sold. Developers are therefore under structural pressure to constrain overall housing production for fear of reducing sales values.  

1.45 A substantial affordable house building program is required and it is not clear this will happen without significant government intervention. The government’s plan to push developers to increase capacity and build more at lower margin where there is tight supply of raw materials and skilled labour seems optimistic. The only previous period in the twentieth century when there was a significant increase in home building was the post-war period, largely driven by public sector home building.

1.46 Loosening requirements for S106 and eroding building standards will likely drive up the price of land and result in a decades-long legacy of low quality housing and poor wellbeing. The UK is already building the smallest homes in Europe an indication that planning controls are relatively lax in terms of ensuring housing quality. The UK economy is also the most regionally unbalanced in Europe, contributing to an inefficient use of current housing stock, imbalances in spatial demand for housing and driving up demand in London and the south east.

1.47 Indeed, the financial viability test already gives developers significant power to dictate standards: research by the Town and Country Planning Association has found a ‘tangible sense of powerlessness’ among local authorities when it comes to maintaining minimum standards of housing quality.

1.48 It is possible to control land prices through the planning system. This already happens; land that is zoned for commercial use has a different value than land zoned for agriculture or housing. Long term planning agreements that keep land tied

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325 NEF (2014) APPG report Wellbeing in four policy areas (p.24 Chapter on building high wellbeing places)  http://b.3cdn.net/nefoundation/ccdf9782b6d8700f7c_lcm6i2ed7.pdf
327 NEF (2013) Why we need a new macroeconomic strategy. pp16–17  http://b.3cdn.net/nefoundation/66609d0bb3c446660a_z6m6b6xzt.pdf
up in suitable tenures such as subsidised rented housing will ensure that land prices remain depressed vs zoning for private housing, as the return an investor can reasonably expect to earn would be lower. This is common practise in many other advanced economies.

1.49 This approach could also be useful in leveraging in institutional investors to the PRS and social housing sector. If an investor is given a maximum amount earnable on a parcel of land, then that return, in itself, dictates the capital value of the land. If this was combined with a system that could recycle “excess earnings” back into the project to subsidise rented housing, this would be an effective land value capture scheme in which the benefits of gentrification and infrastructure investment are used to subsidise a larger proportion of rented housing within the development.

1.50 NEF have been developing a model “NEF Flex” or “Flexirent” 329 which without recourse to the public purse facilitates institutional investment into the PRS, providing both full market rent and subsidised rent units. This requires a novel type of planning permission which would require the property to be held as rental units for the lifetime of the project. Large scale construction of such units, as would be possible using the novel financing structure, would depress the price of the private rental sector, with some commensurate knock on effect on the price of buy-to-let properties and again on private sale properties, but not to the extent of causing damaging falls in property prices. NEF is currently working with Home Group to pilot this scheme and are in advanced talks with a number of local authorities. The Flex scheme units would have a contract length of 5 years and would be managed by a social landlord.

2 Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

2.1 Before turning to the specific questions posed by the commission, we wish to emphasise that rising prices in the PRS ought not to be taken as a signal of the increasing popularity of private renting. Regular polls show it is the least popular tenure, not only due to the high rents, but also the insecurity of tenure, problems with disrepair and lack of freedom to do simple things like decorate. Boosting the supply of this kind of privately rented accommodation is not a solution. Rising rents must be understood as a result of the shrinking supply of social housing and a housing 'ladder' moving increasingly out of reach.

a) Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

b) The main drivers of high and unaffordable rents in some parts of the country in recent years have not been high mortgage costs for landlords, which have been historically low. Rather, they have been driven by the prohibitively high cost of home ownership

and lack of social housing, which has forced more households to compete for private lets.

2.3 As noted, the extremely high levels of profitability in the buy-to-let sector is boosting demand for houses and adding to the upward pressure on house prices. A removal, rather than reduction of mortgage interest relief would help take away some of the advantages that buy-to-let landlords have over first time buyers in the housing market.

2.4 Landlords can cover their operating costs and make a revenue return on their investment, quite apart from longer-term capital gains. Rents provide almost a 40 per cent margin over the costs of a 100 per cent interest-only mortgage.  

b) Will the current trend of a decline in home ownership and an increase in private renting continue?

2.5 If steps are not taken to address the root causes of house price inflation, and increase the supply of social housing then it is very likely that the trend toward private renting will increase. In the meantime, there is much that could be done to improve the security, quality and affordability in the PRS.

c) What are the advantages and disadvantages of restricting rent increases in the private sector?

2.6 The UK private renting system is almost unique among developed countries in offering short-term contracts with no restrictions on rent increases.  

2.7 Rent rise restrictions could address the ballooning housing benefit bill as well as alleviating problems of instability (the uncertainty associated with rent hikes is disruptive to schooling, employment, and community building), and overcrowding.  

It is also the case that increases in homelessness from the PRS have been most dramatic in areas of rapid rent rises: London for example has seen a 316% per cent increase in homes lost due to AST terminations in the three years to 2012/13, and a 60% increase in rough-sleeping in the two years to 2012/13.

The practicalities and feasibility of introducing rent regulation

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331 Shelter (2012) A better deal Towards more stable private renting, p.29
332 Data from the English Housing Survey suggests that the growth of overcrowded households – as measured by the Bedroom Standard - has been particularly dramatic in the PRS where the number of overcrowded households increased by over 240% between 1995/6 and 2012/3 (Annex Table 9, EHS headline report 2012 – 2013)
2.8 Research for Shelter by the University of Cambridge’s Centre for Housing and Planning Research suggests that rent regulation of this kind could be introduced without risk of serious unintended consequences.\(^{334}\)

2.9 One concern is that it could lead to buy-to-let landlords, who have invested for capital appreciation rather than income, leaving the market if they perceive home values will fall as a result. Whilst this is a risk, in the longer term the UK needs to move away from such speculative forms of property purchase. Counter-balancing this effect, rent regulation might make the PRS more attractive to institutional investors, such as pension funds, looking for long term secure but potentially lower returns and not seeking speculative capital gains.

2.10 Rent controls would need to go hand in hand with increased security of tenure and other measures to protect tenants. This could include increased notice periods and a tenants ‘first right of refusal’.

2.11 An additional option, particularly if there are concerns about a flight of landlords, would be the creation of a Public Clearing House for homes which would provide a powerful new lever for acquiring homes for affordable housing. This might also prevent sharp falls in house prices by creating a minimum market price that the government would buy a property for.\(^{335}\)

3 Social housing: Are any measures needed to increase the supply of social housing?

3.1 Secure tenancy and sub market rents provided through social housing can act as a platform for low income households, a potential source of government revenue and way of collectivising ‘scarcity rents’.

3.2 The private sector has never supplied houses on the scale that is required. In 2013 the number of households waiting for social housing\(^{336}\) stood at around 1.7 million, representing a 65% increase since 1997.\(^{337}\) In the long term building social housing would be much more cost effective than subsidising private rents.

3.3 There are a number of ways that investment could be stimulated to rebuild the public housing stock, such as enabling local councils to borrow to invest in house building as they do in many other EU countries. Government should also commit to a large scale investment program in social housing, particularly given historically very low interest rates on UK gilts at the present time. Accounting rules on government debt need to be reviewed to support such activity - government built homes should be viewed as assets rather than simply adding to the public deficit.

\(^{334}\) CCHPR (2015). The effects of rent controls on supply and markets  

\(^{335}\) Lloyd, T. 2009. Don’t bet the house on it. Compass.  

\(^{336}\) The waiting lists, however, may no longer be a reliable indicator of need, since the Localism Act 2011 gave local authorities more powers to set their criteria for accessing social housing and waiting lists. There is evidence that some local authorities have cut waiting lists overnight by excluding many vulnerable people.

\(^{337}\) DCLG Live Table 600
3.4 Another option would be for the Bank of England working with the Treasury to use quantitative easing to buy assets that will support home building. NEF has described this as ‘Strategic QE’ and argued that it could fund the construction of new social homes, easing supply and creating jobs. QE so far has involved the creation of £375bn worth of central bank money, all of which has been used to purchase government bonds in financial markets. A £10bn investment in housing would deliver around 60,000 new homes, for each house creating 1.5 direct jobs and another 3 jobs in the supply chain.338

3.5 The subsidies come at the expense of genuinely affordable homes. Right-to-Buy will decrease the stock of sub-market rent, social and affordable homes, which will be replaced with subsidised Starter Homes for the few who can afford to buy.

3.6 Right-to-Buy is reducing council stock much faster than it can be replaced: between 2012 and 2014, council homes were being sold at more than five times the rate of replacement.339 Costs which local authorities will ultimately be forced to pay, by means of forced disposal of remaining high value social rented properties, further reducing the ratio of affordable and social rented properties within market.

3.7 If Right-to-Buy of any kind is to stay, a commitment must be made by the government that each home sold will be replaced by one with the same tenure, in same place and at same price.

3.8 Overall, social landlords estimate they are likely to lose around 10% of existing stock under the Right-to-Buy extension with the Chartered Institute of Housing forecasting 1.45 million tenants are eligible with 145,000 likely to buy over the first 5 years.340

3.9 Chartered Institute of Public Finance and Accountancy (CIPFA) chief executive Rob Whiteman said: “Extending Right to Buy, without proper consultation with the public bodies which will foot the bill for it [local authorities], is effectively stripping local communities of their most valuable assets in order to subsidise discounted sales elsewhere […] It is unfortunate that the secretary of state’s proposals have been formulated without any obvious negotiation between the two sectors. We believe it could well drive a wedge between housing associations and local authorities at a time when they should be working more closely together.”341

3.10 Concern expressed by Communities and Local Government MPs regarding local authorities footing the bill for Right To Buy, relates to the fact housing associations

338 NEF. Strategic quantitative easing: Stimulating investment to rebalance the economy. 2014. http://b.3cdn.net/nefoundation/e79789e1e31f261e95_ypm6b49z7.pdf
341 http://www.publicfinance.co.uk/news/2015/10/cipfa-extension-right-buy-likely-deepen-housing-crisis
342 Inside Housing. ‘MPs Uneasy Over Housing Associations Derivative Exposure’. March 2015 http://www.insidehousing.co.uk/mps-uneasy-over-housing-associations-derivatives-exposure/7008943.article
are heavily financialised, with potential costs of exiting or renegotiating loans and hedging positions in the wake of Right to Buy breaching loan covenants substantial. Costs currently unaccounted for in social housing providers annual accounts.

3.11 In the case of some commonly used loan products such as Lender Option, Borrower Option (LOBO loans) the cost of exiting the loans can be greater than 90% of the loan value. New accounting standard FRS102 will force housing associations to account for the full cost of off-balance-sheet derivatives positions in their end of year accounts from March 2016.

3.12 There is a significant potential cost being imposed on local authorities through Right to Buy that is currently un-costed by regulatory authorities, and may result in the forced sale of significantly more local authority land and property, than Treasury or the Homes and Community Agency currently acknowledge, in order to offset exit penalties on loans imposed by bank lenders.

a) What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

3.13 Lowering social rents is in theory a good thing for social tenants, but the manner in which it was done will likely be damaging to housing associations. The announcement came less than 18 months after a ten year promise to increase social rents by RPI+1% - on the basis of which housing associations and councils were borrowing money and planning housing supply. As a result, this will likely negatively impact on Housing Associations’ credit ratings and borrowing ability.

3.14 The vast majority of the 2011-2015 Affordable Homes Programme has been used to build affordable rent rather than social rent. Now the 2015-18 AHP will be dominated by affordable ownership. Support for “affordable ownership” will come at the cost of cannibalising affordable/social rent.

3.15 Reclassification of Housing Associations as public bodies by the ONS has added £60bn to the UK public sector net debt (PSND), and this could further increase to £135bn in 2016, as the potential costs of swaps and derivatives are revealed by recent FRS102 accounting changes. The Office of Budgetary Responsibility (OBR) found that the social rent reduction would further add to PSND, as the rent reduction reduces public sector income and outweigh housing benefit and other savings.

343 Inside Housing. ‘LOBOs Explained.’ 2009
http://www.insidehousing.co.uk/lobos-explained/6502500.article
344 Inside Housing. ‘Associations Race to Renegotiate Lending Terms’. August 2015
http://www.insidehousing.co.uk/associations-race-to-renegotiate-lending-terms/7013320.article
3.16 The affordable rents strategy should be replaced with a tightening of the requirement under Section 106 for affordable housing from private developers, bringing rules on council borrowing in line with other European.

This submission draws - with permission - on research from Beth Stratford (forthcoming) *Post Growth Economics and the Housing Market*. PhD thesis, University of Roehampton; Joel Benjamin, research assistant with the Goldsmiths University Political Economy Research Centre (PERC) and James Wood, PhD candidate at King’s College London and visiting PhD fellow at Copenhagen Business School, Department of Business and Politics.

17 December 2015
Reverend Paul Nicolson – Written evidence (EHM0077)

No citizen without an affordable home and an adequate income in work or unemployment.

Submission to the House of Lords inquiry into the Economics of the UK Housing Market

1. I founded the Zacchaeus 2000 Trust in 1997 to work with the poorest citizens tangled in the debts of the welfare system. We now help around 2000 of the poorest London renters every year who cannot pay their rent, council tax and other debts. In 2005 I commissioned the late Professor Peter Ambrose to write the Z2K Memorandum to the Prime Minister on Unaffordable Housing. It provides the background of your enquiry up to 2005.347

2. In 2012 I founded Taxpayers Against Poverty, with a letter in the Guardian, to develop a presence of taxpayers in the political arena who accept the use of their taxes for the relief of poverty and the promotion of economic and social justice, without allegiance to any political party; we so far have 14,439 supporters on Facebook.

3. The sad story of just how badly market forces have failed to provide affordable homes for every British resident in London and elsewhere begins in the 1980s when the Thatcher government deregulated lending, abolished rent controls and allowed the free flow of money in and out of the UK. Money flooded into the UK housing market in short supply forcing up prices and rents, see 2005 Z2K Memorandum to the Prime Minister by the late Professor Peter Ambrose, who saw the 2008 crash coming.349

4. Brown and Blair let it rip from 1997. So from 1979 to 2008 landlords thrived on housing benefit while their properties rose in value. Housing benefit was allowed by Parliament to rise with the market driven rents. Housing benefit cost the taxpayer £5 billion in 1988. It almost doubled from £11 billion in 1999-2000 to £20 billion in 2009-10 and is forecast to reach £25 billion this year.

5. The Labour government began the misery for tenants in 2008 by starting the cuts in housing benefit with the Local Housing Allowance. From 2010 the Coalition turned the screws with two more cuts in housing benefit camouflaged as the £500 a week benefit cap and the so called bedroom tax. The Welfare Reform and Work Bill will reduce £500 cap to £442 a week in London and £384 a week outside London. The unpaid rent as a result of the cap has to come out of the children’s benefits.

6. According to the 2011 census 58% of households rent their homes in the

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348 http://www.theguardian.com/society/2012/feb/16/taxpayers-alliance-social-justice
London Borough of Haringey, 47% in London and 33% in England.

7. Whether or not the poorest tenants families can afford a healthy diet, to cook it and to keep warm, and buy other necessities, is becoming determined by Parliament reducing housing benefits and simultaneously allowing ever rising rents to be governed by the global economy flooding money into a British housing market in short supply; that will make land and house owners richer and landless tenants poorer for decades to come, unless policy is changed.

8. An answer, which addresses the lack of economic and social justice in the UK housing market, can be found in the payment of rent to the government at a low percentage of land value by all landowners in the UK; sometimes called the land value tax. A study of Hong Kong, Denmark and several cities in the USA, including Harrisburg, further illuminates this progressive and practical policy. Introduction would be simultaneous with the abolition of council tax, business rates and other inefficient taxes; the reduction of VAT and income tax could also be considered.

9. On Monday the 7th December the House of Lords debated the Welfare Reform and Work Bill. It hits people renting their homes with unmanageable debts by freezing the increase in benefit incomes at 1%, cutting housing benefit and then allowing the financial free market of the global economy unlimited access to the UK housing market in short supply.

10. The vain attempt by Parliament since 2008 to control the rising cost of housing benefit to the taxpayer by cutting housing benefit payments to renters results in eviction, hunger, debt, council tax arrears, draconian enforcement, low birthweight, mental and physical illness and an early death for the poorest renters and their children; meanwhile the value of MPs’ and Peers’ homes escalates, all thanks to the global invisible hand of Adam Smith.

Reverend Paul Nicolson

16 December 2015

Taxpayers Against Poverty No citizen without an affordable home and an adequate income in work or unemployment.

From the Reverend Paul Nicolson

To the Economic Affairs Committee

Inquiry into the UK housing market.

HOUSING BENEFIT.

I listened with great interest to your discussions yesterday about the UK housing market but I am concerned that they did not include housing benefit.

1. In our submission to your inquiry we recorded the fact that the cost of housing benefit to the taxpayers had been driven upwards by the UK housing market in short supply from £5 billion in 1988/9 to an expected £25 billion this year 2015/16. Following the 2008 crash both the Labour and then the Coalition governments set about cutting housing benefit. The details are as follows. They impact on the mental and physical health of the poorest men, women and children, at very substantial cost to the NHS and Schools.

The Local Housing Allowance (LHA).

2. The claimant has to make up any rental shortfall out of benefits intended to cover survival. It was thought by the Labour government that tenants would be able to negotiate a reduction in rent by the landlords, but in a market in short supply the option was always available to the landlord to evict for rent arrears and re-let at an increased rent.

"There are limits on the amount of LHA you can get. The maximum weekly LHA rate limits; £260.64 for a room in shared accommodation, £260.64 for 1 bedroom accommodation, £302.33 for 2 bedroom accommodation, £354.46 for 3 bedroom accommodation, £417.02 for 4 bedroom accommodation. The amount of LHA you are eligible for depends on where you live. Local limits are based on the cheapest 30% of properties in an area". See Shelter

353 http://england.shelter.org.uk/get_advice/housing_benefit_and_local_housing_allowance/what_is_housing_benefit/local_housing_allowance
The so-called Bedroom Tax.

3. I have met in Tottenham a single unemployed man aged 55 living in a two bed-roomed flat, who was looking for work, on £72.40 a week JSA after rent and council tax up to March 2013. From April 2013 he was expected to pay £24 a week rent for the spare bedroom and £5 a week council tax out of that £72.40 a week. Non payment of the council tax was enforced by a summons to the Magistrates court and the addition of £125 costs. He was separated from his wife and was keeping the spare bed room available for his student daughter. The Rowntree minimum income food standard is £43 a week for a healthy diet, (see Table 1) researched by nutritionists at York University and submitted to public scrutiny for approval as a minimum reasonable cost of a healthy diet. He lost weight.

The £500 overall cap on benefits.

4. I have met in Tottenham a single mother with seven children; her total benefits were £782 a week including housing benefit. In April 2013 her housing benefit was cut by £282 a week to comply with the £500 cap. That £282 of unpaid rent had to be paid by the £500, leaving £218 to pay for food, fuel, clothes transport and other necessities for the eight members of her family.

The £500 cap will be cut to £442 a week in London and £384 a week outside London by the Welfare Reform and Work Bill. That leaves even more rent unpaid by housing benefit in a housing market where rents increase due to high national and international demand in the low national supply of homes in the UK

The definition of affordable housing.

5. The official definition of affordable housing is 80% of the local average market rents\(^354\), which increases with the market whatever happens to the incomes of the tenants. In the 2005 Z2K\(^355\) memorandum to the Prime Minister on Unaffordable Housing (see introduction on page 4) the late Professor Peter Ambrose and I defined affordable housing as follows.

"We hold that land exists for the common good. It provides the basic needs of shelter, food and clothing of which everyone should have a just minimum share. But housing and land have become investments, from which speculators, moneylenders and the banks grow ever wealthier. Governments have allowed the market to exploit the shortage of land by allowing unregulated lending to lift the price of housing above the needs of the poor in the UK."

\(^354\) http://www.theguardian.com/housing-network/2014/feb/03/affordable-housing-meaning-rent-social-housing
‘Affordable’ in relation to housing requires precise definition. It means that once the cost of rent or mortgage (including service charges) and council tax has been met from the income of a household, be it an individual, a family or pensioners, there remains sufficient to sustain safe and healthy living, provision for the future and participation in the community.

‘Unaffordable’ housing means that the remaining income is insufficient to ensure these outcomes.”

The late Lord Morris of Manchester sent the memorandum to Prime Minister, Tony Blair, who replied he had read it with interest. Paul Nicolson

16 December 2015
Northern Housing Consortium’s submission to the House of Lords Economic Committee’s inquiry into housing markets in the UK

1.0 The Northern Housing Consortium (NHC) welcomes the opportunity to contribute to the House of Lords Economic Committee’s inquiry in the housing market in the UK.

We believe that the discussions of issues affecting the housing sector in England are too often focused on the issues of the South East and London and do not take into consideration regional and local variations in housing markets.

Our submission contains direct and indirect reference (to avoid duplication) to contributions made by our members as well as research the NHC have undertaken on housing markets in the North.

2.0 Ways to increase the supply of reasonably priced private housing

2.1 We welcome the Government’s commitment to increase the supply of reasonably priced private housing through mechanisms such as Starter Homes and Help to Buy. However, we would encourage the Government to go further by, for example, broadening the scope for Starter Homes to include shared ownership properties and “rent to buy” products.

2.2 In their contribution, Wirral Council noted that “in terms of increasing housing delivery generally, we consider that the existing system encourages landowners to mothball sites while land values increase, rather than building sites out for development.” They added that “anecdotal evidence from regional house builders show that they often phase housing delivery over a number of years, drawing down funding in stages and limiting the supply of housing to the market at any one time.” They concluded that “even if the supply of housing is increased, this will not necessarily lead to an increase in the availability of [reasonably priced] housing, as house builders will seek to maximise profits as demand dictates supply.”

2.3 Another issue raised by Wirral Council focused on was that infrastructure and remedial works costs are often an issue when encouraging house builders to develop out sites. We know there is a wealth of brownfield land in the North owing to the North’s historic industrial role. One of the biggest issues with this land is that it is often in a state of neglect, disrepair or serious contamination, particularly as much of the brownfield land sites on former industrial sites such as chemical works, shipyards and other heavily industrialised sites. Thus the costs incurred when remediating this land are substantial.

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356 Full submission attached
2.4 We welcome the Government’s manifesto pledge to create a £1bn brownfield remediation fund but have concerns about the efficacy of such a fund and where it may be used. Research by the Lucent Group has shown that there are around 61,900 hectares of brownfield land in the UK. Yet evidence suggests that the cost of remediating brownfield land can range from £50,000 per hectare to over £1.7 million per hectare for the most contaminated land. In light of the floods in Cumbria, the Scottish Borders and Northumberland in December 2015, there are also further concerns about whether these brownfield sites are on flood plains.

2.5 Issues around land remediation were also raised by Hull City Council who noted that “one of the key barriers to the delivery of housing sites is economic viability. Incomes and therefore values are generally low in the areas which we work, set alongside relatively high development costs caused by a number of abnormal factors such as the need for deep piling and flood risk measures.”

2.6 One issue raised was that “planning obligations are also increasing the cost of development which are borne by the developer and then resultant home owner through the purchase price” with the respondent suggesting “a higher level of investment in infrastructure related to key development sites would help support less marginal sites. Alongside this targeted site funding towards abnormal costs such as flood risk issues and remediation would also help support more reasonably priced housing coming forward whilst ensuring it is delivered in sites of key strategic importance.”

2.7 The supply of affordable housing could also be increased through the introduction of new products with greater freedoms around shared ownership and equity. The approach for the North needs to be a prioritisation of ‘more and better homes’ – homes available in a range of tenures such as social, affordable and market rents; options for home ownership including shared ownership and low-cost home ownership such as Help to Buy which has been good for the North in boosting developers confidence.

2.8 We welcome the Chancellor’s announcement at the Spending Review that he will be investing £4bn to help build shared ownership properties for those earning less than £80,000 and our members see potential through opening up the shared ownership market. However, members believe there is still work to be done to improve and extend the lending market for shared ownership products. In terms of Starter Homes, the NHC would ask that the Government consider changing the scope of the definition of Starter Homes to encourage rent to buy options. For instance, with Prince Bishops rent to buy properties, there is an option to buy properties after four years which, if taken, sees Prince Bishops and the tenant share the uplift in the value of the property which then acts as the deposit for the home.

2.9 It is our wish that properties such as this – which encourage home ownership aspirations that are sustainable for both tenant and housing association – be included as part of the definition of Starter Homes. We feel that this allows a tenant wishing to buy an

358 http://www.lucentgroup.co.uk/green-belt-versus-brownfield-land-development.html
opportunity to remain in their chosen community and minimises disruption (e.g. if the tenant has children at a local school) while fostering cohesive communities.

3.0 The effect of Government schemes such as Help to Buy and their impact on affordability

3.1 Generally, Help to Buy has been a good initiative for the North because of the unique factors affecting Northern housing markets. This was reflected in a submission from Hull City Council who said that “without Help to Buy many sites within the city would not have been delivered at the pace of sales they are currently achieving. Help to Buy has supported home sales by making housing more affordable to people who otherwise may not have been able to afford the finance.” It is fair to say that from our knowledge this is a situation replicated across the North where access to finance is a greater issue than a lack of supply.

3.2 Hull City Council also noted that while Help to Buy had increased the number of sites at an increased pace “it has also created an artificially inflated pressure on prices due to the availability of this finance. Removal of Help to Buy may have a downward pressure on prices or reduce house building rates. Increases in levels of Help to Buy support would help to support the delivery of new build allowing a wider range of people access to finance.” They also stated their concern that “increases in lending levels will … increase exposure to risk” and would welcome “discussion around locally administered Help to Buy products … including government interest free loan products such as those proposed for London.”

3.3 In a submission from the West Yorkshire Combined Authority it was noted that “take up of the help to buy scheme has been strong in the City Region and Leeds stands out as the second most successful LA in England (after Wiltshire) in terms of completions, followed by Wakefield and Bradford in Leeds City Region terms. The percentage of first time buyers is 86.4% which is higher than the national average of 82%.”

3.4 Despite this success, the submission from the West Yorkshire Combined Authority stated that “it needs to be considered if Help to Buy [is creating] inflation in the new build market, and conversely if it has depressed prices in the second hand market, as the 20% equity loan effectively cancels out any new build premium”.

3.5 Another concern expressed was that “Help to Buy may also enable purchasers to “trade up”, i.e. buy in a better/more expensive area or buy a larger property than they could otherwise afford. This could in turn lead to a preference for developers to provide specific house types e.g. 3 bed semis for couples etc. As there is no restriction on property size … [and] only a property price cap and basic affordability check, Help to Buy is attractive to these groups”

4.0 Tax measures that could improve housing supply and affordability

4.1 One suggestion made by Hull City Council as to how tax measures could improve housing supply and affordability was “stamp duty free zones which would work on a similar basis to enterprise zones for business rates. Key housing growth sites within local plans could be exempt from the tax which would help to reduce costs and accelerate sales.” They also welcomed that possibility of “further tax incentives for the remediation and
development of brownfield sites should also be a priority helping to make underused sites more attractive for development.”

5.0 The 2014 changes to Stamp Duty and their impact, and suggestions for further reform of Stamp Duty

5.1 We would encourage the Government to consider the devolution of Stamp Duty to local authorities. We welcome the Government’s recent announcement to allow local authorities to keep 100% of business rates. We were pleased to hear in December 2015 that the Chancellor will ensure there is a tariff and top-up scheme to protect those areas, particularly the North of England, where business rate receipts are lower.

5.2 In keeping with the Government’s devolution agenda, we believe that devolution of Stamp Duty receipts (and Stamp Duty policy shaping) to local authorities with the funds ring-fenced for housing development (of all types any tenures) in that area will allow local authorities – or even combined authorities where each constituent council agrees to – may offer additional opportunities to direct their own housing and development plans and incentivise behaviours in the market place in keeping with the needs of their communities.

5.3 We note the Chancellor’s announcement in November 2015 of a 3% surcharge in stamp duty in each band for buy to let landlords. We feel it is too early to judge the full impact on the buy to let market but it may drive heavily geared landlords out of the market. One beneficial outcome of this could be to increase competition in the private rented sector resulting in higher quality properties available at lower prices however this remains conjecture for now.

6.0 Changes to the planning system to increase availability of low cost housing

6.1 Changes put forward to the planning system to increase the availability of low cost housing will only have a noticeable effect where viability (and therefore s106 affordable housing) exists.

6.2 In one submission from a combined authority, it was noted that “the Starter Homes proposals are costly in terms of a site subsidising the first purchasers discount of 20% less than open market value. The purchaser will stand to gain the entire benefit after the 5 year period with the property returning to its market value after this period. This ‘low cost’ housing will then be lost. If ownership is the key aim planning obligations seeking to secure an equity stake of 20% in the property in perpetuity would be a more effective way of reducing the cost of home ownership whilst also ensuring that sufficient properties are available. Administered in this way the owner of the 20% equity (Government, LA, housing association, developer or community organisation) stands to benefit from any uplift in value which it can decide to retain or sell to reinvest in more low cost housing.”

6.3 The submission continued that “this also means there is a long term incentive to create better developments to drive a greater uplift. The planning reforms also risk the delivery of less mixed communities and less quality as other planning obligations are removed. The planning reforms for starter homes also risk undermining the plan led system and site allocations where sites come forward for starter homes on redundant employment sites due to the strong presumptions in favour of consent.”
7.0 Measures needed to increase the supply of social housing

7.1 The NHC believe in simply providing ‘more and better homes’. Within the North there are various problems such as access to finance as well as issues with aging housing stock and sharp changes in demographics as the number of over-75s rapidly increases. While the Government’s commitment to focus on low cost home ownership is welcome, we remain concerned that this might happen to the detriment of the provision of social housing.

7.2 One measure suggested to increase the supply of social housing “is certainty in funding, including rental income” according to one respondent. They continued that “recent changes in rental income announced in the July budget and the spending review have had a significant impact on business planning and the ability to raise finance to develop new build.” They noted that “the supply of social housing can be funded directly through grants and capital e.g. Affordable Homes Programme, s106 (land value) or right to buy receipts (one-third of build cost) alongside borrowing against rental income. With both reduced and uncertain rents and very low grant levels the delivery of affordable housing is currently very challenging.”

7.3 It was suggested that more flexibility should be given to housing providers. One particular area would be reducing the restriction on right to buy receipts to allow all of the capital receipt to be spent on new build rather than the current cap of one-third of build cost.” We note the Housing Minister’s evidence to the Communities and Local Government Select Committee on 15/12/2015 in which he informed the Committee that housing associations will have complete discretion over how to use funds from sales, including through the Right to Buy scheme.

8.0 Conclusion

We welcomed the opportunity to submit evidence to this Committee and would be pleased to supply any further information as required. We would also like to draw the Committee’s attention to the Commission for Housing in the North http://commission.northern-consortium.org.uk which will report in the Spring of 2016. We will be pleased to send a copy of the final report to the Committee.

17 December 2015
1. **Introduction**

1.1. Orbit Group is one of the largest Housing Associations in the country, owning and managing almost 39,000 homes, serving 100,000 customers across 121 Local Authority areas. Originally founded in 1967 we remain committed to improving the social, economic and environmental prospects of people and communities. We are a values-based business which makes a profit so we can deliver our mission of ‘Building Communities’.

1.2. Over the past few years Orbit and our customers have faced many challenges – a global recession, welfare reforms and the housing crisis – building communities that are sustainable is more important now than ever before in our history.

1.3. Despite the challenges Orbit continues to perform strongly and in 2014-15 had the country’s third largest affordable homes programme. 1,373 new affordable homes were brought into management last year, of which 342 were shared ownership properties. In the last 12 months we have launched a £250m bond, an endorsement of our financial strength and track record of delivery. We continue to focus on providing great services to our customers whilst ensuring that they provide excellent value for money.

2. **Private Ownership**

*What measures can be taken to increase the supply of reasonably priced housing in the UK?*

a. **Government schemes:** How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing?

2.1. Low cost home ownership schemes (LCHO) have been vital in supporting first-time-buyers. Shared ownership in particular has been (and continues to be) an important product to meet the homeownership aspirations of low to medium income households.

2.2. Demand for shared ownership homes outstrips supply by as much as 10:1, and although only around 1 per cent of people live in the tenure, we believe that can play an important role in addressing our housing crisis. This is why Orbit in partnership with the Chartered Institute of Housing published *Shared Ownership 2.0* which sets out the potential to expand shared ownership so it becomes a fourth mainstream tenure, alongside home ownership and social and private renting. In the report, we call for a simpler and more flexible product, so it works better for consumers, housing providers and mortgage lenders.

2.3. The recent Government announcements to fund 135,000 new shared ownership homes, as well as lifting restrictions on eligibility criteria will allow an additional 175,000 households to
access the product from next April. These measures are very welcomed and are something we have been calling for some time.

2.4. However, there are a number of remaining issues which we would like to see addressed in order to unlock the full potential of shared ownership as part of a well-functioning housing market.

- With only a limited range of lenders providing shared ownership mortgages, we would like to see Government support for encouraging more lenders to increase their allocations of funds to the product. In particular, Government could play a role in resolving with the Prudential Regulation Authority the capital weighting issue that makes lending to the sector less attractive for some lenders, as well as potential new entrants to the shared ownership lending sector.
- Planning guidance should clearly support shared ownership (alongside other affordable housing) with or without Section 106 obligations and not impose artificial restrictions.
- It is important that the various LCHO schemes are available in any one location and that they work harmoniously, for example through setting the price for different products so as to avoid overlap. A sounding board, monitoring output and sales should be set up to ensure this is working on the ground.
- Help to Buy agents should be given an enhanced role in marketing the product.
- In order to attract more private investment and continue the flow of funds, it is important that providers of shared ownership collect and publish better data and information about default rates, arrear levels, occurrence of stair casing in order that investors can properly evaluate the risks and price accordingly.

3. Privately Rented Accommodation

*What measures can be taken to increase the supply of low cost private rental properties in the UK?*

3.1. The main barrier to private rent is that viable land sites are currently taken up by build-to-sell developers who are able to afford to pay more for the land that becomes available. Build-to-sell developers are in a much stronger financial position because their capital is tied up for a shorter period of time and they are able to re-invest profits over a shorter time period than rented developers.

3.2. In order to encourage growth in the PRS market, planning authorities need to actively require a percentage of any new application to be reserved for PRS, as is the case with affordable / starter homes. This should be particularly encouraged for developed sites in towns and cities where demand for PRS is highest.

3.3. We would recommend that this is incentivised through tax benefits, similar to pension relief on commercial property investments. Additionally, the removal of CIL payments for PRS units coupled with a fast track planning option for PRS schemes would make it a more attractive proposition for developers and increase the pace of supply.
3.4. A further measure would be for government to identify and release government land for PRS sites. In this case a development lease could be granted for developers, with the land cost deferred over (say) 30 years making the rent levels affordable compared to full market rate which is the case when buying private land.

3.5. **a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?**

3.6. It is likely that this will increase the cost of privately rented accommodation for individual buy to let landlords. However, institutional investors / providers are far less likely to be affected. It is unclear of the true impact of this change, and a rise in interest rates may have a far greater impact on landlords if they are highly geared.

3.7. **b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?**

3.8. The move away from home ownership will continue as new generations of people are unable to raise the capital to achieve a deposit. The desire for home ownership may not disappear quickly as the UK has a culture that sees residential property as an asset class, and as such, outperforms virtually all investments.

3.9. With limited land supply and challenging planning systems, demand will continue to outstrip supply. Major developers have no desire to increase their production output, as this would put further pressure on materials and labour cost. There is very little investment in PRS because of the cost of land and the risk to longer return on the capital investment.

3.10. The comfort and security that renters have benefited through PRS, such as very long term tenancy arrangements can be seen as a detractor for a landlord, particularly when rent levels cannot keep pace with market trends, or when difficult tenants are hard to remove.

3.11. We would recommend a review of the current AST agreements in order to give longer term certainty to people deciding to rent, as per the European model, and still allowing for sensible rent reviews to ensure Landlords rental incomes remain attractive.

3.12. **c. What are the advantages and disadvantages of restricting rent increases in the private sector?**

4. **Social Housing**

Are any measures needed to increase the supply of social housing?
a. What will be the impact of the Right to Buy for housing association tenants?

4.1. Within Orbit’s customer base approximately 10.7% of our general needs customers are currently already eligible to purchase their home through Right to Buy as a result of stock transfers from Local Authorities. With the extension of Right to Buy, a further 57.7% are now potentially eligible to exercise this right. Within these estimates, the majority of these tenants are based outside London (82.8%) and live in houses (64.4%) rather than flats. Amongst eligible tenants, the majority are families who typically have tightly-managed finances, evidence of financial issues and a history of credit refusal.

4.2. We expect that the impact of Right to Buy for Orbit and other housing association tenants will be primarily positive. Housing association tenants will now be able to purchase their home with a substantial discount. Such tenants with no previous opportunity to own a high-value asset will now have a means to make this possible as a result of the Right to Buy extension. Eligible housing association tenants will also have the opportunity to radically increase the wealth of subsequent generations of their own family since they can now offer an asset in their inheritance which they previously could not.

4.3. While primarily positive, we expect that the Right to Buy extension may still lead to some negative outcomes for individual cases. For example, not all housing association tenants fulfil the eligibility criteria for Right to Buy or are currently in a financial position to obtain a mortgage. Those tenants who are unaware they are ineligible for Right to Buy could have their hopes unnecessarily raised due to lack of knowledge of the Right to Buy or of mortgage lending criteria.

4.4. Increasing opportunities for home ownership to those in social housing may lead to an increase in sub-prime mortgage lending. Whilst the Right to Buy discount will mean that mortgage repayments are lower than a mortgage for a similar property purchased outright, tenants whose finances have not been sufficiently explored by creditors may be offered mortgages they simply cannot afford.

b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

4.5. Orbit has plans to deliver 12,000 new homes over this period, and invest £10m in community support programmes to ensure our customers have the financial, digital and employment skills to improve their wellbeing. Orbit is also committed to improving the efficiency of its homes through a large scale retrofit programme that will see all homes achieving an EPC level C rating.

4.6. The 1% cumulative cut in social rents over 4 years will have a substantial impact on Orbit’s revenue, which may mean that its ambition in some of these areas will need to be reviewed.

4.7. Initial estimates show that Orbit’s income will be £29m a year less by 2020 due to this action (see table below). If no other changes were made, Orbit would default in its Debt per Unit bank covenant. To redress the Debt per Unit covenant, the Group’s development
programme would need to reduce by 600 properties – effectively reducing Orbit’s capacity to develop new properties.

<table>
<thead>
<tr>
<th>Rent Reduction (£m)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent Reduction (£m)</td>
<td>6.6</td>
<td>13.8</td>
<td>21.5</td>
<td>29.7</td>
</tr>
</tbody>
</table>

4.8. Enabling all housing associations autonomy over rent-setting may allow Orbit to have greater control over its financial future whilst maximising affordability for those customers with low-incomes. Access to income data, as anticipated from recent announcements, does make this a more real proposition, and would enable housing associations to means test our rents, making them more affordable for low-income households whilst scaling rent fairly for those with greater capacity to pay higher rents.

17 December 2015
David Orton – Written evidence (EHM0011)

My interest is based on the experience of my own son, who is now 37 and still living with my wife and I. He obtained a degree without incurring any student debts, and got immediate employment in his chosen field of architectural model making at the age of 23. The firms for whom he has worked are major contributors to the now thriving building industry and as such, he and his colleagues make a significant contribution to the success of the industry. These firms are all based in and around London, so he needs to be resident there or within easy commuting distance. He has worked hard and well continuously since obtaining his degree, and has saved diligently. He has few of the trappings anecdotally favoured by the younger generation, has taken no holidays and lives a modest lifestyle. He has accumulated a significant sum in savings to be used as a deposit, more than 25% of the purchase price of the type of property he can afford, and earns above the average salary figures often quoted in the media. Although he has had relationships, none have so far proven to be "the one", so he only has his own salary to be considered when looking for a mortgage, and this is not enough to afford any property within reasonable travelling distance.

There are many integrated issues to be considered when trying to ascertain why someone in my son’s position cannot afford to buy a property in this location. But in my view, the rise of the "buy to let" landlord and the "offshore property speculator" is the single biggest reason why virtually anyone under 40 is now priced out of buying a property for residential purposes, especially in the highly priced London and South East regions. These people are all greedy and selfish opportunists who buy up properties at the cheaper end of the market which would otherwise be the sort of thing bought by younger people wanting to buy their first home. Buy to let landlords now have much less stringent criteria to meet to obtain mortgages, so can buy these properties from under the noses of those who want nothing more than to buy their own first property to live in. So there are practically no houses for prospective first time owner occupiers to buy, and the prices of those that are on the market are pushed ever upwards, beyond their reach. As a result, the potential buyers are forced to either stay living with parents, or to rent the very properties they would otherwise have been able to buy. This gives ammunition to those who claim that the rental market is buoyant - it has to be because people are left with no choice in the matter.

So the buy to let landlords are making some profit from their rental income, and much more profit from the ever increasing capital gains on the properties, and this is being done at the expense of, and with complete disregard for, the under 40s generation. It is reprehensible, blatant profiteering at the expense of this younger generation, and anyone who indulges in it should be ashamed of themselves. Although there is a need for rental properties, these should not be owned by individuals, but by appropriate organisations as I detail below.

In the Stock Market, laws exist to prevent unscrupulous people from cornering the market and making exorbitant profits thereby. Buy to let landlords are no better than this, and indeed are worse, as they are denying others the basic human right to aspire to own their own property to live in, to begin an independent life, to raise a family and all the other things that go with home ownership. And they are doing this purely to fund their own
extravagant and selfish lifestyles, either funded directly from their rental income, or more likely from the huge capital profit they make when selling part of their portfolio. Residential property should not be a commodity to buy and sell purely for financial gain - it is where people live, and to exploit that necessity for one’s own greed is appalling.

Any measures taken to increase house building quantities are doomed to failure if they are then immediately bought by property speculators and buy to let landlords. There have been notable examples of this where I live; one recent property coming on the market had 17 prospective buy to let landlords interested, and three new entire developments were sold out on the day of release, and now have "Let and managed by..." boards dotted around them.

The way to stop this, and allow the next generation of British youngsters to get their feet on the property ladder is simple.

- New buy to let mortgages should be stopped immediately. If people must speculate with the futures of others, at least let them finance it themselves.
- All properties built as a result of any new initiatives should contain a clause ensuring they can only be bought by owner occupiers as a sole property for residential purposes, and cannot be sole on as rental property for a period of, say 20 years.
- All profits made on the capital gains of buy to let properties should be taxed at punitive levels (above 95%?).
- All property portfolios should be the subject of an annual tax levy based on their then market value.
- No new builds should be allowed to be bought off plan for this purpose.
- No new builds should be advertised for sale in other countries.
- No foreign based individuals or companies should be allowed to own the freehold of any British residential property. Any leases so granted should incur an expensive annual surcharge. Any profits on the subsequent sale of such properties should be taxed at above 95%, the revenue therefrom ringfenced for further house building.
- All rental properties should be owned by local authorities, housing associations, charities, universities or similar bodies if applicable in a given location, and multi national companies who may have legitimate reasons for short term accommodation of non-British employees. Any sold off (for residential purposes) under schemes such as right to buy should be replaced on a one to one basis by the seller.

There are other measures which could be considered down the line to further correct the situation, but the above would be a good start.

I'd also like to say what a poor idea part ownership initiatives are. Not only do the individuals often find themselves fully responsible for maintenance and other expenses which should be at least shared by the co-owner, but the co-owner receives rent and benefits from the increase in capital value, and in many ways, this scheme is just as bad as the buy to let market. At the very least, the individual has to find a significant additional lump sum or mortgage increase to buy out his partner, and many will never be able to do...
The implications of buy to let profiteering for this lost generation are not just financial, but significant for social reasons and in the state of mind of a generation that generally works hard, then looks around and sees that others are profiting from their efforts. We have a moral and practical responsibility to stop this practice.

12 November 2015
Submission from the Otter Valley Association, 16th December 2015

A. Executive Summary
• We provide information about the Otter Valley Association, its aims and its concerns about the lack of affordable homes for local families in the district.
• We list the actions we believe Parliament should take to amend the damaging effects of the current situation.

The Otter Valley Association (OVA)

1. The OVA, a civic amenity charity with approximately 1000 members, was founded to promote and conserve the environment, landscape and history of the lower Otter valley, East Devon. It was established for the public benefit in the area comprising the civil parishes of Budleigh Salterton, East Budleigh and Bicton, Otterton, Colaton Raleigh, Newton Poppleford and Harpford, (hereafter be referred to as "the area of benefit"). This area is situated entirely in the East Devon Area of Outstanding Natural Beauty (AONB) and all of the coastline forms part of the Jurassic World Heritage Site. The town of Budleigh Salterton is also, unusually, in the AONB. It also includes many Sites of Special Scientific Interest, numerous conservation areas and a Site of European Environmental Significance, which the local authority has a legal duty to protect against the adverse effects of the pressures of future development. The area has 30% retirees, double the national figure.

2. The area of benefit has significant environmental constraints on development, and this is reflected throughout the whole of East Devon. The Local Plan is currently stalled as East Devon District Council has not met its legal obligation for Habitat Regulations 2000.

3. The majority (86%) of local employment is in the retail, hospitality and health sectors, all of which are predominantly lower-paid. The earnings of locally employed people are 7% lower than the English average, the average house price to salary ratio is 12:1 and the average monthly rental of £687 has been calculated to be an unaffordable 44% of average earnings for a single person. East Devon is, therefore, the 8th least affordable district in England (Rowntree Foundation). Many local people cannot afford the terms and conditions of even affordable homes.

4. The beauty of the area attracts many second homeowners and retirees from across the country. The disparity between the purchasing power of the locally employed and those coming from more affluent areas either to retire or to own a second home, affects the locals in many ways. Many second-home buyers purchase a small pied-a-terre a few years before their retirement, these are exactly the homes the local youngsters bought in the past as first time buyers. Retirees and second-home owners push up the prices of housing.
5. The emerging East Devon Local Plan favours developers building large estates. The housing is expensive and, with the removal of requirements to build affordable housing due to financial constrictions, very little low-cost affordable housing is being built in the OVA’s area of benefit.

6. The East Devon Local Plan sets out to build a minimum of 17,100 houses in 18 years, whereas the demographic need is 10,500 over that time. Hence there will be more than enough building taking place but it will be unaffordable to the locals. Developers argued at the Local Plan Oral Hearing that more land was needed as EDDC was not meeting its 5 year housing target. This is not due to lack of planning permission being granted. In Otterton, Newton Poppleford and Budleigh Salterton outline planning permission was granted 3-4 years ago for approximately 150 houses and has proceeded no further.

7. Recommended Actions

1. Impose higher taxes on second homes and those unoccupied for more than 6 months.

2. Encourage small developments built by local builders.

3. Scrap the right to buy scheme with its resulting loss of rented accommodation to local families.

4. Re-introduce a minimum number of affordable houses in large developments.

5. Encourage the building of social housing through fiscal policy change. The need for social housing in the area has been endorsed in a questionnaire sent out to inhabitants in Budleigh Salterton in conjunction with a Neighbourhood Plan. In a random sample of 100 respondents, 32 highlighted the need for social housing.

16 December 2015
Submission to the Economic Affairs Committee of the House of Lords inquiry into “The Economics of the United Kingdom Housing Market.”
December 15th, 2015; Issues relating to Cornwall

(1) There is a general consensus that building more homes will bring down house prices to make them ‘more affordable’ for the average working family and that building more homes will meet the demand for housing. Both of these assumptions need to be seriously challenged since the data do not support them. This is because the structure of the housing market is not understood. In Cornwall, the building of new homes, (82% higher rate of development than other counties in the Nation), over 30 years, have not brought down the prices and have not reduced the demand for more affordable houses. Thus, building more homes in the current structure of the market is not sufficient.

See Appendix 1 for Evidence - Dr. Bernard Deacon, of CoSERGE (the Cornish Social and Economic Research Group), ‘Enough is Enough’

(2) Mr. Osborne’s changes to tax credits for the Buy To Let Landlords. Attempting to affect the ‘Buy to let market’ to make more housing available to ordinary families is a red herring and unfair to thousands of ordinary people who have a few properties from which they make income, often in the place of pensions, which have been bad investments over the past 20 years. Although often blamed, these people are not responsible for the problems with house affordability or availability. But large investment firms and asset management companies are having a major effect on the both the prices and availability of property (and yet, Mr. Osborne is seeking to exclude corporations from these tax changes). The media never discuss this relationship and thus the public are not informed on the role of these companies.

http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/leisure/11308393/Sykes-Cottages-bags-54m-investment-amid-travel-deal-bonanza.html

Sykes Cottages bags £54m investment amid travel deal bonanza
Private equity group formerly known as Isis injects millions into family-run holiday homes business

Sykes Cottages, which has properties in the Lake District, Devon and Anglesey has soared in popularity due to growing consumer demand for more homely holiday properties. Sykes Cottages posted pre-tax profits to £3.8m last year on a turnover of £13.4m. The deal also follows Equistone investing in Travel Counsellors, Cheapflights owner Momondo attracting £80m cash from Boston based Great Hill Partners and US holiday group Sabre offloading Lastminute.com. “The deal is further evidence of the growing appetite of financial buyers and
private equity houses for travel and leisure businesses, particularly those in the premium, luxury space, which are capitalising on the resurgence in global growth and the increase in wealth that it drives”, said Jonathan Buxton, partner of Cavendish Corporate Finance which advised Scott Dunn on its deal with Inflexion.

(3) **Land Trusts**, highly popular, owned by local communities account for 39.8% of the houses built in Cornwall (and they all are built in the required time, addressing the arguments that they cannot be counted on to be built within the period allocated to allow them to be counted in housing supply). These provide a win-win solution to many of the issues continually raised, affordability of housing, the need for social housing, the placement of new housing in appropriate locations and the protests against large and often inappropriate developments by the local people. They are highly successful. Why are they not promoted as a major way of delivering needed housing? Because Cornwall Council, the planners in particular, for example, are using the planning process to deliver desperately needed revenues to the Council (through large developments that can be charged large fees for planning advice, bring in £6500 from the Government for each house built and have 106 and CIL agreements attached). They also do not support the public’s perception that unsustainable development is destroying the way of life in Cornwall (Tourism being the largest industry by far and it is dependent on the environment, which requires a balance of the 3 legs of sustainable development, economic, environmental and social). Communities and their Land Trusts borrow the money for building, thus they do not cost the Councils any money. Also, they can sub-contract with builders so they do not need to be taking business away for large developers. Another issue that Land Trusts address is scale. They tend to build in smaller numbers. A developer, adding 20% to the housing stock of a village or town of say 5000, in one development is unsustainable (and often done without required infrastructure). But this is the norm in Cornwall, scale is not an issue.

(4) **The Neighbourhood Plans** are not being developed as fast as should be. They do not get the support of the Planners (who in some cases advise Communities they do not need them, personal experience), because they would interfere with the Planners’ objectives (see item 3 above).

In the case of Cornwall, the houses being proposed to be built up to the end of the life of the Local Plan, 2030, will be built in the next 2 years (in 2015 the year the Local Plan is being submitted for approval, Cornwall has already achieved 39% of the target). Thus, by the time neighbourhood plans take effect (it is taking about 2-3 years to do a neighbourhood plan, the entire housing target for 2030 for the County of Cornwall, 53,000 will be in place).

However, perhaps the most important point is that the lack of support for Neighbourhood Plans by Cornwall County Planners is only symptomatic of the general lack of support for the public, especially at hearings with Inspectors. See an appeal reference below in which St. Austell was opposing a development by a large developer, a case they lost because the Inspector was listening to the planners, who are supporting the developers (a situation which also raises a conflict of interest since the planners work for an elected Council, which is supposed to represent the People).

65 Parish Councils (about ½ of all the parish councils in Cornwall) have come together to try
to find a way to influence unsustainable development and a democratic deficit. See Cornwall for Change (C4C)

Note that in Footnote 7 and 9 below, the Inspector was taking the word of the Planning Officers who did not make it clear to him, in a clear example of working against the interests of the people of St. Austell who appealed this case, that there is a 5 year land supply and 3 years of HLS. (See item 5 below on Land Supply)

Appeal Ref: APP/D0840/A/14/2222789
Porthpean Road, St. Austell, Cornwall.
Inquiry held on 13, 14 and 15 January 2015

Decision
1. The appeal is allowed and planning permission is granted for residential development of 131 dwellings, strategic landscaping and public open space, access connections and associated engineering works at Porthpean Road, St. Austell, Cornwall. The permission is granted in accordance with the terms of the application Ref. PA14/01101, dated 5/2/14, subject to the conditions in the Schedule below.

Preliminary Matters
2. The LPA has not produced any evidence to demonstrate that there is a five year supply of housing within Cornwall. It agrees with the appellant that paragraph 49 of the National Planning Policy Framework1 (‘the Framework’) is engaged and that the relevant policies for the supply of housing in the development plan cannot be considered up-to-date.

Footnotes
7 These include concerns over the proposed housing requirement which the LPA’s officers have described as “the lowest that could be robustly defended at the Examination”
8 The LPA informed me that only three of the cells were now being taken forward for further consideration.
9 There is no cogent evidence to refute the appellant’s calculation that about 3 years HLS exists in Cornwall.

(5) The issue of the 5 -year land supply must be investigated because it is being used by Councils across the Nation to support inappropriate and large amounts of development, on the premise that the planners can do nothing about it. Yet, for example, Cornwall Council has a 5 -year land supply, despite continual claims by the planners to the opposite.

It is argued that the NPFF dictates that without a 5 year land supply in place, planning applications will go through and a huge emphasis is put on getting the Local Plan with its land supply approved. This urgency is also being invoked in terms of the Allocations List for Penryn. EVEN the Inspectorate is not defending the policy rigourously as follows:

Appeal Decision, Inquiry Ref : APP/ D0840/A/14/2222789, Porthpean Road, St. Austell, Cornwall, Held on 13, 14, 15th January 2015. (decided in favour of the developer)
Our Cornwall – Written evidence (EHM0125)

‘The LPA (Local Planning Authority) has not produced any evidence to demonstrate that is a five year supply of housing within Cornwall. It agrees with the appellant the paragraph 49 of the National Policy Planning Framework is engaged and that the relevant policies for the supply of housing in the development plan cannot be considered up-to date.’

Evidence of 5 Year Land Supply in Cornwall.
The facts that CC has 5.2 years land supply at present, confirmed by SHLAA 2015 (Section 5, pages 53/54) and in Table 20, pg 48; see also BNP Five-Year-Land – Supply-and-flexibility-v3-Nov-2013; and with the annual update due very shortly which as we know will confirm the huge number given permission during the last year, it is obvious that Cornwall has the supply required to prevent paragraph 49 of the NPPF being engaged.

SHLAA 2013: ‘The estimated supply likely to be delivered within 5 years (14,692) can now be compared to each of the 5 year requirements of 10,972 and 13,110 as set out in Table 2 above to give a five year supply position. The fact that the supply of 14,692 is greater than both the higher and lower requirement means there is a five year supply under both scenarios.

Page 37- 4.25 - This equates to 6.7 years supply against the lower Local Plan target and a 5.6 years supply against the higher target.

(6.) National Planning Policy Framework, paragraph 14. This says that ‘objectively assessed needs’ have to be met, unless ‘adverse impacts of doing so would significantly and demonstrably outweigh the benefits’. See Appendices 1, 2, 3 for the arguments on what ‘objectively assessed need is for Cornwall and how this is being abused to justify large development.’ Actual demographic data is provided by many published articles by CoSERGE (the Cornish Social and Economic Research Group, part of Exeter University at Tremough Campus).

Recommendations:
1. That the House of Lords commission a report on the ‘deep economy’ of the housing market to demonstrate what is actually going on with a housing market in which the majority of the population cannot afford the majority of housing.

2. That Community Land Trusts become a major vehicle for delivering housing in rural areas and rural Counties. Since the money for Community Land Trusts is borrowed, this will not cost the Councils or the Nation any extra money.

3. That proper support is provided to allow Neighbourhood Plans to be developed and that Councils are held accountable for these to be delivered for the majority of communities in the next 2-3 years.
4. That the issue of the 5 year land supply is clarified in order to disallow Councils’ planners to use it to approve unfettered development.


Since 1961 Cornwall’s population has soared. The 340,000 of 1961 had become 532,000 by 2011. Growth has been about three times faster than that in England and almost four times faster than that of Wales. Entirely fuelled by migration from other parts of the UK, this growth rate has had momentous consequences for Cornwall and its communities. A social and cultural revolution has been accompanied by profound changes in our landscape.

Constant population growth undermines the Cornishness of our land. It transforms small towns into a series of suburbs, short-sightedly consumes agricultural land which may be critical for our long term ability to feed ourselves and threatens the very distinctiveness that makes Cornwall a special place (The Cornish are now a recognised minority by the EU and current policies encouraging in-migration swamp the population and are destroying the ability of the Cornish to defend their culture).

But even a rate of 30,000 houses every twenty years is hardly sustainable in the long run. It’s time to say enough is enough. We’ve had half a century of excessive population growth in Cornwall accompanied by the destruction of familiar and cherished open spaces. We’ve never been asked our opinion. This social revolution has never been subject to democratic debate.

Appendix 2- Briefing on Misguided ONS (Office of National Statistics) housing figures and consequences for Cornwall

A briefing from Our Cornwall August 2013

Permanent residents? Or temporary?

♦ In the 2000s the number of occupied houses grew by 15,600. In the same period, the number of unoccupied houses (2nd homes, holiday lets, empty properties) grew by 12,500. Therefore, almost half of the additional housing stock of the 2000s contains no permanent resident.

♦ The number of second homes and holiday lets in Cornwall grew from 10,700 in 2001 to 22,800 by the end of 2012.

Flawed projections

♦ The Office for National Statistics (ONS) produced five projections in the 2000s for population growth. They all grossly over-estimated growth in
Cornwall in the years 2001-11. The best forecast was 21% too high; the worst was 64% too high.

- The ONS also produced three household projections. These were also hopelessly inaccurate, exaggerating actual growth by from 56% to 113%.

**Why is Cornwall different?**

- The population of Cornwall grew from 1961 to 2011 by 57%. In England it grew by 21%. In Wales by 15%. And in Scotland by only 2%.

- In the 2000s for every 1,000 growth in population, 377 houses were built in England. 517 were built in Wales, but in Cornwall 770 were built.

- The area of urban land in Cornwall will have grown by 19.4% from 1991 to 2016. The average for English counties is 13.1%.

- 40% of land ‘developed’ in Cornwall in 1997-2002 was previously farmland. The proportion in England was 29%.

- In England 61% of population growth in 2012 was created by the excess of births over deaths and 39% by net in-migration. In Wales net in-migration accounts for 54% for population growth. In Cornwall it accounts for 98%.

- In the year ending March 2013 for every 10,000 people resident in England, there were 2.1 major planning applications. In south west England 3.3 such applications were received for every 10,000 residents. But in Cornwall 4.5 applications for major developments were made for every 10,000 who live here.

**Population growth**

- If current trends are allowed to continue in the next 20 years we will need to build the equivalent of between three and a half and five and a half more Truros or Penzances, or between two and three and a half St Austells.

- At the present rate of growth, in 40 years time the population of Cornwall will have doubled since the 1960s.

- If current ‘development’ rates go on, 27% of Cornwall outside the AONBs will be built over by the end of this century (and all of Cornwall outside the AONBs by just after 2200).

**Permanent residents? Or temporary?**

- In the 2000s the number of unoccupied houses grew by 15,600. Meanwhile, the number of unoccupied houses (2nd homes, holiday lets, empty properties) also grew
Our Cornwall – Written evidence (EHM0125)

by 12,500. Almost half of the additional housing stock of the 2000s contain no permanent resident.
• The number of second homes and holiday lets in Cornwall grew from 10,700 in 2001 to 22,800 by the end of 2012.

Flawed projections

• The Office for National Statistics (ONS) produced five projections in the 2000s for population growth. They all grossly over-estimated growth in Cornwall in the years 2001-11. The best forecast was 21% too high; the worst was 64%.
• The ONS also produced three household projections. These were also hopelessly inaccurate, exaggerating actual growth by from 56% to 113%.

Parity. Or a fair deal for Cornwall and its communities.

• The population of Cornwall grew from 1961 to 2011 by 57%. In England it grew by 21%. In Wales by 15%. And in Scotland by only 2%.
• In the 2000s for every 1,000 growth in population, 377 houses were built in England. 517 were built in Wales, but in Cornwall 770 were built.
• The area of urban land in Cornwall will have grown by 19.4% from 1991 to 2016. The average for English counties is 13.1%.
• 40% of land ‘developed’ in Cornwall in 1997-2002 was previously farmland. The proportion in England was 29%.
• In England 61% of population growth in 2012 was created by the excess of births over deaths and 39% by net migration. In Wales net in-migration accounted for 54% for population growth. In Cornwall it explains 98%.
• In the year ending March 2013 for every 10,000 people resident in England, there were 2.1 major planning applications. In south west England 3.3 such applications were received for every 10,000 residents. But in Cornwall 4.5 applications for major developments were made for every 10,000 who live here.
Appendix 3 – Demographics for Planning for the Local Plan, Cornwall, January 2015, Dr. Bernard Deacon, of CoSERGE (the Cornish Social and Economic Research Group).

Population change in Cornwall

Key messages
- The current rate of population growth implies building the equivalent of three and a half Truros by 2031 or 15 Truros by the end of the century.
- The trend of population growth from 1971 to 2011 suggests a population growth of 67,000 by 2031 and a total of Cornish population of 599,000.
- Assuming the mean household size is between 2.07 and 2.25 this equates to a housing requirement of 29,800 to 32,400.
- Almost half of the additional housing stock in the 2000s had no permanent resident.
- Office for National Statistics (ONS) projections in the 2000s performed extremely poorly when predicting Cornwall’s household and population growth. The ONS projections are therefore unfit for purpose.

What does the Census tell us about Cornwall’s population growth? According to the 2011 Census there were 532,273 people living permanently in Cornwall. Table 1 shows how this compares with earlier years.\(^{359}\)

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
Year & Resident population (thousands) & Growth per decade (thousands) & Percentage growth \\
\hline
1961 & 342 & & \\
1971 & 380 & 38 & 11.1% \\
1981 & 417 & 37 & 9.7% \\
1991 & 460 & 43 & 10.3% \\
2001 & 499 & 39 & 8.5% \\
2011 & 532 & 33 & 6.6% \\
\hline
\end{tabular}
\end{table}

\(^{359}\) The figures earlier than 1991 are estimates based on Cornwall Council’s demographic evidence base and the census reports.
Growth peaked in the 1960s, to 1980s. It then fell back somewhat, both in absolute and relative terms. If we compress this into 20 year planning periods we can see that population growth fell from 80,000 in 1971-91 to 72,000 in the period 1991-2011. If we then fit a trend line to the period since 1971 we can expect the population in 2031 to be 599,000, or a growth of 67,000.360

Even this growth rate implies we have to find enough land to accommodate another three and a half Truros or Penzances, or two St Austells, in just two decades. Moreover, if we look beyond the arbitrary 20 years of the Local Plan, and if a growth of 67,000 occurs every 20 years until the end of the century, we should prepare for a population of around 830-840,000 by the end of the century. That’s a growth of the equivalent of around 15 Truros or Penzances, or ten St Austells. It will mean that for every one person living in Cornwall in 1961 there will be two and a half in 2101.

Households
Most people live in households. (In 2011 98.3% did so; the rest lived in institutions, care homes, hotels and the like.) So how has the number of households changed? Here are the Census totals since 1981.

Table 2: Household change 1981-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Households (thousands)</th>
<th>Growth per decade (thousands)</th>
<th>Percentage growth</th>
<th>Mean household size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>161</td>
<td>2.67</td>
<td></td>
<td>2.67</td>
</tr>
<tr>
<td>1991</td>
<td>186</td>
<td>25</td>
<td>15.5%</td>
<td>2.41</td>
</tr>
<tr>
<td>2001</td>
<td>215</td>
<td>29</td>
<td>15.6%</td>
<td>2.28</td>
</tr>
<tr>
<td>2011</td>
<td>230</td>
<td>16</td>
<td>7.4%</td>
<td>2.27</td>
</tr>
</tbody>
</table>

Note: Absolute totals may not add up due to rounding.

The percentage growth of households was higher in the 1980s and 90s than population growth because the household size was falling. However, this rate of decline slowed down dramatically in the 2000s.

The number of houses that a projected population growth of around 67,000 would require depends on the mean household size (MHS). If we assume the recent slowdown continues then the MHS is likely to be 2.25 by 2031. On the other hand, if we assume the pre-2001 fall resumes then we may be looking at a MHS as low as 2.07. This would equate to a housing requirement to meet trend growth of something in the nature of 29,800 to 32,400.

Homes for whom?
Turning to the number of houses we have in Cornwall, we find the data are anything but clear-cut. In 2011 the Council stated that 41,320 houses had been built in the previous 20 years (Housing growth discussion paper, v.4). Yet the Housing growth by parish 1991-2010

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360 Using the formula $Y = a + bX$, where $Y$ is the data value, $X$ the time unit, $a$ is the intercept ($\Sigma Y/N$) and $b$ is the slope ($\Sigma XY/\Sigma X^2$)
paper tells us that 43,092 were built in the 19 years to 2010. Adding in the 2,060 completed in 2010-11 gives a figure of 45,152.

But these totals differ considerably from those in the Census. The 2011 census informs us that there were 258,883 dwellings in Cornwall. In 2001 there were 230,619 and in 1991 205,784. All of which implies a growth in the housing stock of around 53,000 since 1991, far in excess of either 41,000 or 45,000. If we add up the number of houses reported as completed in the Council’s annual Monitoring reports since 2001 we find an increase of 25,088. This is closer to the census growth of 28,264.

But then, we meet a further puzzle. Who are all these houses being built for? As we have seen, the household population grew in the 2000s by 32,602 according to the census. But this growth should have required just 14,362 houses (at a MHS of 2.27), well below 25,000 to 28,000. So where did all the extra houses go? Or, if we put this another way, why didn’t this quantity of houses not produce the population growth we should expect?

The answer may lie in the number of houses not used for permanent accommodation. From 2001 to 2011 the number of occupied ‘household spaces’ rose by 15,575, reflecting the growth in households. However, the number of household spaces with no permanent resident (i.e. second homes, holiday lets or otherwise empty properties) also grew by 12,532. So it looks as if 45%, or almost half, of the additional housing stock of the 2000s contain no permanent resident.

The record of projecting future growth
Census data can only provide the picture of the actual trends over the past decades. Although past trends should logically bear some relationship to future growth, this is not guaranteed and conjectures are unavoidable.

In September 2011 therefore, the authors of Cornwall Council’s Demographic evidence base, v.1.4 stated confidently that ‘the latest 2010 estimate’ of population was 535,000. This was based on ‘current national projections which indicate that between 2001 and 2011 the resident population will have increased by 55,700’. The only problem was that five months previously the Census had counted an increase of nowhere near 55,700. Instead, the actual growth had only been 33,100. The confident projection in the ‘evidence base’ turned out to be wrong. And not just slightly wrong; it had overshot the actual growth by 68%.

When it comes to predicting household growth the Council was unfortunately also inaccurate. In its Population and household change v.2 paper of March 2013 it includes a graph stating the percentage growth in the number of households in 2001-11 was 14%. In fact, as we have seen, it was just half of that.

The consultants Cornwall Council rely on also found it exceedingly difficult to come up with forecasts for population and household growth that were anything near reality. For example, Peter Brett Associates in October last year, despite reporting correctly in page 5 of

361 This is a slightly different measure from dwellings and includes flats, apartments and parts of houses.
their Cornwall housing requirement report that the number of households at the 2011 Census was 230,400, could still state a page later that the number of households in Cornwall in 2010 was 237,000. This exaggerated the 2001-11 growth by at least 42%. Another page on and Peter Brett Associates were concluding that population growth in Cornwall ‘since 2001’ was 35,300 over nine years. In fact, it had been 33,100 over ten years. This again overestimated population growth by 20%, which was strange as at the time of writing the correct figures derived from the census were available.

The reason why both the Council and their consultants’ predictions are so dismally inaccurate is that they are based on the projections produced by the Office for National Statistics (ONS). These turn out to be very consistent. But consistently wrong.

Tables 3 and 4 compare the growth predicted for households and resident population in the 2000s by the ONS with the actual population growth as revealed by the 2011 Census.

Table 3: Comparisons of ONS forecast household growth and actual growth

<table>
<thead>
<tr>
<th>Based on</th>
<th>Forecast growth 2001-11 (thousands)</th>
<th>Actual growth 2001-11 (thousands)</th>
<th>Percentage over-estimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>34</td>
<td>16</td>
<td>113%</td>
</tr>
<tr>
<td>2006</td>
<td>34</td>
<td>16</td>
<td>113%</td>
</tr>
<tr>
<td>2008</td>
<td>25</td>
<td>16</td>
<td>56%</td>
</tr>
</tbody>
</table>

Table 4: Comparisons of ONS forecast population growth and actual growth

<table>
<thead>
<tr>
<th>Based on</th>
<th>Forecast growth 2001-11 (thousands)</th>
<th>Actual growth 2001-11 (thousands)</th>
<th>Percentage over-estimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>49</td>
<td>33</td>
<td>48%</td>
</tr>
<tr>
<td>2004</td>
<td>51</td>
<td>33</td>
<td>55%</td>
</tr>
<tr>
<td>2006</td>
<td>54</td>
<td>33</td>
<td>64%</td>
</tr>
<tr>
<td>2008</td>
<td>41</td>
<td>33</td>
<td>24%</td>
</tr>
<tr>
<td>2010</td>
<td>40</td>
<td>33</td>
<td>21%</td>
</tr>
</tbody>
</table>

The ONS forecasts for household growth were not just wrong; they were hopelessly wrong, sometimes by as much as a factor of two.

If we turn to the ONS projections for population growth, we find that they were wrong, wrong, wrong, wrong, and wrong again. Even the most recent projections based on 2010 and just a year before the Census was taken, proved incapable of getting within 21% of the actual total. And the earlier guesses grossly inflated projected population growth. This is very serious because it has implications for planned housing targets.
So far, the implicit assumption here is that housing follows the movement of people and the formation of new households. But this is a very over-simplified assumption. In reality, the supply of housing does not just react to demand; it also creates demand as houses are marketed and sold. By constantly inflating the expected, the ONS is, wittingly or unwittingly, locking us into a spiral of ever-rising supply of housing, and stimulating ever-increasing demand.

Unfit for purpose
Clearly the ONS projections are unfit for purpose, with a level of accuracy that is unacceptably low. Unabashed however, the latest ONS predictions are telling us that Cornwall’s population will grow by 51,700 over the next ten years. Meanwhile it predicts the number of households will rise by 24,000 in that same decade.

Even a cursory glance at these projections suggest they should be taken with a very large pinch of salt.

<table>
<thead>
<tr>
<th></th>
<th>Household growth (thousands)</th>
<th>Population growth (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>25</td>
<td>43</td>
</tr>
<tr>
<td>1990s</td>
<td>29</td>
<td>39</td>
</tr>
<tr>
<td>2000s</td>
<td>16</td>
<td>33</td>
</tr>
<tr>
<td>2010s (ONS forecast)</td>
<td>24</td>
<td>52</td>
</tr>
</tbody>
</table>

We are being asked to believe that population growth, having steadily subsided over the past three decades, is now suddenly going to rise. And not only rise, but rise to record levels. This is all very curious. Something most definitely isn’t adding up.

When guessing what future population and household growth is likely to be, allowance has therefore to be made for the consistently inflated ONS figures and these reduced accordingly. They were (very) wrong in the past. There is little or no reason to expect them to be right now and every reason to expect them to be equally flawed in the future.

So the pertinent question becomes how far do we need to reduce the inflated ONS projections? In the early 2000s the ONS were overestimating the growth of population in the decade by between 48% and 64%. So one approach would be to assume the same built-in overestimation now. If we assume that the 52,000 growth projected by the ONS for the coming decade is equally inflated, we might expect an actual population growth over the next 10 years to be between 31,700 and 35,100. And this turns out to be remarkably close to the trend growth of 67,000 that was calculated at the beginning of this paper.

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362 98% of the population growth in Cornwall last year was produced by net in-migration, 2% by natural change - the excess of births over deaths
363 At the same time note how the number of people per household seems to be steadily increasing. This appears to contradict the fact of a falling MHS.
House of Lords Select Committee on Economic Affairs,
Inquiry into the Economics of the United Kingdom Housing Market

Evidence submitted by Dr Sue Brownill, School of the Built Environment, Oxford Brookes University

Executive Summary

This submission focuses on two questions posed by Committee at its launch, namely: are changes to the planning system needed to increase the availability of low cost housing and are new measures needed to increase the supply of social housing?

The key messages from this submission are:

- **Affordability, not just numbers.** It is crucial that planning policy focuses not just on the numbers of houses provided but their affordability.

- Planning obligations (or S106 agreements as they are often called) have been a major way that the planning system can deliver affordable homes but **numbers have halved in recent years**

- This decline in the ability of S106 to deliver affordable homes is linked to changes in planning policy particularly definitions of affordability and the weight given to viability in planning.

- Many innovative examples of supplementing planning obligations through other affordable housing delivery models already exist

- A dual approach would better balance numbers and affordability, **combining strengthening S106 operation with empowering local authorities and their partners to supplement S106 provision through local strategies.**

Key recommendations based on the study’s findings are:

1. **The definition of affordability** in the National Planning Policy Framework (NPPF) should be revised

2. The concept of **viability within a planning context should be reconsidered to ensure effective land value capture.**
3. Local Planning Authorities (LPAs) in areas under extreme housing pressure should be exempt from recent changes to S106 which exclude certain developments.

4. A combination of land, finance and strategic leadership is required to deliver more affordable homes (the golden triangle).

5. Models exist which combine these elements including; community land trusts, special purpose partnerships, arm’s length local authority led companies, LA direct building but numbers delivered are small and measures are needed to scale up delivery.

6. Local authorities and others need to be given more flexibility and access to funding under the government’s commitment to localism to deliver localized housing strategies to meet identified housing needs.

1. Introduction

1.1 Oxford Brookes University recently carried out research for the Joseph Rowntree Foundation on planning obligations and affordable housing (see appendix 1). The focus of the project was to explore the effectiveness of planning obligations as a mechanism for delivering affordable housing to those on lowest incomes, to explore the impact of recent changes to the planning framework and to look at alternative ways of delivering affordable housing. We very much welcome the establishment of the Economic Affairs Committee inquiry on the economics of the UK housing market. The submission which follows draws on our research and relates specifically to two questions posed by Committee at its launch, namely: are changes to the planning system needed to increase the availability of low cost housing? and are new measures needed to increase the supply of social housing?

2. Are changes to the Planning System needed to increase the availability of low cost housing?

2.1 Planning can play an important role in the provision of low cost housing, however, recent changes to the planning system are making it harder to secure affordable housing both now and in the future. We outline these changes and their impacts here before making recommendations to enable planning to deliver more affordable homes.

2.2 Reduced Numbers Provided Through Planning Obligations

2.2.1 One of the major ways the planning system contributes to the delivery of affordable is through planning obligations. These are legal agreements through which developers are obliged to contribute to infrastructure and facilities and are more usually referred to as S106 agreements after the section of the 1990 Act in which they were formalised. Planning obligations (often referred to as S106 agreements) are legal agreements between Local Planning Authorities (LPAs) and developers to secure financial...
contributions towards essential infrastructure associated with a development such as affordable housing, transport and open space. They act to extract some of the uplift in land values as a result of the granting of planning permission for community benefit. Planning obligations bring together land and finance for affordable housing and through on-site agreements deliver mixed tenure communities. As grant funding decreased, planning obligations became a major way in which the planning system contributes to the supply of affordable housing.

2.2.2 Figures 1 and 2 show how the numbers delivered through S106 have halved between 2004 and 2014. In 2006/07 S106 contributed to delivering over 32,000 affordable homes almost two thirds of all affordable homes completed that year. In 2013/14 that figure had fallen to just over 16,000 or around two fifths of all affordable homes. These figures also show the importance of government grant to the effectiveness of S106 delivery as the majority of completions combined S106 contributions with grant funding. With estimated needs in the social sector of 83,000 homes a year (Holmans 2013) it is clear s106 on its own cannot provide the numbers needed but it remains an important mechanism and needs to be strengthened. However there are significant current barriers to its operation as shown below.
### Figures 1 and 2 Trends in Housing Completions in England (2004Q2-2014Q1)

<table>
<thead>
<tr>
<th></th>
<th>Affordable Housing Completions</th>
<th>Completed through S106</th>
<th>S106 completed without Grant</th>
<th>% affordable housing through S106</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004/5</td>
<td>33154</td>
<td>18175</td>
<td>3219</td>
<td>55</td>
</tr>
<tr>
<td>2005/6</td>
<td>39108</td>
<td>23869</td>
<td>5839</td>
<td>61</td>
</tr>
<tr>
<td>2006/7</td>
<td>39808</td>
<td>25838</td>
<td>6264</td>
<td>65</td>
</tr>
<tr>
<td>2007/8</td>
<td>48208</td>
<td>27273</td>
<td>6947</td>
<td>57</td>
</tr>
<tr>
<td>2008/9</td>
<td>51525</td>
<td>32286</td>
<td>5912</td>
<td>63</td>
</tr>
<tr>
<td>2009/10</td>
<td>51858</td>
<td>29065</td>
<td>2873</td>
<td>56</td>
</tr>
<tr>
<td>2010/11</td>
<td>55909</td>
<td>28972</td>
<td>3026</td>
<td>52</td>
</tr>
<tr>
<td>2011/12</td>
<td>52790</td>
<td>16963</td>
<td>4138</td>
<td>32</td>
</tr>
<tr>
<td>2012/13</td>
<td>37250</td>
<td>15645</td>
<td>4921</td>
<td>42</td>
</tr>
<tr>
<td>2013/14</td>
<td>43451</td>
<td>16193</td>
<td>6814</td>
<td>37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>453061</strong></td>
<td><strong>234279</strong></td>
<td><strong>49953</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

Sources: NAD (net additional dwelling): DCLG live table 122

TAH (total affordable housing): DCLG and HCA

Total S106: HSSA


2.2.3 As our research proceeded it became clear that the government data on S106 and affordable housing delivery is not robust or consistent over time. Give the significance of affordable housing this situation should be addressed.

### 2. 3. Changing Definitions of Affordability in the Planning Legislation
2.3.1 The introduction of the NPPF in 2012 changed the definition of affordable housing for planning purposes by removing the requirement in previous guidance (PPS3) to provide for eligible households ‘at a cost low enough for them to afford’. Instead, affordable housing became housing below market price, notwithstanding the levels of need in that area or who it is affordable to. This situation has been made more complicated by the introduction of the Affordable Rent Model (ARM) model to deliver affordable housing with rents up to 80% of market rent and introducing ‘affordable rented’ alongside ‘social rented’ as a category of affordable housing. Without a stronger definition of affordability LPAs cannot negotiate with developers for social rented or equivalent housing or include it in their housing targets. The proposed widening of the definition to include ‘starter homes’ for first-time buyers (80% of market costs) stretches the definition of ‘affordable’ housing even more and raises the prospect that developers will opt to provide the majority of homes through s106 as starter homes. Moreover, the government is proposing dropping the requirement of subsidy remaining ‘in perpetuity’ from the definition of affordable housing as occupiers of starter homes will be able to sell at full market value after 5 years. This not only switches the subsidy from those on lowest incomes to the ‘squeezed middles’ but represents a windfall to the lucky occupiers of starter homes.

Recommendation 1:

The definition of affordability in the NPPF should be revised to strengthen the ability of LPAs to deliver housing within the reach of people in housing need in their areas. This could include reinstating the PPS3 definition and/or considering levels of affordability (a common international standard is that housing costs should be 35% of gross incomes) which would then be able to reflect local circumstances.

Recommendation 2:

LPAs should be able specify the proportion of social rent, affordable rent and low cost home ownership (LCHO) units in their plans where this is demonstrated by appropriate evidence.

Recommendation 3:

The definition of affordable housing should retain the principle that public subsidy should be available to those in future housing need. LPAs should be able to specify the numbers of starter homes provided through s106 on the basis of identified housing need.

2.4. Viability in Planning

2.4.1 The NPPF increased weight has been given to the viability of development in planning practice (although it should be recognised that viability is not a new planning issue). A range of models and guidance to assess viability and therefore to determine the level of s106 are now in operation (RICS, 2012). The financial information and negotiations around these models are not made public. The Growth and Infrastructure Act
introduced the right for developers to renegotiate or appeal agreed S106s if they could show that obligations made the scheme unviable.

It is difficult to generate data on the impact of viability due to the confidentiality of viability appraisals (VAs). Nationally Mathiason et al (2013) reveal a 30% reduction in affordable housing numbers after re-negotiation between 2007 and 2013 in selected major schemes across the country. Our respondents reported ‘the average contribution compared to five years ago is showing 10-15% less’. One planning officer in a central London borough with a 50% affordable housing target experiencing increases in house prices up to 30% per year said ‘this should suggest that schemes are viable in theory, but with the NPPF and the RICS guidance every major viability assessment has come in at lower than 50%’.

2.4.2 Concerns with VAs include;

- The indicators being used in the various appraisal toolkits and models are based on a narrow and rigid view of viability. In particular VA models include a set developer profit which passes the risk onto the s106. They often also use the market rather than existing use value of land which potentially reduces the amount of the uplift in value which can be captured for community uses including affordable housing

- Developers can re-negotiate s106 agreements on the basis of viability for example on the Greenwich Peninsular affordable provision was renegotiated to remove the requirement on one part of the site.

- The models can assume that viability is fixed in time and space whereas it can vary for particular schemes as market conditions and costs change. For example Saffron Square in Corydon was deemed a ‘stalled site’ in 2011 and had its affordable element reduced. As the market improved it became highly profitable.

- There is a lack of skills in LPAs to interpret and carry out viability assessments

- The variable quality of agents/consultants advising Local Authorities while developers can afford legal and other consultant advice

- The lack of transparency and scrutiny; VAs are confidential and require lengthy campaigns to be made public

Recommendation 4:

The concept of viability within a planning context should be reconsidered to ensure effective value capture. Further consideration should be given to the operation of viability, including:

- changing National Planning Policy Guidance to state that land values in VAs should be set at use value (plus an incentive to encourage release of the land) and all VAs should use open book accounting and be subject to public scrutiny
• taking a dynamic view of viability, with review mechanisms and agreements to enable greater levels of affordable housing in later phases of schemes should performance exceed that set out in the original viability appraisal;

• Enabling LPAs to set their own parameters for viability assessment e.g. through using supplementary planning documents (SPDs) to set localised conditions and criteria for viability assessments and planning agreements;

• Using SPDs and S106 within developments to specify levels of rents affordable to those on the lowest incomes. These often defined affordable as one-third of incomes rather than government definitions of up to 80 per cent of market value.

• Provision for renegotiating s106 expires in April 2016. It should not be extended

2.5. The Impact of Other Planning Reforms

2.5.1 A number of exemptions to S106 were also introduced including permitted developments from office to residential and the attempt to increase the threshold for charging S106 to 10 units. While the latter was overturned by judicial review it is likely that further ‘flexibility’ will be introduced by the government. In principle LPAs can apply for an ‘article 4 direction’ which can limit from these rights but in practice these are often not approved or are amended by the Secretary of State

Recommendation 5:

LPAS in areas under extreme housing pressure should be exempt from changes to S106 which exclude certain developments and shift 106 towards low-cost home ownership and away from those on lowest incomes.

3. Are new measures needed to increase the supply of social housing?

3.1 Our research identified a ‘golden triangle’ of land/planning, finance and strategic leadership as vital for increasing affordable housing supply (Fig.3).
3.2 Case study research into six very different housing market areas in England showed that there are many innovative examples of ‘the golden triangle’ in action (see Appendix 2). Many of these combine with each other and S106 in local areas to provide local delivery models. They include:

- **Special purpose vehicles**, often but not exclusively, formed around the availability of publicly owned land. These take the form of Housing Association subsidiaries, municipal housing companies and public/private partnerships. A more widespread use of these business models within the industry could deliver more AH particularly through the development of a model specifically for housing at social rent levels.
• Greater freedoms for local authorities to finance their own programmes are proving effective however numbers provided are currently small. Other forms of non-grant funding such as Housing Banks, revolving funds, institutional investment and ethical trusts are providing small but significant input.

• The localism agenda is producing mixed results. Neighbourhood Development Plans are showing that communities are prepared to accept development over which they have greater control than the volume housebuilding industry usually allows. Community Land Trusts are the only existing method of providing affordable housing in perpetuity however our case studies show that while they can provide much needed homes suited to local needs, numbers are small and the time taken to deliver schemes is often extended. City Deals and Local Economic Partnerships (LEPs) are yet to fully realise their potential contribution through the inclusion of housing as a key strategic element in their plans. Only one of our case study areas was directly investing all proceeds from New Homes Bonus into affordable housing, but it should also be said that this reflected the need to supplement LA general spending in the light of cuts.

• The delivery of major new settlements and urban extensions was being achieved in a number of our case study areas, notably in Cambridgeshire where there are plans for over 10,000 new homes over the next 10 years. In Cambridgeshire this was driven through strategic co-ordination of land assembly, housing and planning policy, through a range of sub-regional partnerships which successfully established a consensus on growth which set the framework for local plans and brought together partners and finance. Delivery of affordable housing was also high. In other places the duty to co-operate is not proving effective in fostering such partnerships.

• Despite these the significance of grant funding through HCA and GLA and the impacts of reduced grant investment should not be underestimated.

3.3 Recommendations to increase the supply of affordable housing include

Finance
• Higher levels of government grant (including a shift from housing benefit to bricks and mortar).

• Increase the capacity of LAs to invest for example increasing HRA headrooms

• Enabling/promoting non-grant funding including asset based borrowing, institutional and pension fund investment and ethical funds.
• Work should be done on the potential of a non-grant financial model for social/target rented housing.

• Remove restrictions which reduce providers’ ability to borrow such as rent and HB caps and reductions and the right to buy

• NHB should be ring-fenced for affordable housing.

Land/Planning

• More land needs to be made available for housing through the planning system, however this needs to be accompanied by robust planning policies and appropriate finance mechanisms to ensure affordability as well as numbers.

• Affordability should be a key requirement of initiatives such as Garden Cities (as in the Shelter Wolfson submission) and Housing Zones. Percentages of affordable housing should be the same if not more than those in local plans.

• A range of measures to increase the capacity of public sector land to address the need for affordable homes could be implemented including:

  o A transparent register of public land

  o Changing requirements for best value on land disposals such as including affordable housing delivery in their criteria

  o Equity sharing arrangements between public landowners and development partners

Governance and Delivery

• Political commitment to the need for affordable housing for those on lowest incomes at the national and local level is needed

• Mechanisms to transfer good practice in the use of SPVs and to increase the capacity of these to deliver should be explored.
• Appropriate governance arrangements to ensure strategic co-ordination of cross-boundary housing and planning policy with a long term vision need to be put in place. The Duty to Co-operate should be revisited and where shown to be not working alternatives put in place.

• Work should be undertaken with the house building industry to develop new delivery models for social rented/affordable housing. This could include contracts weighted towards local developers and suppliers.

**Localism**

• Further work on how to scale up the contribution of initiatives such as CLTs and NDPS should be carried out.

• LEPs and City Deals need to address issues of affordable housing and prioritise it as a key part of the infrastructure of growth. LEPs could prioritise the release of land and infrastructure provision for affordable housing as well as commercial development.

• Local authorities and their partners should be given freedoms to devise and deliver localized housing strategies to meet the needs for affordable homes.

**References**


http://www.cchpr.landecon.cam.ac.uk/Downloads/HousingDemandNeed_TCPA2013.pdf

Mathiason (2013) Thousands of Affordable Homes Axed,


Royal Institute of Chartered Surveyors (RICS (2012) Financial Viability in Planning. London; RICS

**Acknowledgement**
This submission is from a team led by Dr Sue Brownill including Youngha Cho, Ilir Nase, Ramin Keivani, Dave Valler and Nicholas Whitehouse of Oxford Brookes University and Dr Penny Bernstock from the University of East London. It is based on research findings from a national JRF funded study on planning obligations and affordable housing which is available at https://www.jrf.org.uk/report/rethinking-planning-obligations-balancing-housing-numbers-and-affordability.

17 December 2015
Appendix 1: Housing completion data sources

<table>
<thead>
<tr>
<th>Net additional dwellings (NAD)</th>
<th>Total affordable housing (TAH)</th>
<th>S106 total</th>
<th>S106 nil grant (private developers’ contribution only)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011/12-2013/14: CLG Table 1011</td>
<td>2011/12-2013/14: HSSA</td>
<td>2011/12-2013/14: CLG Table 1011</td>
</tr>
</tbody>
</table>

Due to changes in the way S106 delivery is monitored, for the period 2004/5-2010/11 delivery figures were obtained from the Housing Strategy Statistical Appendix (HSSA). With regard to the last two years of the study, TAH and S106 delivery figures were obtained from a variety of sources including HCA (2011-2015 Affordable Homes Programme) and LAHS (new built affordable units not reported to HCA) for England (excluding London) and GLA for London. Due to the recent nature of the data they are reported as best HCA, CLG and GLA estimates and should be treated with care. Throughout the project it became clear that data on S106 provision was not consistent over time. Differences between CLG figures and those in Local Authority S106 Annual Monitoring Reports were also apparent. This suggests that policy is not being based on robust data, which is surprising given the significance placed on S106 by successive governments. Despite these problems this was the only data source to meet the project’s objectives of drawing out national trends and comparing between areas.
Appendix 2. Case Studies of Affordable Housing Supply.

Box 1: The London Borough of Islington
Funding for the Affordable Housing Delivery Programme is using a variety of measures including:

- **New Homes Bonus** - £18m out of £22.8m has been earmarked for affordable housing, including directly funding its own schemes and giving grants to RPs. E.g. Islington provided £820k of NHB to secure social rents on 14 units in a scheme at Junction Road Archway.
- **Council Capital Funding** including capital receipts and RTB (a further £160m)
- **Council land**, disposing of land at discount to RPs to provide affordable schemes, Land Disposals Framework adopted in 2012
- **Small sites Contributions** SPD; for sites below 10 units financial contributions rather than on-site affordable housing is sought. Between Jan and Oct 2013 was £2.3m secured. This is now in doubt due to proposed threshold changes.
- 37 schemes are in progress which should deliver 898 homes of which 613 are expected to be for social rent. The Council has a target of up to 500 homes for social rent within an overall target of 2000 new AH between 2015 and 2019.

Box 2: HCA Large Site Fund - Cambridge Challenge
The Cambridge Challenge was created through the Housing Corporation’s 2008-11 NAHP. The City and South Cams District Council worked collaboratively with HCA and the CC identified strategic sites through the East of England Housing Investment Plan 2008-11. A strategic development partner, Cambridge Partnerships Ltd (CPL), was formed. The partner was given a grant funding commitment for up to 4,000 homes for South Fringe sites. In the three sites (Trumpington Meadows, Glebe Farm and Clay Farm) 40% AH has been secured by CPL. This long term grant funding for an affordable housing programme aimed to maximise the impact of Government Funding programmes by securing an affordable housing development partner from site inception to completion.

Box 3: Sub-regional Partnerships-Cambridgeshire Horizons
Cambridgeshire Horizons, which was disbanded in 2010, was a collaborative form of sub-regional governance and delivery model. Cambridgeshire Horizons’ key focus was on the delivery of the development strategy for the Cambridge area and it assisted the local authorities to ensure prompt and efficient delivery of major developments. It played a key role in helping to draw together the identified requirements of the major developments as work on planning applications progressed and in facilitating discussions on planning obligation agreements. This independent input assisted partnership working between the local authority and the landowners/developers, and ensured a realistic approach to negotiation. The large settlements such as Cambourne, Orchard Park and Trumpington Meadows in the Cambridge sub-region are the exemplar sites of the successful involvement of the Cambridgeshire Horizons.
Box 4: Green Pastures – Ethical Investment

Green Pastures Developments is a subsidiary of Green Pastures Community Benefit Society (GPCBS) a Christian ethical company and is currently developing one scheme in London and three others across the country. Marks Gate is a scheme located in Barking and Dagenham in an area characterised by high levels of deprivation and housing need. The borough (LBBD) entered a partnership with Green Pastures and the Parish Council to redevelop Marks Gate. Land was provided by Chelmsford Diocese and LBBD with further support from the Berkley Foundation. The scheme includes a church, Community Centre and 87 units of affordable housing of which 84 units will be council accommodation with rents set at 65% – 80% of market rent and 3 units will be retained by Green Pastures for local benefit. Green Pastures prepared and submitted the planning application at an estimated cost of £150 – 250k and then built the scheme. LBBD purchased the 84 units at a fixed price prior to construction. GPCBS own 100% of the shares in the scheme and all profits are gifted back to them. Investors in GPCBS can choose a rate of return between 0-5%. The intention is to improve communities without extracting profit.

Box 5: Public Land Assembly

Newcastle Council has a large land pool due to clearances, school closures etc. In addition the council can provide additional top up funding through its Future Homes Fund programme which is partly supported by commuted S106 sum payments and land receipts. Sites are brought forward through the Housing Delivery Partnership Framework which includes RPs, developers and the council with preferred bidders responding to a prepared development brief.

The business model allows for negotiating the percentage of delivery of AH which is separated from the rest of the land. The developer gains upfront funding by building this for the council. The council then sells the remaining land for market housing to the developer who pays in stages. In this way the developer does not have to incur financing costs for buying the land and so can pay a higher residual land value to the council ensuring a higher percentage of affordable homes.

Box 6: Special Purpose Vehicles - Housing Trusts

Leazes Homes was set up in 2009 to specifically deliver affordable housing. Initially wholly owned by Newcastle Council ALMO Your Homes Newcastle, it is now a part-owned independent charitable RP in order to qualify directly for the 2011-2015 HCA programme. As a result any debts incurred by the entity are not reflected in the council’s balance sheet which helps to reduce the amount of public debt and help raise funding on the capital market. This SPV provides 25-30% of all affordable housing delivery in the City including purpose built housing for special groups particularly the elderly and the disabled.

Since the abolition of the Housing Revenue Account Subsidy System (HRASS), Birmingham City Council uses its own delivery vehicle. Birmingham Municipal Housing Trust will deliver approximately 200 new affordable homes per year from 2013-14 rising to 300 in 2018 when the borrowing threshold rises. Birmingham’s first round Local Authority New Build (LANB) bid secured £6.7m of HCA investment in September 2009. In 2010 an additional £5.4M was allocated to schemes in five areas of the city in round two of the (LANB) programme – one of the largest allocations to any local authority in the country. BMHT works with 12 local contractors through an agreed Contractors Framework to both boost the local economy and skill levels and develop appropriate delivery models. Contractors have to build to the BMHT External Work Guide and as such cannot distinguish between housing built for sale or rent on mixed tenure sites. The BHMT operates a ‘Build Now Pay Later’ model that enabled builders to provide homes for outright sale despite the economic downturn.
Box 7: Special Purpose Vehicles- Public-Private Partnerships
The New Tyne West Development Company has been formed to regenerate a rundown area in Scottwood with 1800 units in 7 phases and over a 15 year period. There is 15% on-site affordable housing delivery in every phase. The SPV comprises a developer consortium (Barratt-Keepmoat), the council, a RSL (Thirteen Group) and the SPV (NTWD) that manages all the process and interactions between different parties. The council ensures delivery of clean title land and the funding and profits are shared equally. The SPV also includes a super profit clause over a certain (low) threshold giving priority to the council to cover its land costs. Land assembly and preparation has taken 13 years to complete with initial investment of about £54 million by the Bridging Gateshead Newcastle Pathfinder programme and an additional £10 million by HCA to enable demolition, land acquisition, remediation and drainage prior to the formation of the SPV. In order to prevent land banking by developers the land is allocated in phases and 70% of each phase has to be completed and sold before land for other phases is released. Priority letting policy for affordable housing here is for people in employment to attract back economically viable people.

Box 8. Community Land Trusts
The Keswick Community Housing Trust in Cumbria was set up in 2008 in response to the need for local affordable housing. Land was bought from the local church at a discounted price of £10,000 per plot. The Trust raised £60,000 towards the site via a community share issue and got additional grants from the CLT network, the local authority, the Quakers and after recognition as an RP, the HCA (at £28,000 per unit). The 11 units completed in 2013 consist of 1 market unit for local occupancy (sold to provide initial capital); 5 shared ownership units at 50% market value with no rent on top of the mortgage and 5 affordable rent units.

The St Clements Hospital Site in Tower Hamlets is being developed by the East London CLT in partnership with a HA and developer. The scheme is mixed tenure comprising 252 units; 178 for private sale, 51 social rent units delivered by an HA and 23 units of intermediate/shared ownership housing developed by the ELCLT. The scheme is not dependent on grant funding; ELCT will purchase the units from the developer at the point of occupation (turnkey). The price of the Trust units will be set at 50% of the median income in Tower Hamlets. The overall cost will be calculated on the basis of a standard 25 year mortgage at an average interest of 5.5% and a 10% deposit. It is estimated that one bedroom properties will cost around £150,000 (£200,000 below the average market price of a one bedroom property in Bow) and three bedroom properties less than £250,000 (Guardian 2014). The housing will remain affordable and residents who want to move out will have to sell them on to someone else who is eligible for affordable housing. Although these homes will be for shared ownership and therefore not for those on lowest incomes, the formula used suggests ways in which affordability can be linked to incomes and not market prices.
Submission to House of Lords Select Committee on the Economics of the UK housing Market.

**Overall**: we need more *permanently* affordable homes. Various mechanisms are needed to ensure publicly funded or subsidized homes remain *permanently* affordable. Public subsidy should not end up in individual pockets. It should remain in the public domain, in this case, adding to the stock of permanently affordable homes.

1. **Private Ownership**:

   **Sales with public subsidy**: Any homes that are sold with any sort of privileged price or public subsidy should ensure that subsidy is locked in. If this is done such homes remain affordable to next buyer. And the stock of such homes is built up over time. Otherwise such homes, once sold become as unaffordable as any other open market home.

   **Planning**: Local planners could be given more discretion to enable planning for homes that have permanent affordability included (via a land trust or resale price covenant or other).

3. **Social Housing**:

   **Right to Buy**: Land Trusts in general oppose the Right to Buy. RTB is having a bad effect on social housing stock. 2 million affordable homes have been sold since its introduction (Jones and Murie 2006). And many such homes once sold go into the private rental market and cost the tax payer an estimated £1billion a year in additional housing benefit. (Sprigings and Smith 2012). This is a hidden fact/cost not made clear to the public in discussions about RTB.

   **Changes to Local Housing Allowance**: The Board of Oxfordshire Community Land Trust is having a big debate about the impact of the freezing of LHA for the next 5 years. This directly affects our capacity to borrow and makes it even more difficult to build the six permanently affordable homes we plan to start in 2016. We understand that this is also significantly affecting Housing Association and local authority building plans.

8 December 2015
Introduction

Paragon is a leading independent provider of mortgages to residential property investors in the UK Private Rented Sector (PRS) through our specialist brands, Paragon Mortgages and Mortgage Trust. We are proud to be members of the Council of Mortgage Lenders, the Intermediary Mortgage Lenders Association, the Association of Residential Letting Agents' lenders panel, the National Landlords Association and the Finance & Leasing Association. We are also members of HM Treasury’s Home Finance Forum.

We launched our first buy-to-let mortgages in 1995 and have increasingly focused our business on professional landlords who have proven experience in purchasing and letting residential rental property. This focus is reflected in the excellent performance of the Group’s buy-to-let mortgage assets and our reputation as a leading voice in the sector.

We are part of the FTSE 250 Paragon Group of Companies, which has £11.2 billion of total assets under management and more than 40,000 landlord customers who are mainly professional landlords with larger portfolios.

Given our background and expertise, in this consultation response, we have focused our answers on the questions relating to Privately Rented Accommodation.

Background

As a way of background, the UK’s Private Rented Sector (PRS) is home to 4.9 million households – accounting for one in five households in England alone. Since 2001, the UK’s PRS has more than doubled in size. It is now the second largest housing tenure having overtaken the social housing sector.

As the PRS has grown, the decline in the social housing sector has been significant, falling by one million homes between 1991 and 2012. Owner-occupation peaked in 2002 at 69.2% of housing before falling to 64.2% in 2012.
Compared with rental markets around the world, the UK’s PRS, despite its expansion, is still relatively small. A report by the University of Cambridge compiled in 2012 noted that whilst the UK’s PRS accounts for over 18% of all housing, Germany and Switzerland are more than double at 49% (2006) and 58% (2012) respectively.

There are many factors that have contributed to the growth in the PRS including population growth, high migration and more young people entering higher education. Other lifestyle changes have impacted the sector too with people choosing to settle down later in life, therefore postponing home ownership. Alongside these demand-side factors, housing affordability has been impacted by low levels of house-building, tighter mortgage availability and tougher mortgage regulation.

The perception of renting has also changed. Whilst the PRS was once regarded as the tenure of last resort, it is now increasingly popular with young professionals, couples and families. The flexibility of the sector is being recognised by a larger and more varied demographic of people.

Unlike the picture often portrayed in the media, the majority of PRS tenants are happy with their homes. In fact, over eight out of ten PRS tenants reported that they were satisfied with their accommodation in the 2013/14 DCLG UK Housing Survey.

The introduction of the Assured Shorthold Tenancy (AST) agreement in the 1988 Housing Act paved the way for the flexibility that tenants in the PRS enjoy today, allowing them to break their tenancy after an initial six-month period. The AST also allows for stability, with the average tenant staying in their rental property for 2.6 years and families for 3 years, according to BDRC data from 2015.

**What measures can be taken to increase the supply of low cost private rental properties in the UK?**

Savills forecast the number of households in the PRS will need to rise by 1.2 million by 2019. Further investment is needed to keep pace with demand. One of the key factors that has facilitated growth in the PRS has been the success of buy-to-let mortgage finance. The development of the buy-to-let mortgage market has enabled the sector to meet the increasingly diverse needs of a dynamically evolving population.

Buy-to-let mortgage lending contracted sharply following the financial crisis. The market has made significant steps on the road to recovery and is performing well. However, further growth is needed to enable landlords to invest in quality property to meet the increasing demand from tenants.
Buy-to-let mortgage advances peaked at 346,000 in 2007 with a value of £45.7 billion. In 2010, advances dropped to 85,200, with just £9.1 billion of new lending. In 2014, advances had recovered to £27.4 billion – a good rise, but still 40% below the market at its peak.

Additionally, buy-to-let landlords’ rental investments are also subject to stringent credit stress testing. After the worst economic environment for nearly 60 years, buy-to-let has been severely stress-tested and has proved its resilience. Along with the rest of the mortgage market, arrears rose but from a very low base and have been in decline since Q1 2009.

Buy-to-let is a key component of the PRS and is enabling its growth, including the supply of low cost private rental properties. Given this, it is essential that Government policy recognises the important role but-to-let plays in meeting demand in the UK housing market.

**Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?**

The Summer Budget 2015 introduced a number of measures that will impact buy-to-let landlords. Intended to ‘create a more level playing field’ between landlords and homeowners, the initial reaction from many landlords suggests the measures may result in a reduction in investment levels in the PRS which will potentially lead to rent rises for tenants and a lack of supply.

Regarding buy-to-Let tax relief, currently, landlords are able to deduct all finance costs from their rental income, with profits taxed at the landlord’s marginal rate. However, effective from April 2017 and phased over a four year period, tax relief for finance costs will be restricted to a basic rate tax credit.

Additionally, landlords of furnished properties are also currently able to deduct 10% of their rental income from taxable profits to account for wear and tear, irrespective of actual expenditure. Effective from April 2016, only the actual cost of replacing furnishings in the tax year of replacement will be allowable for deduction.

In response to the announcement of these measures, IMLA (The Intermediary Mortgage Lenders Association) polled landlords on their reaction. Landlords were particularly concerned about the change to the finance tax relief measures:
• 64% said they would buy fewer properties
• 43% said they would sell some properties
• 71% of landlords said they would need to increase the rent
• 29% of landlords said they will spend less on maintenance

It is also worth highlighting that the Opening Remarks of the IFS Budget Briefing stated:

“There is a big problem in the property market making it difficult for young people to buy, and pushing up rents. The problem is a lack of supply. This change will not solve that problem.”

Moreover, the implementation methodology proposed in the Finance Bill to reduce tax relief on buy-to-let finance to the basic rate may have unintended consequences for some landlords. The proposal removes any deduction of finance costs when computing statutory total income (STI) and allows tax relief for interest as a credit against total tax.

This will increase STI, moving some taxpayers to higher rate bands and may result in claw back of child benefit and loss of personal allowance for others. A sliding scale for taxpayers who straddle tax bands as a result of the new measures, together with a longer phase-in for those with larger portfolios would help to minimise negative impacts.

Appendix 1 includes infographics which illustrate some of the intended and unintended consequences of the measures.

**Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?**

The UK population is expected to grow to 73.2 million by 2035 but housing supply is failing to keep pace. It has been estimated that 290,500 new homes will need to be built each year to meet this growing demand. Only 141,000 homes were built in the UK in 2014. The current supply is failing to meet demand placing severe pressure on the housing stock and the PRS. The government is making positive steps to boost housing supply. However, the importance of a healthy and competitive PRS cannot be emphasised enough.

It is vitally important that we foster a regulatory environment that encourages the continued participation of both residential property investors and lenders. The UK has recognised that a buy-to-let loan is a business transaction. It is the borrower’s intent to let property in which they are investing to generate a return and in the long-term, to sell it at a profit.
The but-to-let market is heavily regulated and landlords have to comply with a wide range of rules governing the sector. The Mortgage Market Review does not directly impact on the buy-to-let market and we welcome this given the regulations that are already in place.

We urge the Government to support a long term and sustainable rental culture and not to impose any further regulation that could have an adverse effect on the supply of rented property at time when more investment it the sector is needed. In particular, we would not advocate longer fixed term tenancies or rent controls which may serve to distort the market.

What are the advantages and disadvantages of restricting rent increases in the private sector?

ONS statistics have record a 1% annual increase in rents. Therefore, excessive rent increases are not a reality and rents typically only change when tenancies change.

Moreover, the English Housing Survey (2012-2013) found that average private rents increased only 6% over a five year period, far beneath the overall inflation rate for the same period.

The English Housing Survey also found that, in general, those who live in their home for longer pay less rent. For those who have been in their property for three years or more, rent is generally over 6% lower, for those in properties five years or more, rent is generally 12% lower.

Additionally, HomeLet’s December rental index showed rents on new tenancies stayed flat or fell slightly in 10 out of 12 regions compared with the previous three months. The research also found that 9 in 10 landlords do not intend to raise existing rents in the first six months of the 2016. Even looking further ahead, only 34% per cent of landlords plan to increase rents over the next 12 months.

As mentioned above, excessive rent increases are not a reality and rent restrictions run the risk of building in a mechanism to increase rents annually.

Private Ownership: Are there tax measures that would improve housing supply and affordability? Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

The current Government has introduced a significant change to the Stamp Duty tax regime for house purchases. The abolition of the previous ‘slab’ structure and introduction of a
more progressive system was long overdue. It is, however, having an impact on house prices and demand and will need time to ‘bed down’. In the current context of a shortage of housing supply and increasing demands on the PRS, there should be no further taxation measures on the housing sector.

We remain concerned about the impact of recent taxation changes on the buy-to-Let sector which is a core part of the PRS – particularly reforms to the stamp duty surcharge announced in the Autumn Statement. These measures are likely to significantly impact both rents and the longer term supply of property in the private rented sector.

Paragon
16 December 2015
Appendix 1

### Intended Result

**Chris**
- Basic rate tax payer
- No change

**Victoria**
- Higher rate tax payer
- Tax relief almost halved

- **Chris** earns £15,000 income from other sources.
- **Chris** has two BTL properties, generating rent - net of costs before interest - of £10,000.
- **Chris** bought his BTL properties for £275,000, using cash and BTL loans of £200,000. The interest rate on his loans is 4.5%, resulting in annual interest of £9,000.

**Tax on property income**
- Current - £1,200
- Proposed - £1,200

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**Unexpected Result**

<table>
<thead>
<tr>
<th><strong>Joshua</strong></th>
<th><strong>Sarah</strong></th>
<th><strong>Ian</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic rate tax payer</td>
<td>Basic rate tax payer</td>
<td>Higher rate tax payer</td>
</tr>
<tr>
<td>Moved into higher rate tax band</td>
<td>Moved into higher rate tax band</td>
<td>Moved into additional rate tax band</td>
</tr>
<tr>
<td>Child benefit clawed back</td>
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</tbody>
</table>

- **Joshua** earns £35,000 income from other sources.
- **Joshua**’s property portfolio, income and finance is exactly the same as **Chris** and **Victoria**.

- **Sarah** earns £40,000 income from other sources. She has two children and receives child benefit of £1,623.
- **Sarah** has two BTL properties, generating rent - net of costs before interest - of £20,000.
- **Sarah** bought her BTL properties for £360,000, using cash and BTL loans of £310,000. The interest rate on her loans is 4.5%, resulting in annual interest of £14,000.

**Tax on property income**
- Current - £1,200
- Proposed - £2,723

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- **Ian** earns £45,000 income from other sources.
- He has a large property portfolio, generating rent - net of costs before interest - of £200,000.
- **Ian**’s BTL properties are worth £4 million and are financed by £3.8 million of BTL loans at an interest rate of 4.75%, resulting in an annual interest bill of £180,000.

**Tax on property income**
- Current - £8,000
- Proposed - £62,990
Parkhill Housing Co-operative – Written evidence (EHM0068)

Written Evidence Submission to Select Committee on Economic Affairs
From Park Hill Housing Co-Operative, 13 Allard Gardens, London SW4 9QA.

1. Private Ownership

a) Government Schemes.

The Right To Buy scheme will worsen the shortage of social housing available to low income individuals and families, particularly in Inner London areas like Lambeth. Due to the colossal rise in land and property prices since the existing social housing units were built in this area, the cost of replacing these properties will be far greater than the original cost of the properties lost from social housing to private ownership through Right To Buy. It will be economically unviable to replace social housing units locally in areas like Lambeth.

The opportunity cost of losing 1 unit of social housing to private ownership in Lambeth will far outweigh replacement costs of the properties lost this way. It will also involve the relocation of social housing to Outer London boroughs and beyond, where land and building costs are lower. Close housing communities would be destroyed.

The subsequent reduction of social housing in the locality will adversely affect the future supply of affordable housing for experienced workers in essential services in Inner London, since they will not be able to pay the extortionate rents charged by private landlords in Lambeth. (See statistics below).

3. Social Housing

a) In the case of Fully Mutual Housing Co-Operatives, like Park Hill Housing Co-Operative, we firmly believe that we should be exempt from the Right To Buy Scheme, because all the tenants are members and the members collectively own all the housing co-operative’s properties. In all our tenancy agreements it is clearly stated that we have ‘no right to buy’ the properties we live in. We all understood the implications of signing our Tenancy Agreement when we moved in.

We not only pay our rent and service charge, but also we are expected to participate actively in the management of the co-operative, in order to keep our overheads down and our rent and service charges low and to offer value for money as far as housing goes. It simply would not work to have a mixture of privately owned housing and co-operative housing on our only site. We are a very small co-operative only having 25 properties and 28 members. Having a mixture of collective and private ownership would be disastrous, as people owning properties would feel under no obligation to participate in running the site and the reduced number of co-operative members would not be able or willing to take the full burden of managing the site shared by people, who contributed nothing to the management process. Higher administrative costs of managing the site including employing staff to facilitate the change would of necessity raise rents, which would infuriate existing co-op members, who have struggled voluntarily to keep rents down over many years.
Collective ownership with all the economic savings it brings to both the members and to the Government (via lower Housing Benefit payments), due to our rents being lower than rents charged by private landlords in Lambeth, would be smashed.

As a small co-operative we are neither willing nor able to replace any properties that would be lost to private ownership through Right To Buy. The sheer cost of doing so would bankrupt us and leave many members homeless, who have worked hard voluntarily to manage and maintain the site for the past 24 years, since we opened in 1991. We are not interested in developing further outside our current geographical location and would not therefore be in a position to replace any units lost to Right To Buy. The Prime Minister, David Cameron has said in the past, that he supports housing co-operatives. Please can The Lords put pressure on him to keep his word and encourage the Government to ensure that Fully Mutual Housing Co-Operatives are exempted from the Right To Buy.

Park Hill Housing Co-Operative has 3 properties adapted for disabled members. We would not want to see any of our adapted properties come under The Right To Buy, as such properties are in very short supply for those on low incomes in Lambeth and would be very expensive to replace and adapt to meet the individual needs of the disabled members.

It is for the above reasons that Park Hill Housing Co-Operative as a landlord will not choose to sell any of it’s properties should the Right To Buy be applied to Fully Mutual Housing Co-Operatives.

**Park Hill Housing Co-Operative has the following types of units and the rents and service charges are shown in the Table below:-**

<table>
<thead>
<tr>
<th>Type of property</th>
<th>Number of type of property</th>
<th>Rent per week in 2015</th>
<th>Service Charge In 2015</th>
<th>Rent plus Service Charge in 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bed Flat</td>
<td>12</td>
<td>£78.05</td>
<td>£7.00</td>
<td>£85.05</td>
</tr>
<tr>
<td>2 Bed Flat</td>
<td>7</td>
<td>£88.34</td>
<td>£7.00</td>
<td>£93.43</td>
</tr>
<tr>
<td>2 Bed House</td>
<td>1</td>
<td>£96.84</td>
<td>£7.00</td>
<td>£101.75</td>
</tr>
<tr>
<td>3 Bed House</td>
<td>3</td>
<td>£105.22</td>
<td>£7.00</td>
<td>£109.95</td>
</tr>
<tr>
<td>4 Bed House</td>
<td>1</td>
<td>£122.49</td>
<td>£7.00</td>
<td>£126.85</td>
</tr>
<tr>
<td>Accessible House</td>
<td>1</td>
<td>£113.96</td>
<td>£7.00</td>
<td>£118.50</td>
</tr>
</tbody>
</table>

Please compare our rents with rents of privately rented accommodation in the same postal district SW4. See Table next page.

Average Market Rents in SW4 according to London Property Watch
As you can see our rents are far lower than the average rents in the Private Sector in our locality

3b. The Possible Negative Impact of the Government forcing Fully Mutual Housing Co-Operatives to reduce their rents by 1% for each of the next four years.

Park Hill Housing Co-Operative, as you can see keeps the rents lower than local private landlords and receives no subsidy currently from the Government, although originally in the 1990’s we received HAG and we are still paying off a mortgage.

We construct our own Budget annually to cover day to day maintenance and annual running costs, and any surplus is used to save for cyclical maintenance and major refurbishment in the Forward Plan.

We have only raised our rents/service charges about 12% in the last 10 years, not the 20% that the Government says Housing Associations have on average raised their rent by, in the same period.

Why then are Fully Mutual Housing Co-Operatives being asked to reduce their rents in exactly the same way that larger Housing Associations are being asked to? At Park Hill it seems to us that we are being penalised for being frugal and keeping the Housing Benefit bill of Lambeth down over the past ten years.

We are not going to be able to put as much money away for the next four years towards future maintenance costs, as we originally had planned to do. This year we employed a Professional Building Surveyor to do an External Stock Condition Survey for us and we were hoping to use this as a basis for improving our Forward Plan, but now we face a reduction in our ability to save for such works. What is the point of us having a Forward Plan we cannot keep to, because of Government interference with our Budget setting process? We send our Returns to the Regulator annually and have not been warned of any inappropriate spending on our part. Our Auditor has also seen our plan for saving for future maintenance and has made no adverse comments about it.

We do not agree with the decision to lower our rental income by 1% for the next four years. We see this as a short sighted attempt by the Government to reduce the Housing Benefit Bill by a formula which is based on the idea of one size fits all, when in fact Fully Mutual Housing Co-Operatives are nothing like large Housing Associations. The Government has
obviously not thought through the impact of lowering our rental income in this way on our ability to keep to our long term maintenance plans, particularly if we are, as we demand we should be, exempted from the Right To Buy and any income coming from the sale of properties.

For this reason we ask The Lords to put pressure on the Commons to reverse the decision to force a reduction of rent by 1% over the next four years on Fully Mutual Housing Co-Operatives.

Elizabeth Lual.
Member of Management Committee

15 December 2015
TUESDAY 23 FEBRUARY 2016

3.35 pm

Witnesses: Lord Porter of Spalding and Lord Kerslake

Members present

Lord Hollick (Chairman)
Baroness Blackstone
Lord Griffiths of Fforestfach
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Layard
Lord May of Oxford
Lord Teverson
Lord Turnbull

Examination of Witnesses

Lord Porter of Spalding, Chairman of the LGA, and Lord Kerslake, Chair, London Housing Commission

Q141  The Chairman: Lord Kerslake and Lord Porter, welcome to the Economic Affairs Committee and our housing inquiry. Can I start off by, first of all, before I ask a question of you, Lord Kerslake, just saying that I am a founding trustee of the IPPR—not that I am involved in any way in your current inquiry, but just for the record? Can we perhaps start in London? Your interim report paints a very bleak picture of the housing situation in London. We look forward to receiving the solutions in your final report. How does London differ from other parts of the country?

Lord Kerslake: It differs in a number of ways. I should declare also that I am Chair of Peabody, as part of the disclosure here as well. Let me start with the ways it differs. First of all, it differs in terms of where London is now compared to the past. London has always been expensive compared to the rest of the country. Currently, the average house price in London is in excess of £500,000. That is 12 times the average salary in London and that is the biggest gap in that ratio. It is the largest scale of difference since records were
recorded. The first thing that is distinctive is that London is in a place it has not been in before. That is my first point.

My second point is that London faces a problem of affordability not just on its house prices, but on its rents as well. If you look at the analysis, and we will touch on this more in the final report, the Resolution Foundation has identified that living standards are falling in London relative to the rest of the country, despite the fact that pay is rising ahead of the rest of the country and the largest single factor is housing, no question.

The third way in which London is different is the structural way in which investment is coming into London, compared to the needs of London. The GLA has calculated that 80% of the properties being built in London at the moment are unaffordable to 80% of the population of London, which is a quite extraordinary situation. Two-thirds of new supply in London is actually investment properties to rent. That is the reality of what is happening.

Perhaps the final difference is that London is moving in a way that seems to suggest it is not now following the natural economic cycle. Take the property prices before the crash, the 2007 figures. The rest of the country outside London has returned to about 5% ahead of the pre-crash prices, so they have broadly recovered the ground lost in that downturn. In London, property prices are now 45% above the pre-crash prices, which suggests to you that something is going on in the London market that seems to be immune even to fairly significant economic cyclical effects.

The Chairman: We heard from Professor Rowthorn that nearly half of the increasing demand for housing in London over the next 25 years is likely to come from immigration. Is that a fact? Do you accept that analysis?

Lord Kerslake: There are a number of factors driving growth in London. There is a significant growth in the population of London. I was just searching for the numbers. The calculation is that, by 2030, London’s population will have grown by about 10 million. The biggest factors driving that 10 million are actually in London today. They are to do with the demographic make-up of London now. In other words, births will exceed deaths in London. That is a key factor here.

It is definitely the case that a big factor is the number of people coming into London, not just from abroad of course, but from the rest of the country. People also leave London. You have both things working against each other. Immigration in the wider sense, both in-country and from abroad, is definitely impacting on the population in London, but it would be misleading to suggest that, if that was not there, you would not still have an issue. You would, because a significant part of the projections are based on the demographic make-up of London now.

Lord Turnbull: When you said it would grow by 10 million, I think you meant to 10 million.

Lord Kerslake: I beg your pardon; that was a slip of the tongue. It should be that London will reach 10 million by 2030 from about 8 million now, I think. I do not have the exact number in front of me.
Q142  The Chairman: London clearly has its own special characteristics. When we heard from the Greater Manchester Combined Authority, Sue Derbyshire cautioned us. She said it was a great mistake to think of housing as something that is a national market and that it should be looked at regionally or locally. Lord Porter, is that a statement that you would agree with?

Lord Kerslake: It is entirely right. As I was saying earlier, there are some parts of the country where prices are still well below the pre-market crash figures and people still struggle to sell. We have a number of housing markets in this country. London stands as quite a distinct one. Clearly it has a close relationship with what is happening in the south-east, but it is very different from other parts of the country and it is one of the reasons why I feel passionately that housing policy cannot be a one-size-fits-all. In some parts of the country, the focus should be on economic growth, where you have houses but not necessarily jobs. In some parts of the country, like London, you have jobs but not necessarily houses. You absolutely need a policy that is tailored to local economies.

Some parts of the country actually need more diversification of mono-tenure estates; in London we have a desperate need for affordable rented housing. It is crucial that you see different housing markets in different parts of the country and you tailor policy accordingly. That is why Help to Buy, for example, worked very well outside of London. Something like a third of new homes benefited from it. In London, it was a tiny fraction of that.

Lord Porter of Spalding: It is a mistake to see London as a unique circumstance. Places like Harrogate and Winchester are suffering from the same issues of an under-supply of affordable homes in relation to average earnings. In terms of the private rented sector, there are places in the country outside of London where you will get a greater return on your investment. In my own district, for instance, you would probably get a 14% or 15% better return on a property than you would do in London. If everybody just focuses on the London bubble, we will miss the problem that is elsewhere. We should see the things that London has in common with other parts of the country and then allow local authorities in those areas to tackle those problems. You should not see London as being a unique space. The numbers are greater, but the affordability issues are similar in other parts of the country. You can be looking at between 9% and 15%.

The Chairman: Does that lead you to arguing for much greater devolution in terms of local authorities’ power over planning and the like?

Lord Porter of Spalding: Yes. The only way to solve the country’s national housing situation is to do it locally. All housing is local. Our members will better know what solutions are needed in their parts of the country. A one-size-fits-all national programme will not do it.

Q143  Lord Layard: Is it correct to look at these differences between regions in terms of the intersection between the rising demand and whatever constrictions there are on the supply, particularly the supply of land? Would it be correct to say that, essentially, house price levels are related to the extent to which the green belt is a binding constraint in the area in question? In areas where it is not a binding constraint you get the lowest prices. Where it is a very binding constraint, which I would have thought was the case with London, you have higher prices.
**Lord Porter of Spalding:** That is going to be a varied picture again. Nothing in the housing market follows normal economics. Just because land is hard to come by, in some areas it is not required. Therefore, even a shortage of land has no real impact on the house price. In some areas there can be quite a lot of allocated land, but that will still drive up high prices. In the south-east, you will invariably get very high land prices and very high house prices. In the East Midlands, you will get relatively cheap land prices but still very high house prices.

**Lord Kerslake:** Can I just add a couple of quick points? One is that I agree with Gary that there are hotspots that perhaps match London, but I do not think that any region or area of scale matches the issues in London, which is the point I was making.

The second point is that, again as Gary said, the green belt will vary across the country in terms of its issue. It is not the same issue in every part of the country. As you know, it is a planning policy intended to manage urban sprawl, rather than an environmental amenity. There is an issue about green belt that needs to be debated in London, but it is not the driving determinant of the high prices in London. Actually, London as a whole is not necessarily that dense compared to other major cities. If you look at other cities in other countries, you will see considerably higher densities than even central London. Of course, outer London is significantly less dense than central London, so there is space to build more, but there is also a case to have a debate about the green belt. I do not think it is solely down to the green belt. That is my point.

**Lord Layard:** I wondered if I could ask a question based on the supplementary evidence we heard from Professor Cheshire, because it is very relevant to local government. One of the puzzles we face is how to incentivise local councils to give more planning permission, so that we can have more houses built. Obviously one method could be a greater financial incentive, so I was wondering if you think that a greater financial incentive than exists at the moment would be helpful in inducing local authorities to release land. For example, his suggestion is that local authorities might get, say, the standard 20% of the final value of a development hypothecated for building the infrastructure and affordable homes. That would then replace the 106 and CIL system and help to simplify the system at the same time. That is one suggestion he had. That is what you might call the carrot.

The stick suggestion is that there should be a presumption that, if the land price is above a certain level, i.e. there is a real issue as to whether there is misallocation between land that is not for housing and land that is for housing, there should be a presumption that the local authority should give outline planning permission if it was requested. I would really welcome comments on those.

**Lord Porter of Spalding:** The issue is not planning. We have 475,000 extant planning permissions in the country. We granted over 250,000 planning permissions last year. The issue is not planning; it is access to finance to allow builders either to open up sites or people to access mortgages. This is nothing to do with a local-government-created problem. This is a central government fiscal problem. The quantitative easing money, which has made it easy for the banks to make money without lending money, needs to be looked at. It really is not planning. If you take nothing else from me being here, please take away that this is not a planning problem. There are plenty of planning permissions in this country to allow us to start to tackle the housing shortage. What we do not have is enough
people in the building industry being able to do it. Most of the planning permissions sit in the hands of very few companies. Most of the small to medium-sized development industry has disappeared from this country, so we need to try to be able to create a system where smaller developers can get into the space. At the moment, the whole sector is geared to those few large developers and we need to find a way to be able to get more people back into that space.

Lord Layard: Is that not connected with the complexities of the planning system? It takes a big firm to cope with all of that.

Lord Porter of Spalding: No, we revised the planning system through the National Planning Policy Framework a few years ago. There is no excuse for anybody not to understand how the planning system works now. It is 56 pages of light, entertaining reading, so you should be able to become a planning expert almost in the space of one evening’s reading, if you are interested in the subject. It really is a financial issue. Like I say, there are 475,000 extant planning permissions already granted in this country. If it was purely about planning, we would have dealt with half of what the Government are saying we need to deal with over the life of this Parliament.

Lord Kerslake: The trouble with answering this question is that to do justice to it you have to go through all the factors that are holding back new supply in this country. When I was in government, I very quickly came to the view that there is no magic bullet. You have to tackle a whole set of things simultaneously, over a long period of time. I am resistant to any one single solution that says it is about planning, it is about the housebuilders or whatever; you have to do a set of things together to have any chance of tackling the scale of the issue.

Of course, we already have a financial incentive in relation to planning, the new homes bonus. I think that worked. The analysis and evaluation showed that it worked, particularly in those areas surrounding London, the district councils, where it was a significant part of their income, so it added some level of incentive.

I do not think this is about financial incentives for local authorities, because it is about changing social attitudes. If you talk to council leaders, some of them will say that the quickest way not to get elected 10 years ago was to advocate new housing, because it was resisted. Social attitudes are changing now, and the reason they are changing is that people can see that they may have a home, but their children or their grandchildren cannot get one. We are seeing a shift that is enabling local authorities, and ultimately this is what drives members of local authorities to make decisions, to take a more positive view, even if there was not the NPPF shifting that attitude anyway. There are genuine shifts happening.

I would make two other points in this context of planning. There is a lot I could say. One is that one of the consistent messages I hear from developers and housebuilders is that they find planning departments denuded of resources, with higher turnover and with junior staff unable to take the decisions that are needed. We desperately need a more flexible planning fee system that allows local authorities to invest in their planning capacity. That is a major issue, and I argued this forcefully in the department and I argue it forcefully now.
I have two other points to make. The reason why housebuilders need more sites than they can build on, and I am sure this has been said to you before, is because of the model of their development. It is a risk-based model on how much the local area can absorb in sales. If you say to them that they are too cautious, they will point to the fact that a good number of them are still rebuilding their balance sheets after the near-death experience of the financial crash. My personal view is that we should be wary of putting all the responsibility for dealing with the new supply on our housebuilders. We actually need a mix of tenures and we need the state to be supporting new housebuilding, as well as the private sector. You could grant loads more planning permissions but, if they are on big sites where they see that they have sales risk, they are very unlikely to move faster than they feel comfortable with, and that is not going to change, in my view. You have to see other policies alongside it.

One last point on this is that, generally, I agree that planning is not the issue for big housebuilders now, but quite a lot of the smaller housebuilders still say that the complexity and uncertainty of the system gets in the way of their ability to get permissions and develop sites. We do not yet have a model where small housebuilders can move ahead in the way they ought to. We have seen a very dramatic reduction in the size of the SME sector, a huge reduction, and the only way back from that is to help those SMEs through permissioned sites, which they can take on and move quickly on, with lower costs. That is something I advocated at the HCA. One of the questions you might ask yourself is who the last new big housebuilder to come to the market is. The answer is that there is none. It is a sector that has consolidated, rather than grown, and I do not think that makes it a healthy competitive sector.

Lord Porter of Spalding: There are some financial things that you can do or that we could do. If we were able to start levying council tax on an assumed completion date of a property, whether that property has been started or not, that would encourage the person holding the planning permission to bring it forward. If we were able to levy fines on having land that was allocated and then not brought forward, it would do the same thing. There are some things that would act as a stick to the industry to say that, actually, if you have permission and that land is tied up, you need to get there. I struggle with the aspect that somebody has paid a lot of money for a piece of land and they are now struggling to try to find a way to make that land earn them some money. They should not have paid too much for it in the first place. We have a system that, to some extent, rewards bad business behaviour by people over-investing in a product in which they should never have invested.

Lord Kerslake: Some of them certainly pay too much for the land and then try to beat down their Section 106 planning gain. By the way, I would also support some form of council tax penalty for non-development over time. My point is a slightly different one, which is that over-reliance on the private sector build for sale would mean we do not deliver the numbers we require in this country. We need a diverse model of supply, including local authorities in that process as well.

Lord Porter of Spalding: If you look back since the war, or the 1947 Planning Act, the state has always provided a large chunk of the units that are actually built. The development industry is not that far below its normal peaks and troughs model. It is the state sector that has not delivered the units. Somehow, between councils and registered social landlords, we
are going to have to start delivering a lot more homes that are owned by the country. At the moment, that is not the model that the Government have been following for the last five years. All of the subsidy has been pushed towards the tenants and taken away from bricks and mortar.

We need to return to a model where you are putting subsidy into bricks and mortar to encourage public sector landlords to get back to the development space. In that way, you would be able to encourage more smaller builders back into the marketplace. My own council has been building since 2006 and we let small sites of two, three or four to local developers—not local builders—to build. We take the development risk and they come in with a price to build the units for us.

**Lord Kerslake:** We need to do more of that, basically.

**Q144 Lord Kerr of Kinlochard:** The developers are gaining even if they are not building, as the value of the land rises. Once it has planning approval, the value rises much more steeply. I am intrigued by Lord Porter’s suggestions of things that could be done, telling us not to concentrate on the planning permission but to make sure that planning approvals lead to the construction of houses. We have had evidence that the effect of, say, starting council tax or starting to penalise approved projects not going ahead would be that people would not seek approval; they would just sit on the land and see its value rise without applying for development. But there clearly is a problem. The evidence we have seen is that 242,000 homes were given planning permission in the year to June 2015, but only 136,000 were started. From 2012 to 2014, 510,000 residential planning permissions were granted for sites of 10 units or more, but only 348,000 housing starts resulted. That suggests that Lord Porter is quite right that the problem is not the planning process itself but the way that developers proceed once they have planning approval. When you talk of local authorities, you talk about financing. I buy that argument and understand the constraints on financing. But when we are looking at private sector building, are you sure that the evidence that has been given is wrong that, if you were to start penalising people who do not use their permission, they simply would not seek permission? I agree that there is a problem, but I am not convinced about permission.

**Lord Porter of Spalding:** Look at the difference in the uplift in land prices in my own patch. It is in the East Midlands. It is not a massive high-demand area. It is a nice place to live, probably the closest to the 1950s you will ever find in England. You could buy a farm field at £10,000 an acre and pay somewhere between £500,000 and £750,000 for the same acre once it has planning permission on it. Do we really think that people would not try to come in for a planning permission if they thought they were going to have to build it quickly? The issue is that for speed of supply you cannot expect somebody getting planning permission today to start to open up a big site tomorrow. There needs to be a pipeline. In defence of the development industry, there needs to be a pipeline. It needs to be a steady process where land is fed in continually.

There are some people who have decided to buy land at a price that is far too high for what the land was worth and cannot afford to bring it forward, because it would be a loss on paper and there is no way the banks would allow them to do that. There are other people who think, “Actually, I have planning permission. I do not need to bring it forward, because
my farm, family or whatever is doing quite nicely, thank you very much. In a few years’
time, we might bring it forward when the land has gone up by even more”. They are not
developers. They are speculators.

**Lord Kerslake:** I agree with Gary that there is a difference between housebuilders buying
and land speculators. There is a genuine difference here. I also think that the housebuilders
have a point when they talk about the need to build out at a rate where there is absorption.
Typically, permissions are often given on bigger sites, because that is less difficult politically
than in-fill sites. On paper, you have a site that could be built out at 500, but they are going
to be building it out at a much slower rate than that. They have a point about a pipeline and
we should resist the temptation to say that the housebuilders are deliberately holding land
for the sake of it. There are people who buy for the purposes of speculation.

On your point about planning p
ermission, it is perfectly possible, if the local authority thinks
that they are delaying the planning permission, to grant planning permission on the site
themselves. You do not have to own the land to take forward a planning application on a
piece of land. In many ways, you can get around that risk of people not getting planning
approval, which is why I favour this council tax model, but what I would do is give it as a
discretion to local authorities. If they have a site that is genuinely difficult to develop,
where the viability is really difficult, then they have a discretion not to charge it if the delay
is longer. If it is quite evidently a site that could be developed in a high-market area like
Gary’s, and nothing is happening, then they could apply it. It is not going to be a huge
amount of money, but it would be important symbolically if they have that discretion, so I
am in favour of that as a way of penalising them. Again, do not think that that will magically
solve the problem. It adds another pressure into the system that is not there at the
moment.

Q145 **Baroness Blackstone:** I want to come back to the bigger and broader question of
what the role of local authorities should be in housebuilding and what their potential is. We
have seen an unbelievably steep decline in local authority housebuilding since about 1980.
The question we have to ask is what the appetite and capacity currently are for local
government to get back into large-scale housebuilding. Is it there? Can it be provided? Is it
just in the big cities, if it is there, or do you see local government in suburban and rural
areas also having the capacity and the will to get back into large-scale housebuilding, so that
we can deal with the acute shortage of affordable social housing?

**Lord Kerslake:** I will give a view and I know where Gary will come on this as well. Actually, I
think there is a huge appetite to lead development of new housing by local authorities. In
fact, we ran a relatively small-scale scheme in the last Labour Government about local
authority housebuilding and the response was very strong. I think there is a sort of
emotional thing; they take a personal pride in delivering new housing for their area and they
are willing to be creative on sites of lands that they might otherwise not have taken
forward.

What I would say is that it should not be either local authorities or housing associations. It
should be both. There is enough opportunity to do both and it would be even better if they
are working collaboratively. In Sheffield, there is a collaborative partnership between the
council that set up a local housing company and a housing association, Great Places. They
have done some terrific work, in my view, building on vacant sites. For me, there is definitely an appetite to provide leadership and deliver new housing. A number of them are quite frustrated that they have created these housing companies and then the rent reduction has made their business model unviable or very difficult to make work. There are some quite big hurdles here.

The biggest hurdle, notwithstanding the fact that some have availability headroom, is the cap on borrowing for housing purposes. I have always found it difficult to understand why we allow local authorities to prudentially borrow to build a swimming pool. If Gary wanted to build four swimming pools in his district tomorrow, he could do so through prudential borrowing as long as he thought he could cover the costs, but they are capped on building new housing. I do not think there is any great logic to that, to be frank with you, because they both score in the same way on government spending. Clearly those local authorities that have an appetite could do more if they had more flexibility.

Baroness Blackstone: Could I just pick up on that before Lord Porter comes in? If the cap on borrowing were removed, where would the finance come from for local government to start major housebuilding programmes?

Lord Kerslake: They would prudentially borrow and then they would secure income streams from rent and indeed from sale, as well. In fact, it is pretty the same model as housing associations, which is why I say it is not either/or. Essentially, it has been a very successful model over the years, with modest amounts of public money going in as grant. Build for sale and built for rent; one cross-subsidises the other. Often the local authority will own the land, so it will be able to put that into the mix and then recover land values as they sell over time.

Baroness Blackstone: Do you see them being able to go out into the financial markets and borrow in the way housing associations can?

Lord Kerslake: With prudential borrowing they can borrow at very low rates at the moment, through the PWLB. Some have looked at bonds as well.

Lord Porter of Spalding: We have set up a local-government-owned bonds agency to take care of that. The appetite is huge and the ingenuity of people who have been trying to get around a system that has tried to dissuade them from doing it, for the last 20 years, has also been unique. My council owns four different housing vehicles now, just to try to get around different rules and regulations that would have me not building. I do not think any of us are proposing that we should go back to great, big, monolithic council estates. Everybody sees the wisdom of having mixed-tenure developments but, as Bob said, we can do cross-subsidy. We can build private homes for sale and use some of the profit from those units to be able to build some more affordable homes to allow people to move up.

It is a sore point, but I am going to chance my arm with it. Right to Buy is a fantastic policy. People get into a home built with state funding, or partially state funded; establish themselves as a working family unit, whatever that happens to be; and change from paying rent to paying a mortgage. We take the capital receipt for that and then spend the money on building a new house. That seems a fantastic system, except that we are not allowed to
do that because, if I build a nice shiny house, rent it to somebody for a while and then they decide they want to buy it, I have to give the Treasury the money for selling it, so I lose the money. There is an in-built disincentive for councils to get back into that space at the moment. We need to re-incentivise local authorities to be able to build. That way we encourage the development industry, smaller builders will get more work, we will end up with better mixed-use areas of land, we will end up with a cheaper housing benefit bill than the one we are currently running up and everybody wins out of it.

**Lord Kerslake:** Can I just add a wider economic point on this? When I took over the role of Chief Executive of the Homes and Communities Agency, we had just passed the financial crash. Trust me, private housebuilding just fell off a cliff. Private building for sale virtually stopped at that point and a large number of the major housebuilders very nearly went under. The only thing that kept going and kept the industry alive was building public housing for social rent, through grant funding. If you have a model that is entirely based on build for sale, as I think we are moving towards, it is entirely procyclical. In my view, you will be at risk not of the same scale of problem, but most certainly of a slowdown in the economic cycle. You need a mix of private for sale, and public for sale and rent, in order to manage your way through economic cycles. What happened with housing association development when we hit that point was that we supported them to move into rent until the market recovered. Do you see what I mean?

**Q146 Baroness Blackstone:** Given the mix that you are proposing, how do you think the Treasury can be persuaded to take a different view, first on the cap on borrowing and secondly on capital receipts? What can this Committee say that will actually change the Treasury position, given their wider economic policies?

**Lord Porter of Spalding:** It should not conflict with wider economic policy. The fact that we are able to collect the receipt and reinvest it in a replacement unit in the area where that money is generated is cheaper for the country, because it means we are not all paying people in suits to handle money not to build anything. We will be paying people to lay bricks to build homes. What the Treasury is doing, in terms of taking the capital receipts away, is working against the Government’s stated aims. It is not a conflict; it is just helping the Treasury to see the error of their ways and how we could help them get to the solution that they need to get to.

**Lord Kerslake:** I will not go too far into this, but I will just make a couple of points. One of the challenges with securing capital funding through central government resources into new housing was the economic model. The cost-benefit analysis meant that it almost always came below transport infrastructure. If you were looking at a finite sum of money for capital investment and you ranked schemes according to their cost-benefit, housing would typically come below and be squeezed out in the debate. That is pretty much what happened often. I think you need a different model that is based on local initiative, borrowing and return on investment, rather than relying on grant funding, for all those reasons.

The second point I would make is that we are putting very substantial money into housing. We just do not realise it, because it is going through financial instruments into Help to Buy. By 2020 that will add up to £10 billion but, because it is a financial instrument and there is
an asset on the other side of the balance sheet, it does not score as deficit; it scores as debt. There are models here where we have managed to put money into housing. We are just putting it into sustaining demand, rather than building.

Q147 Lord May of Oxford: Could I ask you a question about a rather different issue in incentives to build more affordable houses? Given the reduction in social rents, we have essentially been told that this has caused housing associations to switch emphasis away from providing social and affordable rented accommodation, which is exactly the sort of thing that I would have thought housing associations existed for. I would like to hear your views on that, as briefly as you can.

Lord Kerslake: Let me take Peabody as an example. The change in rent policy, which was originally a policy for 10-year CPI plus 1%, to a rent reduction of 1% definitely took financial capacity out of Peabody. In order to respond to that, we will do two things. One is that we will look to drive efficiencies inside Peabody, which we might otherwise have reinvested, but will now help us to make the financial numbers work better. Secondly, we will change the mix. Our previous mix was 40% for sale and 60% affordable, of which half was shared ownership. That is our current model. We will probably shift the balance more towards 50% for sale, so we will not lose our social rent completely in the deal, but there is no question that we will shift the balance. Other housing associations with less financial capacity might take a different view and may not build at all, so there is a risk that the net effect of this is reduced supply and that was the judgment made by the OBR, which calculated a significant reduction as a consequence of the rent reduction.

Lord Porter of Spalding: We should not lose sight of the fact that the rent increases that we have seen over the last 10 years have been as a direct result of central government policy. Local areas have not set their rents. My council has always had to put up its rent in line with whatever central government has told me it was going up by. The Labour Government, in the Blair days before Brown, brought in rent convergence. Council rates are significantly cheaper than RSL rents, and there was an expectation that we would converge at some point. Councils were compelled to push their rents up by a significantly larger sum of money than the RSLs were, so we chased to catch up. It was obvious to anybody who was looking that, at some point, the rent bill for the country is going up, as a direct result of central government policy.

The trouble is that we have all built our business models on that. The councils bought our homes back a few years ago, when Grant Shapps was the Housing Minister, so four and a half to five years ago. We paid to buy our own houses back from the Government and we did that on a business model that showed an increase in rents. Our rents will now be going down, so the business model under which we bought back those houses is now flawed. There are still discrepancies, which is the bit that Bob and I disagree on. There is still a discrepancy of between £13 and £16, depending on whose numbers you look at, between a council social rent and an RSL social rent. My argument would be that the council rents should have carried on going up to catch up, not come down, because we will never get parity. You could have two people living next door to each other in almost identical houses but in the same street, paying different rents, as social tenants.
Q148 Lord Kerr of Kinlochard: I have a question for Lord Kerslake on making publicly owned land available. It is alleged that Transport for London, the NHS and to some extent the MoD are sitting on huge amounts of land that could be made available in London. Is it true and, if so, should it be made available? I have a question for Lord Porter: are new towns part of the answer?

Lord Kerslake: Those are two big questions. I am glad he has that one and I have the public land one. There is definitely scope to bring forward more public land. It is very uneven inside central government. Truthfully, the big potential sources are the MoD and Health. After that, the numbers are much smaller. Of course in London, TfL has significant land. There is scope to bring it forward. We could do more on that and I very much support the London Housing Commission. In fact, given a choice, I would put more resources into that.

I led the programme to identify public land for disposal across government and it was an immensely tough process. Basically, this is not the priority for any individual department, so you have to persuade, cajole and threaten them to release this land and get on with it. I would strongly argue, and recommended when under the Homes and Communities Agency, that surplus land should be professionally disposed of and new supply secured. The short answer is that there is a lot of opportunity with public land. Often, the issue is not people being resistant to it; it is that it is not as important to them as it is to us and the lack the capacity. This is particularly true in the Health Service, where you have major hospitals, often with huge amounts of land, which lack the capacity to bring forward the sites for development. The London Housing Commission is a really good idea that could enable them to move forward, then everybody is a winner.

Lord Kerr of Kinlochard: Has the centre lost an institution that had the role that you had? What did the Property Services Agency do? Did it own the land? Did it attack the Ministry of Defence more successfully than you could?

Lord Kerslake: I do not know. Truth be told, the Property Services Agency was not number one on the list of popular agencies in government, I am afraid.

Lord Kerr of Kinlochard: I remember it well.

Lord Kerslake: There was much resistance to that. I do not think I would recreate that. I would say that you could drive transparency of surplus land and centralise the process of taking that land and moving it out for development. That was the concept behind the Homes and Communities Agency, which was very similar to the approach of the London Land Commission.

Lord Turnbull: I think that, first, the PSA never had jurisdiction over the MoD and, secondly, was principally concerned with offices.

Lord Kerslake: Yes, you are right. It was a very much narrower field.

Lord Kerr of Kinlochard: There used to be a Ministry of Works, with which departments in Whitehall had to negotiate to get their buildings. Do we need a works Gauleiter who owns the property?
**Lord Kerslake:** I would not try to put all ownership of property under a works Gauleiter, because life is too short for that, to be honest. I would focus on identification of the surplus land and the professional capacity to put it forward for permission and disposal. That is the way a local authority would do it. They would have their own team to do that.

**Lord Porter of Spalding:** That is the solution. Just transfer the land that is surplus, which is owned by the state, into the local authority with an expectation that they will give the Treasury an uplifted return on the value of the land. Let us take the land. Let us push through the planning permissions. Let us set up the land and either develop it or push it on to other people to develop. Let us then return some money to the Treasury, which would be more than it is sitting on the balance sheet for now. We have released the land and all made some money out of it. It is easy. You do not need to create another bunch of offices somewhere and put in a load more people in suits. The only way to tackle the housing crisis is to pay more people to lay bricks, not people to talk about how they should be laid.

**Lord Kerslake:** I would probably part company with you in saying that some local authorities would be brilliant at that and some would not be. Actually, you need professional capacity. That is my experience. Whether they wear a suit or not is incidental.

**Lord Porter of Spalding:** The Homes and Communities Agency left loads of contaminated sites for some other people to pick up the pieces.

**Lord Kerr of Kinlochard:** New towns?

**Lord Porter of Spalding:** Where new towns are done with local consent, they are probably one of the easiest ways of putting up more units than you will ever do, but the country then has to be prepared to pay for the infrastructure necessary to make that development truly sustainable. You cannot just put a load of homes in a field and hope that everybody can get to and from them on roads, that water can supply them, that gas can supply them, and that schools and medical facilities are there. If you are going down the new-towns route, you have to be prepared to take a much longer position. You need to look at 30 to 50 years, not at five years. The trouble is that we always encourage Governments to look at five-year periods or, in the old days, less than five-year periods. I suppose five is an improvement from where we were then. If we are going to do big single-site developments in a few areas to try to make large numbers of units, we have to be prepared to put the infrastructure money upfront to make that sustainable.

**Lord Kerslake:** The truth is it is not a quick solution to the supply problem. New towns will take big investment and are a long game.

**Q149 Lord Turnbull:** Trying to summarise this, the narrative we started with was that the problem was that we have had a host of schemes to promote demand and nothing commensurate on supply. Therefore, the answer was more permissioned land through the planning system, which leads to more houses and lower prices. What we seem now to have come to is what I will call the Kerslake-Porter paradox. There are people who have permissioned land, the big builders. They can get finance but they are very reluctant to accelerate their rate of build and, what is more, they only build one kind of home, which is for sale. That is not the point where the greatest crisis is. On the other hand, there are
willing people, the local authorities and the registered social landlords, and we seem to have put every possible obstacle in their way, through rent caps, forced sales, caps on borrowing, and bringing the RSLs back on to the balance sheet. Finding ways of releasing that, which do not offend the Government’s fiscal policy, seems to be the quickest way that we can have an impact on this housing problem.

**Lord Kerslake**: That is pretty close to it. I think you still need to keep the pressure on permissions and private land being brought forward. As I said earlier, if you looked at the London Plan, you would see lots of permissioned land, but much of it is very complex to develop out. This is where I part company with Gary a bit. To do that requires big investment, huge amounts of expertise and quite a long time. To give you one example, Peabody is responsible for Thamesmead. We could double the number of houses in Thamesmead, but it would take us 20 or 30 years and a lot of investment in infrastructure. You definitely need to bring more sites out to the market as well, but alongside that you need to encourage housing associations and local authorities to build. What I would have wanted after the election is for everybody to be brought in a room to say what their contribution to tackling this country’s supply problem is.

**Lord Porter of Spalding**: That is the problem. The problem is so big that there is more than enough problem to go around for everybody to have a little piece of it. That is why Bob and I have disagreements around the edges. Fundamentally, we all believe that this country needs more homes built and it needs them built quite quickly. The only way of doing that is by everybody working together. We already own 4 million social units between us, across the country. Certainly in local government we have 2 million homes, which we cannot take the capital out of and reinvest, just because of the way we treat state-owned housing debt in this country, which is relatively unique in Europe. Other people do not treat state-owned properties as a debt. We should be able to exercise some of the capital from that, and sweat it to be able to deliver more homes. That will not cost the Treasury any more money. That is free money, because we can borrow it from the private sector. We do not need to go back to the Treasury to borrow it.

**Lord Turnbull**: Can I come to the mechanisms that take the difference between your £10,000 per acre and your £500,000 per acre? That can be shared in various ways. We have Section 106 and the community infrastructure levy. Is that being used enough to incentivise local authorities, but also to give them the resources to fulfil those bits of this plan that they need to provide?

**Lord Porter of Spalding**: At the moment, we do not have anything like full cost recovery of planning fees. Most planning applications are subsidised by local taxpayers, so we need to move to full cost recovery to be able to put enough skilled planners in planning departments to be able to do the planning side quickly.

**Lord Turnbull**: Who controls that?

**Lord Porter of Spalding**: Central government sets planning fees. We do not have locally determined planning fees.
Lord Turnbull: What they are saying is that you can take value off a developer, through 106 or the community infrastructure levy, but you cannot use it to service the transaction costs of the whole development.

Lord Kerslake: It is worth adding to that that because local authorities have faced severe financial pressures in other ways, planning services have suffered their share of the reductions as well. You scale back a resource just at the point when, truthfully, you need to be investing more in it, in my view. The fees are set nationally. I would absolutely endorse Gary’s view that you need an economic rate for the planning application and to allow local authorities to build. Typically planners are going into the private sector now when they train, not into the public sector. I am sure Trudi will say a bit more about that.

Lord Turnbull: I cannot see why, given that this Government by and large do not believe in price controls, they are selling a public service delivery at a loss to people who would be able to pay.

Lord Porter of Spalding: There is a fear in some areas that planning fees could be used as a way to stall development. There is an argument that says that, if some authorities were able to charge whatever they liked for a planning fee, some would charge fees at such a high level that they would deter developers coming forward anyway. I do not share that idea, but it is one that is out there. There needs to be some way of full cost recovery on an open book accounting basis, so that we would have to demonstrate, as councils, what the actual cost of a planning scheme was. If we do not, we will never be able to get enough high-quality planners to stay in local authorities because, as the development industry picks up, they will come and poach those people from us, then they will be complaining that we are not granting planning permissions fast enough, yet they would have been the people who would have stolen half of our planning officers.

Lord Turnbull: We heard from Bob Kerslake earlier that the obstacle to building or giving planning permissions is not so much incentive as mindset. They hitherto thought that their electorates would not stand for it. If a council wants to obstruct something, it does not need to obstruct it by putting the planning fee up; it can just say no.

Lord Kerslake: I do not think the planning fee is the way in which they would obstruct it. They would charge a reasonable economic rate. Most developers and housebuilders would be willing to pay more if they had confirmed performance, actually. There was a concern about raising fees during the period of the downturn, because of the worry that it would just switch off people's desire to develop at that point, but we are at a different point now.

Lord Porter of Spalding: That is not true though. We had the first planning fee rise for ages a couple of years ago. We got a decent rise a couple of years ago, so it is not to do with that. To be fair, Section 106 is going down. Developers are finding it easier to go around 106. CIL, for whatever reason, is not getting any traction in many places. Section 106s are being renegotiated on an almost weekly basis now, so we are moving further away from having resource that makes development acceptable. Most people will say yes to development in their area, if it brings some social good with it, other than just somebody making a few pounds on an uplift on a piece of land. We need to find a way to continually make development acceptable to communities, and the best way of doing that is to tell...
them that their services would be enhanced by somebody building some more homes. It is easy to sell the idea of a development to somebody who has grandchildren, because you can say to them, “Where would you want your grandchildren to live?” Unfortunately, when most people buy a view, they do not actually buy the view. They just think the view came with the house that they bought, so it is very difficult to make people in communities to accept more development, unless you can personalise it to them.

**Lord Turnbull:** I am getting confused here. I thought that, between you, you were saying that the under-resourcing of planning departments was one of the constraints of this system. The fact that you have people willing to pay more and not being charged seems to be a ridiculous own goal.

**Lord Kerslake:** That is precisely what I am saying. I am agreeing with Gary that, if people had more flexibility to charge an economic rate, they would be able to plan resource better when they are planning services. I am saying precisely that. You were asking why it has not been moved in the past and I am just recording, but not necessarily agreeing with it, that there was some nervousness at the time when the economy was very slow in taking off during the last Government, about whether or not you would dampen some appetite for smaller-scale developments, not the bigger ones but people’s individual back-door developments. That was a factor. I would not say it was the only factor. For good or for ill, there has been a resistance to creating greater flexibility and increasing these fees, which gets in the way of capacity and the ability to move forward quickly on development.

**Lord Turnbull:** This is my last question. You have mentioned the buoyancy in London. What one reads in the *Evening Standard* is that stamp duty is beginning to cool it down. Do you see any signs of that?

**Lord Kerslake:** There are two different points. There is some evidence of a cooling generally on the market a bit—not much yet, but some. That may impact on supply, of course. The issue on stamp duty really only affects the higher-value properties and their sell-on. What stopped it is the second-hand market sales of properties from £2 million up, which is an issue, but not the issue that we are facing. That is my understanding. I am not a property expert, but the stamp duty effect has hit that territory hardest, rather than the lower-end market we might be talking about in this conversation or the new build. Stamp duty has impacted the higher-end properties and it has impacted on transactions.

**Q150 Lord Griffiths of Fforestfach:** I am going to ask two questions. The first is particularly to Lord Kerslake. I would like it if you could sum up what the feeling is on the following issue. We have taken evidence and have heard that developers, housebuilders and so on are hoarding land. The speculative element was mentioned. Some people have paid a price above the odds of what they should have paid if they were looking at a long-term development. You also mentioned, however, that, given the near-death experience of 2008 for some, they were repairing their balance sheets, which seems quite a legitimate thing to do. It is what the banks have been doing, after all. I just wondered, as a Committee, what you think our expectation should be if the planning process was made simpler or faster. What should be our expectation of the response we get from the private sector housebuilders?
**Lord Kerslake**: You will get some response from the housebuilders from that, if you can improve the system, especially if you can make it consistently good across the country. What I am saying is to be careful of any idea that will magically get you to the level of supply we need in this country. Completions last year were roughly half of what we need in this country. However slick, efficient and effective you make the planning system, you will not double supply through that route. That is just for the birds. That is why I am saying that there is not one magic bullet here. You need to carry on improving the planning system, but not to see it as the central issue and certainly do not see planners as the villains actually. A lot of them understand this agenda, but they need proper resourcing. You need to help small builders get back in the market, but that will not solve it by itself. You should do it because it is the right thing to do. You need to bring public land into play. You need a strong public sector housebuilding programme. You need to do every one of these things for a sustained period of time, not five years but 10 years, and then you might start to get somewhere.

**Lord Porter of Spalding**: The problem is so significant that there is not going to be one magic bullet, but we are not pulling all of the levers we have at our disposal. There are a lot more things that we can be doing to increase supply. Do not see planning as the place to put the effort.

**Lord Griffiths of Fforestfach**: Thank you. My second question is that we have taken two pieces of evidence on local authorities providing sites for development. The local authorities have been criticised, because it has been alleged that they like to go for one large site, 1,000 acres or something, as opposed to providing five sites of 200 acres each. Secondly, it is argued that, in drawing up the housing need, they tend to suppress the level of local housing requirement. I wondered whether you think that the two charges that have been made against them have any weight.

**Lord Kerslake**: It is hard to say that they do not have any weight anywhere, because local government is a variable thing. Actually, if they were to wholly manage their five-year land supply through big sites that were not truly viable to move forward, they would be challenged on their plans, because they would not be creating a deliverable plan. There is a limit to how much they can do that in reality and not be challenged through the inspection process. Nevertheless, there is a tendency to go for bigger sites that are less controversial than in-fill, which is why people have to be careful to see the problem as being, “We have all these permissions; why are they not building them out?” There is an issue with that, but there are constraints on local authorities.

Similarly, the question of estimating their demand is all subject to public inquiry and testing. If they try it, they will be challenged in the process. That is a possibility, but certainly not the issue, in my experience.

**Lord Porter of Spalding**: I concur with Bob that the needs assessment strictly lays out what needs to be done and what needs to be included. The planning inspector would not pass off a plan if it was not believed it was done properly. Large sites are easier to grant, because you affect fewer neighbours, bizarrely. The ability to mitigate against issues on a large site is a lot easier than it is to do it on a smaller site, but again we need a mixture. We need
large sites to deliver the volume that we need to deliver, but we need to deliver small sites to make areas sustainable.

**Q151 Lord Teverson:** I was just going to say that this Select Committee is completely non-political in the way that it asks these questions, but there are few times that I have felt like saying, “Right on” to Conservative leaders on councils. That is very good. Can I come back to a couple of specific things? Both of you have said that Section 106 agreements do not really work and are retreating in terms of their usefulness at the moment, with developers trying to get out of them. I am interested to know if that system should be fixed or changed. On a couple of minor or smaller issues, the New Homes Bonus was created by the Coalition Government and is under amendment at the minute. How do you feel about that? As someone who comes from a rural area myself, the area of rural exception sites is quite important to rural housing and I wondered how you felt the Starter Homes scheme and the whole area of Right to Buy might be affected in terms of rural exception sites. There is a particular concern about people who have let housing land come forward without that huge increase that you talked about and whether people will trust authorities to do that in the future, if Right to Buy or these other schemes come in.

**Lord Porter of Spalding:** With Right to Buy, they will be able to be excluded from the schemes anyway, so that is not an issue. Starter Homes are going to be a problem, as the discount will only be there for five years. That is too short a period of time. I am not sure where the real number is, but it should certainly be more than 10 years to make those affordable units stay affordable or at least for the local community to take an uplift in the value of that 20% that is put into the space.

I would struggle to differentiate too much between rural exceptions and other developments. If people are taking that kind of considered view around a small scheme, whether that is on a rural exception site or in-fill site, once it changes its type of tenure, we need to be careful about the impact that has on the surrounding area. You cannot afford to have villages with nowhere for people to rent or else they will all become dormitories for people who can live better. You cannot sustain a village with mono-tenure housing stock. You need mixed developments everywhere, including small developments.

**Lord Kerslake:** To come back quickly on Section 106, the evidence from research work done by Sheffield University is that it has been effective in capturing value, but only if it is done properly and done well—and the experience is uneven. Some local authorities negotiate on it very well and some do not, so there is a variable story here. I do not think it has run its course yet and it needs to.

There is a distinct issue in London, which we are going to consider as part of the Commission, about whether what we have in this so-called viability test is a competing of consultants on both sides, who then swap sides for the next negotiation, one for the local authority and one for the developer. So there may be a different story in London that we need to think about, but I do not think that Section 106 as a whole has run its course. It is down to the capacity and expertise of those delivering it. There are still some issues with how CIL works and sits alongside Section 106 that have not been fully resolved. Remind me what your second question was about.
Lord Teverson: The new homes bonus.

Lord Kerslake: Just before I departed from the department, we produced an evaluation of the new homes bonus. My own view, for what it is worth, is that running it as a country-wide scheme was not terribly effective, because you are effectively taking money from one council and handing it to another. In many places, such as big metropolitan areas, it was a relatively modest sum of money. Where I do think it worked—which I touched on earlier—was in the district councils in the higher-growth areas surrounding London, where it formed quite a big part of their income and seemed to have a positive impact. So I would revise the scheme rather than abandon it completely. That is my personal view on this point.

I think rural exception sites have a place. There was a real concern that landowners might have given over land for that purpose and then found it sold off. We can avoid that through the voluntary scheme, so it still has a role and is still valuable in these rural areas.

Lord Teverson: Just coming back on 106s, they are very limited in that the payments have to be specific to the scheme. Does that limit them too much in terms of being able to provide the wider infrastructure that may be needed for development?

Lord Kerslake: That was what CIL was supposed to handle. It was designed in part to deal with infrastructure needs. You can say that in London the CIL that has been created for Crossrail has been a useful mechanism to raise funds. So there are ways around it that could be made to work here. You now have the CIL option where you need infrastructure that straddles more than one scheme.

Q152 Lord Lamont of Lerwick: Could I ask you about housebuilding targets? There was a very interesting article in the Economist’s Free Exchange blog. I do not know if you have seen it; we have all seen it on the Committee. It made the rather unusual point of attacking what it called “the economists’ obsession with building new houses”. It said that what is important is the use of the housing stock and the turnover of second-hand homes in the market. It said this: “The problem for Britain is that far fewer already-existing homes are coming on the market each year. In the late 1980s, roughly 2 million second-hand houses were put up for sale annually. Last year less than half that were. So the supply of houses on the market has dropped quite substantially. This leads to inefficient use of the housing stock. Small wonder that prices are rising fast”. I wonder whether you would comment on that. It is rather an unusual perspective.

Lord Kerslake: Yes, it is. The efficiency of the use of stock and what that might achieve is certainly something that we looked at in the department. You could definitely achieve more through greater efficiency of use of stock. There are an awful lot of people living in properties now that are too big for them, as we know. Typically, people in our age group, let us say, are hanging on to very substantial assets that are probably not quite fully occupied—let us put it that way. There is something in that, but I do not think that that is the answer to the underlying housing supply. It might help ease the challenge of supply, but it is unrealistic to think that it will tackle the underlying need for housing in this country. Again, it is a contributor.
Just to finish on that point, one of the areas where I think it could contribute more, and we have never cracked this problem, is how we create housing that is attractive for older people to live in, as a step down from their existing properties. We have never found a good market solution to that in this country. More could be done in that area to try to advance it, but it is one part of a bigger picture; it is not the answer to the supply issue.

**Lord Porter of Spalding**: How does turnover of properties increase the number of available properties, because people are living in them while they are selling them?

**Lord Kerslake**: I guess the point that they are making is that people live in houses that are bigger than their needs. That is the issue.

**Lord Porter of Spalding**: Your house is as big as you need it to be, whenever you need it to be that size. Just because you get to a certain age, it does not mean to say that you should be confined to living in a small box somewhere. At one point you will be. I cannot even follow the logic of that. Just because somebody is selling their home does not mean that there is one less that we need to find, because I am assuming that at some point, unless they are going abroad, they are going to be buying another home. So the net number of homes needed must still be the same. It is just that some people are in a transitional state where they are getting ready to pay Pickfords.

**Lord Lamont of Lerwick**: I think it depends on the number of people per private house. You are dealing with very large entities and, if the number has changed dramatically, it will have a big effect. The number of second-hand houses on the market used to be six times higher than the quantity of new-build houses. Now that is not the case. So you are not talking about a marginal factor; you are talking about something that is very big.

**Lord Porter of Spalding**: Unless we compel divorced couples to stay living in the same home and children to stay living in the same home, how does that change? The home may be on the market and available for somebody to buy but the people selling it will be buying somewhere else. Quite often they will be buying two somewhere elses because they are no longer living together.

**Lord Kerslake**: The other point I would make on that argument—and we would need to do more analysis to prove this one way or the other—is that there could be a substantial number of people who in the past might have sold to move to a bigger property but no longer find themselves in a position to do so, basically because house prices have widened the gap, as a piece of arithmetic, between where you are and where you want to be. They do by definition. So rapid house price rises have stopped people making the move they might have made in their lives to a bigger property. I suspect that that is at least one of the drivers of lower transactions. Generally though, Gary, I think that there is some scope for making a better choice for people who are older, not necessarily to live in a box but to live in a different type of property, rather than hang on to a property that is bigger than they need.

**Lord Porter of Spalding**: If that is by their choice. If they wish to move to a smaller property because that better suits their circumstances, that is a good thing to do, just because it improves the quality of their life. That in itself will not increase the availability of homes.
The only way to get the housing issue sorted is to build more homes. We are not building enough homes, and the reason we are not building enough homes is that there is not enough money in the system to make it possible for small to medium-sized builders to get into the space to be able to open up sites, and for people to buy or rent the finished product when it is completed.

**Lord Kerslake**: You will not be surprised that I agree with you about the need to build more homes. That is the fundamental issue that we have. So in that sense I am disagreeing with your author.

**Lord Lamont of Lerwick**: It is not me; it is only the *Economist*.

**Lord Kerslake**: I am sure the *Economist* will have an article next week saying the exact opposite. My point is that the fundamental issue is about more homes. It has been since Kate Barker wrote her report and it is an even more acute issue now. To that extent I do not buy it. What I am saying is that there are ways in which you could make the housing market more efficient in the way it operates, by giving people better choices at different points in their lives.

**Lord Lamont of Lerwick**: It also indicates that the stamp duty effect might be a key issue, even though you said, in response to Lord Turnbull, that it is only at the higher end. Maybe it is having a psychological effect further down as well.

**Lord Kerslake**: It may be.

**Lord Lamont of Lerwick**: If that were true, this would be quite a big issue. Can I just ask two other questions? I will just put them together. Would the conversion of existing houses into flats help the supply problem in London? Also, there is converting office space into residential property. I know that sometimes people say that that is more expensive, but what sort of scope do you see for that?

**Lord Kerslake**: Let us deal with the office space one. There is scope for conversion in some places where offices have ceased their economic use and are unlikely to be used again for offices. It is not cheap to do and often the footprints to do it do not work, but it can be done. I personally have been worried about the current model, which other than in certain selected areas involves people getting prior approval rights to convert from office to residential, because it risks taking out employment space in places where it is still needed. I would prefer there to be more control by the local authorities over where that happens in some places. Converting an office in Westminster, say, to a high-end luxury property that may not be occupied does not seem to me to be a smart move, to be frank. So there is a case for office to residential, but it should be a process that is managed as part of the wider role of local authorities. That is my view.

**The Chairman**: That brings this session to an end. Thank you very much indeed for a lively and informative session. We shall look forward to reading the transcript to see if we can solve the Kerslake-Porter paradox. Thank you very much.
Economics of the United Kingdom housing market inquiry

November 2015

How to solve the housing crisis for the UK as a whole

Abstract

Rarely has a select committee been given such an important task. The future importance for creating a successful housing and rental sector market is fundamental to the well-being of the UK. The committee is urged to consider the ideas put forward with an open mind. The proposed plans are simple, yet tackle all the fundamental issues of the housing and rental markets. They do so in a modern way, utilising the ability of the internet to efficiently bring together the disparate stakeholders within the funding, planning, building and rental provision. If these plans were to be enacted they would help stabilise the whole economy from swings within house pricing and help stabilise and indeed improve long-term guaranteed income on savings especially for people of pensionable age. They would create a much fairer provision for the rental sector and a vehicle for the transition of house ownership from the older to the younger generation.

The plans put forward will be seen by many to cut through swathes of existing commercial interests. The main protagonists will be the banks. The committee is urged to look beyond these interests and take an enlightened stance to improve the long-term stability and well-being of the UK. Apart from the banks there are few losers in the proposed processes. There are many winners, no less our young people, who shall benefit directly and who shall gain an enabling vision for their future in Britain.

Summary for the Committee

A summary of the solution is set out below. More discussion follows in the appendix.

The Solution – UK wide Mortgage & Rental Trusts

New legislation is proposed that will create UK wide ‘Mortgage & Rental Trusts’. These Trusts should be mandated to create an equitable saving and loans system to enable new home building and to control the rental sector. The trusts should have local (internet based) branches and provide a central UK hub to enable best practice and financial stability. The Trusts must be financially secure with cover for savers up to a sensible level that enables the Trusts to attract investors.

This legislation must include provision to ensure all the stakeholders involved within the building process work together. This will enable cost efficient local house building for local people. The internet shall enable local Trusts to provide land at fixed prices, planning permission and building control. Modern automated processes will allow seamless interaction for prospective house buyers from the point of finding land (or existing properties) through mortgage provision, planning, land registry, building to final completion.
The rental sector must have new legislative framework and controls that enable the Mortgage & Rental Trusts to buy back rental accommodation and provide stability and fairness within the rental sector as a whole. This shall include the sale of rental accommodation to local people who wish to purchase or part purchase their rented homes and control rents based on fair valuations.
Appendix

The Current Problems

The main underlying issues of the housing and rental market may be considered as follows:

- Uncontrolled house price inflation, fuelled by the lack of new properties to match increasing demand.

- Poor provision of potential housing land

- No integration of planning bodies, landowners, mortgage providers, building companies and the public.

- Poor provision of affordable mortgages for especially young people and first time buyers.

- Little long-term protection for mortgagees against rate hikes.

- Investment within the rental sector fuels the inflation of house prices, while removing this investment from more useful investment within the UK.

- A two tier housing market; where mainly the older generation holds property as their main residence and also rental property as an investment strategy; and the younger generation who are disenfranchised from ownership while paying increasing rents for no additional value.

- Potential destabilisation of the whole UK economy as the housing sector impacts as an inflationary (or recessionary) lever. Potential future housing price bubble if the housing supply continues well below demand.

What are we trying to achieve?

Stand back and consider the way we should all like the economy and housing sector to work. We would like to see people (and companies) invest their available money and resources in ways that create a better long-term future for Britain. This means investment in sectors and infrastructure that enables Britain to be more efficient in future years. This future efficiency is derived from several main sources. The service industries and manufacturing sectors are important here. But also important is modern infrastructure and also homes in the right places that enable people to live and work more efficiently.

To have many people investing in existing properties as a key part of their long-term investment income does not enable any potential for improving Britain’s efficiency. This money simply follows the housing supply issues but does nothing to improve the supply side. This money would be better spent invested in areas that improve Britain’s future efficiency.

Lack of supply is already creating a housing bubble in areas such as London, forcing working people to move out, increasing their journey time and thus reducing their work efficiency.
This increase in travel costs are also a drain on the economy. There is likely to be a direct relationship between journey time and overall efficiency for Britain’s economy.

Families need local resources to enable them to nurture and educate their children. While these processes unfold slowly, and while their effects not immediately apparent, they have a major impact on the future efficiency of Britain. Poorer educated and less accomplished children are likely to need greater welfare and health resources and provide less work efficiency in the years to come. Family homes in the right places with good access to such resources are vital for Britain’s future.

Without re-structuring the housing and rental sector, Britain is likely to endure increasing house prices (above inflation), and continue to fail to provide enough additional homes to meet demand. This will lead to the attendant disadvantages reducing Britain’s economic efficiency for the foreseeable future.

We can therefore see that the housing and rental issues are fundamental to the success of Britain and re-structuring is not just an option but essential.

A plan to solve the fundamental issues

The proposed ideas outline an integrated plan that re-structures the housing and rental markets tackling the fundamental issues discussed. The plan utilises modern integrated processes and the ability of the Internet to bring together the many stakeholders within the mortgage, house building, local planning agencies, landowners and investors within the rental sector.

This plan requires parliament to provide a new legal framework for;

House Building and Mortgage Provision:-

Provision and creation of a new type of lending (and saving) organisation that is owned by a trust (Mortgage & Rental Trust), backed by centrally funded insurance provision, creating stable UK wide mortgage provision.

Provision for a mandatory Internet based process that enables the public to interact with all the stakeholders involved in funding and building a new home.

Provision of new mortgage lending that provides long-term loans on fixed rates, backed by local investors who are in turn ensured a long-term investment rate.

Creation of a new partnership between local landowners, planning authorities and the public with the aim of creating new house building.

Provision should be made for the mandatory pricing of land for building from local landowners (whom wish to sell) to allow smaller building organisations to build new homes. Provisioning for plot pricing and guaranteed planning permission for permitted buildings

Similarly, provision should be made to mandate local councils to provide brown field sites for listing and pricing as small plots for enable new house building by individuals or small building organisations.
Provision for a mandatory link between the sale of rented accommodation and the creation of new builds, either directly by the Trust, or by a new purchaser.

Provision for the trust to own housing stock with a view to both renting and in turn selling on the properties.

Rental Sector Provision:-

Creation of a mandatory fair ‘buy back’ provision via the new type of lending organisation for local rented accommodation.

Creation of a fair rental sector through the regulation of all (privately owned or commercially owned), rental properties via the newly created Trusts UK wide.

Freeing up of investment moneys for re-investment within the UK economy from private investors whom hold rental investments by providing fair value and guaranteed income for properties taken into the ‘buy back’ scheme.

Mandatory provision for enabling fair value purchase of all properties taken into the ‘buy back’ scheme, by the current tenant(s). Such a ‘buy back’ scheme shall ensure that the previous owners are offered an equivalent re-investment rate to their potential rental income, (if they wish to invest their sale proceeds).

Provision should be made for tax exemption on the sale proceeds for the mandatory ‘buy back’ of rental homes.

Mandatory provision for part ownership of properties, where the tenant/purchaser is enabled to purchase the property over a longer period without the need to overstretch their financial resources.

Additional Provisions:

Provision for an improved process for dealing with mortgages in arrears or in default. Such provision shall include the move to a rental agreement for the property or part ownership for an extended period, thus negating the need to sell the property at a low market rate leaving the owners with excessive debt.

Provision for a simple, open, effective Internet based process for finding a new property, achieving mortgage funding, building a new property (with the help of a local building company).

Similarly, for the rental sector the provision for finding and agreeing short or long-term rental accommodation.

Current legislation controlling the housing trust sector shall need to be changed with a view of enabling the Housing & Rental Trusts to work alongside or subsume these organisations.
The legality of part ownership (shared ownership) requires amending to ensure the property rights of the part owners.

The Outcomes

This extensive re-structuring provides a long-term solution to the core issues:

House prices will stabilise due to increasing the housing pool by enabling new homes to be built by local people.

House prices will stabilise due to the mortgage market being based on longer-term lending that is backed by local investors.

House prices will stabilise due to reducing investment in the rental sector and ensuring that rental rates are affordable and in line with ‘fair’ property prices.

People will be able to find financially affordable and secure mortgages for both the building of new homes and for the local housing stock.

People within rental accommodation shall be able to purchase their current residences, either outright or in part, creating a virtuous cycle of home purchase and new building.

Rental accommodation shall be regulated through these new Trusts to ensure fair rents and fair rental practices UK wide. This will improve the ability for people and families to relocate enhancing economic opportunity across the UK.

Investors will be able to gain long-term fixed interest income. This will help pensioners and people who presently own second homes within the rental sector.

Such investment strategies will enable additional money to be drawn into the Trusts and provide for new home building.

The local nature of these Trusts along with the seamless integration of all aspects of the building process shall enable local, smaller, building companies to enter the building market and be assured of long-term stability.

The ‘buy back’ scheme enables people to own their homes and this, in future, especially at pensionable age, reduces their reliance on the state for the cost of accommodation.

In the longer-term, this strategy will dissipate the increasing divergence within the housing market between younger and older generations. This is achieved by enabling a sensible flow of investment from the older generation to housing ownership for the younger people. The Trusts are central to this process.

This is a personal vision from a UK individual who has no political or commercial allegiance.
22 November 2015
Thomas Pinder – Written evidence (EHM0004)

How can we increase the supply of reasonably priced private housing in the UK?

-> Why does the government wish to increase the supply of reasonably priced private housing? Why not incentivise local councils to build reasonably priced public housing - by letting them keep all of the rental income, and the proceeds from 'right to buy'. More affordable housing, more homeowners, in a virtuous circle.

How effective have Government schemes such as Help to Buy been in improving the affordability of housing?

-> Totally & utterly ineffective. Surely basic economics teaches us that increasing finance in a debt driven market *increases* the price of homes?

Are there tax measures that could improve housing supply and affordability?

-> Level the playing field between people who want to buy a home to raise a family, and 'Buy to Letters' who are using their access to more debt (Interest Only mortgages, which will still get 20% tax relief, even in a few years’ time! Tax relief need to be the same as owner occupiers: 0%)

Are changes to the planning system needed to increase the availability of low cost housing?

-> Of course! Naturally our islands were a forest. Nearly all the landscape some think needs protecting is artificial. With this in mind, why not encourage new low density self build, that preserves real natural spaces around them (not just the industrial agriculture fields we have now)?

How can we improve the availability of low cost private rental properties? Will the current trend for a decline in home ownership and rise in private rental continue and is it desirable?

Buy reducing the demand for rentals, by making homes affordable for owner occupiers to buy. Reduce the leverage that Buy to Let has over owner occupiers. Due to the huge increase in Buy To Let, house prices are now determined by multiples of rental income, the availability of Interest Only mortgages, and tax relief for Buy to Letters. The tax relief needs to be reduced to zero at least.

One of the most obvious methods of increasing the availability of low cost housing - both for rent & to buy - would be to stop Russian kleptocrats hoovering up all the prime London housing stock. Chinese people using London as a safe deposit box to stash their gains away from their home state don’t help either.

Foreign millionaires generally buy in prime areas, e.g. Westminster where the Council Tax is among the lowest in the UK. Why not impose an 'Empty house tax' on non EU residents?
Personally, I was priced out of the UK and purchased a home in Switzerland. It is crazy that it is cheaper to buy a home in Switzerland than in the UK (or at least, was when I bought 5 years ago). One of the reasons for this is that the Swiss government protects its citizens’ homes from foreign buyers such as myself.

It seems to me that the main point of a government is to protect its citizens - why does the UK seem not to?

The argument that is often given is some version of the trickled down theory - which it must be emphasised is just a theory.

Why isn't there any real research into whether the current open house on UK homes for foreign kleptocrats actually benefits the economy?

Where is the research - let alone proof - that the trickle down *theory* is actually correct?

Thank you for reading this far :)

9 November 2015
Pocket Living Ltd – Written evidence (EHM0109)

Pocket submission to the House of Lords Select Committee on Economic Affairs – Inquiry into the Economics of the United Kingdom Housing Market
14 December 2015

Introduction

1. Pocket Living Ltd is the only private developer delivering intermediate affordable housing in London. Pocket homes are sold at a discount of at least 20% to the open market and are protected in perpetuity. Pocket homes are restricted to those who earn less than the GLA’s income cap for affordable housing, live or work in the borough in which we are building, do not own a home and are not outright cash buyers. Pocket has over 10 years of experience in delivering affordable housing across 16 London local authorities, working within the existing legislative and planning framework. With the help of a £26.4m loan from the GLA we are on course to deliver 4,000 homes by 2023.

2. The lack of supply of new homes is resulting in one of the UK’s most acute housing crises. Planning constraints, the lack of available land and the lack of SME developers only compound this problem. The current housing crisis is forcing rents and house prices out of the reach of many of those on average incomes that help drive our economy. For example just 12.5% of the highest earning 22-39 year olds can currently afford to buy an averagely priced first time home in London on their own.

3. Even when we have seen increases in the supply of new housing this has not been accompanied by a drop in house prices. As a result we are starting to see an exodus of thirtysomethings from London\(^{364}\). The UK needs to take urgent action to help those that keep our economy thriving to access affordable housing.

Housing Supply

4. The Barker Review of Housing Supply noted that the UK requires 250,000 new homes a year to keep prices under control and to ensure a continuous supply of affordable housing. London Councils estimate that we need to build 40,000 new homes in the Capital every year to keep up with demand\(^{365}\). To keep up with demand and address the backlog in a decade London will require 62,000 new homes per year\(^{366}\).

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\(^{365}\) https://www.londoncouncils.gov.uk/download/file/fid/3667

\(^{366}\) GLA, The London Plan, March 2015 (p.26)
5. The UK is reliant on two main channels of housing supply (private sector and housing associations) to meet our housing needs. Over the last ten years in London, private providers have completed about 12,600 new homes a year on average and housing associations have averaged about 6,900\textsuperscript{367}. Across the UK, the private sector has seldom built more than 150,000 units a year, while housing associations have rarely delivered more than 30,000. Clearly the established means of housing delivery cannot provide the right amount, of the right housing type, in the right quantities to help ease the housing crisis.

6. Looking at historical data it becomes immediately apparent that the missing volume is from the disappearance of supply provided by local authorities\textsuperscript{368}. Some commentators have suggested that we only need to get councils building again and all would be fine. Sadly, this analysis is overly simplistic and would not deliver the necessary volume in the timeframe that we need to deliver in. The Public Sector already struggles to cope with ordinary providers delivering conventional products, they are even less well placed to cope with innovative and unconventional products. Local authorities also no longer have the required skills to deliver housing, even if they did have the budget from Section 106 payments and property sales. Just 9% of architects are employed by the public sector, compared to 50% in the 1970s\textsuperscript{369}. In London, 67% of Local Authorities say that they require or strongly require more skills to carry out architectural design, urban design and masterplanning in house\textsuperscript{370}. So it would be years before they could invest themselves with confidence and at scale to deliver the missing capacity.

**Government policy**

7. Pocket broadly welcomes recent Government announcements and legislation to increase housebuilding and home-ownership. However, we do feel a broad mix of housing tenures is required to solve the housing crisis. The intermediate affordable housing market can provide a lifeline for first time buyers, particularly in high value areas, but it currently makes up less than 2% of London’s housing stock. We welcome any efforts to open up this market.

8. Pocket’s submission to the Housing and Planning Bill said the Government’s Starter Homes Initiative is heading in the right direction to deliver more affordable homes. The Bill could help clarify the entire intermediate sector and bring new developers, lenders and volume to the market if done right\textsuperscript{371}. This could help young and ambitious workers who don’t expect handouts to really get on in their life.

\textsuperscript{368} https://england.shelter.org.uk/__data/assets/pdf_file/0009/1190889/2015_10_05_IPPR_Housing_Commission_Final.pdf
\textsuperscript{369} RIBA Building Futures, The Future for Architects? 2011
\textsuperscript{370} Mayor’s Design Advisory Group, London’s Placeshaping Capacity, 2014
\textsuperscript{371} http://www.publications.parliament.uk/pa/cm201516/cmpublic/housingplanning/memo/hpb22.htm
9. Given the unique and extreme challenges facing the London housing market, we are supportive of calls for the Greater London Authority to have its own, more flexible Starter Homes framework which could allow for a mix of the Government’s new Starter Homes, traditional shared ownership and existing affordable products such as Pocket homes.

10. There is concern that Starter Homes (as currently construed) could become substitutional rather than add extra volume. On top of this, it could also be cannibalistic, by delivering homes to an audience that is already able to access the open market with the assistance of Help to Buy. So the Government is at risk in creating a new form of housing typology that fails to deliver against either of their pledges to deliver more homes and help more young people onto the housing ladder. The remedies are relatively simple and have been outlined in our feedback to the Housing and Planning Bill Committee. In brief, they need to allow for Starter Homes to allow for a wider range of affordable housing tenure otherwise they will merely replace shared ownership numbers. They also need to extend the redemption period to longer than 5 years to create more differentiation between the market product and the Starter Home; this should be coupled with some form of priority sales criteria to local people on average incomes. This way they will open up a new form of housing to a new market that is not currently served at scale.

Small and medium sized developers

11. We need to recreate a market that delivers more homes of a more diverse nature from a wide variety of sources. Small and medium sized developers (SME) used to produce a significant proportion of the housing market. In 1930 the top 10 builders delivered less than 7% of UK housing output, today they deliver nearly half and more in London. The number of SME developers has fallen 80% in the last 30 years. Sadly many SMEs were pushed out of the sector in 2007/08 either by being subsumed into the larger builders or by losing their ability to trade when the supply of capital dried up. We need to see a revival of this sector if we are to deliver both an increase in the supply of housing and provide a more diverse range of housing type and tenure in a short timeframe (smaller builders cannot afford to “landbank” and therefore land sales quickly proceed to completions).

12. SMEs are unable to return to the sector today because of the uncertainty in gaining planning permission speedily; obtaining a workable S106 quickly enough; competing for public land and obtaining bank credit. For example in our experience, it takes 16 weeks from putting in a planning application to achieving a consent however on average it takes us 22 weeks to agree a simple Section 106 agreement (simple because we only provide affordable housing and there are few extra provisions agreed) but it has taken us up to 44 weeks!

13. Bringing SME developers closer to local authorities would help them to solve their community’s distinct local challenges. Local authorities have the land and the in-house resource to help offer land opportunities that are ready for developers to
build on. In return, Councils could receive greater strategic returns for their public land in a shorter timeframe that brings the community with them because the relationship is more equal between public body and smaller developer.

Public land release

14. Public Land must be used more strategically to deliver housing that best suits the community’s needs. S106 contributions and Shared Ownership affordable housing provision has been proved to be a failed process in much of the South East and very small shares are being bought of extremely expensive properties leading to families becoming trapped in homes they can neither afford to own nor leave. We need to get to a better position where the disposal of public land for Best Value is only used as a route of last resort for local authorities. Public land is a huge asset that can be deployed to deliver the right kind of housing to meet a borough’s strategic needs. This is doubly applicable when talking about smaller sites, as Local Authorities are allowed to dispose of the land for Best Consideration without any form of judicial oversight if the land is for affordable housing and the price differential to the market value is marginal (less than €500,000 in some cases and less than €200,000 in others)372.

15. These smaller plots of land must be released quickly to smaller developers. If they can be sped up then that will attract the smaller developers back into the market and get supply flowing again. Smaller developers, especially those delivering affordable housing (one of the requirements for the Best Consideration allowance) cannot afford to delay completion unnecessarily as they are reliant in the capital exit in order to trade so will stand by agreements and delivery schedules. Therefore this delivery mechanism can be incredibly responsive to starts feeding through to completions.

16. The London Land Commission should have a role in not only identifying public land in the Capital but also in ensuring it is properly tagged for suitable types and tenures to solve specific issues within communities in the capital.

Planning

17. Currently planning departments are designed to deal with the standard products delivered by the volume house builders and the housing associations. This merely perpetuates the problem and puts the smaller developer at a disadvantage thus removing any capacity for innovation. We have to help London’s planners to use a more diverse set of tools to help solve London’s complex needs.

372 See Appendix 1: Guidance on how authorities sell land to Pocket, Charles Russell Speechly 2014
18. We need to rebalance the NPPF. Currently it fails to focus on the area of housing that London so desperately needs – affordable intermediate housing. The NPPF currently only mentions intermediate affordable housing (to rent or otherwise) in its glossary and intermediate housing as such does not form part of the core policy document. This makes the planning framework unclear and therefore unpredictable. The NPPF should also focus on the size and density of sites rather than the number of units if we are to effectively tackle the housing crisis. We believe the Government consultation to widen the affordable housing definition and guidance for smaller sites could help.

19. We need to allow for simpler planning processes for those delivering schemes on smaller sites (under ½ acre). Smaller developers who are trying to work on infill sites can only gain the necessary financing if they can prove that they have a viable scheme and the lengthy planning process can dissuade them from taking on the more marginal, smaller schemes.

20. The disposal of public land for best value (and usually for private gain) results in the isolation of communities who don’t feel that the homes are benefiting the local community in any way. This can lead to an increase in local resistance to development which can prove particularly problematic as nimbyism is already a major barrier to the delivery of affordable housing.

**Mortgages**

21. First time buyers have the most onerous ratios of repayments to salary and have a lack of products available to them. This is particularly unfair as first time buyers have very low default rates. In Pocket’s experience it would be helpful if all lenders were required to offer all products to increase competition and consumer choice in the market.

22. Pocket supports the recommendation from the Centre for London that local authorities and other stakeholders should work with the Council of Mortgage Lenders and with lenders to ensure intermediate housing products are properly understood by lenders and that their key features are acceptable.373

17 December 2015

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Submission to be found under Dame Kate Barker (author of the Barker Review of Housing Supply); Martin Wolf (Journalist, Financial Times); Policy Exchange (QQ 1-16)
SUBMISSION TO HOUSE OF LORDS SELECT COMMITTEE ON ECONOMIC AFFAIRS

Inquiry into the Economics of the United Kingdom Housing Market

From Ben Dyson, Graham Hodgson and David Clarke on behalf of Positive Money

16th December 2015

About Positive Money

1. Positive Money is a research and advocacy organisation which champions reform of the UK’s money and credit system so that it better serves society and the wider economy. We are a not-for-profit company funded by small donors, charitable trusts and foundations.

Summary

2. Building more houses is a necessary but insufficient measure to address the UK’s affordability crisis. It is also essential to reduce the level of bank lending for mortgages. Government policy should aim to remove or limit the drivers of house price inflation for as long as needed for house prices to remain flat in nominal terms until incomes have ‘caught up’, making housing affordable once again. After this point, policy should aim to ensure that house prices do not rise faster than earnings over the medium or long-term.

The link between bank lending and the housing crisis

3. Our research has found that measures to increase the affordability of housing will fail unless action is taken to limit mortgage lending.

4. The UK housing affordability crisis is typically understood as an imbalance between supply and demand. For decades, house building has been too low, for a wide range of reasons. But even if supply constraints were addressed, there is no guarantee that houses would remain affordable. In countries such as Ireland and Spain, prior to the financial crisis, house prices rose rapidly despite a huge increase in house-building (increasing the supply of housing units by around 5% each year in Ireland). Oversupply of houses in those countries has led to collapsing house prices from late 2008 onwards, but significant construction before 2008 had no impact at all on limiting rapid house price rises. Consequently, the UK’s housing crisis cannot be addressed by simply building more houses. We also have to consider the demand for housing.

5. Demand for housing is usually seen only in terms of numbers of housing units needed (a function of population growth, which parts of the country people want to live in, and the average household size). This ignores another powerful aspect of demand: the

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374 Savills Market Housing Note, 14th December 2015
amount of money people have available to buy houses, which is largely determined by the level of bank lending for mortgages.

6. Empirical evidence suggests bank lending for mortgages is one of the key drivers of rising house prices. IMF research covering over 50 advanced countries has recently established that increased lending to households is a much stronger predictor of house price rises over the following year than other measures, and policies aimed at making borrowing more affordable, such as relaxing loan-to-value limits and allowing longer loan terms, are associated with "costly boom-bust cycles."

7. Bank lending has such a powerful impact upon the housing market because mortgage lending effectively injects newly-created money and purchasing power into the housing market. As the Bank of England describes:

8. “Commercial banks create money, in the form of bank deposits, by making new loans. When a bank makes a loan, for example to someone taking out a mortgage to buy a house, it does not typically do so by giving them thousands of pounds worth of banknotes. Instead, it credits their bank account with a bank deposit of the size of the mortgage. At that moment, new money is created.”

9. In the 10 years running up to 2007, 51% of the money created by increased bank lending was for mortgages on residential and commercial property. Lending for mortgages makes up the largest part of the UK banking sector’s lending. As Adair Turner describes:

10. “…Lending against already existing real estate represents the majority of all bank lending in most advanced economies… Credit booms focused on already existing real estate assets can result in a supercharged version of the credit cycles described by Hayek and Minsky.”

11. There are a number of reasons why so much of banks’ lending goes directly into the property market:

- Compared to other forms of lending, mortgages are extremely low risk: they are highly collateralized since the house can be repossessed if the borrower is unable to repay, and since house prices tend to rise over time, the value of the collateral is often significantly higher than the value of the outstanding loan.

- The Basel capital accords require twice as much capital to be held against loans to businesses as against mortgages, making mortgage lending cheaper for the bank compared to other types of lending.

- Approving a mortgage is a simple and largely automated process, and large sums can be lent with each loan. Lending to businesses, by contrast, requires significant due

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376 Money Creation in the Modern Economy, Bank of England Quarterly Bulletin 2014 Q1
diligence on the unique circumstances of each loan applicant, making it more labour-intensive and expensive.

Mortgage lending also tends to be very pro-cyclical. Once house prices start to rise, housing becomes more attractive as a form of investment, so buy-to-let investors enter the market. At the same time, potential first time buyers start to fear that they will be permanently priced out, and so many buy houses that they cannot truly afford. The increased demand for houses and the resulting rise in prices gives banks greater confidence in the housing market, encouraging them to lend more, at higher loan-to-income and loan-to-value ratios. This increase in the supply of mortgages drives further price increases, encouraging more competition for housing and yet more demand for bank lending. The dynamics of a conventional market, where rising prices should discourage demand, work in completely the opposite direction in the housing market, leading to asset bubbles that can trigger financial crises.

12. As a result of these dynamics of the housing market, measures that aim to address housing affordability by increasing access to mortgages are likely to increase house prices further and make the affordability problem worse. Research by Shelter suggests\textsuperscript{378} that of the 20 local authority areas where Help to Buy transactions make up the largest share of the housing market, 19 have experienced prices rising faster than the average for their region. They estimate that the Help to Buy policy had added £8,250 to the average house price by September 2015.

Measures to increase the affordability of housing

13. The solution to the affordability crisis is not simply to build more houses. Nor is it to use government schemes to give aspiring home owners better access to mortgages. Instead, policy must remove the drivers of house price inflation until earnings have had time to catch up. The evidence suggests that the key driver in house price inflation is the level of bank lending for mortgages.

14. It may take a decade or more for earnings to rise sufficiently to make the average house price ‘affordable’ once again. We realise that it may be politically unpopular to have a situation in which house prices remain flat for such a period of time (although a recent poll\textsuperscript{379} found that now only 20% of the public still consider rising house prices to be positive). However, it is essential that this happens, both to address affordability issues, and to lower the risk of a future financial crisis. Empirical research by Schularick and Taylor\textsuperscript{380} shows that a rise in the level of bank lending is a “powerful predictor of financial crises”, over nearly 140 years of data on developed economies. The lack of effective restrictions on bank lending for mortgages may well lay the foundations for the next financial crisis.

15. Limiting bank lending for mortgages is not about excluding people from home ownership: rising house prices over the last decade has led to the first fall in home

\textsuperscript{378} How much help is Help to Buy? Help to Buy and the impact on house prices, September 2015
\textsuperscript{379} Inside Housing: Majority of Public Disagrees Rise in Property Prices is Good News
\textsuperscript{380} Schularick, M. & Taylor, A. Credit Booms Gone Bust: Monetary Policy, Leverage Cycles and Financial Crises, 1870-2008
ownership in 100 years\textsuperscript{381}. Instead, it is about limiting the drivers of house price inflation which have already made home ownership impossible for large sections of society. Limiting house price inflation would have benefits for first-time buyers, and knock-on benefits for renters of private and social housing.

**Recommendations**

16. A range of policies may help to limit bank lending and remove the drivers of house price inflation. Further study is needed, but these policies may include:

- lowering loan-to-value or loan-to-income on mortgages
- measures to reduce the attractiveness of land and property as an investment asset (for example shifting more of the burden of taxation towards land), and
- policies to restrict or discourage Buy-to-Let investors out-competing aspiring owner-occupiers.

17. An additional measure to increase the supply of housing stock would be to use the Bank of England’s Quantitative Easing programme to purchase bonds for new house-building. These could be bonds issued by housing associations, local authority housing companies\textsuperscript{382}.

We would be happy to discuss these issues with the Inquiry in person.

17 December 2015

\textsuperscript{381} Office of National Statistics: A Century of Home Ownership and Renting in England and Wales

\textsuperscript{382}Sovereign Money, Paving the Way for a Sustainable Recovery (p34), September 2013
1. As a supporter of a group affiliated to Community Voice on Planning (CoVoP), I wholeheartedly support their submission. In particular, at the moment, Barnsley MBC is in the process of consulting on its Local Plan and it is clear from developer responses that they have no interest in trying to assist the council in the use of brownfield sites. As a result, the council is planning to give up on hundreds of hectares of Green Belt land to bribe the developers with sites “attractive to the market”, whilst failing to attract those same developers to existing sites, even with Enterprise Zone incentives.

16 December 2015
TUESDAY 15 MARCH 2016

2.35 pm

Witnesses: Professor Hugo Priemus, Monsieur Bernard Vorms and Monsieur Jean-Pierre Schaefer

Members present

Lord Hollick (Chairman)
Baroness Blackstone
Lord Forsyth of Drumlean
Lord Lamont of Lerwick
Lord May of Oxford
Lord Sharkey
Lord Teverson
Lord Turnbull
Baroness Wheatcroft

Examination of Witnesses

Professor Hugo Priemus, Professor Emeritus, Delft University of Technology, Monsieur Bernard Vorms, Chair, National Council of Transaction and Property Management, and Monsieur Jean-Pierre Schaefer, Special Adviser, National Council of Cities

Q229 The Chairman: Professor Priemus, Monsieur Vorms and Monsieur Schaeffer, I welcome you to the House of Lords Economic Affairs Committee. As you know, we are conducting an inquiry into housing, with particular reference to the supply of housing in the UK. We thought it would be helpful if we were able to compare and contrast some of the challenges that we have here with those that you have in your countries, and which have been studied by you in some depth and detail.
Professor Hugo Priemus (Professor Emeritus, Delft University of Technology); Monsieur Bernard Vorms (Chair, National Council of Transaction and Property Management); Monsieur Jean-Pierre Schaefer (Special Adviser, National Council of Cities) (QQ 229-236) –

Thank you for joining us today. I think we have given you a general sense of the questions that we would like to ask. I start by saying that the assessed need in the UK is that we should be building around 225,000 houses a year. We have been building at about 50% of that rate over the past few years, although obviously there was a dip after the financial crisis. The Government have boldly set a target of delivering 1 million homes, which would mean 250,000 a year over the next four years. In France and the Netherlands, has the building of houses and the supply of new homes met the assessed demand for homes? How has that been achieved? How have you managed to hit the right number, assuming that you have?

Professor Hugo Priemus: Thank you for the invitation to be here. I have a general remark: when experts from other countries have asked me to explain the Dutch system, in the past it was implicit in my reply that they might consider following the example of the Netherlands—but that was in the past. I do not think that what I have to say about the current policy in the Netherlands in many cases is very appropriate for anyone to follow, although of course you are free to do so. It starts with this question. We have a long tradition of national planning of construction activities, but you will be astonished to hear that there is no national planning any more. Local governments are stimulated to formulate for five years or so their so-called housing vision, in which they set out their building activities, but there is no testing by national government. At the moment in the Netherlands the production of housing is behind schedule and behind the development of needs. We are heading for a housing shortage of 4% or 5%, and if we add the new housing need of refugees, that shortage will worsen again. However, it is not a political issue any more. There is no ambition by national government and, as you know, when there is no ambition, you cannot fail—a very strange conclusion.

Mr Bernard Vorms: We are delighted to be here. If the Committee agrees, perhaps the witnesses can work as a team. First, I would like to give you a quick overview of the main lines of French housing policy. The policy implemented since the 1970s has been remarkably stable. I would say that there is strong rhetorical opposition between the left and right wings, but actual differences appear only on some issues such as urbanism and relations between tenants and landlords. At the national level there are no actual differences. For the last 40 years, policies have supported home ownership and social housing and, since 1984, private investment in the private rented sector. There has been no change on that front.

The second point is that we have an equilibrium between different tenures. Just under 58% are home owners, although it is only 33% in Paris, and 32% of households are tenants, 44% of whom are in the social rented sector. The main issue is probably the gap that is widening between territories. What are the results? First, the social finance system has proved to be secure for the mortgagers. We had no repossessions during and after the global financial crisis, and no credit crunch for home buyers.

What are the facts about the housing crisis? According to the media, we are facing a huge housing crisis.

Mr Jean-Pierre Schaefer: All the time.
Mr Bernard Vorms: All the time. Since the First World War. So what is really at stake is that the ratio of housing expense to income doubled in the decade before the crisis, and more than doubled for people in the low income bracket. The second issue is that there are huge difficulties, but only in some territories, for outsiders such as younger people or poor people. Aside from that, we can say that since 1990 there has not really been any national target, except in political debate, for the number of new constructions.

The Chairman: So the crisis is in affordability, in whether people can afford the rental, rather than in the number of houses. Is that what you are saying?

Mr Bernard Vorms: No. It is the fact that in some places, such as the Paris area—it is interesting for us to compare it with the London area, because it is absolutely not like Berlin—and in the Côte d’Azur, close to the Switzerland area, there is a kind of housing shortage. However, in these areas it does not make sense for the national Government to have a national target for numbers of new housing.

The Chairman: And have the national Government introduced any measures to improve the supply of housing in areas where there is a shortage, or to improve the affordability of housing generally?

Mr Jean-Pierre Schaefer: There are two things in your question: the numbers and the affordability.

The Chairman: Correct.

Mr Jean-Pierre Schaefer: We understand, and you probably know already, that the figures are fairly high in France and the Netherlands compared with the UK. Last year, we built something like 350,000 dwellings, and you can see from the figures for the last 30 years that, since the 1970s, new construction in France has been much higher than in the UK, although it is true to say that, in the period before, construction in France was low compared with the UK. That is why it is very difficult to compare countries: because our histories are sometimes quite different. But the fact that we build these numbers of dwellings shows that in many markets, like the ones Bernard mentioned, there is a large supply of housing.

On your question about affordability, we should distinguish between the three different markets that were mentioned. In one market, social rented housing, the Government play a major role, because they take decisions that involve very little money—we can explain that later—but that have a strong impact on the decision to increase the numbers. To give you figures, in 2000, we built something like 40,000 social rented dwellings. The annual figure for the last three years has been 80,000. That means that, including during the financial crisis, we have been able to double our figures. Some advocates for poorer people point out that that is not enough for what we call a “tense market”, but 80,000 a year is quite high.

On the second market, owner-occupation, which Bernard mentioned, the policy has been more or less the same for years. There is a cheap loan, which does not play that much of a role but has a leverage effect that is more or less backed by public funds. The main effect on ownership is through a rather wide range of measures, which Bernard might explain later.
The Chairman: You say that 10 years ago the number of houses being built increased significantly. What prompted that increase in housing development?

Mr Jean-Pierre Schaefer: In the public sector it was prompted partly by public funds, but here “public funds” means funds from the government budget and from local authorities. Furthermore, the production of social rented housing was backed by a powerful financial mechanism that is independent of market mechanisms.

The third market that I wanted to mention in which the state, the Government, play a role is investment in private rented accommodation, and here it is very clear that since 1984, I think Bernard said, the mechanism has been a tax rebate.

The Chairman: A fiscal incentive.

Mr Jean-Pierre Schaefer: A fiscal incentive. This is the carrot. This carrot is very efficient, because when you decrease it the figures decrease. When you increase the size of the carrot, the figures increase. It is very sensitive to the measure, not only the real monetary aspect but sometimes the legal framework.

Q230 The Chairman: On another topic, we have taken evidence during this inquiry about the demand for housing. It has been suggested to us that net migration into the United Kingdom will lead to an increased demand for housing of about a third over the next 20 years. Is that also the case in the Netherlands and in France, and something that the Government or local authorities are planning to address?

Professor Hugo Priemus: The Netherlands, like Germany, has experienced a large influx of refugees. Last year, there were 60,000, 70% of whom acquired status and therefore the right to acquire some kind of accommodation. This year, there are no official estimates, but the experts think that there could be an influx of 90,000, the vast majority coming from countries where there is real need. There is hesitation in the national government to change the planning and to say, “Okay, we have to increase not only housing production but social housing in particular”, because these are all groups that belong to the target group for social housing. I would say that there is a certain ambivalence in, on the one hand, seeing that this is going to happen; nobody dares to make an estimation for a longer period and to say before the next year that the position is clear. But I do not think there is impact in the measures.

I will try to sketch out what happened in the Netherlands after 2008 when the crisis hit us. We have a number of internationally active banks, and our national Government bought and saved a number of them: ABN AMRO and ING. After that, there was a great need for the national Government to introduce budget cuts and limit their financial commitment. We are champions in two respects. One is that we have beaten Denmark in the size of our mortgage debt: €650 billion. The idea is that we reduce that. At the same time, we have the policy of the European Central Bank and Mr Draghi, which has led to very low interest rates, and as a result the mortgage debt is increasing; there is an increase in the share of owner-occupation. That was not a clear policy goal, but it has happened.

In the rented sector, the idea is to increase the rents considerably, particularly in the social rented sector, where the rents are regulated. In the last few years, the average rent
increase has been 5%, while the incomes of the tenants have stayed the same, more or less. That is also an affordability issue. What we are seeing now is very difficult to understand. If we compare 30% social housing, 10% private housing and 60% owner-occupation, and take the value of a dwelling in the commercial rented sector as a point of comparison, we see that the value of the same dwelling, if it is social rented housing, is much lower, because some years ago the Government introduced a landlord levy particularly for social landlords—the housing associations.

So, on the one hand, we have state aid as a result of extra guarantees from public authorities, and the value of the state aid in the social rented sector is estimated at about €700 million. That is a lot of money. But the landlord levy is twice the size—€1.4 billion each year—so we would expect an increase in the production of dwellings as a result of the landlord levy, and the investing activities of the housing associations to be much lower.

On the other hand, a very tiny reform was introduced in the owner-occupier sector. The mortgage interest deduction has decreased a little, but the impact of the worsening situation for the owner-occupiers is overcompensated for by the lower interest rates, so the same dwelling in the commercial rented sector has a value of about 20% more as a result of the ongoing support in the mortgage interest deduction.

The Chairman: And the impact of migration in France?

Mr Bernard Vorms: Yes. Migration is obviously a political issue, but it is not an economic one, since, as you know, people want to come to England; they do not want to stay in France. So we cannot say that it is really an issue that affects the number of new constructions.

Q231 Baroness Blackstone: This is a very broad, general question. Could you tell us how the planning system works in both the Netherlands and in France, and what lessons from your planning systems might we learn here in the UK, where quite a lot of people feel that there are barriers, because of our planning system, to the significant development that is probably desirable?

Mr Jean-Pierre Schaefer: If I understand the word “planning” correctly from the French point of view, we cannot say that there is planning for housing as there was in the 1960s. Of the three markets that we mentioned, apart from for social housing there is nothing like planning, whoever is in government. It is true that various Governments have said that there is a target for the number of houses to be built, but those targets are theoretical, so that is not real planning. The only area where that might apply is social housing, for which I mentioned figures, and that is planning because the figures at national level are shared between the various regions. After that, in each region it is the local authorities that are in charge of housing planning. At the level of towns, large or small, there is a “programme local de l’habitat”, a local housing plan, that more or less decides the number of houses to be built. But even the local authorities are part of regulating social housing companies in that they allocate numbers. “In Rennes,” they will say, “we are going to build 2,000 social housing units in the next three years”. That is a kind of planning.
With regard to private investment, there is no planning. The local authorities can only regulate the authorisation of building, but they cannot oblige the developers to build. I do not know if I am being clear about this. For us, the word “planning” does not mean much for two of the markets—private investment and owner-occupation. Local authorities can only encourage builders and sometimes develop building sites with either private or public bodies. Is that clear for you?

**Baroness Blackstone:** There is probably a difference between planning as you have interpreted it and our interpretation of planning, which in a sense is a term of art here and means the system of regulating decisions about what can and cannot be built in any particular area. I have a house in France, and I think you have a planning system in that sense. As a private owner-occupier, or as a private company that builds properties, you cannot just buy some land and then build on it regardless of the local regulations about the nature of what you are building and the particular area that you want to build in.

**Mr Bernard Vorms:** If I understand correctly, perhaps you mean the rule in some areas that when you build you must have more than 20%, or 25% now, of social housing available to rent. But perhaps I misunderstood and you want to know about the new rent regulation in France.

**Baroness Blackstone:** Not about the rent regulation, no.

**Mr Bernard Vorms:** The only regulation in some tense areas, in some cities, is that you have to have more than 20% or 25% of social housing, otherwise the city will be fined. That is the way it works.

**Mr Jean-Pierre Schaefer:** We must make the point that it does not mean that one particular developer has to have that 25% of social housing in his or her programme. It means that the local authorities must consider that in the 1,000 new constructions in the next few years in the area, they should check that 25% overall will be devoted to social housing partners. That does not mean, in answer to one of your questions, that the regulation is the same as in countries where there is a certain percentage in each programme. Instead, there is an overall balance that the local authority should follow, and this should be scrutinised by government agents. The government authority will check. The town, and there are about 2,000 local authorities in France, has 10 years to reach more or less 20% or 25%; it depends. In that case, the word “planning” is correct. The rule is that it is the local authorities will monitor that. If a developer builds just 30 buildings, they are not obliged to make six of them available for social housing, because social housing should be managed by social housing companies.

**Baroness Blackstone:** I understand what you are saying about the regulation that requires private sector builders to build some social housing as well as housing for market sale or market rent, but do you not have a system where objections can be made by local residents to new developments? That is what we call a planning system here. You cannot just go and buy a piece of land and then build, regardless of the regulations in the local area on the height of the building, its effect on other buildings, the infrastructure that is required, and so on.
Mr Bernard Vorms: When it comes to the difficulties and main hurdles for new construction, the reasons are the same as the ones in your Kate Barker review of 2004. In my opinion, the main hurdles are exactly the same.

Professor Hugo Priemus: There are some elements of national planning in the Netherlands. Infrastructure is funded nationally, for instance, so it is clearly a matter of priority for planning on the national scale. We have spatial regulations, which have an impact on the local scale. The spatial legislation includes something like an ecological urbanisation letter, which says that it would be better not to build on greenfield locations but to try to strengthen cities, and so on. However, as I explained earlier, there is no planning for housing production; you cannot find it anywhere. The national Government provide information about development demand, and that is important. On 5 April, the new housing need study will be published, which is really something because we do not have a census. That study will be more or less a proxy census, with elaborate data on housing demand. Planning is then in the hands of municipalities and a political matter. They are supposed to look at the demand and co-ordinate it on a regional scale. When they have established that housing vision, the idea is that achievement agreements are made between housing associations and local government for social housing only. There are no such agreements between commercial developers and local government, only between housing associations and local government. There is no investment planning, but since last year there has been an agreement on energy and its introduction. As part of that, we see planning as being about improving the energy quality of housing properties and so on, but not about the number of houses built.

Baroness Blackstone: But that is not what planning means here either. Are there any incentives to the municipalities or local government to release land for new housing where it is needed? Are there ways in which you can persuade local residents who are opposed to such developments to accept them so that you can add to your housing and meet the housing needs of a particular area?

Professor Hugo Priemus: Perhaps it is management by speech, but I am not aware of any instruments used by national government to influence what is going on at the local and regional level.

Mr Bernard Vorms: In this field, the issue in France is changing the level of the decision so that the planning is not so close to the private citizen but at a higher level. That is a permanent issue.

Mr Jean-Pierre Schaefer: When encouraging the local authorities to accept a social housing project, for example, the fact that the town is obliged to reach the figure of 20% or 25% within a certain period, otherwise there will be a fine, is—I put it this way—an argument that is put to the local authority, which then says, “We are obliged to do that even if the neighbours complain”. I exaggerate only a little. The other point is that the neighbours might complain about any construction, as Bernard mentioned, but overall the fact that we managed to build these 350,000 dwellings shows that the neighbours are not always against any construction.
Q232 Baroness Wheatcroft: I would like to move you on, gentlemen, to the shape of the housebuilding industry in your country. In the UK, it has become dominated by a few really large companies, which tend to buy big sites and then develop them slowly. There is a feeling that they sit on the land in order to make longer-term profits out of it. Does your industry follow that pattern, or do you have more agile, smaller builders?

Professor Hugo Priemus: I have read of this experience in the UK. It is not at all the case in the Netherlands. We have huge variation in the size of building companies, including developers. The larger ones are mostly active in infrastructure. Before 2008, they were very active in acquiring land, and they had big problems when there was not the production that they had expected. So they did not have the inclination to sit on the land; they had an inclination to get rid of it. The same applies to local authorities that are also the proud owners of too much land. You see that local authorities want to develop the land when there is no building activity. I do not think that the market power of developers and builders in the Netherlands is strong enough to push up prices. I do not see that happening.

Baroness Wheatcroft: And in France?

Mr Jean-Pierre Schaefer: The situation in France is more or less the same, because while the main developers might be more powerful in relation to large developments, they are always under a certain amount of control from local authorities. The most important aspect is that more or less half the production of housing is houses, and houses are built on a very small scale—either one by one, for single-family dwellings, or in groups of five to nine, which are built by very small developers who are sometimes contractors. There is a large network of about 2,000 companies, so there is very great competition, and big developers do not occupy the single-family house market. When it comes to flats and large developments, there is a balance between owner-occupation and social housing. It is true that negotiations over the price of construction by social housing companies are quite different, because social housing companies are very powerful bodies, so when it comes to price I would say that they can manage. Is that a clear explanation?

Baroness Wheatcroft: Yes it is, thank you. How much do the smaller builders build for individual customers—what we call self-build here—and what evidence is there that this can produce much more economic development?

Mr Bernard Vorms: I think that around two-thirds of the construction of new housing, apart from social housing, is single-family houses, although not in a tense market. When you go outside the first ring around Paris, Lyon or the Côte d’Azur, the main construction of new houses is single-family houses built by very small entities. So in my opinion, although I am not a specialist in that area, there is tough competition among these small builders, as there is among big builders for huge projects in a tense market.

Q233 Lord May of Oxford: I have a curious sort of question. It is not exactly what we have been talking about, but it relates basically to the ratio of residential mortgage debt to GDP. We have been given a fascinating document on the subject, comparing 18 European countries. The third worst, by a large measure, is the UK, while the third best is France. The difference is not small; it is by a whole factor of two. Does that mean that, although there
Mr Bernard Vorms: You are perfectly right: the level of mortgage debt to income is relatively low in France, and it has increased less than in countries where mortgages were in pain. When you try to characterise situations where there were a lot of repossessions and a credit crunch, you find that in all those countries there was a very high level of home-owner occupation, a very high level of mortgage debt that was increasing quickly, and some characteristics of the credit supply channel that allowed banks to transfer the risk either to the mortgagers or to the investors. In my opinion, and it is not an original one, the reason why we had no problem with mortgages was because French citizens have a very low level of debt while the French state has a huge level of debt.

Professor Hugo Priemus: Regarding the Dutch situation, although we are a densely occupied country we are 70% owner-occupied, and I guess that the share of owner-occupation of new dwellings will be of the same order of magnitude. Recently, there have been more apartments and high-rise buildings, because since the start of the century cities have been hugely economically successful. The average income in Amsterdam, for example, is 10% more than the average in the Netherlands, while in Rotterdam and The Hague it is 8% more. In general, we see huge differences in housing needs.

Lord May of Oxford: It just seems to me that if in France you have to pay half as much for your debt-to-GDP ratio as we do here, that is a hell of a disadvantage that we are under.

Professor Hugo Priemus: Yes, but you have to relate the huge mortgage debt rate in the Netherlands to our pension systems. Many people have a tradition of saving a lot, so if you add housing debt to what you have saved for your pension, there are some problems in relating them. That makes a difference. This is a matter of concern for the OECD and the IMF. In the Netherlands, it is more a matter of concern for the banks than for the building industry or for owner-occupiers. So far there have not been too many problems in paying the debt and so on. There has been discipline so far.

Q234 Lord Turnbull: May I clarify one point with Professor Priemus? What is the rate of new build in the Netherlands, equivalent to the 350,000 that we have heard about from France?

Professor Hugo Priemus: If the rate followed the need, there would be at least 80,000 a year. In the 1970s, we produced 150,000. At the moment, it is something like 50,000, which is not enough even to keep up with current need.

Lord Turnbull: The scale of new build in the Netherlands and Britain is roughly 1:4. Is that about right?

Professor Hugo Priemus: I do not know.

Lord Turnbull: In terms of population.

Professor Hugo Priemus: Yes.
Lord Turnbull: Those numbers are still bigger than ours. Can I clarify the question of what we call Section 106, which is the social obligation that housebuilders have? In our case, the obligation to provide social housing, or to provide the money for it, rests with the developer. You are saying that in France it rests with the local authority. In our system, it is the developer that has to find the money for the 25%. Who funds the 25% that the local authority has to come up with every time 100 houses are built?

Mr Jean-Pierre Schaefer: The social housing companies own and manage about 4.7 million units of social housing, which is slightly lower than the British figure—I think you have about 5 million. But the figures have been steadily increasing through the following mechanism. The funds are provided by 40-year off-market loans that are provided by a special financial body. The savings are from something that is more or less like the ISAs that you have in the UK.

Lord Turnbull: This is Livret A.

Mr Jean-Pierre Schaefer: Yes. It is a special fund that provides about 6% of the financial assets of the households in France. It is a special savings account, demand saving, of about €240 billion. This money is used for financing social housing. In order to finance a project, the social housing company will borrow about three-quarters of the funds through this special scheme. The last quarter will come partly from the state in the form of subsidies, partly from local authorities, which will also provide some subsidies, and partly from social housing companies’ own funds. Those companies will probably find that for a €120,000 project they will borrow about €90,000, they will find about €10,000 to €15,000 themselves, and the balance will come from the state and local authorities.

Lord Turnbull: So the effect is that if 1,000 homes get built in a particular commune, the local authority then has an obligation to build, say, 250, but the funding for that is available from outside, so it does not have to find that from its own resources.

Mr Jean-Pierre Schaefer: You are perfectly right: the local authority has no obligation to find that. The state, the government, has a budget for, let us say, 80,000 dwellings at about €5,000 per dwelling, so the public money—the budgetary expense—is very low-level. The local authorities are not obliged to provide the money, but, as Bernard pointed out, they provide a guarantee for the loan. That is very important, and that has been the case since we started social housing companies about 100 years ago: their loans are always guaranteed by local authorities—

Lord Turnbull: Right.

Mr Jean-Pierre Schaefer: —with no cost.

Lord Turnbull: You have discussed the fact that you have three main kinds of tenure. We have the same three kinds of tenure, but the present Government have a very strong preference for the first, which is owner-occupation and in particular helping owner-occupation by first-time buyers. Am I right in saying that there may be a small degree of preference in France for owner-occupation, but the Government are still committed to supporting the development of the other two?
Mr Bernard Vorms: Yes. You are perfectly right. Since 1976, Governments have been supposed to foster ownership. I think we passed over 50% in 1984. All Governments, whether conservative or labour, foster home-ownership, but all Governments also support social housing, as you said—as well as the private rented sector since 1984. There are very few constructions that do not have the support of the public authority.

Lord Turnbull: When social housing is built, you say that they have access to the Caisse des Dépôts or Livret A—this privileged source of finance. When the French Government are drawing up their borrowing requirement, financial plan or whatever, and presenting it to the European Union, that borrowing from that fund counts as borrowing by the—

Mr Jean-Pierre Schaefer: Definitely not, because it is private money. About €130 billion from these funds have been loaned to social housing companies in France. It is social housing company debt, and it is funded from private funds, because Livret A is private funds.

Lord Turnbull: The deposit is a private fund.

Mr Jean-Pierre Schaefer: Yes.

Lord Turnbull: You do not include the borrowing. When a social housing developer borrows from Livret A, that borrowing is not treated as part of the borrowing of general government.

Mr Jean-Pierre Schaefer: Of course not, because it is not government budget.

Lord Turnbull: Even though some if it is guaranteed by government.

Mr Jean-Pierre Schaefer: Is it guaranteed by local authorities? Yes. The point is that we have no example of failure.

Mr Bernard Vorms: I must add that it is guaranteed by collectivity via a local authority, but behind this local authority there is also a guaranteed fund.

Lord Turnbull: Right. You have created a mechanism whereby social housing can borrow from a well-resourced fund. Even though these institutions are heavily regulated and supported by the state, you have manged to find a way of getting that borrowing off the the republic’s balance sheet.

Professor Hugo Priemus: In the Netherlands, this would be considered state aid. Also, the guarantee is not used, because in practice it has the impact of a small decrease in the interest rate. You asked whether the Government have a preference for one tenure or another. In 2010, a committee of so-called social and economic experts published a paper, *Towards an Integral Housing Market Reform*. Their point of departure was that we need, as far as possible, a tenure-neutral policy. It is not the Government who decide; it is the people. In the Netherlands at the moment, commercial rented dwellings are given clear and explicit priority over social rented dwellings—a transformation from social rented to commercial rented. Our Housing Minister even comes to London to advocate a large social rented sector to investors here, such as Round Hill Capital. There is no official policy that promotes owner-occupation, but different parties have that position, of course.
Lord Turnbull: The problem we have had in Britain is that, by and large, the residents of a particular local authority do not want new housing, and if it adds 10% to the number of dwellings in its area and the local tax revenues from that, we have created a system in which if you have more tax revenues you end up getting less government grant. So we have created a system where the local authority has no incentive to increase its population and thereby get increased revenues. Am I right in saying that your local taxes that have been created by new building stay with the local authority?

Mr Jean-Pierre Schaefer: That is a very important point, and it is not always very clear to local authorities, because each time something is built it might appear that some expenses, such as for schools and some infrastructure, will have to be paid. There are two main local taxes. One is what we call the taxe d’habitation—a habitation tax, the fact of living there—which is paid by the resident, who might be a tenant or an owner-occupier. The other tax is land tax on the building, which we pay. It is a huge amount of money, because it is a very large part of the income revenue of local authorities. From that point of view, building is a very good operation for local authorities, but it might not be seen as such immediately.

Lord Turnbull: Right. That is certainly the opposite of what we have heard.

Q235 Lord Forsyth of Drumlean: Looking at the figures for tenure in France over the last nearly 20 years, home ownership has gone up to quite a high level, but both private rented housing and social housing have gone down. How important is institutional investment in the private sector in France and in the Netherlands, and are the Government encouraging this?

Mr Bernard Vorms: Today, more than 84% of the private rented sector is owned by natural persons who own fewer than three dwellings. We have no more institutional investors such as insurance companies. They went out of the housing sector, as in most countries, as shown by a survey by the LSE. Every Government has said that they would foster investment by insurance companies and other institutional investors, but the fact is that in most countries now the private rented sector is mainly comprised of natural persons.

Lord Forsyth of Drumlean: Do you mean small landlords?

Mr Bernard Vorms: Small landlords who own fewer than three dwellings.

Lord Forsyth of Drumlean: Is that a consequence of rent controls?

Mr Bernard Vorms: No. I think it is a consequence of uncertainty, because relations between tenants and landlords are subject to permanent change. When you want to protect the tenant, you change the rules. When you want to foster investment, you change the rules. It is not liquid. Institutional investors prefer to go into offices or commercial buildings, but no longer into housing.

Mr Jean-Pierre Schaefer: We could add that the question of liquidity is probably a strong difference between individual households that might invest in one, two or three flats, and large companies that are looking for short-term investments. That might be an explanation.
The other point is that the private rented sector has been developed since 1984 through a tax rebate—I mentioned the stick and the carrot—which has been bigger or smaller according to the period. It has led to the construction of 1.3 million new dwellings. The main idea was to increase the quality of the private rented sector, which has the image, and perhaps the reality, of bad or old buildings. The investment over the last 30 years has provided a large supply of new dwellings.

Lord Forsyth of Drumlean: Professor Priemus, I think you said that in the Netherlands the commercial rental market had been identified by the Government as a solution and a tenure to be stimulated, but that does not seem to have happened.

Professor Hugo Priemus: That is right. In the Dutch tradition, they have formed many different committees in turn to come forward with proposals.

Lord Forsyth of Drumlean: I think we have that tradition as well. This might be one of them.

Professor Hugo Priemus: One of the problems in proposing and judging those solutions was state aid. If you really wanted to stimulate private renting, all of a sudden there could be state aid, but that has limitations. We are now in the same position as the UK years ago when it was the country with the smallest share of private renting. Now we have the smallest share: 9% or so. When the institutional investors—the pension funds and insurance companies—compare international options, they think very often that the Netherlands economy is a bit too slow, and even that the EU economy is not spectacular, so they invest in Australia and other parts of the world where apparently there is a nice combination of risk and yield.

Our Minister of Housing is trying to stimulate this area. He is clear about that goal, but his success is limited. There are certainly no subsidies. It is always good to know that the Netherlands now has a system where there is no subsidy at all for the rental sector. As a result of our housing policies, there are two open-ended schemes. One is the market debt interest deduction, and the other is the rent rebate. As you can imagine, when you increase the rents considerably, the public expenses for rent rebates also go up. Still, the real impact of the preference of national government for stimulating private renting is limited.

Q236 The Chairman: Could I come back to the question that Lord Turnbull was probing? To what extent do local authorities and housing associations have the opportunity to fund themselves independently of central government? In Holland in the early 1990s, housing associations were liberated, and it would be interesting to hear from you about their powers for raising money, what oversight the Government have of that, and whether that has been a successful liberation or whether there have been some problems.

Professor Hugo Priemus: This is an important point for understanding what is going on in the Netherlands. In 1995, we had the grossing operation, in which all of a sudden the property subsidies disappeared and public loans were made private. The opinion that you will hear most often is that that was a good method for stimulating entrepreneurship, variation, initiatives and so on. But step by step we discovered, as did national government, that there were some side effects that we did not like. At one point there were more than 100 directors of housing associations—we have nearly 400 housing associations—with a
salary higher than the Prime Minister’s, which was a bit peculiar. We saw mergers all the time in which some, although not all, of the housing associations became huge and powerful. We saw all kinds of activities that at first glance we would not relate to the traditional mission of housing associations, such as the well-known example of the housing association in Rotterdam that had an investment in a huge boat, and huge cost overruns. Some housing associations said, “Well, Robin Hood was a nice person. When we invest in owner-occupied dwellings, we can make the same profit as commercial developers and use that money for extra social activities”.

When the crisis started in 2008, it was clear that a number of housing associations were losing not millions but billions of euros in developing owner-occupation as demand collapsed, and in acquiring positions in land that had to be reduced in value. A number of housing associations came to London to learn about modern financial markets and came back to Holland with derivatives. Some of them lost billions of euros. One, Vestia, has become very famous, because it lost €2 billion and is being supported partly by partner housing associations. So yes, we were glad about the change in 1995, but there were a number of side-effects that we did not like. That is why, in 2014, a parliamentary inquiry on housing associations was started, initiated by what had been in the newspapers. The report was published in 2014. Last year, we had a revised Housing Act that was the political translation of the lessons learned. When you read the Housing Act now, you see that the housing associations have to focus on social housing, not on other kinds of investment.

**The Chairman:** Can housing associations still borrow independently of the Government?

**Professor Hugo Priemus:** Yes. Most of them have a sound financial situation. Risk is backed by national and local government—that is, state aid; the €700 million per year that you mentioned earlier. We also have two banks that are very active in the area of housing associations and local government. One is the municipality bank, which is a public bank, and the other is a water board company that is also a public bank. These are banks that on the one hand are commercial, like any bank, but which have a strong relationship with their area. They have managed to continue financing housing associations since 2008. You could say that finance has never been a bottleneck for housing associations.

**The Chairman:** And local authorities in France, if I understand Mr Schaeffer’s answer to Lord Turnbull correctly, are able to borrow, and their borrowing does not count as part of the national debt. Is that correct?

**Mr Jean-Pierre Schaefer:** I would like to point out that there is a difference between France and the UK. When we speak of social housing companies, there are two kinds in France. Some are offices, which are considered to be public offices but their accounts are entirely separate from those of the local authorities. They are really economic bodies that are independent of the local authorities, even if the chairman might be a representative of the local authority. The second kind of housing companies are like co-operatives—the sociétés anonymes. They have private status and are independent of the accountancy of any local authorities. I mentioned that the local authorities provide a guarantee for the loan—this was settled at the beginning of the 20th century—but they are not obliged to do so. If the local authority does not want to guarantee the loan, the social housing company will take the guarantee from a special fund that is settled, as in the Netherlands, by all the housing
companies. Is that clear? You mentioned that the debt of the social housing companies is about €140 billion. I just calculated that it could be considered, although this is purely theoretical, that the market value is somewhere above €400 billion. So the level of debt is altogether rather good. As in the Netherlands, overall the financial situation at present is good.

The point is that the companies are controlled. The situation with Vestia, for instance, as well as some other examples, could not happen as all their activities are controlled by public agencies. There is a public agency in charge for each five-year period, controlling and checking the companies’ accounts. Social housing companies might create developments and sell flats. That is possible. But they make something like 2,000 or 3,000 a year, and it might be only social ownership. If a buyer has an income ceiling above social housing levels, for example, the social housing company will pay a tax and will be considered to be a private developer. So the examples in the Netherlands could not happen, because for each five-year period they are controlled.

The Chairman: I see.

Professor Hugo Priemus: May I add something that relates to the Housing Act that I mentioned earlier? The Act is not concerned particularly with housing associations that use state aid for market-oriented activities. They have said that every housing association should come forward with a proposal this year in which they make clear that this part is social, with a rent lower than €700 a month, while that part is not social but commercial. When we look at the housing stock now, 4% is not social but market-oriented. That looks simple, but the rents are regulated over a very long period on the basis of valuation points. You could argue that when a dwelling has 142 valuation points or more, it looks like a social rented dwelling but it could move step by step to being a market-oriented dwelling. Then we would be talking not about 4% but about 40% to 50%. This is going on now. So we have to split each housing association, whether administratively or legally, into the social and the market-oriented sectors, but is the market only 4%, or could the share be higher? That will be clear at the end of this year, I guess.

The Chairman: Thank you very much, gentlemen. That brings this session to an end. Thank you for your most helpful answers.
SUBMISSION TO THE HOUSE OF LORDS HOUSING POLICY REVIEW COMMITTEE.

SUBMITTED BY THE PROPERTY 118 LANDLORDS GROUP

INTRODUCTION

The following information is intended as evidence on how Clause 24 of the Summer Finance Bill will directly cause significant rent rises. The extracts below have been taken from a Property 118 forum thread entitled ‘Are most landlords undercharging?’, first published on 6 November 2015.

The names are shown exactly as they appear on the forum, the quotes are direct extracts from the poster’s own words, and wherever possible, the geographical location of the poster has been included to support the fact that this is a country-wide issue. Any grammatical errors are from the original posting. Editing has occurred only for brevity or relevance.

It may also be worth noting that when this was applied in Ireland – and with only a 25% reduction in finance costs claimable – rents went up by 24% over the period, with some sources suggesting that it was nearer 40% - the 24% had been a government figure which was not necessarily truly reflective of the facts.

Many more comments than these are available, but these 25 were chosen as a good example of how landlords feel about keeping rents low for their tenants and the inevitable consequences of Clause 24.

THE WRITTEN COMMENTS

1. James Fraser – Stevenage

I have tenancies which are up to 10 years old and have never raised the rent on in-situ tenants. At a time when ordinary 3 bed houses are storming through the £1000 barrier, even 1100 in some cases, my rents are resolutely still at £750. In the light of the tax announcements, I have written to tenants to say that from next April rents will become 850 and from April 2017 they will again shift sharply upwards.

I’m angry about this as I don’t want to cause my tenants unnecessary harm (which this will) but it is being forced upon me by clause 24.

I can give you examples of many other landlords in this position, including some in central
London. We generally want to pay our bills and earn a profit rather than bleed tenants dry, but no one wants to understand this!

2. Alison King

I do an annual rent review but these usually result in “no change”. Whilst inflation is low and interest rates stable I have no extra costs to pass on in any case. On principle I prefer not to increase rents except between tenancies as my tenants are good ones and I want to keep them.

I have one tenant who has spent a lot of their own money improving the property and I have no intention of raising their rent for a very long time as it would be morally unjustifiable. I would rather not raise the rents for my existing tenants unless I absolutely have to.

3. Lorraine Grundy – Cockermouth

I’ve had the same tenants in my 3 bed property for the past four years and the rent today is the same as it was when they first moved in. I also fix things as soon as they are reported as I like to keep my tenants happy.

4. Danny H

I’ve never raised rents during a tenancy. Why rock the boat for an extra few quid a month? I will pretty much be forced to once the new tax kicks in and interest rates move up however. I will firmly be blaming the tory government for the rent hike when I break the news to my tenants.

5. Dr. Rosalind Beck – Cardiff

I have a pensioner and her adult son living in a two-bed property, whose rent has been £500 per month since they moved in 2008. I have just increased it to £525 as a direct result of Clause 24 and will increase it by the same amount each year now, or possibly more as I believe within a year or two it could probably go to £625. In future, families like these will have to move out of these houses and into smaller accommodation as landlords are forced to max out the possible rents they can charge to cover the tax on finance costs. How many families will break up under the strain and end up costing the taxpayer even more and also lead to even more demand for housing as families break under the strain? There will also be costs to the health services with depression, anxiety and so on as money worries grow. The Government has considered none of this in its costings.

Tenancy duration 4 years and 4 months. Headline price now and for the 24 month tenancy that commences in Jan 16 is the same as it was on Day 1.

7. Edna – South-East England

Most of my rents have not increased at all or at least only by very small amounts over the last five years. I have always managed to keep up with any repairs and provided comfortable and safe homes. I feel very sad to be so vilified. Sadly I will now have to increase rents and sell some properties – otherwise I could lose my own home.

8. Gary Dully – Warrington

No [rent] change in 4 years. [Others] not changed in 5 years. Clause 24, Liverpool licensing and Welsh licensing will have an impact on rents shortly. The worst being Clause 24. Clause 24 will be devastating throughout.

9. Colin Miller – Scotland

A number of my tenants have been with me for several years and have not had a rent increase. As a result of Clause 24, that is about to change. I have started to increase rents and will continue to do so next year. Annual rent rises will be the norm going forward.

10. Mark Shine

I have never increased rent whilst a tenant(s) have remained in a property. In light of Clause 24, for the political elite to suggest that there will not be any future upward pressure on rents as a direct result is clearly nonsense.

11. John McKay – Peterborough

I have had tenants for over 8 years in some of my properties and have never increased rents. I have so far issued rent increase letters to around 25% of my tenants and it is purely because of C24. There is no other reason. The rent increases range from 5.5% to 12.5%. I perceive I will now be doing an annual 5% increase in most cases.
12. Peter Webb – North Yorkshire

We have never increased rents during a tenancy. One property in Liverpool has had the same tenant for 13 years with no rent increase. Due to C24 we will sadly be increasing this rent along with some of our other properties where they are currently below the market rate.

13. Andy Bell – Northeast Derbyshire

I have never raised the rent of a tenant. Although I’m now starting to feel the pressure to do so. I’m planning a big review of my position and at the moment I cant see any way to continue with a sustainable business in the long term providing good quality housing at the current rent levels. The changes are likely to have a big negative impact here as there is nothing left to squeeze.

14. Michael Fickling

It cannot be morally or legally defensible to charge tax way above what has actually been achieved in real profit AND also then push many of us up a tax bracket on ALL our earnings again on a mythical profit.

15. Ann Diamond – Kent

With recent legislation I can no longer offer tenants a property at a rent they can afford. Most of my tenants have been in receipt of some sort of housing benefit. When my properties next become empty I shall have to consider selling or only taking employed tenants.

16. Seething Landlord – North Somerset

We have 6 properties and have never increased rents during a tenancy, including two that have been running for 7 years and 5 years respectively. The rent on one of these is currently 10-15% below the market rate and we will reluctantly be starting to increase it in direct response to Clause 24, which has highlighted the need to maximize rents.

17. Mark Alexander – Norfolk

Effectively, clause 24 of the Finance Bill has awoken a sleeping giant. Across the UK landlords are likely to increase rents by billions as a result of this clause, whereas they probably wouldn’t previously have done so.

In around 30 seconds of the 2015 Budget the Chancellor has added billions of cost to tenants in terms of tax levies on landlords which will inevitably be passed on. The reduction in supply,
as landlords begin to sell to owner occupiers will make quality rental property even more scarce and this will also have an upward pressure on rents.

It could be argued that landlords should have increased rents annually but the reality is that until now, generally they don’t. This is going to change.

18. D. Kempson-Gray – North Yorkshire

I haven’t raised my tenant’s rent for the last 3 years, although I know that it is now about £150 pm at least below market norm for my area, on the basis that he is a good tenant and I appreciate the way he respects the property. I have notified my agent that on the renewal of his AST I will be asking for £75pm rent rise (about 6%). The costs of meeting recent/new legislation is behind this decision.


No in-situ tenant has had a rent rise. We have no standard schedule for rent increases but this is all about to change! In light of the tax announcements we will be having a big increase in the near future, followed by fixed 12-month increases.

20. Dave S – West Midlands

My Rents are increasing

With interest rates being so low over the last 7 years and good tenants staying I have only increased rents at change of tenancy and perhaps once every few years (I would prefer to keep my properties let rather than extended void periods trying to get the highest rent)

However in light of the possible increase in interest rates, constant legislation and in particularly clause 24 I have reluctantly written to most of my tenants in my portfolio of 20 properties to inform them that rents are having to go up forthwith and they have had notices. This will have a direct effect on 31 adults and 9 children. All my tenants are working and do not receive tax credits as far as I am aware.

I can put up with legislation (it sorts the cowboys out from the professionals, or should do!) interest rates are what they are and will change according to the economy but to tax a business even if it makes a loss cannot be right.

No surprise then that with a shortage of property, increased population (due to immigration, longevity and more single people) and the government creaming off additional taxation (even on loses) that rents are going to increase substantially over the next few years.

21. DC – Cambridgeshire
Most of our rents have not been increased in 6/7 years. Although we have deliberately kept our rents below the market average for our area we have indicated that rises will take place annually from now on. This change of direction for us is entirely courtesy of Clause 24. Clause 24 has prompted our plan to raise rents on a frequent basis but until next November comes around we haven’t decided what the increase will be.

22. Daniel Sanger – East Sussex

I have a property portfolio of 3 along with looking after the day to day running of my managing directors larger portfolio of 5.

Neither of us have ever increased rent until someone new moves in. We have just lost two tenants who have lived in one of my MD’s two bed properties for the last six years. They paid £650 p/m from start to finish. They spent the last six years saving and have just bought a house of their own, I don’t think this would have been as easy if we had increased rents. Current market rental value for this property is £875

If my MD increased his rents to market value he would currently be earning an extra £1045 p/m, £12,540 per annum.

Both of us will be increasing to at least full market value as a result of clause 24. Those who can’t afford to pay will have to be replaced.

23. CaZ - Plymouth

I too haven’t raised rents until recently on two of my properties, both at new tenant stage. However, they are both £10 to £15 pm lower than others in the area. I intend to speak to my agents and ask them how I should proceed in light of Clause 24. These properties were purchased as empty, undeveloped properties and my husband and I spent a lot of time and money upgrading them. This was done to give me a pension as I had to stop work early due to physical disability (too much hard work developing properties!). My pension is now disappearing fast and I am so disillusioned by the Conservative govt – I will NEVER vote for them again.

24. Roanch 21

Several of my tenants have been with me for over 5 years and their rents have never been increased. I rent 15 properties out and all the rents will have to increase next year. Maybe we should all increase our rents on the same date? Like a protest but also to get some media attention for our reason.
25. Trendo

Or we could just say it as it is .... TAT tenant added tax, collected by LL to give to government. Current rent of £550 is actually going to be frozen by me, but over the next few years it will increase by 20% to £660 with the phased introduction of TAT in line with government PRS finance plans, as a tenant I would also be furious and pass my opinions to government on this outrageous theft directly from tenants in the PRS ....... I think that is about as accurate as describing the new situation as a “20% relief”

CONCLUSION

The overwhelming sense one gets from these posts, and countless other research of landlords generally, is that the idea of landlords as greedy, selfish and money-grabbing is a myth. The vast majority of landlords keep their rents well below market value, over long periods of time, and care very much what happens to their tenants.

Most landlords do NOT raise rents during the term of the tenancy, and even those that do are careful to make only small increases.

Clause 24 will directly, and possibly irreversibly change that. A recent survey by the National Landlords Association revealed 44% of landlords feeling there was no option left but to raise rents. Landlords with significantly higher bills will either leave the market, thus further constricting supply, or will put rents up significantly to compensate. Both outcomes can only have severe effects on both landlords and, to some extent more importantly, tenants. Landlords do not want to see tenants evicted or struggling with higher bills. Most of us work very hard indeed to avoid both outcomes, but it is now being forced upon us by Clause 24. Please do whatever you can to mitigate this ruinous clause.

Thank you for reading.

5 December 2015
04 January 2016

Introduction
Thank you for the opportunity to respond to this inquiry into the Economics of the UK Housing Market. We are very pleased to have the chance to provide more information about Property Partner: our business, what we do, and how we believe the UK housing market can be reformed.

Please contact us if you require any further information or clarification on any of the points included in our response. We would be happy for our CEO and founder, Dan Gandesha, to give further detail and evidence to the Committee if helpful.

Our response focuses on six of the consultation questions which we answer after providing a summary of our business model and objectives:

- How can we increase the supply of reasonably priced private housing in the UK?
- Are there tax measures that could improve housing supply and affordability?
- Is there a case for restricting rent increases in the private sector?
- Have the 2014 reforms to Stamp Duty had an impact? Should there be further reform to Stamp Duty?
- How can we improve the availability of low cost rental properties?
- Will the current trend for a decline in home ownership and rise in private rental continue and is it desirable?
Property Partner – Written evidence (EHM0143)

How Property Partner works

Property Partner is an online platform that enables anyone to invest in individual residential properties through asset-backed equity crowdfunding. The business publically launched on 19 January 2015 from London headquarters and, since then, has grown rapidly from 10 to 35 employees.

So far, via the company’s platform, over 5,200 individual investors have funded the purchase of over 130 individual properties worth in excess of £18 million; initially in London but now expanding to other regions within the UK.

A UK limited company (“SPV”) acquires each property and holds title to it. Investors are able to acquire a beneficial interest in the shares of each SPV, which legally entitles them to the economic benefits that flow from the property owned by the SPV. Legal ownership of shares in the SPV is retained by a nominee company with no economic interest in the shares so that Property Partner can easily manage and administer the SPV in accordance with its investor terms and conditions.

Property Partner exchanges on properties before listing them on its platform. Investors can invest as much or as little as they like; starting from £50. Once the property is fully funded the purchase completes and investors receive a monthly share of rental income in the form of a dividend from the SPV. Property Partner charges a 2% fee on initial investment with no ongoing charges. Property Partner manages the advertising, letting and maintenance of the property and is paid a management fee equal to 10.5% of the rent received by each SPV for these services.

The Property Partner platform also enables investors to offer their shares in an SPV (and therefore, in effect, their fractional interest in an underlying property) to other investors at a price of their choosing. Successful sale is dependent upon price and demand. In the event that an investor is unable to sell their shares on the secondary market, there is a backstop 5 year liquidity event to provide guaranteed exit at market prices for those that want it.

At the time of sale of a shareholding or of the property itself, if the property has increased in value, the investor realises a capital gain.

Property Partner is directly authorised and regulated by the Financial Conduct Authority as a small scope Alternative Investment Fund Manager (No. 613499).
Our mission

With the power of the crowd, we can help to solve some of the structural problems in the UK housing market. Property Partner has turned property investment into a force for good by making it mutually beneficial for all parties:

- Better for investors by providing easy access to institutional grade investment opportunities that would not otherwise be available to them, such as entire blocks of apartments, and in a hassle free manner; as well as a means of exiting investments when required.
- Better for tenants because, as a professional investor, we know how important it is to keep tenants happy and to make realistic provision for unforeseen costs.
- Better for housing supply by helping small developers get building.
- Better for the UK economy by helping savers build up deposits in a way that is linked to the housing market and (coming soon) assisting in shared ownership and equity release.

Property Partner is opening up the residential property market to everyone, and we are investing responsibly, with a view to long-term stability. Our ambitions are also in line with how the government sees the future of the UK housing market.

For more detailed information please see our blog post here: https://resources.propertypartner.co/better-than-buy-to-let
RESPONSES TO QUESTIONS

**Q. How can we increase the supply of reasonably priced private housing in the UK?**

A. We would urge the Government to be mindful of new and innovative “proptech” platforms such as Property Partner: allowing new market exchanges and property technology to unlock new capital for smaller British builders. This will help investors diversify their investments linking their fractional ownership to the housing market. Businesses like ours can help to increase housing supply by supporting developers and widening the scope of shared ownership schemes.

**Q. Are there tax measures that could improve housing supply and affordability?**

A. In the Autumn Statement, HMT sought through increased stamp duty to take the heat out of the amateur buy-to-let market, on the grounds that it tends to push up prices, offers lower standards and shorter tenancies, and can be dangerously leveraged – with extremely high loan-to-value ratios in some cases.

We understand why HMT are taking action. We agree with and can work within the guidelines but it is important not to inadvertently prevent activity that supports the government’s housing objectives by applying tax measures indiscriminately. For example we have supported SME developers to build more houses, and purchased entire investment blocks to provide higher quality rental stock, all in a way we believe is in line with government objectives, but these kinds of activities could be rendered non-viable owing to proposed tax changes.

HMT need to be careful not to damage buy-to-let lending that may finance, or help to finance, the construction of new-build homes. Given the Chancellor’s stated intention to support the sharing economy, which includes fintech, HMT equally need to be cautious to avoid making changes that have the unintended consequence of damaging that sector.

Accordingly we believe that SDLT changes are an appropriate measure to improve housing supply and affordability by addressing unhelpful trends in the buy-to-let sector. However, this should not come at the cost of unintentionally damaging burgeoning businesses in the sharing economy that do not trigger and indeed may assist in fixing those unhelpful trends.

**Q. Is there a case for restricting rent increases in the private sector?**

A. We do not believe that implementation of measures to (artificially) restrict rent increases would be helpful. We believe that the best way to keep rents fair is to professionalise the private rented sector, and to encourage “proptech” platforms like Property Partner to bring newer forms of online innovation to what has previously been an antiquated and amateur market focussed on short term gains.
**Q. Have the 2014 reforms to Stamp Duty had an impact? Should there be further reform to Stamp Duty?**

A. We believe further reform is required. We welcome any effort to reduce distortion in the property market. As discussed above, however, we also welcome the Government’s efforts to professionalise the private rented sector (in part through stamp duty changes), because we believe that Property Partner and “proptech” are part of the answer to structural problems in the UK housing market. We are helping to improve standards for tenants, offering longer and fairer tenancies, and increasing the UK’s housing supply at the same time.

**Q. How can we improve the availability of low cost private rental properties?**

A. We would urge the Government to further incentivise innovation in “proptech” and platforms such as Property Partner: allowing secondary markets and other similar investment platforms to unlock extra capital for smaller British builders. This will help to improve the availability of low-cost private rental properties. Proptech can also act as an alternative to the current rental market, ensuring that reforms do not have a sudden shock effect of lowering rental stock available. Proptech can assist in transitioning from the existing unstable and antiquated buy-to-let sector towards a more stable, diversified and professionally managed sector.

**Q. Will the current trend for a decline in home ownership and rise in private rental continue and is it desirable?**

A. We cannot say but suspect that, if this was to happen, there could also be a much healthier corresponding increase in fractional home ownership across a diversified property investment portfolio that acts as a prelude to securing home ownership at a more suitable time.

“Proptech”, and Property Partner specifically, can help savers build the deposit for their traditional house purchase. In the long-run this may help improve the level of home ownership: although the “proptech” market is too small currently to have a discernible effect. Through Property Partner you can invest in and gain exposure to specific niches of the UK housing market (for example, London, or the Crossrail line), whilst continuing to rent yourself. We believe that our offer is better than traditional forms of investing in property for this purpose, as you can diversify investments between several properties on our platform, spreading risk, and enjoying a more balanced capital growth.

12 months after our launch, we are also now planning to help people take their first step on the property ladder by offering shared ownership schemes for first-time buyers. We are also planning to help older homeowners trapped with expensive mortgages, by offering them the opportunity to release equity from their properties. But these additional initiatives will take time and significant investment to deliver, and require increased certainty around the tax and policy regime we will be operating within.
Malcolm Ramsay – Written evidence (EHM0044)

Submission to The House of Lords Economic Affairs Committee inquiry into the economics of the UK housing market

My name is Malcolm Ramsay and for the last few years I have been campaigning for our framework of law to be more coherent. Although my central concern has been constitutional reform I have also focused on the problem of access to land and I have a particular interest in low-impact development.

My comments here concentrate on the planning system and are written from the perspective of a jurist rather than from personal experience (though they are also informed by the fact that the village I live in is currently facing a planning application for a housing estate which would increase its size by fifteen percent).

Functions of a planning system

1. In my view, regulation of land use suffers from a lack of clarity as to the purpose of planning law. This leads to conflation of two functions which should be distinct – risk discovery and development guidance – and this distorts the costs of development, tilting the market in favour of large developers.

2. The first function derives from the state's ever-present duty to adjudicate between conflicting interests, while the second arises from the political impulse to implement a particular vision. However, the way the planning system operates currently, the risk discovery function tends to be obscured by the development guidance function so the need for it requires some explanation:

2.1 The state's responsibility to defend the rights of individuals and the public at large confers on it an absolute power to order new development to be demolished if it infringes those rights.

2.2 Therefore, anybody contemplating any new development faces the risk that it will subsequently be ordered to be demolished, and (in the absence of any mitigating process) any investment they have made in it will be lost.

2.3 Much of that risk resides in the inability of the developer to know whether others will challenge the development, and what arguments they might present. The planning process provides a mechanism whereby potential developers can discover the level of that risk.

2.4 From this perspective, the planning process is a necessary adjunct to the state's judicial obligations and its underlying purpose is to provide would-be developers with the information they need to assess the level of risk. By providing that information, the process opens the way for uncontentious development which might otherwise be
inhibited by unjustified fears of legal action, and it deters development which would be likely to engender disputes that the developer would fear losing.

3. In addition to this function, the planning process also offers an opportunity for local authorities to encourage beneficial development and discourage or prevent development which conflicts with prevailing views of how society should evolve. Such views operate at many different levels ranging from deeply entrenched values that have established themselves over centuries as intrinsic aspects of our culture, to the ephemeral ideological preferences of whichever political world-view is currently in the ascendant. I consider that the state's judicial obligation to uphold the rights of the public at large includes respecting deeply entrenched values, but excludes issues that are essentially matters of policy which may be reversed within a few years.

4. I believe the risk discovery function of the planning process should be regarded as primary because it is a consequence of the state's fundamental obligations and is independent of the vagaries of policy. The development guidance function on the other hand is essentially discretionary; it will always be constrained by respect for the rights of individuals and it might be virtually non-existent where laissez-faire is the dominant philosophy.

5. Understanding the functions of the planning process in this way highlights the fact that there are different aspects of a planning authority's responsibilities. In categorising them I rely on the following principles:

5.1 Defining the rights of individuals and of the public at large is a quasi-constitutional task which is the domain of the legislature;

5.2 Public policy to favour certain types of development is a political consideration which operates within the constraints of the broader legal system and cannot override established rights without explicit legislative approval;

5.3 Weighing up conflicting rights in particular circumstances is a judicial function which properly belongs in the sphere of the courts.

6. In a well-constituted planning system a planning authority's responsibilities could be categorised as:

6.1 establishing whether there is any overriding public interest in the matter;

6.2 overseeing the process of discovering potential private disputes;

6.3 determining whether there is any policy benefit from influencing the developer's perception of risk (for example by providing some kind of indemnity where private disputes might exist).

a) Conflation of functions in the planning system
7. Currently, the planning process operates without any clear distinction between the different functions outlined above and this can seriously distort the outcome, significantly reducing risk in some circumstances while magnifying it in others.

8. Approval of a planning application is commonly presumed to override the rights of neighbours and the public at large, while rejection is presumed to imply prohibition. My impression is that, apart from exceptional cases where a local authority is deemed to have come to the wrong decision, the courts share this presumption—though I’m not sure whether it derives from statute, case law or simply convention.

8.1 This is reasonable in cases where there is indeed an overriding public interest but deciding where the balance lies in clashes of private interests is a judicial function and the current system, in effect, transfers it from the courts to local authorities. (The questions of when collective private interests should be regarded as public interests, and whether a public interest is overriding or not, are inherently difficult. However, for understanding the principles involved it is enough to recognise that there are distinctions between the different cases which need to be reflected in the way the system operates.)

8.2 The courts, with centuries of experience in adjudicating conflicts of interest, do not hear hypothetical cases because they do not feel safe making decisions where there are no clear facts to base them on. The existing planning system, however, expects people with no judicial training or experience to deliver a pre-emptive verdict on contentious issues where much of the evidence has to be inferred from people’s expectations of what will happen in the future.

8.3 In addition, the courts are able to arrive at an impartial decision because they themselves have no involvement in the matter at hand and can therefore consider it purely on the basis of the facts and the law. Local authorities, on the other hand, have a wide range of responsibilities which are directly affected by development, so they are themselves deeply involved.

8.4 The knowledge that their decision might burden them with significant costs also makes it difficult for local authorities to be properly impartial, especially in the case of large developments. Within the judicial system lower courts do not become party to a dispute when their decisions are challenged. When a planning decision is challenged, however, the challenge is directed at the planning authority, requiring them to defend it and exposing them to the possibility that they will have to pay the other side’s costs.

9. People living near a proposed development are expected to be able to anticipate how it will affect them on the strength of usually very limited knowledge, and have to articulate their fears in ways which they are not accustomed to.

10. As the system currently operates, it demands more of people’s imaginations than is reasonable and, by allowing authorities too narrow a range of responses, forces them into conflict with the public they represent.
11. The requirement that local authorities must arrive at a definitive decision, one way or the other, can have the effect of indemnifying developers against the risk of conflict with neighbours, which has the effect of transferring private risk into the public domain.

11.1 Absolving developers of risk in this way makes large developments more attractive which, in addition to making materials and labour more expensive for smaller developments, results in the market being driven more by the availability of land than by actual demand for housing in particular locations.

12. Obliging local authorities to choose between approving and prohibiting can also put arbitrary barriers in the way of development; the perception that any redress will be ruled out once planning permission has been granted obliges neighbours to object preemptively which encourages them to anticipate problems that would not in fact materialise.

13. The conflation of different functions in the current planning system therefore alters the risks involved in a development, both for the developer and for neighbours. This is true for developments of all sizes but I will focus below on the different effects it has on the costs of very large and very small developments.

14. Those functions could easily be separated, simply by allowing planning authorities more options in their decisions – to 'permit without approval' or 'reject without prohibition', for example – and requiring them to clearly identify where they consider there is an overriding public interest.

Large Developments

15. The fact that local authorities might be liable for a developer’s costs if a decision goes to appeal can be a significant factor in decisions on large developments. Separating the different functions of the planning system would remove this factor because it would allow local authorities to step aside from contentious applications. The core risk-discovery purpose of the planning process would still be fulfilled and the developer would be aware of potential objections – but any decision to proceed would be at their own risk and neighbours would have to decide for themselves whether to pursue their objections in court.

16. Developers would of course prefer to be absolved of the risk of neighbours’ objections blocking their projects but, since they should be able to insure against that risk in the market, I can see no reason why they should be able to pass it on to local authorities – unless there is a clear public interest in the development going ahead.

17. Currently authorities can be inclined to take a rosy view of the potential impact of large developments where there is no significant risk to them if projected benefits don’t in fact materialise. I consider that, where approval is granted based on projected public benefits, there should be a mandatory review process to evaluate whether those benefits have materialised and to ensure that appropriate remedies are applied if they have not.
18. Similarly, where approval is granted based on assumptions that objectors’ concerns will prove ill-founded, there should be a mandatory review process to confirm that it was right to dismiss those concerns and to ensure that appropriate remedies are applied if it was not.

**Small Developments**

19. In the case of small scale developments the current system encourages neighbours to anticipate problems that might not materialise at all or would not be serious enough to lead to a legal dispute. This is a particular problem for unusual small-scale development, especially ones where different lifestyles can trigger prejudices, and it creates a significant barrier for people hoping to live essentially self-sufficiently on a small plot of land. (Simon Fairlie of Chapter 7 will no doubt raise specific examples of this and, since my knowledge of them mostly comes from the magazine he edits, I will refrain from duplicating them.)

20. Having to answer unwarranted fears can substantially increase the costs for would-be developers and can be enough to rule out projects which might otherwise be viable on a very low budget – for example, where people are doing the work themselves and making extensive use of salvaged materials.

21. I suggested above that the planning system effectively provides would-be developers with an indemnity against conflict with neighbours. What is important in terms of people’s right to live and work on a small plot of land is not that they should receive help but that they should not have to get over arbitrary barriers. If a low-impact development, done at the developer’s own risk, proves to be harmful to the interests of people living nearby then it is right that it should be prevented. But to deny it to someone who is willing to bear that risk merely because it might cause problems is pernicious.

22. From what I've seen and read, most people who want to live a low-impact lifestyle see planning hurdles as a major obstacle, on a par with the difficulty of buying land. It's hard to know how many people are affected by this but significant numbers do attempt to live a low-impact life outside the mainstream. My impression is that many others who actively want to do so are effectively prevented by the additional hurdles that the planning system throws up – and many more, who dream of doing so, hear of the struggles others face and resign themselves to a life they abhor within the mainstream.

9 December 2015
Malcolm Ramsay – Supplementary written evidence (EHM0137)

Submission to The House of Lords Economic Affairs Committee inquiry into the economics of the UK housing market

My name is Malcolm Ramsay and for the last few years I have been campaigning for our framework of law to be more coherent. In a previous submission to this enquiry I suggested that the planning system, as it operates currently, significantly distorts the housing market.

My subject in this submission is more fundamental: I argue that many of the problems in the housing market have their roots in the fact that laws on land ownership have become detached from the circumstances which shaped them and, in their present form, are incompatible with principles which are generally accepted and uncontroversial. After some initial analysis, I suggest a simple reform which would change the spirit in which current law functions without altering it operationally, and I also outline a specific long-term reform which, though it might take as much as a century to be completed, would make the operation of the real-estate market much fairer than it is today.

Roots of land ownership

- My comments here are based on the position in England but, although the historical details may be different, I believe the principles I discuss below also apply to the other parts of the UK.

- Historically, all land titles in England have their roots in the estates William I granted to his tenants-in-chief. At that time land ownership was part of the machinery of government – landowners were essentially the local authorities of their day – and landowners’ powers were not simply privileges, they were responsibilities.

- Those responsibilities included the power to levy rent and the power to nominate a successor. The first of these was originally what paid for government and the second was primarily concerned with the transmission of authority and responsibility.

- Over the centuries, the administrative responsibilities which went with landownership were taken over by other bodies but those two powers – of charging rent and nominating a successor – have remained with the landowner and have come to be seen as personal privileges rather than social responsibilities. As I discuss below, those two powers tilt the whole social and economic landscape at the most fundamental level.

- The transition from responsibility to privilege was not driven by considerations of principle but was a side-effect of the transition from a feudal system to one in which authorities were formally accountable to the people. That process was constrained throughout by considerations of power distribution; at every step, reform was a compromise between some people demanding more autonomy and others seeking to maintain the status quo, with both sides fearful of destroying past gains.
• Landowners' retention of those privileges derives, therefore, from the fact that, historically, they were in a position to wreck the development of democracy; their retention of economic power was the price of their acquiescence in the transfer of administrative power.

• For the most part, landowners kept economic power through an essentially passive process of retaining privileges while giving up the responsibilities which had originally justified them. In some respects, however, they actively enhanced their economic power: landowners dominated Parliament and the effect of the Enclosure Acts was to relieve them of a set of responsibilities which had been an integral part of their landholdings.

• Those Acts deprived large numbers of people of any intrinsic right to a resource they could not live without, forcing them into a position of subservience to those who controlled access to land. They were passed by Parliaments which represented only a small proportion of the population and I believe those laws would be inconceivable in a properly democratic society. At best Parliament neglected to maintain the law in good repair, at worst it wilfully legislated to benefit one section of society at the expense of others. In my view, the fact that the damage those laws did has still not been put right undermines the legitimacy of Parliament as a sovereign body.

**Economic effects of unjust land law**

• Land is uniquely important. The production of our food depends on it, we cannot engage in any activity without using it and without it we can have no home. It is unique, also, in being fixed in location; in the fact that the supply of it is 'god-given' and cannot be increased; and in the fact that, because it is the primary source of wealth, the laws which govern its use have provided a legal template for many secondary forms of wealth.

• Under the law as it stands some people are obliged to pay for land, whereas others are granted ownership of it for free simply because they had a relationship with a previous owner who has died. It's hard to see how this can possibly be compatible with the principle of equality of opportunity.

• Private landowners' power to charge rent rests on their ability to deny others access to an essential resource. Those who have no rights in land themselves are necessarily obliged to obtain access to it from those who own it – who, for the most part, have no obligation to make it available. This imbalance in obligation means that, collectively, landowners are essentially free to set their own price, constrained only by competition among themselves.

• In itself, this market power is not intrinsically pernicious but in combination with cross-generational accumulation of land it leads to a constant flow of wealth from a dispossessed class to a privileged class. This flow of wealth happens not only through rent for housing and land, but also through purchases: prices are so inflated by artificial supply constraints that most buyers are forced to fund their house purchase through borrowing and, to a large extent, the interest they pay accrues to members of the same
privileged class who effectively determine the price of land. This steady flow of wealth towards the wealthy is compounded by the fact that there is a land-cost in everything we buy.

• The price of land is inflated by the fact that, despite its unique nature, the market in real estate functions as though it is simply part of the broader market of man-made goods and services. As a result, land is regarded as the ultimate store of wealth, which reinforces the perception that land ownership is primarily a right rather than a responsibility.

Problems of reform

• For many people, much of the above analysis is so obvious that they consider it a waste of time to try and bring it to the attention of those in power; the wrongness of it is so obvious, they argue, that if legislators were willing to fix the problem they would have done so already. Personally, I prefer to presume that it is the complexity of the problem, rather than wilful blindness, that has prevented Parliament tackling its root causes.

• Land's role as the ultimate store of wealth means that land ownership lies at the heart of the economy not least because, as the preferred security for loans, the stability of the entire financial system rests on security of land titles. Proper reform of land law is therefore something which must be undertaken with great care and that explains, to my mind, why the focus has always been on mitigating the ill-effects of the fundamental flaws rather than correcting them.

• I don't consider it possible to build a healthy society by constantly piling up layers of new law to mitigate the ill-effects of older laws which were either badly thought out in the first place or were based on values we have since rejected. I believe that a mature society needs to ensure that its most fundamental laws are soundly based, coherent and consistent with its values. Unless we constantly review existing law and maintain it properly we condemn ourselves to an unwieldy legal framework with injustice built into it.

• Built-in injustice can rarely be properly compensated for simply by introducing measures to mitigate it. The existence of inheritance tax, for example, is frequently offered as a defence of existing law but I regard as a prime example of how inadequate mitigating measures tend to be. The state takes with one hand (part of) what it has given, carelessly, with the other and the result is dissatisfaction on all sides – a burning sense of injustice on the side of those who have no birthright themselves, and resentment on the side of those who see the state depriving them of what is 'rightfully' theirs – which in turn creates a political battlefield which would in fact cease to exist if the flaws in the underlying laws were dealt with.

• One of the difficulties with properly reforming long-established laws is the sheer amount of detail in them, particularly if Parliament feels obliged to reformulate the whole body of law in a new Act. That difficulty shrinks significantly, however, if the role of Parliament is seen as defining clearly the principles which should operate, leaving the details to be worked out through case law.
Route to reform

• From that perspective, the only essential reform is to re-establish some of the responsibilities which originally accompanied rights of ownership. This can be done simply by making it explicit in law that all ownership of land includes an element of trusteeship: all landowners are trustees for future generations, not just of their own family but of the whole population, and commercial owners of land are trustees for the public at large whose survival and well-being depends on them.

• Landowners' duty as trustees would generally be secondary to their own rights in respect of enjoyment of the land but would be primary in all questions regarding transfer of ownership, including the responsibility to nominate a successor to take over their rights and responsibilities after their death.

• That reform would not immediately change anything substantially but it should force behavioural shifts which, over the course of a generation or so, would lead to a much more equitable distribution of real estate.

• As regards inheritance, for example, it would still fall to current owners to nominate their successor as it does today but, as trustees, they would be expected to consider the broader public interest rather than just the interests of those close to them.

• Another effect of direct relevance to the housing market is that some of the distortions which the planning system introduces would be negated: for example, anyone selling agricultural land for housing would be acting in their capacity as trustee, and large private windfall gains would be unlikely to be considered as being in the public interest.

• As another example, land-banking by development companies would also be affected because holding excessive stocks of land would conflict with their responsibilities as trustees.

• My impression is that most people take such responsibilities seriously but it would, of course, need policing and, after so much time in which private landownership has been divorced from considerations of public interest, it would no doubt take some years for clarity to emerge as to what is and is not acceptable.

• In the longer term, it should be possible to establish a system which gives everyone a fair share of the country's natural resources. That might seem to present serious problems, since both the land itself and people's needs are so diverse, but another relatively simple reform would make it feasible. I won't test the committee's patience by going into detail on this but the key step would be separating the market in land (which is fixed in quantity) from the market in man-made goods and services (which can be expanded without limit). This could be done by establishing a separate, fixed-quantity currency for trading in real estate and it would then be possible (once the system was properly established) for everyone to inherit a fair share of land-market-value in the form of an allocation of land-currency. I would be happy to expand on this, if the committee is interested, but for now I will assume that it is a more radical reform than you are currently prepared to consider.
Tim Offer’s view on the Economics of the UK Housing Market for the House of Lords Select Committee

Friday 11th December 2015

About me

1. I’ve produced the website http://rentersrightsuk.org/ and engage with residents associations, politicians and organisations set up to address the UK’s housing crisis.

2. I’m concerned that in most of England the housing market is destroying social mobility because those of us without access to the “Bank of Mum and Dad” have little or no chance of ever owning or renting a stable home of our own.

My Goals

3. Give stability to the 2 million children living in private rented accommodation by providing longer tenancies.

4. Help the 11 Million UK Private Renters by linking rent increases to inflation.

5. Stem the decline in owner occupation and halt the increase in multiple home ownership by helping Renters and First Time Buyers and decreasing the amount of Buy to Let landlords and Buy to Leave investors.

Why help?

6. Currently the UK has the shortest tenancies and highest average rents in Europe. An unenviable record I’m sure you’ll agree.

7. Europe’s shortest tenancies, only 6 months, mean that too often children are uprooted from their schools, communities and friends.

8. Europe’s highest rents mean that we have no real hope of ever saving up for a deposit for a home of our own.

9. Home ownership is unaffordable for most of us not born into family wealth.

10. Over a Million people are stuck on Council House Waiting Lists; so social housing is also out of reach.
11. Therefore Renting in the Private Sector is the only option for a lot of people. It’s no longer a short term fix or lifestyle choice. We are stuck.

12. The number of people renting privately has more than Doubled in a Decade to around 11 Million.

13. People with 6 month tenancies and no rent protection have overtaken those renting from the Council and Housing Associations combined for the first time in a generation.

14. Owner Occupation is rapidly declining whilst multiple home ownership is increasing. This is a big contributor towards the growing wealth inequality in the UK.

Fundamental Principles

15. Simple Maths makes it easy to see that less people who own Multiple Homes, means more houses for the rest of us to Own One Home; of our Own

16. It should be a moral duty of a Government to treat houses primarily as homes to be lived in not as investment opportunities for the capital rich to get ever richer.

17. I believe that the Rights of the 11 million Private Renters and First Time Buyers should be put ahead of Multiple Home owning Buy to Let landlords and Buy to Leave investors.

18. I fear however that the vested interests of politicians, their donor’s, lobbyists and media friends and the shareholder profits of the large house building companies are stopping the government introducing policies that will help.

How can the House of Lords help?

19. I’m hoping that you can look at things from a more impartial fair minded perspective as you don’t have to worry about getting elected in 2020 and can therefore take a more long term view.

20. I’m also putting faith in your moral conscience and ability to help us.

Bringing Council Tax into the 21st Century

21. Our population is increasing more than ever before (net increase over 300,000 a year) and the previous Coalition Government built less new homes than any post war government. So clearly there is a Supply and Demand crisis and the government needs to meet its promise to build 1 million homes over the course of this Parliament, effectively 200,000 a year. If it fails then the government should be held to account.

22. However whilst we do need to increase supply, increasing supply and concreting over our countryside is not the only solution.
23. It’s inexcusable that during a severe supply shortage many new build flats in London are being sold to overseas Buy to Leave investors and left empty. All whilst local buyers and renters are priced out of the market due to a lack of available properties.

24. It’s sickening to see these empty new build flats but why is this happening?

25. Because our current government insists on taxing property based on Council Tax bands that use house prices from 1991 when houses cost a 1/5th of what they do now. In many central London areas about a 1/10th of what they do now. Clearly this system is no longer fit for purpose.

26. The Welsh government revalued their Council Tax bands based on 2003 property price values back in 2005 and introduced new higher bands for high value properties.

27. Meanwhile in England a foreign investor can purchase a luxury London property, for millions of pounds and only pays £1,345.48 a year (Westminster Council’s top band) in Council Tax. Even a £50 million home pays this tax.

28. In New York; if the same overseas investor bought a property of the same value they would pay around £200,000 in property tax each year. A lot more.


30. It’s not hard to see why all the global investors are so willing to snap up luxury London flats and leave them empty whilst the rest of us stare on in horror.

31. The government is also failing to apply a much higher Council Tax rate on long term empty properties. This means that over half a million homes in England remain derelict or empty. By not applying a higher rate of Council Tax on empty homes this means that land owners are not incentivised to renovate derelict houses to rent or be bought by first time owner’s therefore increasing supply.

32. For example in Washington DC property owners pay 0.85% of the home’s value when occupied but 5% of its value when unoccupied.


34. So in Washington DC an owner occupier of a £2 million home would pay £17,000 property tax a year, far higher than the £1,345.48 a year charged by Westminster City Council

35. But if a £2 million home owner in Washington DC left their property empty, they would pay £100,000 a year. Far more than the £1,345 paid in Westminster.

36. Other governments with densely populated global finance hubs realise that demand for property will be high and supply short.

37. They therefore put in place taxation systems to ensure that housing stock is used effectively. Singapore and Hong Kong and other such cities apply property taxes based on a percentage of the properties worth. The higher the property price the higher the property tax. And many countries charge more tax on empty homes. This ensures that the owners utilise this scarce asset and that these flats are lived in or rented out.
The argument put forward that it’s unfair for someone who is cash poor but living in a £2 million home having to pay more Council Tax is absurd.

These people are either very rich or have made millions of pounds through the sheer luck of house price inflation. Only 110,000 out of the 25 million homes in the UK are worth more than £2 million, which is less than 0.5% of the population.

Most of our generation will never earn £2 million in our entire lifetimes. So I believe it only fair that people who are either extremely rich or lucky pay their fair share.

It’s not just a London problem. The fact that the majority of luxury London homes are left empty means that ordinary Londoners have to live further out in the suburbs, commuting ever longer distances.

These empty homes also damage the countryside, by not utilising our existing housing stock effectively we have to build more and more homes on our Greenbelt and in our countryside.

Also in Cornwall and many other beauty spots 2nd homes are being bought up and left empty for periods at a time, damaging the community and meaning young people forced away from their home towns and families. And of course more new housing needs to be built for them in rural areas too.

This could so easily be fixed by central government introducing the policies adopted by other countries.

Singapore and Hong Kong for example use a Land Value Tax and New York a Property Tax based on a percentage of a properties worth

But I believe the most realistic option and simplest to implement is simply to bring our existing property tax system, aka Council Tax, into the 21st century.

In Wales this has already been done. Why is England, with a far worse housing crisis being left behind?

Firstly reset Council Tax bands based on today’s property prices; 2015 not 1991. And make it so that the only people that would have to pay more is those who own houses worth £2 million plus.

With higher rates of Council Tax for the richest 0.5% we could ensure that this money is used for the common good. For example it could be used to improve local services, or ring-fenced for affordable housing or even used to lower rates of Council Tax for those on low incomes.

Secondly have a higher rate of Council Tax for properties that are empty for a certain period of time.

The Conservative/Liberal Democrat coalition government to their credit did introduce a law allowing councils to charge one and a half times Council Tax on homes left empty for more than 2 years. But given the values in London described above clearly this does not go far enough.

As stated before Washington DC charges 6 times the property tax for empty properties and the United States doesn’t even have a population density or housing crisis problem as bad as the UK.
53. An important point; global millionaires may be able to hide their money in offshore tax havens to avoid paying tax. But they cannot hide property. If they spend millions of pounds buying up luxury London homes at the expense of ordinary Londoners then they should be charged a similar rate as per other global financial centres.

54. The benefits would be that the majority of luxury London homes would be occupied once more, providing good quality homes in central London for people to live in. Enabling people to live closer to work, therefore average commuting times would be reduced.

55. This would have a knock on effect as more homes in suburbs and commuter towns would become freed up and available for First Time Buyers.

56. The greenbelt and countryside around the cities would be better protected too. Because less empty homes means less new housing would need to be built.

57. Our National Parks and Areas of Outstanding Natural Beauty would also be better protected. Reducing the amount of empty 2nd homes would enable First Time Buyers to live in them, therefore reducing the demand for new housing.

58. Life could also be breathed back into some of these dying villages by filling these empty homes with young families currently priced out of their home towns, keeping generations of families together and improving community spirit.

59. And by increasing the rates of Council Tax on long term empty homes we would also ensure that landowners bring derelict homes back into use and either sell them to families to own a home of their own or rent them out to those desperately in need of a roof over their heads.

60. And the extra money could be put to good use, for example ring fenced into building new affordable housing to rent.

61. Question: How can we continue to justify luxury London new build flats being bought up by foreign investors and left empty whilst the rest of us stare on in horror all because politicians will not bring our property tax system into the 21st century?

A fairer deal for the 11 Million UK Private Renters

62. The average UK house price is over 10 times the average UK salary, more than double the long term average and more than double the 4:1 ratio of what most mortgage lenders offer. Home ownership, in most of Southern England, is only an option for those born into family wealth or for those who earn astronomical salaries. There are over a million people on social house waiting lists vying for an ever decreasing amount of homes, meaning that social housing is also out of reach for most of us.

63. This means that millions of people have no choice but to rent in the private sector; which is why the number of UK private renters has more than doubled in a decade to 11 million.

64. Because private renting in the UK was seen as a temporary solution on the way to home ownership or as a lifestyle choice we have less protection than our compatriots in Europe; in fact we have the shortest tenancies and highest rents in all of Europe.

65. Having 2 million children living with only 6 months security is no longer acceptable.
66. We need longer tenancies in the private sector for families who desperately need them. The current 6 month Assured Shorthold Tenancy is not suitable for 11 million UK citizens, including over 2 million children.

67. Affordable private sector rents. The current situation of 11 Million UK Private Renters having to pay the highest average rents in Europe is not acceptable.

68. Longer tenancies in the private sector will help reduce stress for 11 million people. They won’t have to worry about the 6 monthly chance of having to uproot, move their possessions and leave behind their local community and friends.

69. We can then ensure that the 2 million children who live in private rented accommodation have more stability and security in their lives.

70. Longer tenancies will enable these children to attend one school and make friends rather than suffer the possibility of being uprooted and having to move schools and leave their friends behind.

71. The benefits to their parents as described above will no doubt create a more harmonious home environment giving the children a better chance in life.

72. Longer tenancies will create a better sense of community as residents get to know each other and private renters take more pride in their homes and feel a greater sense of belonging to their local area.

73. More affordable private sector rents will help the taxpayer by reducing the £10 billion a year of housing benefit that is paid to private landlords.

74. It will mean that the parents of the 2 million children living in private rented accommodation will be able to better feed and clothe their children, reducing the need for food banks.

75. Affordable rents will enable people from poorer backgrounds to live within their means and save for a deposit for a home of their own increasing social mobility.

76. It will enable commuters who work in central London to live nearer work, therefore reducing pressure on our roads and rail network, therefore helping the environment.

77. Affordable rents will reduce homelessness as people living in cities can afford to keep a roof over their heads.

78. Longer tenancies and more affordable rents, along with the abolition of tax breaks for Buy to Let landlords will reduce the incentives for Buy to Let landlords and increase the amount of homes available for First Time Buyers.

79. This will enable more people to own one home of their own and stem the decline in home ownership and reverse of social mobility. It will allow the return of working and middle class people from low income backgrounds to be able to afford a home of their own once more.

80. Enabling more First Time Buyers to buy existing stock and own a home of their own will also reduce pressure for building yet more houses and protect our greenbelt and countryside.

81. Question: When will the government put genuine measures into place to help out the 11 million private renters, including the 2 million children who have no choice in the matter?
Increasing Housing Supply

82. If we look at house building figures since the 2nd world war we can see that over the last few decades it has been rapidly declining. Click on this link to see for yourself.

83. [http://www.collectivecustombuild.org/site/media/1_Fig1_ABriefHistoryOfPostWarHousing_-_ARTB_p10(1).jpg](http://www.collectivecustombuild.org/site/media/1_Fig1_ABriefHistoryOfPostWarHousing_-_ARTB_p10(1).jpg)

84. Decades of decline in house building combined with rapid population growth has caused a severe housing supply shortage in this country.

85. The Conservative government claimed before the 2015 election to have “got Britain building again”. Is this true. Let’s look at the facts.

86. The Conservative led coalition built less new homes than any other Government since the 2nd world war.

87. In the 60 years between 1949 and 2009 the number of new homes built in the UK never dropped below 150,000. Not once.

88. But since the Conservatives came to power in 2010 the number of new homes built hasn’t gone over 150,000 a year. Not once.

89. So to me it looks like their pre 2015 election claim “to have got Britain building again” was very suspect. It seems like they’ve got away with pulling the wool over the eyes of the public. Things must clearly improve in this Parliament if we want to avoid further misery for future generations.

90. If you want to look at dispassionate statistics to draw your own conclusion then please look at the Office for National Statistics website; I’ll put the link for house building below.


92. The Conservatives now have a majority and the Housing Minister, Brandon Lewis, recently promised that in this Parliament the government would aim to build a million homes, 200,000 a year.

93. This is still far short of the amount that most academics state is needed to make up for the historic shortfall, in addition to our rapidly increasing population. However it’s a good start and we must hold the Government to account by looking at these statistics on house building and ensuring that the Conservatives start sticking to their promises. If the Conservative party fail to deliver once again, it’s not just our generation that will be unable to access a decent home but future generations too.

94. I do hope that the Conservatives genuinely intend to keep their promise this time.

95. From the above picture we can also see that the greatest house building boom was when the public sector worked alongside the private sector. The Conservative Party believes that it is purely the private sector that can provide the new homes necessary for our young people.
96. However leaving house building to an unregulated private sector has clearly not worked. Why?

97. Clearly it’s in the interests of housing developers to release houses slowly over a long period of time to keep supply short of demand to maximise profit for their shareholders. This is naturally the primary motive of a private company.

98. This is precisely why in times of a crisis the Government has to step in and enact legislation to ensure that enough housing is built at a rate to house its citizens in a reasonable manner.

99. It’s clear now to me that legislation needs to be brought in to tackle the land banking issue where private developers own planning permission approved land and leave it empty for years on end.

100. There are numerous examples of wasted empty brownfield land waiting for houses to be built on, just walk around with your eyes open. The shameful fact is that many of it has had planning permission for years and is just sat on by private property speculators who then sell it onto another company to add to their portfolio. For example this site in central Manchester.


102. And why is it taking 18 years to build the 10,000 homes on the Olympic Park?

103. http://queenelizabetholympicpark.co.uk/the-park/homes-and-living

104. 8 years ago planning permission was given for 10,800 homes in Barking Riverside so why has only 350 homes been built so far?

105. http://www.cnplus.co.uk/news/analysis/rail-holds-the-key-to-11000-homes-at-barking-riverside/8668159.article#.Vgm1sXpViko

106. The solution

107. Clearly the Conservatives need to increase their appalling record of being the Government with the lowest levels of house building on record. We must make sure they build at least 200,000 homes a year as promised by their housing minister Brandon Lewis.

108. If the Conservatives wish to ignore the public sector and let the private sector do all of our housebuilding then they must legislate better and ensure that planning permission approved brownfield land has housing built on it in a reasonable time frame otherwise the land is handed over to someone else who will build the homes we desperately need.

109. Build high density housing adjacent to rail stations (rail, tube, tram etc.) so residents have an added transport option, offering greater employment opportunities, shorter commuting times, better access to leisure activities and making it easier to visit friends. Eases pressure on our roads and helps the environment. Limits the amount of new estates being built far away from transport hubs and high streets.

110. Build flats with separate sleeping and living areas and less bedsits (aka studios and suites). The UK has on average the smallest homes in Europe and many developers are building too many bedsits. Who really, out of choice, wants to be crammed into a tiny little hovel?
111. By increasing the size of our new housing stock we can hopefully get rid of this shameful record of Europe’s smallest homes and ensure that families have the space to live with dignity.

112. As discussed before by using our existing stock more effectively by taxing empty homes at a higher rate, ending the Buy to Leave scandal and prioritising the 11 Million UK Private Renters over the Buy to Let investors we can reduce the demand for new starter homes.

113. This of course will help protect our countryside, including the greenbelt.

114. The Benefits

115. Millions of adults still stuck at home living with their parents can one day hope of having a home of their own.

116. Children, once grown up, will also have a fighting chance of one day owning a home of their own.

117. The 11 Million Private Renters and millions stuck in house shares can too one day maybe own a home of their own.

118. The millions of children currently living in chronically overcrowded homes can have some space to breathe.

**Planned Government Policy**

119. April 2016: The planned imposition of an extra 3% Stamp Duty on people purchasing Additional Homes is in my opinion an excellent policy and it must not be watered down by those with vested interests, e.g. politicians and powerful lobbying groups such as the National Landlords Association. This policy will help First Time Buyers by reducing demand on properties from 2nd homeowners and Buy to Let (BTL) landlords. Simple Maths makes it easy to see that less people who own Multiple Homes, means more houses for the rest of us to Own One Home; of our Own

120. April 2016: The abolition of the 10% Wear and Tear Allowance from their taxable rental income for landlords being replaced by their only being able to deduct for costs they actually incur is again good policy. Most importantly it will incentivise landlords actually maintaining their properties and slightly disincentivise BTL investment, again helping First Time Buyers.

121. April 2017 to April 2020 Buy to Let Landlords Tax Relief Cut. This is excellent policy and as in paragraph 119 it cannot be allowed to be watered down by those with vested interests. It will help First Time Buyers and increase owner occupation by decreasing the incentive for multiple home ownership. Will it lead to an increase in rents? I doubt it. Because UK average rents are already the highest in Europe so there just isn’t the margin in affordability for further increases. Plus more First Time Buyers will mean less Renters. It will just mean more people own the home they live in rather than pay off the landlords mortgage.

122. April 2016 – April 2020 Social Rents being cut by 1%. This is good news for those who are on social rents. But when I see a social tenant in an inner London block of flats paying £400 month and the person next door in an identical flat paying £2,000 month on the private market aren’t social tenants already getting a huge discount? I would have thought it fairer to reduce rents for the 11 million people stuck in the private sector first and foremost?
123. The various Help to Buy schemes. Welcome to a small minority of First Time Buyers, most of whom in southern England still need to be earning well above an average income. But in the long term it’s the supply that we need to increase not just continue to stoke the demand.

124. The extension of the Right to Buy scheme for Housing Associations. Controversial. Like the Help to Buy it will help a certain group of people. But in the long run it will likely decrease the amount of affordable rental properties with stable tenancies.

125. The New Affordable Starter Homes replacing Affordable Homes to Rent policy. Mixed. It will no doubt help First Time Buyers but like many of the other policies reduce the amount of affordable rental properties with stable tenancies.

**My Conclusion**

126. The Governments desire to stem the rapid decline in home ownership is good. The Government must be held to account on its promise to build 1 million homes (200,000 a year) over the course of this Parliament. We can do this by keeping an eye on the official statistics. And the government must start tackling land banking to increase the rate of house building. Maybe a carrot and stick approach?


128. The Governments attempts to halt to the decline in owner occupation by also halting the recent increases in multiple homeownership must also be lauded. The policies of an extra 3% Stamp Duty on Additional Home Purchases and the reducing of Tax Relief on Buy to Let Landlords should not be blocked by the vested interests of the rich and powerful as it will enable more First Time Buyers to purchase these homes. This will increase owner occupation and give more families the opportunity of paying off their own mortgages rather than that of their landlords. It will help social mobility and help combat wealth inequality.

129. To me there is no doubt that the government’s policies will reduce the amount of housing association and council owned rental properties. This combined with the fact that there are already 11 million private renters with Europe’s shortest tenancies and highest rents means that surely something must now be done to help increase the length of tenancies and reduce average rents in the private sector?

130. I understand that students and some young people welcome the flexibility of short tenancies but for families couldn’t there be voluntary longer tenancies with tax breaks for landlords who offer longer tenancies or some other sensible compromise?

131. Either Council Taxes need to be brought into the 21st century or a new Property Tax or Land Value Tax needs to be introduced. The Government can no longer morally justify an overseas money launderer snapping up a multi-million pound London home and leaving it empty all because they can get away with paying a fraction of the property taxes that they would have to pay in any other global financial city.

132. For a whole generation priced out of central London it is quite frankly obscene to walk around and see vast swathes of luxury new build flats lying empty given our severe supply shortage.
11 December 2015
Rentplus Submission to the Inquiry into the Economics of the United Kingdom Housing Market

1.0 Executive Summary

1.1 Although the Government has introduced a number of initiatives to support low cost home ownership for first-time buyers, there are a large number of households who aspire to buy but cannot afford to save for a deposit because of the cost of their rent. They therefore cannot access Starter Homes or the Help to Buy range.

1.2 Affordable rent to buy addresses this issue, extending the opportunity of home ownership to thousands more households. The tenure enables working households to rent at an affordable rate enabling them to save towards a deposit. With the Rentplus model, after a set number of years (minimum 5), they also receive 10% of the purchase price gifted towards their deposit.

1.3 Rentplus welcomes the Chancellor’s announcement in the Spending Review of 10,000 new rent to buy homes and the target of delivering 400,000 affordable housing starts by 2020-21 with a doubled housing budget of £2bn a year.

1.4 The delivery of new affordable rent to buy homes is currently being restricted by inefficiencies in the planning system. Rentplus believes that with a few modest changes to planning guidance and policy the delivery of new reasonably priced housing in the UK could be increased at pace and scale.

1.5 To increase the availability of low cost housing, guidance should be issued to local authorities that acknowledges that the tenure is compliant with the National Planning Policy Framework definition of affordable housing. This will greatly speed up the planning process and give housebuilders the confidence to build at scale, increasing the supply of affordable homes and making many more properties available to those looking to save for a deposit and buy their home.

1.6 Given its complementary role in providing new affordable homes to buy, the tenure should be promoted alongside Starter Homes in new developments to provide a mix of affordable home ownership products. This will ensure that the opportunity of home ownership is extended beyond those who can currently access Government schemes.
1.7 To accelerate delivery of rent to buy homes, provide greater value for the Government and increase the supply of homes, the Government’s proposed affordable rent to buy programme for 10,000 new homes should include a loan facility and not grant alone.

1.8 This submission will seek to answer questions 1a and 1d as a means of answering question 1 on private ownership: “What measures can be taken to increase the supply of reasonably priced housing in the UK?”
2.0 About Rentplus

2.1 Rentplus is an affordable rent to buy housing model that is fully funded by institutional investment with no recourse to grant funding or other public subsidy. It is well-placed to help the Government achieve its ambitions for 400,000 new affordable homes by 2020.

2.2 The Rentplus model is a ‘hybrid’ tenure that sits between affordable rent and intermediate housing. It uses private funding to build new homes which are let at an affordable rent; 80% market rent or Local Housing Allowance, whichever is lower. This enables tenants to save significantly more than they would if paying a market rent.

2.3 After a period of 5, 10, 15 or 20 years tenants are able to purchase the property with the further assistance of a 10% gifted deposit.

2.4 The homes are managed by a Registered Provider (a Rentplus housing association partner) during the period prior to purchase with no need for them to raise additional borrowing.

2.5 The Rentplus affordable rent to buy model is beginning to take off; it has secured institutional investment and is on track to deliver 5,000 new affordable homes to buy by 2020 but with small changes to planning guidance and policy this could be tripled to 15,000.

3.0 Question 1a. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing?

3.1 According to PwC, rising house prices and lenders withdrawing higher Loan-to-Value mortgages mean that average first time buyer deposits have increased almost five-fold since the late 1990s. The rise in average deposits far exceeds the growth in average earnings over this period creating a barrier for first-time buyers, one which PwC warns “is threatening to lock out those on middle or low incomes from the housing market.”

3.2 Halifax’s Housing Market Confidence Tracker found that in Q2 2015, 55% said that raising a deposit was the main barrier to buying a property. The Council for Mortgage Lenders found that more than half of first time buyers in 2014 had to rely on funds provided by relatives to afford a deposit and a poll commissioned by Shelter in October 2015 showed that 48% of renters are unable to save towards a deposit with a further 25% only able to save £100 or less a month.
3.3 The Government has introduced a number of initiatives to support low cost home ownership for first-time buyers, including 200,000 new Starter Homes sold at a 20% discount for first-time buyers under 40, the new Help to Buy ISA to give those saving for a deposit a 25% top up on savings and 135,000 Help to Buy: Shared Ownership homes.

3.4 Although these schemes will provide an increase in higher Loan-to-Value mortgages, the continued rise in house prices will mean that the house price to earnings ratio will remain high. The Centre for Economics and Business Research predicts that over the course of this Parliament UK house prices will rise by 23.6%.

3.5 Shelter recently calculated that across the country a person would need an income of £50,000 and a deposit of £40,000 to afford a Starter Home. In London this rises to an income of £77,000 and a deposit of £98,000.

3.6 PwC acknowledges that the Help to Buy extension will support movement from rental to ownership, however, it adds that “numbers are small in the context of the UK market, so the impact will be limited.”

3.7 Among the Chancellor’s 5 point plan for home ownership was the statement that:

‘The scale of this programme of house building will require all sectors to play a role in delivery. As a result, the government will remove constraints that prevent private sector organisations from participating in delivery of these programmes, including the constraints to bidding for government funding.’

3.8 Rentplus welcomes the Government’s Spending Review commitment to freeing up the private sector from current constraints affecting successful delivery and funding for 10,000 new rent to buy homes.

3.9 Affordable rent to buy extends home ownership to a large section of working households who would otherwise be unable to access it. The tenure addresses the issue of deposits through offering tenants the opportunity to save whilst renting at an affordable rate, allowing them to purchase their home after a set number of years with the further aid of a 10% gifted deposit. As such it acts as a complementary low cost home ownership product to Starter Homes, opening up choices to help an expanded group of aspirational homeowners and increasing the supply of new affordable homes to buy.

3.10 Rentplus is in discussions with the Treasury about utilising the government fund available for rent to buy homes as a revolving loan facility to create a return on the Government’s investment, produce £1.6bn value and significantly more homes (based
on PwC modelling). This would generate far greater value than the proposed new grant funded programme.

3.11 The problem is that, due to inefficiencies in the planning system, the delivery of new affordable rent to buy homes is currently being restricted. With small changes, delivery of new rent to buy homes could be increased at pace and scale.

4.0 Question 1d. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

4.1 Affordable rent to buy aligns well with Government objectives and National Planning Policy Objectives that seek to increase affordable housing and home ownership and is an NPPF compliant, intermediate, affordable housing tenure.

4.2 Specifically, it achieves the objectives of NPPF paragraph 47; “to deliver a wide choice of high quality homes and boost significantly the supply of housing.” This paragraph requires local authorities to assess housing need, including for affordable housing, to translate into targets in Local Plans. As a hybrid product, affordable rent to buy can help to meet affordable rent needs in the short and medium term and home ownership at 5 year intervals.

4.3 Affordable rent to buy also achieves the objectives of NPPF paragraph 50 which seeks to: “widen opportunities for home ownership and create sustainable, inclusive and mixed communities”. The flexibility of the model has the potential to take residents off local authority housing waiting lists, to contribute to economic sustainability by enabling people to afford to live in the areas they work or travel to work areas, and for Registered Providers and local authorities to use existing social housing effectively for those households most in need. Affordable rent to buy helps to create and maintain inclusive and mixed communities; Rentplus uses best endeavours through agreements with local authorities to reinvest in these communities by offering replacement affordable rent to buy homes. This commitment needs to be reflected in future planning requirements so that approval for such developments can be streamlined.

4.4 Local authorities are approving affordable rent to buy developments but it is time consuming and inefficient as each has to seek legal advice about its status within the NPPF. The uncertainty arises as the tenure sits between the NPPF definition of affordable rent and intermediate housing, whilst achieving both.

4.5 Legal advice is that the tenure does comply with the NPPF. To avoid uncertainty and save each local authority having to go through the same process it would speed up
planning applications if DCLG were to issue clear guidance formally recognising affordable rent to buy within the NPPF definition of affordable housing.

4.6 This will increase the availability of low cost housing by giving housebuilders the confidence to build at scale.

4.7 **Given its complementary role in providing new affordable homes to buy, the tenure should also be promoted alongside Starter Homes in new developments to provide a mix of affordable home ownership products.** This will ensure that the opportunity of home ownership is extended beyond those who can currently access Government schemes.

4.8 If these two small changes were implemented, Rentplus is confident that the supply of reasonably priced housing would be greatly increased. In its own pipeline, implementing these changes would enable the 5,000 new homes that it is on track to deliver by 2020 to be tripled to 15,000 new affordable homes to buy.

2 December 2015
Residential Landlords Association; Grainger Plc; British Property Federation (QQ 215-228) – Oral evidence (EHMOE0012)

Residential Landlords Association; Grainger Plc; British Property Federation (QQ 215-228) – Oral evidence (EHMOE0012)

Evidence Session No. 12    Heard in Public    Questions 215 - 228

TUESDAY 8 MARCH 2016

3.35 pm

Witnesses: Dr David Smith, Mr Nick Jopling and Mr Chris Taylor

Examination of Witnesses

Dr David Smith, Policy Director, Residential Landlords Association, Mr Nick Jopling, Executive Director of Property, Grainger Plc, and Mr Chris Taylor, President, British Property Federation

Q215 The Chairman: Gentlemen, welcome to the Economic Affairs Committee housing inquiry. Thank you very much for joining us today. We are keen to learn more, and to have more insights into the private rental sector. Can I start by asking you what factors have led to the significant increase in that sector over the last decade or so? Do you think that those factors will continue to lead to increased demand over the next few years, and will that be to the detriment of the social housing and first-time buyer sectors? How do you think it fits into the overall picture? Mr Taylor, would you like to start?

Mr Chris Taylor: Of course. Thank you very much. As a long-term investor—I am head of private markets at Hermes and president of the British Property Federation—I see that there are profound demographic lifestyle changes taking place in this country. There is also a long-term trend of urbanisation. We are involved with the project at King’s Cross, with which many of you will be familiar. Today we announced a regeneration in Birmingham, at Paradise Circus. We are also working in Leeds. As a long-term investor, we have an absolute conviction that there is £60 billion, £70 billion or £80 billion of long-term patient institutional capital that would be attracted to investing in the private sector.

The Chairman: What would that be? Could you express it as a number of units?

Mr Chris Taylor: Yes. It is difficult, but very crudely, to give you an idea, it could be somewhere between 400,000 and 500,000 new dwellings—of different sizes, obviously. The reason why we have that conviction is our experience from the US, Holland, Germany and, in fact, most countries in the world—with the exception of Australia, interestingly enough, which is now on the cusp of those profound changes, as I believe we are in this country. The
reason why institutional money would be attracted to the sector is quite simply that there is a craving from institutions to secure long-term, stable, inflation-matching income streams. There is plenty of evidence to suggest that long-term private rented sector income streams would be a very good hedge for institutions, for inflation-matching.

Dr David Smith: To go back to the question you asked, there is a range of factors around the increase in the private rented sector. Perhaps the most important—certainly the one that will cause increase in the sector—is that the private rented sector is being asked to do more than ever before. It is being asked to house more people across a wider range of demographics. As a consequence of the Localism Act, which allows local authorities to discharge their homelessness duties in the private sector, the private rented sector is now being asked to house new types of tenant who were not traditionally housed in the sector and who are coming directly from street homelessness or temporary accommodation. That is leaving aside other social changes—simple factors like rising population, but also the change in the way people leave home and the type of accommodation they wish to move into. Those are all factors as well.

I will politely differ from Mr Taylor—unsurprisingly, given that I represent an organisation that represents smaller landlords—and point out that 80% of the private rented sector is small landlords owning five properties or fewer. Institutional investment has been discussed in the private rented sector for 30 years, since the introduction of the Housing Act 1988. In 30 years, it has not formed a significant part of the sector. While it is undoubtedly the case that institutional investment will increase, we do not think that it will change the overwhelming level of small private landlordism within the sector. The attempts at the moment that might alter that, by changing tax structures, are unlikely ultimately to make a huge difference.

I agree with some of the evidence that I caught at the tail-end of your last session. The biggest issue is supply. There are fewer houses than there are people who wish to occupy them. Unless we address supply radically, there will be no significant change in housing cost. Simply shifting the dynamics so that it is more attractive to owner-occupiers than it is to private landlords does not increase supply; it just moves property around a merry-go-round. We must increase supply. Everything else, to some extent, is a red herring that detracts from that core factor.

Mr Nick Jopling: First, I agree with the last point about supply. You heard from the previous speakers, and I am sure you have heard throughout, that this is entirely down to a supply issue. The only way we will deal with the housing problem is by building more houses.

The answer to your question is that the growth in the private rented sector—doubling over 10 years, and significantly more than doubling in the last 15 years—is down, first, to affordability. Effectively, renters are priced out of the buying market. There is also an increasing number of renters out of choice as much as necessity. We are talking about a generation that is often described as generation rent. Sometimes that is said almost as if it is a disadvantaged sector, but actually it is a group of people who have taught us all how to rent music, to rent our films, to rent a bicycle or to use Uber. It is a generation more comfortable with that experience than with ownership. That element of choice should not be discarded.
There will be significant growth in the rented sector. In London, it is already at 30%, estimated to go to just shy of 40% by 2030. There is definite growth. The last part of your question was whether that will be to the detriment of social housing. I think that the private rented sector, particularly the institutional private rented sector, has a role to play in providing some of the stepping stones between those who do not qualify for affordable housing, with a capital A, and owner-occupation, through the provision of discounted market rent within rental provision at scale—providing discounted market rent within the same buildings. We can talk about it in more detail later, if you like.

The Chairman: We heard from Shelter, which carried out a very large survey of private renters, that only a small percentage—it said the figure was as low as 6%—wanted to be there and that the remainder would prefer to be somewhere else. You are painting a picture of a tremendous demand for this—an enthusiastic demand, if I can put it that way. How would you react to Shelter’s analysis?

Dr David Smith: The statistics are very inconsistent on tenant desire and what tenants want. The same point would be made about tenancy length, for example. Shelter has been keen to point out the need for longer tenancies, but the reality is that almost no tenants ask for tenancies longer than 12 months and almost no landlords ask mortgage companies to give them permission for tenancies longer than 12 months. Other statistics show that over 80% of tenants are happy with their rented accommodation. I rather suspect it depends who you ask and the way in which you ask the question.

Shelter has a particular constituency. The difficulty is that we keep talking about the private rented sector as if it is one thing. There is absolutely no comparison between, for example, the private rented sector that caters to Members of the House of Commons—the other place—or, indeed, Members here, the private rented sector that caters to young professionals sharing in four-bedroom houses in London, the private rented sector that deals with students in Bath and the private rented sector that deals with people in Leeds. Those are different private rented sectors, catering to entirely different constituencies, with entirely different business models for landlords. One of the difficulties is that we keep trying to stick them all together and talk about them as one thing. To some extent, that is where the statistics that Shelter or other people are quoting to you miss the mark, because they try to create a homogeneous whole out of something that simply is not homogeneous. It is five private rented sectors.

Q216 Lord Forsyth of Drumlean: Everyone this afternoon has emphasised that the problem is one of supply, but is it not also one of demand? We have had a big increase, particularly in London and the south-east, in people who are looking for property but whose incomes are not necessarily particularly high. That has come through migration, for example. How can the private rented sector contribute to increasing supply? What things do the Government need to do in order to encourage that?

Mr Chris Taylor: Let us move outside London for a moment—

Lord Forsyth of Drumlean: My question was about London, but feel free.
Mr Chris Taylor: I was going to give a slightly different dimension, which was that the institutional money that will invest in the private rented sector will purpose-build the quality, sustainable, long-term units that we do not have. There is a place for housing and for the smaller private landlord, but the point about the institutional money is that for the first time in this country we will be able to create purpose-built units, such as the 326 units that we are building with Countrywide in the city centre of Liverpool. That is also an engine for regeneration. It is a conduit for place-making and creating new places.

I would embrace that for London as well. Clearly, the issues in London are very different from those in the rest of the UK. I tend to agree with David. It is such a complex area. Whether it is green belt or not—I am not suggesting that it should be— it probably means greater density and thinking more innovatively and creatively about density. With Crossrail 2, there is already a lot of good work on thinking about the nodes of transport through London, where greater density could be built.

The point I wanted to make was that outside London we see this as a spur for regeneration. It plays to the theme of urbanisation and to the demographic lifestyle changes that are taking place, with younger people increasingly wanting to have the choice to rent. If I told you that I rented my property—me with no hair—there would be a few people frowning, but nobody in here would bat an eyelid at the fact that I rented my car. That is the change we are seeing; younger people are electing to rent. You have seen the PwC forecast that by 2030 40% of people in London—if you include social as well, 60% of people in London—will not own their houses. A sea change is taking place.

Lord Forsyth of Drumlean: Yes, but it is a sea change caused by the fact that they cannot afford to buy their houses.

Mr Chris Taylor: There is a combination. In London, it is primarily about affordability, but behind it there is this demographic lifestyle change—

Lord Forsyth of Drumlean: On the demographic lifestyle change and these youngsters who would prefer to rent, how can the private rented sector provide them with properties that they can afford to rent?

Mr Nick Jopling: Your question goes right to the crux of it. You are asking a question about demand, but it is actually about supply. It is about how we provide more stock.

I will give a very simple example. It is a live example. It is at Waterlooville, so it is not in London, but it could be applicable in London as well. We have a large site outside London, with 2,500 units. It is an urban extension. We put in the infrastructure. Bloor, a medium-sized housebuilder, has started to build phase 1. It is building 200 units in phase 1. About a mile away—it is a big site—Redrow is building phase 2, with 250 units. Both those housebuilders would be happy to sell one unit a week, which would be 100 units a year. We control the site. Grainger has been in the private rented sector for 104 years. We have a long-term, long-hold approach. We have built the school on the site already. It is not up to capacity, so we went to the council and said, “We will build 100 units alongside Bloor, in the first stage, and we will covenant them for rent. Then Bloor and Redrow will not complain about us competing with their absorption rate”. David will not necessarily be happy with
this, but the difference when an institutional investor adds to the supply is that our commitment is to provide those units for 10, 15 or 20 years—or longer. The site will now deliver 200 units this year, instead of just 100.

That is the only way. The only way we can make it affordable is to build more homes. At the end of the previous session, I heard you ask the two speakers how we can increase supply. There are lots of questions about capacity in the sector, skills, materials, costs of build and all of that, but what we need to look at in this section is that real example of providing something that is non-competing with the for sale product, because it can sell only so many at a time, and really adds to supply, to meet the demand and make it more affordable.

**Lord Forsyth of Drumlean:** Are the rents that people are paying there affordable?

**Mr Nick Jopling:** Yes. They are set at the market rent for that particular area.

**Lord Forsyth of Drumlean:** Which is what?

**Mr Nick Jopling:** It is about £800 a month, for a two-bedroom semi. We are talking about Hampshire, not London. Take, for example, what the mayor’s office did—

**Lord Forsyth of Drumlean:** I am talking about the example you gave us, which you said was just outside London.

**Mr Nick Jopling:** Yes, it is at Waterlooville, near Portsmouth.

**Dr David Smith:** Lord Forsyth, the point that you are making is exampled by Nick. Oddly enough, I live 10 miles down the road from that development. I commute to London every day. I would never buy a house in Waterlooville, because it is not on a train line. Part of the problem of building outside London is that you have to consider communications. With respect, the only places people who live in Waterlooville commute to are Portsmouth and Southampton, which have substantial economies but are not London. There is a difference.

The point that Chris was making about Liverpool is good. It is true that in the longer term we need to build attractive developments out of London, but the economy is not yet in a position where people are prepared to move out of the south-east and telework and telecommute. That is a longer-term issue that the Government need to address in a different way, which may be outside the scope of what you are interested in at the moment. The only way to improve the situation really immediately in London and the south-east is density. The Government have launched a consultation inside London about upsizing houses by sticking another floor on top. That is the kind of thing we would support and that needs to happen, because it is the only thing that will deliver increases in housing in the short term, now.

To come back to the small private rented sector, one thing that small private landlords do very well, and have a very good history of doing, is house conversion. Small private landlords are particularly good, especially in London, at taking larger properties that are not attractive to first-time buyers, because they have four bedrooms, which they do not require—they want one or two—and are outside their price range, converting them into multi-occupancy properties and putting them back into the market at a lower price point.
Q217 Lord Forsyth of Drumlean: We have heard some evidence that with institutional landlords the rents and costs for tenants tend to be higher than with smaller private landlords—people who are running a couple of buy-to-let properties. Do you accept that that is the position? Could you also explain to me why it is right for the Government to give an easier tax regime to larger landlords who are providing properties for rent than to smaller ones?

Mr Chris Taylor: Those are two good questions. I will take the second one first. If there is the conviction that £60 billion, £70 billion or £80 billion of long-term capital could be invested in creating quality, purpose-built, new supply—not converting existing property, but new building that is a conduit for regeneration; you will hear a lot about that from me, because we are passionate about it, particularly in the cities outside London—that seems to me to be a pretty good source of capital the Government should be looking for. It exists in Germany, Holland and America. I see absolutely no reason why that long-term, stable capital should not be here. Clearly we have to prove this to you—I would like to show you Liverpool when it opens shortly—but the quality of the built product will be something that has not existed before in this country. That does not mean that it is expensive. Whether it is a well-run Travelodge or a Hilton, our view is that the price point does not matter; it is about quality and having sustainable materials. We take a long-term view—a 20-year view. We are not just trying to let for the first tenant. Our interest is aligned with long-term occupation, so there are planned maintenance programmes. It is a completely different model.

Lord Forsyth of Drumlean: You have not really answered my question.

Mr Chris Taylor: The second part?

Dr David Smith: It is a completely different model, in a completely different legal system. One of the reasons why Germany has a totally different rental position from us is that the entire legal model that links to renting in Germany is totally different from the one here. The entire investment model is different. People often talk about Germany, but you are comparing chalk with cheese. This is not Germany.

Mr Chris Taylor: To answer your question in a sentence, the capital is there and could be deployed to help to provide the supply that clearly is chronically required. It may not come.

Mr Nick Jopling: It is in no one’s interest to have any kind of division between private buy-to-let landlords and the institutional or corporate build-to-rent sector. We have done a scalable building in Barking. It has 100 units and is there for rent for the long term. The leader of Barking Council can see it from his window and tells me every time I see him that it is an example and a case study. That is the Labour leader of a council talking to a private sector investor and developer of stock. I do not think that there is any evidence whatsoever about higher rents in the institutional sector. Equally, it should be in everyone’s interest to drive the two sectors forward. The difference with the institutional sector, and the wall of money Chris has talked about, is that it is building to rent. That is what it can do. It can build, as in the examples I gave. Incidentally, we also have one in Aldershot, where people do commute to London—I just did not want to talk for too long. The point is that we are building. We are adding to the supply side. That is the key to the problem.
Mr Chris Taylor: It is contributing to the supply. That is the answer.

Q218 Lord Layard: What are the main obstacles to your building at a faster rate?

Mr Nick Jopling: The planning system is hard. Also, when building to rent, sometimes you cannot pay as much in value terms for the land as you can for houses for sale. When you build for sale, the land is worth more over a much longer period than if you fast-forward and provide it for rent, so sometimes it is quite hard to compete. That is why, on the back of the Montague Review, back in 2012, we called for and advocated the use of a covenant, particularly on large-scale pieces of land. We say that where you have over 500 units, for example, there should be a covenant that a certain proportion should be built to rent. You build alongside the for-sale builders. We are not a for-sale builder; we just build for rent and long-term hold. That is one way of trying to level the playing field on the land value equation.

Q219 Lord Lamont of Lerwick: You make a very attractive and persuasive case. If one were being a bit sceptical about it, one would say in reply to what Mr Taylor said that this high-quality, annuity-type return is something that institutions have wanted for a long time. Obviously the hunt for yield is bigger today, but the opportunity has been there. As Lord Layard suggested, why should we believe that institutions coming in should be able to get over the obstacles to build sufficient units quickly enough to affect the price of housing, be it rented or owner-occupied? We have a mystery, which we have heard again and again—the shortage of housing, the demand for housing and the inability of builders to build to satisfy that demand. Why should something be able, just because it is financed by a wealthy institution, to overcome the obstacles that have already prevented the market from working?

Mr Chris Taylor: There are two answers that I would give; I will try to answer the question better than I answered the previous one. One is the experience that we have had elsewhere in the world. I am not suggesting that that necessarily means it would work here, but if one goes to New York and looks at the 2.1 million—

Lord Lamont of Lerwick: When you say “we”—

Mr Chris Taylor: If you go to New York and look at—

Lord Lamont of Lerwick: I know that other countries have rented accommodation. That does not mean that you could build it here and get around the planning process.

Mr Chris Taylor: There is institutional investment in the multifamily sector in the US; 35% of all institutional investment in real estate in the US is in the private rented sector. In this country, it is somewhere around 3%. In Holland, it is 55%. In Germany, it is about 40%. For whatever reason—there are reasons, which we can go into—in the UK we are an outlier. For whatever reason, institutions have not allocated capital in their real estate exposure to the private rented sector. We believe that they will, and they are beginning to do it. Vista, which we have launched with Countrywide, has already attracted long-term institutional capital.

Lord Lamont of Lerwick: Where the Government’s policy seems to me very perverse is that at the same time as encouraging institutional building for rent—which I am all in favour of,
obviously—they are penalising with stamp duty the smaller landlord, who can provide conversions. I would argue that in some of our northern cities the buy-to-let market provided some new build as well.

Mr Chris Taylor: I agree.

Lord Lamont of Lerwick: I do not see the sense in pursuing such a policy.

Mr Chris Taylor: Nor do I.

Dr David Smith: One area that we have looked at and have advocated in the past is a smaller-scale build-to-rent model. We surveyed a large number of our members, and 46% expressed interest in helping to fund the building of developments of fewer than 10 units.

Coming back to the issue of what will move us forward quickly, one of the big obstacles to building a large development is planning. The reason why there is such a big obstacle is that local people object to very large developments being built on their doorstep. There are far fewer objections to smaller developments, particularly in sensitive areas. Again, I will talk about where I live, in Hampshire, because it is in the South Downs National Park. One of the problems with building large developments there is that it is in the South Downs National Park. Building much smaller developments has a much lower environmental impact and is more attractive. It also works for density. In London, or in areas where there is already a lot of property, you can build smaller developments on more marginal land that is simply not attractive to large institutions and large housebuilders, because they cannot build the 300 or 400 units that they want to get the kind of return they need.

Q220 Lord Lamont of Lerwick: Mr Jopling, in one of your previous observations, you said that some of the units you were building were being made available at a discount. Could you enlarge on that? Is that a profitable investment, or is it just something that you are doing pro bono? What is it? I noticed at the weekend that Cheyne Capital was getting into the rented sector, alongside and in partnership with local authorities. I thought that was a rather interesting piece of news. I do not know whether it is a similar model to yours.

Mr Nick Jopling: You have opened up something that is the other vital part of the equation: where is this land going to come from? It is led partly by Lord Layard’s question as well, in that public land has a major part to play.

We do not provide discounted rent pro bono. When we build a building, the one thing that we do not want to do is to sell any of the units, because we are running a building for income and we do not want a load of other people with a different interest to start paying a service charge, for example, or charging their own rents. We want to keep it whole, for rent. That begs the question of how you deal with an affordable housing quantum in developing. You put in layers. Let us take an example where 70% of the building is allowed to be rented at full market rent, 10% at 80% of market rent, 10% at 70% and 10% at 50%. There are something like those numbers in a big building that is being built in Greenwich by an institution. It has done that in conjunction with the London borough, because it considered that you provide those stepping stones not as affordable housing, in the sense of pure social housing that has to be managed by a registered provider, but as something that the
institution and the manager can do. It was considered the fair way of being able to party the land together with the institutional money. It was not ignoring needs in the borough.

At Grainger, we are developing with the Royal Borough of Kensington and Chelsea. We are building on six sites in Kensington and Chelsea, on its land. In those particular cases, Kensington and Chelsea said, “We want some four-bedroom houses at totally affordable rents”, so we have put them in. That affects the land value for Kensington and Chelsea, but Kensington and Chelsea is taking no risks. We are building all of it. We will build it for rent, and a certain proportion will be at discounted market rent or an affordable rent. As I said, we also doing it in Barking. Those are the lowest-value and highest-value boroughs in London. We are using them almost as bookends, to demonstrate that you should be able to find a point in any borough in London to make this work—on TfL land, on NHS land or on local authority land, working with institutions to deliver rental-accretive volume to meet supply.

**Mr Chris Taylor**: The other great advantage is that it is socially inclusive. In theory, if you look at the 326 units in Liverpool, you will have no idea which tenant is on an affordable rent and who is paying the market rent. Rather than creating divisions, it is a socially inclusive approach to the problem.

**Q221 Baroness Wheatcroft**: Mr Taylor, could I go back to your comment that, as far as institutional build-to-let supply is concerned, we are very much an outlier? You said that the figure was 3%. Even that is larger than I thought. People have been talking about this changing for a very long time. What makes you so confident that we are at that moment now? Is it because of the land being made available?

**Mr Chris Taylor**: Forgive me, but I will repeat myself. It is the profound demographic lifestyle change that is now happening. The PwC numbers that you probably saw last week, which are based on DCLG numbers, are giving data and reassurance to the institutions that the demand is there, particularly from younger people, to rent. This is a sea change. Yes, there is the affordability issue, which I accept, but behind that is a very profound change. In addition, institutions such as our own have learned from our experiences of investing. We are invested in Holland, Germany and the US. We are bringing best practices to bear.

**Baroness Wheatcroft**: But the private landlord woke up to these demographic changes, apparently, long before the institutions.

**Mr Chris Taylor**: Yes. I do not disagree with you. There is also data. Institutions like data. The MSCI data on the sector is now there. There are a number of factors in place, but data on rents and yield is important. The index is now 8.6 billion. There is actually an index, which institutions like. When they look at long-term projections, they like to rely on data.

**Baroness Wheatcroft**: I can see that. Can you give us any idea of how much of this institutional investment is happening now?

**Mr Chris Taylor**: As I said, we are building in Leeds and Birmingham. We have just secured Pomona Wharf in Manchester. We are building 326 units in Liverpool. I would be very surprised if we are not up to £2 billion or £3 billion within three years.
Mr Nick Jopling: The British Property Federation estimates that 37,500 units are currently being built for rent by institutions. We have just commissioned a 612-unit building in Salford, between MediaCity and Manchester city centre, which is on-site now. We want to deliver the first units to be available by the first quarter of 2018. That is very quick delivery.

Mr Chris Taylor: Another change that we are finding is that the public/private partnership—particularly outside London, whether it is in Leeds, Manchester or Liverpool—is very powerful. There is strong leadership. In Manchester, in particular, they have a vision and understand the need for the private rented sector. The BPF has been working with the local authorities on best practice. There is a snowball.

Baroness Wheatcroft: It is happening.

Mr Chris Taylor: It is happening.

Q222 Lord Sharkey: Can I go back to the question of the provision of public land? Could you give us some idea of the scale of the usage of public land now and prospectively? How many homes do you think will be built for rent in that way? Could you also talk a bit about the Ministry of Defence? To what extent is it able or willing to provide, or providing, access to land that it owns? It has been said that there are a lot of very small plots of publicly owned land, especially in London. What can be done in high-density areas, in particular, with small plots available, to persuade local or public authorities to release that kind of land?

Dr David Smith: I will talk about small plots, because that is something the RLA has made comment on before. At the moment, there is no pressure on local authorities to release small plots. We asked the two proposed candidates for the new mayor, whoever is finally elected, to look at using their planning powers to reconsider that. Currently, the mayoralty’s planning interests focus more on building large institutional structures or large buildings that are sold to private sector landlords abroad. We have asked the mayor to rethink his planning powers to look at smaller plots and to encourage or compel local authorities to make them available.

There is also a bonus that is paid to local authorities for making more properties available, but at the moment it deals only with large institutional land availability and plots. We think that should be extended to small properties. We would also like to see a change to the stamp duty land tax that is about to be introduced to give landlords a discount on the 3% increase when they have done something that brings new-build property on to the market. Where they have invested money in new-build property, thereby increasing the overall supply, hopefully, we think that they should be relieved from the 3% uplift that will apply to stamp duty land tax.

Mr Nick Jopling: I do not think anyone knows the answer to the question of how much public land is available. The Chancellor would like to know that and has encouraged it to be released. It is important to look at the examples where it is happening, because I think there is a movement, and a snowballing thing is happening with regard to the scale of institutions coming in. Look at what Birmingham is doing. To encourage this, it has set up its own private rent business to build on its own land. Manchester was referred to earlier. It was partnered with overseas institutional money, initially, but is also using the Greater
Manchester pension funds. The GLA is leading by example and has released land that it has said is purely for rent. We are building 234 units at Pontoon Dock, on the DLR site—a GLA site that it said will be only for rent. A third of it will be affordable and two-thirds will be for private rent. It has done the same at Silvertown. For the Sweetwater and East Wick phase of the mayoral development zone at the Queen Elizabeth legacy park—the second phase that came out—the mayor’s office said, “There are 1,500 units to be built here; 500 of them are for sale, 500 are for social housing and 500 are for long-term rent”. It will do the same at Old Oak Common, I suspect. I referred to Aldershot. On that particular site in Aldershot—the southern garrison site—we are partners with the DIO. On that site, we have 3,850 units to deliver and have permission to do that. Bellway is building the first phase. We are doing exactly the same thing there. We are building 108 units alongside Bellway and covenanting not to sell them, so that we deliver 350 units, not just the 250 from Bellway.

One thing we have to do—it is one of the reasons why I was so anxious and pleased to be able to appear in front of you this afternoon—is to raise awareness. It is about solutions. It is about being able to implement a covenant, particularly on public land, on large-scale sites—not making any comment on or interfering with the private and the buy-to-let investor, but looking at how the large-scale build-to-rent investor, with an emphasis on the word “build”, can work. We need to raise that awareness among policymakers and people of influence, who can set the agenda for the future and free the market.

**Lord Sharkey:** And the Ministry of Defence?

**Mr Nick Jopling:** It has a lot of land, but Otterburn is not in the right place.

**Mr Chris Taylor:** I like to refer to accessible rather than affordable housing. The key is accessibility. By definition, a lot of MoD land is inaccessible.

**Mr Nick Jopling:** The point David made earlier about transport and infrastructure was very relevant, as was his point about densification in town centres and around infrastructure points.

**Lord Sharkey:** If I understand you correctly, although you are very enthusiastic about it, there is no agreement about the possible scale of the development.

**Mr Nick Jopling:** No, I do not think there any numbers. The final bit of your question was about what could happen. I would like to see us match the 20% to 25% of people who are renters in the market. When we develop on public land, I would like us to be able to say that 20% to 25% should be built in that way on large-scale sites. It should not apply to small sites, where it is probably not relevant, because, if a housebuilder is building, the private investor can come in and buy to let on those markets. Where it is big scale, there should be a real necessity to provide that high-quality product and to fund and covenant it not to compete with the for sale product, so that we meet the supply issue.

**The Chairman:** What has changed over the last few years that has got us to this potentially rather attractive position?

**Mr Nick Jopling:** I am often asked that question. We are talking about creating an asset class. Chris works in that market more than I do; I work in a listed company environment. It
probably takes 10 years to create an asset class. We are probably four to five years into that, because Montague was somehow the trigger point. It made a very small number of recommendations. It set up a PRS task force. It set up a fund to help construction, although it was not taken up fully, because the market started to absorb it. We started to make institutions aware of accessibility. There was no stock that they could go and buy. There are not blocks of 500 units for rent for the institutions to buy. That is what Chris would really like to buy, if they were there, but they all got broken up, dispersed and sold because of rent regulation in the 1970s and 1980s. The quickest way to turn the whole thing off is to have any form of rent regulation. If you whisper the words “rent capping”, you will turn this off tomorrow. Montague was the most significant thing.

There has been a general desire to do it. Last week, the Urban Land Institute published the second design guide on what these buildings should look like. Housebuilders said, “Are you telling us how to build blocks of flats?” No, we are telling you how to build blocks of flats for long-term rental—how you provide an environment and a community for people who can rent. It is not a second-class form of tenure. It is a perfectly rational, sensible and reasonable form of tenure for people of all generations to live in.

Mr Chris Taylor: It is a very good question. Another dimension comes from the Dutch—PGGM, in particular, which Nick knows well. The real estate market is global. We know that in London. We are seeing investors from overseas bringing new ideas, which has been a big change. I started off life at Prudential, which had huge residential estates. I will not go into why the Pru sold—that was another day. This time around it is different. Another important point is that the prospective returns from commercial real estate over the next five years— it comes back to data; there is an inflection point now—look to be lower than those from the residential sector, so there is an investment to be made. Clearly, institutions are looking for a return, but there is inflation-hedging and the prospective returns look relatively attractive.

Dr David Smith: It is important to bear in mind that, in a sense, the answer to your question is that nothing has changed, apart from the fact that there is an increased weight of institutional investment. Even if the size of institutional investment were to double, it would still leave over 60% of the sector in the hands of small private landlords. It comes back to the points that were made by Lord Forsyth and Lord Lamont. Why should the institutional sector get favourable tax treatment? Yes, it should be encouraged, but should it be encouraged at the expense of the smaller private sector? Inevitably, my argument would be no, because we need both, and we are in such a difficult position that we need both badly. If we encourage one at the expense of losing the other, we will deeply regret it in five years’ time.

Lord Teverson: Could I explore one little thing? To me, one of the differences between the institutional and the small landlord sector is that, if the institutional sector is in for the long term, presumably you are not worried about going beyond shorthold leases, so families have greater guarantees that they can live there and will not be taken out. Is that your model—to avoid shorthold leases?

Mr Nick Jopling: Absolutely. I am at some pains not to disagree with David when he says things, but earlier he said something I did not agree with. In Barking, where we have
provided a purpose-built rental building just for rent, we offered three-year tenancies to all our tenants; 40% of them took those tenancies. The important thing about what we, as Grainger, offer the market is that we offer that commitment for three years. We say to the tenant, “We understand that your circumstances might change—your relationships, your family, your job, your career or whatever. Therefore, after six months you can give 28 days’ notice to us, but we will commit to you to provide that long-term tenancy”. The one thing we do not want as a long-term landlord is a void. That is the one cost we can never recover. We can recover the repair of a lock, a door or a loo—whatever it is. We can collect the arrears if people do not pay their rent. The only thing we ask our tenants to do is to pay their rent and behave in the manner in which they would expect their next-door neighbour to behave to them. That is all. Those are the rules. As long as they accept that, we welcome them staying for a long time, and we accept that their circumstances might change. We have no problem with longer-term tenancies.

Mr Chris Taylor: My answer is exactly the same. Our interest is aligned with the individual or family staying for as long as they are happy to stay.

Dr David Smith: I do not think that small landlords have a particularly different interest. Small landlords want tenants to stay for a long time. We surveyed our members to check that. Over half of our members are perfectly happy to offer longer-term tenancies if they are asked for them. In fact, the average tenancy length in London, which probably has the shortest tenancy length, is about 18 months. Most tenants leave their property at the tenant’s choice, not at the landlord’s choice. Institutional investors have a different risk profile and are able to take bigger risks with individuals, because they have a larger number of properties to deal with, but small landlords are not averse to offering longer-term tenancies. The concern that smaller landlords have is that if tenants fall into rent arrears in particular it is difficult to get them out of the property, to recover possession and to continue to let to another tenant who will pay the rent. Unfortunately, the problem is at the door of the court system and regrettably the fact that arguably it is underfunded.

Q223 Lord Teverson: Thank you for that clarification, which is important. I should say that I rent one property on a shorthold lease.

As Baroness Wheatcroft tried to explore, we have found it difficult to understand why the institutional market will suddenly improve. Is finance a barrier? When you are going through the planning process, putting in the infrastructure and the school, and then building and, finally, getting a rent where the cash flow is probably paid back in year 12 or something, is finance a problem? You talked mainly about London. I take the Liverpool example, which is an important one, because Liverpool does not have the greatest of economies, but what about the rest of the world? Take my part of the country. Plymouth is a very low-rental area. In rural areas such as Cornwall, there is still a huge shortage of housing, but very low rentals. Does your model work outside major metropolitan city centres?

Mr Chris Taylor: It does. The reason is that in London the net net yield will be less than 3%, whereas outside London there is a 31% leakage from gross to net and the net net yield is closer to 5%. Whether it is Plymouth, Leeds or Bristol, our model really works best outside London, partly because we can compete for land more readily. We find that it is easier to engage with local authorities, which are looking for regeneration in their city centres. It is a
conduit for growth—all the factors I mentioned earlier. At the end of the day, they want to retain talent. Plymouth is a good example; I was born quite close to it. The challenge for a city like Plymouth is to attract and retain talent, because that is key for employment. In our view, all those things come together.

*Dr David Smith:* There is a gap in genuinely rural areas. With respect, this is where I do not think that institutional building can work. It is very much a restriction of planning. Rural rental is still substantially tied up with larger private landowners with historical land ownership. It is therefore very much covered by organisations like the Country Landowners’ Association. It remains the case that many more rural tenants are on totally different tenancy agreements, usually with rent control, because they are historical tenants.

*Lord Teverson:* Finance is no barrier. You have a good proposition.

*Mr Chris Taylor:* The barrier is having to take the risk of building purpose-built, institutional-quality housing, because it does not exist in this country. As you mentioned, the barriers are in getting the planning, the site and the assembly. The finance is not the issue. It is there. That is the message that I would like to leave. The capital is there. It is about implementation.

*Lord Teverson:* It is about the asset class as well.

*Mr Chris Taylor:* Yes.

*Mr Nick Jopling:* I agree with parts of both comments. The challenge of really making it work—one a net operating basis, as Chris said—is scale. We can run a building of 150 units probably with the same staff as we can one of 120, so we would want to build 150. David is absolutely right to say that building that in a rural environment is challenged and it does not work for us there, but it does in regional cities—not just the principal regional cities, but those that have universities or levels of employment that mean there is a demand.

I go back to Aldershot, although I know it is near London. When we were doing our research around Aldershot, we found that the challenge for HR directors in Farnborough Business Park was how to attract people to come and work in Farnborough. People wanted to commute to the area from London or live in Guildford, but they did not want to live in Aldershot, because the quality of product was perceived not to be there and it was very much an Army garrison town. You can start to change things by place-making, with different mixtures of tenures. I mentioned the scale at which we are building in Aldershot. The answer to your question about the school and the infrastructure is that we are making our return on that by selling the land to the housebuilders, for them to build on and do their job, because they do that a lot better than we do. They can build for sale more cheaply than we can, so that is where we get a return for that piece. That leads into the issue of housebuilders land banking. In this particular case, by doing this and having a development partner that says, “Bloor here, Redrow there, Barratt there, Bellway here”, you stop all that land banking. Effectively, you are saying, “We will be flogging the next site here, in 18 months’ time. Get on and build that, and we will build something over here”. Yes, it has to work on the metrics and it has to be a net operating income. That comes with scale and place-making opportunities.
Q224 Baroness Wheatcroft: I would like to ask Mr Taylor and Mr Jopling about the building techniques they will be employing. An awful lot of housebuilders seem to be building houses in the way they have always built them, which is not always ideal in this climate. How industrialised are you prepared to go?

Mr Chris Taylor: I would not say industrialised. If you take the Liverpool example, the difference from a typical housebuilder’s approach is that we are thinking about the different needs of those who rent—the concierge facilities, the storage facilities and the fact that, if you have a two-bedroom unit, you probably want two bathrooms. Nick will have much better examples than I do, but a lot of it is around design, rather than thinking about materials. As it happens, we are using traditional materials. There are discussions about industrialising and in situ construction methodology. We are not pursuing that. We are using traditional materials.

Baroness Wheatcroft: If the aim is to deliver an increased supply quickly, might it be worth exploring that way of doing things?

Mr Nick Jopling: This is really starting to look into the future—at modular building, effectively. In fact, a team from Grainger went to Hull to look at a company that makes modular bathrooms and kitchens that you can literally put in. They can be built off-site, brought on lorries and put in much more quickly. We have not made a decision on that, but it is an area that we are starting to look at.

Chris is absolutely right: the design is essential, because of the net operating cost. Any of you who lease a flat in London or anywhere else knows that you have to pay a service charge, but there is no one paying our service charge. We have to pay that. We pay for the lifts, the cleaning, the concierge and the insurance for the building—all those factors—so we design them in to be as efficient as possible from day one. We therefore look to have materials that have durability—long-term life. We are not after fancy pipes, taps and showers or marble and things like that. That does not mean that we are building a second-class product. It is built to last, so the maintenance costs are down. The modular piece is being able to build faster—if we can put the bathroom plugs in, for example. We have been looking at how the student housing market did that. In some ways, what happened with the student market, and its growth over the last 20 years, is a real example of how the build-to-rent market can work. Effectively, it is a homogeneous product, so you can start to get economies of scale in the supply chain.

Q225 Baroness Wheatcroft: I have a quick question on the changes in the Budget, particularly on buy to let. Earlier you said that you thought that the effect would probably be marginal in the end. Is there anything more to be said on that?

Dr David Smith: We are very concerned about the change. We have looked at our members, who are telling us that they will simply stop investing in the sector. We do not believe that many of our members will sell properties to owner-occupiers; they will simply sit on them. Nothing will happen, which is the worst possible scenario. The sector will stultify, which is possibly the worst thing that could occur.
It is a problem for many of our members. Many people in the private rented sector are older. Most of my members are over 60 or over 65. That is a problem for us. As a membership association, we want younger members, but younger people are less inclined to invest now, because the environment is being made less attractive. It creates another problem, in that older members want to sell and leave the sector, to release money that, effectively, will be their pension money. It has now been made more difficult for them to do so. If they are going to sell, who will they sell to? It is not realistic to believe that many of them will be selling five-bedroom properties to first-time buyers, because there are not that many first-time buyers who want five-bed properties.

Baroness Wheatcroft: Do you think that the changes are sufficiently significant to stop newcomers entering the market?

Dr David Smith: No, I do not think they will stop newcomers entering the market, if the economics work for them. This is an area where the Treasury is still being incredibly coy, but it depends very much on the basis on which it will allow the 3% SDLT uplift to be waived. It has consulted on it, but it is being very cagey about what the basis will ultimately be. It depends very much on how the stamp duty land tax stuff shakes out. The mortgage interest relief is not as big a deal as a lot of people think, because not that many buy-to-let landlords have mortgages—far fewer than people think—and they are a lot less heavily mortgaged than they were traditionally. Many of those currently entering the market tend to have quite low mortgage borrowing, but the stamp duty land tax changes are a serious problem for them, because they cannot get in and they cannot get out.

Mr Nick Jopling: It is worth pointing out that there is no one in the institutional sector or, I think, the BPF sector calling for or supporting this. No one is saying that small landlords should be taxed an extra 3%.

Mr Chris Taylor: Quite the reverse. Our members in the BPF are looking for a holistic approach to the housing problem, which is sorely missing. The disappointment for the BPF is really to do with the lack of a holistic approach to the problem.

Mr Nick Jopling: As we were discussing earlier, the financials are so sensitive that, if you put that 3% on the bill to rent on the institutional side, we may as well forget it all. We must remember that that £30 billion or £50 billion—whatever it is—of institutional money has lots of places to invest. At the moment, it is looking at our sector and at helping to sort out our housing supply issue. We do not want to do anything to put it off. In fact, we want to encourage it to enter the market.

Q226 Lord Turnbull: In the first instance, I turn to David Smith. You mentioned countries overseas, which was a very good point. We are having a meeting with experts next week. You mentioned Germany. Can you give me the three-sentence version? You say the whole framework is completely different. What is it we should be looking for?

Dr David Smith: The first point is that as an economy Germany is different. It has more large cities, so there are more places. It does not have the UK’s London-focused concept. It is a different economic model. Tenants do not enter property on the same basis; for example, they have their own cookers. In Germany, the norm is that you get nothing other
than a bare property. You put in your own appliances, including your own white goods. When tenants leave a property, they have to pay the landlord money to help them find replacement tenants. The entire structure is totally different, and comparing Germany with England is quite difficult. Tenants have more security of tenure.

**Lord Turnbull:** But is there anything usable that you can go out and grab and bring here?

**Mr Chris Taylor:** Patrizia, which is one of Germany’s largest institutional owners of private rented sector—has about €10 billion—it is the quality of management and the service provision. Patrizia has been doing it for 25 or 30 years. We have a lot to learn from best practice on how to provide real quality and value to tenants.

**Dr David Smith:** I would caution against the one thing you are trying to ask me to do, which is to grab one thing from Germany.

**Lord Turnbull:** Maybe the answer is that there is not something we can take, in which case we may not learn a lot from them next week.

**Dr David Smith:** I speak from having worked in Wales, particularly as a specialist adviser to the Welsh Government. Not everyone agrees with what they have done in Wales; the RLA did not wholly agree with their change in structure. They looked at all of it from square one. The whole point about the renting homes Bill—now the Renting Homes (Wales) Act—is that they started from scratch and attempted to recast the entire private rented sector, social, institutional and small private, into a new structure. The difficulty in England is that there is reluctance to do that. Lord Teverson referred to sticking plasters on sticking plasters when speaking to a previous evidence-giver. That is where we are. Some of the economic changes are still trying to tinker round the edges, and perhaps we need to stop trying to grab ideas from Germany and start again.

**Q227 Lord Turnbull:** You talk in a very upbeat way about what the sector can do in the future, as opposed to what it is doing now. If we are trying to increase the number of new homes built per year by 70,000, what contribution can the professional institutional investor in rented property make to a target of that kind?

**Mr Chris Taylor:** If my prognosis is right, which is that £50 billion or £60 billion of long-term institutional money would invest in new purpose-built private sector rented units and that equates to 400,000 or 500,000 new units over a period of, say, seven years, there would probably be 60,000 or 70,000 a year. That is a lot of ifs.

**Lord Turnbull:** Given the laws of physics, if you have a wall of water, which was the phrase you used, with that much money—£60 billion—how come it has not burst through and we are not seeing it?

**Mr Chris Taylor:** It is happening as we speak, but not on that scale. I think the number we estimate currently is 37,000.

**Mr Nick Jopling:** Of those, the best estimate is that there are about 20,000 in London. I cannot remember the exact figure for what is going through the planning pipeline. There are lots of issues: land assembly, planning issues and all the things we have touched on this
afternoon. There is much debate. Whether it is listening to Lord Kerslake from the London Housing Commission yesterday, the Urban Land Institute on Friday at the Royal Geographical Society, the announcement of the publication of a second book at the British Property Federation, or build to rent committees, all of us in the sector spend our lives trying to do everything we can to open the taps. We are really trying to get the public sector to engage as well.

**Lord Turnbull:** Who is keeping the taps closed at the moment? Where is the blockage?

**Dr David Smith:** Nick touched on that a little earlier. One of the problems is that investment is looking at our sector, but it is also looking at a lot of other sectors, some of which are not in this country at all and some of which have nothing to do with housing. We might or we might not attract institutional investment, but the real danger is that it might be attracted for a bit and then go away again, because France does something that is more attractive.

**Lord Turnbull:** You are also implying that in this covenant there is some kind of deal or discount. Someone is not getting as much value for something as they otherwise would, to benefit your sector. I have not grasped how it works. Is it that you get planning permission but the current owner of the land has to make do with a lower price than they would otherwise have got?

**Mr Chris Taylor:** That is a good question. It comes back to having a holistic approach. A lot of education is required on the need to provide choice and a balanced solution to the housing problem. It comes back to local planning. For example, Manchester had the vision and foresight to recognise that it needed to designate certain sites for the private rented sector to have a balanced answer to the housing problem. It is not perfect, but it has identified sites that are now being built. We are building Pomona Wharf opposite the Trafford Centre. Right now 276 units are being built, and there are another dozen sites in Manchester that the city has identified and zoned specifically for the private rented sector. It is the covenant—

**Lord Turnbull:** That influences the price at which you can access the land.

**Mr Chris Taylor:** Yes, it does.

**Lord Turnbull:** Presumably, under Section 106, when you are bringing in families, the social provision is the same whether they are renting or buying. You are still subject to Section 106.

**Mr Chris Taylor:** Yes.

**Mr Nick Jopling:** You are asking about my favourite subject. I sat on the Montague Review. If I have one message to get across, it is about the strengthening of that covenant. If you are a local authority, it is a covenant from me to you to build on your land to provide housing stock that is required and that you have identified. My covenant to you is that I will rent in those bandwidths, or the proportions we all talked about earlier, for a period of time. If I break that covenant, there is recourse and a clawback to you. First, you are protected; secondly, I am protected if there is value-damaging legislation in future, such as rent
capping or whatever, and as an institution I suddenly get scared by that, which happened last time around. It happened in the cycle 30 or 40 years ago, and that is why we do not have an institutional private rented sector today. We had one and we threw it away. As an institution, I can break that covenant, but there is a price to pay; I have to pay it back. That is probably Section 106. I provide a third covenant to the tenant, because if I give you a covenant for 15 years there is no reason why I would not give a longer-term tenancy.

Lord Turnbull: It starts with local authority-owned land.

Mr Nick Jopling: Yes.

Lord Turnbull: How does that model work when you are trying to develop it on what is currently privately owned land?

Mr Nick Jopling: I have given you an example of what we are doing on privately owned land where we have chosen to do that. People say, “Why are they doing that?” They are delivering something of lower value at Portsmouth, if you remember, where we are building alongside. That site will take 15 to 20 years to build at one a week. If we as a private landlord can deliver that development in 12 or 15 years—we are talking about public land—we are delivering a quantum quicker, and so the internal rate of return on that land for that model means I can make it worthwhile.

In the circumstances of Kensington and Chelsea, we work with them. They take a net income off the deal we have done with them with a 125-year lease. We are building now.

Lord Turnbull: That goes back to land that K and C own.

Mr Nick Jopling: Yes, so I am going back to public land.

Lord Turnbull: I see how it works there. I still do not quite see how you get it to work with private land where the owner would rather sell it to a housebuilder.

Mr Nick Jopling: The only time it works is on a large scale. Big sites of 2,500 units will take 15 years to deliver. If you can deliver them faster, in 11 or 12 years, the rate of return on the money you have invested is higher than or equal to the amount you would have if you had waited and perhaps taken the risk of going through a cycle with house prices falling and delaying it, not for 15 years, but 16 or 17 years. The institutions and landowners put that pricing into the risk. We are into a land-pricing risk model, which is probably another discussion.

Lord Turnbull: Your argument is that you can bring in tenants quicker than they can bring in buyers.

Mr Nick Jopling: Absolutely.

Mr Chris Taylor: Your question is key. There are lots of sites we have missed out on, in Nottingham and in Leeds, because we have not been able to compete with the traditional builder.
Lord Turnbull: I want to know what has gone wrong at Battersea, but you might tell me afterwards.

Q228 Lord Forsyth of Drumlean: In my small brain, I summarise it as follows: it works because the local authority provides the land at less than actual value, and it is giving you a discount; and in the case of the private sector, it gets the cash upfront and you discount the value accordingly. Is that the model?

Mr Nick Jopling: We are into a land debate. Effectively, you are right. They are equalising one or the other.

Lord Forsyth of Drumlean: You are in a position to do that because you have bags of cash.

Mr Chris Taylor: It is a long-term investment.

Mr Nick Jopling: We are long-term investors.

Lord Forsyth of Drumlean: I put it more pejoratively.

Mr Nick Jopling: This is important for the local authority bit. A lot of local authorities want to enhance their revenue receipts rather than their capital receipts. If they can create a long-term partnership, where their land, effectively, is part of the delivery of the build-to-rent product and they take an income stream off it for many years, that suits local authorities. No two sites are the same, as I think somebody said earlier. There is individuality in everything. Every city, every part of London and every rural and regional area should be looked at individually, but there is usually a solution.

The Chairman: Would it be correct to say that the lower than market rents that you covenant to charge on certain properties represent part and parcel of Section 106?

Mr Nick Jopling: They can, and they can provide affordable housing, but with a small “a”. We are back to my stepping stones.

The Chairman: Would social housing be part of that mix as well?

Mr Nick Jopling: In the case of Grainger, because we have a registered provider within the group, we can do that and we are doing it, but remember our single building with one operator and one owner. If Chris has to put in social housing and he is not a registered provider, he has to bring in someone else. That starts to make his model very complicated and it does not work. It probably has to be in a different building, and then we start talking about poor doors and segregation. There is an element where the most desirable thing is to say to the institutional sector that each site is treated individually, and to make that land worth while it is all private rented and the social housing is dealt with elsewhere on the site or on an offsite payment. Equally, the for-sale property is dealt with in that way, or there may be no for sale on the particular site. You put in those stepping stones depending on what the landowner wants to do. There are lots of examples. It is probably too much detail to go into now.
The Chairman: To go back to Lord Turnbull’s taps, how do you turn on the taps faster? What single initiative or policy change would result in the taps turning on faster so that the money that is at present waiting to go into this sector does not disappear overseas?

Mr Nick Jopling: Public land is key. There should be awareness and strengthening of the covenant to be used by local authorities, and increased awareness among planning officers to say, “We can do this on our car park sites or above our supermarkets and bus stations”. It does not have to be an MoD or TfL site; it can be above a car park or supermarket in a town centre. Use the covenant to get what the local authority wants for its housing needs.

Mr Chris Taylor: For me it is the same. It is working in partnership with the public sector, and the covenant will enable us to compete.

Dr David Smith: We do not need the taps to be turned back on. We were doing it already. All we require is that the tax system is not changed to turn them off.

The Chairman: On that very positive note, thank you very much. It is very good to have a session that ends with some solutions rather than problems. Thank you very much indeed.
Submission to the Lords Economic Affairs Committee inquiry into the economics of the UK Housing Market from the Residential Landlords Association

1.0 About the Residential Landlords Association

1.1 The Residential Landlords Association (RLA) represents the interests of landlords in the private rented sector (PRS) across England and Wales. With over 20,000 members, and an additional 20,000 registered guests who engage regularly with the Association, the RLA is the leading voice of private landlords. Combined, they manage over a quarter of a million properties.

1.2 The RLA provides support and advice to members and seeks to raise standards in the PRS through our code of conduct, training and accreditation and the provision of guidance and updates on legislation affecting the sector. Many of the RLA’s resources are available free to non-member landlords and tenants.

1.3 The Association campaigns to improve the PRS for both landlords and tenants, engaging with policymakers at all levels of Government, to support the aim of a private rented sector that is first choice, not second best.

2.0 Executive Summary

2.1 The Government’s changes to mortgage interest relief (MIR) have caused many landlords to re-consider their investment decisions and 75% are considering increasing their rents as a result.

2.2 Given the IFS, amongst others, criticisms of the Chancellor’s assertion that landlords are treated more favourably than home owners in the tax system, the RLA believes that the Treasury should publish in full the tax liabilities faced by home owners compared to individual, residential landlords.

2.3 The RLA questions why HMRC is not measuring the impact of the MIR reforms against the number of properties affected since it is against these, rather than landlords, that mortgages are granted. The RLA believes that looked at in this way it would become clear that the changes will make some properties uneconomic and lead to them being lost to the market.

2.4 The RLA believes that the MIR changes should apply only to new borrowing. The measure should also be recast so that the right to deduct mortgage interest when calculating profits is retained; even if interest is only relieved at the basic rate.

2.5 Mortgage lenders should be asked to change their lending terms so that they will not object to tenancies more than a year long at any one time.
2.6 For blocks of flats statutory intervention is needed to state that clauses limiting leases to fewer than three years are of no effect and replacing them with a suitable alternative which will be implied by statute.

2.7 To support homeownership, Capital Gains tax relief should be provided for landlords prepared to sell their property to a sitting tenant or other first time buyers where the landlord is then prepared to re-invest in new property.

2.8 The Office for National Statistics and the Valuation Office Agency should convene discussions with all commercial bodies publishing rental data to establish a single, authoritative survey based on a robust and reliable methodology.

2.9 Given the harmful effects of rent controls on both the supply and quality of rented housing we urge the Government not to include powers to introduce forms of rent control within its devolution deals or give such powers to the Mayor of London.

2.10 To encourage the development of new homes to rent on smaller plots of land, we propose a range of incentives. These include:

- Guidance for local authorities, government departments and agencies that they should be looking to dispose of marginal and small sites they own with incentives for doing so, based around the New Homes Bonus Scheme which would be bought by smaller developers across a range of tenures.

- A new VAT recovery scheme to benefit smaller build to rent projects.

- An incentive related to Stamp Duty Land Tax for landlords who invest a deposit of not less than 10% of the eventual purchase price in a new development with a smaller developer at an early stage where the land is just being acquired.

3.0 Background

3.1 According to the 2013-14 English Housing Survey, 19% (4.4 million) households in England are in the private rented sector, up 11% over ten years. The PRS is now larger than the social rented sector which accounted for 17% of households in England in 2013-14.

3.2 In September 2015, the RLA commissioned DJS Research to undertake a survey of landlord attitudes on a number of subjects. 1,610 interviews were conducted with individual landlords which found that:

- 14% rented out just 1 property; 44% rented out between 2 and 5 properties; 17% rented out between 6 and 10 properties; 14% rented out between 11 and 25 properties; and 8% rented out over 25 properties. The majority, 58%, have between 1 and 5 properties.
Landlords were asked also how long they had been renting out property: 3% said a year; 11% 2-3 years; 33% 4-10 years; 35% 11-20 years; and 16% had been renting out property for more than 20 years. The majority are long term landlords with 51% having rented property out for more than 10 years.

3.3 Research published in July 2015 by PwC has indicated that by 2025 around 25% of households across the UK are likely to be in private rented accommodation.

4.0 Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

4.1 The Summer Budget announced that over a 4 year period, mortgage interest relief (MIR) for individual landlords will be restricted to the basic rate of income tax. He announced also that from April 2016, the Government will abolish the Wear and Tear Allowance and instead landlords can only claim the actual costs of replacing furnishings.

4.2 The Chancellor argued that “buy-to-let landlords have a huge advantage in the market as they can offset their mortgage interest payments against their income, whereas homebuyers cannot.” This statement stands in stark contrast to the opinions of a number of independent experts.

4.3 The Institute for Fiscal Studies has noted that: “rental property is taxed more heavily than owner occupied property.” As the IFS notes, landlords are taxed on rental income and capital gains, neither of which is paid by home owners.

4.4 To ensure an informed debate, the Treasury should publish in full the tax liabilities faced by home owners compared to individual, residential landlords.

4.5 The Red Book argues that the MIR announcement will save £665 million by 2020/21. The RLA questions how the Treasury can come up with this figure when it has previously said it does not know how much tax it receives from residential landlords. In response to a parliamentary question on 9th June 2015, the Financial Secretary to the Treasury, David Gauke MP, reported that the Government had made no assessment of the total annual contribution in taxes arising from residential landlords who are unincorporated.

4.6 HM Revenue and Customs argues that 1 in 5 landlords will be affected by the MIR changes. The RLA questions why it is not measuring the impact against the number of properties affected since it against these, rather than landlords, that mortgages are granted.

4.7 The announcement on MIR will see rents increase as the increased costs are passed on to tenants. The measure will also stifle investment in the supply of much needed homes to rent. As the IFS concludes: “There is a big problem in the property market making it difficult for young people to buy, and pushing up rents. The problem is a
lack of supply. This change will not solve that problem.” PwC has also commented that the Budget proposal could see buy-to-let investors feeling the squeeze and putting up rents.

4.8 Since the policy will not begin to be rolled out until 2017, the RLA believes it is a serious concern that no assessment has been made about its impact when interest rates inevitably increase. As PwC observe: “If interest rates increase over the coming years, and rental yields don't keep pace, investors could be paying tax on a loss.”

4.0 Following the Budget, a survey by the RLA of over 1,700 landlords found that 75% were considering increasing their rents as a result of the tax announcements whilst 63% said that the proposals were likely to deter them from investing in any new properties.

4.10 Because tax will be applied to turnover rather than profit, many landlords on the basic rate of income tax are likely to find themselves pushed into the higher rates of income tax, despite their income not having increased. In a further survey of almost 1,200 landlords, of those currently paying the basic rate of income tax, over 60% said that the changes announced by the Government would push them into either the higher or additional rate of tax.

4.11 The RLA believes that the following measures should be taken to mitigate the worst effects of the MIR changes:

- Re-casting the measure so that the right to deduct mortgage interest when calculating profits is retained, even if interest is only relieved at the basic rate. This would avoid landlords being dragged into the higher rate of tax, potentially without being aware of it beforehand.

- The decision to restrict mortgage interest relief to the basic rate of tax should only be applied to new, increased borrowing and not to re-mortgages to replace current debt. This would mitigate concerns about disruption to the sector as it would not affect current borrowings. Landlords could then at least decide whether or not to take on fresh borrowings under the new regime.

5.0 Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

5.1 All evidence points to the private rented market growing in size. This has led many to call for fundamental reforms to the sector to force longer term contracts on landlords and tenants. Such concerns miss the point that longer tenancies are already possible under the current system.

5.2 Landlords often want to offer longer tenancies. As the English Housing Survey notes, the average length of residence for tenants in private rented properties is now 3.5
years and of those tenants who had moved house in the last 3 years, just 8.3% of such tenancies were ended by a landlord or letting agent.

5.3 Where tenants stay in their properties for longer periods, landlords are reluctant to increase rents, at least beyond inflation. The English Housing Survey notes:

“In general, those who had lived in their home for longer paid less rent. Private renters that were in their current home for less than a year paid an average weekly rent of £198 compared with £158 for residents of 5-9 years and £127 for residents of 20 or more years.”

5.4 Many landlords are prevented from voluntarily providing for tenancies longer than a year by mortgage lenders and the owners of blocks of flats.

5.5 The DJS research for the RLA found that 25% of landlords were not allowed to agree tenancies longer than a year by their mortgage lenders or insurers. Of this group, 43% would offer tenancies of longer than a year if they were allowed.

5.6 The Treasury is in a unique position to improve this situation. A number of the main mortgage lenders remain part-owned by the State. This puts the Government in a powerful position to call on them to amend their limits. There is no good reason for a limit of one year on a tenancy as mortgage lenders still have considerable powers to evict tenants in the case of mortgage default.

5.7 Mortgage lenders should be asked to change their lending terms so that they will not object to tenancies of more than a year at any one time.

5.8 In relation to blocks of flats, we recognise that resolving this is a more difficult issue as amending existing leases is complex and expensive. The best option is statutory intervention to state that clauses limiting leases to fewer than three years are of no effect and replacing them with a suitable alternative which will be implied by statute.

5.9 A simple amendment to Housing and Planning Bill, to amend the Commonhold and Leasehold Reform Act 2002 would achieve this.

6.0 What are the advantages and disadvantages of restricting rent increases in the private sector?

6.1 The plethora of different measurements makes it hard to establish what is really happening with rent levels.

6.2 As an example, the Office for National Statistics’ most recent Index of Private Housing Rental Prices suggested that private sector rents increased by 2.8% in England in the 12 months to September 2015 and 0.5% in Wales. In contrast, LSL Property Services has put the increase at 6.3% over the same period in England and
Wales. In its figures for October 2015, Homelet said that average rental values for new tenancies in the UK were 9.7% higher than the same period last year.

6.3 The situation becomes more unclear still when the Cambridge Centre for Housing and Planning Research’s report for the GLA Housing Committee is taken into account. This observed that “private rents have actually risen below wages or CPI on average during the period 2006-2013. This is true both in London and in England as a whole.”

6.4 **Good policy making requires good, authoritative data.** The large amount of often contradictory information causes confusion in establishing what is happening with rent levels. We are calling on the Office for National Statistics and the Valuation Office Agency to convene discussions with all those commercial bodies publishing rental data to establish a single, authoritative survey based on a robust and reliable methodology.

6.5 Whilst we recognise that rents in some areas, especially in London, take up a significant proportion of a tenant’s income, we would be against any form of artificial rent controls. As a result of such controls, the size of the private rented sector fell from 55% of households in 1939 to just 8% in the late 1980s.

6.6 On the 10th February 2015, Labour’s Welsh Minister for Communities and Tackling Poverty, Lesley Griffiths AM told the Assembly:

> “I do recognise that rent control can look attractive initially, but I think previous experience shows that rent controls reduce the incentive for landlords to invest and can then lead to a reduction in quality housing.”

6.7 In 2013, the Communities and Local Government Select Committee published a report on the private rented sector which concluded:

> “We do not, however, support rent control which would serve only to reduce investment in the sector at a time when it is most needed. We agree that the most effective way to make rents more affordable would be to increase supply, particularly in those areas where demand is highest.”

6.8 Earlier this year the OECD published its annual ‘Going for Growth’ document. This warned that “excessive rent regulations” result in “under-developed rental markets (e.g Sweden).” It warned that “this hinders labour mobility and re-allocation, reducing in turn matching between workers and jobs. The consequence is lower productivity and higher unemployment.”

6.9 All the evidence of the impact of rent controls is that they restrict supply and damage the quality of rented accommodation. **We urge the Government not to consider including powers to introduce forms of rent control within its devolution deals or give such powers to the Mayor of London.**
7.0 Supply of Rented Housing

7.1 The crucial question is how to boost the supply of rented accommodation in the face of a rising demand. This would keep rents stable and lead to higher standards.

7.2 A substantial proportion of the large number of individual private landlords are ready to invest further, if conditions are right, in more stock. To give them the incentive to do so the Government needs to stop treating renting in tax terms as a private investment, but instead as a business.

7.3 We are calling for changes to Capital Gains tax that could alter the way the sector operates to support tenants wanting to buy the property they are renting. The DJS survey showed that 77% of landlords would be more likely to sell to either a sitting tenant or first time buyer if capital gains relief were offered for doing so. Two thirds of landlords felt that a sitting tenant would be more likely to buy if the Help to Buy scheme was extended to help PRS tenants buy their rented home.

7.4 DJS found that two-thirds of landlords would be more likely to sell and re-invest where CGT roll-over relief was allowed when sale proceeds were re-invested in new properties. 60% would re-invest in an existing property while 12% would invest in new build.

7.5 We propose offering landlords a deduction in capital gains tax if they sell their property to their tenant for them to occupy as their sole residence. There would be an incentive against profit-taking as landlords would be less motivated to sell simply because prices have risen and where they do, would re-invest that profit back into the sector. We propose that this work alongside extending the Help to Buy scheme to enable them to purchase their rental home.

7.6 One of the best ways to increase the supply of private rented property is to encourage much greater development on small plots of unused public sector land that corporate investors are not attracted to.

7.7 The DJS research for the RLA asked landlords if they would be interested in developing on smaller plots of land for up to four units of private rented housing if it were identified and made available for development. 46% expressed an interest and most would be interested in developing up to 10 units. This would mean that, from this sample alone, almost 1,000 new units of private rented housing could be developed. By extrapolating these figures to the wider landlord population, small-scale build to rent has the potential to meet a significant proportion of the country’s housing demand and outstrip the provision of build to rent by institutional investors.

7.8 The inability to reclaim VAT when building properties to rent, unlike building properties to sell, deterred 69% of landlords.
7.9 In order to provide new assistance to smaller scale developments we propose a range of incentives to encourage new building on smaller plots of land. These include:

- Guidance for local authorities, government departments and agencies that they should be looking to dispose of marginal and small sites they own with incentives for doing so, based around the New Homes Bonus Scheme which would be bought by smaller developers across a range of tenures.

- A new VAT recovery scheme to benefit smaller build to rent projects.

- An incentive related to Stamp Duty Land Tax for landlords who invest a deposit of not less than 10% of the eventual purchase price in a new development with a smaller developer at an early stage where the land is just being acquired.

19 November 2015
Submission to be found under Migration Watch UK; Professor Robert Rowthorn (Fellow, Cambridge University); Professor John Muellbauer (Oxford University); Professor Tony Champion (Professor of Economic Geography, Newcastle University) (QQ 78-93) – Oral evidence (EHMOE0005).
Dear Ms Waller,

To: The Economic Affairs Committee of the House of Lords

Across our main brands NatWest and RBS, we remain committed to sustainably supporting all forms of housing across our Group recognising the importance of the sector for UK plc. We support all aspects of activity - from house building through to home ownership. The two main forms of capital support we provide are:

- Firstly through our mortgage business which currently helps over 1million customers own a home, with total lending of over £110bn. In 2015 we helped more than 90 000 customers buy a new home and continue to grow our lending, which increased by 10% in 2015.

- Secondly, through providing a total of roughly £16bn of funding to Housing Associations, Local Authorities and Private Developers. Through the private developer sector alone this has helped support the delivery of 20,000 homes across the UK mostly to the owner occupier market. We have also recently committed a further £1bn to support the delivery of purpose built private rented stock, offering the consumer with a real alternative quality housing option. Our long term commitment and consistent approach in supporting UK housing provision was recognised last year by RBSG being named as Residential Financier of the Year.

As widely acknowledged, there has been a huge reduction in the number of SME developers over the past 10 years, but we are gradually seeing those numbers starting to grow. The easing of building materials and labour constraints is also supporting the housing delivery recovery. The market has not yet reached the levels which meet on-going demand.

Access to finance was seen by many as a key barrier during and after the global financial crisis. However, surveys carried out by the main Industry body (Home Builders Federation) show that this isn't currently a challenge for most providers to increase supply. Over the last few years we have seen a material increase in the number of challenger Banks, Peer-to-Peer lenders and other organisations who are supporting the sector with debt finance, which gives the developer a broader range of options when considering funding requirements, including higher leverage options from a variety of private equity Funds.
Senior RBS executives remain engaged with relevant government bodies, including the Homes & Communities Agency and the Department for Communities & Local Government to discuss the ongoing housing challenge and to seek opportunities to work collaboratively to see what further support we can provide to enhance the provision of homes.

Turning to the Committee’s specific questions:

**Could a funding model or product be developed to assist local authorities and housing associations to build?**

We do not consider that funding, i.e. the provision of debt, is an impediment to the development of new housing capacity by local authorities or by housing associations. This is supported by the Home Agency’s Quarterly Survey for Q2 2015 which reports total borrowing facilities for English housing associations at £78.5bn, a £5bn annual increase from the corresponding report in 2014.

Rather, issues such as the debt cap on Housing Revenue Accounts, the impact of the Right to Buy scheme together with resource and risk appetite issues within local authorities and the reduction in social rents for both local authorities and housing associations combine to constrain ability. In the case of local authorities access to funding from the Public Works Loan Board (“PWLB”) is straightforward - current borrowing rates for Maturity Loans at the Certainty Rate are c3.00% for maturities between 20 and 50 years.

**Has financing of local authority/housing association building been attempted by the private financial sector and, if so, what are the obstacles?**

Banks have provided significant amounts of funding directly to local authorities and housing associations. In the case of housing associations this position continues. However, the current capital treatment of banks’ lending to local authorities - which are considered to be very high credit quality - requires interest rates that are generally not competitive with PWLB rates. More recently, two local authorities - Greater London Authority and Warrington Borough Council - have accessed Debt Capital Markets.

**Have forms of financing which would not Increase the level of the public debt been considered?**

Commercial models which do not result in an increase in the level of public debt have been considered, and some have been put in place. These have included local authority land being used as equity in schemes, thereby addressing one of the potential blockages - the cost of land – and local authorities entering into lease arrangements which commence at point of commissioning - thereby addressing another potential blockage - the exit risk on a development site.

In relation to the latter, there is a question about a forthcoming change in accounting treatment of long term leases within public sector accounts which is expected to result in leases being recorded as debt and, potentially, being aggregated into the national accounts as debt. We raise this as an issue but, as it is outside our area of competence, do not comment on this further.
Housing association borrowing currently sits on the public debt following the decision in 2015 by the Office for National Statistics to reclassify housing associations as public sector bodies. However, this position is likely to be reversed through amendments in the Housing and Planning Bill which would see financing to housing associations not being part of the public debt.

**Closing comments**

As a national bank, RBS I NatWest has common interest with the UK and devolved Governments in supporting all aspects of activity that result in the generation of new housing capacity. We recognise the infrastructural importance of housing to local, regional and national economies and the impact on productivity. We are, therefore, grateful for this opportunity to comment and would be happy to further support the Committee's work on this subject.

Yours sincerely,

Ross McEwan

16 February 2016
Executive Summary

Our members work in across all aspects of residential property, from valuation and estate agency to lettings, development, leasehold, social housing (including Housing Associations) and local government. This breadth of experience and expertise gives our Institution a unique perspective on the housing market, and our views are informed by unsurpassed sector-based professional insight. Furthermore, under the terms of our Royal Charter the advice we offer is impartial, independent and always directed at advancing the public interest as a whole.

We welcome this consultation as a serious attempt to understand the economic drivers of the UK housing market, at a time when the UK faces a national emergency in housing. The essence of the challenge we face is one of supply – we are simply not building enough homes. It is well over a decade since Kate Barker identified 240,000 as the number of new homes we need to deliver each year to keep pace with demand; successive governments have since failed to achieve this figure. This has resulted in a cumulative housing deficit which has pushed up prices and resulted in an affordability crisis of emergency proportions. House prices are already at record levels across many parts of the country, and the
Chartered Surveyors we represent expect house prices and rents to rise by another 25% over the next 5 years.
Up to this point, Government housing policy has been weighted towards boosting demand for homes and has neglected the need to ramp up supply. To address the crisis we face, we need a coherent and coordinated strategy for building across all the tenures to improve the balance between supply and demand. This means utilizing all available delivery vehicles – including small builders, local authorities, Housing Associations and Community Land Trusts (CLTs).

This submission is based on consultations with our membership, Professional Groups and other stakeholders. In addition, we have drawn on our Residential Policy Paper which set out a comprehensive plan for the UK housing market, and our responses to the housing measures in the 2015 Budget and the Autumn Statement.

1. **Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?**

   - **Government schemes:** How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

   The Government’s commitment to deliver 400,000 affordable homes in England by the end of the decade is clearly an ambitious goal that could go some way to addressing the affordability issue. However, the Office for Budget Responsibility is still projecting residential prices to rise by a further 25% over the next five years, which suggests that housing is still likely to be out of the reach of many despite the panoply of subsidies on offer.

   - **Taxation:** Are there tax measures that would improve housing supply and affordability?

     3 Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

   The Treasury has brought forward changes that mean from April 2017 the total transferable tax-free allowance for couples will be £1m. The IFS rightly highlights the combination of a longer living population and rising house prices. RICS has argued that it is inheritance tax on property which is key to downsizing decisions by older people.

   A review of inheritance tax deeds of variation is a lacklustre measure. There needs to be an independent review, on the model of the Elphicke-House Review, into the role of inheritance tax in property markets, so that we properly understand what will encourage older people to downsize and get larger, second hand property back into the market.
4 Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

The November 2014 reforms to SDLT – described by the Chancellor as the most damaging tax of all – was something the RICS had been urging for years.

The changes have reduced distortion and ensured those at the top end of the market contribute fairly, while those at the bottom are given a fairer chance to get on the ladder, cutting out ‘dead zones’ in the market.

- **Mortgages**: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

Whilst there is some evidence to suggest that the MMR has contributed to a tightening of the funding market, although it is hard to disentangle this from other factors which are now impacting on the sector and to know whether it will simply be a temporary influence as lenders adjust to the new environment.

- **Planning**: Are any further changes to the planning system necessary to increase the availability of low cost housing?

The Government needs to build on the Localism Act and the National Planning Policy Framework (NPPF) to further improve the efficiency and integration of the system. This is vital if supply is to be increased and affordability improved. In particular, the Duty to Cooperate across Local Authority jurisdictions needs to be enforced much more strongly to improve housing starts. The Housing Zone concept has been effective in many areas. It now needs to be extended, with different categories of zone introduced to improve supply across all tenures, including affordable housing. Developers who obtain planning permission should also be made subject to an obligation to use their best endeavors to develop a site within 3 years of obtaining the permission, or else lose the permission on that site.

The planning system as a whole also needs to be properly resourced if we are to deliver the increases in housing supply we need. Only by guaranteeing the health of the planning system can we deliver the houses we need. Whilst we believe any further cuts to planning departments would be a false economy, we need to use existing resources to full effect. The RICS thought leadership paper Delivering a Resource Revolution in Local Planning Departments outlines options for making use of shared services, ‘flying squad’ planning teams and temporary planning consultants (particularly former planning officers), simplifying and standardising forms and processes for small scale planning applications, or securing higher fee income by establishing pooling mechanisms and performance agreements for higher fees with developers.
2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

4 Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

There is a perception of some landlords in the sector that Government policy is steadily squeezing their margins in an ongoing ‘ratchet effect’, with the announcement in the Autumn Statement of higher Stamp Duty for buy-to-let properties feeding this perception. If this deters new entrants to the market with a knock-on impact on overall supply, the result could be to increase rents. With regards to the reduction of tax relief, there is a chance the cost of this could be passed onto tenants in the form of higher rents, but the sense is that landlords don’t tend to behave in this way, particularly for longer-term tenants. Furthermore, there are ways in which the changes could help stimulate supply.

The removal of buy-to-let mortgage relief could be an opportunity to unlock the potential of pension funds and promote institutional investment. This in turn can increase supply and help create a more long-term rental culture in a professionalized PRS (see below).

5 Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

There has been a long-term shift away from home ownership towards greater reliance on the rental sector. In 2001, 69% of households were privately owned – since then it has fallen closer to 60%. Meanwhile, the percentage of households in the private rented sector has risen from a low of 10% in 1990 to around 18%. The evidence is that this trend will continue, with current estimates suggesting a fifth of UK households will be in the PRS by 2020. As the prevalence of renting as a long-term option increases, Government must create a financial, fiscal and regulatory framework to attract long-term institutional investment into the PRS.

At present, the PRS is fragmented, dominated as it is by small-scale landlords owning 1-3 properties. There are several steps the Government can take to address this fragmentation and stimulate more institutional investment in the PRS. Government should consider the introduction of a portable home ownership discount for tenants. This would help those tenants that display a capacity to save, avoid rent arrears and to manager their homes effectively, thus keeping low-income homes in the rental market. Fiscal policy can also be used to encourage contributions from self-invested private pension schemes (SIPPS) to tap in to the currently underused investment potential of pension funds in the sector. Existing schemes such as the Build to Rent Fund can be a basis for further moves to strengthen the stability for institutional investment.
6 What are the advantages and disadvantages of restricting rent increases in the private sector?

Whilst the motivation behind rent control proposals is understandable, in practice they would inflict severe damage on the supply of rented accommodation, with negative outcomes for both landlords and tenants. The historical experience of such controls in the UK seems to bear this out, and arbitrary caps would damage the supply and quality of rental housing at the very time the sector needs to be professionalized further.

Rental costs have increased by 10% in the last year, but the best way of addressing this very real problem is to stimulate supply, not introduce any form of rent control. To do this, Local Authorities can borrow against their asset base to support build-for-rent developments, and where viable, waive the affordable housing obligation to facilitate the delivery of more build-to-rent properties.

3. Social housing: Are any measures needed to increase the supply of social housing?

5 What will be the impact of the Right to Buy for Housing Association tenants?

The sale of a property needs to enable one or more properties to be built in a timely manner, or the RTB proposal is unsustainable and will lead to a further shortage of housing. Houses should be replaced within a set period e.g. 2 to 3 years. The experience of developers, whether private or in the Housing Association sector, is that at present this timeline is wildly optimistic given shortages in requisite materials and obstacles in the planning process, and that the delay (with development timelines looking more likely to exceed 5 years) will bring considerable burdens to the cash-flow management of Housing Associations.

In short, if the property is not replaced swiftly, then the loss of rental income would have to be offset by running down on the capital accrued from the sale, which would in turn reduce capacity for new development. The risk to Housing Association balance sheets has already prompted the concerns of the three main rating agencies, and may lead to Boards being more cautious in terms of new development programs. Clarification would also be useful on what kind of pressure might be brought to bear on Local Authorities to sell empty properties, and whether it might have the unintended consequence of further reducing useable affordable stock in London if definitions of ‘affordable’ are not sufficiently nuanced.

6 What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 Budget? Are any additional or alternate changes to social housing rents needed?
Our estimates suggest that the cap on rents will amount to significantly greater reduction in income than is offset by the introduction of market rents for higher earners. Coupled with the cash-flow strains outlined above of delayed replacement on sold stock, the implications for viability stand to be considerable.
Summary

The main challenge the UK housing market faces is one of supply. Government needs to stimulate more supply across all tenures if the crisis is to be addressed and affordability is to be improved. This necessitates engagement with all available delivery vehicles and a serious effort to address the housing shortage in all areas, not just in home ownership.

15 January 2016
Q153 The Chairman: Ms Elliott and Professor Crook, thank you very much for joining us this afternoon. I should just preface my question by saying that our previous witnesses—and I think Ms Elliott was here to hear them—said that there was absolutely no problem with the planning system. Against that backdrop, we shall nevertheless be asking you about some of the problems that possibly exist with the planning system. A number of witnesses pointed to a golden era before 1991, when the developers could go and sniff out building opportunities and sniff out land. Effectively, the process was led by them. First of all, do you think that that was a fair characteristic of the pre-1991 environment and do you think that the current system is working well? Ms Elliott, would you like to start?
**Trudi Elliott:** There is no real appetite to put the clock back 25 years. I would preface my answer by saying that, if we regard planning only as a reactive regulatory function, we are going to continue to see an under-delivery of houses and even higher house prices in some areas, with all the economic and social consequences that flow from that. So we have to use planning in a creative way.

The question is harking back to the introduction in 1991 of the new clause that said that planning decisions must be taken in accordance with development plans unless material considerations indicated otherwise. Somehow, therefore, whereas developers were incentivised to find land and bring it forward before, they are not now. I do not recognise that model and we are still seeing developers bringing forward land and putting it forward for submission in local plans, but also making applications where appropriate. We need to remember what the problem was in that era and why the clause was entered. We got to the stage in the 1980s when we were actually having planning by appeal. For lots of planning authorities, that became really problematic in terms of democratic accountability. In one district alone, for example, 40% of applications were determined on appeal. That is no way to run a system.

I think the current system will work well with certain requirements. Councils have to have sufficient resources to do the job. There has to be a strong national policy indicating that the provision of adequate housing is a national priority but that the delivery of that is suitably locally empowered. As previous witnesses indicated, we do not have one national housing crisis; we have a selection of housing crises that add up to a national crisis and they vary from place to place. We need builders that can actually build and we also need political leadership.

**Professor Crook:** Perhaps I could add to that. First of all, to go back to the period that the HBF has told you about, it was a period when there was very inadequate coverage of plans. Demand for housing was high. The Government of the time was getting local authorities to focus on the development controls system. Builders were acquiring what we technically call “white land”—land that was not allocated in a plan. So they were buying it at close to agricultural-use value, taking it through the development control system, getting permission and making some quite good profits out of it. So if they say they were incentivised, it meant they were able to capture the land-value uplift that resulted from that. But, as Trudi said, it resulted in a lot of concern in local authorities, including among MPs, where people were concerned that it was an appeal-led system and that infrastructure was not being co-ordinated with allocations.

In terms of the current system, decisions should be made in accordance with the plan unless there are other material considerations. If you have those in place and if you have the evidence-based need in the plan requirements, which is absolutely critical; if you have the variety of sites that people need, whether they are volume housebuilders or small builders; and if you are saying you want to build about 250,000 homes a year, just to choose a number, you probably need to be injecting at least that number into the system with consents every year. Sites take about four years to work through, so you want to have about 1 million plots. If you look at the current evidence, consents were given for that 250,000 last year. What is interesting is that, where local plans were in place, the evidence is that those local authorities were allocating more sites than the evidence-based need. So
critically, if you have the capacity to deliver the plans and those plans provide the adequacy, hopefully the system will provide that.

Now, clearly you need more than that number. You need a buffer because some of the sites do not come through and builders do not develop the sites and you have land traders who are holding on to land. So you probably need to be injecting more than 250,000 each year—but it is moving in that direction.

**The Chairman:** We have been told by some witnesses that a plan-led system does not actually deliver enough houses. Where does that come from? You seem to have contradicted that point.

**Professor Crook:** I would not accept that, except that in the past, when we did not have the adequate coverage of plans, the plan-led system was not doing that because we did not have adequate plans. So it ended up being an appeal-led system. What I am saying at the moment, Lord Chairman, is that on the current evidence the plan-led system is delivering that in terms of what was delivered in the last year. There is that capacity and recognition of the need that needs to be there; provision is being made in the plans. Clearly we need to deliver more annual consents than the numbers we want to build because builders fail to take sites forward. We have land traders who are sitting on land and speculating on it, so we probably need quite a decent buffer, but we are moving in that direction. The evidence is that, with a plan-led system, you also have the possibility of co-ordinating the infrastructure that is necessary.

**The Chairman:** To what extent are land and house prices an indicator of the need to bring forward more land for building?

**Professor Crook:** It is one of the things that local authorities look at when they are thinking about the evidence base for their local plans. It is a clear requirement of local authorities. They are required to do that in their strategic housing market assessments, looking at the evidence of prices as an indicator of excess demand. They should be making requirements in relation to that. It is part of the mix.

**Q154 Lord Lamont of Lerwick:** Under the National Planning Policy Framework, we have heard the criticism made that local authorities are seeking to game the system and seeking to achieve the minimum rather than the optimum number of houses. We had a witness from Taylor Wimpey. It was given in public, so I am not releasing any great secret, but the accusation was that local authorities find it a great burden to carry the objectively assessed need and try to suppress the level of housing requirement, which is then rolled into the local plan process. It is quite a harsh criticism. Do you think that there is any justification in that?

**Trudi Elliott:** It is quite difficult to game the system if you are a local authority because of the checks and balances in it. The NPPF makes it quite clear what test you have to fulfil in terms of assessing the needs in the plan. There are ample opportunities for landowners and developers to put forward sites and propositions to the local authority, and they have to balance those fairly. But the whole system is tested through the Planning Inspectorate. So there are enormous debates going on up and down the country, on a daily basis, about what the objective need is in a particular local authority area. One side of the House is arguing
one figure and one side of the House is arguing another. We are ending up getting pretty close to a fair reflection of the needs of that community in that local plan. It is robust and it is fair to say that, for many a politician, this is the most challenging part of their role, articulating to their local community what the needs of that community are in terms of housing, the need to put it in the local plan and how to overcome the challenges.

For a lot of local residents, their concerns about increased housing are not unreasonable. What they are worrying about is the impact on infrastructure, and what we do not do in this country, as many other countries do, is align as effectively as we might the provision of supporting infrastructure in its widest sense—economic infrastructure, transport infrastructure and social infrastructure—with the provision of housing through local plans. So that is the concern for local communities and politicians. Politicians are often worrying about the balance between the housing they need to provide with the infrastructure that the community needs to support that housing. As I say, it is very difficult for them to avoid their responsibilities in that respect now.

**Professor Crook:** I would add, if I may, that as part of the process the core strategy has to be tested in front of an inspector. Inspectors have now been saying fairly regularly that, if it does not add up, go back and do it again. There is a delay in the process but it is part of that public debate in which people take part. There have been quite a few cases in recent months, although I cannot identify them.

**Lord Lamont of Lerwick:** The same witness told us that most housebuilders would prefer to have five sites of 200 units rather than one of 1,000. Do you think that local authorities are providing a sufficient variety of sites within local plans, and are they suitable for the smaller builders?

**Professor Crook:** No, there is an issue about variety and a particular issue about the inadequacy of sites being provided for small builders—people who build 10 or 50 a year, maybe just on two or three sites. Local authorities have tended to deal with this in two ways. One is that they have tended to allocate on their plans large sites of the sort that you are talking about. Then they say that, if developers come forward with small sites they will have policies to respond to that. We call them windfall sites, because they cannot be predicted in advance. Who knows? It depends on the vagaries on the land market.

When they respond and a local builder puts in an application to develop a site of, say, 10 houses, that builder then finds the process of putting that through the planning system really quite cumbersome. It is not the only reason small builders have disappeared, but it is one of the factors. Another factor is the difficulty of getting hold of finance. I am personally very keen—and I think we can say the Institute is, Trudi—on making sure that that greater variety is part of the mix. It has to be quite critical. It is not the only reason that some small builders have disappeared, but it is one of the factors. If you look at the evidence that I am sure they have given to you, they have identified it as one of those critical factors.

**Trudi Elliott:** We looked at this in the RTPI when we prepared a report in 2013 on delivering large-scale housing. Although we were looking at that issue, a whole range of wider issues came up. We thought that a number of things would assist in this. First, we need greater access to information for local authorities about who owns land and who has an option on
land. Greater transparency there would be helpful. Local authorities need to take a greater role in land assembly and they need to explore some of the mechanisms in Europe around land pooling that enable them to create serviced sites that they can then put out to the market, oven-ready for small and medium-sized builders. Local authorities need to look at how they manage the very large sites. While the temptation can be that it is easier to deal with one large developer, looking at how you might use those larger sites to also create self-build sites for small builders and build to rent can help the flow of those houses on to the market, as well as also creating more economic activity in your area and regenerating the SME market for builders, which we need.

**Professor Crook:** I have two other points to add, if I may. One is that the large-volume builders typically tend to break up the site for which they have acquired consent, so may well be passing it on to other developers, including small builders. The other point I would make is that the neighbourhood planning process appears to be providing the capacity in which local people can say, “This is a sensible site for building those five or six houses, where the grandchildren can live in the future”. That is a really important thing in overcoming some resistance. They need to be convinced that the infrastructure is there. Of course, that then becomes part of the statutory planning system, because it is subject to a vote—a local referendum—on whether it should be adopted and incorporated.

**Trudi Elliott:** At the risk of being a broken record about local government planning resources, which I am likely to be, local authorities can do more in terms of site identification and proactivity, but they need to be resourced to do it and they are not at the moment.

**Q155 Lord Teverson:** Perhaps I could just follow up on Lord Lamont’s question. It was about neighbourhood planning, which is particularly important in rural areas as well. I wanted just to get your comments as to whether you felt that neighbourhood planning was something that is going to get in the way, because it is another level of planning in some ways, or whether, as I think you suggest, it buys in a commitment to this before the process starts so that you get less resistance locally. Do you see it as a good or a bad thing?

**Professor Crook:** If I say it is a curate’s egg, I am saying that there are good things and bad things. The bad thing is that the local authority has to resource the process, to some extent, but the good thing is that it is engaging with the capacity of people at local level—parish councils and town councils—which is engaging people in the process of putting a plan together locally for their needs for their parish, their village and their suburb, as opposed to dealing with a consultation on a rather remote local plan for the whole area. So it is a resource issue for the local authority but I think that on balance it is a good thing. The evidence on neighbourhood plans from work that we have done at the institute gives us some positive feelings about that.

**Trudi Elliott:** We have opened a Pandora’s box in terms of neighbourhood planning. If you look at the number of communities that are engaging in neighbourhood planning, it speaks volumes about people’s interest in their local community and willingness to spend their spare time helping to shape it. We are up to 1,700 areas working on local plans and we do, through our work with neighbourhood plans, have examples of where a local community has done a lot of work identifying housing. If you look at the Winsford Plan, land has been
allocated for 3,362 houses. That is a greater figure than was in the local plan, but are they the exception that proves the rule? In some areas, neighbourhood plans have come together because of their concerns about the proposed housing number and the lack of infrastructure connected with it. It tends to be the latter problem that they are concerned about rather than providing the homes that people need.

The problem we have had with neighbourhood planning is that we introduced neighbourhood planning that is supposed to reflect the local plan above it, at a time when we did not have overall local plan coverage, so we made it more complicated than we needed to and it was a very complex system. We said that at the start, and the Government have listened and are trying to make the process simpler, because of the resource consequences for all concerned.

Lord Teverson: If I can come quickly on to the green belt, we have had a number of witnesses who have been fairly dismissive of the green belt, although they agree that it is quite difficult politically and locally. I used to live in a suburb of London called Wanstead, which theoretically had Epping Forest on its doorstep, although you would not recognise it as a forest. It was all very emotional. I see that the institute has been fairly questioning, contrary to the view of some of our other witnesses, of whether development on the green belt would be useful and some of the consequences would go in the wrong direction. I wonder whether you could outline your views further on that. Perhaps it would be useful to start with Professor Crook.

Professor Crook: My personal view—and I am not going to dissent from my professional Institute’s view—is that yes, we really have to look at this. The context in which the green belts were formed is very different now. Then, we were thinking about a stable population and trying to prevent the outward sprawl of towns. Now we have a very different context socially, economically and demographically. So on a case-by-case basis with a strategic view, this is perhaps an issue for combined authorities to look at with their strategic powers. We need to revisit green belt boundaries. There are opportunities to insert new settlements in public transport corridors through green belts. You could see this happening with local authorities’ land banking and bringing land into public ownership, perhaps joint ventures with landowners and housebuilders, and making sure that you have the provision for small sites for custom building. That is quite an exciting possibility.

You can think of an implementation mechanism that would use the new town approach but is not a new town—in other words, assembling the land and buying it at close to existing use value. There are some legal issues about whether that is possible or not. Capture the land value that way, put in the infrastructure and build the facilities that we need. If you do it close to public transport routes, you can do it in a reasonably sustainable way, not building another Stevenage out in the distance. That would be my approach and we have to address that.

Trudi Elliott: One of the complications about green belt is that the narrative and the reality are not aligned at the moment. Green belt is a planning tool. It is not a landscape designation. It is not a descriptor of amenity value, but those two things have become entwined in the public and political discourse around green belt. We also talk about green
belt as if it is one thing, whereas actually we have a dozen green belts nationally, which are quite different in their shape and purpose.

Our policy on it is very challenging for local government in that green belts straddle multiple areas, but we require local authorities to deal with them on the basis of each district or planning authority, whereas that is not how they were introduced. Having said that, clearly our position is that they have served a very important purpose and we have avoided some of the key challenges that some other countries are currently grappling with in terms of infrastructure costs, sprawl, declining cities, etc. So we have avoided some real challenges.

The question that you are actually asking me is what role there should be in local green belt boundary reviews, because there are limited circumstances in which you can build on green belt now. They are incorporated in the National Planning Policy Framework and it is a very high bar. This is an area that we are looking at within the institute at the moment. In particular, we are consulting our members about what role that green belt boundary review and different types of land should take in meeting the country’s housing needs as we move forward. It is a complex issue that is not really helped by some of the simplistic debate we have about it. Some of the evidence is that the simple answer to the country’s housing problems is to abolish green belt policy. I would take issue with that.

Q156 Lord Griffiths of Fforestfach: I would like to come back to Trudi Elliott’s description of sounding like a broken record. We have taken so much evidence from people who said that the planning departments of local authorities are desperately understaffed. I would like to ask you what you think.

Trudi Elliott: We were getting anecdotal evidence from our members, particularly our members in the private sector. I should add, just by way of explanation, that RTPI represents 23,000 chartered planners, 50-50 as between the public and private sectors, and not just based in the UK. The biggest concern we had from our private sector members was the resourcing of planning in local authorities. They were using language like “decimated”.

We undertook some research in this area. We commissioned Arup to look at the north-west, on the basis that it is microcosm of the country, in terms of the shape and size of planning authorities. There are large ones, metropolitan ones, small ones, districts, etc. Actually, the position was worse than we had anticipated. Since 2010, there has been an overall decrease of 37% in planning policy staff and 27% in development management staff. There has been a 20% to 30% loss in managerial staff. That is one of the complaints that we get from the private sector, in that a lot of the historical and senior experience of those that were capable and experienced at negotiating with the private sector had been lost to the sector. The report was pretty blunt on the impact that that is having on delivery. In particular, a whole range of activities, such as pre-application advice and discharge of conditions, which help make things happen were more problematic.

It also makes it much more difficult for officers to give strong, robust advice to politicians around the difficult decisions that they are making. It reduces the capacity for proactive plan-making and therefore the bringing forward of complex projects where the local authority might need to bring partners together and be proactive, rather than responsive.
This was at a time when many of those authorities had received really substantial funding through the new homes bonus. Arup found that there was no correlation between the receipts that a local authority received from the new homes bonus and the reinvestment in planning services. The authority was receiving large funds that you could say were heavily dependent on the skills and expertise of the planning department, but they were not reinvesting them in their planning department, no doubt because of the enormous challenges that they have elsewhere across the organisation, because budgets are not ring-fenced and because planning is not a statutory function in the way that, say, children and adult services are.

**Lord Griffiths of Fforestfach:** A further question I would like to ask is that we have taken evidence, and some have said that local developers that have planning permission tend to hoard land. Others, particularly from the industry, have said not at all; that it is not in their interest to hoard the land because they only make money when they start building and selling homes. I wonder what your view on that is.

**Professor Crook:** The evidence is reasonably clear. There have been quite a lot of surveys looking at this. Once a developer has got discharge of all the consent requirements and can get on site, for the kinds of large sites that we were talking about in answer to Lord Lamont’s question, developers will say that it is going to take four to five years to work through that. They talk about an absorption rate—the number of houses they can sell per month. I sit on a housebuilding board and I can see that evidence in the papers coming across my desk.

Once they have the site, people will look at that site and say, “That builder is sitting there. They have been there four years; they must be hoarding the land”. They are just working through it. They have put in the investment, bought the land and put in the infrastructure. They have made a big capital investment and are waiting for people to come along and buy it. It tends to go faster when they have a Section 106 agreement, because then a housing association will buy some of the housing upfront, which is very helpful to their cash flow. Where you may have a land hoarding problem is where you have land traders who are buying the land either to get the consent for valuation purposes or to sell it on to a volume housebuilder. That is where the land hoarding issue may well arise, but not in terms of the volume housebuilder. Most of the research evidence says that people are working through this at the pace at which the demand comes forward. Builders are not going to build houses unless they are confident that there is the demand for them, because they do not want to tie up working capital.

**Lord Teverson:** That is the whole point. We are saying that there is excess demand. We are saying that there are hundreds and thousands of people who want those houses, so what is the disparity? We are saying that there is the demand but there is not the supply. Why is that?

**Professor Crook:** There is a macro issue of whether there is the adequate demand for the sites available, and there is a micro issue. On the micro issue, there tends to be a limitation on the number of people who will buy a house on that particular site, so the individual builder is faced with a marketing issue.
In terms of the quantity of demand, builders are saying that they have had a lot of help from things like to Help to Buy, which has been quite important in moving things forward. I have seen some research evidence that says that up to a third of sales on the volume housebuilder sites have come through that mechanism. Another third may well be coming from Section 106 deals, where a housing association is buying a stock of housing either for rent or for shared ownership. But, on the market side, there appear to be limitations on the number of sales. What can happen is that a builder will then break up that site and sell it on to other builders, because it appears that each builder has a particular market segment. You break the 500 up into five 100s, each of which gets four sales a month, whereas the 500 might only get one a month—because each builder has a particular market it is looking at.

Q157 Lord Turnbull: Can I come back to the question of planning fees? You may have heard the exchange earlier and the fear that was expressed that, if this was deregulated, local authorities could push fees up too far and discourage investment. Can we not find some new regime for higher planning fees? It could be sophisticated in various ways, with sliding scales according to the size of the plot. If you renew your passport, you pay different fees for different kinds of service. Surely there must be some way of getting more resources into this sector.

Trudi Elliott: As part of our response to the consultation on the Housing and Planning Bill, we have come up with a proposition for the Government around this. One of the concerns about increasing planning fees is that, if you increase planning fees, they do not necessarily get reinvested in planning. Certainly my private sector members are happy to pay higher fees, but they want them to go into the service they are paying for and not some other service, if I can put it that way. Of course, the Government have sold the pass in relation to this by un-ring-fencing local government budgets. What we have suggested to the Government, who have come up with a proposition in the Bill around market testing, partly as a way to get in additional resources, is that that is quite a complicated tool. You could simply say that local authorities are empowered to increase their planning fees, at the very least to cost recovery.

Is it sensible that 80% of applications do not cover the costs of the application? I built an extension; my planning fee was less than the first skip. I got the planning permission more quickly than three builders could quote. It is bonkers. You could have an arrangement whereby local authorities can increase their fees to cost recovery, but on the basis that they can demonstrate that those moneys are reinvested in planning services and/or demonstrate innovation. You could encourage the use of fee flexibility to encourage the sorts of behaviours you might want around collaborative behaviour between local authorities, innovation, et cetera. The private sector has been worried about unleashing fees if there is not a mechanism to ensure that they are reinvested in the planning service, but it is surely not beyond our wit.

Lord Turnbull: What response do you anticipate on this?

Trudi Elliott: I raised it with the Planning Minister, who said that they would give consideration to it. So we are in that process at the moment. Clearly if this Committee were to encourage consideration of this, it would be persuasive.
Q158 **Lord Turnbull:** I have to leave in four minutes. If I rush out of the meeting, it will not be because I am so disgusted by the answer. I just have one further question on the green belt. If you try to do something in an area covered by a habitats directive, say, you can often get the development approved provided you provide some other amenity to replace the land that you have taken. Is that possible in the green belt? Could you say that this bit would no longer be green belt but the bit that local people value—some copse or wood somewhere—would come into it for the first time?

**Trudi Elliott:** Green belt reviews enable local authorities both to take land out of the green belt and also put land into the green belt.

**Lord Turnbull:** Are they used much?

**Professor Crook:** Yes, Birmingham has done it on a fairly regular basis and Newcastle did a major swap on the north-west side of the city, with a quasi-new settlement.

**Lord Turnbull:** The other thing I have noticed is that, if you take Cambridge, you now have the M11 running up one side. On the city side of that is just agriculture, but surely the motorway is basically the new boundary. Can you take the crescent of land that is on the inside of the new bypass and add that to the urban land?

**Trudi Elliott:** I cannot comment on the specifics of Cambridge but, if land is in the green belt and you are conducting a green belt review, you can take land out of the green belt and you put land in. Very high tests apply. They are very, very high tests, but it is possible.

Q159 **Lord May of Oxford:** I want to ask a rather curiously different question, based on that fact that all these problems derive from having too many people here already in Britain. It is not as much an issue here as it is on the west coast of the United States, for example, where Paul Ehrlich and others have done very careful analysis of the difficulties that are created by the fact that we are living on a finite planet. It is a curious way to end the session, but it may be interesting to ask why we have not even mentioned in this that part of the problem is increasing immigration. Many of these people are wonderful people and they bring a lot with them but, at the same time, nobody is happy discussing the problems that are inherent in that. I wonder what you think of that rather unpopular statement.

**Professor Crook:** From the perspective of planning policy, one starts with the proposition that it is the duty of planning authorities to meet the defined need. Now, that is not the answer to the question really, is it? On the grounds that we are welcoming people to this country, they have jobs and they need housing, the proposition is that that need should be met. This is tested almost to the death in public inquiries. The evidence suggests that many of those who are coming to our country are actually moving into the private rented sector. That is not quite the answer to your question, but the big increase in the private rented sector is due to a number of things.

It is certainly due to the number of people who are coming to this country for work, often not bringing their families with them and not intending to stay forever, often living in houses in multiple occupation, where there are issues to do with standards, et cetera, but maybe being prepared to put up with that because they do not have a long-term commitment to this country and want to send their wages home. That creates a difficult
issue for local authorities in enforcing standards, but it has certainly been part of the reason why you have the big growth in buy-to-let landlords, who are responding to that demand.

**Lord May of Oxford:** To a certain extent, if you plot the number of people who grew up and were born here, it continues to go up and is going to go up forever, but nobody is prepared to discuss it.

**Trudi Elliott:** Planners discuss it both within the UK and globally, because the global population is rising dramatically and rapid urbanisation is the greatest challenge that we are facing globally, particularly if you combine it with climate change. We commissioned a piece of work from Cambridge University looking at household formations. Actually, it was about whether local authorities’ assessment of their need could rely on national statistics or how much work they needed to do looking at their own particular area. That demonstrated that some of the growth we had seen was to do with both immigration into the country and movement within the country; some areas have very significant in-country migration.

A lot of the growth that we are anticipating is birth rates and also smaller house sizes, the impact of divorce and the impact of people living longer. What we know is that planning has the tools to deal with all these problems, if we have holistic planning where we integrate the provision of infrastructure with the provision of housing and look at this holistically and we focus as much on the link between jobs and homes as homes on their own. It is not beyond our wit to deal with this; we just need to deal with it systematically and with a will.

**Q160 Baroness Blackstone:** What do you think of the Government’s decision to include Starter Homes in the definition of affordable housing?

**Trudi Elliott:** The RTPI view is that really they ought to divide this up. Simply lumping Starter Homes into the affordable homes definition is problematic for a number of reasons. Starter Homes are distinct from other affordable housing in two fundamentals. Number one, they are restricted to under-40 year-olds. No other affordable housing has any sort of age requirement, and they are also time-limited. That is very significant. They are only for five years.

**Baroness Blackstone:** Do you have a view about that? That was going to be my second question.

**Trudi Elliott:** Clearly our view is that the longer they are maintained for lower-cost housing, the better for the system.

**Baroness Blackstone:** So why have the Government done this? How do you explain it? It is very hard to find anybody who supports it.

**Trudi Elliott:** We say that Starter Homes are a valuable addition to the mix. But it is challenging for us. The evidence from the HBF that I read said: “The new Starter Homes scheme, with a target of 200 homes by 2020, will add home ownership numbers largely by replacing affordable and social rented housing within affordable housing provision on private housing sites”. What we need is Starter Homes to add to the overall provision of homes, not to replace other affordable homes, so we would suggest that you need two
definitions—a definition for Starter Homes and a definition for affordable homes—and to keep the two separate.

We would also urge the Government not to be unduly prescriptive about the percentages and impose a national model of Starter Homes on local authorities, otherwise you will undermine viability on some sites and reduce the flexibility of local authorities to get things delivered. So have Starter Homes by all means, but you need to ensure that they add to the overall and do not simply divert from somewhere else in the market. We certainly do not want reduced flexibility and fewer schemes being viable as a result.

Professor Crook: I agree with all of that. Just to reinforce and add to the point, the first thing is that it risks displacing the housing that can be provided in perpetuity under Section 106 agreements. Shared ownership is important, as well as affordable rented housing. The other thing is that typically those are locked in in perpetuity, because the legal Section 106 agreements require them to be provided in perpetuity, so the subsidy to be provided by the landowner is locked in, in the form of a lower price paid for the land on which it is built. The Starter Home subsidy is captured by the first-time buyer after five years. This could create all sorts of interesting legal problems. People are talking about landowners saying, “This is very interesting. I hear that that subsidy I am providing in the lower land price is going to be captured by the first-time buyer. I would like more for my land, in that case”. Trudi is right that we need to give local authorities the discretion to make a judgment about the mix that is appropriate, and one might think of ways of capturing that discount in perpetuity. One could think of ways of doing it. The lawyers would have lots of words to say about that, but they have drafted legal agreements to make sure that rented housing is provided in perpetuity. You could restrict the value at which the house might be sold to the 20% discount.

Q161 Lord Layard: Most of our witnesses have referred to the problem of local resistance to development and have said that, if local services can be adequately improved, it helps to overcome that resistance. So I guess that is what lies behind the 106 idea, but it does not seem to be working that well. CIL does not seem to be working that well. You have the problem you referred to of inadequate finance for planning departments and lack of finance for any kind of local authority housebuilding programme. What would you think of a standard levy on the final value of all development, say 20%, paid to the local authority on a completely standard basis, replacing 106 and CIL? As you said, that must be hypothecated so that it is spent on the things that we have been talking about, which are paying for the planning department, paying for the infrastructure, paying for the affordable housing and allowing the local authority to do some of that itself? What would you think of that?

Professor Crook: First of all, I would contest the argument that Section 106 has failed. It is not straightforward, I agree, but it has produced very significant sums of money for affordable housing and for local infrastructure—far more than was ever collected by national betterment tax arrangements. Why does it work? It works because it is a local initiative. It is negotiated with the developer so the viability issues can be addressed in that kind of way and it has produced large sums of money—£5 billion in 2007-08 and £4 billion in 2011-12—and did not collapse when the market collapsed.
That interesting idea is actually quite close to the 20% planning gain supplement that Kate Barker had proposed. Her proposal was 20% on the difference between the value of the land in its existing use and its permissioned use. If you said that the tax would be 20% of the gross development value, it might wipe out all residual value completely. It is something I looked at on the train down this afternoon and ran some numbers on a spreadsheet and it completely wiped out the land value.

**Lord Layard:** The number would obviously have to be determined, but it would be a simpler system. What about a simpler system?

**Trudi Elliott:** The trouble with all simple systems is that they impact on different places differently and you are immediately going to affect the viability in some places by that system. One of the things that CIL was supposed to do was to simplify the system but give some local flexibility in relation to the housing market. I too would contest that Section 106 has failed. Like it or not, we have not provided enough affordable housing—but, since 2004, at least half of the affordable housing we have provided in this country has been through Section 106 agreements.

At the moment, we are looking at this issue. The Government have commissioned a group to look at the operation of CIL, which will inevitably look at the interplay between Section 106 and CIL. We think that you have to look at some of these issues slightly more widely and, in particular, the gain that arises from transport infrastructure and some planning applications to non-applicants, which is not captured in any way at all, at the moment—Crossrail, for example. For those who happened to put planning applications in during the period, contributed through CIL, there have been massive gains elsewhere as a result of that public investment. If we could capture some of that gain and reinvest it in transport and other infrastructure, we think that that recycling of the money could be very helpful in terms of providing the infrastructure that we have all agreed is a condition precedent to successful housing development and persuading communities that the housing in their area is not going to just have a wide range of disbenefits for them.

**Q162 The Chairman:** Staying with Section 106, we have asked a number of witnesses what percentage of the value of the planning gain is captured by 106. To be fair, nobody has an accurate answer on it, but a quarter seemed to be something that people would accept. In a sense that is baked into the business model already. Why is it that the viability test is being used by developers and builders so effectively to game the system to reduce this 25%—if it is 25%—to a much lower level? Why is it that the local authorities are unable to resist the gaming by builders?

**Professor Crook:** To make a start, one of the problems is that often these agreements are struck in different economic circumstances. The viability test for the builder and for the landowner suggested that they could enter into an agreement to supply so much towards the infrastructure and so much affordable housing, and then circumstances change and the viability is not as they thought it was. What they are doing in the negotiations with local authorities is offering up some of the affordable housing that they no longer want to provide, but guaranteeing to provide the infrastructure. Local authorities find themselves in difficult circumstances then, because they are saying, “Do we insist on the provision of the affordable housing but without the infrastructure, or do we let the housing development go
ahead, although we do not have the infrastructure necessary?” What some wise authorities are doing is saying to put an overage clause in. In other words, they try to relate the Section 106 payment and the CIL payment to the economic changes over time, so that payments can come in when times are much better and markets are performing much better. There is quite a lot of evidence that that is taking place.

**Trudi Elliott:** One of the challenges that we are facing at the moment is shortages and cost inflation in the system. If you talk to local authorities at the moment, they are surprised, when they are looking at viability, at the increasing cost of everything, particularly skilled labour. One of the challenges for us, from top to bottom in the construction industry, from spades in the ground to professionals, is that we have underprovided in terms of skills. We do not have the workforce we need to deliver the homes we need.

If we solved every other problem that we have identified during your inquiry, around sufficient planning permissions and sufficient money in the system, we would also have a challenge in terms of the people to do the job and cranking that up swiftly enough, because we have shortages from top to bottom. We are doing our bit in terms of trying to address the shortage of planners. It is not just about whether local authorities are actually investing in their planning service; actually recruiting a planner is very difficult at the moment, particularly for local authorities that are competing with the private sector. Planning is now one of the top five professions in terms of employability, so our challenges around demand are reflected right through the industry.

**Professor Crook:** There is an asymmetry issue as well because, in these negotiations that go on, local authorities often do not have the capability to handle some of the viability assessments, whereas the developer has done it regularly over time and has a large army of people to make a convincing statement. The negotiations become quite problematic then.

**Trudi Elliott:** The whole issue of finance viability has become so important that we have actually changed the requirements of what you need to become a planner. Understanding the interplay between planning and the economy is now an essential requirement because it has become such a challenging issue.

**Q163 Lord Teverson:** I would just like to follow up on Trudi Elliott’s rather pessimistic, if realistic, view about the supply side being able to put resources to actually build houses. Does that mean that the problem that we have identified of a small handful of major builders and very few of the smaller builders left, if we wanted to solve it, is impossible to solve as well?

**Trudi Elliott:** No, of course it is not impossible to solve, but we have to address it as a problem and act accordingly. There is an enormous amount you can do relatively rapidly in terms of addressing that issue. We have introduced an RTPI apprenticeship scheme, for example. Within six months, we introduced a bursary scheme. You can do that right through the system, but we have to acknowledge that we have a challenge in terms of skills and manpower and womanpower through the system.

**Lord Teverson:** Say you solved that then; how do we actually get more players into the market? How do we get more housebuilders back in? In any other industry, you would
have people from abroad come in and take up the space. Can we do that? How do we solve that issue?

**Trudi Elliott:** We have done that in some trades. In terms of the SME market for housebuilding, some of our research has outlined a number of initiatives that you could do in terms of encouraging more players back into the market. I touched upon some of them earlier: serviced sites, where a local authority assembles the land, puts in the services, gets it consented and then puts it out to market for construction; and creating space on larger sites for self-build and SME. There is a whole range of issues around access to finance, which is probably the biggest challenge for the sector. We can do our bit within planning, but the challenge to market entry is much more profound. A lot of it is finance and risk aversion.

**The Chairman:** That was very much the headline message from the last session: that finance was the missing link. Thank you both very much indeed for a helpful session.
RESPONSE TO CALL FOR EVIDENCE: Inquiry into the economics of the UK housing market.

Thank you for the opportunity to respond to this call for evidence. The Royal Town Planning Institute (RTPI) is the largest professional institute for planners in Europe, representing some 23,000 spatial planners. The Institute seeks to advance the science and art of spatial planning for the benefit of the public. As well as promoting spatial planning, the RTPI develops and shapes policy affecting the built environment, works to raise professional standards and supports members through continuous education, training and development.

Below is the RTPI’s response to the call for evidence.

Yours faithfully,

Richard Blyth
Head of Policy, Practice and Research
The specific questions the inquiry will seek to address are:

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

The only effective method for delivering more reasonably priced housing in the UK is to ensure a rate of supply which matches demand. The majority of policies that do not address this directly will likely only benefit a small range of beneficiaries, which may achieve short term political goals, but will not fundamentally deliver supply at the rate of new housing at rate which can prevent spiralling house prices and prevent future market volatility.

Planning should be central to both increasing supply and ensuring that supply is of a quality and economic relevance to market actors to deliver market stability. However, planning can only help achieve these goals if it is sufficiently resourced and supported to provide a more proactive role in urban development than at present.

The RTPI’s 2013 Housing Policy Paper, ‘Delivering Large Scale Housing’ outlines specific policy proposals for boosting the delivery of housing.

a. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

It is important to assess all policies on a geographical basis. In some parts of the country where the housing crisis is less acute, the policies may be useful in helping low-middle income earners to become homeowners.

However, policies which serve to boost demand in the housing market in areas where there are significant supply shortages will only serve to further drive up prices and risk increasing the future volatility of the market.

Moreover, it is these areas that should be of most economic interest to policy makers as they are likely to be the most volatile and make up a significant component of the national economy.

b. Taxation: Are there tax measures that would improve housing supply and affordability?

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

In areas of high house price growth, such policies will likely reduce downsizing and reduce supply as they further help to entrench a perception of housing as an asset-class to be held as a consequence of continued high rates of price growth.
ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

Most likely. However, a tax on transactions in general is an inefficient way to capture value uplift from improvements in the built environment as it taxes the purchases rather than those who have benefited from land-value uplifts (sellers).

International evidence suggests that land value taxes are a fairer means to capture uplifts and reinvest in essential infrastructure. They also encourage rational behaviour in the land markets, dis-incentivising land speculation and land banking and encouraging development.

c. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

Given the fact that excessive and unsustainable securitization of assets in the mortgage market precipitated the Financial Crisis, the sustainability of the mortgage market is imperative for safeguarding the wider economy. Economic policies to encourage home ownership or home affordability should look to ensure sustainable, long-term market fundamentals, which in this case means increased supply of housing.

d. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

Planning is a potentially significant and greatly underused tool for increasing the supply of low cost housing. Currently in the UK, planning is largely used as a regulatory tool to manage development. This approach is greatly underutilising the skills of professional planners and the potential range of planning tools available to achieve development.

Fundamentally, planning is not a barrier to low levels of delivery in the housing sector. In the year to June, according to CPRE analysis, 242,000 homes were given planning permission but only 136,000 were started. From 2012 to 2014, 510,000 residential planning permissions were granted for sites of ten units or more, but there were only 348,000 housing starts.

Furthermore, a quarter of new homes built in 2014 were built by just the three largest housebuilders, whilst the 10 largest house-builders built 50% of all new homes. Both these facts suggest that the housebuilding market displays oligopolistic characteristics.

In the current market, indirect ‘land-banking’, whilst not an intentionally nefarious policy by house-builders, is a natural reaction for profit-maximising firms who have the ability to hedge against market uncertainty. Indirect ‘land-baking’ such as sequential development of sites over extensive time-periods, rationalised by the need to produce consistent cash flows are legitimate business strategies but are enabled by an inefficient market structure, in which a small number of firms have the capital reserves and scale to dominate land
markets. Local Authorities selling large development sites to single or limited developers also facilitate this kind of market behaviour.

However, these outcomes are symptomatic of a planning-system which has been excessively liberalised over many decades, reducing its ability to prevent market failure or encourage more optimum outcomes in the development industry. If planning is largely considered only as a reactive, regulatory function, then we will continue to see extensive market failure within the house-building industry.

Tellingly, it is not the approach to planning taken in many other countries, including our nearest Western European neighbours who all experience greater rates of house-building, better quality development outcomes, and more stable house price levels.

Planning that coordinates development, for example by ensuring that housing development is delivered in conjunction with sustainable infrastructure provision and other components of economically, socially and environmentally sustainable places, is much more effective at delivering high rates of housebuilding which will ultimately lead to more affordable housing. Conversely, continued misguided rhetoric or policies in favour de-regulating planning will, given necessarily and naturally constrained land-supply in the UK, only exacerbate the inefficiency of the land and development markets.

For housing supply to meet demand in the UK we need to fundamentally change the way that we approach house building. Housing needs to be relevant to the economic needs of the citizens for which it is being provided. For example, building on the Green Belt, a topical debate in UK housing policy, will only solve the housing crisis if it provides homes from which people can access jobs and other economic opportunities. Our current, prevailing model of development, which predominately sees major developers building large-scale, road-dependent, low density developments would be largely ineffective to these ends, with a high-chance of creating extensive, residential, urban sprawl which would only seek further the distance the country and Government form its economic goals of improving productivity, and delivering a sustainable and affordable housing market. In reality, coordinated investment in sustainable, transport infrastructure that connects high density, high quality housing with economic opportunities is the only effective way to tackle the housing crisis, and it is a model of planning adopted by many major Western European economies. This need not be unachievable for the UK, but it does require investing in a planning system, and resourcing planners and planning institutions, to be able to take a proactive, rather than reactive approach, to development. (see our recent Research Paper on ‘Planning as Market Maker’ in Western Europe for examples of this type of planning).

To build housing at the kind of rates which would deliver genuinely affordable housing for the majority of the country would require planning institutions that can coordinate infrastructure provision and development density, competitively tender development sites to the private sector, ensure design quality, and ensure that development is socially, environmentally and economically sustainable.

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?
The private for-sale and rental housing markets are directly related to each other as substitute goods. The most effective way to increase the supply of low-cost private rental properties in the UK is to increase the overall supply of housing by increasing the rate of house building. This is most achievable via proactive, positive planning, in places within reasonable reach of high-demand economic hubs.

a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

Declining home ownership is a direct consequence of the increasing unaffordability of housing in locations with good employment opportunities and economic growth.

Increased renting in this sense is driven by necessity, but will in itself likely continue to follow a trend of increasing prices and unaffordability as demand for rented accommodation increases due to for-sale housing becomes unachievable for most. At this point there could be serious economic consequences which could stall the growth of economic hubs as skilled labour would be unable to migrate to match with employment opportunities and low-skilled labour (just as essential to the economy) would be unable to locate near jobs as a consequence of high housing costs making employment not worthwhile in these locations.

c. What are the advantages and disadvantages of restricting rent increases in the private sector?

Disadvantages: Possible extensive selling of rented properties (lowering supply) by landlords and a potential impact on the wider market; absence of investment in new property; absence of investment in maintenance and upkeep of existing property; growth of informal economy
Positives: regulated rents at an affordable level

3. Social housing: Are any measures needed to increase the supply of social housing?

Apart from during the inter-war era when unconstrained development led to serious negative environmental externalities, the UK has only ever managed to deliver enough housing to meet demand when the state has played a significant role in house building.

Since the declining role for the state in this industry during the 1980s, which has only very partially been recovered since by Housing Associations, the private sector has not been able to increase supply beyond its 1970s output level, and has failed to match demand throughout the subsequent years. This suggests that the state-sector ‘crowding out’ the private is not a major problem in the house building sector, potentially because social housing focuses on a different market segment to most private sector output.
Social housing could play a significant role in preventing a situation where only the very rich or those already on the housing-ladder are able to afford to live in areas of high economic demand. An eventuality which would in turn be disastrous for these local economies as both key workers and low-skilled workers would be unable to work in these economies.

However, as alluded to throughout this response, the priority focus should be to fix a broken-housing market by providing a proactive role for planning in order to ensure the delivery of the quantity and quality of places and housing which will stop the housing crisis.

**a. What will be the impact of the Right to Buy for housing association tenants?**

In the current hyper-inflated housing market in parts of the country, social housing and housing association properties provide homes for those who would otherwise be unable to afford to live near jobs which are essential for the effective operation of society and the local economy. Increasing the rate at which these properties are moved to the private sector, especially if at high discount, risks damaging the ability of housing associations to replace this stock, and thus risks the ability of key workers, low-skilled workers, the young and the elderly, to live in areas of high economic demand, which in itself puts the success of these local economies at high risk.

**b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?**

Lowering social housing rents is an admirable goal, but if they lead to a reduction in the ability of housing associations to build new homes then they will ultimately be counter productive for helping people on lower-incomes from being able to live and work in places with high house prices and economies that fundamentally depend on their labour input.

17 December 2015
Economic Affairs Committee of the House of Lords inquiry into “The Economics of the United Kingdom Housing Market.”

Summary

1. I have been made aware of the Community Voice on Planning’s (CoVoP) proposed submission document to the Economic Affairs Committee of the House of Lords inquiry into “The Economics of the United Kingdom Housing Market.”

2. I wish to support the case set down in CoVoP’s submission document since it covers many of the points and objections which I and many others have raised under my Local Planning Authority's (LPA) current consultation exercise on the Draft Local Plan for my local authority area, including the apparent reluctance to identify brownfield sites for housing development rather than the council’s extensive proposals in the Draft Local Plan to release land in the Green Belt for housing and mixed use development which cuts across the guidance in the NPPF.

3. Particular comment extracts (shown in BLUE below) in the CoVoP proposed submission document to note and support, include:-

"Local Planning Authorities are encouraged to approve large developments which include provision for the infrastructure required, but the developers respond to market demand and to maintain margins will restrict the scale of development on any site to something in the range of 100 homes per year. This means that a site approved for 1500 homes could take 15 years to build."

Developers are able to regulate that demand to maintain profit margins since it is not in their interests, or their shareholders, to over supply the housing market if this results in lower sale prices.

Developers therefore, will restrict the scale of development on sites to regulate this supply, with all the resultant disruption for existing residents in the surrounding area (s) in the meantime.

How does this fit in with the Government’s New Homes Bonus Scheme?

“Unfortunately brownfield sites cost more to develop and therefore margins on the sale of new homes on these sites are reduced. We know that major construction companies are driven by a strong profit motive for their shareholders and will therefore prefer to build on green field sites when possible. They must be incentivised to build on brownfield first.”

It is evident that developers have no appetite to take on the costs and risks of developing brownfield sites preferring the easier route (and profits) of building in the Green Belt.
“We recommend that the Government amend the NPPF to make clear that all sites with planning permission should be counted towards the five year supply of housing land.”

This is an important point since it does cause confusion in looking at total housing new build figures against developments with an existing planning permission but not yet delivered and those seeking approval. This would also protect council’s in meeting their 5 year supply target.

“Many Strategic Housing Market Assessments (SHMAs) are based on forecast employment growth figures, but once again, we can find no record of any study adding up all this employment growth to see if it relates to any government target.”

“The Objectively Assessed Need (OAN) figures are based on aspirations, yet the housing targets for each LPA are cast in stone. This means that even if the jobs don’t materialise, the planning applications for homes will still be approved.”

4. It is the phrase “aspirations” which attracted my attention since this can be found throughout my own LPA’s Draft Local Plan and is something which I and others criticised at the 2014 consultation stage.

5. I have shown below (in RED) therefore, an extract of my comments to the LPA at that time under:

Policy E1 Providing Strategic Employment Locations

"There is no evidence in this section of clear demand other than phrases such as "aspirations", "estimated", "approximately", "with interventions", "ambitious", "target", "may be achievable", "forecast" which do nothing to support the case being made to allocate such large areas of land and excessive developments."

Policy H1 The Number of New Homes to be Built

“The policy appears to be based on the "aspirational" creation of 33,000 additional jobs which in turn will lead to a demand for housing. Since this figure is not backed up by anything other than phrases such as "aspirations", "estimated", "approximately", "with interventions", "ambitious", "target", "may be achievable" "forecast" then in itself the projection for new housing demand must be flawed.”

6. It appears that nationally every area seems to be chasing the same or similar job growth numbers but no one appears to have added up the total “aspirations” figures. The employment numbers and housing numbers cannot be deemed to be correct in these circumstances.

7. Is the Government’s “loose money” supply policy doing much more than increasing the profits of developers?
8. What is the cost to the Tax Payer of the current loose money policies?

9. The cheap “loose money” supply policy has been criticised amongst other things, as fuelling private debt at record low interest rates.

A quarter per cent increase in base rate is a 50% increase in reality.

Watch out for the squeals from the market when this happens.

10. How transparent is it that prices will reduce if developers put more houses on the market?

11. Is it in developer’s interests to allow this to happen if it is accepted that it is developers who regulate the supply of houses, since it is not in their interests to saturate the market with new builds and thereby reduce their own profitability?

In this scenario, do developers prefer to regulate the supply to keep house prices up (and associated profits)?

12. Is the House of Lords inquiry taking on board all of the Government’s policies in relation to house building in addition to “the effectiveness of the Government’s policies to provide low cost housing to rent and to buy”, unless it is implicit in this broad statement?

17 December 2015
Sanctuary Group is a leading national housing provider which was founded in 1968 and which now owns 100,000 properties across England and Scotland, including social housing, shared ownership, care homes and student housing. Sanctuary is a not-for-profit organisation with charitable objectives to provide support and assistance to the elderly, those on low incomes and people in need. Surpluses generated by the business are reinvested into improving services, maintaining homes, providing additional housing and investing in the communities in which we work. Since 2011, the Group has been the largest developer of social housing in England and Scotland, building 5,000 homes over the past four years.

Proposals on the Right to Buy (RTB)

The Group is awaiting further details on the voluntary RTB deal negotiated between the National Housing Federation (NHF) and the government. We expect government to manage demand initially through restrictive eligibility criteria. For example, the RTB pilot announced at the Spending Review will only be open to tenants with at least ten years residency in social housing. We will be able to more accurately model sales and the expected impact on the business, once more details are released in this regard.

Of the Group’s 100,000 properties we estimate that 51,000 homes in total will be subject to the new RTB eventually. Of this 51,000, a significant number (6,855) already enjoy preserved RTB and 17,264 have the Right to Acquire, leaving 26,845 households who will potentially have the opportunity to buy their home for the first time.

The Group has always considered our geographical spread to be a strength as it allows us to balance risk and opportunity across different regions and housing markets. We expect to see higher levels of RTB uptake in the Midlands and the North where house prices and incomes are more comparable. In London we estimate that tenants would require a household income more than double the lower quartile average in order to afford a RTB discounted mortgage.

We have provisionally forecasted the RTB extension to result in additional sales of between 150 and 300 homes per year. The Group has built into its business plan contingency to replace these homes on a 1:1 basis assuming full market value is received. We will work with local authority partners and other housing associations to ensure that these replacement homes are appropriate to the needs of the local housing market. The voluntary deal provides flexibility in this regard, and this will support effective and timely replacement. Enquiries for the RTB since the
government was elected on a platform of extending it have increased from a total of 70 in 2014/2015 to 550 in 2015/2016 so far.

The Group’s business plan reflects a 1:1 replacement which we are committed to delivering. We have modelled this on the assumption that we receive full value and recycle the grant from the properties sold. The tenure of replacement homes will be determined by discussions with stakeholders in the area and the nature of the local housing market. Where possible we will endeavour to replace like for like – meaning that social rented homes will be replaced with new social rented homes. However, the government is clear that boosting homeownership is a priority and we therefore remain open to including shared ownership and rent to buy homes within our replacement plans. Overall we assume a two year lag to deliver replacement homes.

The Group has witnessed some of the dangers of marginal owner occupation, where properties are bought by owners who do not have the capital resources to reinvest in their home. Shiregreen in Sheffield and Cumbernauld in Scotland are examples where marginal owner occupation can bring environmental blight to an area. It is also important for prospective buyers to understand the repairs and maintenance responsibilities they will become liable for as owners, and to be supported to make adequate provision for such eventualities.

**Proposals in the Budget**

**The one per cent annual reduction in social rents**

In real terms the rent cut equates to a cumulative 16 per cent reduction in our projected income between now and 2020. This reduction equates to £13 million in the first year, growing to £53.8 million by 2020. This is an annual loss; the cumulative loss across the four years totals £133 million. In addition this change impacts on our ability to borrow against homes. To manage this and because our ability to borrow on the scale we have in the past is limited, we believe we will have to switch the emphasis of new building away from social rented housing. We will use all available resources from RTB and any grant available to continue building some social rented homes - as this best meets our charitable objectives, however the bulk of our new development programme will consist of properties for low cost homeownership.

As a large organisation with a diverse income stream (social housing represents two thirds of our income) the Group is in a stronger position than most to manage the impact of the rent reduction. We have accelerated our pre-existing efficiency drive by investing significantly in our infrastructure, including a comprehensive IT system with a new enterprise architecture which will facilitate improved efficiency and workforce mobility.
In addition we have made sacrifices in important areas such as learning and development and community investment. These are valued activities, but not business-critical. We recognise that other smaller associations may struggle in this environment. We have a proud record of supporting smaller organisations, with a total of 27 joining the Group during its lifetime. We anticipate that this support will be needed again in the near future.

**Pay to Stay**

The Pay to Stay proposals will fundamentally change the relationship between tenants and landlords, with landlords essentially becoming part of the welfare state. Enforcement action where tenants refuse to disclose information will be costly. It is also important, particularly for those on variable incomes, to have the proper tapering arrangements in place in order to maintain work incentives and mitigate the risk of arrears and homelessness.

**Housing benefit for young people**

The Group has a strong history of supporting young people into employment, sponsoring over 200 apprentices and providing specialist services for young people. We have just completed our fourth Foyer, a valuable and innovative service which provides housing and support that enables young people to be safely housed and supported into employment. The withdrawal of housing benefit for those under the age of 21 will affect 700 tenancies across the Group. We have assumed and believe it essential that vulnerable young people in supported housing and foyers are exempt from the removal of housing benefit.
Sanctuary Housing Association; National Housing Federation (NHF); L&Q and G15 (QQ 111-122) – Oral evidence (EHMOE0007)

Submission to be found under National Housing Federation (NHF); L&Q and G15; Sanctuary Housing Association (QQ 111-122) – Oral evidence (EHMOE0007).
Introduction

a. Santander UK plc (hereafter, Santander UK) is a wholly owned subsidiary of Banco Santander, S.A.

b. Santander UK is a financial services provider in the UK that offers a wide range of personal and commercial financial products and services. It has brought real competition to the UK, through its 1|2|3 products for retail customers and relationship banking model for UK SMEs. As at 31 December 2015, Santander UK was one of the most switched to banks. The bank serves more than 14 million active customers with c. 20,000 employees and operates through 857 branches and 70 regional Corporate Business Centres. Santander UK is subject to the full supervision of the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) in the UK. Santander UK plc customers are protected by the Financial Services Compensation Scheme (FSCS) in the UK.

c. Santander UK welcomes the opportunity to feed into the Economic Affairs Committee of the House of Lords inquiry into the economics of the UK housing market.

- Santander UK is submitting a policy note which focuses on the role that private financial institutions play in assisting public building in the UK market.

The provision of housing

1. The provision of housing can be categorised into four areas
   i). Provision of new units for private market sale
   ii). Provision of new units for private market rent
   iii). Provision of new units for social and affordable rent
   iv). Provision of new units for part private sale / part affordable rent (shared ownership)

2. Santander UK’s support for the provision of housing activities has been centred on the provision of senior debt funding to UK housing associations, together with senior debt funding to UK housebuilders. In addition senior debt financing has been provided on a highly selective basis to ring-fenced development projects, where completed units are sold in the private market. Whilst we have seen an increased investor appetite for Private Rented Sector (PRS), this sector is still in the early stages of development.
3. Alongside senior debt provided by UK banks and other lenders to the UK housing association sector, there is an active debt capital market providing both public bonds and private placements. UK local authorities are funded through the Public Works Loans Board. Given the historic low yields of UK Benchmark Gilts, the overall cost of debt funding to both housing associations and local authorities is at attractive levels. Therefore, from a public sector perspective, issues preventing the development of new units are not considered to be related to the availability, nor the cost of funding.

4. Housing associations are constrained in the provision of additional social and affordable rented housing through the continuing reduction of capital grants and recent changes to the rent formula, which requires housing associations in England to reduce rents by 1% per annum for the next four years (previously rents increases of CPI+1% were permitted). In addition, planning restrictions continue to add further constraints to the provision of additional housing.

5. A number of public-private initiatives have been developed in order to overcome other constraining factors in the sector. However, these initiatives are not necessarily considered mainstream at the current time. Santander UK has been involved in one of these initiatives, providing senior debt financing to a real estate fund to build new units, which at practical completion are leased to local authorities or housing associations on long term leases. The housing association or local authority manages the units and the tenancy.

6. Santander UK has also explored public-private joint ventures, where the public joint venture partner will normally contribute vacant land as its equity contribution. The private joint venture partner will then build housing units which are either rented or sold on the open market.

7. Santander UK considers that these models (and other variants) have wider application and could, in part, contribute to reducing the housing supply gap. The following considerations should, however, be taken into account to increase the wider appeal and success of the models:

   i). Incentives should be provided to local authorities and housing associations to enter into such schemes with the private sector.

   ii). Ensuring that any operational leases entered into by local authorities and housing associations are deemed "off balance sheet".

   iii). Vacant land currently owned by public sector bodies should be considered for residential zoning (if currently not the case). This should be complemented with a fast track planning process. The current availability and cost of land is considered a hindering factor at present.

   iv). For schemes where the units are “development for sale” on the open market, mechanisms should be explored to help insulate any senior debt funders from potential market risk.

12 April 2016
Monsieur Jean-Pierre Schaefer (Special Adviser, National Council of Cities); Professor Hugo Priemus (Professor Emeritus, Delft University of Technology); Monsieur Bernard Vorms (Chair, National Council of Transaction and Property Management) (QQ 229-236) – Oral evidence (EHMOE0013)

Submission to be found under Professor Hugo Priemus (Professor Emeritus, Delft University of Technology); Monsieur Bernard Vorms (Chair, National Council of Transaction and Property Management); Monsieur Jean-Pierre Schaefer (Special Adviser, National Council of Cities) (QQ 229-236) – Oral evidence (EHMOE0013).
March 2016 Economic Affairs Committee

Answers by Jean-Pierre Schaefer and Bernard Vorms for France

1. The UK Government has set a target of one million new homes by 2020 but there were only 124,000 homes completed last year. To what extent does the number of homes being built in France and the Netherlands differ from objectively assessed need?

1.1 Why has housebuilding in France proved so resilient?

For the last thirty years a strong political consensus about the need for new construction, beyond some rhetorical opposition regarding priorities.

- New construction is supposed to increase competition and induce a general growth of quality of supply and affordability.
- This is reached on many territories but not really on very “tense” markets where new construction is proportionally lower.
- Basic and long term commitment for increasing, regularly, owner occupation (now 58%) through private credit system backed by a mix of public help (first time buyers) and guarantee mechanisms. Priority is given to the instalments-to-income ratio much more to Loan-to-value ratio. Very low level of repossessions.
- Basic and long term commitment (since 1984) to back private investment in (newly build) rental dwelling (through fiscal rebates, “the carrot”, more or less equal to the VAT) with a 9 years commitment for below market rent for low and middle income tenants.
- Public backing for increasing social rental sector supply (18%) with a yearly production doubled since 2004 (80,000/year) combined with urban renewal (demolition). No Right-to-buy for tenants but housing companies have a controlled Right-to-sell (4000/7000 sales to sitting tenants).

For improving the existing stock of housing (high figures of dwellings per inhabitants in France, if secondary and vacant homes are included), lower VAT for maintenance and fiscal rebates for energy saving investment. Public help for improving existing stock uses very stingy budgetary subsidies (through ANAH National Agency for Housing) and relies mainly on fiscal measures.

Cf. in attachment
“French housing markets after the subprime crisis: from exuberance to resilience”, B. Vorms & Prof C. Tutin.
“Housing policy facing price increase in France” B Vorms

1.2 The UK Government has estimated there will be a 24 per cent increase in the number of households over the next 20 years, a third of which will be due to net
migration. Are these demographic changes comparable to France and the Netherlands?

Housing production vs need
Housing needs are (roughly) calculated at national level considering demography, household structure and adaptation of existing housing stock (demolition, change of use). One of the most important variables to be studied is the household structure. An increase of single people (through longer studies, high rate of divorces not followed by remarriage, longer life expectancy) or opposite changes play an important role in any housing need forecast. Migration has an effect only on 10% to 15% of the total needs. But more important for housing policies is the structure of migration, which is not easy to forecast: Housing young men, migrants, between 20 and 35 years, with a middle or high level of education and motivation is a quite different task than sheltering families with young children and low level of education coming for economic reason from inside (or outside) of the European Union. Other point is to know if migrating population can be dispatched throughout all territories or if they settle mainly in the capital region or some selected focus areas.

2. Can you explain how the planning system works in relation to housing in France and the Netherlands; to what extent is it determined at a national level and how is the necessary infrastructure provided for?

Planning system France
There is no national planning of housing construction.

- Only social rental housing which need public approval (linked with budgetary and fiscal aid). The annual quota is shared between regional levels by the Ministry of Housing.
- For private rental sector and owner occupation there is not planning, but a national zoning (five levels of rent, or ceiling of income etc...)

Local authorities are in charge of developing “Local Housing Policies”. Such (five years) plan should monitor the new construction (public and private).

Building license is granted by communes (lowest level of Local Authorities).

The general trend for decentralization of powers should bring more and more power to a smaller number of Local Authorities (less than 2000 “communautés de communes” or “agglomeration” with a minimum of 15000 inhabitants and 13 Metropolitan authorities), with lower role granted to mayor of the communes.

Decision to build is taken by developers, following a negotiation process with local authorities especially regarding social housing companies.

In our opinion, national target and “objectively assessed need” do not make sense anymore. Housing shortage (of affordable housing) might be felt in some tense areas, mainly in Great Paris, Côte d’Azur and Geneva area.

Since the end of the 80s, the power of national government to sustain programs of constructions in these areas was weakened, especially when it comes to home
ownership or investment in the private rental sector. Apart from these long term goals, government can implement temporary stimulus plans aimed at supporting employment and building industry, but they are more effective in less tense areas. Main hurdles to new constructions in tense areas are rather close to those mentioned in UK 2004 “Barker review on housing supply”.

2.1/2.2 To what extent has the Netherlands moved away from the public sector led development approach? Do you think that approach work well?

Note for France social housing sector:
The development of social housing companies in France is carefully monitored through Ministry of Housing and Ministry of Finance. A special inspection agency ANCOLS (under command of Ministry of Finance and Ministry of Housing) is in charge of controlling the 800 social housing companies. Other reports and controls are provided by Cour des Comptes and regarding the financial soundness of the sector by Caisse des Dépôts as the main banker of the social sector. (cf. International Housing Finance autumn 2015 issue). A special guarantee Fund (CGLLS) is in charge of helping social housing companies facing financial difficulties. Merging of companies (and their real estate assets) may be organized in order to avoid any financial collapse.

To what extent is building on public land encouraged in France and the Netherlands and by what process does it occur? What role does national government play?

The use of public land for new construction is a long-standing debate. Government administration and public organizations have been requested to
  • improve their land and real estate management practices, for getting funds;
  • grant more land for new construction.
According to the first idea, they should sell it at market price, and according to the second, they should not increase land price inflation. A branch of Ministry of Finance (France Domaine) is supposed to provide evaluation which should give a balance between a fair price (for the seller) and public interest project (buyer). Beyond the question of price, the problem is more the speed of negotiation and the ability of each public organization to be ready to get rid of any piece of land and building.
  • Various reports emphasize the need for Public Authorities of a better knowledge of its own properties (and value).

3. The residential construction industry in the UK is now dominated by a small number of large, speculative builders with relatively little direct commissioning or custom build. How does this differ to the residential construction industry in France and the Netherlands?
This question doesn’t seem to be an issue in France.
• The competition is rather tough for building between developers (including to some extent between social housing companies).
• A large share of the construction market between half and two thirds is made of single family houses built by a large number of small builders and contractors.

Construction prices may differ from one area to another according to the level of competition and the local structure of production. Spotting discrepancies of construction prices between various areas or regions might be an interesting method to check if competition is not enough. An analysis made in Normandy Region (2012) showed that construction prices were higher than in neighbouring regions (Picardy), as builders were “organized” to use reference of prices of Ile de France (the most costly area).

3.1 To what extent do self and custom build contribute to new housing and who are the people involved?

Self and custom build is a niche sector. Recent law (law “ALUR” 24 mars 2014) provides a renewed legal framework for the development of self-build and cooperatives “habitat participatif”. It aims at developing building initiatives from groups of individuals. It will need some time to provide any assessment of this new framework which counts only few experiments.

3.2 Large developers in the UK are often accused of being slow to develop land to keep prices high. Is this thought to be a problem in France and the Netherlands and have incentives been introduced to encourage development?

• A recent report (Dominique Figeat March 2016) insists for a better transparency of the land markets (through the development of “Land observatories”) and a growing role of local authorities (which in France don’t control wide quantities of land unlike some other countries in northern Europe).
• Initiatives for large developments are under the umbrella of local authorities. An example is given by the Bordeaux Metropole under its program “50 000 dwellings alongside transport axis”. In this case, local authorities associate their transport policy with urban policies. The fact that a public transport (tramway) is already available might induce a quick answer from the developers (public and private).
• On a much larger scale, the Grand Paris Express is a 15 years programme which will rely on the capacity to realize infrastructure (6 new lines express metro), housing project and urban renewal at the same pace. Real estate developments around the planned transport station are supposed to channel finance for the infrastructure.

4. Is the current level of house prices in France and the Netherlands seen as a problem?

a) The issue for National and local authorities, and for inhabitants, is more the increase of the prices that their level. “Opinion is more sensitive to a relative
change than to an absolute level". Berlin, where the rents are among the cheapest for a European capital, is implementing a new kind of regulation because rents are increasing.

b) The gap is rather strong between the areas with a strong economy (active labour market) and declining areas. As (real estate) prices go up, geographical differences become more pronounced, and such gaps are widening between territories. These disparities are reflected, but to a lesser extent, when it comes to rent levels in the private rental sector especially for new tenants. The rent level varies according to the pressure of demand on the housing market, which is alleviated when there is a significant social housing supply.

Of course social rental sector follows different rules. Rents in the social rental sector are based on cost, therefore disconnected from the private sector. In the most expensive areas, there is a wide gap between private and social rents, for instance in Paris, in average, €7 sqm per month in the social sector (£78/week for 60m² / 645 sqf) and € 23sqm per month for a new lease in the PRS, which induces significant pressure on the social rented sector. (20 % of the main residences in Paris are in the social rental sector, 50% in PRS and 30% are owner occupiers).

c) A main problem of affordability is due the increasing ratio between housing burden and income.

From 1984 to 2006 the average housing expenses to income ratio increased from 18.5% to 24.3%. This increase of the financial burden of housing was partly due to improvements in quality and size of dwellings but nevertheless most of it was a price increase. Just as the rent per square meter for new leases has increased far more quickly than the average purchasing power.

Moreover, tenants’ income tends to increase less than the average income of the whole population as those with higher income become home-owners over time. Therefore the share of income devoted to housing has strongly increased, especially for households, in the low income brackets. For those in the two lowest deciles in earnings the housing burden has increased by 8% between 1988 and 2006 and for the two higher deciles the rate has only increased by 3%. There are huge difficulties in access to housing for the “outsiders”, new comers in the more expensive markets, especially young people and for poor people as well.

4.1 If housebuilding targets are met in France and the Netherlands, to what extent do you think that will make market housing more affordable?

There are no housebuilding targets, although building of 500 000 dwellings a year is often quoted as a dream by politicians, although without real scientific arguments. The real figures, nearly 350 000 dwellings a year are by and large among the highest in Europe.

The level of affordability on each housing market might differ according to the mix of owner occupation for first time buyers, private rental investment and production of social rental housing.

But in the Paris Region, the target of 70 000 dwellings to be built is a long lasting reference. The real figures were 40 000 dwellings, which have been recently up to 60 000 (in 2015) which might improve affordability of this (tense) housing market.
An increase of production might not have an impact on affordability on the short term. Only in the long run the increasing supply might carry weight on the prices or rents.

4.2 *To what extent do you think increased access to finance was been the rapid increase in house prices from the mid-1990s up to the financial crisis?*

In the view of most economists, around half of the increase of the prices of the decade before the crisis can be explained by the decrease of the rate of credit and the longer duration of the loans caused by this decrease. Access to credit has not really changed, and is said to be more restrictive than in UK. The average duration of loans for owner occupier in France is 19 years, and the share of long term loan (above 25 years) is very low.

5. *How successful have government initiatives to help people into home ownership in France and the Netherlands been?*

For nearly forty years, every Government has encouraged home ownership while at the same time supporting the building of social housing, and investment in the private rental sector. In this respect the difference between “right” and ” left” is chiefly about electioneering: the right parties proclaim their will for France to be a “nation of home owners” and the left parties simply want to allow those who aspire to it to become so, but in reality, political support for home ownership has been very constant in its ways and means for the last forty years. The increase in the proportion of home owners has been steady, and there has not been the rapid increases seen in some other countries, sometimes linked with the sale of public or social rented properties to sitting tenants. The increase of home ownership has been mainly (but not only) linked with new construction. That is why the sale of existing social rental dwellings is not considered as a proper way for increasing home ownership.

Beyond the ratio of owner occupiers (57.8%), real estate owners, including tenants who owns a property (empty, rented or secondary home), are estimated up to 62% of households.
5.1 What are the advantages and disadvantages of the French model for financing home ownership?

The French housing model for financing home ownership is consistent with the characteristics of the French housing market and the stability of its main principles.

A diversity of tenure

In France, 57.8% of households are owners of their primary residence; 42.2% of households are tenants of which 18.5% in social housing and 23.6% are in the private rental sector (including miscellaneous tenures).

- One third of homeowners are still mortgagors.
- 80% of home-owners have single-family houses, while 74% of tenants live in flats.

Institutional investors have left the rented housing sector, 95% of the stock of private rented housing is in the hands of private individuals, the majority of whom own less than three dwellings.

The increase in the proportion of homeowners has been steady, and the GFC (2008) didn’t lead to a decrease in the proportion of homeowners.

In addition the residential mortgage debt to GDP ratio is rather low in relation to comparable European countries even if it has increased steadily over the last ten years. Household debt remains very reasonable, similar to the German level and much below the British, Dutch or Swiss ratio.

Nevertheless, in 2008, the GFC resulted in a sharp drop in the number of transactions and construction projects. At that time the French economy underwent a severe recession and the availability of money for house building contracted sharply. The collapse of investment impacted the purchase of newly built as well of existing properties. This crisis was not linked with a credit crunch. The lenders did not ration their supply of credit, although they were accused of this; it is demand that was reduced.

Some first time homeowners withdrew from the market because they were frightened of the consequences of the economic crisis, while forecasts of lower prices encouraged others to wait and see. As for the buyers-sellers the fear of not being able to re-sell and the tightening of the conditions for bridging loans led to a postponement of purchases.

Indeed, the mortgagors were not severely affected; the rates of default and repossession barely increased.

From the point of view of lenders even the rise in unemployment has had no significant effect on repayments. It is without doubt in part because unemployment in the first instance affects the young and those with precarious jobs, who are more often tenants.

Divorce and separation remain by far and away the principle reasons for borrower default. The amount of loans classified as in default rose slightly compared to 2009 but remains low; provisions for non-performing loans have decreased regularly since the peak. The claims rate remains among the lowest in Europe and “negative equity” is not subject to any overall estimate.

This situation could be explained by the characteristics of the French credit system.
A supply of credit to financially stable households

In France, the terms of credit are quite favourable to borrowers who want to buy a house. Competition between the institutions is fierce; Thus rates are lower than in others countries, except Germany. They are quite “egalitarian”, because at any given time, the loan conditions are not linked to the income of the customers. In short, the default rate is low and foreclosures are exceptional. But some consider that the downside of this satisfactory situation is the overly restrictive nature of the supply of credit.

A majority of universal banks

Over the last decades the home credit supply has seen market mechanisms replace, by that period. Therefore arrears and defaults have a direct effect on their financial results, except those arising from loans to the lower income first-time homeowners, which are guaranteed by a dedicated guarantee fond (the Fonds de Garantie de l’Accession Sociale).

The various stages of the mortgage process are not handled by separate institutions, as it may organized in the United States, where the process is unbundled between the broker, who sells the credit, the originator, who keeps the relationship with the borrower, the servicer, and the investor, who holds the mortgage-backed securities.

While the share of loans brokered by agents and go-betweens has increased over the last few years, it still remains a small share of the market. The banks never delegate to these intermediaries the authority to grant the loan. The institution that approves the loan, manages it until it is fully amortised and usually holds it on its balance sheet throughout that period. Therefore arrears and defaults have a direct effect on their financial results, except those arising from loans to the lower income first-time homeowners, which are guaranteed by the Fonds de Garantie de l’Accession Sociale.

A personal approach to credit

For the universal banks, with savings inflows from individuals, the home loan is largely means to develop customer loyalty or means of gaining new customers; banks lend to their customers or to prospective customers. They require borrowers to cash their income into the bank via direct debit. But, while the lenders in most countries take into account the value of the property as security (to the point where the term mortgage implies both a guarantee and a secured loan) and also the income of the borrower, the French banker (with very few exceptions) focus their attention solely on the credit worthiness of the borrower. This is why the lender almost never asks for a valuation, even though it is going to provide the finance: the value of the security is assumed to equal the amount of the transaction or the price of the construction project. Nevertheless, credit files containing positive data do not exist. On the other hand, banks tend to exclude potential borrowers who are not in stable employment or who are not insured against death or disability.
Credit access and lender security

The banks have substantial internal resources through deposits, capital market funding (bond issues) and regulated savings schemes, like “épargne-logement”. In general, although the proportion of the funds collected in the market increases, the use of specific financial products instruments is low: Securitisation plays a minor role. The development of investment products that characterized housing finance was associated with none of the abuses which, elsewhere, allowed the lender to transfer the debt and to become disinterested in the final repayment of the loan. So, neither the working of the mortgage process, or the nature of loan security allow the lender to cut the link with the borrower until the loan is fully amortised (redeemed).

If credit institutions bear the consequences of losses associated with the loans they grant, certain practices allow them to protect themselves from the consequences of what one would call “the risks of life” (death, unemployment...) Thus, no credit is granted without a death and disability insurance policy in respect of the borrower. This might generate restrictions on the supply of credit to the elderly. While it is not a legal requirement, it is a unanimous requirement of lenders.

Consumer protection and information

Consumer protection must not be neglected. It seeks a fair working of the housing finance sector. France has very strong and effective regulation in relation to the provision of consumer information and protection, particularly as regards the borrower. This attitude is reinforced by the strict approach that judges and the legal framework have in relation to lending to individuals. This should be seen as a reflection of the emphasis that French society places on responsible lending, and indeed an attitude of mistrust in respect of credit.

5.2 To what extent is the level of mortgage debt a concern for financial stability in France and the Netherlands?

Residential mortgage debt is not a major concern for financial stability in France (cf p §5.1. Households have a not a high level of debt. Nearly all loans are amortised. No bullet loans for home buyers. Fiscal deduction of mortgage interest was introduced in France in 2007 and cancelled in 2011. It was a windfall for high income buyers and without impact on the demand of low and middle income buyers.
### Residential mortgage debt to GDP ratio, %

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![Mortage debt /GNP (FHE 2012)](image)

#### 6. To what extent do you think French and Dutch governments favour home ownership over other tenures?

#### 6.1 Does the taxation system in France and the Netherlands favour one form of tenure over another?

No tax on imputed rents for home owner. But there is tax on built property (TFPB) which is a main resource for local authorities. This tax is paid by social housing as well (after a 25 years of grace), nearly €2 billion/year (one tenth of the rent of the total social sector).

As mentioned in §1, the policy on the long run is rather balanced between owner occupier, social rental and private rental sector. The calculation of subsidies (budgetary, fiscal rebates etc.) might open strong technical debate, but the “Comptes du Logement” estimates that public aid is rather balanced between the three pillar of housing supply (OO, PRS, SH). But new construction is much more backed than existing stock (cf § 1).
How does the system of tax credits for private rental investment work in France and how successful do you think it has been?

Private rental investment receive a tax rebate of 18% of the investment (up to €300,000) shared out for 9 years (2% per year which are deducted from yearly income tax). As VAT is 20%, the tax credit (the “carrot”) is roughly equivalent to buying tax free.

- The rent (in Lyon zone B1) is €10.07/sqm.month.
- The ceiling of income for the tenants refers to the highest level of social sector (PLS) (€4800 for a family with 2 children in Lyon) which opens doors to middle income tenants.
- Some schemes have been more oriented for low income tenants, with lower rents.
- Rent ceilings are 15% below local market rent (lower in Paris region where the “average” market rent is difficult to estimate due to strong discrepancies of rents inside the region).
- The availability of loans, with no equities from the investor, and a yield of 3.5% might be appealing, compared with the ebb and flow of stock market.

This policy of tax credits started in 1984 with various fiscal schemes aiming to develop a newly build supply of private rental dwellings. The overall production during 30 years is estimated above 1.3 millions of dwellings. For private developers, from one third up to two third of their production are devoted to this market.

Private rental sector in France (thousands dwellings)

These schemes succeeded in increasing a strong private rental supply, mainly on small and average size housing (one room up to two rooms flat). It was successful in middle size towns. It was not successful on very tense markets, were rent on older buildings are high, while new construction is costly and cannot compete for providing the same yield: Rent ceiling in zone Abis (Great Paris) is €16.83/sqm/month could bring a 3.5% yield if the price is below €5700/sqm. This is not easy to reach for a private developer.

How important is institutional investment in the private rented sector in France and the Netherlands; is this being encouraged by government?

Institutional investment in private rented housing

Institutional investors have left the rented housing sector, 95% of the stock of private rented housing is in the hands of private individuals, the majority of whom own less than three dwellings.
**Cf. survey of the LSE by Christine Whitehead**

**Institutional investment in private renting has declined in France since the 1980s. Do you think there has been a corresponding drop in quality of accommodation in the sector?**

No drop of quality, the private rental sector has increased its quality following technical regulations as far as new construction is concerned. There is some concern regarding condominiums of the 60’s which might endure some technical and social problems without enjoying the professional management of social housing companies. This point is a question at stake in the Urban Renewal program (PNRU).

**7.2 What effect do you think rent controls in France and the Netherlands have had?**

A new law (2014) introduced two major changes in the rent regulation:

1- Even for a new lease, with a new tenant ("relocation in French") the new rent cannot rise above the rent of the previous tenant and it remains indexed. (This was the applicable law from 1981 to 1983). This rule was immediately enforced.

2- In the markets with highest demand, Paris and some high rent markets, the rent cannot be 20 % over the median rent in the same area for the same type of dwelling (number of rooms and date of construction). However, in cases of exceptional quality, this maximum may be exceeded.

If the rent is 30 % or more below the median, the procedure to increasing the rent when the renewal ("renouvellement du contrat") occurs is simplified, in comparison with the previous one for evidently underestimated rent.

In 2015, a new government decided to carry on experimentation only in Paris and this new rule has been enforced since July 2015.

Both regulations follow contradictory forms of logic:

- the first one keeps the rent level of the previous tenant for the new comer, thus transferring the benefit of seniority, the “unwarranted earning”, to the new tenant, except for rent that are , 30 % or more, below the median ; it applies mainly to large flats, since their turnover is lower.

- the second one limits the higher rents in each category and reduces the gap between new and existing leases.

**What are the results of the new regulation?**

Although there are a lot of affirmations on the effect of the new law, on rent levels and on the size of the private rented sector and although a wide variety of figures are brandished about, nobody is currently able to conclude on the effect of the new rules, because the new legislation has been enforced for only three months.

However, some simulations have been run on the impact on the rents in 2014, if the law had been enforced in 2013.

**Number of dwelling affected**

- Among the whole housing stock in 2013
  
  15 % have rent over median + 20 %, some 64 000 dwellings
6.5% have rent above median – 30%, some 27,000 dwellings

- Among the new leases for new tenants in 2013 ("relocations") (law non enforced)
  23% have rent over median + 20%, some 20,000 dwellings
1.5% have rent above median – 30%, some 1300 dwellings

- Among the leases for new tenants ("renouvellements").
  10% have rent over median + 20%, some 8,500 dwellings
8.5% have rent above median – 30%, some 7,300 dwellings

Impact of the new rules on the dwelling affected by the new law
Most of the dwelling affected (64,000) have a small or a very small size.

However, the general trend of the rent is decreasing since 2014, and in our opinion, the rent limit due to the reference to the median value will mainly impact the most expensive rents in each category and the smaller flats, which have a high turnover. Anyway, the way exceptional quality of a dwelling will be taken in account to exceed the maximum rent is not known yet. The fact that it will be easier to increase the rents of the flats 30% below the median will not have any significant effect.

It is difficult to forecast the impact of the new law on the size of the private rented sector. Institutional investors ran away and most of the landlords are private individuals who don’t focus their attention on the sole criteria of the rate of return. In recent years, the size of the sector seems to have been disconnected from the variations of the rate of return and prospects for capital appreciation. Paris has already the lowest rate of return of the PRS in France. There are very few new constructions in Paris intra-muros by lack of constructible land.

The legal length of the lease (3 years) renewable by tacit consent dampens rent volatility, although it’s a main hurdle for outsiders, mainly the young and the mobile.

The rules that pass the benefit for the previous tenant to the new one are efficient but unfair and contradictory with the other rule.

We can hope, but not yet verify, that the rule that ties rents to the median value can, in the long run, moderate the overall rent increase.

8. How does the social housing sector compare in France and the Netherlands to the UK and who does it cater for?

Figures for Social rental housing (SH) are above 4.5 million dwellings (18% of housing stock). It increases by 70,000 units per year through new construction minus sale to sitting tenants and demolition (in urban renewal programs).

After a slowdown of social housing production from 1995 to 2000, a strong increase of production was decided in 2003 in the frame work of a «Social Inclusion Programme».

The production and management of social housing relies on five principles

- Long term loans (40 years), below market rate, financed through private savings;
- Rules and regulations under government control;
- Professional developers (builders and managers) public or private “not for profit” companies : altogether 800 bodies, average size 7000 dwellings , ranging from 1500 up to 150,000 (or more for groups of companies);
- Common rules enabling balancing out resources between social companies (with a common fun CGLLS);
Jean-Pierre Schaefer and Bernard Vorms – Written evidence (EHM0172)

- Complements grants and subsidies are provided by Central and local governments and a special “employers Fund (1%)”.

SH finance is secured by a strong mechanism using private savings under government control. Finance is available to social organization (registered social land lords) and for a small share to private developers. Social organizations are either public (Offices HLM) or private “not-for-profit” organizations (SA HLM) and must be registered (and controlled) as social landlords. Rules and regulation for granting loans are equal to all social housing organizations. Financial balance for building includes off market loans (75% of the cost) but need as well complement grants provided by Central Government, local authorities and economic partners (employers).

Equities from Social companies play a growing role in the development of new construction (10% of the cost). No Right-to-buy (for tenants), but Right-to-sell, decided by social housing companies with approval from local authorities.

A significant increase of social rental housing

Net increase after building, purchasing, selling, demolishing: 70,000 social dwellings/year

Social housing in France used to refer to a “generalist” purpose, being open to low and middle income households (income ceiling are open to 32% of households).

For the last twenty years, due to increase of ownership among middle income groups, social rental housing shelters more and more low and very low income households. 60% of tenants are in the 30% lowest income groups.

- Half of the tenants receive housing benefit (€7 billions).
- 500,000 dwellings are allocated each year (including internal rotation)
- Total rent + charges in social sector amount up to €24 billion.
- Outstanding debt of social sector is €140 billion.
- This debt is not included in public debt as social companies have more than half of their income provided by their activities (European commission rules for defining public and private debt)

8.1 Housing associations were granted financial independence from government in the Netherlands in the 1990s. How successful do you think this has been and how is the sector now viewed?
8.2 **Do you think requiring a fixed percentage of social housing in any new development is preferable to the process of negotiation in the UK?**

Rule in France requires a percentage of 20% or 25% of social rental housing in 2000 communes above 3500 inhabitants (1500 in Paris Area) situated in large urban areas. Half of these communes have less than 20 or 25% of social housing. They are requested to implement a multiyear plan to increase their stock of social housing. This plan is yearly controlled. If local authorities are reluctant to do so, fines may be applied on the local authority budget, under some conditions. Assessment shows than such regulation help to scatter social housing supply throughout urban areas, instead of concentrating like it was done in the 60’s. But the percentage of social housing is analysed at the level of the local authority, which is charge of local housing planning. It is not a fixed percentage in each housing development. Social rental housing needs a manager. In a 28 flats building, it is not easy for a social housing company to manage a batch of 7 dwellings (it could be the case if the program consists of row houses). The process is more a negotiation between private developers, social developers under the aegis of Local Authorities (which grants building licenses).

9. **How useful are international comparisons in housing?**

“Milestones in housing policy and housing finance last 25 years” and the network of competent researchers (European Network for Housing Research) show how fruitful could be exchanges of experience and ideas. But in each country, housing is a field with a long social, legal and economic history. And each foreign experience should be carefully analysed, in its own context, before any adaptation or transfer under another sky. The example of rental contract which has no fixed term in some countries (Germany, Netherlands, Switzerland), legal length (3 or 6 years in France) or are freely fixed by contract in some other countries is an example of strong differences, which are part of the legal and social organization of each housing market.

9.1 **What one thing would you suggest the UK could do to improve the affordability of housing?**

Keeping a balance between owner occupation, private rental sector and social sector, through a higher level of new construction, a better management of existing stock and a high responsibility given to local authorities for housing policies.

21 April 2016
Economics of the UK housing market

Submissions by Daniel Scharf MA MRTPI  November 2015

I am a land use planner with over 40 years experience of working in public, private and voluntary sectors. I have also provided training in planning to property lawyers and taught planning at Oxford University Department of Continuing Education as well as offering private classes. I make regular contributions to the trade magazines and newspapers and maintain a blog at www.dantheplan.blogspot.com.

If I have particular expertise it is in the legal basis for plan preparation and implementation. I am acutely aware that housing (and planning) operates as a very complex system which makes it very difficult to predict the outcomes of incremental measures. Despite or because of this difficulty it is important to attempt a systemic rather than an ideological approach (eg a preference for one type of tenure at the expense of another).

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

1.01 The first and most important measure that could and should reduce house prices would be to return to the principle of the 1947 Town and Country Planning Act where it was expected that land values would be captured in the public interest. There would have been some level of compensation but not the ‘windfall’ gains experienced in most parts of the country (where sale prices far exceed development costs ie building and infrastructure). The operation of securing planning gain or community benefits and the calculation of community Infrastructure Levy have been hampered by inflated land values. This was one of the Main recommendations of the Housing Review carried out by Sir Michael Lyons.

1.02 ‘Affordable housing’ was the creation a Court ruling in 1992 when a judge thought that a dwelling affordable to a local person (having regard to local earnings) was materially different to one that was not. This concept was immediately embraced by planning authorities (inc the Sec of State). However, the nature of ‘affordability’ has lost any connection to local earnings. In fact it might not be lawful for a planning decision to rely on the affordability of some of the dwellings when that is a deceit and dependent on subsidies that have no relevance to the local area (ie housing benefit, Help to Buy etc) and which can change at any time. This could form the basis of a judicial or stator review but would be far better for the Sec of State to rectify this anomaly with a simple statement that returned ‘affordable housing’ to its legal origins. Whilst this is most easily applied in the social rental sector, the Housing and Planning Bill is proposing to introduce ‘affordability’ into the private sector as ‘starter homes (ie 80% of local market values). This 20% discount could be insufficient in many areas and the price should be linked to local earnings to e a material consideration in planning decisions. The strings attached to a substantial discount would then have to be proportionately greater in terms of resale (eg timescale and uplift).
1.03 There has never been more housing (in terms of space) per capita. The shortage is one of distribution as money/capital is used to buy more space for investment and enjoyment than is necessary to meet needs. This is disturbing given the reliance of the planning system on meeting ‘objectively assessed needs’ which take little or no account of the unsustainable levels of under-occupation, and the bedroom tax that targets the social rental sector which has far lower levels of under-occupation than houses in private ownership.

1.04 Average household size is about 2.4 and falling. Almost all new dwellings should be of 2 bedrooms aiming to reduce the huge excess of demand over supply in this part of the market. Smaller dwelling are clearly cheaper to supply and are needed in very large numbers to meet the needs of both new households and those wanting to downsize (about 8 million). In theory down-sizing releases larger dwellings into the market for those wanting to up-size. Building larger houses increases the need for more smaller dwellings.

1.05 The ‘shortage’ is made worse by the 900k empty homes including those bought as investments and safe havens (ie build-to-leave).

a. **Government schemes:**

   How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

1.06 The effect of demand-side incentives must have been to maintain house prices that would otherwise have fallen to levels where property could have been bought without subsidy. The same principle applies to the ‘bank of mum and dad’ which has helped maintain house price inflation to the benefit of parents’ own properties.

1.07 Housing developers have bought land in the expectation that prices inflated by these demand-side schemes will continue and their removal might mean that those sites would become uneconomic to develop and temporarily ‘stranded’. However, there is much more land that is under ‘option’ or simply benefiting from development plan allocations or planning permissions, the value of which would be based on the circumstances at the time – affordability more closely related to earnings than artificial subsidies. The sites stranded by artificially inflated land prices would gradually come back onto the market or developed at a loss or educed profit. There should be scope for Compulsory Purchase in circumstances where developers ‘bank’ site suitable for development..

1.08 It is possible that the demand-side schemes have not only maintained house price inflation but increased it as developers have added the ‘discount’ to their asking prices. In this respect the higher prices have reduced the number of houses at potentially lower prices.

1.09 Importantly, the prices of existing houses track the price of new stock and vice versa. This is one reason why increasing supply of new houses would have a marginal impact on overall prices unless they came onto the market at significantly lower levels (ie with the land value being reduced and captured for public benefit). A return of new stock to a proper level of local affordability would have a similar effect.
for existing dwellings. This would have little if any impact on the 60% of owners without mortgages. The impact on those who have outstanding loans would obviously depend on when they bought and the size of the loan and interest rates. The real problem could be for those both in negative equity and wanting to sell. However, they would be selling and buying in a lower house price market so they should still be able to buy, but with the cost of the loan disproportionate to the cost of the new house. This might be undesirable for these individual households but would not be very different from the disproportionate rents being paid by millions of private renters (eg up to 50% of gross earnings).

b. Taxation: Are there tax measures that would improve housing supply and affordability?

1.10 The absence of capital gains tax on private housing is an anomaly and its introduction could reduce house price inflation, as is the current effect of high levels of stamp duty, and make money for the Treasury. However CGT could also act as a significant barrier to the necessary down-sizing.

1.11 Tax measures could be used to incentivise down-sizing, right-sizing and/or use of the spare space. Given the absence of any effective measures to increase the efficiency of the 80% of dwellings at EPC ‘D’ and below, and the impact of this on fuel poverty and affordable living, stamp duty discounts could act as incentives to upgrade houses before their sale.

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

1.11 I don’t know, but the Committee is absolutely right to be looking for measures that would make down-sizing more attractive.

ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

1.12 The first response to the stamp duty changes was for the price of properties that had been below the £250k threshold to be increased to about £260k. This illustrates the danger with thresholds and tinkering with the demand side.

c. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

1.13 It is very sensible for lenders to relate loans to earnings and the ability to pay. However, this logic in respect of affordability should be adopted by policy-makers when introducing measures affecting prices and rents.

d. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?
1.14 The changes to planning policy that could and should be introduced immediately by Greg Clark through ministerial statements and backed up by inspectors deciding appeals and examining development plans are:
- new houses should be predominantly 2 bed (and designed to be attractive to down-sizers), the modelling for SHMAs is seriously inadequate in this respect.
- extensions to dwellings should be subject to control in order to maintain both housing mix and energy efficiency,
- any larger dwellings must be designed to be easily and cheaply sub-divided (changes to ‘permitted development’ depend on change to the regulations).
- All developments should pay the full costs of ‘necessary infrastructure’ that should include genuinely ‘affordable housing’ (housing has been included as ‘infrastructure in the Housing and Planning Bill),
- viability assessments must start with the costs of building houses and providing all the necessary infrastructure and NOT with an assumed cost of the land. In the case of building on brownfield sites allowance must be made for clean-up and some value above agricultural value for existing use.
- the planning system should be giving far more support to the self/group – builders/finishers. The Housing and Planning Bill should be expecting/requiring LPAs to ‘reserve’ land for these purposes on all permitted and allocated housing sites to meet demand on the Registers (if this is not done by Greg Clark through the Planning Policy Guidance).

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

2.01 If buy-to-let is included, this is not a sector that should be encouraged to grow. There is evidence that up to 40% of dwellings moved from social/public sectors under previous right to buy schemes are now in private rental and the Government’s proposed increase of RtB will increase private rentals.

2.02 Subject to the introduction of rent controls there might be a case for support (policy if not fiscal) for the model of build to let.

a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

2.03 It will either increase rents or persuade landlords to sell into the market at prices that reflect the new and context of a fair rental regime, or into private ownership.

b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

2.04 There should be much more security (similar to commercial tenancies) and rent controls relating to local earnings and inflation.
c. What are the advantages and disadvantages of restricting rent increases in the private sector?

2.05 The advantage should be to make renting at least as affordable as paying a mortgage. The disadvantage of possibly reducing the number of properties to rent is overstated as the property would still be in the ‘system’.

3. Social housing: Are any measures needed to increase the supply of social housing?

3.01 Yes. As the only form of really affordable housing (Starter Homes might be a possible exception in about 5% of the country) if rents can remain at or below ‘social’ and not ‘affordable’ levels. There are encouraging signs that wage levels might increase and reduce the £25 billion housing benefit bill that mostly goes into the pockets of landowners and landlords. Registered Providers are also best placed to assist with equity sharing (including self-group builders) and co-housers, both necessary to the future of housing.

a. What will be the impact of the Right to Buy for housing association tenants?

3.02 They will lose the support of the housing association’s sustainability and community development officers. Consequently the cost to the HAs of providing these important services to remaining tenants/dwellings will become more expensive. These house purchasers will lose the valuable support of the HAs.

b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget?

3.03 This proposal illustrates the lack of a systemic overview as HAs/RPs might simply stop adding to their stock while their financial model is no longer viable.

20 November 2015
The heart of the problem

1.1 The core issue in the supply of reasonably priced housing is that housing is both a means of providing homes for individuals and families, and a market in which buyers invest in order to increase the value of their assets. The housing market only works properly when these two sides are in balance; currently they are not. In this submission I address one aspect of this imbalance, the question of home-ownership.

Question 1. Private Ownership

1.2 There is a huge value to individuals and families in owning their own homes, providing them with increased security, identity and control over their own lives. Hence the goal of a ‘property owning democracy’ has rightly been widely embraced.

1.3 However the proportion of households that own their homes has been in decline for a number of years. Younger people (in London, even relatively well-paid professionals) are increasingly unable to purchase properties: the proportion of younger buyers has been declining for 25 years. Therefore the UK is moving away from, rather than towards, becoming a property-owning democracy.

1.4 The core reason for this decline is the almost constant escalation of prices, far outstripping incomes, which puts them out of reach of would-be purchasers while providing greater incentives for buy-to-let and buy-to-leave investors, resulting in a vicious circle which forces more and more people who wish to own into the rental sector. Price inflation is a result not only of inadequate housing stock but also of the incentives produced by the tax regime, as I outline below.

Question 1a. Government Schemes

1.5 None of the government schemes designed to facilitate home ownership have seriously affected the trend indentified in 1.3, since the rate of increase in prices has generally, and especially in the more expensive regions, more than offset any mitigating effects of government schemes.
**Question 1b. Taxation**

1.6 The proposed changes to *inheritance tax* due to come into effect in April 2017 will clearly benefit a small number of very well-off families at the expenses of others. The changes will have a marginal effect of limiting ‘downsizing’ and housing supply, by disintentivising the heirs of well-off individuals from selling larger properties.

1.7 Marginal changes to *stamp duty* may have positive effects, but the tax is in itself a problem. Stamp duty is a transaction tax; hence it is inherently a direct disincentive to housing mobility and an indirect obstacle to labour mobility. House buying and selling is in any case both an expensive affair (due to agents’, solicitors’ and movers’ fees as well as the costs of adaption and refurbishment) and a fraught and risky affair (the latter especially given the absence of legal weight in the initial agreement to purchase in the law of England and Wales). In this context, stamp duty is a particularly undesirable form of property taxation since it further discourages mobility, which in turn limits housing supply.

1.8 The expectation of constantly rising property prices reinforce incentives for owners to hang on to larger properties and for developers to hang on to land, after planning approval has been given, in both cases reducing housing supply. It also reinforces buy-to-let and buy-to-leave investment at the expense of home ownership, resulting in the situation in London where only around one third of property purchases are for home ownership.

1.9 Reform of the buy-to-let market, punitive taxation of owners who leave property empty and shorter expiry of planning approvals could partially offset these threats to home ownership. However the larger problem is that home owners themselves have overwhelming incentives to aggrandise their properties rather than to downsize or live in their existing-sized properties. This is largely because there is no taxation of capital gains on principal residences.

1.10 This absence of capital gains tax is very striking when compared to taxation of all other forms of economic activity. A study of the London Borough of Islington, for example, showed that in the current decade home owners have earned more than twice as much from rising property prices as from paid employment; while the latter will have been taxed at 20% above £10,000 p.a. and in many cases at higher rates, capital gains were completely untaxed. This situation creates a disincentive to work as well as a tax inequality in favour of property owners at the expense of non-owners, which also involves generational inequality.

1.11 The failure to tax capital gains on principal residences encourages owners to invest more and more wealth in enlarging their properties rather than in other kinds of investment. This kind of investment is contrary to the needs of housing supply, as well as a
factor preventing the necessary rebalancing of the economy away from property and towards productive activities.

1.12 For example, the Government’s proposed relaxation of planning rules on adding further storeys to London houses will only encourage owners to increase the size of their properties, since in most cases the increased value will outweigh the cost of enlargement, even where they have no need for extra space. It will do little to increase housing supply and will reduce the number of smaller properties which might eventually come to the market and be suitable for first-time buyers.

1.13 The failure to tax gains on principal residences in the same way as those on second homes and rental properties creates incentives for owners to pretend primary residence in what are really second homes or investment properties, ‘flipping’ their residence in the way that many MPs notoriously did. The weakness of HMRC means that this kind of abuse is not effectively policed. Therefore removing the exemption would also stop its illegitimate exploitation.

1.14 Conclusion. The House of Lords has a unique opportunity to take a broad view of the needs of the housing market and broach the desirability of replacing stamp duty with taxation of gains on principal residences, in order to restrain the excessive inflation of housing prices and make housing more affordable to new entrants. A change of this kind will alter the assumptions of domestic property-owners across the country. It therefore requires a major national conversation about the desirability of change, as well as careful consideration of the scope of reforms and how they should be implemented over time. Your committee could begin this conversation and so make a major contribution to the future of home-ownership in Britain.

16 November 2015
House of Lords

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Inquiry into the Economics of the United Kingdom Housing Market

Call for Evidence

Submitted by:

S W Shaw
SUMMARY

1 INTRODUCTION

2 CONTEXTUAL INFORMATION

- House prices increase at a rate well in excess of the Retail Price Index.
- In consequence, each new cohort of young people finds it increasingly difficult to buy their first home.

3 GOVERNMENT “HELP” TO PURCHASERS

- A high proportion of the market value of houses is attributable to the plots on which they are built.
- Supply and demand rather than cost of materials, labour and normal profit margins for builders drive prices up.
- The former tax relief on Mortgage Interest merely increased the amount of money with which purchasers attempted to buy the limited stock of houses. It therefore had the effect of driving prices up. Purchasers derived no benefit.
- Shared Ownership and “Help to buy” are really “help to sell” and assist developers and landowners in maintaining prices at a level above that which market forces would determine.
- Measures to increase the supply of houses would alter the balance of supply and demand in favour of purchasers. This would be indirect help to buy but it would be more effective.

4 TAXATION

- Over the years I can only claim to have actually paid about 20% of the sale price of our house. The other 80% was “earned” merely by occupying the houses we have owned.
- Over the mortgage term, the Owner Occupier pays less than the Tenant pays in rent.
- The Owner Occupier subsequently lives “rent free” and also possesses a substantial asset
- Is Inheritance Tax Relief a justifiable further reward for Owner Occupiers?
- In relation to house values, Council Tax is higher on less expensive properties.
- Should a main residence be exempt from Capital Gains Tax?
- The unintended consequences of Stamp Duty

5 GENERAL PRINCIPLES
Proposed principles which should guide national policy on housing:
INTRODUCTION
1.1 My submission relates to your question on Private Ownership and draws on my experience as an owner occupier since 1979. I do not have experience of the Private Rented and Social Housing Sectors which would enable me to make any useful comments about them.

CONTEXTUAL INFORMATION
Price Indices Comparison
2.1 I have taken January 1987 as the base because it is the base for the current RPI data. The Nationwide BS data had a base of 1952 Q1, so I have adjusted their index to the January 1987 base.

<table>
<thead>
<tr>
<th>Year</th>
<th>RPI Base Year</th>
<th>HPI Base Year</th>
<th>Original Base Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>100.0</td>
<td>100.0</td>
<td>2162.2</td>
</tr>
<tr>
<td>1988</td>
<td>103.3</td>
<td>110.3</td>
<td>2384.8</td>
</tr>
<tr>
<td>1989</td>
<td>111.0</td>
<td>145.6</td>
<td>3148.7</td>
</tr>
<tr>
<td>1990</td>
<td>119.5</td>
<td>145.8</td>
<td>3151.5</td>
</tr>
<tr>
<td>1991</td>
<td>130.2</td>
<td>133.4</td>
<td>2885.0</td>
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<tr>
<td>1992</td>
<td>135.6</td>
<td>127.7</td>
<td>2760.1</td>
</tr>
<tr>
<td>1993</td>
<td>137.9</td>
<td>122.6</td>
<td>2651.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>RPI Base Year</th>
<th>HPI Base Year</th>
<th>Original Base Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>3</td>
<td>233.2</td>
<td>5043.3</td>
</tr>
<tr>
<td>2003</td>
<td>4</td>
<td>293.4</td>
<td>6343.4</td>
</tr>
<tr>
<td>2004</td>
<td>1</td>
<td>343.0</td>
<td>7416.4</td>
</tr>
<tr>
<td>2005</td>
<td>9</td>
<td>357.9</td>
<td>7737.9</td>
</tr>
<tr>
<td>2006</td>
<td>4</td>
<td>375.5</td>
<td>8119.2</td>
</tr>
<tr>
<td>2007</td>
<td>6</td>
<td>429.4</td>
<td>9284.9</td>
</tr>
<tr>
<td>2008</td>
<td>209.3</td>
<td>438.7</td>
<td>9486.4</td>
</tr>
</tbody>
</table>
2.2 On the basis of these data, house prices have risen by a factor of 4.61 whilst the Retail Price Index has risen by a factor of 2.55. In real terms, houses have become more expensive by a factor of about 1.8.

2.3 A base year of 1990 would reduce this factor, but a base year of 1996 would increase it. The conclusion that house prices have significantly increased in real terms would remain.

2.4 For the purposes of this Inquiry, I would draw two key points from these data:
2.4.1 Home Owners see the value of their main asset, their home, increase at a rate well in excess of the Retail Price Index. They produce no goods or services to earn this capital gain; they merely occupy their home.
2.4.2 As house prices continue to increase in real terms, each new cohort of young people find it increasingly difficult to buy their first home.

3 GOVERNMENT “HELP” TO PURCHASERS

Market Price and Building Cost

3.1 We are in the process of buying a house in Kendal. The surveyor has supplied the following valuations:
   - Market Value £335,000
   - Reinstatement Value £188,000

3.2 Reinstatement value for insurance purposes is the cost of demolishing a badly damaged house and then rebuilding it. The building cost for a new house would be reduced by the demolition cost but increased by the cost of providing mains services to the new house and by its share of the roads provided as part of the development.

3.3 If I may suggest that the building cost and the reinstatement cost are not dissimilar, my conclusion would be that over 40% of the market value of this house is attributable to the plot on which it is built.
3.4 Prices do not need to be as high as they are in consequence of the cost of materials, labour and normal profit margins for builders. It is considerations of supply and demand which drive prices up and allow landowners to make excessive windfall gains when outline consent for housing development is granted.

3.5 The value of land, in my experience, may well increase by a factor of over 100 when agricultural land becomes housing land. A proportion of this windfall gain has to be used to provide infrastructure to support the development, but the great majority of it becomes a windfall gain for the landowner.

**Tax Relief on Mortgage Interest**

3.6 When I bought my first home, the government offered tax relief on mortgage interest on the first £30,000 of a loan. The basic rate of tax was then 30%.

3.7 At 8%, which was fairly typical, the annual interest on £30,000 would be £2,400 which would attract tax relief of £720 per annum.

3.8 The effect of tax relief was that I could afford a higher purchase price than I could without tax relief. However, every prospective purchaser had access to this tax relief. As I have shown above, the cost of actually building houses is not the factor which determines market price. The tax relief merely increases the amount of money with which purchasers attempt to buy the limited stock of houses. It therefore has the effect of driving prices up. Purchasers derive no benefit.

3.9 There were a limited number of examples of areas where tax relief genuinely assisted first time buyers. The only one I can refer to is Grimsby in the 1980s where there was a stock of old terraced houses in good condition in the central area of the town. These sold for less than the cost of building new homes of similar size.

**Shared Ownership**

3.10 There are examples of houses in the North West of England which are on sale for £300,000 with the offer of 80% shared ownership for £240,000. These are not, by any stretch of the imagination, starter homes for young families. A purchaser who can afford £240,000 would be able to afford the great majority of homes in this area.

3.11 Why should “help to buy” be offered to purchasers who do not need it? Does this not contravene the Bedroom Tax principle that the state will assist people for the accommodation they actually need, but not with anything in excess of that?

3.12 By observation of the property advertisements in the local press, it does not appear that houses for which the shared ownership facility is available are selling more quickly than the generality of houses in the area.

3.13 I suggest that without the shared ownership scheme, market forces would lead to these houses being sold at, say, £270,000 or some similar sum, representing a fair price. The headline price can only remain at £300,000 if enough people buy at £240,000 to take the rest of the houses. They will of course have to pay the other 20% at a later date.
3.14 At worst, shared ownership is a variant on some of the bad practice evident before 2007. Purchasers are being sold homes they cannot afford in the hope that they will be able to afford them at a later date. What happens when they sell? Will they have to pay off their own mortgage plus a revalued 20%? Are there safeguards against negative equity?

3.15 As I have shown above, the cost of actually building houses is not the factor which determines market price. I therefore suggest that “help to buy” is really “help to sell” and assists developers and landowners to maintain prices at a level above that which market forces would determine.

**Conclusion**

3.16 Whilst government schemes to assist purchasers directly are popular politically, I believe that in reality they merely help to increase prices and help landowners and developers. Measures to increase the supply of houses would alter the balance of supply and demand in favour of purchasers. This would be indirect help to buy but it would be more effective.
TAXATION

My Experience

4.1 Following my retirement, we have sold our house in rural Scotland and are moving to the North West of England for family reasons. In view of the recent debate about increasing the Inheritance Tax Threshold, I reflected on our position. My conclusion was that over the years I can only claim to have actually paid about 20% of the sale price of our house. The other 80% was “earned” merely by occupying the houses we have owned over some 35 years.

4.2 The other key advantage of home ownership is that we shall live “rent free” for the rest of our lives. We shall have to meet maintenance costs but there will be no mortgage repayments.

Buying or Renting

4.3 I have constructed an example to compare the situation of those who buy their own home and those who live in rented accommodation. To make a fair comparison, I have assumed a 100% mortgage for the purchaser as a tenant’s rent would be based on the full value of the rented accommodation.

4.4 My calculations use undiscounted cash flows. My assumptions and conclusions are set out in the table below. There are two calculations for the rented house. One assumes that the rent will increase in line with the Retail Price Index and the other with the House Price Index.

<table>
<thead>
<tr>
<th>ASSUMPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>House Value Initially</strong></td>
</tr>
<tr>
<td><strong>Mortgage Interest Rate</strong></td>
</tr>
<tr>
<td><strong>Rent in Relation to Initial Value</strong></td>
</tr>
<tr>
<td><strong>Annual RPI Increase</strong></td>
</tr>
<tr>
<td><strong>Annual House Price Increase</strong></td>
</tr>
<tr>
<td><strong>25 Year Term</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OUTCOME AFTER 25 YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Payments</strong></td>
</tr>
<tr>
<td><strong>Occupier's Equity</strong></td>
</tr>
<tr>
<td>Purchase</td>
</tr>
<tr>
<td>Rent - Scenario 1 Increases with RPI</td>
</tr>
<tr>
<td>Rent - Scenario 2 Increases with House Price</td>
</tr>
</tbody>
</table>
4.5 Over the 25 year term, I would expect the Owner Occupier to have paid less, and possibly substantially less, in mortgage repayments than the Tenant has paid in rent. The Owner Occupier would have incurred maintenance costs. In the case of the Tenant, these would be funded by the Landlord out of the rent. This would reduce the difference in their total payments.

4.6 The Owner Occupier has two advantages over the Tenant after the 25 year term of the mortgage:

4.6.1 Ownership of an asset worth 4 times the original purchase price or over 2 ½ times the aggregate payments made; and

4.6.2 Free occupancy of the property for the future whilst the Tenant must still pay rent. (The Owner Occupier will still incur maintenance costs.)

Inheritance Tax

4.7 The government’s proposals appear to claim that there is a moral imperative to enable people who have “worked hard and saved hard” to pass their assets on to their children without deduction for Inheritance Tax.

4.8 I make no claim to be rewarded by the government for owning my own home. My analysis above persuades me that I acted in my own interest by buying a house and benefitted financially up to the date on which I finally repaid my mortgage. Thereafter I am rewarded by free accommodation for life.

4.9 The distinction between me and those who have rented all their lives is that I was able to save a sufficient deposit to buy my first house, and had sufficient security of employment to obtain a loan.

4.10 Practical Concerns about Inheritance Tax

4.10.1 The changes will affect few properties outside the south-east of England. Why give a tax break to the area where house prices are already highest to enable them to keep rising? Giving heirs more money will enable them to pay more. If this were reduced by Inheritance Tax, they would probably be able to buy the same houses for commensurately lower prices.

4.10.2 The Inheritance Tax changes only apply where the estate includes residential property. If people may lose the higher allowance by moving to a smaller house, cheaper area, retirement home etc, they will continue to occupy large family homes which they no longer need. Is this proposal creating an incentive to remain in over-large properties? This would sit oddly with the Bedroom Tax which seeks to create the opposite incentive for another segment of the population.

Occupancy Taxation

4.11 The Chart on the next page shows the relative amounts of Council Tax payable for houses of different values. I have produced this on the basis of the 1991 valuations as it is difficult to identify how the Valuation Bands relate to current values. Council Tax is related to that payable for a house in the middle of Band D.
4.12 The key feature of Council Tax is that, apart from the discontinuities at Valuation Band boundaries, the tax decreases in relation to house value, the higher the value of the house.

4.13 Because the absolute value of the tax increases from Band A to Band H, the decline of tax relative to value is less steep than with the Poll Tax or Community Charge which it replaced. Why there is no further increase beyond Band H is not clear.

4.14 Looking back to the Domestic Rates, the country had a system in which the ratio of tax levied to house value should, in principle, have been the same for all properties in a given area. It did not achieve this because of the failure to conduct periodic reviews of rateable value.

4.15 Of the three systems, Domestic Rates, operated properly, is the most equitable.

### Council Tax in relation to Market Value

<table>
<thead>
<tr>
<th>Relative Charge</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>120%</th>
<th>140%</th>
<th>160%</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1991 Valuation</td>
<td>0</td>
<td>100,000</td>
<td>200,000</td>
<td>300,000</td>
<td>400,000</td>
<td>500,000</td>
<td>600,000</td>
<td>700,000</td>
<td></td>
</tr>
</tbody>
</table>

4.16 Proposals

4.16.1 If Council Tax is retained, the number of Valuation Bands should be increased. The proposal for a “Mansion Tax” unfortunately sounded like a proposal driven by envy to tax the wealthy. Introducing additional Valuation Bands would be harder to argue against.

4.16.2 Council Tax valuation lacks transparency. An occupier will generally have a reasonably accurate view of a property’s current value but will have rather less idea of what a house built in 2015 would have been worth in 1991 if it had existed then. Domestic Rates had a similar problem with values related to a rental value
at some arbitrary date in the past. Why not adopt a transparent basis for valuation? I suggest Gross Internal Floor Area as a candidate for consideration.
Capital Gains Tax
4.17 Should a main residence be exempt from Capital Gains Tax? I suggest the committee explore the consequences of removing the exemption. I would suggest that owners should be able to apply any unused Capital Gains Tax from each year to offset the amount liable to tax. This would benefit the less well off who make little or no use of their allowance.

4.18 If this suggestion were adopted, consideration should be given to the abolition of stamp duty, or its reduction to a low nominal rate, at the same time.

Stamp Duty
4.19 Is stamp duty a tax on mobility for people of working age?

4.20 The majority of house movers only move a short distance, so it might be argued that they choose to move and accept the transaction costs involved.

4.21 Where a house move is related to employment, an employer may offer relocation expenses to alleviate the mobility tax effect.

4.22 Is Stamp Duty a disincentive to downsizing? National policy should encourage downsizing in appropriate circumstances to achieve a better match of the population to the housing stock.

5 GENERAL PRINCIPLES

5.1 I propose that the following principles should guide national policy on housing:

5.1.1 House prices should rise broadly in line with inflation. If they consistently rise faster than wages and prices, houses become unaffordable for first time buyers. This is an unsustainable position.

5.1.2 House prices should not consistently fall behind wages and prices as buyers need to have confidence in the value of their principal long term investment.

5.1.3 Development land, including redevelopment sites, should be available at reasonable prices. The windfall gains which accrue to landowners are excessive and unjustified.

5.1.4 Regional policy should promote development away from the south-east of England. This would alter the supply and demand balance in different areas. Reduction of regional price differentials would facilitate employee mobility. This must be in the national interest.

17 December 2015
Consultation response

Inquiry into the Economics of the United Kingdom Housing Market
Shelter submission to the Economic Affairs Committee of the House of Lords

December 2015
Shelter helps millions of people every year struggling with bad housing or homelessness. We provide specialist advice and support on the phone, face to face and online, and our legal teams can attend court to defend people at risk of losing their home.

However at Shelter we understand that helping people with their immediate problems is not a long-term solution to the housing crisis. That’s why we campaign to tackle the root causes, so that one day, no one will have to turn to us for help.

We’re here so no one has to fight bad housing or homelessness on their own.
Summary

The cost of worsening affordability
1. The affordability of housing, both to rent and to buy, is in crisis. Over the decades since 1969, house prices for first time buyers have increased by 48 times, far out-pacing incomes which have only grown 29 times\(^{383}\). The failure to build an adequate number of affordable homes has resulted in a doubling over the last decade of young households in the private rental sector, including rapid growth among families with children, for whom this type of tenure is often too unstable to be suitable\(^{384}\).

2. Increased demand for private renting means that rents have soared, making renters increasingly unable to save for a deposit to buy a home\(^{385}\). High rents and welfare cuts have left vulnerable families increasingly unable to keep up with the rent, with devastating consequences; in December this year, 105,000 children were homeless in Great Britain - the equivalent of four in every school\(^{386}\).

3. Given the serious effects of the housing crisis on low-to-middle income families, we welcome the Committee’s focus on affordability and potential policy solutions.

Past solutions have been demand-focused
4. Previous government schemes such as Help to Buy have tended to focus on boosting households’ purchasing power without doing enough to address the supply of housing. This means more competition for stagnant supply, with buyers able to bid up prices in an attempt to outcompete each other. This approach may have helped a lucky few whilst damaging affordability more broadly.

The land market is crucial in delivering supply
5. In addition, the UK has systematic failures in its land market that limit the delivery of housing. The inherent scarcity of land, which is mediated but not created by the planning system, means landowners are able to demand high prices from developers. House building is a risky business, marked by long time lags between expenditure and return, so developers must base investment decisions on expectations of volatile future house prices. Developers have an incentive to build and sell homes at a slow pace in order to keep sale prices up and maintain margins in the face of high land prices. Developers are also incentivised to squeeze on the quality and size of the homes they built - and to reduce contributions to affordable homes and infrastructure.


\(^{385}\) Shelter, ‘A Home of Their Own’. (June, 2013). See england.shelter.org.uk/professional_resources/policy_and_research/policy_library

\(^{386}\) Shelter, ‘The experiences of homeless families in emergency accommodation’. (October, 2015). See england.shelter.org.uk/professional_resources/policy_and_research/policy_library/
6. High and volatile land prices also drive changes in landownership and the development industry. Smaller builders have been increasingly priced out, and recent years have seen an increase in speculative investors that have no intention of developing\(^{387}\). Developers are incentivised to hold land in strategic land banks without planning permission, including sites held under option agreements, which decreases land market transparency and raises significant barriers to entry for new participants. There are no easy remedies to these structural problems that underpin our housing supply problem – but there are policy solutions that could help to correct these failures in the land market. Our recommendations are detailed in our response to question 1. d).

**Those on low incomes need a housing offer not pegged to a volatile market**

7. We welcome the government’s increased investment in housing announced in the recent Spending Review\(^{388}\). We are concerned, however, that details in the OBR’s November forecast point to a move away from capital spend on low-rent housing to investment in home ownership products\(^{389}\). As the price of Starter Homes is pegged directly to the open market value – being offered at 20% below the market price – rapid house price growth means that they are only likely to be affordable to a small and shrinking proportion of the population.

8. Similarly, whilst products such as Shared Ownership can provide a useful stepping stone for those with middling household incomes, this shift risks leaving behind those who cannot access or afford mortgages on even the smallest available shares. This means there is still a need for low-rent homes that are affordable to households on low incomes.

9. Long term public investment into low cost rented housing is also counter-cyclical and helps to insure housing supply against the reduction in private market supply that is seen during inevitable downturns. Historically, both total housing supply and private house building were at their highest when state provision of council housing was also strong.

10. Any sustainable solution to the current affordability crisis must include both demand and supply side interventions to address systematic failures in the housing market, whilst providing decent, affordable options for those who are excluded from the market.

The rest of this response provides answers to the Committee’s specific questions.

**Responses to Committee questions**

1. **Private Ownership:** What measures can be taken to increase the supply of reasonably priced housing in the UK?

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\(^{387}\) GLA, Barriers to Housing Delivery, Molior (December 2012)


\(^{389}\) Table B.4 in Appendix B of the OBR’s November 2015 forecast

a. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

Help to Buy
11. Help to Buy equity and mortgage schemes make it possible for people to take out mortgages that they would not otherwise have been able to, as they reduce the need for prohibitively large deposits. As a result, Shelter analysis suggests that total mortgage lending is currently 8.4% higher since the scheme was introduced in March 2013. Whilst this has helped some first time buyers on to the housing ladder, we estimate the overall effect of this additional purchasing power has been to increase house prices across the UK.

12. Moreover, Help to Buy mortgages have so far made up the largest share of the market in areas that currently have lower price to income ratios, such as the North East and the East Midlands. Rather than helping buyers in regions with the worst affordability, there is some evidence for a correlation between the higher take up of Help to Buy mortgages in cheaper local authority areas and above regional average house price growth in these areas.

Shared Ownership
13. Shelter believes shared ownership schemes have been a useful form of intermediate tenure and we have supported them in the past. We would stress, however, that rapidly rising house prices mean building shared ownership homes at the expense of sub-market rent housing risks leaving a substantial number of households behind. For example, around 50% of current English households wouldn’t be able to afford a 25% share in 2020.

14. As such, the investment in 135,000 new shared ownership homes during 2018-2020 announced in the recent Spending Review is welcome but must not come at the expense of genuinely affordable homes to rent.

b. Taxation: Are there tax measures that would improve housing supply and affordability?

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390 Shelter, ‘How Much Help is Help to Buy?’, (September 2015). See england.shelter.org.uk/professional_resources/policy_and_research/policy_library
15. Shelter believes that the taxation of land and property is crucial as it directly affects both landowner and developer incentives and effective demand for housing. The latter is a fundamental component of housing affordability, particularly in the context of inelastic supply. As highlighted in the Mirlees Review, there are currently large differences between the way owner-occupiers, renters and property investors are treated under the current tax system, which could distort tenure choice and investment decisions.

16. We have also advocated for using tax measures to stimulate housing supply by levying council tax on land with planning permission if it remains undeveloped for a certain amount of time. As an organisation, we are interested in exploring possible ways in which property or land taxes could be made fairer, incentivise greater supply and help to deliver a more stable housing market.

\textit{i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?}

17. The tying of increased inheritance tax thresholds to housing wealth represents a subsidy for housing as an investment good. This creates a perverse incentive for people to both purchase homes and hold on to them in order to realise the maximum amount of capital gains and benefit from the maximum amount of inheritance tax relief. This has the dual impact of boosting effective demand for housing and potentially restricting supply, which is likely to negatively impact affordability.

18. To try and mitigate potential effects on downsizing, the Budget 2015 announcement allows the difference in value between a downsizing individuals’ previous main residence and their new, smaller residence to also be passed on in the form of other assets. Even with this change, however, there is still an incentive to delay downsizing in order to realise capital gains on the initial family home in order to benefit from the full amount of tax relief available.

\textit{ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?}

19. We believe that the reform of the previous ‘slab’ system was sensible given that it caused a bunching of prices beneath each threshold. Any reduction, however, is unlikely to have made homes more affordable for first time buyers as the level of Stamp Duty is

\textsuperscript{393} Chapter 16 in ‘Tax by Design’, Mirlees et al., IFS. (September 2011). http://www.ifs.org.uk/publications/5353


likely to already be reflected in the price of property. A lower level of Stamp Duty would merely mean that buyers can afford to pay more and prices will be bid upwards. Indeed, Shelter analysis drawing on OBR forecasts estimated that affordability would worsen for properties costing less than £925,000 and improve for those costing more\(^\text{396}\). The latter result appears to have been born out in the fall in London prime property prices\(^\text{397}\).

**b. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?**

20. More highly leveraged households are more vulnerable to shocks to income or interest rate rises. Through our advice work, Shelter knows that mortgage defaults can cause serious hardship for over extended households. In addition, loose lending standards can contribute to market volatility, including sharp house price corrections that can bring the market to a standstill. For this reason, we welcome the Mortgage Market Review and its role in protecting families from irresponsible lending. We have some concerns, however, that some of the terms of the rules may make it easier for lending standards to slip or may make it harder for borrowers to shop around. For details, see our previous response to the then FSA’s proposals\(^\text{398}\).

21. We would also echo the FPC’s concerns around the potential risks arising from Buy to Let investment and evidence from the previous crisis that suggests that it can exaggerate house price cycles\(^\text{399}\). Given the risks of an over-extension of credit to this sector and its growing importance, improved underwriting standards for Buy to Let lending would not only improve housing market and financial stability, but would also help to put first time buyers and landlords on a more equal footing when competing for properties in the market. We believe the government should rethink its decision not to implement conduct standards on Buy to Let lenders and to restrict FCA supervision to ‘Commercial Buy to Let’, which only affects 11% of the Buy to Let market\(^\text{400}\).


22. It is unlikely that sweeping planning deregulation will resolve fundamental issues with the land market. In fact, it could lead to more uncertainty and less development. Instead, Shelter believes there is a need for stronger planning, to intervene to correct land market failures and deliver cheaper land to those who will build.

23. Amongst our recommendations are granting planning authorities the ability to designate New Home Zones, backed up by clearer CPO legislation. We also advocate for greater public release of land ownership and transactions data, as better land market transparency would improve small builders’ and new entrants’ ability to compete in the market. Greater transparency and data release would also enhance local planners’ ability to identify developers that hold strategically important land in order to expedite plan-making and effective planning negotiations.

24. In this respect, the Cities and Local Government Devolution Bill offers an opportunity to make substantial progress. The creation of statutory spatial frameworks, as agreed in City Deals with some combined authorities, will allow strategic overview and management of planning across some housing market areas. Many of the measures in City Deals proposed thus far are consistent with recommendations made by Shelter in our 2014 report with KPMG, ‘Building the homes we need’ and our 2015 ‘Growing Cities’ report. Equally, the wording of the Bill is deliberately flexible – so there is room still for other planning powers to be devolved in order to boost the delivery of housing on key sites.

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

25. The main drivers of high and unaffordable rents in some parts of the country in recent years have not been high mortgage costs for landlords, which have been historically low. Rather, they have been driven by the prohibitively high cost of home ownership and lack of genuinely affordable housing, which has forced more households to compete for private lets. Polling for Shelter supports this, indicating that only a

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minority of landlords increase their rent because their costs increase, and that almost half of all landlords do not have any mortgages on any of their properties.

26. We therefore do not anticipate that the reduction of tax relief will contribute to increased rents. We support the change of policy because we believe it will help to level the playing field between landlords and first time buyers, reduce risky lending and because we believe that there are higher priorities for government spending than subsidising landlords’ profit margins.

b. **Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?**

27. We anticipate that the number of people who live in the private rented sector will continue to increase as the high cost of home ownership and shortage of affordable homes continues. Several government policies may increase the number of homes in private ownership, but these will principally be at the expense of existing social rented homes, not private rented housing. These include the extension of the Right to Buy to housing associations and the forced sale of high value council homes, which will directly convert social rented homes to private homes. The Housing and Planning Bill will also mean that Starter Homes will take the place of genuinely affordable housing in planning obligations.

28. Shelter has for a long time advocated a change in the tenancies offered to make renters more secure and renting more stable. We think that this should include increasing the minimum period of protection that tenants have from a ‘no fault’ eviction from six months to five years and limiting rent increases in that time to inflation. While there are opportunities to increase the use of such contractual terms without regulatory change and some good examples of institutional landlords doing this, we do not think that the opportunity of a stable home is something that should be left to chance. This is particularly important given the increase in the number of families with children that rent. One in four families with children now rent, up from one in ten a decade ago.

c. **What are the advantages and disadvantages of restricting rent increases in the private sector?**

29. Putting a limit on rent increases for a period has two main advantage for tenants. It has financial benefits by giving them certainty about their future rents, helping them budget and guaranteeing that their rent will not increase any faster than any housing benefit that they might receive. When combined with an increase in their legal security
of tenure, it can also increase the stability of their housing by ensuring that they will not be subject to informal eviction through a punitive rent increase.

30. Research for Shelter by the University of Cambridge’s Centre for Housing and Planning Research suggests that rent regulation of this kind could be introduced without the risk of serious unintended consequences. However, it also suggested that harder rent control that sought to forcibly reduce rents quickly could lead to a relatively fast contraction in private rented supply, which would increase the risk of homelessness.

3. Social housing: Are any measures needed to increase the supply of social housing?

a. What will be the impact of the Right to Buy for housing association tenants?

31. Extending the Right to Buy will mean that some housing association tenants will move in to home ownership. Whilst Shelter recognises that this will benefit a lucky few, we are very concerned that this will mean a net reduction in affordable, low-rent housing for those that need it most. Despite a public guarantee from the Coalition government – and repeated by the current Minister - that local authority properties sold through the newly reinvigorated Right to Buy would be replaced on a one-to-one basis, only one property has been built for every nine sold since then.

32. Particularly troubling is the government’s intention to fund the compensation of housing associations for Right to Buy discounts using receipts from the forced sale of low-rent council properties in high value areas. Shelter estimates that this will result in the loss of almost 113,000 council homes, many in areas where housing is least affordable; between the 20 councils likely to be hardest hit, 159,014 people are on council housing waiting lists and 22,371 children are living in temporary accommodation due to the shortage of affordable homes. This policy will also adversely impact on local authorities’ ability to deliver new and existing development of affordable homes, as it will increase uncertainty around their future income streams and make it harder for them to borrow to build.

33. Both the Right to Buy extension to housing associations and the force sale of council homes will reduce the amount of much needed affordable housing. The government has refused to commit to like-for-like replacement of these homes – raising the very


real prospect that larger, social rented homes in high pressure areas may be replaced by smaller homes, in less affordable tenures, in place with less need for them, many years later.

34. In addition, despite the potentially large disposal of high value council assets, receipts from sales will still not be enough to pay for the anticipated level of demand for extended Right to Buy. We estimate that the Treasury will find itself with a £2.45 billion deficit for the scheme.

b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

35. The main motivation of the 2015 Budget announcement is to reduce the housing benefit bill. Although a four year 1% cut in social rents will be a welcome boost to affordability for existing social tenants, the IFS calculates that £1.7 billion of the £2.3 billion reduction in rents are to be transferred from social landlords to the treasury in the form of housing benefit savings.

36. Lower social rents are to be welcomed in principle, but the introduction of the policy has been unexpected and abrupt. The commitment to increase social rents by CPI plus 1% for ten years – made only two years ago - was designed to give housing associations, and their creditors, certainty over income streams in order to support their building plans. The Budget 2015 announcement removed this certainty, with Moody’s describing the change as ‘credit negative’ due to ‘less predictability in social housing policy’. The reduction in rental income and more difficult credit conditions means that the OBR forecast the effect of the July announcement alone to be a reduction in the number of Housing Association new builds of 80,000 homes.

37. As well as being inconsistent, recent policy decisions have created wide discrepancies between different groups of tenants. Recent tenants are subject to ‘Affordable Rent’, which at 80% of market rent can be substantially higher than ‘target rent’ for social tenancies starting before 2012. Hence with the Budget 2015 announcement, existing tenants face a rent reduction, whilst new tenants may face a substantial increase compared to previous social rents.

38. Ultimately, there needs to be a commitment to long term investment in housing at rents that are not pegged to market prices, which can be highly volatile and vary substantially across geographies. Secure, low rent homes provide accommodation for those on low and volatile incomes, as well as reducing welfare dependency and

406 Ibid, pg 5.
improving work incentives\textsuperscript{410}. Of course, the cost of housing benefit to the state is also reduced and housing subsidy does not simply accrue to private landlords.

39. The question of what level social rents should be set at and how to deliver low-rent homes is the subject of some interesting initial research from the Joseph Rowntree Foundations and Savills\textsuperscript{411}.

1 December 2015

\textsuperscript{410} IFS, ‘Social rents policy: choices and tradeoffs’. (November, 2015). \url{http://www.ifs.org.uk/publications/8036}

Submission to be found under Generation Rent; Shelter; Priced Out (QQ 17-29) – Oral evidence (EHMOE0002).
Submission to
House of Lords
Economic Affairs Committee

Economics of the UK Housing Market

9 December 2015
**Economics of the UK Housing Market**

**Summary**

This submission draws on independent research by international economics consultancy Capital Economics, commissioned by the National Federation of ALMOs and SHOUT, published in June 2015.\(^{412}\)

The supply and affordability of housing is a central issue for the economy, both because persistent low levels of housing development have adverse macro- and micro-economic consequences, and because of the cost to the welfare system of supporting low income households in private rented housing.

Recent decades have seen a shift in the tenure mix, with growth in private renting (and recently renting at Affordable Rents) substituting for renting at traditional social levels. Along with barriers to home ownership increasing because of rising prices and more cautious lending criteria, this has led to a rapid increase in the proportion of under 35s renting, of the numbers of households spending more than 35 per cent of their income on rent, and higher expenditure on private sector housing benefit paid to working households. Working household HB claims have doubled over the last six years, through a phase of static or increasing employment.

Capital’s research projects that, unless policy changes to prevent it, the cost to the welfare system of high housing costs in the private sector will more than quadruple in real terms over the OBR’s long term forecast period.

We argue that large scale public intervention in financing new supply (we suggest building up steadily from current levels to 100,000 by 2020-21) must be part of the policy mix if home building is to reach the levels widely agreed to be needed to keep pace with household growth (up to 300,000 new units a year according to Dame Kate Barker in her recent evidence to the Committee\(^{413}\)). New homes at genuinely affordable rents would lower the cost to the welfare system of supporting households who, for the time being at least, are not in a position to buy. They would also, however, help to increase owner-occupation by enabling renting households to save, and through Right to Buy or formal rent-to-buy schemes. Such a policy would produce significant benefits to PSBR (over 5 per cent of GDP by 2065-66) and PSND over the coming decades, as well as wider economic and social benefits. Capital’s view is that meeting the initial cost through public investment would be viewed favourably by the markets. However, there are ways it could be financed without adding to public spending. In keeping with the Government’s ambitions for devolution, the leadership and implementation of such a programme could be devolved to city regions and other combined authority areas. That would be a good way of ensuring

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\(^{412}\) Building New Social Rent Homes: an Economic Appraisal, Capital Economics for NFA and SHOUT, June 2015
[http://d3n8a8pro7vhmx.cloudfront.net/themes/5417d73201925b2f58000001/attachments/original/1434463838/Building_New_Social_Rent_Homes.pdf?1434463838](http://d3n8a8pro7vhmx.cloudfront.net/themes/5417d73201925b2f58000001/attachments/original/1434463838/Building_New_Social_Rent_Homes.pdf?1434463838)

\(^{413}\) Dame Kate Barker in evidence to the Committee on 1 December 2015, reported in The Guardian, “George Osborne’s property-owning drive criticised by housing expert” [http://www.theguardian.com/society/2015/dec/01/osbornes-property-owning-criticised-housing-expert-kate-barker](http://www.theguardian.com/society/2015/dec/01/osbornes-property-owning-criticised-housing-expert-kate-barker)
that the necessary mix of interventions are put in place by landlords, councils and others to ensure low income and vulnerable households are supported to improve their opportunities and quality of life.

1. Introduction

SHOUT (www.4socialhousing.co.uk) is a volunteer-run campaign making the case for investment in genuinely affordable homes and demonstrating the positive effects that such housing has on people and communities.

The submission draws significantly on an independent analysis commissioned by SHOUT and the National Federation of ALMOs, Building New Social Rent Homes: an Economic Appraisal by the leading economic research company Capital Economics, published in June 2015.\textsuperscript{414} Reflecting our campaign’s mission, it focuses on the part of the Committee’s call for evidence dealing with social housing.

We hope that our evidence will be of interest to the Committee. We would be happy to provide any further information. Please contact Martin Wheatley, SHOUT, martinwheatley10@virginmedia.com, 07722 997246) to arrange this.

2. The case for increasing the supply of social housing

Our answer to the question in the call for evidence “Are any measures needed to increase the supply of social housing?” is an emphatic “yes”, for two reasons:

- the private sector alone cannot deliver the increase in housing supply which the economy requires. As the Government has said: “The UK has been incapable of building enough homes to keep up with growing demand. This harms productivity and restricts labour market flexibility, and it frustrates the ambitions of thousands of people who would like to own their own home.”\textsuperscript{415}

- millions of households cannot afford to buy on the open market, nor can they afford market rents. The cost of homes for purchase and market rent has risen faster than earnings for at least the last 30 years, because consistently not enough homes have been delivered in total, and the number of council and housing association properties available at genuinely affordable rents has declined. A significant element of the new supply must therefore consist of homes for genuinely affordable rent, and there is an extremely strong case for public investment for that purpose.

Our core proposition, a commitment to a long term government-sponsored programme of developing 100,000 new units a year of housing at genuinely affordable rents, alongside other tenures, would:

\textsuperscript{414} Building New Social Rent Homes: an Economic Appraisal, Capital Economics for NFA and SHOUT, June 2015 http://d3n8a8pro7vhmx.cloudfront.net/themes/5417d73201925b2f58000001/attachments/original/1434463838/Building_New_Social_Rent_Homes.pdf?1434463838

\textsuperscript{415} Fixing the foundations: Creating a more prosperous nation, HM Treasury, July 2015, p11
• address the under-supply of housing which has been so resistant to other policy approaches;
• bring down the cost to government of supporting low-income households;
• via Right to Buy or formal rent to buy schemes, offer a much more cost-effective pathway towards home ownership than the schemes currently in place;
• help address pressures on public services, notably health and social care.

3. Growth and productivity: housing supply is a key economic weakness

Housing development and the economy

There is a very widespread consensus that the persistent failure of new housing development in the UK to match the increasing number of households is a very significant economic weakness, and risk to economic stability. Figure 1 shows that, since 1945, there have been two main phases: from the late 1940s to the late 1970s, when typically 2-300,000 new homes were built a year, with very high levels of both private and social development; and the period since. In the last 30 years, new housing development has averaged less than 150,000 a year, less than 60% of the 1948-1978 average. In the last 15 years, it has been lower still, around 136,000 a year. There is a very strong consensus that the level needed to match the increase in the number of households is between over 200,000 a year, and may be as high as 300,000 a year.\footnote{Footnote 2 above} The difference between the two phases is principally caused by the fall in new social housing building from 140,000 units in 1977 to levels which have ranged between 13,000 and 32,000 since 1985.\footnote{Footnote 17}

Figure 1 also shows house price increases over the same period. Price increases have accelerated as the trend in completions has fallen. There is no sign of the market responding effectively in line with normal expectations of the impact of a price increase on supply. Indeed, if anything, private sector completions have slowed down at the same time as the trend rate of price increases has accelerated. Average completions in the 15 years 2000-14 were 115,000 a year, 15 per cent below the average for 1985-1999.

\footnote{Footnote 2 above}
\footnote{Figures in this section are England-only}
The consequences of these trends for the economy and society are very extensive and significant, in addition to the higher levels of private renting and pressure on welfare spending described in section 3 below:

- affordability of homes for purchase has worsened, particularly so in the last 15 years. Figure 2 shows that, subject to short term cyclical fluctuations, the ratio of prices to average earnings is over 50% higher than in the previous peak of the late 1980s;
- personal debt is increasing: national total personal debt levels now stand at £1.4 trillion or £53,000 per household, almost double the levels of a decade earlier and well above total government debt;\(^\text{418}\)
- buying a home increasingly relies on the ‘Bank of Mum and Dad’, with nearly two thirds of first time buyers in 2011 depending on such assistance, compared with a third in 2005.\(^\text{419}\) Affordability increasingly depending on the chance of access to family wealth undermines social mobility and decouples access to home ownership from hard work and success;
- home ownership rates among younger people are declining steeply, with home ownership among 25 to 34 year olds declining from over 70 per cent to around 40 per cent in the 20 years to 2012;\(^\text{420}\)
- pension saving is likely to fall with consequences for future pensioner poverty and dependency on benefits, since private renting is strongly correlated with not making provision for a pension.\(^\text{421}\)

\(^{418}\) Building the homes we need: A programme for the 2015 government, KPMG, in partnership with Shelter, 2014, p24
\(^{419}\) ibid, p24
\(^{420}\) ibid, p25
\(^{421}\) ibid, p30
Most seriously of all, the increasing volatility associated with the increase in trend house price growth is a clear risk to macro-economic stability and, alongside the growth in lending to households for house purchase, to the stability of UK financial institutions also.

Looking ahead, there are downside risks to the volume of housing development, especially a further decline in social landlords’ building: OBR suggest that the combined effect of the Budget and Autumn Statement will be to reduce social landlords’ output by 34,000 units.\(^{422}\) Although it is the intention that the extension of Right to Buy to housing association properties and the sale of higher value council properties should increase supply through the replacement of units sold, experience since 2012 suggests that one for one replacement is extremely difficult to achieve in practice.

**Policy response**

Over the last 15 years, governments have tried to intervene via: changes to the planning system, to make it speedier and more effective, and reduce the impact of regulation and planning contributions on developers: through attempting to secure the release of more public land, by promoting larger and smaller areas for housing growth, and by supporting both developers and buyers in the private market. So far at least, these interventions have not succeeded in shifting the trajectory of development significantly towards the 200,000 or more new units required a year in England. All are subject to risks and countervailing pressures:

- proposals to liberalise planning, and specifically to ensure that local plans make greater provision for housing, and schemes make it through the planning process more speedily, are in tension with other policy aspirations to increase the autonomy of local councils and communities, and have repeatedly run into well-orchestrated

\(^{422}\) *Economic and Fiscal Outlook, November 2015,* Office for Budget Responsibility, p232 paragraph B.47
opposition from opponents of development outside existing urban areas. Planning permission is also a necessary, but not sufficient, condition for development. A 2013 Local Government Association analysis found that 400,000 permissions had not been implemented;

- so far, and despite repeated attempts, no government has found a fully effective way to put into practice the apparently common sense proposition that more public sector land should be made available for housing, and that public bodies should cooperate better over the management and disposal of their land;
- subsidies for buyers, especially when the supply side remains very weak, risk helping to drive up prices, rather than stimulate new supply.

Against this background, and in the light of the way policy in earlier decades brought about sustained very high levels of development across all tenures, it is surely time to consider whether a resumption of direct government intervention, through funding or guaranteeing the construction of new housing, is an essential element of an effective policy response to the risks created by low levels of housing development.

4. **Current policy of increasing reliance on private rented sector and Affordable Rent social housing is not “fiscally sustainable and economically efficient”**

*Tenure mix: home ownership and renting*

We support the Government’s desire to ensure that as many households as possible can access home ownership. In section 5 below, we suggest some ways that increasing the stock of genuinely affordable rental housing could play a part in that. However, the analysis of spending options also needs to recognise that, for the foreseeable future at least, for many households, those in work as well as those who are not working, incomes are not high enough either to buy, or to rent privately without support through the welfare system. In some cases, this is permanent: notably low-income retired people and sick and disabled people whose conditions restrict their earnings, or prevent them from working at all. In other cases, particularly working age households, there may be a reasonable expectation that incomes could improve at some point in the future, but they are indisputably not in a position to enter owner-occupation in the short term.

*Costs to welfare of private, social and Affordable rents*

Such households currently live both in housing owned by social landlords, normally at significantly sub-market rents, and in the private rented sector, in most parts of the country at significantly higher rents. Despite Local Housing Allowance rates constraining the levels of private rent which can be supported through housing benefit, the cost to the welfare system of supporting a household renting privately is almost always greater than supporting a similar household in sub-market social landlord accommodation. Annex A, based on analysis in *Building New Social Rent Homes*, compares the costs to the welfare system of supporting a number of different household types in different locations in private sector

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423 An analysis of unimplemented planning permissions for residential dwellings 2013, LGA, 2013
housing and social rented housing. In 31 of the 36 cases, benefit spending is higher in the private rented sector than in social rented housing, in 14 cases by more than 20 per cent, and in four cases by more than 50%.

Under the 2011-2015 Affordable Homes Programme, most new social landlord homes are being provided at Affordable Rents, up to 80% of local market rates. Existing social rent properties which become void are also, in some cases, being converted to Affordable Rent. Analysis in Building New Social Rent Homes shows that, in 21 out of 36 cases, the cost to the welfare system of Affordable Rent is higher than social rent, by up to 80 per cent.\footnote{Building New Social Rent Homes: an Economic Appraisal, Capital Economics, June 2015, p48-52}

The changing tenure mix

As Figure 3 shows, the stock of social rented homes has been declining for over 30 years, the stock in 2014 being 20% lower than that in 1985. While the number of homes rented from social landlords has stabilised since 2008, an increasing proportion of those will be at Affordable, rather than traditional social, rents. Owner-occupation has also been declining since 2007. Ever greater numbers of the increasing total number of households have therefore been living in private rented housing, with 4.6 million households renting privately in 2014, an increase of 170% from the 1.7 million renting privately in 1985.

As Figure 4 shows, while the proportion of homes which are owner-occupied is roughly the same as 30 years ago, private renting has substituted for the declining number of social rented properties. In 1985, a quarter of renting households were in the private sector, in 2014, 53 per cent.
The consequences for middle to low income households of this significant and rapid tenure shift is explored in analysis by the Resolution Foundation, which concludes, that 1.3 million low/middle income households face housing costs more than 35 per cent of household income – nearly all of them private renters or owner-occupiers. Over the last 10 years, the proportion of people under 35 renting privately has increased from under 30 per cent to over 50 per cent, while the proportion in social rented housing has declined slightly. In half of local authorities, a couple with one child, earning £19,000 a year, and living in a two bed home would face housing costs more than 35 per cent of household income. In a third of local authorities, a couple earning £22,000 a year would face similar excess housing costs. In 16 per cent of local authorities, even a couple earning £28,000 a year would face similar excess housing costs. (This analysis was carried out on 2011 data, and the subsequent stagnation in earnings relative to rents is likely to have worsened the position.)

Over the last five years, the number of households accepted as homeless because of the breakdown of a private sector tenancy has more than tripled, accounting for two third of the rise in homelessness over that period.

Consequences for welfare spending

So it is no surprise that there has been a significant increase in housing benefit caseload and spending. Figure 5 shows that housing benefit paid in private sector housing has nearly doubled in real terms in the last 10 years, and now accounts for over 37 per cent of housing benefit spend.

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425 Home Truths: How affordable is housing for Britain’s ordinary working families? Resolution Foundation, July 2013
426 CLG Homelessness Statistics
The increase in private sector HB is not the consequence of higher unemployment. As Figure 6 shows, the number of working households claiming HB in the private sector has risen over the last 6 years, at the same time as unemployment has changed little (to 2013) and then started to decline steeply (as have non-working household private sector HB claims). The number of such households has well over doubled in just 6 years, from 217,000 to 511,000, an annual average rate of over 15%. This is despite restrictions in entitlement, notably the reduction in Local Housing Allowance rates from the median rent in the locality to the 30th percentile in 2011. It is therefore clear that the increase in private sector HB caseload is driven by larger numbers of low-income households, most of them working, living in more expensive private rented sector housing.
The increase in private sector housing benefit among working households has adverse social and economic consequences beyond the impact on welfare spending. Households in receipt of income-related benefits normally face very high marginal deduction rates. These can currently be up to 100 per cent in extreme cases. Under Universal Credit, the very highest such rates will be eliminated, but most claiming households will still be subject to deduction rates of over 70 per cent.427 This has an adverse impact on work incentives, and is inconsistent with the Government’s correct ambition that aspiration and working harder should be rewarded.

**Future trends**

Without policy interventions to alter recent trends significantly, it seems likely that:

- the mix in rental tenures will continue to shift away from social landlords (especially stock let at social rent) and towards private landlords;
- as a result, the number of private renting households claiming benefit will continue to increase in absolute terms, and will account for a higher proportion of housing benefit caseload. On the trend of recent years, even further employment growth will not lead to a reduction in caseloads and spending;
- the change in the tenure mix of the caseload will continue to lead to large real terms increases in expenditure on housing benefit.

Some components of the current policy mix risk accelerating these trends. Even if timely one for one replacement of housing association properties newly subject to Right to Buy, and of the higher value council homes sold to fund that, is actually achieved, the tenure mix will change in a way which adds to welfare costs because the Government proposes the replacement units will be at Affordable Rent. If one for one replacement is not, in practice,

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achieved, the outcome for welfare spending will be even worse, as the number of social rent units, and rented sector units of all tenures (depending on the extent to which Right to Buy properties cycle back into renting) will decline further.

Capital Economics’ analysis for Building New Social Rent Homes includes illustrative projections of the impact on housing benefit spending of a continuation in recent trends, assuming there are no policy changes to alter them. As Figure 7 shows, spending on housing benefit is set to increase steadily and significantly, to nearly £62bn a year at today’s prices by the end of the OBR’s long term review period in 2065-66. The private sector component is the driver of this growth, more than quadrupling to £38bn at today’s prices. Even during the lifetime of the current Parliament, expenditure on private sector HB is set to rise by over £2.8bn in cash terms. Capital describe this as “fiscal myopia.”

*GDP deflator assumption 2.3% (as OBR Fiscal Sustainability Report 2015)

Policy options

Help to Buy, Starter Homes, and other policies which are being implemented to improve the affordability of owner-occupation, will assist some households currently renting into owner-occupation. However, the numbers they will help under current plans (200,000 for starter homes) are modest compared with the number of private renting households (4.7 million and rising). However, even if such programmes were to be extended programmes offer, housing affordability has worsened so far that owner-occupation is not affordable at the lower end of the income distribution. In just 18 out of England’s 326 districts is a lower quartile home affordable to a household with one person on lower quartile earnings. While many households’ earnings are dynamic, and may increase over the course of a few

428 Building New Social Rent Homes: an Economic Appraisal, Capital Economics, June 2015, p5
429 Live Tables on housing market and house prices, CLG, Table 576; affordability defined by methodology in How much of the housing market is affordable? Analysis of homes for sale, Shelter, June 2014
years to the point where owner-occupation is affordable, there are significant numbers of working age households for which that will not happen, including disabled people and those with caring responsibilities who cannot work more than part time, and even full time workers who do not find opportunities to increase their earnings.

Accepting that renting is the only accessible option for a substantial proportion of households in the short to medium term, there are a number of possible ways of reducing the expenditure implications of these trends:

- **reducing welfare entitlement.** In addition to the reduction in local housing allowance rates and other changes made during the 2010-15 Government, the July 2015 Budget includes further restrictions, notably a freeze in LHA rates, a reduction in the benefit cap and removing young people’s entitlements completely. However, the rise in spending over the last five years shows that even significant changes in entitlement are more than outweighed by the consequences of the changing tenure shift and rising rents. We estimate that the Budget 2015 reductions in entitlement will, roughly, save only the amount by which underlying expenditure on private sector housing benefit will rise. Further restrictions in entitlement may prove extremely difficult to achieve without unacceptable impacts on social justice, rising homelessness and increasing numbers of households living in unacceptable conditions, and perverse upward pressures on public services, notably on councils’ homelessness functions;

- **curtailing private sector rents through direct regulation.** The current Government has, however, made clear that it does not consider this to be a workable approach;

- **enabling private sector development,** especially of units for rent, at a scale which makes a real impact on supply, and hence rents. As we explore further in section 5 below, however, policy experience of recent decades suggests it would be extremely challenging to design and implement a set of policies to achieve this.

At best, these options appear only to offer a partial answer to the fiscal and economic risks associated with the current policy mix. We argue, therefore, that a programme of investment in housing at genuinely affordable rents would offer “a solution that is fiscally sustainable and economically efficient.”

Section 5 explores the spending implications of such a programme further.

5. **Building new genuinely affordable housing: benefits and costs**

*The proposal and assumptions*

*Building New Social Rent Homes* models and costs a programme of new development building up from current levels to 100,000 from 2020-21. On this basis, it would deliver approximately 270,000 new homes in the five years to 2019-20

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Modelled policy: key assumptions

Of 100,000 new units:

- 3,000 delivered via planning obligations
- 12,000 self-financed by councils and ALMOs
- 12,500 delivered by councils and ALMOs with central government grant
- 72,500 delivered by housing associations with central government grant
- 80% of new properties occupied by households who would otherwise be claiming HB in private sector
- rents set according to rent formula in force in March 2015
- new homes allocated geographically according to current relative demand for housing benefit
- underlying economic assumptions (short term) OBR March 2015 and (long term) OBR July 2014

Capital Economics judge that a steady build-up to this level would be reasonable, bearing in mind the lead times for development and for the necessary expansion of supply chains and labour supply. We would add that any policy commitment of this kind would need to be supported by:

- a robust delivery plan, including such issues as maintaining land supply, and ensuring sufficient vocational training for the construction sector;
- ensuring that responsibility for delivery is clear, and those responsible have the powers and capability to make it happen. A strong option, in areas where devolution to combined authorities takes place, would be to make delivery part of the role of the combined authority, building on the model of the devolved arrangements already in place in London, and agreed for Greater Manchester.

Capital’s analysis is also based on extremely cautious assumptions. It would have been possible, for example, to make higher assumptions about delivery via developer contributions, or the provision of land at less than full market cost.

Direct benefits and costs

The weighted average scheme viability is shown in Figure 8 below. The NPV per new social rent unit is £68,000 (if housing a household otherwise in the private rented sector) and £55,000 (if housing a household otherwise paying Affordable Rent). Even disregarding the market value of the property at year 25, there is a small positive NPV for units housing a household otherwise in the private rented sector.

Figure 8: National weighted average of scheme viability by estimated distribution of current housing benefit claimants’ bedroom requirement and location

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431 Building New Social Rent Homes, p32-34
432 Ibid, p33
433 Ibid, p34
The PSBR benefit or detriment of the policy is calculated as:

Savings in welfare expenditure + higher tax revenues from construction activity – grant aid and additional borrowing by councils

The analysis also takes account of the interest savings or costs of lower or higher government borrowing resulting from the policy.

On that basis, Figure 9 shows the impact of the proposal on the public finances. In the policy’s earliest years, the additional cost of financing new units will exceed the policy’s benefits, peaking at a net addition to PSBR of £2.9bn (0.13 per cent of GDP). Break-even is estimated to be reached in 2034-35. Thereafter the net benefits increase, to reach more than 0.6% of GDP by 2065-66.

Figure 9: Impact on annual public sector net borrowing as a percentage of nominal gross domestic product
Figure 10 shows the benefits to public sector net debt. The impacts are negligible in the early years of the policy. At peak, in 2030-31, net debt would be just 0.5 per cent of GDP higher; by 2065-66, it would be 5.2 per cent lower.

**Figure 10: Public sector net debt as a percentage of nominal gross domestic product**

While there is, of course, a strong focus in the Spending Review on the next five years, it is also important for decisions to have an eye to the longer term. OBR’s *Fiscal Sustainability Report* shows very clearly that the public finances face very significant risks over the next quarter century, arising from the ageing population and declining North Sea Revenues. A policy approach which has such a positive net present value over the same timescale should therefore be given very serious consideration, even at a modest short term net cost.

In addition to the public sector benefits, there would be benefits to households. Capital estimate the average benefit to households at £942 a year.

**Wider benefits**

In our view, the case for a programme of the kind we propose rests principally on the direct positive impact it would have on the public finances, and on the under-supply of housing in the economy. However, there are other significant potential benefits, for health, educational attainment, and to reduce demands on social care and health through well-designed, well-located new homes for older and working age disabled people.

**Risks and objections**

We recognise there are a number of likely concerns about pursuing such a policy.

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434 *Fiscal Sustainability Report*, Office for Budget Responsibility, June 2015, p8-9
435 *Building New Social Rent Homes* p37-38, including benefits in different sizes of property and location.
436 ibid, p46; *Are housing associations ready for an ageing population?*, Martin Wheatley, Smith Institute, 2015
First, it requires additional spending over the short term. (Though, as we show above, the policy has very significant benefits over the next 30-50 years (and a continuation of current policy generates extremely serious costs.) We recognise this is a concern for the Treasury. Our response is as follows:

- **the impact is very modest and would be viewed by the markets much more positively than incurring a similar impact for other purpose.** The PSBR impact peaks at the end of the Spending Review period at 0.13%. While the term ‘investment’ is often misused in relation to the public finances, investing in new housing is among the most genuine and sustainable investments the public sector can make. Unlike other kinds of public infrastructure, homes are a tradeable asset, with an easily realisable market value. Once built, the management, maintenance and debt service associated with social homes are met via the rent which tenants pay. Capital’s advice, based on their experience of the bond markets, is that additional borrowing for this purpose would be positively viewed in the City, both because of its clear benefits in terms of medium term fiscal sustainability, and because the under-supply of housing is recognised as a key economic risk;437

- **there are ways the policy could be implemented without any short term upward pressure on the PSBR.** There is a strong case, based on international practice, for excluding public corporations’ borrowing from the target definition of PSBR. The policy case for this is the very different character of borrowing to invest in an income-generating asset with a realisable market value, as opposed to borrowing for welfare or public sector pay, or even spending on less marketable forms of infrastructure.438 Such a reclassification would unlock the very considerable investment capacity in the balance sheets of council and ALMO landlords, enabling, on very cautious assumptions the delivery of 60,000 new homes over 5 years without central government grant or any impact on target PSBR. Using the full potential balance sheet capacity could enable the delivery of up to 230,000 new homes.439 Finance for additional council or ALMO homes, and for housing association homes, could be provided through a housing investment bank partially backed by the Treasury (see Figure 11). Finance provided through such a mechanism would not impact on the PSBR.440

**Figure 11: Funding platform to mitigate the impact of additional borrowing on public sector net debt**

437 *Building New Social Rent Homes*, p41
438 ibid, p41 and *Let’s Get Building*, John Perry, National Federation of ALMOs, 2012
439 *Let’s Get Building*, p19-20
440 *Building New Social Rent Homes*, p42 and *Increasing Investment in Affordable Housing*, Capital Economics, 2014
Second, it may be that current national social rent policy needs updating, for example to ensure that there is a more consistent relationship between the widely varying distribution of earnings in localities, and the rent charged for different types of social property. The modelling for Building New Social Rent Homes is based on the current formula. We are clear in our view that social homes should be genuinely affordable to people earning towards the lower end of the local range. However, we see considerable merits in the ‘Living Rents’ proposals recently proposed by Savills, in association with the Joseph Rowntree Foundation and National Housing Federation.

Third, some see the lifetime tenancies (with succession in some cases) which have been standard in social housing as resulting in a sub-optimal match between properties and those most in need. While we see the force of this argument, there are clearly many households in social housing (including lower-income older people, and people who are long-term disabled) for whom a lifetime tenancy is appropriate. However, like rent policy, there is room for debate about the extent to which lifetime tenancies are the most appropriate offer for other types of household.

Fourth, focusing investment on low-rent housing may seem counter to the high priority Government attaches to increasing owner-occupation. We explain earlier in this submission why, in our view, a strong set of policies addressing the high cost of rental housing is also vital (and should be put in place alongside policies supporting owner-occupation). In addition, investment in rental housing can support owner-occupation in two ways:

- rents below current, oftencrippingly high, market rents, should enable more households to save so they are in a position to fund a deposit on house purchase;
- via Right to Buy, households can start out renting and then progress into owner-occupation;
- it would be possible for a proportion of the investment we propose to be channeled into formal rent to buy schemes along the lines of Gentoo’s Genie scheme, provided that they are structured in a way which enables the developer to replace sold properties.

Moreover, there is no reason why the economy and policy cannot support high levels of development across all tenures. As section 2 of this submission demonstrates, the high

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441 Living Rents – a new development framework for Affordable Housing, Mark Lupton and Helen Collins, Savills, June 2015
442 http://www.ownageniehome.co.uk/what_is_genie
levels of government-supported investment in housing between the 1940s and 1970s were delivered alongside much higher levels of private building than currently. Housing associations and councils have a track record of delivering a mix of tenures, through mixed-tenure developments and joint ventures. It is likely that a viable approach to delivery would involve similar mixed tenure development, which we would support, because it leads to balanced, sustainable, communities. Much higher levels of housing development across tenures should trigger improvements in productivity across the whole construction industry, by offering greater scale for new technologies to be used, training and apprenticeships to be properly supported and financed, and new ideas to be tested.

Fifth, there is a concern about the association between social housing tenure and a range of poor outcomes for households. It is very difficult to disentangle cause and effect, the scarcity of social housing in recent decades having resulted in allocation decisions which mean a very high proportion of new lets are to vulnerable households. The Government’s intention for significant devolution to some local areas at least would provide a good context for the development of effective local strategies and service provision for overcoming entrenched vulnerability and lack of opportunity. A stable (if not permanent) tenancy with a reliable professional landlord, at a genuinely affordable rent, means vulnerable people can focus on improving their lives without the distraction of facing frequent moves, living in poorly maintained properties, or seeing increased income swallowed up in high benefit withdrawal rates.

Sixth, how well does a national programme of investment of this kind fit with the strong emphasis on devolution in the Government’s current strategy and the Spending Review framework? Building New Social Rent Homes attempts an illustrative analysis of the benefits and costs of large scale public investment in social housing. It does not get into questions of delivery, and should certainly not be read as implying that delivery should be highly centralised. While the consequences of housing under-supply affect almost all parts of the country, the scale and nature of the challenge varies from place to place. It would also be vital for decisions on the location and type of new housing to reflect the understanding of local housing and labour markets of employers, private and social developers and councils. We note that, when publicly-funded investment in housing on this scale was previously undertaken, it was largely delivered by local government, within a national policy framework. Housing investment and delivery has already been devolved to the London Mayor, and the Greater Manchester devolution proposals also include more control over housing investment. The self-financing reforms to council housing finance which took effect in 2012 were also an important devolutionary reform, and (if councils were to be allowed to borrow up to prudent levels against the value of their existing stock) would provide one important mechanism through which new supply could be delivered. Other mechanisms discussed in this submission (like a housing investment bank) could potentially be delivered independently in devolved local areas, if central government were prepared to permit it.
Annex A

Benefits payable to example households in social rented and private housing

Drawn from *Building New Social Rent Homes: an Economic Appraisal*, p48-52, which gives complete details of each example.

Analysis completed before July 2015 Budget. Does not therefore take account of proposed reductions in entitlement, notably reduced Overall Benefit Cap. Households which could be subject to the reduced cap shown with pink shading.

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<th>Household type</th>
<th>Household income (per year)</th>
<th>Benefits at social rent (per week)</th>
<th>Benefits at private rent (per week)</th>
<th>Additional benefits cost for private rent*</th>
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9 December 2015
Suggested Amendments to the Finance Bill from the Summer Budget 2015
15th September 2015

As a sole-trader landlord, the changes proposed in the Summer budget are not only grossly unfair, they are also illogical, misleading and counter the principles of fair taxation. I will explain further.

Traditionally, tax is levied on profit, not turnover, for example, a builder spends £80,000 on materials and labour to build a house, sells the house for £100,000 and pays tax at the appropriate rate on 100-80=20K : 40% of this (£8000) which is paid to the exchequer as tax and keeps £12,000 for his trouble.

Now take the example to a landlord property business,

Landlord has a portfolio worth £800,000 receives the usual 5.5% Rental income of £44,000

He is lucky enough to have a mortgage interest rate of only 3% though this will likely rise soon, and he is 75% geared, so 3% of £600,000 is £18,000 payable annually.

He also pays around £7,000 per annum on repairs, agents’ fees, cleaning, wages, council tax, utilities, replacing items taken or broken by tenants, and so on, and has void periods of rent, so loses another £2000 to this.

Here is the scenario now and in 2020, if the measure were to go through unchanged.

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<th>2020</th>
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<td>Gross Rents</td>
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<td>44000</td>
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<td>Costs</td>
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<td>9000</td>
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<td>Interest</td>
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<tr>
<td>Real (actual) Profit</td>
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<td>17000</td>
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<tr>
<td>Taxable Profit</td>
<td>17000</td>
<td>35000</td>
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<td>20% “relief”</td>
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<td>Tax at 40% on Taxable Profit</td>
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<td>12560</td>
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<tr>
<td>Effective Tax Rate</td>
<td>40%</td>
<td>73.8%</td>
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</table>
The problem is that tax is effectively being calculated on turnover, not on profit, against every known principal of economics and taxation. The example above is typical, and the tax rate effectively doubles. For many landlords the tax will actually be much worse, and in many cases more than the real profit (the mortgage interest still has to be paid, regardless of whether it is tax deductible or not) so the effective tax rate will be over 100%, or be a tax on losses. This cannot be right, and the IFS (Institute for Financial Studies) has said that this proposal is “Just Plain Wrong”.

Several submissions to local MPs have been met with the stock-standard letter from David Gauke to the effect of “levelling the playing field” with first time buyers. This argument is completely incorrect too, for several reasons.

1. Many first time buyers are not competing for the same properties as landlords: Landlords often take on dilapidated, broken down properties, which include flats and houses, and also ex hotels, pubs, nursing homes etc and re-juvenate them into dwellings. These type of properties are of no interest to FTBs

2. When landlords sell, they have to pay Capital Gains Tax on any gain, FTBs do not.

3. Many if not most tenants have no intention to buy: they cannot afford the deposit, their work moves them around, they are just leaving a relationship, etc etc, the list is endless, but the message is the same.

If this measure were to go forward in its current form the effects would be as follows:

1. Many low paid landlords (currently basic rate payers) would be pushed artificially into being higher rate payers by their taxable profit (not their real profit). This would have undesirable effects on their Child benefit, CSA payments, disability allowances, and any bonus payments received at work. There was an example in the paper recently of a teacher in Portsmouth, who will have to stop her teaching job as she will be paying more than her entire salary in tax should the measure go through, so there will be losses to the country of these types of jobs as well. (Just when we need more teachers, midwives, nurses etc.)

2. Tens of thousands of landlords’ businesses would suddenly become unworkable (operating at a loss – and still paying tax on that loss)

3. Massed sales of rental properties would ensue, causing the ending of thousands of tenancies with resultant evictions and homelessness.

4. Rents would rise between 15 and 25% just for landlords to pay the extra tax and survive, for those landlords and tenants who actually decided to stick it out.

5. Already over-burdened council housing departments would be forced to accommodate this new mass of humanity who had lost their homes as a direct result of the measure
6. House prices would be depressed, resulting in a downturn to the building industry, and a reduction in the confidence of the housebuilders to purchase new land and make submissions for new housing, as they will expect massively reduced demand from landlords.

7. Masses of secondary trades which rely on the Private Rental Sector (PRS) will be affected too: plumbers, electricians, carpenters, cleaners, lawyers, estate agents, and so on. This would have an enormous economic impact. Far more, in fact, than the chancellor probably thought or planned.

Also, quite amazingly if Joe Bloggs, sole trader landlord is affected in this way with double taxation, and taxation on losses, Joe Bloggs Ltd, with EXACTLY THE SAME portfolio, mortgage, and rent levels, will be unaffected. This is grossly unfair, discriminatory and unlawful.

**Suggested amendments**

1. Complete retraction of the idea

2. If not 1. then the new measures to limit the interest relief are levied only on NEW purchases or new Borrowings from 2020 onwards, and existing mortgage finance costs are still allowable as a cost against rental income going forwards. This would reduce the attractiveness of new flats/houses to landlords, giving FTBs more chance to compete in this market, (which is the attested aim of the measure) but at the same time would not penalise landlords for decisions made in the past, and would avoid the mass bankruptcies, huge rent rises, and homelessness as described above.

3. An amnesty on Stamp Duty and Capital Gains Tax for those landlords who wished to move their portfolios into a Ltd. Company structure. Perhaps a window of one year to allow this measure.

9 November 2015
Southwark Group of Tenants Organisation

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Inquiry into the Economics of the United Kingdom Housing Market

Southwark Group of Tenants Organisation

1. Southwark Group of Tenants Organisation (SGTO) represents tenants and residents groups within the London Borough of Southwark. We are a non-political organisation and do not align to any political viewpoint.

2. This briefing has been prepared by David McLean Campaigns and Research Officer

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Introduction

“Driven by the free market in the UK, we are less likely to interfere in the land. Paradoxically we’ve ended up with the deals being done with big landowners and the little guys getting cut out of the system. Whereas the Germans have been far more interventionist “Driven by the free market in the UK, we are less likely to interfere in the land. Paradoxically we’ve ended up with the deals being done with big landowners and the little guys getting cut out of the system. Whereas the Germans have been far more interventionist they have ended up with a much better functioning market! They don’t have huge boom and bust of the UK. They build better homes and seem to satisfy what people want.” -Mark Brinkley, The House builders Bible

The evidence of the SGTO will focus mainly on affordable housing and London, there are some questions in the call to evidence that the SGTO has no robust competence to answer (Mortgages & private rent, housing association), although from the perspective of social housing we recognise that all features of the housing market in the UK have an impact on each other.

The evidence will begin with the SGTO’s perspective based on our ongoing research and policy analysis on housing and our engagement with our members and local policymakers. The second element will answer directly some but not all of the questions posed by the House of Lords Economic Affairs Committee.

The SGTO Perspective

The economics of the current housing market in the UK in the words of the Governor of the Bank of England, Mark Carney has “deep structural problems” and is the biggest threat to the UK economy. Is the government clear on what the Governor means by “structural” the response by the government has been to propose measures that makes it easier for qualifying constituents to get onto the property ladder. This gives the impression that government understand structural to mean not enough people are buying housing and this needs to be accelerated by government intervention through right to buy.

The government’s response does not appear to be equal to the warnings, for the Governor states that “rising house prices is the biggest threat to the economy”, the governments measures by incentivising new entrants into the already overpriced market can only push up the market.

The structural problems the governor maybe referring to is the false economy of the housing market:

1. London tenants pay 72% of earnings on rent, according to latest figures from the English Housing Survey. This is a drain on the economy, as money is being bottled up in housing, enriching the Landlord community, but taking away from much needed expenditure in other sectors of the economy which can realise growth and increase the UKs GDP.
2. Average rent in London is £1500 according to figures by HomeLet rental index which suggest a 12.5% increase in average rents. In contrast the average mortgage in London is

3. There housing economy in the UK is not consistent, there is a divergence across the country, in the north, housing is relatively cheaper than in the south, also international cities like London and Edinburgh have factors impacting on their respective housing markets not found in other areas, such as overseas property owners who do not reside in the UK fulltime and see buying a property in London as an investment or security.

4. The UK is generally a low income economy; this is recognised by the chancellor of the Exchequer George Osborne, who highlighted the point in his post 2015 general election budget in support of raising the minimum wage.

5. According to the Land registry, the London average price of house in London in October was £499,997 and £186,350 (October 2015 for the rest of the country).

<table>
<thead>
<tr>
<th>Top 10 by median annual gross wage</th>
<th>Media</th>
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<tbody>
<tr>
<td>Inner London</td>
<td>£34,473</td>
</tr>
<tr>
<td>Bracknell Forest UA</td>
<td>£31,317</td>
</tr>
<tr>
<td>Wokingham UA</td>
<td>£29,126</td>
</tr>
<tr>
<td>Derby UA</td>
<td>£28,400</td>
</tr>
<tr>
<td>Reading UA</td>
<td>£27,094</td>
</tr>
<tr>
<td>Slough UA</td>
<td>£26,625</td>
</tr>
<tr>
<td>West Berkshire UA</td>
<td>£26,548</td>
</tr>
<tr>
<td>Aberdeen City</td>
<td>£26,384</td>
</tr>
<tr>
<td>Milton Keynes UA</td>
<td>£25,639</td>
</tr>
<tr>
<td>City of Edinburgh</td>
<td>£25,543</td>
</tr>
</tbody>
</table>

6. The housing market is dominated by large developers, who have a profit motive for pricing to rise, there have been incidence where large developers have been accused
of land banking, sitting on land waiting for the market to rise to secure purchases before building to ensure what I regarded as “economic viability”.

The UK is largely dependent upon a small number of high volume house-builders to deliver the bulk of our housing (see fig. 2 above), however, they are not the only people building houses (see figure below).
Southwark Group of Tenants Organisation – Written evidence (EHM0138)

The London Tenants Federation\textsuperscript{443} monitors the delivery of new and additional homes in London by looking at the London Plan found the following (2011-12):

i. Only 47% of the London Plan social-rented housing target was met.

ii. Had the target been met London would have 26,856 more social rented homes than it currently has.

iii. 89% of the London Plan intermediate housing target was met.

iv. 93% of the London Plan Market housing was met.

v. Only 20% of new and additional homes actually delivered in London from 2007-12 were socially rented, while the most recent assessment of need in London (from 2008) suggests that more than 60% of homes should be social rented.

vi. Four boroughs delivered less than 25% of their social rented target including: City of London 1%, Wandsworth 20%

vii. Three boroughs delivered more than 100% of their targets including: Hillingdon 116% and Hounslow 113%.

viii. Southwark delivered 46% of social rented housings and 15% affordable homes delivered that were socially rented. (1281 out of 2775 and 45 out of 46 respectively)

ix. Southwark delivered 78% of Market housing (3445 out of 4443)

Housing and Planning Bill

The Housing and Planning bill now going through parliament would spell the check and hasten the number of social or affordable housing in the UK, many questions remain about the bill, although it has now left committee stage:

• Concern that the selling of high valued council property as means of paying a government Levy to fund “starter homes” (which many people, even young professionals in London cannot afford) is misguided and could further damage the UK housing market.

• Has there been sufficient consultation, considering the impact the bill will have on people in the area of Pay to Stay, where social tenants (household) earning more than £40,000 are deemed high earners and must pay upward towards market rents. The SGTO’s own research in Southwark demonstrated that few people are aware of the changes in the bill or the bill itself.

• The “permission in principle” clause will undermine localism

\textsuperscript{443} London Tenants Federation’s analysis of delivery of new and additional homes in London 2007-12
Southwark Group of Tenants Organisation – Written evidence (EHM0138)

The SGTO urges the House of Lords to look very closely and carefully when this bill comes to the lords as it has brought fear and a sense of despair among tenants and residents and their representatives, as the consequences of this bill will make having a stable housing market very difficult.

House of Lords Economic Affairs Committee Questions

Social housing: Are any measures needed to increase the supply of social housing?

<table>
<thead>
<tr>
<th>Top 10 London borough housing waiting lists 2000-2012</th>
<th>Per cent of households on housing waiting list in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Newham</td>
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<tr>
<td>2</td>
<td>Lambeth</td>
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<tr>
<td>3</td>
<td>Tower Hamlets</td>
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<td>4</td>
<td>Waltham Forest</td>
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<td>5</td>
<td>Camden</td>
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<td>6</td>
<td>Lewisham</td>
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<td>7</td>
<td>Haringey</td>
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<tr>
<td>8</td>
<td>Brent</td>
</tr>
<tr>
<td>9</td>
<td>Hackney</td>
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<tr>
<td>10</td>
<td>Southwark</td>
</tr>
</tbody>
</table>


The analysis from the above figures demonstrates the substantial need for social housing in London, and yet the London Plan and the local plans seem to have no strategies or measures that address housing waiting lists and the economic drain they have on local authorities by providing temporary accommodation, usually using the private sector to do so.

The Following measures could help:

- More central government investment in social housing of the scale seen pre 1980s, there has been a steady decline government support for social housing, so much so that there was no mention of social housing in the Budget, Autumn Statement or in the Housing and Planning Bill, now going through parliament.

- Social housing must be protected, far from being a drain on the economy, it pays itself overtime.

- The government must promote renting as much as it promotes Right to Buy.

What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

This measure has been disastrous for Social housing providers, local authorities such as Southwark who are already facing significant cuts to their budgets, had factored in steady rent increases in their housing stock to meet maintenance cost as well plans to build more
housing. Southwark which has pledged to build 11,000 new council homes have not welcomed the new measures at all, and a lot of plans have to be redrawn.

This has brought uncertainty, and mistrust, not so long ago the Government made signals that though the Housing Revenue Account and rent increases, local authorities and other social housing providers would be left alone to get on with the business of improving their stock and building more houses. The Chancellors actions took many social housing providers by surprise. In the words of a Senior Officer of Southwark council who attended and SGTO Group (membership) meeting, there is a lot of uncertainty post 2018 due to the Chancellors actions, and this has alarmed the policymakers in Southwark and policymakers across the capital.

**Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?**

The above measures aid the overheating of the property market, cessation would mean more people renting, lowering the demand for buying housing and bringing the housing prices slowly down.

**Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?**

The UK must look to the German model when considering measures to stabilise the renting market, the Labour Party under the leadership of Ed Miliband spoke of German-like proposals regarding extending tenancies and placing limits on Landlords raising rents during tenancies. This discussion by the Labour Party was a step in the right direction, however the measures did not go far enough to realise the private rented market in Germany. As the Institute for Economic Affairs pointed out in the run up to the elections without going as far as what the German model actually looked like the following would occur:

- Landlords would raise rents in the first instance to offset any costs during the long term tenancies proposed by the Labour Party.

- This would likely see an increase in Housing Benefit for those eligible in private housing, increasing the Government’s welfare bill.

- The could be a rise in tenancy evictions, as tenants struggle to meet the rents set by Landlords as response to restrictions on year on year increases.

The Government should explore the full spectrum of the German model, which has the following features:

- German Governments invests substantially in house building.

- Tenants receive unlimited duration of their rental agreement unless the duration is explicitly halted
• If a Landlord wants a tenants to move out they require a Good Reason which defined in law, such as the Landlord wishes to move back into the property or for family member to do so (and this must be proven) or they are compelled to sell for financial reasons.

• Rent is highly regulated through a system outside the control of external actors such as estate agents, a 20% increase in a rented property over three years for example is unlawful.

• Many states, such as Berlin, have a constitutional right to adequate housing, and require buildings to make dwelling spaces of a certain size and ceiling height.

Such measure would be seen as radical in the UK as they would fundamentally alter the housing system as we know it in this country, and perhaps put many estate agents out of business, yet the benefits to tenants and the wide economy would be legion.

However, a structural change of such a radical nature is required if the housing market is to serve the country instead of the county serving the housing market.

17 December 2015
SUBMISSION TO THE SELECT COMMITTEE ON ECONOMIC AFFAIRS
INQUIRY INTO THE ECONOMICS OF THE UK HOUSING MARKET

The Joseph Rowntree Foundation’s Housing Market Taskforce (Stephens, 2011) was established 2009 and reported in 2011. It was made up of an interdisciplinary group of experts who were charged with identifying long-term solutions to the problem of house price volatility in the UK. Its recommendations were aimed at creating a more socially sustainable housing market in which vulnerable households are better protected from the effects of volatility. Although its report was drafted during the first year of the Coalition Government five years ago, it provides a framework for providing responses to the questions being addressed by the House of Lords Select Committee on Economic Affairs Inquiry into the Economics of the UK Housing Market.

The main points in this submission are:

- The UK faces a long-term failure of housing supply to keep up with demand. This has contributed to the UK’s volatile housing market.
- Government schemes are likely to benefit the people who take advantage of them, but are likely to contribute to the maintenance of generally high prices. They are becoming part of a system that keeps house prices artificially high.
- The effects of Stamp Duty concessions are likely to benefit owners of property as they are “capitalised” into higher prices.
- Stamp Duty thresholds should be uprated automatically to avoid fiscal drag.
- There is a case for reviewing the impact of the Mortgage Market Review.
- Buy-to-let mortgages should be brought within the remit of both the Financial Policy Committee (macro-prudential regulation) and the Financial Conduct Authority (micro-prudential regulation).
- The Committee should explore the reasons why insurance products that facilitate higher LTV loans are no longer available from the market.
- The role of the planning system in inhibiting new housing supply may have been exaggerated. It should be explored alongside a wider review of the supply of land, the role of development gain and the provision of infrastructure. The role of land auctions and the taxation of vacant land should be considered.
- The reduction of tax relief to private landlords adds to the tax advantages enjoyed by owner-occupiers. The additional costs are most likely to be passed on to tenants in high demand markets, where affordability is already most stretched.
Regulation that is sensitive to the market can play a valuable role in creating a rental culture, but that it cannot be used as a long-term solution for chronic housing shortages.

Social rented housing is the most suitable option for households that seek long-term security, but who cannot safely access owner-occupation.

Its supply is threatened by the extension of Right to Buy and enforced rent reductions. However, the Starter Home scheme poses a direct threat to new social rental provision through the diversion of planning obligations away from it.

The housing problem

The Taskforce identified volatility, as manifested by rapid fluctuations in house prices, as being a persistent feature of the UK housing market over the past 40 years. Such instability distorts housing choices, increases risk, drives mortgage arrears and repossession rates, as well as affecting housebuilding and intergenerational equity. Although home-owners are most directly exposed to volatility, private tenants are not immune. Indeed rates of credit loss on buy-to-let mortgages are now higher than among owner occupiers (FPC, 2015).

The Taskforce noted that governments have tended to make short-term responses to periodic crises in the housing market, and the response to the post 2008 crisis has to date been no different. An active monetary policy has been used to reduce and maintain interest rates at historically low levels of 0.5 per cent. A programme of quantitative easing involved the Bank of England purchasing Government bonds worth £375 billion between 2009 and 2012 (Bank of England, n.d.).

Such measures have protected the economy, but also arguably prevented full correction in house prices, whilst encouraging further investment in property through routes such as buy-to-let. By April 2014, average nominal UK house prices were 6.5 per cent higher than the pre-crisis peak in 2007/08. This masks regional variations, so prices in London, South East and East regions were higher than before the crisis, but still lower elsewhere in Great Britain. Indeed London, with prices more than 30 per cent above pre-crisis levels and approaching £500,000, increasingly appeared distinct from the rest of the country. Only in Northern Ireland – living with the repercussions of the Republic of Ireland’s boom and bust – and where prices in April 2014 were still almost 50 per cent below the 2007 figure has a large correction taken place (ONS, 2014). It is clear that in some parts of the country at least another period of sustained house price rises is underway. The Government’s latest prediction suggests a 5 per cent annual increase over the next five years (HM Treasury 2015b). This implies a real increase in prices of almost one-fifth over five years (based on the Government’s CPI inflation forecasts).

The other side of macroeconomic policy has been marked by fiscal consolidation. The Government has now adopted a target of moving to a surplus by the end of this Parliament. The programme of fiscal consolidation has included the reduction in per unit subsidy for rental accommodation (the “affordable rent” model), as well as reductions in means-tested support to low income private and social tenants through restrictions in Housing Benefit.
The Taskforce stressed the importance of looking at the housing market as a whole. It argued that private renting offers insufficient security to provide stability for households especially those with children. Moreover, it argued that social rented housing is likely to provide the most suitable option for households that seek long-term security but cannot access full or shared ownership safely.

The Taskforce identified the long-term imbalance between housing demand and supply as being the principal underlying cause of volatility. It concluded that because annual increases of supply can make only a small impact on the overall balance between demand and supply, it would take some decades to rectify it fully. Consequently, other measures, including capital adequacy requirements for lenders, credit controls, property taxation, planning, infrastructure and the treatment of development gains should be considered. This assessment remains valid. The Future Homes Commission (2012) estimated that 300,000 new homes are needed each year in the UK. Holmans (2013) suggested that between 240,000 and 245,000 are needed. The UK Government suggests that the figure lies between 200,000 and 300,000 units (House of Commons, 2015).

**Private Ownership**

**Government schemes**

The Government now operates four main schemes to support purchasers in the housing market.

The Help to Buy *equity loan* scheme is targeted on new properties — albeit at values that extend beyond twice the national average. Some £4.3 billion loans were advanced by June 2015 (DCLG, 2015), supporting the purchase of 102,500 properties. By number and value, around 45 per cent of equity loans helped first time buyers. The scheme has been extended to 2021 and in the Spending Review and Autumn Statement, the Government’s maximum stake of 20 per cent was been doubled for purchasers in London. The *mortgage guarantee* scheme, whereby the Government guarantees the top 20 per cent of a 95 per cent mortgage was introduced (also under the “Help to Buy” banner) for first time purchasers of both new and existing properties. Some 46,877 properties were purchased across the UK under this scheme between October 2013 and March 2015. More than 40 per cent of properties were priced under £125,000 and more than 50 per cent under £150,000 (HM Treasury, 2015a). The *starter homes* initiative, will provide some £2.3 billion of subsidy to builders to provide 20 per cent discounts to first time buyers of properties valued up to £250,000 (or £450,000 in London). It is expected to yield 200,000 properties. Meanwhile the *income limits* (of £80,000 outside London and £90,000 in the capital) on Help to Buy *shared ownership* are being abolished. The removal of these already high income limits suggests that shared ownership has moved a long way from its original objective of providing either an intermediate tenure, or a stepping stone to full ownership, for aspirational households on modest incomes.

These schemes largely deal with the symptoms of the problems of the housing market, rather than the underlying cause. It might well be questioned why, when the owner-occupation market operated without such interventions throughout entire C20th, that they should now become a normalised part of it. It is estimated that one-third of first time buyers
received state assistance in 2014 (and one-third received assistance from their parents) (Wilcox, et al., 2015).

The fall in home-ownership among younger age groups set in well before the financial crisis limited the supply of mortgages. It therefore began when finance was plentiful, and 100% mortgages were available. It began because potential first time buyers could not afford to service such large loans. In other words the affordability constraint kicked in before the loan-to-value constraint.

The measures are likely to be of benefit to the people who take them within the context of a housing market that is unable to produce sufficient numbers of houses at prices people can afford. However, they seem likely to contribute to the maintenance of generally high house prices, and therefore have become part of system that keeps house prices artificially high. Moreover, they do little to encourage developers and builders to alter their business models in ways that enable them to produce more homes at affordable market prices

**Stamp Duty Land Tax (SDLT)**

The system of SDLT has become significantly more complex over the past 20 years. Economists generally believe that transaction taxes are inefficient and in the case of the housing market inhibit mobility. SDLT has also become a significant (if volatile) source of revenue, and for that reason alone, it seems unlikely that the Government would wish to abolish it, and incur the displeasure of residents generally if the revenue was instead raised by a recurrent tax on property.

The “slab” structure that has now been abolished throughout the UK, was widely criticised for its lack of fairness and the way in which it distorted the market, particularly as graduated rates were introduced. (Purchase prices would cluster just below thresholds.) The slice structure introduced in 2015 is therefore preferable to that which went before it. However, when analysing the effects of SDLT it is important to recognise that there is likely to be a significant capitalisation effect. In other words, there is a need to distinguish between the formal and actual incidence of the tax. Whilst the purchaser formally pays the tax, it is likely that a good deal (if not all) of its cost is borne by the seller. The tax formally reduces the purchasing power of the buyer, and therefore actually reduces the price that the seller can command. Hence the question as to whether the new structure favours first time buyers may be misplaced.

It would seem sensible to monitor the operation of the new structures of SDLT. However the schemes operated by the UK and Scottish governments lack a mechanism for automatically uprating thresholds to prevent them becoming out of date. In the past this has led to significant “real fiscal drag” as transactions that remain in lower parts of the market are taxed more heavily as they pass into higher nominal bands. The Taskforce observed that the adjustment of thresholds upwards generally occurred when prices were rising, and therefore had a pro-cyclical effect. A system of automatic re-rating of thresholds would therefore be preferable to ad hoc adjustments.

**Mortgage regulation**
The origin of the Global Financial Crisis lay in the growth of the sub-prime mortgage market in the United States, the risks of which were globalised by the securitisation of mortgages which were sold to banks around the world. Within the UK, it was widely acknowledged that our own sub-prime market, and other examples of excessive lending, contributed to difficulties experienced by some financial institutions. Such lending left borrowers exposed to economic downturns and necessitated significant interventions in the housing market to protect home-owners.

The Mortgage Market Review (MMR) (FSA, 2009) was established as a response to this experience. The Taskforce took the view that the MMR’s recommendation that mortgage lending should be based on a more realistic assessment of affordability (in place of “rules of thumb”) was welcomed. The approach taken does not prohibit interest only mortgages, but does insist that affordability calculations be based on the repayments required for a capital and repayment mortgage. The Taskforce recommended that the new system be monitored to assess whether it was leading to overly restrictive lending. Sufficient time has elapsed to allow the new system to have bedded down, and such a review would now be helpful.

The Committee might wish to investigate a suitable response to the situation whereby first time buyers’ have the capacity to service higher LTV loans than lenders will provide. The existence of the Help to Buy Mortgage Guarantee scheme suggests that this is indeed the case. The Committee may wish to investigate as to why guarantee products are no longer provided by the market. A system of “mortgage indemnity guarantees” (MIGs) commonly operated on high value mortgages from at least the 1950s up until the mid-1990s, but has since disappeared. Under MIGs, the borrower paid a one-off premium that was used to insure the lender against losses on high LTV loans. It is true that the insurance companies incurred heavy losses on these products as a consequence of the early 1990s housing market downturn. This might suggest that the products were mis-priced, poorly structured, or that greater attention to affordability was required. There may now be regulatory or other barriers to the provision of such products, in which case these should be investigated. It seems surprising that a financial services industry that is vastly more sophisticated than in the 1950s appears unable to provide such a relatively simple product, and instead relies on the state to do so.

One clear anomaly in the system should be addressed. The exclusion of most buy-to-let mortgages from both macro and micro-prudential regulation is an anomaly that has existed since owner-occupiers’ mortgages were first regulated in 2004. In terms of macro-prudential regulation the Financial Policy Committee has requested that the powers of Direction that it enjoys over owner-occupiers’ mortgages be extended to cover the buy-to-let sector (FPC, 2015). However, the exclusion of buy-to-let mortgages from the affordability and other provisions of regulation by the Financial Conduct Authority may provide buy-to-let purchasers with a regulatory advantage in terms of access to mortgage credit over would-be owner-occupiers. The Chancellor suggested that this was a reason behind his decision to reduce tax reliefs to buy-to-let landlords. It would seem more sensible to tackle the anomaly where it arises, rather than introducing a new one elsewhere in the system.

**Planning**

The planning system is frequently blamed for inhibiting housing development. The Taskforce took the view that the supply-side needs to be examined in the round.
Whilst there may be a case for reviewing some aspects of the planning system, it should be noted that it is already weighted in terms of procedure in favour of applicants, which enjoy a right of appeal that is not open to third parties. Moreover, volume builders and building supply companies are much better resourced to employ legal representation and technical advice in the event of public inquiries or hearings than are community groups or, increasingly, local authorities. Aubrey (2015b) has estimated that there exist 800,000 building plots with planning permission that have not been built on, and, at the current rate of granting permission, there is will be 2 million such plots by 2020.

The inquiry might be open to the possibility that rather too much emphasis is placed on the planning system in the supply of housing. Its role should be considered alongside the supply of land, the role of development gain, the economics of the housebuilding industry, and the provision of infrastructure. There exists a central tension in the planning system between the ownership of development rights by the state, and the benefits that arise from the uplift in land values that arise from the state granting permission.

The Taskforce suggested that land auctions and the taxation of vacant land might be required to encourage the reluctance of landowners to release land and developers to develop it. A recent report suggested that the German planning system is more effective in limiting the landowner from capturing the value of the development gain, which can as a consequence be directed towards paying for infrastructure and limiting the impact of permission being granted on house prices (Aubrey, 2015a).

Privately Rented Accommodation

Tax relief

Historically, private rented and owner occupied housing were taxed in the same way. Both landlords and owner occupiers could deduct mortgage interest payments from their income, and both paid tax on rental or imputed rental income. The latter was abolished for owner occupiers in 1963 as a populist measure. For many years, academics and others argued for equal treatment between tenures. Over a protracted period, mortgage interest relief for owner occupiers was phased out; it was eventually abolished in 2000. Since then the tax relief on landlords’ mortgage interest has continued to be balanced by taxation of rental income; and the owner occupier exemption from tax on imputed rental income balanced by the lack of interest relief. Nonetheless, owner occupiers still enjoy the significant tax advantage over private landlords, namely being exempted from paying Capital Gains Tax.

The Chancellor’s proposals to reduce the tax relief enjoyed by landlords therefore have no foundation in the principles of tax. Moreover, his claim that, “The current tax system supports landlords over and above ordinary homeowners” (HM Treasury 2015a, para. 1.190) is simply incorrect. As argued above, if landlords are thought to enjoy unwarranted advantages in the mortgage market, then the appropriate solution is to remove the anomaly whereby their mortgages are not subject to regulation. It is bad policy to attempt to correct one anomaly by introducing another one elsewhere in the system.

Whether the measure will result in higher rents will depend on the state of the local market. Landlords are often happy to leave rents unchanged – or moderate increases - when they
are satisfied with their tenants. It may be in stronger markets, landlords may seek to pass on additional costs. In weaker markets, landlords will be less able to pass on additional costs. Consequently, the policy is most likely to weaken affordability for tenants, precisely where affordability is already strained. At the margins the policy may cause some landlords to exit the market, particularly if the policy co-incides with rising interest rates.

**Decline in owner-occupation and a rental culture**

The long-term decline in owner-occupation may continue because of the cohort effect. It is likely to depend on whether the people in their 30s “catch up” with their counterparts in previous generation before it is too late to sustain a 20+ year mortgage. Just as the cohort effect of rising owner occupation among older owners had the effect of slowing the overall decline in the home ownership rate, so over time the cohort effect of lower ownership levels among younger age groups will tend to depress the ownership rate as they themselves grow older (see Table 1).

**Table 1 Tenure change 2003/04-2013/14**

<table>
<thead>
<tr>
<th></th>
<th>Owned outright</th>
<th>Buying with a mortgage</th>
<th>Social rented</th>
<th>Private rented</th>
<th>2013/14</th>
<th>Owned outright</th>
<th>Buying with a mortgage</th>
<th>Social rented</th>
<th>Private rented</th>
</tr>
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<tbody>
<tr>
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<td>47</td>
<td>2</td>
<td>7</td>
<td>23</td>
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Source: DWP (2015), Table 2c

It is desirable that a long-term rental culture be created, given that many more people are now dependent on private renting than was the case in the 1970s-2000s. Such a culture depends on developing long-term relationships between renters and landlords.

The insecure nature of assured shorthold tenancies is a great source of insecurity. Figure 1 shows that there has been a modest rise in possession claims from private landlords since the late 1990s. However, the true picture is difficult to assess because there has been a marked rise in “accelerated” claims, which are used when tenancies are nearing their end. The statistics for these claims do not distinguish between social and private landlords.
Moreover, the *persistent possibility* that a tenant might lose their home is also important. Landlords tend to favour assured shorthold tenancies because they make it easier to remove tenants who are unreliable payers of rent or whose behaviour is not acceptable. Although non-payment of rent and antisocial behaviour are likely to be statutory grounds for eviction in a secure tenancy, a “no fault” eviction on the termination of a fixed tenancy is both certain and straightforward. A compromise might be to allow a six month initial tenancy to be followed by conventional security should both parties agree.
Rent regulation

There is a widespread perception that rents have risen rapidly. Certainly in London nominal rents in June 2015 were nearly 18 per cent higher than in January 2011, but the figures for England outside London (6.6%), Wales (3.3%) and Scotland (7%) are more modest (ONS, 2015a), and indeed below the rate of consumer price index which grew by 9.2 per cent over the same period (ONS, 2015b, Table 22a). Nonetheless, an unusually liberal approach is taken to rent setting in the UK. The German system of allowing initial rents to be set by the market, but controlling subsequent increases (“second generation” rent controls) seems attractive. These limits are normally 20 per cent over a three year period, but in most States these have been reduced to 15 per cent. In especially pressurised markets, caps on new rents are being imposed, too.

This approach is echoed in that being adopted by the Scottish Government. After a lengthy period of consultation, a new bill was published in October 2015 to introduce

“... a new private residential tenancy for the private rented sector which will improve security of tenure for tenants and provide appropriate safeguards for landlords, lenders and investors.” (Scottish Government, 2015b, p.2)

In principle the legislation will end “no fault” evictions, but there remain grounds for possession, which include an intent to refurbish or sell the property. It also gives Ministers powers to impose caps on rent increases in “rent pressure zones” bringing with it the prospect of the selective use of so-called “second generation” rent controls.

Rent controls and regulation of course can bring risks. It is commonly accepted that the kind of rent control operated in the UK in the 20th century, including the “fair rent” model operated in the 1970s, contributed to the decline in the sector. Even if they remain in the sector, landlords may “game” systems that they regard as being too onerous. A paper
commissioned from Professor Michael Ball by the Taskforce suggested that almost any kind of regulatory intervention has perverse consequences (Ball, 2010). For example, he suggested that security of tenure would lead to landlords declining to house households (notably families with children) that were likely to wish to remain in the property for a long time.

Whilst the German system does generally work well, there is evidence from other countries that excessive regulation, particularly when imposed in the face of market shortages, can lead to dysfunctional systems. The Swedish system, whereby rent increases are negotiated annually between the Tenants’ Union and representatives of the municipal and private landlords under a regime of strong security, is breaking down because of acute shortages. The system works to the advantage of the “insiders”, but those people who are “outside” the system often depend on legal or illegal sub-lets and controlled tenancies re-sold at market prices (Stephens, 2015).

The lesson is that regulation that is sensitive to the market can play a valuable role in creating a renting culture, but that it cannot be used as a long-term solution for chronic housing shortages.

Social housing

Social rented housing plays a vital role in the UK housing system. As the Taskforce noted it is “social rented housing is likely to provide the most suitable option for households that seek long-term security but cannot access full or shared ownership safely” (Stephens, 2011, p.11). In this respect the Government’s proposed amendments to the Housing Bill that would introduce fixed-term tenancies would undermine this function considerably over time.

Right to Buy

The de facto extension of right to buy, if rolled out to all housing association tenants, would open up the possibility of ownership to some 1.8 million housing association tenants. Analysis conducted for JRF by the University of Cambridge (Clarke et al, 2015) estimates that around one in five of those who gain the Right will be able to afford to buy and expects an average of 25,500 tenants to exercise this right annually over the first five years. The scale of anticipated subsidy involved is very high indeed: some £95,500 per dwelling in London and £63,000 in the rest of the country (Savills, 2015). The impact of the policy might be considered in terms of opportunity cost, as well as the notional change in social rented stock, i.e. what else could be done with the subsidies.

Rent restrictions

The policy of rent reductions of 1 per cent per year for four years from 2016/17 under the Welfare Reform and Work Bill (published in July 2015) applies to both local authority and housing associations, and is motivated by a wish to reduce the pressure on Housing Benefit. (HM Treasury (2015a) predicts savings of £1.445 billion in 2020/21.) The measure will reduce housing associations’ ability to borrow to support the building of new social rented housing. At least one housing association (Genesis) announced its abandonment of new social rented housing, and others have considered doing the same (Slawson, 2015).
Professor Mark Stephens on behalf of the Joseph Rowntree Foundation – Written evidence (EHM0115)

**Starter Homes and S106**

The subsidy of Starter Homes from the diversion of developers’ S106 planning obligations away from social and other forms of “traditional” affordable housing will inevitably reduce the availability of such housing. Such obligations supported the production of 32,000 affordable homes in 2006-07 (65% of the total) and 16,193 (37% of the total) in 2013/14 (Brownhill, *et al*, 2015).

17 December 2015
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A SHORT GUIDE TO DEVELOPING GENUINELY AFFORDABLE HOUSING IN THE UK

A Conversation Starter
By Barry Sutcliffe
(Housing Developer / Site Manager / “Grand Designs” Self Build Expert / “Off Site Manufacture” Specialist / Member of Coalition Government’s “Self-build Working Group” 2011 / Self-build Author / Self-build project management trainer)

1. The UK is presently looking for ways to relieve the housing shortage by building hundreds of thousands of affordable new homes over the next few years. However, with the best will in the world, unless the methods we presently use to develop these types of homes change, the target will be a very difficult one to meet.

2. Below I discuss how we can start to build high quality, spacious, sustainable and “genuinely” affordable new homes. Encompassing these ideas could potentially reduce like for like development costs by up to 50%, potentially bringing about a permanent change in the way we look at affordable housing development.

3. The subjects I am going to discuss in this document are not normally found on the agenda when construction professionals and the government get together to discuss this problem. However, having personally been buying land, designing, manufacturing and managing the construction of many new homes of all types and sizes for over 25 years, I feel that I may be able to present a unique point of view worth taking note of.

4. I am going to present a short section to discuss each of the main areas where I think we can and should change the way the industry works with regard to affordable / social housing. This article can only briefly touch on each subject, but I hope it will act as a “conversation starter

How can we build genuinely affordable, sustainable, new homes?

5. Smaller developments:

6. We should be concentrating on developing smaller areas of land (up to around 20 houses per site) rather than large, often complicated sites. If we do this, the cost savings could be very significant (see details throughout this article).

7. Where possible we should be targeting land which fronts directly on to public roads or has short easy access to a public road. Accessing the individual houses or a car park via private driveways directly from a public roadway will significantly cut development costs as it will reduce the need for expensive, adoptable new roads / drains / lighting etc. to be designed, engineered and constructed.

8. There are thousands of potentially suitable development sites across the UK which are “too small for the big guys” and “too big for the small guys”. As they usually attract fewer potential buyers, these sites are often more competitively priced and the owners may also be open to “build now pay later” schemes.
9. Local Councils often own numerous small areas of land which could be ideal for this type of development and the HCA is presently doing good work to free up more land.

10. **Use land efficiently:**

11. On larger developments, unnecessarily long roads and poorly designed plot layouts can significantly reduce the efficiency of the site in relation to “numbers of houses per acre” and increase the development price “per plot”.

12. When developing smaller areas of land, the problem is, to a great extent removed.

    The main aim of all new affordable developments should be to: “Supply the maximum number of reasonably sized, well-built, sustainable, warm, new homes via a low cost development which enhances its surroundings”.

13. The example site template below offers: Up to 18 good sized 3 storey 3 bedroomed homes per acre, each offering around 1000 sq ft of living space, (with potentially 20+ homes per acre achievable without overdeveloping). These developments also offer:

    - Reasonable sized gardens.
    - Parking for up to 24 vehicles per 6 houses.
    - Minimal overlooking.
    - Fenced, purpose built recycling centres.

14. **Minimize site Architectural works:**

15. Development of smaller sites will reduce the need for expensive and complicated site designs and drastically reduce the need for expensive road and service installation works.

16. Most small sites, especially if the intention is to front some of the houses onto a road, will often almost “design themselves”.

17. The amount of work and cost involved in rejected Architectural “site layout” proposals could be drastically reduced.

18. For example: 10 houses in a line along a public road with garden and drive frontage would often not require anything more than basic design input. A single technician could create the drawings, check them with the planning department, amend them as required and be applying for and receiving planning permission in a much shorter space of time, incurring significantly lower costs in the process.

19. **House design:** There are only a limited number of potential layouts for small houses. They have all already been designed hundreds of times (with small
variations) by hundreds of Architects and Designers over decades. We should re-use existing layouts and external designs for new projects, with small “tweaks” to adapt them to each new project.

20. A central library of standard designs / layouts could be made available, free of charge to developers.

21. Below is a three storey layout affordable home layout which, using the principals discussed here, could offer good sized, well insulated, sustainable, high quality, low cost accommodation:

22. **Keep designs simple, attractive and efficient:**

23. Simple squares are the most efficient shape for building new homes: The possible house shapes shown here both have a linear external wall measurement of 40 metres, so theoretically have approximately similar basic materials build cost. However the square encloses **25% more living space** than the rectangle and also offers the potential for utilizing the roof as extra living space.

24. Simple shapes are boring? Not necessarily: We can make designs attractive and “individual” by using external finishing materials imaginatively.

25. There are many new eco products on the market which can visually enhance a property whilst reducing build costs and maintenance.

26. **Keep the number of external wall corners to a minimum:** The “like for like” cost of building a porch, an annex, or any other “add on” room is far higher per sq ft than the rest of the building. Every time a design “turns a corner” (over and above the 4
basic corners of a square), it usually excludes floor area, increases the work in the walls and the roof, and increases the overall build cost per sq ft. Small areas and protrusions in a building can also reduce the possibility of using the main roof space for accommodation. We should therefore try to include all design features within the basic “four sides plus roof” shape of the house.

27. **Room sizes** can be more generous than they are presently in most new homes: The cost of construction does not increase as a “straight line” graph depending on the square footage of the building. Adding 300mm – 600mm to the width of a house can simply involve adding a small amount of ground floor slab width, a small extra area of external wall, one or two first floor joists and an extra roof truss. As long as there are no extra foundations or internal walls, the cost to add more “air space” internally is fairly insignificant within the overall cost of the build. Note: Adding extra “air space” in a house design will usually actually bring down the “per sq m” build cost.

28. **Units per Acre:** The extra width of the house does not necessarily need to reduce the number of “homes per acre” achievable, if a bit of thought is given to the overall site layout.

29. **Stairs:** Design affordable houses for the use of “straight” standard staircases: These are the simplest and most cost effective option to buy and fit. If they are positioned between 2 walls there may be no need for newel posts, base rails and spindles, just simple hand rail fixed to the wall may be all that is required. Labour and material savings for this one small item could be around £500 - £1000 per unit. By making the staircase wider than normal (1100mm – 1200mm), it is possible for a disabled WC to be located below them, saving money and space.

30. **Use the roof space:** We should not be building any new affordable homes without utilizing the space in the attic. Where possible, roof angles should be set at 45 degrees and constructed with either “attic trusses” or “roof cassettes”. These two simple and fast methods of construction would add up to 40% to the total floor area of the house whilst potentially reducing the overall build cost per sq ft. This extra space can be used immediately or can be easily, quickly and cheaply converted to extra living space in the future.

31. **Design for “open plan” living:** Open plan is now a popular choice for new house buyers. It can make houses seem more spacious and it removes the cost of some internal walls (and their associated foundations) along with reducing the need for internal door frames / internal doors / ironmongery / skirtings / architraves / decoration etc. (Note: For two storey houses, open plan ground floors should be easy to achieve, whereas three storey house designs will be more restricted due to the need for a fire proof exit corridor to an external door from the attic storey).
32. **Minimize foundations:**

33. Affordable homes tend to be fairly narrow. By using timber frames (or derivatives thereof), the number of foundation trenches for most houses can be reduced significantly. For example: In a row of “mews” homes foundation trenches could be reduced to just 3 per unit (*with one of the end properties requiring 4 trenches*). Semi-detached houses would need as few as 5 foundation trenches per pair. All floor joists would span from “side to side”.

34. “I joists” and “Easi-joists” could allow for clear spans to reach around 8m, without the need for internal loadbearing walls and their associated foundations, assisting the design of open plan layouts. An additional bonus is that clear spans help to achieve one of the goals of “lifetime homes” where the ground floor needs to be capable of having all internal walls removed for remodelling.

35. **Use “one skin” external walls instead of cavity walls:**

36. Many UK house builders and some Architects seem have a great difficulty in encompassing new ideas when it comes to house design and building. One area where this is particularly evident is in the design of external walls. Here in the UK we are very keen on keeping cavity walls, but we don’t actually need them. We could save significant time and money in building process by using different systems which are already widely and successfully used in many other countries.

37. One way we can do this is by using timber frame construction (or derivatives thereof), as a single skin external wall. The outside face of the frame can then be treated with a choice of finishes including timber (or plastic) cladding, render or “brick slips” (on treated battens).

38. This choice of construction will reduce the work and materials used in the foundations up to ground level and *significantly* reduce material, labour and scaffolding costs above ground.

39. Building regulations are very comfortable with this option, so why do our designers and builders have such a problem with it?

40. **Use “offsite” prefabricated construction:**

41. Building sites are extremely inefficient places. Storage, damage, waste, theft, breakages etc. all increase the cost of the finished product significantly.

42. Using standard prefabricated “timber frame” construction, with the frame coming to site on the back of a wagon will help to reduce these costs to an extent by bringing a significant part of the building to site in one or two deliveries and erecting it immediately.

43. Using a “Closed panel timber frame” system with insulation, vapour barrier, and
either a service void or built in or conduits (*for electrical and plumbing works*), pre-installed could not only reduce these costs *significantly*, but also improve the quality of the finished product due to the more efficient, more accurate, higher quality product which can be manufactured under factory conditions.

44. **Helping to “take the strain” away from scarce numbers of site labour:** Offsite manufacture could also help to provide extra housing stock without adding substantially to the overstretched construction trades’ labour situation being experienced across the building industry in many parts of the country.

45. Due to the simple design of many of the offsite products, new manufacturing staff in the factories can be trained to a sufficiently high standard to be able to work alone with minimum supervision within 2 – 3 months. In areas of high unemployment across the UK, the extra work provided from orders for possibly many tens of thousands of houses over the coming years could help to solve some of those unemployment problems and create a new skilled workforce at the same time.

46. **Taking the pressure away from brick and general materials supply:** The external finishing options available for the prefabricated kits will allow houses to be completed without the headaches presently being experience by builders when trying to order bricks for new developments. Cladding and rendering are the easiest finishes to use with timber, single skin house kits. Cladding and rendering on cement board is also far faster and less wasteful than using a brickwork external skin. Both cladding and rendering products are readily and widely available across the UK.

47. **Build quickly:** New homes take far too long to build in the UK. Many designers are determined not to move away from “brick and block / cavity construction” despite it being a very slow, inefficient, unsustainable method of construction, which creates a very high carbon footprint during the build process, is lacking airtightness and is wasteful of materials and other valuable resources.

48. Utilizing simple foundations, “open plan” designs and “offsite prefabricated” panel construction could reduce the build time for each new home by over 50% when compared to brick and block construction. The fact that most designers and builders seem unable to grasp, is that saving time on site *directly equates* to saving money.

49. If we assume that the materials and trade labour costs are about the same whether the work is done on site or in a factory, there are still huge areas where savings would naturally be made, by being on site for shorter times.

50. Every building site accrues daily / weekly / monthly costs for a host of costs not directly related to *physically* creating the building itself. For example: project manager, site manager, sub agents, foremen, site engineers + assistants, quantity surveyor, estimators, secretarial & admin staff, catering, site security, gate attendants, borrowing costs, insurance, head office overheads/week, cabins,
lockups, welfare facilities, cleaners, heating for offices, cranes, scaffold hire / plant & machinery hire, site vans ..... The list could go on, and these items could easily add **tens of thousands** of pounds a week in “day to day running costs” to a fairly large contract.

51. The totals of all these costs could easily be in the order of 20% or more of the total contract sum. Reduce the time on site by 50% and there could be *real* savings made of 10% - 15% on the cost of the project without reducing the quality of the finished product. This expected saving can be reflected in the initial quoted price for the works, potentially significantly reducing the finished cost of each new home.

52. Just as importantly, in addition to the potential savings on build costs, if a developer can build 20 houses a year using “offsite construction” methods, compared to 10 using “brick and block” methods, like for like, they can potentially make twice as much profit each year. This will allow them to further reduce the house prices and still make higher profits than they may presently manage to do.

53. Building quickly, using offsite manufactured timber closed panels, with fewer deliveries to site and less site waste will significantly reduce the carbon footprint created by the building of new homes.

54. **Finishing**: Choices of finishing items will never have a major effect on the final cost of an affordable home, but there are a few areas where savings can be made.

55. **Internally**: Significant savings can be made by carefully designing and choosing finishing items such as kitchens, internal doors and bathrooms etc. A kitchen design which utilises large double “base” and “wall” units and keeps “frills” down to a minimum can create a very nice finished product whilst at the same time costing very little.

56. Many designers tend to “stick with what and who they know” when it comes to building materials and they often pay a significant premium for doing so. The more “cost conscious” now use the internet to make significant savings on many of the supplies required for new housing.

57. **Externally / landscaping**: Costs can be reduced whilst improving the finished look of a new home by utilising products such as gravels for paths and parts of driveways. Other low cost landscaping products include: standard panel fencing (as opposed to bespoke fencing or brick walls) / turf / forest bark etc. Using these products will also reduce future maintenance and therefore help to keep the developments looking good for longer.
Taking on board the principles listed above could help developers to reduce the build cost per unit (including “off costs”) by up to 50% and achieve build times of 6 – 7 weeks per unit, whilst at the same time improving sustainability, insulation values and build quality.

Report compiled by:
Barry Sutcliffe
(Housing developer / Self-build expert)

15 December 2015
Dear Committee,

Self Building/Planning improvements

I am writing to outline planning practises that are preventing self-builders and others from building urgently needed houses across the UK. I have renovated a number of dilapidated buildings and am now also involved in self-building. As such, I have come into contact with planning departments in London and the Home Counties. I hope that my observations may be helpful in your investigation

1. Planning says “No”

This is the default position of all planning departments. It took me 6 years to convince Hounslow Council to allow me to put a safety balustrade around a 2nd floor roof terrace. This was the only second floor roof terrace without a balustrade in the whole area (Bedford Park in Chiswick – originally listed to stop the Council’s wanton destruction of the beautiful late Victorian housing stock during the 1960s), but the planners’ attitude was that the roof terrace access (which dated back to the 1950s) simply shouldn’t exist and that therefore there should be no need of a safety rail on a large flat roof.

If an owner is seeking to improve a property that he or she has spent a small fortune buying, shouldn’t there be – as there was in the Georgian, Victorian and Edwardian periods, a presumption or understanding that, generally speaking, they are unlikely to do anything to destroy value? Planning departments’ time and budgets would be slashed if they were directed to find favour, unless plans were manifestly likely to destroy architectural merit or overall value.

2. Let people build on their own land

I am currently engaged in a battle of wills with one council (West Berkshire) over a plot of land that is identical in size to its neighbours – each of which has had a house built in one of the preceding decades, having all formerly belonged to a nearby country estate. The estate sold off each plot 60-or-so years ago, with covenants limiting the scale and amount of development that was anticipated on each plot. Each plot, apart from mine, was developed decades ago. What has changed is the planning mentality. Up until recent decades, there was an understanding that people needed houses. Decades such as the 1920s, 30s and 50s all saw huge amounts of house building, with power largely in the hands of the citizen, guided by the local authority. Now, with AONBs, conservation areas, listed buildings provisions etc, any attempt to create new housing faces slow death at the planning stage. There is simply no period in British history when the odds were so stacked against individual housebuilders. Yet self-build housebuilders are the mainstay of our historic housing stock. In-fill housing and speculative plot development are exactly how most villages and towns were built – many using ‘Squatters’ Rights’. If building will make little difference to other residents, the planning presumption should be in favour of such a development and wary of NIMBY villagers attempting to create privileged ghettos from formerly mixed communities.

3. In-fill housing
Two sets of elderly neighbours have had to move in the last 4 years because different councils here would not allow them to build small retirement-style houses in the grounds of the large houses from which they were seeking to downsize. Villagers were adamant that allowing a small single extra dwelling – on plot sizes of 1 and 3 acres respectively – would somehow spoil the nature of each village – villages that, like far too many in the South East, have becoming the exclusive preserve of an entrenched, fortunate few, and whose character has become entirely divorced from mainstream society, with almost no property being available for less than say £500,000. When villages like these – where many of the chocolate box houses were originally erected using Squatters’ Rights – gang up against any further development, they are putting a boot to the throat of the self-builder in a way that would have seemed absurd to any previous generation. Again, a presumption in favour of such developments would have a big impact on village housebuilding and land efficiency.

4. NPPF Paragraph 5 “Exceptional quality” designs

When John Gummer and his officials originally launched this initiative in 1997, it was envisaged that present and future generations would become accustomed to seeing new buildings of the “highest quality” being planned and built. Despite changes to the language used (allowing country houses to be “outstanding or innovative” instead of “outstanding and innovative”), very few houses have been built using this provision (available figures show low tens, out of countless submissions since 1997). Sadly, the wording in the current guidance now gives enough scope for Planning Officers to openly deride self-builders’ chances of convincing them that their plans are of exceptional quality. Self-builders are told (as I was) that such plans will always be “exceptionally expensive”, “extremely unlikely to be approved” and so forth. The interpretation of “outstanding or innovative” is used to stifle good buildings merely because they use building materials or techniques that have previously been used elsewhere in a single UK development. This standard is impossibly high and if the public is ever to become used to seeing more quality buildings being erected in their vicinity, this wording should be relaxed or at least clarified in order to align the effects with the intentions – after all, is every Georgian, Queen Anne, Tudor, Edwardian, Victorian or even Art Deco country house innovative? Not in the slightest. Nevertheless a significant proportion of such houses are outstanding merely as a result of the use of the period vernacular. Had Georgian buildings only been built at the rate that NPPF 5 houses have been allowed, this country’s architectural legacy would have been very poor indeed. These issues may sound insignificant on their own, but magnified across every village, town and city, countless thousands of potential developments are either being unreasonably delayed or obstructed, with the knock-on effect on housing stock, under-employment of building professionals and trades as well as GDP impact. I would be happy to discuss these matters further if that would be helpful.

Yours faithfully

Gareth Thomas
27 November 2015
1. The latest 2012-based government projections of population and the number of households points to a need of around 215,000 dwellings per annum, compared to recent delivery of around 150,000 new dwellings each year. It is clear we need to respond to the objective in the National Planning Policy framework to “boost significantly the supply of housing”. To achieve this, it follows that the sum of all the housing market assessments across the country should add up to the total expected increase in households, or a little more to give some margin of safety.

2. It should be noted that it is forecast that more than 50% of our population increase over coming years will be down to immigration. The 330,000 net migration last year will have given rise to a need for around 132,000 new dwellings, or around 88% of new housing supply.

3. However, there is increasing evidence that housebuilders have too strong an influence over the process that is leading to housing market assessments being artificially inflated to a level much higher than that required by the national household projections.

4. By way of example, in my local area Hart, the only consultees outside of the council in the work to produce the Strategic Housing Market Assessment (SHMA) were housebuilders, their representatives and registered providers. The resulting objectively assessed “need” was nearly 50% above the starting point identified by the DCLG’s 2011-based population projections. A series of adjustments were made to the raw forecasts to take account of inward migration to the area, average household size and a near doubling of the historic job creation rate. Many of these adjustments have been shown to be erroneous by the release of the DCLG 2012-based population forecasts that are much lower than those identified in the needs assessment.

5. The experience of the Hart, Surrey Heath and Rushmoor SHMA is by no means unique. Analysis of five other housing needs assessments of planning authorities across Hampshire, Oxfordshire, Surrey and Berkshire reveals an average housing uplift on the baseline population projections of around 42%.

6. If this were applied across the whole country, then we would be allocating land and allowing the building of some 305,000 new dwellings each year, far above the national requirement. This goes against latest planning guidance that states that housing need should be “principally understood as a measure of future demand rather than aspiration”. An FOI request has been made to the DCLG to provide the national figures, but this has been refused on the grounds that DCLG “does not hold this information”. Given the importance that is being placed on housing delivery, it
is quite staggering that central Government is not monitoring the results of housing needs assessments on a national basis.

7. As a group of local residents, we looked at the housing needs assessment for Hart and came to the conclusion that many of adjustments and the resulting “need” were inappropriate and challenged the Council. But, as we were lay people and not planning “experts” our views fell on deaf ears. So, we decided to seek the opinion of professional planning consultants to provide an independent challenge to the objectively assessed need. Our experience indicates that many planning consultants are reluctant to get involved in challenging these assessments because they get most of their work from developers and do not wish to bite the hand that feeds them. We approached a number of planning consultants and they either did not reply to us, were conflicted or said they normally act for developers and would be unable to help.

8. Once a Local Plan gets to the stage of being examined by the Planning Inspector, the situation gets worse. Because housing needs assessments are usually produced for a combination of planning authorities but Local Plans are examined at the planning authority level, the actual housing need numbers are effectively unchallengeable. The examination focuses on the process for arriving at the housing need and the actual content is immune from challenge. Residents and environmental interests are being crowded out of inspections by the expensive hordes of lawyers, agents and consultants hired by builders and landowners who share an interest in a narrow discussion focused on achieving the maximum possible increase in estimated housing needs.

9. In effect, the whole process of assessing housing need through to inspecting the resulting Local Plans has been hijacked by the development industry and their narrow interests. This is in direct contravention of the NPPF which states that local people should be empowered to shape their surroundings, with succinct local and neighbourhood plans setting out a positive vision for the future of their area.

10. The consequences of this is that local planning authorities are being bounced into allocating green field sites for development because they are easier to develop than brownfield sites. This will result in an over-supply of land and lead to land-banking by the developers, who will only build at a rate consistent with maximising their profits. If they supplied new housing at a rate that meant house prices fell, they would immediately reduce output because their business model and in particular the price they pay for land is predicated on steadily increasing house prices. So, in effect we are allocating too much of our most valuable green field land for housing, but will not actually increase the supply of housing to meet the needs of our neighbourhoods.

11. Local Planning Authorities are then blamed for not delivering enough housing, even though they may well be granting permission for enough dwellings to meet local
need and under-delivery is down to tactical decisions made by the housebuilders to maximise profits.

12. So what action should we take to change this?

13. Government tinkering like “Help to Buy” are more likely to increase house prices in the medium term and thus make the situation worse. The Government should have no role in supporting private housing transactions.

14. Central Government should step up their efforts to monitor what is going on at a local level by gathering all Strategic Housing Market Assessments to determine whether the combined effect of all of them will meet the national requirement; monitor Local Plans; measure planning permission granted and subsequent housing delivery.

15. If there is a lack of supply of housing, then it can be fixed by improving supply or reducing demand. We should of course look at the supply side issues, but we should not ignore the demand side issues. One effective means of reducing demand would be to regain control of our borders and so limit immigration and give space to plan all infrastructure delivery, including housing.

16. We have had five years of a growing economy and record low interest rates coupled with a benign planning environment. It is difficult to envisage a more favourable set of circumstances for the private housebuilders. However, it is clear that the private sector cannot or will not meet the overall housing demand. So, we need to take action now to remove the stranglehold of developers have on the planning process, put more power back in the hands of local people and take further measures to mandate the development of brownfield sites and protect our countryside.

17. We should increase the powers of local authorities to compulsorily purchase derelict sites and use the profits to invest in our creaking infrastructure.

18. We should provide more assistance to Local Authorities to establish development corporations and allow them to borrow to fund the development of brownfield sites for affordable housing.

17 November 2015
Economics Affair Committee
(Economics of the UK housing market – written submission)

Dear Sirs,

‘For our today we sacrifice our tomorrow’

Taking inspiration from the WWII memorial inscription in Kohima my re-interpretation I believe sums up our society today.

The financial crisis that rocked the world economy in 2008 has not resulted in anyway near the financial constraint that would typify a significant shift away from a consumerist focused economy.

We live in a credit fuelled society and our addiction to debt or rather more the instruments that facilitate it are omnipresent.

The consumer’s acceptance to take on debt and the financial and retail industries willingness to foster it has resulted in today’s maelstrom of rising inequality.

I am an aspiring home purchaser and have been for many years. I wrote in 2008 to various housing commentators and those in positions of influence including the then Bank of England governor regarding the housing predicament I and many others were experiencing. Mr Mervyn King and his deputy Rachel Lomax kindly responded.

The Government’s own English Housing Survey 2013 to 2014 found home ownership has fallen to a 29-year low. A marked decline showed in the age range 25-34 year olds with homeownership dropping from 59% to 36% over the past ten years.

Seven years on the housing crisis is still far from over. Worryingly the same excesses that drove GDP growth prior to 2008 are still very much prevalent.

Coupled with the introduction of Help to Buy and with the scheme now extended until 2020 my heart literally sank following the original announcement by George Osborne.

I will demonstrate in the attached paper why housing is a topic the government must tackle and why both the Help to Buy & Right to Buy schemes must be repealed as soon as possible.

Proponents including the Government of the aforementioned schemes may argue they assist first-time buyers into home ownership and I am sure there are the testimony of thousands who have already participated in congratulating the chancellor but desperation can blind anyone from making a rational judgement.
Other rationale argued the scheme (Help to Buy) would provide an impetus for more homes to be built reducing the imbalance between supply and demand and in turn support the UK construction industry. However recent research suggested most new homes would have been built regardless and a report by the Nationwide in late November 2015 stated supply in the 12 months to September 2015 was at its lowest since the 1970’s with only 135,000 new homes built.

So how will the scheme’s success be judged? Is it simply by how many new households will be created or will it be if house prices are sustained or continue to rise?

The Help to Buy and extension to the Right to Buy schemes were and are a mask for short-term support used in the worst possible way in the run up to the last general election but at a possible cost of future economic creditability. So why does the Conservatives continue to support it? Perhaps votes over prudence does win.

Intervention needs to concentrate on existing stock, supply and regulation in order to ensure a healthy functioning market.

I have not been in settled accommodation for over a decade and I cannot begin to tell you how dispiriting this is. I am in full-time work on below average median income and not be able to purchase a reasonable sized property for my needs is unacceptable in today’s society.

The creativity of thousands if not millions are being stifled by the constant worry of living conditions and not being able to buy their own home.

Renting is not an option as this simply curtails one’s ability to save for a deposit so many are forced to rent rooms in private houses. Is this the society the Government wants its working citizens to live in?

Many commenters I believe have incorrectly assumed that a recovery in the housing market is one where prices increase. No a real recovery would be one where prices drop further so those on average median incomes and the majority of the working population would be able to purchase a home.

So what possible reasons could I have for disagreeing with Help to Buy? I am a first time buyer so surely the scheme is good news for me?

I hope I answer that question in the attached report and will attempt to contest the hitherto opinion that house prices rises are linked strictly to lack of supply in my analysis of housing that follows.

I am not an economist and in summary my opinions are of course subjective but I hope to provide for the first-time a comprehensive paper that has been drafted by someone directly affected with no corporate or other agenda apart from wishing to live in a fairer society.
As Mian & Sufi (2012) argue the authorities misdiagnosed the financial crisis of 2008 by ensuring the banking sector was rescuing the financial sector and not assisting homeowners. This must surely change.

Thank you for taking the time to read my letter and attached report.

Yours sincerely

Mr David Ulldemolins

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444 House of Debt by Atif Mian & Amir Auﬁ
Enclosed: Report

Don’t Worry. There goes inspiration!
Why the UK housing market is broken and how government initiatives are doing more harm than good.

Help to Buy

“If we were in a housing boom of course we wouldn’t be doing this sort of thing,” (George Osborne, Chancellor of the Exchequer-The Times, Mortgage plan is not yet finished, admits Chancellor/ 20th March 2013)

“It’s the right thing to do to help struggling families who cannot afford a deposit” (Danny Alexander, Chief Secretary to the Treasury, BBC News interview, 19th September 2013)

"Lots of people who say 'oh, we shouldn't be doing this', are people who've got a house, got a mortgage, sometimes they've paid off the mortgage," (Grant Shapps, Conservative Party Chairman, BBC News interview, 29th September 2013)

The Help to Buy scheme should be called Help to Leverage (William Buiter, former MPC member and now chief economist of Citigroup, April 2014)

‘There is no housing boom’ (MP Sajid Javid, Culture Secretary, Newsnight 09th April 2014)

When the chancellor first announced this scheme in the spring budget of 2013 my heart literally sank. I have been an aspirational homeowner for fifteen years, a saver and never been in debt. House prices had been falling since 2008 but once again prices over the past couple of years have risen by current measurable indexes. Hasn’t the recent economic downturn taught the incumbent Government anything?

Headline grabbing news statements concerning the ever onward rise of house prices belie the real truth. The fact is we are still in the midst of a housing boom and one that needs to be deflated most notably in London and lower England in order to secure affordable homeownership for aspiring owners.

How is success measured on the scheme? Data published by the Treasury showed 7,313 Help to Buy 2 mortgages were completed in the scheme’s first six months.

This is 7,313 to many.

The scheme is a divisive issue but many proponents including the Prime Minister have argued the scheme has not stoked house prices as only 5pc of purchases were in London where the largest prices increases have been. It has had a larger impact in the regions.
Research prior to the statistical release by the Treasury from the NIESR argued many critics were overstating the impact and had little effect on prices. It found less than 2 per cent of the 1.1m housing transactions since April 2013 were the result of the scheme. Price rises it argued are due to cheap mortgages and the better availability of credit. As Jonathan Portes, director of NIESR stated “It is clearly mortgage availability and price that has pushed up demand”.

Interesting to note that in a co-authored article in the Guardian newspaper a year earlier he argued that the (scheme) will simply sow the seeds of tomorrow’s crisis and raise house prices. (Help to Buy: A great of distorting an already distorting housing market, 21st March 2013).

To concentrate on it simply in terms of driving up prices and driving growth in the capital is to miss the point. My own presentiment was always the impact regionally and on seller confidence. If Government intervention is seen as positive driver in stabilising prices both sellers and estate agents, see this as placing a floor on house price falls. I would certainly like to see empirical research done in this area.

Most concerning are the expressive thoughts of many in influential positions. Brian Murphy, head of lending at Mortgage Advice Bureau stated “writing off a scheme that is aiding those who most need it [first time-buyers] is not the way to go about it”.

The very fact that anyone using the Help to Buy scheme needs assisting is a reflection that prices are simply too high. Encouraging those with little savings to take on large debts is irrational and irresponsible. We cumulatively save too little as a nation and it should be other parts of the housing market such as the private rented sector that needs the regulatory hand of the Government not introducing a mortgage guarantee scheme for an indebted nation (£1.487 trillion deficit, ONS April 2015).

By delaying a much overdue correction will only heighten the probability of a severe deflation in prices later at which point many aspiring first-time buyers tempted with those offers of home assistance will potentially be the hardest hit.

Detractors of Help to Buy have been notable and it is important to note of just how many have raised serious concerns but the Government steadfastly refuses to change course (see Fig 1).
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<td>• Graham Beale (Nationwide chief executive)</td>
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<td>• OECD warnings in May 2013 &amp; 2014</td>
<td>• Graeme Leach, Chief Economist at the Institute of Directors</td>
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<td>• The Treasury Select Committee</td>
<td>• Michael Buiter, former MPC member and now chief economist of Citigroup</td>
<td>• Fathom Consulting</td>
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Figure 1
The level of scepticism is important to highlight as its evidence to show there is a high amount of disquiet regarding the scheme.

Danny Dorling, Oxford University professor specialising in inequality has stated the scheme acts as an artificial floor by preventing prices adjusting to realistic levels and by some measures overpriced by 20 per cent.

By early 2013 concern was rapidly escalating and the Treasury Select Committee requested a two-page list of questions to the scheme’s impact and rationale.

Doubts by influential think tanks and figures in finance raised legitimate concerns as the year [2013] progressed with many highly critical.

The Social Market Foundation said “Overall, the scheme will entice young people to load themselves up with debt to finance overprices houses, keeping the housing bubble inflated with taxpayer guarantees”. “And if all goes wrong and house prices fall, the young will pay twice: once for their overpriced house and once through their taxes to pay for the losses on this unwise gamble”.

(Are we sowing the seeds of a new housing bubble? 23rd March, 2013, The Daily Telegraph)

The OECD said in May [2013] house prices in Britain were as much as 30pc too high relative to rents, and 20pc overvalued compared with incomes. In May 2014 it warned that the UK government should scale back on Help to Buy.

The International Monetary Fund (IMF) also levelled criticism warning that it would undermine its own aim of increasing access to housing and simply push up house prices. (IMF warns on dangers of Help to Buy mortgage scheme, 22nd May 2013, The Daily Telegraph)

Andrew Bridgen, a senior economist at Fathom Consulting, a forecasting firm run by former Bank of England economists, said: “Help to Buy is a reckless scheme that uses public money to incentivise the banks to lend precisely to those individuals who should not be offered credit”. May 2013

The former chancellor Norman Lamont and Financial Times journalist Gillian Tet were both highly critical with Lamont arguing pre-financial crisis growth was illusionary (based on credit inflating the economy and consequently GDP) and Help to Buy was a plan for the Government to gain voters at the expense of an increase in debt for political means only (Newsnight 11th June 2013).

The Building Societies Association also spoke out warning that it could inflate property prices (Building Societies warn on ‘house price bubble’, 18th June 2013, The Daily Telegraph).

The most scathing remarks were by Albert Edwards of Societe Generale who called the scheme moronic. “I believe it truly is a moronic policy that stands head and shoulders above
most of the stupid economic policies I have seen implemented during my 30 years in this business,” he wrote in a research note in June 2013.

Graeme Leach, Chief Economist at the Institute of Directors attacked the scheme arguing it will ‘drive up prices’. Commenting Mr Leach said “The housing market needs supply, not help to buy and the extension of this scheme is very dangerous. Government guarantees will not increase the supply of homes, but they will drive up prices at a time when it seems likely that house prices are already over-valued (George Osborne’s Help to Buy is ‘very dangerous’ expert warns, The Daily Telegraph, 23rd July 2013).

The Adam Smith Institute warned in a report house prices will rise and make home ownership less accessible (Briefing: Burning down the house, Government is not the solution to the housing crisis, September 2013).

In November 2013 the Nationwide Boss Graham Beale confirmed it will not take part in the second stage of the scheme.

Did the government heed these warnings? By 2014 the government sought to expand the scheme instead.

Lord Turner the former head of the city watchdog has sensibly warned the ‘recovery’ appears to be built on the very foundations that precipitated the financial crisis.
Incentivising home purchasing by not increasing the fixed supply of homes will potentially result in the market crashing as price would be the only denominator to give. (Lord Turner: Housing boom could drag UK back into crisis. Daily Telegraph, 26 March 2014)

Interestingly the Chancellor’s economic justification for the scheme was contradicted by the Treasury’s own internal analysis when the policy was being formulated. The aim was to encourage more house building but the internal report did not believe the policy would have the intended effect on increasing house supply. Statistical evidence since the final quarter of 2013 shows property transactions had grown by just 2% (HMRC). Similarly housing construction since the introduction of the Help to Buy scheme in the first quarter of 2013 to the third quarter of 2014 shows a 15 per cent rise (28,630 to 32,890). The introduction of the second phase of the scheme in the final quarter 2013 shows just a one per cent rise.

The total number of properties sold under the equity loan scheme up to December 2013 was 41,533 properties and under the mortgage guarantee 30,269 by September 2014 (the first full-year). (The Independent: Chancellor ignored advice from Treasury to launch Help to Buy Scheme, 05th February 2015)

Former members of the Bank of England’s Monetary Policy Committee have also voiced objections with Adam Posen now president of the Washington based Peterson Institute told listeners on Radio 5 Live’s Wake Up to Money programme the scheme (Help to Buy) was mistaken and dysfunctional.

More recently (01st December 2015) comments made by Dame Kate Barker to the House of Lords Economic Affairs Committee reinforced criticism to the scheme [Help to Buy] by
arguing there were better ways to use the money. She is also highly critical of extending the right to buy to housing association tenant’s (more later).

My real fear is that the Government’s introduction of these schemes will prove to be a false dawn for the housing market and will only seek to cause more damage than good. It will only entice more people into debt.

In addition, it is extremely worrying that many of these concerns and objections are seemingly ignored.

Short term policy planning is no substitute for a long term strategic plan with emphasis on sustainability and equality.

In regards to the wider economy, I urge the MPC to raise interest rates so we can rebalance the economy away from debt. This provides the impetus to save and hopefully discourage those from taking on too much debt. As outlined by numerous reports most recently by the Resolution Foundation if many people cannot afford repayments at just 3% then the strategy of low interest rates has been misguided.

The era of cheap money should have ended with the financial crisis as it has manifested an element of confidence that is wholly misplaced.

Does the Government genuinely believe that all those applicants who found it so hard to save a 5% deposit will then be in a position five interest free years later to repay back a 20% loan?

There is no doubt scheme’s such as Help to Buy and Shared Ownership are assisting individuals onto the housing ladder. That is not in dispute. The issue is at what cost to the applicant and the market as a whole?

They could be viewed as lures enticing prospective home buyers into a purchasing a property they can ill afford with potentially huge repercussions much later on. At that stage the present government cabinet would likely to have changed.

Arguably those that benefit the most may not be households but corporate entities such as the house builders. Tragically they have for years gorged on fat profits by short changing the very people they expect to purchase from them. Compared to most house size metrics across the continent they produce ever smaller homes for ever higher margins.

To countercheck this potential gross imbalance of providing poor quality stock one of the Government’s only useful Quango’s was CABE which was effectively disbanded in 2011 by amalgamating it into the Design Council. It had a reputation for producing hard hitting reports on the English housing market. In one it stated that over two thirds of new homes were of a poor standard!

Furthermore, evidence of Help to Buy’s impact on house builders can be gleaned from there revenues. Bellway announced in February 2014 its order book had jumped to
£783 million by the end of January 2014 with the average house price selling for £212,000 due in part it stated to the Help to Buy scheme.

If the housebuilders were so confident in selling homes for such high prices, why are they so eager to embrace such schemes?

Take the following developments by Crest Nicholson in Hereford and Bristol.

Reviewing the Land Registry data against the price of the scheme in general (Table 1) and individual homes (Table 2) it is quite clear the Land Registry prices are significantly lower.
Table 2

The house builder appears to be marking their prices very high and then discounting the equity scheme entry point around the local average dependent on the type of property. Surely though Help to Buy should be significantly lower than the average Land Registry price as what would then be the point in assisting first-time buyers.

As intimated above proponents of the various government equity schemes appear to be unsurprisingly the very institutions that stand to lose the most if such schemes were not in operation. One mortgage industry body has claimed that first-time buyers will suffer if the Government allows the Help to Buy mortgage guarantee scheme to expire and has called for a permanent replacement.

According to research by the Intermediary Mortgage Lenders Association (IMLA), failing to replace the Help to Buy mortgage guarantees scheme (HTB2) with a permanent mortgage indemnity scheme would choke off competition and reduce access to the market for first-time buyers.

If the government scheme is allowed to expire it asserted by the end of 2016 without a permanent replacement almost two thirds of lenders it said believed that competition in the high loan-to-value (LTV) market will fall without a permanent replacement.

We of course heard in the autumn statement in 2015 the scheme was to be extended to 2020.

Balanced criticism by such parties is rare. Instead the focus is on how

Research by the IMLA revealed that three quarters (75%) of brokers and 65% of lenders expect first time buyer numbers would drop if the scheme ends without a successor in place. A majority of both groups (75% of brokers and 85% of lenders) believe access to
homeownership would suffer as a result, having already dropped significantly among 25-34 year olds in the last 10 years.

Similarly, the Mortgage Advice Bureau said fewer homes would have been built over the past two years. Figures from the DCLG showed 118,830 homes were built in England in 2014 with equity loan completions totalling 28,666, 24% of the total. In 2013 a total of 109,570 new homes were built. If HTB1 was discounted, then the total number of new homes built would have fallen by 5% year-on-year. The figures showed the cost of the typical house brought via the scheme in January was £205,327 and the average salary of a buyer using HTB1 was £32,338 less than the market average of £39,811.

This highlights what is wrong with such schemes. £205,327 as an average cost for an assisted property is still vastly overpriced. Using an income multiple of 4.5 on an income of £32,338 results in £145,521. The £60,000 shortfall would then have to be met by combination of deposit and equity loan which incidentally would have to be paid back in five years.

Typically, some sections of the press have an almost unhealthy juxtaposition on stoking up the market. Property correspondents of some national newspapers are advocates of the scheme. Take Anne Ashworth from The Times whom we are told is the property columnist of the year who argues for a property tax instead of ‘penalising the beneficiaries of Help to Buy’.

It almost makes one weep. The beneficiaries of disbanding such schemes would be all of those striving to get on the market if prices were much lower not by a scheme artificially manipulating the market by coaxing first-time buyers into an over inflated market.

Just a few days ago housing experts have said the scheme is underpinning the market. 2,252 homes were brought in September giving it a record third quarter.

Ray Boulger of John Charcol mortgages estimates the proportion of sales directly linked to the scheme is 40% and on some building sites nearly 70%.

He states ‘that [Help to Buy] makes it massively important’. I would argue ‘that makes it a monumental mistake’.

Providing life support to underpin the housing market is dangerous and the wrong strategy. It has resulted in house prices being supported at levels that if left to their natural course would more than likely have fallen and by turn many more household being able to afford one.

**House Prices**

House prices have reached record levels this year according to all the major indices. So is this cause to celebrate?
For the seller it may well be good news but the law of unintended consequences may not necessarily result in the benefit they may think they are expecting.

The general health of society appears to revolve around material wealth. In regards to housing it is generally accepted that high prices are seen as beneficial regardless of the drawbacks both economically and socially.

However, it is important to note that some institutions including the Bank for International Settlements, the IMF (United Kingdom 2012 Article IV Consultation), the Bank of England’s own biannual Systemic Risk Survey and even the head of the Government’s Office of Budget Responsibility have all concluded Britain’s house prices are overvalued in relation to income.

These expert findings facilitate the framework to support my hypothesis that not only house prices are far too expensive but reasoned debate by especially the press is somewhat missing. Far larger numbers of people read newspapers than a report by an economics institution so who does the public take as gospel? The hype of a newspaper columnist or an academic economist?

Academics within the field have also concluded prices are too high. Research by Professor James Mitchell, Professor of Economic Modelling and Forecasting at Warwick Business School warned in late 2013 that house prices were overvalued in ten out of thirteen regions in comparison to income.

Since then prices have only increased further.

Factoring in recent reports on the burden of debt and that the squeeze on incomes is the worst for 25 years how can a policy such as Help to Buy that encourages more debt be seen as prudent?

Hitherto assumptions of house prices increases have always centred on the lack of supply. Of course more homes should be built in order to meet a growing population yet I fail to see how the restriction of supply alone can result in such sustained increases?

In certain areas potential homeowners can drive growth such as prime central London (PCL) locations where there may be additional factors such as international investment buyers but this alone cannot drive regional house price growth.

If supply was such a constraint on prices as we are constantly led to believe why did house prices fall at all during the downturn in 2008 & 2009?

Home building virtually came to a standstill after the financial crisis and this constricted supply even further but did this result in prices increasing? No they continued downwards. Unsurprisingly it was the constraint of mortgage finance that precipitated the falls.

My hypothesis is that price rises in the main can only be supported by very loose monetary policy (low interest rates), lax lending procedures by both bank and building societies and schemes such as Help to Buy that can be utilised by house builders to manipulate prices.
This in turn drives affordability so if prices are now increasing it is the product of the monetary and regulatory environment.

Recently the ratings agency Moody’s warned of the threat to the UK economy from a house price drop. Analysing 50 episodes of house price declines it found they were typically followed by a 6 per cent decline in GDP. The factors accentuating recent price rises were low interest rates, rising populations and slow construction it stated. (16th April 2015)

Low interest rates were also viewed as a danger sign by BNP Paribas who have warned holding base rates risks house prices rising faster.

The turning point may be very nearly upon us. In October Swiss bank UBS warned London’s housing market has formed the world’s largest house price bubble. In an analysis of the ratios between property prices to income and rents it found the measures had reached all-time highs. More than any other capital city London it argued faces a substantial “price correction”. Tellingly the bank also stated the Government’s Help to Buy scheme had played a factor in stoking demand (Global Real Estate Bubble Index, October)

While the DCLG asserts there is ‘no evidence’ of Help to Buy increasing prices a report by Shelter in September 2015 found it did with prices rising by £8,250 as a direct result of the scheme’s introduction in 2013. Why hasn’t the DCLG not conducted its own public review of the scheme?

Those that believe (an array of commentators from national newspapers to estate agents and even think tanks) that house prices will keep rising due primarily to a restriction in supply appear to ignore the fact this argument is not evidence based in the real market.

Take the following comment made by Nationwide’s chief economist Robert Gardner following the release of double digit annual house price inflation in 2014. He said 'house price growth is outstripping income growth by a wide margin. Unless supply accelerates significantly, affordability will become stretched’. (UK house price growth hits double digits, Financial Times, 01st May 2014).

These comments could have been lifted out of any standard entry economics textbook. The restriction of supply can lead to price rises by virtue of increased demand but this is far too simplistic to account for the UK housing market.

Prices were heading down after the financial crisis and needed to drop at least another 30% for prices and income to correlate properly again, more so in London. Low house prices will result in more people having higher disposable incomes and the economy by turn will benefit.

Statements such as this are often quoted in the press. The restriction of supply is the panacea for growth.

Even senior economists say it. Kevin Daly, Senior European Economist at Goldman Sachs stated ‘across the nation prices have risen 10% driven by the easing of credit availability but
what hasn’t increased is supply and it is this that lies at the heart of our view that UK house prices remain somewhat below fair value’.

His argument was supported by a graph on housing completions showing a significant decline not seen since the 1920’s. The justification for fair value is based on rental yields over the long term cost of borrowing. (House price inflation casts shadow over UK recovery, Emily Cadman, Financial Times, 01st May 2014/video in article; UK’s housing bust without boom - interviewed by Sarah O’ Connor, Economics correspondent).

In assessing whether the market is in a bubble using just data sets without consideration for other factors I believe is misleading and far too restrictive.

One very recent report by academics at Lancaster University for example uses an econometric technique by Yale economist Peter Phillips. Their analysis claims Britain’s property market is not in a bubble despite acknowledging that UK prices are at historical highs. They do however sound a caveat on London which it states is on the cusp of one and the effect could ripple out to the surrounding regions. (UK Housing Observatory Report, November 2015).

Thankfully there are commentators such as Simon Jenkins (CEO of the National Trust) whose rationale is firmly in the ‘common sense’ category. Writing earlier in the year he argued wealth, subsidy and the supply of money are the primary factors in house price growth. (The Spectator, The Myth of the Housing Crisis, 28th February, 2015)

There is no doubt we are in the midst of a house price bubble. Some would argue this is restricted to London and the South East but I would juxtaposition this with the notion that surely anywhere where the average price grossly exceeds the average medium wage then the market is not working efficiently.

**Interest Rates**

Low interest rates have been a permanent fixture for some time now and the introduction of the Funding for Lending scheme by the Treasury and the Bank of England in 2012 emboldened the banks to again expand mortgage credit. This is no coincidence that house prices in turn started to creep up again.

Thankfully the Funding for Lending scheme changed its terms of reference in late 2013 to exclude finance for mortgages from 2014. Unfortunately, the government in anticipation of such a move announced an initiative that provided a fillip for both house builders and the banks all to the detriment of the first time buyer who will be saddled with huge debts on homes that are simply overpriced.

If the government and the Bank of England really wanted to help the potential homebuyer it would have confined the Funding for Lending scheme to businesses only and introduced a stricter mortgage lending criteria sooner than April 2014.
It is only right that anyone applying for a mortgage must prove they have attained the financial discipline in order to maintain monthly mortgage payments and saved money for a deposit.

The Bank of England in its Quarterly Bulletin in December 2013 warned that if interest rate rose to only 3% then a third of the 11 million households with mortgages would be in serious financial difficulty with many having to resort to attaining a second job or cut spending.

Michael Buiter in April 2014 warned some households will be in trouble when interest rates rise. When Bank rates return to 4% and unemployment rises households that have taken out 90% loan to value will be in deep trouble. It’s extremely reckless to encourage people to take out 90 percent loan-to-value ratios.

(\textit{The Times}, 4$^{th}$ April 2014/ Fears about house prices are hype, claims Osborne)

Keeping rates so low for so long has created an imperfect market tempering household’s tolerance to debt and strengthening the use of credit as the primary source of spending.

\textbf{Debt & Personal Finances}

Personal debt both secure and unsecured is at worrying levels. Figures published by the Bank of England in November 2013 showed personal borrowing including mortgages and unsecure loans stood at a record £1.43 trillion and that amount has only grown since.

A plethora of reports from think thanks to insurance companies all paint a gloomy picture not just nationally but globally.

A major report into the health of the nation’s finances by the Money Advice Service in August 2013 found nine million people across the UK are living with serious debt problems and 26 million people are struggling financially. Its report into the health of the nation’s finances found many people are living a "live for now" culture.

The AXA Big Money Index Report published in September 2013 highlighted the financial pressures on the present generation of parents with nearly 40% believing they will not be able to contribute financially for their offspring in the same way they had been assisted.

The charity Shelter highlighted in early 2014 the financial stress many households are facing following a YouGov poll of 4,000 people. In particular, 70% of families with children were struggling compared with 63% of the general population. Both percentages are worryingly high with more household income being apportioned to service higher household spending including mortgage/rent and both rent and mortgage costs increasing due to the indebtedness more households are taking on.

Earlier research by Shelter found one household in every 105 was in danger of repossession.
As research by Michael Johnson an academic at the Centre for Policy Studies pointed out in May 2014 the British save only 2.4% of their income compared to 11.7pc for French. This he argues needs to change as the current economic environment is unsustainable due to below normal interest rates that have all created an appetite for apathy and consumerism.

In May 2015 the European head of Goldman Sachs Asset Management, Andrew Wilson issued a stark warning the world is sinking under too much debt and posed a significant threat to the global economy.

In an assessment on the health of the UK economy the IMF warned household indebtedness in Britain is as serious an issue as in Portugal and more than many other developed nations. It is due primarily it argued by borrowing on expensive homes. High debt levels it reminded us is hindering economic growth and financial stability. Figures showed household debt was worth 87.1 per cent of gross domestic product; higher than in Portugal at 82.6 per cent. (Global Financial Stability Report/April 2015)

A separate survey by MoneySuperMarket.com found a further 13 million Britons will fall into debt this year; a 40% increase on 2014 (April 2015).

This prediction was enforced by the Markit’s UK Household Finance Index for August 2015 showing household finances were deteriorating at the fastest rate of the year.

It is not just the young who are having difficulties. Saga recently reported (September 2015) that 700,000 over 70’s did not clear their home loan before they stopped working. The average debt still owed is £50k. The group stated “In reality the home is becoming a drain on finances”.

With homes worth more than ever before then these issues will only acerbate further.

The dysfunctional state of the housing market is putting extreme strain on the ability of any individual to set aside enough income for savings let alone for life’s emergencies and retirement.

Research of over 2,000 UK adults by True Potential LLP showed that millions are not saving enough in order to avoid poverty in old age. It found the average worker was saving just £1.72 a day or £51pcm. 13.5 million (45% of Britons) had no pension savings. (Paper: Tacking the Savings Gap, September 11, 2015)

If homes as an asset class were cheaper than they are today the savings ability of many households would rise and this in turn would help the economy with excess savings being used in the real economy to purchase products and services.
1. OBR – Office for Budget Responsibility. Forecast outlined in the Budget 2014
2. The Money Charity Debt Statistics April 2014
5. AXA Big Money Index Report-September 2013
Right to Buy

A recent report that a council home sold for £1.2m and sold for ten times its original discounted price is what I term the equivalent of an immoral bomb. (Daily Express: Sold for 1.2m: The council flat worth £130,000 25 years ago)

There are many detractors regarding this policy and central government should perhaps look to the Welsh Assembly on guidance over housing as they at least have a sensible rationale in place. They have introduced a ban on Right to Buy as it rightly ensures the stock of social housing is maintained at its current level. They rightly argue selling one house to fund another is counter-productive.

The danger by politicians in making short-term popularist policy announcements are have a serious effect on all aspects of the housing market.

Two surveys in mid-April 2015 suggested the recently announced Right to Buy extension for housing associations is not popular and would not have the intended consequent of building one for one replacement. A poll by YouGov suggests only 28% of voters are in agreement for Right to Buy and Inside Housing in a survey of housing associations suggests they will only be able to build one home for every five sold.

So unpopular is the policy extension to housing associations the Confederation of British Industry and Jones Lang LaSalle have criticised the announcement calling it short-termism and a terrible policy.

Does the Government take this criticism on board like Help to Buy? The answer is an unequivocal no. This in itself should warrant a parliamentary inquiry on the saneness of decision-making alone.

Personally I do not know one person who considers the policy has any merits. More telling is the fact that some of those who are in local authority housing consider it to be a poor policy. Coincidentally these are households working in local government but like everyone who is eligible why wouldn’t they not take advantage?

Playing devil’s advocate, the only positive in offering Right to Buy is that more homes would be added to the supply side.

However, there is one overriding and very important moral question that is rarely raised but must be addressed. How can it be fair that one household acquires a property at a discounted rate and then sells it to another for a full market rate?

There is simply no rationale philosophical counter argument. If there is then please let me know? If you cannot answer this, then the policy is wrong.

The council tenant by contrast to the household who may have languished in the privately rented sector for many years paying exorbitant rents has had the benefit of an extensive
tenancy management service providing a free repairs service in many instances and access to housing professionals like a housing officer.

With the recent plan to extend Right to Buy for housing association tenant’s and the news that a housing association tenant in London for example can potentially take a portable voucher for a current maximum discount of £103,900 and buy a property anywhere in the country the argument against the policy is compelling.

I urge policy makers to recommend the Right to Buy is cancelled for the sake of equitableness and what it means for a fair society.

Renting (Private)

The private rented sector in its present state is an absolute disgrace to our country and regulatory controls should be put in place as soon as possible.

The difference between the public and private sectors could not be starker. In council owned properties tenants have the luxury of a free responsive repair team often contracted out to a privately run company. Additionally, there are programs to renew kitchens, bathrooms, doors and windows and tenant’s often have the support of a dedicated neighbourhood team.

By stark contrast is the private-sector where the lack of official oversight enables many landlords to continually provide sub-standard accommodation yet still make vast amounts of money from both working individuals and the taxpayer (if the tenant(s) are on benefits).

Every landlord no matter how small their portfolio should be compelled to sign agreements with their local authority to provide a nationally acceptable standard of living accommodation for fair rent. Consideration should be given to utilise the local authority’s repairs team at their cost if they have not made adequate provision for such a service.

The recent furore over ID checks is nonsensical with some sections of the press and landlord associations saying it will be too onerous. What nonsense. The public sector has always asked for ID at sign-up partly due to fraud prevention and of course data protection.

Recent reports have only sought to substantiate the inadequacies of the sector.

The outcome of a three-year investigation by Shelter and Crisis in February 2014 concluded that many tenants are living in unsuitable housing conditions often with severe damp and mould issues with unresponsive and aggressive landlords. The pressure on waiting lists has resulted in many local authorities discharging their statutory homeless duty by offering privately rented accommodation. The assessment was based on 128 households in three regions of England over a nineteen-month period. (Report: A Roof Over My Head: the final report of the Sustain project, a longitudinal study of housing outcomes and wellbeing in private rented accommodation)
Similarly, a previous report by Shelter in December 2013 found over 200,000 households are at risk of repossession or eviction and the proportion of landlords taking their tenant’s to court for repossession outnumbers lenders to borrowers by a factor of three.

This is hardly surprising due to the fiscal trap of renting. The combination of high fees and rent does not enable households to save for a deposit and the only winners are landlords who charge exorbitant rents with little reinvestment into the property they own.

BBC South highlighted the story of two tenants in private sector accommodation in Reading, their flats riddled with dampness were fitted with non-double glazed windows. It was a shocking indictment of how low standards can get without adequate regulations. When the programme received feedback from the landlord he informed them it was due to the tenant’s living conditions that acerbated the problem. (BBC South, 6th February 2014)

This is an often quoted retort to such concerns. There is in fact no empirical evidence stating tenant’s living conditions are to blame for such severe damp problems (condensation dampness). This shows how landlords can undeservedly blame tenants for property related issues when they themselves should be dealing with the problem. However not many tenants have both the confidence and financial means of taking these issues through the courts.

Depressingly research by the IPPR North think-tank found one million homes in the private rented sector fail to meet basic standards of safety, warmth and repair. Billions of pounds of taxpayers’ money are being spent on housing benefit for rent given to private landlords who fail to keep the properties in good condition. The report concluded that privately rented properties are the most expensive yet are in the worst condition, and that taxpayers’ money would be better spent on improving conditions for tenants. (Report: Back to Rising Damp? Addressing Housing Quality in the Private Rented Sector, January 2014)

In April 2014 the Chartered Institute for Housing pointed out interest only mortgages are not available to first-time buyers but are to the unregulated market of buy to let lending. This of course provides a competitive advantage not only in attaining a mortgage but for tax purposes and although I do not agree with the CIH assertion that this should once again be made available to first-time buyers (perhaps the CIH has forgotten the recent financial crisis stemmed from risky lending) this category of lending should be banned all together. Additionally, more stringent checks by the bank in regards to maintenance provision should be a legal requirement.

Finally, attention must be paid to estate agent fees. In the not too distant past a new prospective tenant paid just a deposit and a small reference fee before commencing their tenancy. Today the story is very different.

A typical tenancy agreement has the following charges including a tenancy deposit scheme fee, agreement fee, check-in fee, reference fee, deposit x 1.5 rent and first month’s rent. Ongoing costs include an extension of tenancy fee. Outgoing costs cover a checkout fee, checkout inventory fee and reference fee if required.
This is simply absurd. Take the reference fee often well over £100. What does this report have in comparison to one acquired from a leading credit rating agency for a couple of pounds?

Vital reforms are long overdue in this sector and the government’s focus on homeownership per se should be refocused to all sectors of housing including the private sector.

Renting (Public)

Although services to public sector tenants are more than adequate as outlined previously wholesale reform for those eligible for housing needs urgent attention.

Due to council allocation procedures even when a council tenant has been evicted by a court order this is often viewed as an involuntarily act and the local authority has a duty to re-house. Not only has the authority lost money on non-payment of rent for example but also money spent on the legal process and eviction. Extremely prudent use of taxpayer’s money I am sure you will agree?

The whole question of eligibility is further driving inequality not between the rich and poor but now between the low and middle earners and those that simply have never been in employment.

The fact that some people in work cannot afford a home and are left to the private rented sector as opposed to those who are eligible for a secure tenancy with attached rights to buy (discussed below) is shameful.

There are instances especially in the under 21’s where families suddenly turn out their offspring (conveniently at the age of 18) and the individual lands at the reception of their local housing allocation service claiming homelessness. Often to substantiate the circumstance the advisor may have to accept a letter from the family. The supposedly homeless individual is then often granted accommodation and the cycle of free accommodation and access to benefits commences again. Unsurprisingly the very family that had been so heartless in the first place is often supporting the individual at the time of sign-up. I leave to you to decide the moral ethicalness.

The Solution

Introduce mandatory introductory tenancies to ensure responsible tenants get homes and any tenant that causes a problem will be dealt with swiftly negating the need for sometimes costly legal actions.

The allocations legal framework should be centred on those most at need and given appropriate supported housing and to those in work on below average incomes. The reason so many estates across the country have endemic social problems is because many people are awarded homes without the requisite ability to sustain them.

There should also be a restriction including age on those able to access housing on the strength of their families say so.
To negate families who are anti-social and alleviate the need to use the services of costly bed and breakfast accommodation why isn’t there a strategy in place to build more managed accommodation? By this I mean managed centres with a bedroom and bathroom facilities with a communal kitchen. This type of accommodation could also provide the requisite life skills and prevent the type of issues that have become prevalent across council and housing association estates.

Supply & Land

The focus on house builders using Help to Buy as an economic platform for building more homes is a misnomer and only serves to drive profits on what still is a woeful building programme. Figures released by the Department for Communities and Local Government in August 2015 show a 14 per cent decline in housing starts to 33,280 in the April-June 2015 period; the steepest decline since the last quarter three years ago. This is 32 per cent below the peak in 2007.

There are currently 635,000 unoccupied properties in the UK.

We are often told we live in an overcrowded nation and although we have a significant population in comparison to other countries with similar land areas the fact remains that less than 10 per cent of our land is built on. Furthermore, there are thousands of acres of brownfield land that are not being put to good use.

Why we haven’t a planning system open to more development is baffling.

Developing brownfield land and some semi-brownfield sites in all the cities (51) towns (936) and villages (4,221) in England is of paramount importance. This would of course increase the housing stock exponentially and reduce the imbalance between supply and demand.

Common sense must prevail and there is absolutely no need to build on flood plains and this should be incorporated into planning law.

In very simple terms building an extra 10,000 homes in every city, 1000 in every town and 50 in every village would equate to an additional 510,000 + 936,000 + 211,050 respectively. Nearly 1.9 million homes compared to the paltry amount currently being built. Although capacity and skills could be an issue due to years of under investment every urban area should have a plan to build more sustainable communities.

The Government needs to invigorate communities by passing legislation so pockets of land that have been left undeveloped are given to house builders for a low purchase price who in turn must make legal commitments to develop in a short time frame or face significant penalties. At the moment there is simply no need for them to do so. A national housing building programme would inject a much needed boost to the construction sector and support directly and indirectly thousands of jobs.

The Home Building Federation in trying to justify why house builders are not building enough announced in one television interview that it is fundamentally a problem with deposits effectively laying the blame with financial institutions for not giving mortgages.
This is a classic blame the banker’s tactic. The banks do of course have to tighten their criteria in order to be responsible lenders but are then an easy target by a dubious industry body that cannot make a critical assessment of its own members.

The house builders of course are pricing their homes artificially high (as explained previously) and expecting the government to come up with novel schemes like Help to Buy to enforce such prices. Very similar to a revised version of a Ponzi scheme isn’t it?

The Government should seek to pass legislation to prevent land-banking and any developer must commence work within a statutory time period.

Reform of the Stamp Duty Land Tax (SDLT) should also be considered with the burden being perhaps being placed on sellers.

The Media

Interestingly house prices in the tabloid press are almost always surrounded by hyperbole.

The newspapers with larger readerships (The Daily Express & Mail) than the more balanced opinions in papers such as The Telegraph and the Times seem to constantly hype up the housing market.

Even during the financial crisis, the Daily Express in particular ran many articles focusing on house prices predictions that showed prices were forecast to increase but very rarely decreasing and in many cases eschewing real economic debate.

Headlines during the financial crisis were extremely positive and when prices actually started to move upwards their property correspondents went into overdrive latching onto any positive data. They often quoted property professionals that had a vested interest in positivity such as estate agents.

In 2013 The Daily Express ran with 45 separate articles including 16 that made the paper’s headlines.

So why is this important? The media has a responsibility to report on matters of fact and offer balanced opinion. Quite how a national paper such as The Daily Express can run story after story with headlines screaming ‘House prices to soar’ is mystifying. Their influence can be significant and could potentially sway individuals into making rash decisions as it gives the perception they should act before the market gets any further out of control.

Conclusion

The property market in all its guises is not functioning effectively. Government initiatives are not being concentrated in the right areas. Stoking demand only is not the right strategy.
Housebuilding is woeful and where is a national building framework that is ensuring every city, town and village has a coherent plan to build homes every year.

Disbanding Right to Buy must be a priority due to its inherent unfairness and urgent reform must be initiated in regards to the private and public rental sectors.

Positively many of the issues can be addressed. Unfortunately, the very people who are in charge of policy and wield the requisite power to implement change seem somewhat lethargic to do what is necessary.

Real leadership is necessary and only by recognising when mistakes have been made [i.e. Right to Buy and Help to Buy] can a coherent plan be then put in place.

16 December 2015
1. Background

1.1. I am writing as an individual engaged in preparation of Congleton’s Neighbourhood Plan and as a member of a local planning-action group, Protect Congleton.

1.2. Since the inception of the NPPF my local authority, Cheshire East, is still struggling to achieve a Local Plan and, in the absence of an adopted LP and a five-year housing supply, many planning decisions are made through the appeal process. Permissions are also sometimes given purely to avoid the costs of the appeal process.

1.3. There are currently 49 Neighbourhood Plans in preparation in the Borough and this reflects the difficulties experienced by local communities in assuring some kind of structured planning regime. Communities are committed to identifying and meeting specific local housing needs for both their existing and future populations. They are keen to see not only housing, but the necessary supportive infrastructure to enable sensible and effective economic growth and appropriate provision of housing and services. This is proving extremely difficult and challenging in the absence of an adopted Local Plan and a five-year housing supply.

2. Difficulties of correctly assessing housing need in Cheshire East

2.1. Cheshire East Council has proposed an Objectively Assessed Housing Need of 36,000 dwellings. This figure has already been increased in response to criticism from developer groups during the Local Plan process and it remains unclear whether it is an accurate reflection of either actual or forecast need. It is aspirational and it is clear that it aims to boost national housing supply. However, as shown below, completion rates do not support this figure.

2.2. The Local Authority and Local Housing Associations have a system for predicting and assessing local need which is difficult to understand and arcane. Although lists exist, there does not seem to be any reliable system to establish the real extent of need. A "choice" system is operated to allow applicants to "bid" for available property but this allows duplication because:
   - each member of a family can apply separately;
   - applicants do not need to live in the area;
   - a single applicant can apply for multiple properties.
In addition the applicant may already be housed and so the figures are not purely a requirement for additional housing. Hence the reliability of the base housing-need figures is questionable.

2.3. The current position of the local plan has meant that speculative development is currently replacing community, plan-led development. As the following sections
show, this has not led to significant improvements in the provision of housing as many permissions are being land-banked. Delivery is persistently low, presumably to ensure a shortage of supply to keep prices and profits high. It also allows developers to manipulate the planning system to secure more land release. An analysis of the way in which this operates can be found in the CLG Housing Markets and Planning Analysis Expert Panel report “Factors Affecting Housing Build-out Rates” (http://www.gla.ac.uk/media/media_302200_en.pdf).

3. Difficulties of improving housing supply in Cheshire East

3.1. Between March 2010 and March 2015 Cheshire East Council encouraged developers and individual builders to submit planning applications and approximately 17,000 outline permissions were given. Of these, 14,751 were full permissions including S106 agreements. They covered a wide variety of sites ranging from single dwellings to large multi-contractor sites. During that same period only 3,552 were built. Given the generally accepted belief that there is both a housing crisis and a high demand, a construction rate of approximately 21% on existing permissions over 5 years seems very low. It is a cause for concern, therefore, that lack of permissions is invariably cited as a reason for low construction rates as the evidence does not appear to support this contention.

3.2. Build-out rates are low and the industry seems determined to keep them that way. I attended a Local Plan workshop at which the principal representation was from major house-building companies and planning and development agencies. There is a consensus in the trade against increasing build-out rates for economic reasons. Statements from the sector included:
- Maximum build-out rate should be 25 per year;
- The process is driven by sales;
- Take up rates in the south [of Cheshire East] are slower due to market saturation;
- Unrealistic to double the output where there are two developers on one site; suggest 30%-45%.

The reason for this seems to be to keep housing prices high so as to maintain or increase developer profits. It is not clear why legislators do not appear to understand this.

3.3. In areas, such as Cheshire East, which have started from a negative housing-land-supply position because of a moratorium and a recession, it can be counter-productive to apply punitive buffers such as Sedgfield. In Cheshire East, this has resulted in permissions outside strategic locations which saturate markets and thereby delay or cancel out the development of strategic sites. Infrastructure projects that would support more development are often lost or delayed because of this. At 31st March 2015, in Cheshire East there were permissions for 4,950 dwellings over 18 strategic sites, granted between 2011 and 2014. Whilst permissions for 8 of these sites were outline only, the remaining ten sites had S106 agreements in place and had been available to build for some time. Despite this, only 1 site had commenced construction by March 2015 with no dwellings completed. Whilst these might come forward at a later stage, it is not clear why a 20% buffer zone is constantly requested. Dearth of permissions is not the problem.
The planning system seems to be promoting random development at the expense of strategic planning. This alienates and disadvantages communities who then oppose further development.

3.4. Some sites that have gained permission are not being offered for sale and some that are on the market are slow to sell. It seems that the market either cannot stand the prices that are being asked or that the housing demand is lower than anticipated.

3.5. There is a tendency for developers to want to build "high-end" housing with large numbers of four or three bedroom houses in the housing-mix. This has limited appeal to first-time buyers or low-income families but builders seem to be reluctant to depart from their standard models. Developers appear to be content to land-bank rather than to build where the market does not conform to their own model.

3.6. There appears to be a shortage of capital in the social-housing sector. As part of the Neighbourhood Plan process there has been extensive consultation with our local housing associations. A statement has been made that, because they have to find the resources to cover changes to the welfare system, they do not expect to be able to commit to buying any new homes for the next four years. Additionally, they are very concerned about the impact of right-to-buy on their ability to maintain their role as providers for the socially in need. It is difficult to understand the value of Right-to-buy in relation to these providers.

3.7. The work carried out as part of the Neighbourhood Plan process has shown that, in a town with a predominantly ageing population, very poor public transport and employment provision, and a high level of outward commuting by private vehicle, there are some very clear local needs. These include specialist accommodation for older people, including nursing-homes, care-homes, retirement village and affordable homes for care-workers. We also need to ensure the embedding of infrastructure to draw in new employment opportunities and to reduce use of private transport and concomitant air pollution. At the present time, it is not possible to meet these needs as the planning system does not allow any over-riding of the commercial interests which are currently dominating the housing market and restricting the supply and type of housing.

4. Conclusions

4.1. It seems that there is little awareness on the part of the law-makers of the real effects of their policies. The proposals that have been put forward by Government rarely seem to address existing situations. As a community without a local plan or a five-year land supply, our Local Authority cannot control anything. In practice, the decision making has been taken out of its hands. Additionally, they are not empowered to make developers build once permission is given. The Government needs to understand the real reasons for low build rates and introduce policies that address them. It is not clear why Local Plans cannot be accepted on an interim basis and then amended at regular intervals to reflect more accurately such factors as economic growth or decline and variations in local housing conditions.
4.2. The Planning regime needs amending to ensure that locally recognised needs are more important than vested commercial interests. The type of housing built can be more important than the pure numbers. If the presumption to build is retained, then it needs to reflect more accurately the need to supply local wants and should not be tied to a five-year housing supply number that may be meaningless. A more accurate methodology needs to be found to estimate need. The distinction between need and market demand needs to be more clearly defined and recognised.

4.3. Exercises such as Local Plans, Neighbourhood Plans and Planning Appeals are immense drains on public funds. There would be much less expense and contentment if the legislators were clearer about their intentions. It seems perverse to require publicly funded bodies to go to all this trouble and expense and then to contradict the results. The recent decision by the Secretary of State at Hook Norton, overturning the local decision when there is an NPPF compliant Local Plan, a five-year supply and a Neighbourhood Plan in place, appears to bring the system into disrepute. It is an enormous waste of money which could have been better spent on providing affordable housing for those who will never be able to afford to buy a home on the open market.

4.4. A "use it or lose it" clause should be introduced to reduce the incidence of land-banking and to ensure that sites are being built out in a timely way. If this conflicts with the economic interests of the construction industry, which is currently enjoying massive profit margins, then the Government needs to re-think whether it exists to ensure that the population is housed or whether it exists to boost profits in the developer sector. Currently, taxpayers are being asked to support an industry that is posting very high profits.

4.5. The definition of sustainability should reflect more accurately the wider ecological and social needs. The cost of failing to recognise the sensitivities of local eco-systems in allocating land use may be severe for future generations. For example, the Government supports policies in recognition of climate change, cites this as a cause for increased flood-risk but fails to apply proper flood-risk safeguards to new building schemes, thus exposing both existing and new housing to significant risk.

4.6. The provision of social housing should not be left exclusively to the private sector which has consistently failed to deliver in this area. (Government Housing Supply statistics). If house prices can only be reduced by increasing supply, then it is not sensible to leave control of supply in the hands of companies whose profits rely on high prices. It is also questionable why public money is being used to enhance profits in the private construction industry rather than to create long-life affordable housing for those in need.

4.7. Land supply for industrial development and infrastructure is being restricted because land for housing commands a higher price. Our Local Authority is struggling to persuade land-owners to release land for any other purpose than house-building. Whilst house-building is important, other land use is also essential and it is important that the market should not be skewed so severely because house-
building is given such significant pre-eminence under the current planning regime. The use of compulsory purchase powers for land required for infrastructure projects should be encouraged.

16 December 2015
HOUSE OF LORDS
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Inquiry into the Economics of the UK Housing Market

Response of Urban Vision Enterprise CIC &
Urban Vision North Staffordshire

December 2015
Introduction

Urban Vision Enterprise is a community interest company providing professional services in town planning and urban regeneration at national and local levels. Urban Vision North Staffordshire is a partner organisation and a charity, operating in North Staffordshire (the Centre for Sustainable Regeneration and Design).

The Urban Vision organisations specialise in planning policy, neighbourhood planning, heritage-led regeneration and conservation, urban design, independent design review, community engagement and consultation, community projects, third sector organisational development, training and education.

Clients include UK and national professional and membership organisations, local authorities, local councils, neighbourhood forums and local community groups.

Urban Vision Enterprise is a partner in delivering the Government’s Neighbourhood Planning national support programme.

We would be happy to expand further on some of the views shared in this evidence.

Questions

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

   a. **Government Schemes:** How effective have Government Schemes (such as Help to Buy, shared ownership, and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

   b. **Taxation:** Are there tax measures that would improve housing supply and affordability?

      i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on ‘downsizing’ or housing supply in general?

      ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

   c. **Mortgages:** Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

   d. **Planning:** Are any further changes needed to the planning system necessary to increase the availability of low cost housing?

Measures to increase the supply of reasonably priced housing
The supply of new homes has been restricted for many years. It is generally accepted that as a country, we need to build around 240,000 homes a year in order to cater for demand and household growth, and we have not achieved those levels for more than three decades. This has ultimately fuelled the huge house price inflation that we have witnessed over the past 15 years or so. The lack of genuinely affordable housing has a negative impact on the country’s economic competitiveness, impacts on community cohesion and stability, and causes harm to people’s health and well-being. It is clear that there are serious structural issues with the country’s housing market and the prevailing development model that need to be urgently addressed. In addition, the current preoccupation with owner occupation will have the effect of limiting choice and addressing personal circumstances. In addition, ‘one size fits all’ policy making based on London-centric thinking does not help to address the different issues that other parts of the country face.

In order to increase the “supply of reasonably priced housing”, it is first important to understand what is meant by “reasonably priced”. This is difficult as it must be accepted that house prices are currently artificially inflated, and there are also regional variations associated with economic conditions. A link between house prices and household income needs to be established to understand what “reasonably priced” is.

Basic economics dictates that when you restrict the supply of a product (land, homes), its price increases. This is a very simplistic view, but it is no coincidence that as housing completions have fallen, house price inflation has increased dramatically.

The three main causes would appear to be:

- Lack of necessary volume in terms of homes built;
- The prevailing development model of mainstream housebuilders; and
- Insufficient land allocated for housing, which is clearly linked to the above.

Therefore in order to increase the “supply of reasonably priced housing”, there is a need to:

- Increase supply – both land to build on, and homes built;
- Encouragement of new development models (for example self and custom build), and a diversification of the market place in terms of housebuilders (provision of support for SME developers); and
- Policy initiatives focused on increasing the amount of land available for housing.

This will involve positive and proactive action from Government and their agents such as the HCA, local authorities, and other bodies such as LEPs.

Specific initiatives could include:

**Creation of a Green Belt Commission**

The Green Belt is a popular policy, and has endured for many years. Green Belts circle fourteen of our major towns, cities and conurbations, but their boundaries have remained
broadly the same since their creation decades ago, and there is increasing evidence that release of land from the Green Belt could make an important contribution to the delivery of the homes that the country needs, particularly given that the current supply of brownfield land is not as plentiful as is perceived. A 2015 report by Nathaniel Lichfield and Partners examined DCLG household projections and availability of brownfield land – just 31% of new homes required could be delivered on brownfield sites. At the same time there is 1,639,560 hectares of land designated as Green Belt; release of just 1% would have the potential to deliver around 500,000 homes.

Possible areas of attention for such a Commission could include:

- Focus on locations with strong transport connections with capacity to accommodate growth;
- How release of Green Belt land could support urban regeneration;
- Promotion of sustainable patterns of development; and
- Co-ordination of the release of sites in areas of greatest need, and areas with growth potential.

Creation of a Brownfield Land Commission

In order to ensure that there is a sustainable and balanced approach to the release of Green Belt and other sensitive land, it is considered that it may also be appropriate to create a Brownfield Land Commission to complement the Green Belt Commission, and examine ways in which additional brownfield sites can be brought forward given that current brownfield land supply

Possible areas of focus for such a Commission could include:

- The economics and challenges of developing brownfield land for housing;
- Identifying areas where brownfield land is a particular issue;
- How the regeneration and renewal of existing stock can contribute to increasing supply;
- How the reuse of existing buildings can contribute to increasing supply;
- Identification of brownfield sites capable of supporting the development of new settlements;
- Identifying circumstances where brownfield land would not be appropriate for housing; and
- Establishing a proposed package of Government support – that could include a mix of tax breaks and direct capital support – for brownfield land that has demonstrable need for such support.

* In addition, where housing land supply is increased, it is considered that there should be a coordinated approach to infrastructure investment – for example first class public transport – to support growth and ensure long-term sustainability. It may also be appropriate to consider additional economic stimulus for the regions to ensure the correct balance between housing growth and economic growth.
We should also not lose sight of the importance of good design, how space is utilised and placemaking. In the drive to build more, the importance of design can be overlooked, yet it is a vital component of achieving sustainable development, and securing long-term value.

**Government Schemes**

**Help to Buy**

Help to Buy has made a contribution to increased housing supply. However, it is a demand side product, and it has been successful in creating increased demand, and hence its contribution to increased housing supply. However, its contribution to increased supply is only a limited one – in the past twelve months, housing associations built more than half of all homes built – and the increase is from quite a low base. In addition, the scheme can be argued to have helped fuel unsustainable house price inflation in high demand areas (e.g. London and the South East), and is propping up housebuilding in areas in more challenging areas (e.g. the North). It could also be considered that it has also helped to encourage unsustainable patterns of lending by allowing people who would not necessarily afford to buy to get on the housing ladder.

The Help to Buy scheme has had an impact on the popularity of affordable home ownership products such as Shared Ownership, which is concerning given the planned refocus of affordable housing funding towards Shared Ownership.

Help to Buy has not contributed towards making housing more affordable, and has simply been a short term boost that is ultimately fuelling house price inflation.

**Shared Ownership**

Shared Ownership is a useful product – in the right place – but the fact that such a product exists at all speaks volumes about how home ownership is now beyond many.

The Government is planning to refocus affordable housing funding to support a large increase in the delivery of homes for Shared Ownership, and this is a cause for concern given the conflict with Help to Buy referred to above, the fact that Shared Ownership does not work everywhere. For example, here in Stoke-on-Trent, a two bedroomed new build would probably have a value of around £120,000, so £60,000 for a 50% share; you would be able to buy a two bedroomed terraced house for a similar price. And of course you would also need to find the rent on the share of the property that you don’t own.

Promoting and prioritising Shared Ownership as a route to home ownership for low income households fails to recognise that some people simply cannot afford to buy a home, and could lead to unsustainable, sub-prime type lending patterns which would have potentially very damaging consequences. This could lead to a future spike in homelessness as in the early 1990s where many people that bought their homes through Right to Buy subsequently hit hard times after failing to cope with the responsibilities associated with home ownership.

**Taxation**
The problem with applying a tax measure to matters associated with housing is that those that are taxed will seek to pass that cost on. For example, the reduction of tax relief available to private landlords will probably be passed on to tenants in the form of increased rents.

There may be a case for some form of tax measure in order to ensure that sites that are granted planning permission for housing come forward sooner. This should probably be in the form of some sort of tax break rather than a punitive measure, as this would be passed on to buyers.

It is considered that the changes made to Inheritance Tax will not make any difference to whether someone chooses to downsize or not; the choice to downsize or not is a complex one that involves many other issues and considerations.

The changes to Stamp Duty Land Tax has not, and will not improve affordability. Stamp Duty Land Tax is a relatively small proportion of the cost of buying a house, and there are more fundamental issues to consider in terms of the affordability of housing when you consider that the average deposit required is now in the region of £70,000, and the minimum income required for a first time buyer to secure a mortgage is £77,000 in London, and £40,000 outside of London.

**Planning**

There have been concerted efforts by Government over the past five years to ‘streamline’ the planning system. However, planning is just a small part of the overall development process, and the costs involved are just a small proportion of a development. Planning is essential in ensuring that sustainable development is secured.

Planning alone will not improve the affordability of housing, and any changes must be positive in nature, and be complementary to other policy initiatives designed to increase housing supply and affordability.

There are some simple, practical measures that could be taken quite quickly that would have a positive impact, changes to the Use Classes Order for example.

If a Registered Provider seeks to buy land on the open market, it has to compete with regular housebuilders, and because there is no differential in land use terms between an ‘affordable’ home, and one that would be available on the open market, the same land value would be expected. The economics of social and affordable housing has changed dramatically in recent times, and therefore it is more often than not unviable for a Registered Provider to acquire land in that manner. One way forward would be for an amendment to be made to the Use Classes Order to create a ‘C3a’ use, which would be defined as affordable housing. This would allow local authorities to allocate sites specifically for this particular form of housing, and it would also change the way such land was valued. This would at least improve the deliverability of more affordable housing.
The recently announced changes to the s106 regime are quite concerning, and it is patently obvious that the changes will have a negative impact on the delivery of affordable housing. The changes create uncertainty around what is already in the pipeline as developers could seek to renegotiate existing agreements, while future supply will be restricted as other forms of housing are prioritised (e.g. the new Starter Homes). This will have a huge impact on the Business Plans and Development Programmes of Registered Providers that rely on the planning system for new stock.

Local authorities should be encouraged to become more creative and entrepreneurial with regard to s106 agreements, and seeking off-site contributions could be a more flexible and pragmatic way forward. Indeed, in some cases, greater numbers of affordable homes could be secured via off-site contributions than via the often difficult negotiations that arise regarding on-site provision.

2. Private Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

   a. Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

   b. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

   c. What are the advantages and disadvantages of restricting rent increases in the private sector?

Measures to increase the supply of low cost private rental properties in the UK

In recent times there has been increased interest in rented housing from institutional investors, as they are beginning to view it as a more stable long-term investment than other forms of property. Encouragement of larger scale investment in larger portfolios could help to make rents more competitive due to economies of scale. It could also be an option to encourage greater involvement of local authorities in the sector, utilising their own land at nil value, and capitalising on historically low costs of borrowing. Such an approach would naturally mean a lower rent, but a long-term income stream for the local authority, alongside capital appreciation over time. If local authorities were to work strategically around the delivery of housing, the sharing of information and good practice could also contribute towards lowering costs.

Reduction of tax relief available to private landlords

It is considered that the reduction of tax relief available to private landlords will inevitably lead to higher rents, as landlords will naturally pass on the costs to tenants. Some agents have already confirmed that they think that this will be the case.
Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

Given continued house price inflation, and associated lending criteria in recent times, current trends are likely to continue in the absence of serious intervention. The simple fact of the matter is, house prices are continuing to rise well above inflation and wages.

In addition, the young continue to be at a distinct disadvantage; we have a generation that will effectively be locked out of home ownership: those without qualifications in an unstable jobs market, and graduates who may have qualifications, but also have student debt. As referred to above, the average deposit required is now in the region of £70,000, while required incomes to allow first time buyers to secure a mortgage are now £77,000 in London, and £40,000 outside of London. Coupled with the continued erosion of social and affordable housing, this points towards more people renting privately, and for longer, therefore a more stable long term rental culture is not only desirable, but essential.

Given that the sector is attracting the interest of institutional investors on the basis that they view rented housing as a safe long term investment, you would anticipate that a stable and long term rental culture would be desirable to such investors. This may contradict previous statements, but regulation could help to create such a culture through the provision of certainty for both the investor, and the tenant, and could involve managed rental increases, and longer term, safer tenancies. Such certainty could allow the tenant then to plan and save towards progression into home ownership, whilst providing the investor with certainty over their income stream.

Maybe it would be better to refer to ‘sector management’ rather than regulation!

Advantages and disadvantages of restricting rent increases in the private sector

Advantages

The main advantage is certainty, both for the investor and tenant. A more stable rent regime could help with the progression towards home ownership.

Restriction of rent increases would also help the tenant in terms of choices. Even something as simple as taking a holiday would be an easier decision if you know that your rent is not going to change in the foreseeable future.

Stable rents could also be a great advantage for the investor as it would make it easier to attract good tenants, and maintain stable tenancies.

Disadvantages

Restriction of rent increases could have an impact on maintenance and improvement of property; a landlord would be more likely to do the bare minimum in an environment where rents were to be capped. In addition, a landlord would have less room for maneuver if the costs associated with the sector were to increase.
Restricted rent increases would also make some landlords less competitive, and coupled with market forces, could make the sector as a whole less attractive from an investment perspective, and could make other forms of property more attractive.

3. Social Housing: Are any measures needed to increase the supply of social housing?

   a. What will be the impact of the Right to Buy for housing association tenants?

   b. What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 Budget? Are any additional or alternate changes to social housing rents needed?

There is a very simple way to increase the supply of social housing: build more of it. Since the early 1950s, the private sector has been pretty consistent in what it builds; we have only met the country’s housing needs when we have had active state involvement in housebuilding. Many local authorities are now examining how they can accelerate housebuilding, though in most cases, the numbers involved are relatively small.

Local authorities would be best placed to coordinate large scale housebuilding programmes, and it is considered that the Government should examine the best means in which to free them to do so. The Cities and Local Government Devolution Bill would seem to present the ideal opportunity to consider such measures. Such programmes would help to reduce the Housing Benefit bill, a build-to-save approach.

However, alongside this there needs to be a change of culture and attitude when it comes to how social housing is viewed. In an uncertain and unstable jobs market, where wages are relatively low, there will always be people who will need good, stable, and genuinely affordable housing. This is not a lifestyle choice, it is a genuine need, and currently, no one is speaking for them in the housing market. In addition, the term ‘social housing’ has an unfortunate stigma; perhaps a better terms would be ‘public housing’.

Impact of the Right to Buy for housing association tenants

Naturally, despite protests to the contrary, extension of the Right to Buy will reduce the amount of available social housing stock, as research has consistently highlighted. It will impact on not only housing associations, but also local authorities. It will also impact on individuals that cannot afford the Right to Buy and need to move to another more suitable property if their circumstances are to change; there may no longer be a more suitable property available.

The Right to Buy could also have the effect of making Registered Providers less stable, and it may also have an impact on cyclical maintenance, with landlords simply doing the bare minimum: why invest heavily in property that you could well lose?

In addition, we could also see a future rise in homelessness and non-decent housing stock as people that exercise their Right to Buy struggle with the new responsibilities that will come with home ownership: you can no longer ring the housing association up when the boiler packs up.
Much former council stock sold under the Right to Buy has ultimately ended up with private landlords, and we have the bizarre situation where people are paying private rents to live in former social housing, propped up by housing benefit. The HCA has also funded ‘right to buy backs’ by housing associations through affordable housing programmes, whereby affordable housing grant has been used to reacquire former council properties. These situations could easily reoccur through the Right to Buy extension.

**Impact of proposed cuts to social housing rents**

We are already seeing the impacts. Many Registered Providers are reviewing their activities, as they are left with now unviable development proposals, and undermined Business Plans. The likely outcome will be less affordable homes built, job losses – many Registered Providers have announced redundancies – and some Registered Providers may find themselves in breach of loan covenants. In addition, there will also be an impact on the quality of housing stock as some Registered Providers review cyclical maintenance programmes.

However, it has so far been overlooked, but the financial impact will be greatest on those local authorities that still have housing stock, particularly those that have bought themselves out of HRA requirements.

All of this has been chaos and uncertainty has been created for almost nothing. The average weekly rent for a Registered Provider in Cheshire East is £88.57 a week, therefore the 1% cut is worth just 89p a week to tenants, or around £170 over the four year period the cut applies to. It’s hardly the greatest giveaway of the century.

The cumulative effect of the various changes to the operating environment of Registered Providers has led them to be reclassified as public sector bodies. It is the Government’s intention to see them reclassified as private sector as swiftly as possible, leading to nagging doubts around the possible privatisation of the sector.

As part of actions to enable their reclassification, the Government could consider allowing Registered Providers to set their own rents in accordance with their own founding and operating principles, and in response to local need and market conditions. This would both eradicate the current instability across the sector, secure their financial independence, and would also smooth their transition back to the private sector.

17 December 2015
1. This submission forwards the views of Vine Housing Co-operative regarding the question of Social Housing and the measures needed to increase its supply.

2. Vine Housing Co-operative is a long-established (since 1983) fully mutual housing-co-operative owning and managing 50 flats and houses in Vauxhall, South London. We are registered social landlords with the Homes and Communities Agency and the Financial Conduct Authority.

3. After completing the rehabilitation of our properties enabled through Housing Association Grants (withdrawn in the early 1990s), we have not been able to develop new units for many years. This is because there is no longer any public funding available to us, nor do we have access to sufficient assets to develop affordable properties independently. In addition, in our case there is no land available for small-scale development of social housing in the immediate area (which is a designated Conservation Area), and current planning restrictions prevent us from reconfiguring existing housing stock.

4. The effect of the now-voluntary Right to Buy, if the Co-op decided to implement it, would be disastrous for our small Co-op, even though very few of our members are likely to have the means to take advantage of it. Any funds acquired through the proposed right to buy provisions would be wholly inadequate in developing new units in the current inflated housing market in our location, dominated by luxury flats and non-resident ownership. With every unit that was sold, the Co-operative would shrink in size while acquiring further administrative and financial responsibilities for servicing and leasehold arrangements. We would also lose the voluntary contributions and experience of those leaving the co-op.

5. In addition, it is not at all clear what the effects of a potential ‘portable discounts’ might be for small-scale housing providers in general and housing co-operatives in particular. It would seem both inequitable and impractical for particular tenants to be given a large sum of money raised from the sale of local authority homes to leave our Co-op and buy a property owned by another social housing provider elsewhere. It would attract those few members who have achieved adequate financial standing for private ownership but who cannot afford to buy a home at local market prices, but this would come at the expense of other social providers.

6. The proposed rent reductions announced in the July 2015 budget are likely to have long-term negative effects. To meet these reductions, social housing providers are advised to make savings by running more efficiently. It is impossible to imagine how we could achieve any greater efficiency, as we already manage the co-op through the unpaid work of our members, employing only one part-time administrator. Because of this, we have kept our rents lower than those of Lambeth Council and local Housing Associations. Cuts to our budget will mean we will have to reduce our spending on repairs and improvements to the
properties, including our long-term commitment to energy-saving measures and our community’s green spaces.

7. We would submit that housing co-operatives such as ours are eager to play a significant part in providing more and better social housing. We have many years of experience of developing and managing high quality, innovative housing and embedding this provision within local community building. In the current overvalued and inflationary private markets for land and property in our location, we find ourselves unable to access the resources which would make expansion possible. We would argue that all social housing is a public good, and should therefore be supported with public funding and other government measures to release resources to this sector. Co-operatives such as ours have shown that they have the potential to make the most of such resources given the opportunity to do so.

17 December 2015
Judith Ward – Written evidence (EHM0056)

General

1. The same remedy cannot be applied nationwide because the problem is different in different regions. Houses are sold for £1 in some areas like Stoke-on-Trent and Liverpool. In other areas a 1 bedroom flat is £500K.

2. Property is too attractive as an asset in the UK. People are using it to fund their retirements because pensions have been devalued too far by Government action. This needs to be rebalanced. It isn’t simply a property issue. It is about property, pensions, inter-generational fairness, immigration, inheritance and cascading of wealth. At present the young are paying too high a price. I am a grandma and am concerned.

3. In London it is too attractive for foreigners to buy property and leave it empty. There are more bedrooms than people in London so no actual shortage of housing. Buy to leave should be taxed. Islington Council have given themselves power to do this.

London and the south east particularly are growing fast in population. This is reflected in house prices and rents. Property owners reap value harvest in terms of increasing rents and capital appreciation. As long as population increases due to immigration this will continue.

The UK has the fastest long term growth in house prices in Europe. Why when there has there been almost no real growth in prices in Germany and Switzerland in this period? I would suggest that other countries have better pensions, more opportunities to invest in things other than housing. And their financial sectors are not so heavily involved in land and property speculation. (Michael Edwards UCL on Talking Allowed R4 Wed 9th Dec).

Private ownership

4. At present landowners with land adjacent to existing settlements are able to sell land for house building at huge values and make a vast amount of money for doing nothing. Winston Churchill recognised this unearned increment in the early 20th century and argued then for it to be stopped. Land for housing should be purchased by Local Authorities at a couple of times agricultural value as in the Netherlands. Local authorities should then put in infrastructure and parcel land up to sell on to house builders who would be chosen at least in part on the quality of their proposals. Too many developers today put up very poor housing which will be slums tomorrow. This also prevents speculation on land values. It also prevents developers holding onto land in order to get a higher price tomorrow. This was done to establish the new towns in the 1970’s.

In times of recession house building can be kept going by building social housing if Local Authorities were enabled to borrow. They may also be able to build up housing funds by selling land. This should go some way to restrict the stop-go nature of house building in the UK. This would also allow for the land cost element of housing to be reduced. Properties built in a recession could be rented then sold when the market picks up.

Help to Buy/ Shared ownership/Right to buy

1409
5. Help to buy helps inflate house prices by lending larger sums to people who wouldn't normally be able to borrow them. This encourages a viscous circle of rising prices. The chancellor's latest idea looks like a recipe for disaster. Allowing someone in London with a 5% deposit to get a 40% interest free loan for 5 years which they will then have to add to a mortgage of 55% does not look sustainable. Very few peoples income will rise over 5 years to cover that increase. Also mortgage lenders are reluctant to take on mortgages to cover the increased amount. I have been told by a mortgage advisor that it is virtually impossible to switch your mortgage to another provider. This all seems to go against the sensible Mortgage Market Review which is trying to ensure that people borrow what they can afford. These schemes only help some people at the time and once they end the fundamental problem remains. They are not a long term solution.

6. Shared ownership may work for some but is not cheap when mortgage and rental costs are added together. Right to buy should be stopped immediately as it reduces the supply of houses to let at affordable rents. Many people will never earn enough to buy a home and there needs to be a viable alternative for them. Renting privately can work before you have a family but secure tenure is needed while children are at school. It would not be reasonable to expect private buy to let landlords to commit to a tenant for 20 years so the public/voluntary sector or institutional investors have to provide this.

8. Changes to Inheritance tax will just make property even more attractive as an asset. There is unlikely to be much impact on downsizing because people want to stay where friends are. The supply of decent suitable properties is severely restricted, older people say that they can't find anywhere to move to. Given powers to develop Local authorities could develop suitable housing at a high build standard and achieve a premium price for it.

9. Mortgage Market Review. It is a good idea to restrict lending to a level people can afford, but there are always cases where lenders need to be flexible. Help to buy seems to be blowing this out of the water by encouraging reckless lending.

10. Young people need to realise that you can't go out most evenings, have 4-6 foreign holidays a year and save for a deposit. They also need to realise that you need 2 incomes to buy in most of the country - you always did.

11. There is still a tax on the young by the old and on the have nots by the haves. Intergenerational unfairness is constantly increasing. Gains made on housing should be taxed and used to provide housing for the young who can't afford to buy. People should also have to use their housing wealth to pay for their care in old age. Especially people who have made huge gains just by being fortunate enough to live in areas where house prices have risen enormously. There could be a tax free inheritance limit for each person rather than on an estate.

12. A needs based allocation of social housing encourages people to become homeless to get housed. This should be stopped in favour of a policy that rewards those who act responsibly. The public purse can't provide a property for everyone who wants one.

13. Need build to rent for professional who can't afford to buy in expensive cities like London. This would give security of tenure. They could then buy to let in a cheaper area to get onto the property ladder.
14. Larger multiples, low interest rates and longer mortgage terms only serve to inflate sums borrowed and prices.

15. Need a Secretary of State for Housing to implement a comprehensive housing policy based on regional differences. The entire country doesn't live in London and the south east where the problem is most severe. In addition the government needs to test the impact of its housing policy on other areas of policy like pensions and, inheritance. We need a new generation of New Towns in the SE with rapid transport links into central London. Adding to existing settlements is a disaster because they do not have the infrastructure to cope. Road networks are increasingly clogged.

16. The housing market fails in my view because it relies on an imperfect market forces which are affected by other government policies. There is far too much government interference like help to buy which just distorts the market and makes the situation worse. Developers cream off large profits, house building is a means to that end. House building needs to be the aim of the process. We need to build the right houses in the right places. Local people should have an input into that process. Restrict the purchase of new builds to buyers who will live there is essential in London.

17. Planners are not the problem. The house builders have managed to convince government of this as a way of passing the buck for their failures. They don't like local authorities trying to amend their diabolical plans for something better. An entire industry has grown up based on speculating on the price of land. Half of all Planning permissions on land are outstanding, they are being held onto. There is a shadow market in permissions, resulting in speculation. A whole industry has grown up around securing planning permissions. Development companies acquire options on land then sell onto the builders, in the process taking a cut themselves and pushing up prices.

Developers aim to make a 20% profit on developments. If government manages to make them build houses for sale at a 20% discount they will have to negotiate lower land prices which won't be a bad thing.

Evidence submitted in a private capacity

I am a Landscape Architect and have an interest in Economics.

14 December 2015
HOUSING BENEFIT REFORMS AND THE LONDON LABOUR MARKET

Brian Wells former Department of Business, Innovation and Skills economist. This note was written in a personal capacity.

Worklessness is concentrated in London and the other great UK cities...

1. At 70.5% (for ages 16-64) the UK has one of the highest employment rates in the world. By contrast, in common with the other great cities - such as Glasgow, Birmingham, Newcastle and Liverpool – the employment rate for residents in London is much lower at 68.3%. If the UK had London’s 16-64 employment rate employment would be nearly 900 thousand lower.

2. Other parts of the country also suffer from relatively low employment rates – seaside and coastal towns, some ex-industrial areas particularly in the North East and Wales and also Northern Ireland. However, because of their size worklessness in the cities is the major problem. For example, if London had the UK 16-64 employment rate employment would be nearly 120 thousand higher.

...despite the fact that jobs are concentrated in London and other cities. However, they are taken up by commuters not Londoners.

3. As a rule of thumb in cities there is just under one job per head of population in cities. For London (2008 relative to the 16-64 population) it was 0.9 jobs per head and in parts of inner London the ratios are much higher. The four local areas with the highest job densities are all in London - the City of London (36.6), Westminster (3.3), Camden (1.8) and Islington (1.4). And it is a similar story for cities outside London. For example, the highest density outside London was Belfast (1.3).

The problem, therefore, is not a lack of demand. It is a supply side issue - associated with getting local people into local jobs...

4. The inner London boroughs with the highest job densities are also one with amongst the lowest employment rates – not just in London but in the whole of the country.

5. The bigger problem is economic inactivity – people are not looking for work. London’s (16-64) inactivity rate is 24.5% compared to 23.3%. This inactivity is concentrated amongst those dependent on welfare – lone parents, the disabled and those in social housing.

6. However, at 9.4% the ILO unemployment rate is also well above the national average of 8.0%. Within this there is some evidence that there is high frictional unemployment due to lack of information about how to match people with jobs in a very decentralised and diverse labour market.
...and although there has been some relative improvement...

7. The supply side improvement in the UK labour market has led to the greatest improvements being in the areas that started off in the worst position. For example, Scotland’s employment rate is now above the national average having well below it in the past.

8. And in recent years Londoners have also benefited. For example, the welfare to work reforms for people on lone parent benefits – a particular problem in London – have contributed to a fall of over 20% in the three years to August 2010. Double the national fall of around 10% and happening during a period that included a very severe recession.

...there is still more to do - particularly in sorting out London’s housing market in order to improve incentives for people to look for work.

9. The attached note concludes that the housing market is one of the least efficient markets in the UK and that there are particular problems in London - under-occupation of housing and a specific issue around single adult households (with or without children). These problems are compounded by a concentration of social housing in London – as in other cities. This provides an extra twist to labour market problems by fostering economic inactivity and welfare dependency.

The housing benefit reforms should make a some positive contribution to the London labour market as they will sharpen work incentives...

10. The reforms start in April 2011 and are phased in over a year. The biggest national change is that the local housing allowance in the private rented sector will be set at the 30th percentile of local rents rather than the median (50th percentile). However, the changes that will disproportionately affect London – because of its high rents – is the introduction of absolute caps in both the private and public sectors. The maximum rent for four or more bedroom properties will be £400 per week. Reducing out of work benefits in this way will increase financial incentives to get a job.

11. Rents in the social housing sector are to rise so that less money can be paid through rent subsidies and more money released so that the housing associations can build more houses. The rise in rents will again increase work incentives particularly if the Local Housing Allowance was brought in.

...and together with a range of other measures should improve the efficiency of the labour market by making the housing market work better.

12. DWP is currently extending welfare to work policies to new groups – people who have been on sickness and disability or lone parent benefits for a long time. This together with the effect of equalising the state pension age at 65 will increase administrative incentives to look for work. And, under Universal Credit, bringing
housing benefit into DWP from the local authority will also allow a greater focus on getting people back to work.

13. Increasing rents in the social housing sector is also likely to provide greater incentives to fill houses with more people and, thus, reduce the overhead costs – including childcare costs – of going out to work.

*However, the lack of active management of social housing is likely to lead to some real and also specific headline making problems...*

14. There have been concerns that capping housing benefits in the private rented (but not the social housing) sector would reduce geographical mobility so people could not move to take up jobs. However, a lack of geographical mobility is not a major problem in the UK because:-

- the workless people are generally where the jobs are; and
- the scale of under-occupation in the housing market still means that there is a lot of opportunity for people to move.

15. Consequently, it is likely that there will be many different market ways of dealing with the housing benefit changes. These might include negotiating a reduction in rent; moving more people into the house; or moving to a smaller house. And in some cases the imposition of the new rules may reveal any under-occupation or fraud that has developed – for example, as children have moved out – making it easier to deal with the issue.

16. This market flexibility is likely to mean that no general problem arises. However, there may be specific examples where, because there is not a well-functioning matching process in the rented sector – particularly for social housing – then a sudden change in the rules might make it difficult to deal with the specific individual problem immediately.

*...and the inherent problems in the housing market – in the private as well as the public sector – are likely to swamp any beneficial effects.*

17. DCLG has concluded that there is a housing shortage which will get worse. However, the attached note suggests that there is a good deal of misallocation of housing resources – government induced in many cases.

18. Government policy seems to be focused on providing more houses rather than filling up existing houses with more people. Without a major shift in policy focus – applied to the private as well as the public and social sector – the housing benefit changes, although beneficial in their own right, are very unlikely to be big enough to resolve many of the problems.
ANNEX: HOUSING BENEFIT & SOCIAL HOUSING REFORM

AN INEFFICIENT HOUSING MARKET: MISALLOCATION NOT SHORTAGE

The housing market is one of the least efficient markets in the UK economy with demand feeding through into inflation...

1. By 2009 house prices were over 3½ times as high as in 1991. Even adjusted for (RPI) inflation they were 2⅓ times higher. The rise in London was even higher at over 3½ times and around 2 ⅓ times respectively.

...rather than a growth in the number of houses.

2. Over the same period 1991-2009 the number of dwellings in the country (here England) rose by less than 15% and was even lower in London – 12 ½%.

3. The composition of housing also changed with a move some move from public to private housing. In England as whole both owner occupation and rented accommodation grew by roughly the same amount whereas in London there was a larger growth amongst rented houses. There was a substantial rise at both England and London level in private renting whereas there was a 10-15% fall in public renting – social housing and local authorities combined.

What is more, there are signs of friction in the housing market. At the same time as there more houses than households in London – there is a vacancy rate of around 3% - ...

4. The household vacancy rate in London - at 3% - is lower than in England – 4.9% - but in both areas there seems to have been greater mismatch developing over the period 2007-2009 – by around 2 percentage points.

...there are also people without houses – homeless people in London are also equal to 1.5% of the household population either permanently homeless or in temporary accommodation.

5. Nearly a quarter of all statutory homeless in England are in London and fully three quarters of people in temporary accommodation are in London. Thus, more than half of all statutory homeless and people in temporary accommodation are in London. In 2009-10 the combined total was nearly 50 thousand – around 1.5% of the London household population.

More importantly, there is also simultaneously over-crowding and serious under-occupation...

6. In 2008-09 in England as a whole 3% of households were over-crowded and fully a 1/3 of households were under-occupied. As the table below shows the degree of over-crowding is greater in London and under-occupation – although still high - is lower.

<table>
<thead>
<tr>
<th>Overcrowded</th>
<th>Under-occupied</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1415</td>
</tr>
</tbody>
</table>
Brian Wells – Written evidence (EHM0154)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Owner-Occupiers</td>
<td>7%</td>
<td>14%</td>
<td>47%</td>
</tr>
<tr>
<td>Social Renters</td>
<td>5%</td>
<td>10%</td>
<td>16%</td>
</tr>
<tr>
<td>Private Renters</td>
<td>7%</td>
<td>15.0%</td>
<td>19.6%</td>
</tr>
</tbody>
</table>

...with the growth of single adult households – both with and without children – one of the primary determinants.

7. A major component on the under-utilisation is the growth of single adult households which is also expected to continue. What is more, the problem - both currently and in the future – are much worse in London where by 2031 1 in every 4½ households is projected to be a single adult household.

Proportion of Households that are single adult:-

<table>
<thead>
<tr>
<th>England</th>
<th>London</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>11.2%</td>
</tr>
<tr>
<td>2008</td>
<td>15.0%</td>
</tr>
<tr>
<td>2031(Projection)</td>
<td>19.6%</td>
</tr>
</tbody>
</table>

However, increasing inefficiency in the housing market is not set in stone. In the past under-occupation was much less - particularly in London...

8. Between 1939 and its trough in 1991 the population in Greater London fell by more than 2 million from 8.6 to 6.4 million – down by a quarter – with most of the fall in Inner London where the population virtually halved.

9. There were even larger falls in the City of London and the boroughs of Westminster, Newham, Southwark, Hackney, Islington and particularly Tower Hamlets. Most of the fall occurred in the post-war period and came despite the fact that these central areas – as in most other great cities – were also the places where large scale manufacturing and production industries closed down potentially releasing land for housing.

...and, even now, there are areas of the housing market – usually where the public sector is (deliberately) excluded – which seem to work better and more efficiently.

10. Since the early 1960s the number of people in higher education has risen by around 2 million to 2.4 million. Many will have remained at home but many more would have moved into housing away from their family homes.

11. Similarly, since 2004 when the 8 new members acceded to the EU around 1½ million adults from those countries have registered for National Insurance numbers so that they could work (and live) in the UK. This contrasts with the experience recounted below by Kate Gavron setting out some of the results of Young Foundation research into East London housing in 2006 where both indigenous and immigrants suffer from an inefficient allocation of housing services based on ‘need’.
‘The Bangladeshis – who made up one-third of all people and just under two-thirds of the school population in Tower Hamlets by 2001 – are the first community [of immigrants] whose settlement was assisted by the public sector. Previous groups had to find their feet in a disorganised working environment and chaotic privately rented housing market.’

12. Globalisation, cheap travel and mass leisure and business tourism also seems to have been accommodated relatively easily even in the supposedly over-crowded cities such as London. There are, therefore, elements that suggest that housing - even social housing is not in shortage.

13. Rather I think that we need to question this fundamentally anti-economic concept that there is a shortage of housing. This seems to me to be the equivalent of believing the lump of labour fallacy and it might be called the ‘lump of housing fallacy’. This might suggest the problem is largely misallocation rather than shortage.
GOVERNMENT’S ROLE IN THE MISALLOCATION OF RESOURCES.

The misallocation of housing resources would seem to be partly because Government policy focuses on providing more houses rather than filling up existing houses with people...

14. In contrast to the conclusion of the previous section the view of DCLG is that: ‘There is a large gap between the supply of, and demand for, new homes.’ and so their aim in terms of housing supply is to increase the number of houses rather than the number of people and/or households per house:-

‘For decades, the housing market hasn’t kept up with the needs of our growing population so there aren’t enough homes being built. We are committed to meet Britain’s housing need by increasing housing supply and providing more homes that people want in the places where they want them.’

...and this aim tends to promote under-occupation and inefficiency in the housing market...

15. This aim has led to a series of policies that tend to promote both under-occupation and inefficiency because these policies take no account of their effect on the behavior and expectations of individuals.

16. So, policies are set up under the assumption that there will be no behavioral response to the incentives that the policies introduce. In addition, policies tend not to take full account of interactions with other parts of the economy and/or society. This can lead to the distortion of economic activity as some people try to take advantage of the relative benefits of one set of policies rather than the inherent benefits of the economic activity itself (for example, arranging what and when to purchase in order to maximise tax avoidance).

...leading to housing being under-taxed and over-subsidised both in terms of buying and selling houses...

17. The chief marginal tax rate for both sales (VAT) and income taxes is 20% whereas the maximum sales (Stamp Duty) tax rate associated with house purchases is 4%. Again this is likely to inefficient resource allocation caused by too much demand for houses both because taxes are lower on houses and because there are inefficiencies because the taxes are levied in different ways and also the form of Stamp Duty is inefficient. Lower tax rates for first-time buyers are also likely to promote under-occupation.

18. The main tax rate on income received from selling a house (Capital Gains Tax) is 18%. This is not dissimilar to the main income tax rate. However, the main tax break for capital gains tax is on your home. Again, therefore, this is likely to lead to inefficient resource allocation caused by too much demand.

...and in terms of paying for local authority services – currently through the council tax.
19. Council tax subsidises under-occupation. There are discounts for empty homes and second homes. There are also discounts for single adult households – with or without children - and ‘granny’ flats can also benefit.

20. These discounts, together with discounts for the disabled, carers, students, student nurses, unemployed on training etc may contribute to the establishment of unbalanced communities with disproportionate number of workless households dependent on welfare. Providing support through council tax as well the main benefit system also makes it more difficult and complicated to move off welfare dependency if they get a job.

21. In addition to subsidising under-occupation and possibly promoting single adult households and welfare dependency the current council tax regime does not reward efficient or full use of houses. Thus, it is levied on the price of the house rather than adding an element, for example, that charges more the greater the number of bedrooms there are.

22. And the inordinately long period of time since the last revaluation of houses for council tax purposes may also provide an incentive for under-occupation as it may implicitly subsidise newer, more costly (and smaller?) houses. Also, house price inflation across the country has varied enormously since the revaluation in 1993. In London prices have risen more than threefold, in the southern regions (and Northern Ireland) they more than doubled whilst in the northern regions, Wales and Scotland by 1½ to 2 times.

Also, perhaps more could be done on tax and regulation to promote more people from outside the family filling up the houses – particularly lodgers.

23. People that let rooms in their own home – whether owned or rented - or jointly occupy houses are treated more favorably in terms of tax breaks and less onerous regulation. However, the favorable tax and regulation treatment is complicated and the tenants that elicit the more favorable treatment for their landlord – students, grannies and lodgers for example – are not groups that spring to mind as priorities. Also, without the consent of the participants, it is unlikely that tax evasion could be identified or regulations enforced.

24. One approach – which is in line with Big Society principles - would be for the state to ignore completely what consenting adults do in the privacy of their own home. In effect to treat non-family members of a household the same as family members. All transactions and agreements would be the responsibility of the people involved not the state. Such an approach is likely to help reduce under-occupation and also might help to address some of the economic, social and labour market problems associated with single adult households.

Housing benefit obviously increases house prices and its current design adds to this inflationary pressure...

25. Given that the supply of housing does not increase quickly the extra demand created by the spending on housing benefits will feed through mostly into higher house prices.
Whatever the reason the average housing benefit payment has grown significantly faster than the general price level.

26. This price inelasticity is worsened because of the hypothecated nature of housing benefit. It can only be spent on housing payments — usually rents — and the benefit recipient has little or no choice over either the house they rent or the rent they pay. Therefore, there is no incentive to shop around or bear down on the rent that the landlord charges.

...the introduction of the local housing allowance in the private sector will help. But it should be extended to social housing where the big problem is.

27. The introduction of local housing allowances — a flat rate benefit related to the average rent in an area — has increased the incentive to shop around and bear down on house prices.

28. However, at present local housing allowances are restricted to private renting and social housing remains on the old system. This is a problem because around 70% (69%) of all people on housing benefit are in social housing with more in Inner London (75%) and somewhat less (59%) in Outer London. In addition, the old form of housing benefit and its combination with social housing is likely to increase the feeling of welfare dependency and deny personal responsibility promoting economic inactivity.

Housing benefit also provides incentives to under-occupy and resist moving to houses that better match their circumstances...

29. For a claimant moving into a new house when they move onto benefits the incentive is to choose the biggest and best house as it is free to them. Therefore, to prevent under occupation the state needs to remove the tenant’s choice of house and ensure that they get the appropriately sized house. This is true not only for the old styled housing benefit but also local housing allowances.

30. One way of providing incentives to achieve the household having the appropriately sized house would be to divorce housing benefits from the house altogether and relate them completely to the size of the household. Thus, the local housing allowance would be related to the size of the household not the house. This principle might also be applied to people who are already in a house when they move on to benefits. However, if there is already under-occupation then unless a rent reduction can be negotiated then either the household will need to move or they will need to use other non-housing benefit income to pay the rent. Otherwise the under-occupation will be ossified and made permanent.

31. Perhaps more importantly if the claimant’s household circumstances change then so should their housing benefit. Otherwise there is an incentive to remain in an under-occupied house. [Or even, as housing tenure is an asset, to retain the rent book and illegally rent out the house to someone else.]
32. For example, if a parent’s children grow up move out and/or their spouse dies then maintaining the same level of housing benefit will reduce the incentive to reduce the under-occupation. It also suggests that where there is under-occupation – either at the start of or into the benefit claim – there needs to be active management of the housing for people on benefits – particularly in respect of single adult households such as widow(er)s and lone parents whose children have grown up and left. Obviously this is easier if people are in social housing. However, given the difficulty of finding a new house, it may also be necessary to set up a system for people/claimants in private rented accommodation.

**Housing benefits are also likely to lead to lower employment. This is because of the level of the benefit...**

33. As with any out of work benefit the level of housing benefits not only reduces the range of jobs where people are better off in work leading to it taking longer to find work – frictional unemployment is higher – but also increases the possibility that the tenant decides not to look for work – economic inactivity and structural worklessness are higher. And the higher the level of benefit the greater will be these incentives.

34. Housing benefit is related to rents and house prices which have risen faster than the general price level and so the adverse effect on employment is likely to be greater.

35. The lack of housing benefit for owner occupation at the start of the benefit claim in theory increases the incentive to look for work. However, the design of this aspect of housing benefit tends to increase complexity by relating work incentives to housing tenure rather than the characteristics of the individual. Extending the principle of housing allowances to all forms of housing tenure would remove this problem and increase the efficiency of the housing benefit system from a labour market perspective.

...the design...

36. The design of housing benefits tends to promote under-occupation and single adult households. This raises the overhead costs of moving into work and, hence, again reduces the range of jobs that the tenant might consider taking for financial reasons.

37. A specific example of this relates to single adult households where there are also children (or other caring responsibilities). The lack of other adults in the household reduces the possibility of other people helping with the caring responsibilities on an informal basis. They, therefore, have to rely upon – expensive – formal childcare if they go out to work. Again this reduces the range of jobs available to lone parents and other single adult carers and increases the adverse effect on employment.

38. One other adverse feature of the design is the fact that housing benefit is generally a ‘passported’ benefit at the start of the claim - you become eligible for the benefit because you move on to another benefit – unemployment benefit etc. Yet, if people move into work they cease to be eligible for the main benefits and some move onto tax credits. However, housing benefit continues if people move into work as there is not the housing equivalent to tax credits.

1421
39. Therefore, at the very least, welfare dependency is increased because people remain on housing benefit rather than move completely into the tax system. But, more importantly, work incentives for people who have not been on a main benefit are reduced because they do not have access to the in-work benefits that housing benefits provide.

40. The issue of people on Housing Benefit who are not on a passported benefit is a substantial one. Both nationally and in London around a third of people on housing benefit are not on a passported benefit. Experience from divorcing Jobcentres from Benefit Offices suggests that there will be a sizeable proportion that should not be on housing benefit as they have moved off the passported benefit. More importantly, as housing benefit does not have administrative incentives – the rights and responsibility regime – that the passported benefits do then there is no push to get people to look for work. An audit of the people on housing benefit who are not on passported benefit might, therefore, not only save public money and improve incentives but also allow this element of the benefit to be focused on the group that it is aimed at.

...and the delivery.

41. Housing benefits are administered by another authority – the local authority – to the one that delivers the main benefit – the DWP and Jobcentre Plus. Again this may reduce the incentive to look for work as when they got a job they would need to co-ordinate disengaging from two agencies. And if they believe that one or other of the agencies are inefficient and will take time to get them back on benefits they may not risk taking up a job. [Alternatively it provides an incentive not to notify one or both of the authorities when they get a job.] These incentives are greater the higher is the level of housing benefits relative to the main benefit.

42. More importantly, a key part of the UK’s welfare to work’s success is due to the administrative incentives provided by the rights & responsibility or conditionality regime. This offsets the financial disincentive associated with out of work benefits and gets people to behave as if they are not receiving benefits and so they continue to look for work and take up (sometimes imperfect) jobs. However, this conditionality relates to the main benefit and not housing benefit. Therefore, the divorce of delivery methods reduces the potency of the administrative incentives. And this reduction is greater the larger are housing benefit payments relative to the main benefit.

43. The introduction of Universal Credit should help to solve some of these design and delivery faults as it brings together housing benefit into the main benefits and, thus, theoretically can increase the focus and effectiveness of the conditionality. However, it will be important to consider carefully the design and the delivery of the new benefit so that new design and delivery faults are not introduced. For example, the design of the new conditionality making the housing benefit element an automatic and universal part of the new benefit is likely to increase benefit levels for many people and, hence to increase the adverse employment effects associated with benefit levels. Similarly, it will be important to consider how workers who are already in low-paid and short hour jobs when tax credits are removed.
Housing benefit also combines with the financing of social housing to increase demand and house prices in the private sector...

44. Over time subsidies to public sector bricks and mortar – social housing - have been reduced relative to direct help for individuals and households - housing benefit. However, bricks and mortar subsidies still exist. Also rents in social housing are not related to demand and supply in the markets. Despite the fact that they are called ‘market rents’ the rents in the social sector actually relate to the cost of building these houses. And the costs of newer, sometimes more unpopular, social housing tend to be higher as there are still paying the costs of financing these new houses.

45. Therefore, both because of the continued subsidies to social housing and the lack of responsiveness to demand and supply conditions the allocation of housing resources in the public sector is inefficient relative to one where any housing subsidies are paid direct only to the people that need them. Also it is inefficient relative to one where the choice of people demanding social houses is better reflected in its price – the rent. As a result, there is an excess demand for social housing that spills over into demand in the private sector leading to higher house prices there.

...although plans to raise social housing rents should improve things.

46. The Government has announced that the subsidy to social housing rents will be reduced substantially and for new tenants the rent will rise to 80% of market rents. Although this change is partly to release funds so that housing associations can build more houses it will also sharpen incentives to look for work in order to cover the increased rents.

However, it would be necessary to introduce local housing allowances in the social housing sector to get the full benefit.

47. As the social housing sector still remains under the old housing benefit system any increased incentives arising from reforms that affect the housing or the labour market will be removed. Therefore, this is another reason to introduce the Local Housing Allowance into the social sector.

48. If the Local Housing Allowance were to be introduced then, combined with the increased rents, it will also provide incentives to increase the numbers of people in the house and the rent paid by them and to use other sources of their income. This may help reduce under-occupation and help the housing market as a whole to function more efficiently.

49. This together with the fact that benefits are more targeted than bricks and mortar subsidies means that less government resources will be wasted. However, rent rises in the social housing sector is likely to have knock-on effects to the housing benefit bill as not everyone will be able to find a job. Also, the new system would not be as efficient as extending the local housing allowance to the social housing sector.
In addition, the administration of social housing focuses too much on the start of someone’s tenure...

50. Rather than trying to promote turnover through the establishment of an efficient matching system the allocation of social housing tends to be on the basis of ‘need’. This tends to lead to a concentration of specific groups being assigned social housing and unbalanced communities developing.

51. They groups that tend to be assigned to social housing tend to be people who are already dependent on the state – usually on out of work and housing benefits. And, because ‘need’ tends to be associated with worklessness this tends to lead to single adult households – with or without children – being assigned to social housing. There is, therefore, the risk of under-occupation and high overhead costs of taking up a job. And it is one factor that helps to explain how social housing can have an adverse effect on employment over and above the characteristics of the individuals in the social housing. There are greater incentives to remain inactive and dependent on welfare.

...and there is not enough efficient active management of social housing during the tenure...

52. There has been some movement towards ‘choice based’ lettings. However, in some cases this means that the prospective tenant has a choice of three houses rather than one. Even where prospective tenants are given more genuine choice the infrastructure that would lead to efficient house matching is missing. There is no equivalent to an estate agent with a list of properties but which relate to rented property – both public and private. The list of properties available to the local authority tends to be restricted to those in social housing and also in their area.

53. Thus, someone who wants to make a positive move – either to get a job or be close to loved ones does not have the information or the access. The lack of a nationwide house-matching system for rented accommodation – both public and private – would seem to be a major market failure.

54. Also, even when the implicit in the engagement with the public sector tenant is the presumption that the characteristics of the household that began a tenancy will continue in perpetuity. Yet, single adult households with children will inevitably change as the children become adults and probably move away. And divorce and death are also likely to turn couples into singletons. So one trend that is likely to develop over time is that both single adult and couple households will become single person households.

55. This trend is likely to be reinforced if people are receiving housing benefits as it reduces the, already weak, incentives to notify the housing authorities of under-occupation. What is more, the lack of choice of desirable (smaller) public sector alternatives open to the tenants is likely to reduce the chances of notification still further. For example, a widow in London whose children have moved to Kent or Essex to buy a house is unlikely to notify the authorities even though her preferred option would be to move to a smaller place close to her children and grandchildren. And, there are incentives for her
to move and sublet the illegally whilst still receiving housing benefits. Under such circumstances the chances of taking up a job are small.

56. In the analogous case of Jobcentre Plus there would be regular pro-active contact to check whether the household circumstances had changed and also whether the individual’s/household’s behaviour could be steered towards making a more appropriate match – here in housing terms – than their current situation and the range of potential matches would be nationwide.
...and although there are proposals to time limit the tenancy it would be better if it was rooted in an active management system.

57. There are proposals to time limit new tenancies with the current proposals being to end the tenancy if the person has prospered sufficiently ‘to go into the private sector’ [David Cameron August 2010]. However, this is not the same as actively managing the social housing stock and is likely to lead to further ‘residualisation’ (as it is called) or unbalanced communities.

58. Having a single review at the end of the tenancy is unlikely to be as efficient as regular contact (with or without a fundamental review at the end of the tenancy). At the very least it will mean that the under-occupation will last longer than it need do. Also, it is more likely to cause conflict at the end of the tenancy.

59. There is also a question about what the objective of social housing should be. Is it about the efficiency of the housing market? In which case who is in social housing should not really matter. Or is it about restricting access to social housing to a certain group of people? In which case it is likely that (a) the housing market will not work as efficiently and (b) it is more likely to lead to unbalanced communities.

60. Also, by focusing on means testing council tenants rather than considering whether the size of the household is appropriate for the house it is possible if not likely that employment will be adversely affected because the cost to the tenant of taking a job would be that they lose their house. So they may not look for a job.
THE REFORMS TO HOUSING BENEFITS

The reforms are limited to the private rented sector and will lower Local Housing Allowance levels nationally and particularly on London...

61. The reforms start in April 2011 and are restricted to the Local Housing Allowance (LHA). Therefore, this exempts around 70% of all housing benefit payments as the LHA does not apply in the social housing sector.

62. The biggest national change is that the Local Housing Allowance in the private rented sector will be set at the 30th percentile of local rents rather than the median (50th percentile). However, the change that will disproportionately affect London – because of its high rents – is the introduction of absolute rent caps. The maximum rent for four or more bedroom properties will be £400 per week (and the 5 or more bedroom property is removed). The new rates are:-

- £250 for a one bedroom property
- £290 for a two bedroom property
- £340 for a three bedroom property
- £400 for a four bedroom property
- £400 for a five bedroom (or more) property

...and if, improbably, there was no behavioural response then around 800 thousand people would get less benefit – around 135 thousand in London – and fewer private rented properties would be accessible...

63. DWP’s estimate of the full package is that all 939 thousand housing benefit claimants will lose out. However, just under half of these claimants lose out because of the removal of the £15 excess (see below). Around 800 thousand lose out because of the rent reductions and capping with the vast majority – around 775 thousand affected by the reduction to the 30th percentile and only 21 thousand due the high rent caps.

64. Over two thirds of the rent reductions are in 1- or 2-bedroom properties suggesting that many of them are single adult households. The bulk of the losses are in the range £5-£15 per week and the vast majority of the claimants who lose more than £20 per week are in London.

65. Of the 21 thousand affected by the high rent caps over 17 thousand are in London. Perhaps surprisingly still more than half are 1- or 2-bedroom properties suggesting that even here many of them are single adult households. However, nearly 6 thousand are also 5-bedroom properties. Less surprisingly around three quarters of the claimants who lose will lose more than £30 per week.

66. Outside London the reduction of LHA from the 50th percentile to the 30th percentile of private sector rents means, not surprisingly, that only around 30% of private rented accommodation (with no behavioural changes) would be available after the reforms. In Central London, however, only 7% would be available because of the additional effect of
the caps on high rents. Inner North & West London and Inner South West London were the only other areas where availability were (a little) below the national average.

...however, it is very likely that there will be behavioural changes so the real and also headline-grabbing problems may not be too large...

67. It is very unlikely, however, that there won’t be a behavioural response to this policy change. There are many options that may be used singly or in combination. Those involving the tenant include:-

- the tenant and the landlord negotiate a reduction in rent
- the tenant uses some of their own money
- the tenant gets more money from others in the property
- the tenant increases the number of people in the property – reducing under-occupation - and gets some money from them
- the tenant moves to somewhere they can afford (possibly sharing) – reducing under occupation
- the tenant becomes ineligible for housing benefit – gets a job etc – possibly spurred by this policy change
- someone else – family or a welfare organisation –pays some of the rent

68. Secondly, involving the government:-

- the government negotiates a reduction in rent with the landlord
- central government provides discretionary extra money or housing benefit
- local government provides discretionary extra money or housing benefit
- policy change sparks a consideration of the claimant’s eligibility (e.g. they don’t exist, they are no longer a lone parent etc)

...although some of the changes may make such adjustments less likely...

69. If possible, the government would probably want most of the adjustment to be concentrated on behavioural change by the tenant rather than the problem being solved by the government. This would be in line with Big Society principles and individual responsibility.

70. However, one of the (supposed) money saving reforms is to remove the excess of up to £15 per week that LHA recipients can currently keep if their rent is below the LHA rate. The existence of such a limit contravenes one of the key aims of the LHA which is to provide incentives for people to shop around for bargains. The proposed removal of the limit will tend to shift the new system back even more towards the old system where the state decides the rent with the landlord and the individual has no incentive to bargain.

71. In addition the government has recently announced discretionary powers for local authorities to make direct payments to landlords in return for reducing their rents. They have also announced a total of £180 million over the next five years to help with the
transition. All of this is likely to increase welfare dependency and, to some extent, undermine the principles behind the LHA. It is also an empirical question as to whether local authorities can negotiate better deals than the individual. Whatever happens it is likely that the will be deadweight spending (and divided up between the claimant and landlord?).

...and the lack of an active management system for social housing makes it unlikely that many of these real problems will be solved by moving them into the social housing sector.

72. Nationally the number of claimants who lose out because of the rent reductions and caps is a sizeable proportion of all private rented dwellings – just under a ¼. However, it is only 3% of all dwellings. If the housing market was not so sclerotic then part of the adjustment to this policy change could be through incorporating these claimants in other parts of the housing stock.

73. And even if we ignore owner-occupiers the claimants who lose out represent only 1 in 6 (16%) of all rented accommodation. However, if anything the social housing sector is even more sclerotic than the private rented sector – as the large waiting lists testify. This is partly because the sector is not actively managed and there is no knowledge or action about the degree of under-occupation or the tenant’s desire to move.

In London claimants who lose out are a smaller proportion of private rented dwellings than nationally. But, as there is a lot of private renting, they are a slightly higher proportion of all dwellings and of all rented accommodation.

74. In London the claimants who lose out as a proportion of private rented dwelling is below the national average – one in five compared to just under one in four.

75. However, because private renting makes up 20% of all dwellings compared to 12% nationally the claimants who lose out are a marginally larger proportion of all dwellings (4% compared to 3% nationally) and of all rented accommodation (9.7% compared to 9.4%). Therefore, in terms of numbers, responding to this policy change does not seem to be any more of a problem in London than elsewhere. However, given the inefficiency of the housing market it is unlikely to adjust quickly and easily in every case so some major problems may emerge.

Therefore, in numerical terms dealing with this policy change does not seem to be a bigger issue in London - except for the few thousand with very large, very expensive rents.

76. Of the 21 thousand who suffer losses because of the rent caps their average loss per week is £74 per week and, for the majority (17 thousand) of them in London it is £81. And 6 thousand of them are in 5 bedroom or more houses.

77. This group is a small proportion even of the private rented dwellings – less than 1% nationally and around 2.5% in London. However, even if there are substantial
behavioural changes the specific and unusual nature of the group means it is unlikely that complete adjustment will occur.

**In terms of the labour market effects of the housing benefit changes they should improve work incentives and, therefore, be beneficial...**

78. The major consequence of the reforms is to reduce the levels of housing benefits – an out of work benefit that is paid for by the state. Consequently, it will increase the incentive to work.

...and on balance it might also improve the functioning of the housing market which might also benefit the labour market marginally.

79. It is possible that the changes will lead to a reduction in under-occupation. This, in turn will mean that the overhead costs of getting a job will be reduced and so increase the range of jobs where people will be better off in work.

**However, the reforms are largely restricted to the private rented sector so any effect is likely to be relatively small...**

80. Most housing benefit recipients are in the social housing sector and although there are reforms there they are unlikely to be as beneficial as they might be if the local housing allowance was extended to the social housing sector. And any improvements in the functioning of the housing and labour markets are likely to be made up of a large number of marginal adjustments. Thus, even if they were actually a large improvement it is unlikely to be discernible.

...and the continuing inefficiency of the housing market combined with some specific issues that are concentrated in London is likely to mean that there are a few – but major – housing and labour market problems.

81. More noticeable are likely to be a small number of cases where either the housing or labour market or both is not able to adjust. And most of those are likely to be in London.

3 February 2016
The Chairman: Dr Williams and Professor Wilcox, thank you very much for joining us. The estimate of the number of houses that need to be built over the next five years, from the information we have seen, ranges from about 1 million, which is the Government’s target, to up towards 1.5 million, which is the Town and Country Planning Association’s target. It would be interesting to hear your thoughts on the number of houses needed but, in particular, whether that range of housebuilding over the next five years is achievable.

Dr Peter Williams: Thank you. It is a very complex issue, as you will appreciate, and the context is one in which supply is really a demand-led market and we have to recognise that housing supply is going to be constrained by other factors like, for example, new mortgage market regulation, Financial Policy Committee interventions and so forth. Therefore, even if we can have bold targets in terms of output, it does not necessarily mean, with a
speculative demand-led housebuilding industry, we will see that supply follow. One of my
concerns would be recognising that and recognising the volatility of the market, which itself
suppresses the capacity of the housebuilding industry to achieve supply. That combination
of demand and volatility provides an important context that limits the supply response.

As to the numbers, it will be a stretch. The 1 million is probably a minimum estimate. You
can argue about how big it should be and there are people who would argue even higher
than 1.5 million, but the fact is we are building only about 170,000; we are some way
behind that and there is obviously a backlog. The extent to which we have to meet that is
another matter, but there is a backlog that has been sitting and there are various estimates
around that, so I think it will be a very stretching target. However, I do wonder, given that it
is demand-driven, whether people will be able to afford what they need in terms of
generating that supply, despite all the array of Government measures that have come in.

The Chairman: When you say “volatility”, you refer to price volatility, but also possibly
regulatory and government initiative volatility.

Dr Peter Williams: Certainly all of those, but I was referring particularly to price volatility,
which has a big impact on builders.

Professor Steve Wilcox: I ought to start by saying I am no longer a professor; I am retired. I
do not want to be here under false pretences. I am trying to be retired, but not being very
good at it.

The target figures of the 1 million or something over 1 million are essentially from the latest
set of household projections. They have already been superseded by the latest population
projections, which suggest the figure should be rather higher, but again, as Peter Williams
has indicated, to get much higher than about 230,000 a year you have to start making some
assumptions about dealing with the backlog, even if it is only the backlog for the years since
2012 and that, in a sense, is a separate issue.

There is also this circularity between household formation and the number of houses we
provide, in that households cannot form if the houses are not there for them. Therefore,
underpinning the household projections is a notion of a housing standard in terms of
separate dwellings for those who wish to have them, whether or not the market is going to
enable them to do that. In the crudest terms, essentially, if we do not supply the
200,000-plus dwellings a year, fewer households will form; there will be more sharing, more
young people living at home with their parents and more concealed housing. However,
there is an enormous elasticity, in a sense, in terms of household behaviour to
accommodate what are marginal additions to the total stock in any one run of years.

In an ideal world, if you want to maintain those housing standards and the opportunities for
younger people to obtain housing on their own, you have to look somewhere in that region
of 200,000-plus a year. Obviously, we are a long way off that and although many of the
measures that were in the Autumn Statement were very welcome, when you look at them
as a whole, it is difficult to think that they are necessarily going to get us to the level that the
household projections would suggest would be ideally required. If you look back, the only
time we have achieved those kinds of figures is when we have had not just a very active
private market and growing owner-occupation but a significant contribution in terms of new
social-rented housing. In a sense, what happens after the houses are built in terms of the future is another thing, but to get them built you probably need to be advancing on all fronts, if that is what you really want to achieve.

**The Chairman:** We have heard evidence that the housing construction industry simply does not have the capacity to up its level of annual housing to anything like this. Is that the level implied by 1 million or 1.5 million houses over the next five years? Do you agree with that?

**Professor Steve Wilcox:** I would agree with that in the sense that this is not something that is immutable and cannot change. However, year on year, you are going to see, at best, only a 10% to 15% increase over the previous year, because you have to rebuild the skill and the expertise. It can be drawn in; it is just not immediately available today.

**The Chairman:** Getting those skills back into the industry is likely to push up prices and if you simply build the number of houses needed to meet the demand as assessed, it is going to lead to even more expensive houses. Is it possible to contemplate breaking the cycle of ever-increasing house prices or is that the economic model that is going to continue to determine that?

**Dr Peter Williams:** I struggle on that. You are right that skills and materials shortages will massively constrain the housebuilding industry’s ability to respond. I personally think we have to look outside the housebuilding industry for the supply response in addition to it. Obviously, those costs would suggest that to meet all those requirements we would have to pay more—wages, materials suppliers and, indeed, off-site manufacturing, which itself is constrained by the volatility of the market. Therefore, all those things probably do have some price. I suspect there would be some efficiencies over time, where prices would not rise inexorably and, therefore, supply would begin to respond without a huge price response, so I would probably be slightly more cautious than you on that.

**Professor Steve Wilcox:** I am inclined to be cautious as well, in the sense that there is not a lot of evidence that there is a premium in the market for the prices of new dwellings, including dwellings that are now being built at a much higher energy efficiency level. In effect, all the costs that might be incurred from trying to get the new buildings done, including with the higher energy efficiency, get factored back into land prices. Ultimately, it is the market that determines the prices at which the builders can sell their properties and there are upward pressures on prices anyway as a result of undersupply in the longer run. However, I do not think labour costs can be very much of an independent factor in prices.

**Dr Peter Williams:** This is why we need more competitive pressure around the housebuilding industry, with other suppliers potentially being part of the mix.

**Baroness Wheatcroft:** Dr Williams, you seem to be suggesting that there would be much more scope for modular housebuilding, industrial design. Is it surprising that we seem to build houses very much the way we have built houses for a very long time?

**Dr Peter Williams:** It is not, although I think that is the appearance rather than the reality. Underneath it, housebuilding has improved enormously in terms of what is in the homes; it is just they are not sold. Many builders would recognise that they undersell the product they are currently building. It is very different from previous buildings. I personally believe
that if they sold it better, they would find a bigger demand for it and that itself would stimulate them to build more, so I think they are not very good at doing what they should be doing.

**Baroness Wheatcroft**: What about the modular style of building, factory-led?

**Dr Peter Williams**: It is part of the mix. I am not suggesting for one minute that all of us will suddenly rush out and buy modular homes. There is clearly a long history of failure in this, but other countries show that it can be done very successfully and it does have potential. We have just failed to get over that step, as it were, to get it off the ground in volume.

**Q31 Lord Griffiths of Fforestfach**: You talked about the lack of competitive pressure. If you look at other sectors of the British economy, you see that they have not liked, for example, foreign companies coming in too much, because they threaten them. We have heard evidence from various people and, as an economist, maybe I am sceptical, but my first thought is to wonder whether there is a tacit cartel here among the large companies where they are hoarding and need not be explicit at all. What more could we do? Should we have an investigation of that or could we have a policy for encouraging more foreign firms to enter the market with maybe new ideas such as Baroness Wheatcroft suggested?

**Professor Steve Wilcox**: I will come back to part of the proposition that you started with, the question of whether we have a cartel of large builders. There are issues about competition, but there is also a natural caution within an industry that needs to build and sell properties very rapidly in a short period of time and wants to be confident that there is the effective demand for the houses they are building in that short period of time. There are concerns about the adequate supply of mortgage finance and if you are a builder and you are doing a new product virtually every year, you want to ensure that you have a business that is sustainable over a run of years. Therefore, I could understand them being cautious about wanting to peak their building too much in any one year, particularly if they are then uncertain about where we are in relation to the medium-term future. There is an element of caution as much as cartel in that.

In terms of whether an influx of companies from overseas would make a difference, I am not so sure, because you have to have a clear understanding of the market in which you are dealing if you are going to make a significant intervention. Housing markets are very local markets, so whether that could be a significant difference I am not sure. One thing that could make a difference is a growing awareness over the years that the housing supply we need in the future needs to address the fact that we are an ageing society, and more housing needs to be built specifically for older people, both those who are independent and post-85 with more requirements for care. That is an area that the new housebuilding market has been quite poor in responding to. As I have had it explained to me, it is partly because when, as older people, we eventually move into some form of supported accommodation, we rarely do it on a planned basis—it is often in response to a crisis at some point in time—so builders are reluctant to do much in the way of building accommodation specifically for the elderly, because they cannot be sure of the consistent flow of demand in the marketplace. Obviously, there are some companies, like McCarthy & Stone, which operate very effectively in their particular niche of that market, but if we can find ways of growing that sector of the market that could make a very useful contribution.
Also, frankly, building housing for the elderly is less likely to raise nimbyist responses than some other forms of housing.

**Dr Peter Williams:** Just briefly, if I may, there have been four reviews of the housebuilding industry in the last decade—Calcutt, Lyons, Barker and the Competition Commission—so it has been looked at quite closely. Skanska did come into the UK housebuilding market exactly in the model that you suggest and, unfortunately, exited because it found it not profitable and too complex.

**Q32 Lord Layard:** I want to ask about the planning system. In your review, you express doubts as to whether the existing system could deliver the number of houses that we need. We would like to know what you think would be the changes that could bring us to the number that we need. For example, can you imagine any system delivering enough houses that did not give a very much bigger financial reward to the local authority awarding the planning permission, like, for example, the Dutch system we were discussing or some other system that provided a real current flow incentive? It is important to distinguish between taxes, where the yield is downstream, and an incentive at the time of giving the planning permission to provide the flow of funds to the authority in return for that unpopular action.

**Professor Steve Wilcox:** Although you have kindly referred to my review, by which I think you mean the UK Housing Review, I hasten to add I did not write that bit of it last year. However, I think you are entirely right. How you can incentivise the provision of planning is vital. There is not only the example you mentioned. There is also an example in Switzerland, where the local taxation that flows from new housing is kept in its entirety by their equivalent of local government and that provides a far more effective incentive. Quite clearly, the pressures there are at the moment on local government finance are such that local authorities would be looking very keenly to incentives and so I think there is potential there.

All this goes back, in a sense, to what the previous speakers were saying. There is a finite pot of potential land value gain from bringing land into housing use. If you are going to provide far more effective incentives for local authorities, in one way or another, it either has to come out of any pooling of council tax revenues available for other areas or it has to come out of that land value. There are obviously constraints there, but your essential premise, which is to find more effective financial incentives to promote making more land available at the local level, could make a contribution, but only a contribution. Planning too often gets the sole blame for undersupply of new housing. It has to be not just that there is planning permission; there has to be effective demand for housing in that locality.

**Dr Peter Williams:** The new homes bonus has taken us part way down that path, but I think most people would accept that it is not enough of a stimulus, albeit it is building up. Secondly, on the planning resource at local authority level, I see some authorities now looking to charge for their planning activity, which seems entirely sensible to me. However, it has been much starved of resource and there is a high expectation that the level of planning reform continues. In the Housing and Planning Bill more expectations are being layered on to local authorities at a time when their resource is being curbed. It is an important issue without doubt, but it certainly is not just a planning problem.
Lord Lamont of Lerwick: Some people have suggested to us that planning permission is quicker with smaller developments and that a greater number of smaller developments would, overall, mean a greater supply of housing. I can see you disagree with that.

Dr Peter Williams: No, I do not know. I simply do not know.

Lord Lamont of Lerwick: You were here when the previous witnesses were talking about planning and the effect of planning on land prices, and one used the phrase “controlling” prices. Did you agree with what he said?

Dr Peter Williams: Personally, I think it is highly problematic. There are a range of countries that do the forward purchase, like Canada, Switzerland, the Netherlands, but controlling prices is quite difficult.

Baroness Wheatcroft: I wonder whether you could elaborate on what you were saying about encouraging land to be brought forward. Would you go so far as to penalise developers who did not then build on the land that had been brought forward?

Dr Peter Williams: I do not think either Steve or I would pretend to be planning experts, so I would not wish to mislead you. I understand the general principle. I can see why people reach towards it. The reality is that big-site developments can often take a very long time and I know that from previous engagement with Thames Valley Housing. Even there, where we were a willing developer, it would often take three to four years to develop the site, for all sorts of reasons, whether it was community consultation or discovery of some new environmental limits on the site—things you just did not know and could not anticipate. If you then had a fixed point at which, after three years, you were penalised, I think many people would say that was punitive. Whether there is a compromise there somewhere in terms of the time that should elapse—I am guessing after five years—but even at Thames Valley we had some sites that went on for eight years before we were able to get development under way, for all sorts of reasons. Rights of way is another classic: trying to access difficult sites and securing rights of way took for ever. I am with the principle, but I think the practice would be rather harder.

Baroness Wheatcroft: Interestingly, last week, our two witnesses were divided. Martin Wolf, in principle, was for it and Kate Barker, practically, was not.

Dr Peter Williams: I think Kate is well informed.

The Chairman: Can I just come back to the planning departments of local authorities? Are they sufficiently resourced to carry through the workload that is implied in the level of housing that has to be built?

Professor Steve Wilcox: It is very variable but, by and large, I would think no. One thing that has been going on in local government in terms of responding to budget cuts over the last few years has been that a lot of senior experienced staff have been retired or retired a little earlier. I play five-a-side football with my key local planner, so I know all about it from him. So there are issues there. One of the key issues in many local authorities—and again there are honourable exceptions—is that within planning departments there is not always a sufficient understanding of development finances. In terms of negotiations with developers
Dr Peter Williams (Departmental Fellow, Cambridge Centre for Housing); Professor Steve Wilcox (Centre for Housing Policy, University of York) (QQ 30-40) – Oral evidence (EHMOE0002)

around Section 106 and so forth, understanding what really is viable at various phases in the market and what is a reasonable thing to push for without putting the development off because it is not viable, you have to have quite a canny understanding of development finance to be able to be robust without being too robust in those negotiations. As I say, there are honourable exceptions, but that is an area that has never been a strength in planning departments.

Q33 Baroness Blackstone: I wonder if you could tell us to what extent you think the Government’s Help to Buy scheme has improved the supply of housing.

Dr Peter Williams: I have specifically been involved in the evaluation of the Help to Buy scheme with Christine Whitehead and Ipsos MORI and we have just completed the report. I am probably limited in what I can say. It is a complex analysis. Clearly, you can identify the number of people who have used the Help to Buy scheme, but the question you have to ask, and indeed answer, is how many of those could not have entered the housing market without it. Clearly, it is not the total. The whole aim of the scheme was to be a market-based response designed to stimulate housebuilding activity rather than being a route of entry into housing for people who were having difficulty accessing the housing market. The starting point was about supply and part of that was about recovering the balance sheets of housebuilders, re-stimulating the mortgage industry to think about it and giving consumers and the market generally more confidence. When you look across the array of issues that were trying to be evaluated, I would say on all of those counts it was relatively successful. The narrow increase in output—those houses that would have been additional that would not have been built had it not been for the scheme—is somewhere between 15% and 20% of the total output. The CLG estimate originally was about 25% and we find it lower.

Baroness Blackstone: To me, that does not sound like success.

Dr Peter Williams: It is success because if you take all the other factors that were being put into place around the scheme, around confidence, boosting balance sheets, restarting activity, et cetera, they were a huge success, without, I might say, the negative of what many people anticipated, which was the increase in house prices. There is no material evidence to suggest it was a major stimulus to house price increases. It certainly helped stabilise them in markets outside of London, but it did not stimulate them in any substantial way. There have been some limited analyses, but I do not think the evidence is supported.

Professor Steve Wilcox: In itself, it may have been considered a modest success, but the bigger picture is that even with Help to Buy it is still now far more difficult for first-time buyers to get hold of a mortgage not requiring a significant deposit compared to anything over all the years from deregulation of the mortgage market at the beginning of the 1980s right through to 2007. Some 30% or half of all first-time buyers were buying with 95% up to 100% loan-to-value mortgages; that is, less than a 5% deposit. That was the norm for a whole generation. It was not, in itself, a contributing factor to the 2007 boom because, if

445 Based on the DCLG definition of additionality, the Department’s estimates of additionally were that 25-50% of help to buy purchases were additional. This compares with our evaluation report estimate of 43%.
anything, average deposits during that period were getting larger. Yes, there were some excesses at the margins that we all know about, the 100%-plus mortgages, but they really were at the margins. They were not fundamental to what was happening in the housing market pre-2007.

Not least because of Basel III as well as policy in the UK, we have now entered a regime where not only do we have far more meticulous income assessment on mortgage provision—the days of self-assessment are gone and that, I think, everyone would welcome—but we have left in place, even with Help to Buy, a far greater difficulty for households to access home ownership without access to a significant deposit. Even a 5% deposit, not just in London, is quite a chunky amount of money if you do not have parents or friends you can rely on to assist you with that. The evidence from the assessment that was made by the FSA of the risks associated with 95% to 100% mortgages relative to 1995 is that the higher risk associated with that was really at the margins—and even then, ideally, their data should have been unpicked rather more than they were. Even with all the initiatives that people worry about in terms of whether they will have an inflationary impact on prices, we have a far more restrictive mortgage market than we have had for almost a whole generation. That is as much of an issue in trying to increase supply as anything around planning.

**Dr Peter Williams:** Just to illustrate that, if I may, for the sake of argument, there are around 300,000 first-time buyers in a year. Something like half are parentally assisted. Of the remaining half, probably 75,000 are assisted by the Government. That gives you a sense of how small the pool of people is who are unassisted, parentally or by government, entering the market.

**Professor Steve Wilcox:** These are households that can afford to pay the mortgages; they just cannot raise the deposit. It is not just a balance sheet barrier; we have a wealth barrier now in term of access to home ownership and this is a new thing for the current generation.

**Q34 The Chairman:** The Governor of the Bank of England has said on a number of occasions that he is very concerned about the housing market. He is obviously particularly concerned about it in so far as it relates to banking institutions, but is there any evidence that buyers are stretching to a point they are taking a very considerable risk, particularly in the light of if and when interest rates go up?

**Dr Peter Williams:** The evidence is that, for example, people have been paying down their mortgage debt and the household indebtedness ratios, which the Bank worries about, have come down. None of that says there are not still huge risks remaining in the system and, Lord Hollick, you are right that, quite clearly, the governor and Bank officials generally see the housing market as a major potential source of instability. They have, however, honed down particularly on the buy-to-let market as their source of concern, an area that I know you, yourselves, have been interested in. However, the Bank’s analyses around that are partial, so the Bank can put a story together that looks quite plausible about risk and vulnerability, but, equally, you can match it on the other side, which says by and large things are looking slightly better and more stable. It is trying to balance the two and the Bank tends to, I think, veer towards it being potentially a high-risk area, buy-to-let in particular.
Dr Peter Williams (Departmental Fellow, Cambridge Centre for Housing); Professor Steve Wilcox (Centre for Housing Policy, University of York) (QQ 30-40) – Oral evidence (EHMOE0002)

Lord Turnbull: Coming back to the question of capturing the development value of change of use, am I right in saying that we have had two goes at this since the war, in 1948 and 1970?

Dr Peter Williams: Yes.

Lord Turnbull: I do not know exactly how they worked, but the idea was that the seller of agricultural land got some premium and then quite a large chunk of it went to the state and that paid for the infrastructure. Am I right in saying the reason they failed is that people just sat on their hands and waited for the next election?

Dr Peter Williams: Yes, and I think that is very sad. I fall back on the Mirrlees review, which looks at land tax and property tax and, very sensibly, says that it is a very complex political issue and it all needs a full and thorough investigation to see where you could go, because the politics of it are the key point, in that it gets into place, it is then overtaken by events and then it falls out of favour.

Lord Turnbull: This indicates that this is a subject a bit like pensions, in that you have to work probably over many years to get a political consensus.

Dr Peter Williams: I agree.

Professor Steve Wilcox: Absolutely.

Q35 Lord Turnbull: On taxation, one of the things that annoys me most is when particularly our beloved Prime Minister says things like, “You should not tax people’s hard-earned savings”, when most of those savings are the value of housing, with people in the south-east probably getting a gain in their net wealth probably in excess of their salaries. You can look at inheritance tax as a perfectly rational part of a system in which it is a deferred capital gains tax; you do not pay it until you die and there is an estate and it is recovered. However, what we are seeing is even that is being nibbled away at. Can you see any prospect that we could develop the kind of consensus that I have been talking about, that it is perfectly reasonable to capture, on a delayed basis, some of the capital gain of housing?

Professor Steve Wilcox: I wish I could. There is a rational case for reviewing property taxation, particularly property taxation for owner-occupiers, the benefits of which accrue to existing long-established owner-occupiers, but then that gets factored into house prices and that becomes an additional barrier for new entrants to the market, so all the advantages are at one end. There are a range of policies around in terms of taxation on capital gains and on inheritance that operate quite smoothly in other countries, but they have required political consensus to operate. You can look at Sweden, where they apply capital gains tax for owner-occupation, but there is always a rollover arrangement, so while households are moving, if they are reinvesting, it does not become liable at that point. It is only at the point that they exit the market, either to move into renting or when we all exit the market, that the capital gains tax then comes into play. However, it is very difficult without a political consensus.

There are small measures that one can take in terms of taxation, looking at the extent to which council tax applies and the levels of council tax. Again, there have been various
reviews of that, but we do have a system of banding of council tax that is compressed relative to market values: that is, it is a less onerous tax for high-value properties than it is for low-value properties. In a sense, that is another, if you like, fiscal advantage in favour of higher-value properties.

**Lord Turnbull:** Can you dredge into your history? Am I right in saying that the gradient of tax to the value of house is less than it would have been under the continuation of rates?

**Professor Steve Wilcox:** I am sorry, I do not have that figure to hand, but I certainly know the current regime is far less onerous on higher-value properties.

The other thing on council tax is there is the provision automatically for a 25% rebate for people living on their own, which is, in effect, an incentive for under-occupation. Obviously, it applies to a lot of elderly people, but again you can set arrangements up so that if you change those arrangements there would be a rollover arrangement where it is paid only at the point that people leave the property, rather than having to pay at the point where they do not have the income to pay. There are a number of small measures you could introduce that will not change the world but will be helpful steps in the right direction.

**Dr Peter Williams:** Supply can solve only so many things and taxation has to be part of the overall reform of the housing system. There are ways over the long term that you can make adjustments—we saw that with mortgage interest tax relief—that, phased out over the cycle, can be done. We have seen modest adjustments to council tax in other countries and, indeed, stamp duty tax in other countries and now in England. There are things that can be done that do not demolish the world as we know it, but over time—back to the nudge analogy—you begin to change the way people behave.

**Lord Turnbull:** The other proposition is that the tax system is going in the wrong direction and there is an argument about mansion taxes and taxation of higher dwellings. The Conservative Party won the election. It made a genuflection in that direction by the increase in stamp duty; it did not accept it in the annual taxation regard. Is this not part of the thing that is a big distortion? If you live in your house for 25 years, you do not pay this and if you happen to move, often for perfectly good reasons, you end up paying some pretty colossal sums. Should we not try to get stamp duty back to where it was as a taxation on transactions, incorporate and basically take a small amount of money from a lot more people a lot more often?

**Dr Peter Williams:** You mean an annual property tax.

**Lord Turnbull:** An annual property tax, which is what council tax is.

**Dr Peter Williams:** Yes.

**Professor Steve Wilcox:** I entirely agree.

**Dr Peter Williams:** In a sense, that was where the Joseph Rowntree Housing Market Taskforce, of which Kate Barker and I were members, got to. It reached that conclusion along with adjustments to council tax, so it is possible.
While we are on the matter of tax, clearly one of the issues most recently is the 3% stamp duty levy on individual investors, where circumstantial evidence does begin to point to a degree of frenzy in the market. We only have to think back to the unfortunate events of 1988, with the advance announcement of the withdrawal of mortgage interest tax relief, which also then led to a degree of frenzy in the market over the subsequent five months and a house price boom. There are some issues here about how tax instruments are introduced to the market and changed.

Lord Turnbull: Am I right in saying that that 3% applies to individual buyers, not corporate buyers?

Dr Peter Williams: Yes, it does.

Lord Turnbull: Can individuals not “corporatize” themselves rather easily?

Dr Peter Williams: They are still very significant as buyers in the market.

Lord Turnbull: If they are paying the 3% levy, then they can set up a company.

Dr Peter Williams: That is not a costless or an immediately easy thing to do and lots of people will think about whether they should do that. That transition is not an easily achieved one.

Professor Steve Wilcox: That will probably happen after April.

Q36 Lord Griffiths of Fforestfach: The Chancellor announced in the summer Budget that the Government will reduce the rents charged to social housing tenants. What would be your assessment of the impact of this on the supply of low-cost housing?

Professor Steve Wilcox: Clearly, that is taking away a resource from housing associations and local authorities that could be used for investment going forward. Obviously the reason the Government have done it is in terms of short-term impact on housing benefit costs. At the same time, in terms of affordability, social rents have been increasing at either RPI or CPI plus 0.5% or 1% way back for the last 15 years. That policy was premised on average earnings increasing by about that much over inflation every year and, in fact, it was a relatively cautious policy to try to keep rents roughly in line with movements in earnings or even a little below. However, over the last seven or eight years, we have seen earnings going the other way in real terms and social rents have continued to increase ahead of inflation, while earnings have been falling behind inflation. Therefore, there is a legitimate reason for raising a question about whether that continuation of above-inflation rents was a sensible policy or a policy that should have been reviewed. Obviously, it has been very sharply reversed and in the short term it will take a lot of money out of housing association and local authority coffers and that, quite inevitably, will impact on their capacity for new investment, both in terms of new build and for local authorities, in particular, in terms of investment in improving the standard of their existing stock.

Lord Turnbull: If it is in line with earnings, have they not done this at precisely the wrong moment, because real earnings are now starting to rise again?
Professor Steve Wilcox: Marginally. They are rising by about 1% against CPI, but they are only just about at pace with RPI, so it partly depends on which inflation measure you are using, but, yes, they are moving back in the right direction, I entirely agree.

Q37 Lord Teverson: Staying on social landlords and Right to Buy for housing associations, a few months ago, the Chancellor told us that this was particularly important because it was non-discriminatory to the people who were in council housing, effectively. I would be interested in your feelings about that, but I would also like to come back just quickly, Professor Wilcox, on a similar theme about social housing. You pointed out very well—and we have a number of graphs that illustrate this in our own briefings—that, in the past, when there has been sufficient housing supply, it has been a mixture of public as well as private housing. What I would like to ask you about that is: if there was the political will—and clearly there is not at the moment—could that be solved by local authorities and housing associations, if they were sufficiently financed, getting back into that? Are there the resources, the land and everything else? Could that be replicated back to the 1950s or is that a dream that has well gone by even if there was the political will to do it?

Professor Steve Wilcox: If I can start with that first. Quite clearly, at the moment they do not have the resources to do it, not least after the changes on rent that are going forward. However, in terms of whether they could do it in principle, I would paraphrase Harold Macmillan. When he took over after Nye Bevan and continued the programme of council housebuilding and the target of 300,000 dwellings a year, he said, “We can build the houses now and we can put the rents up later”. I paraphrase to say that you could take the view that you could require the public sector or social sector, in one way or another, to build the houses now and you can always sell them later, so there are a number of ways you can go about that.

Moving on to Right to Buy, I have long been a heretic in terms of having a view on Right to Buy that does not seem to appeal to people of any political persuasion. It comes from having done an economic analysis of Right to Buy, essentially focused on the point that when you have a right to buy you are making a sale to a sitting tenant who has security of tenure at a sub-market rent. That property does not have an open-market value, so to talk about the discount as being a discount from an open-market value being the effective economic level of discount, those are two totally different things. You can quibble with the details, but the analysis I did suggested, in broad terms, that the economic value of a sale to a sitting tenant would be something like 30% to 35% of open-market value. In other words, if you looked at the sales at that level of discount, it would represent a reasonable return to the public sector and, for every three buildings you sold, you can build two replacements now and then you do not lose those properties from the market. The people who buy them still live in them. They are just called owner-occupiers rather than tenants, but they are the same households that were allocated those dwellings on the basis of housing need and the evidence was, on average, they continued to live there for about another 15 years. Therefore, what you have is a loss of re-lets in 15 years’ time, on average, against the sales today and if you put together the two new lets you have today, the 15 years of occupation by the three people who have purchased in the intervening years and the loss of three re-lets in 15 years’ time, as a package, if you do Treasury-discounted analysis and so forth, that stacks up.
Therefore, what I would say in terms of the policy on Right to Buy, whether it is for local authorities or housing associations, is there is not a problem in terms of value for money for the public sector if you can get reinvestment from it, and that is obviously very useful, as long as the discounts are at a reasonable level in terms of economic value. We seem to be tossed between political views that, on the one hand, think Right to Buy is evil or, on the other hand, think that it is quite acceptable to have discounts of something like 70%. I have to say I do find it rather bizarre being in the situation where, on the one hand, it is being suggested that it is quite appropriate for someone to have the Right to Buy at a discount of 70% if, on the other hand, they are a tenant with a reasonable income. They will have to pay a market rent on the property under pay to stay because it is not proper for them to receive a subsidy in terms of a sub-market rent. There is a little inconsistency there.

**Dr Peter Williams:** Clearly, one key issue in what Steve has just said is that 100% of the receipts come over to the landlord rather than are lost inside the Treasury’s coffers. I do think associations and local authorities certainly have the appetite—whether the capacity, as Steve has said—to significantly increase output and to become a major player in the supply mix and that is probably utterly justifiable.

**The Chairman:** Have the Government been made aware of your calculation and how have they reacted to it?

**Professor Steve Wilcox:** It is something I wrote about 10 years ago and certainly civil servants in the relevant departments are very well aware of it, as indeed are the civil servants in Scotland, where they have decided to abolish Right to Buy. Actually, the modernised Right to Buy in Scotland, which was introduced in about 2000, had about 30% discounts and was a model of a balance between providing households with choice and something that is quite sound in terms of public finances. Sadly, though, in Scotland they have rushed straight from Right to Buy to modernised Right to Buy and now to abolishing the whole thing, although the civil servants are well aware that there are disadvantages financially to the sector in terms of removing potential access to receipts from abolishing Right to Buy, in the same way as there are losses to the public sector from excessive discounts.

**The Chairman:** On your calculation, what was supposed to be a 30% discount is, in fact, a 70% discount. If you mark to market, if I can put it that way, the local authority or the housing association would receive twice as much money.

**Professor Steve Wilcox:** Yes.

**The Chairman:** Interesting.

**Q38 Lord Sharkey:** Since the summer, the Government have made changes in the buy-to-let residential sector: restricting relief to the basic rate of income tax, the higher SDLT on additional residential properties and capital gains tax has to be paid within 30 days of completion. Are these good ideas?

**Dr Peter Williams:** It is a problematic set of interventions in the sense that if you put it in the context of why people are active in the buy-to-let market, it is partly very low savings rates, the funding-for-lending scheme drove down rates and the bank base rate driven
down. People were looking for return because of poor pension fund performance, so there are a lot of people who have gone to property, as it were, because of the context in which they themselves were put by others, not by their choice, and clearly that has encouraged buy-to-let. It is worth stressing that—again, the calculus is difficult here—buy-to-let makes up only about 30% of the private rented sector. The rest is funded by commercial mortgages and cash, and as much as Government and the Bank may seek to control the buy-to-let market as the competitor with first-time buyers, it clearly is only controlling part of that market. Therefore, there is some danger there of overemphasising the degree of control, which they do not have.

Lord Sharkey: The Chancellor said he would consult on exempting corporates and larger landlords from the imposition entirely. Would that not change the architecture of the buy-to-let sector entirely? It would drive out, effectively, the kind of people you were first talking about.

Dr Peter Williams: Yes, and it is not clear exactly why that new “two legs good, four legs bad” argument has emerged: that individual investors are bad and corporate investors are good. The implication that I draw from it is that they are more likely to make a contribution to supply because, do not forget, most buy-to-let investment is buying existing properties and, therefore, it is cannibalising the existing stock rather than adding to it. Corporate investors are more likely to generate new build, but even there it is relatively small in total. It is also said that they might be better landlords—the evidence for which is quite weakly developed, but it is possible. So I do not fully understand the switch between individual investors and corporate investors and nor do I fully see the evidence that supports the view that it is only individual investors who are competing with first-time buyers. Again, the evidence base around some of these interventions is very poorly developed.

Professor Steve Wilcox: There is one point to add in that. I agree with Peter Williams. The tax changes that have been brought in are rather messy, because in many ways the taxation of private landlords was textbook about how you tax any other kind of business. However, there is an issue in terms of if you have a notion in the market that you want to provide younger households with open and free choices about whether they want to go into owner-occupation or whether they want to go into private renting, one of the issues confronted is a very uneven mortgage market. The predominant buy-to-let mortgage product is an interest-only mortgage, whereas essentially you have to get a repayment mortgage or its equivalent if you want to become an owner-occupier. In other words, a first-time buyer has to contemplate paying out something like 50% more than a private landlord would in terms of buying the same kind of property. That is a very uneven marketplace in terms of providing household choices and, to some extent, the tax changes that have been suggested will counterbalance that a bit, but, frankly, in a very messy way. Looking more closely at more balance in terms of the regulatory market for both buy-to-let and first-time buyers might have been a more appropriate advance, although that too is not without its difficulties.

Lord Sharkey: What is the net effect of having a relatively large buy-to-let sector? In what sense does it help first-time buyers?

Dr Peter Williams: A smaller buy-to-let sector?
Dr Peter Williams (Departmental Fellow, Cambridge Centre for Housing); Professor Steve Wilcox (Centre for Housing Policy, University of York) (QQ 30-40) – Oral evidence (EHMOE0002)

Lord Sharkey: No, the sector itself.

Dr Peter Williams: Does it help first-time buyers, having a buy-to-let sector? Not immediately. There is an issue about the rent levels, but if it has brought better quality accommodation to people while they are waiting or trying to save to be a home owner, I guess that is a positive. Many in the buy-to-let sector would say that, far from being negative, they have made a significant contribution in terms of improving the quality of the private rented stock and have done something to give people more choice in the private rented stock. One of the dilemmas in this sort of model between choice and constraint is that there are many people who rent better than they could buy, and it poses quite a difficult choice for people: they can live nearer to where they want to work or are working and they would have to live further away in poorer property if they chose to buy. Therefore, I do not think we should see it entirely as a constraint; it is also about choices.

Q39 The Chairman: If the objective is to create a more level playing field between first-time buyers and buy-to-lets, have the Government’s recent measures gone far enough to achieve that? If not, what additional measures would you suggest should be introduced?

Professor Steve Wilcox: I doubt they have gone far enough but, frankly, we will know in due course what effect they have had, as Peter Williams suggested. In the short run, we may see an upturn in buy-to-let purchases to get in before the stamp duty changes come into effect. Therefore, it will take a little time to settle down. Ideally, in the long term, we would completely recast housing finance. We would reintroduce mortgage tax relief for first-time buyers against what used to be the old Schedule A tax on the use value of occupation of a dwelling, and we would introduce capital gains tax for owner-occupiers. That would balance the market properly between the tenures, but you would still have to then come back to the issues around mortgage market regulation and the imbalances in access to more advantageous forms of mortgage finance in one sector compared to the other.

Dr Peter Williams: That is because obviously a policy choice was made between the regulated owner-occupied market and an unregulated buy-to-let market. That was the way policy went in terms of the split between the two, buy-to-let being seen as more commercial and unregulated by the FCA and the mortgage market owner-occupiers are regulated. That has a big implication. It strikes at all the things that Steve was saying. Fundamentally, Lord Hollick, this is an under-researched and under-evidenced area and you would expect two academics or former academics to say exactly that.

Q40 The Chairman: Let me chance my arm a little then, just to finish off. The Government have an ambitious target of 1 million houses—some would say that is not enough. What measure or group of measures would you advise the Government to introduce in order to have a reasonable shot at achieving their target over the next five years?

Professor Steve Wilcox: Picking up on something that was said towards the end of your last set of evidence, I do not think there is a single silver bullet. You have to look at a whole range of measures to begin to get there and you will only get there incrementally. At the end of two or three years, if we get towards 200,000 or 200,000-plus that would be welcome, but it needs the planning measures and it does need some more stimulus, one way or another, to promote more building in the social sector to complement everything that can be done in the private sector.
Dr Peter Williams: I would agree with that and I do not think there is a single measure at all. There are some structural things. Housing is a hugely complex market and it does require, to the extent that we can achieve it, cross-party consensus and long-term plans, and both of those are absent. We are still prey to short-term initiatives and we have seen an awful lot of them and they seem to be still coming. We are not at the end of the policy announcements on the push towards home ownership. There is going to be more stimulus activity around that over the coming months—I am guessing, in the Budget next year. There is a lot still to come and I do not think some of those have been joined up enough in the way that they should have been. There are some big issues above the delivery which we are still a long way from and that we obviously hope your inquiry can help to address.

The Chairman: Do you think there is merit in devolving responsibility far more boldly to, for instance, the northern powerhouse or to metropolitan areas, letting them do what they think is appropriate in their area and have a range of measures to achieve those objectives?

Dr Peter Williams: Because housing markets do not respect local authority boundaries, it has to be sub-regional and metropolitan planning around those issues, but of course that does not address the questions of welfare and taxation that sit out with these. Thus, although when you look at Wales and Scotland, which have gone off and started to do things quite instrumentally around their housing systems, they are still, I am afraid, impacted by the taxation measures and the welfare reform measures that emanate from Whitehall, which are very difficult then to overturn, because those are part and parcel of the total.

A final point from me, if I may. We have to recognise how the costs of this are borne not only by individuals but by Britain’s competitive economic position. If we have a failing housing market, we are damaging our position in the global economy. That argument is massively understated in the way government approaches these issues.

Professor Steve Wilcox: Yes, if you want to push things down more to a more localised level, then you come back to the issue that was raised earlier about incentives, because you will need incentives at the local level if you want the numbers overall to stack up. The other thing, going back to an earlier point I made, is trying to think a bit more about how we can put forward the need to build additional accommodation for older households as part of the mix. Again, it is not a silver bullet, but it is something we have not been doing enough of.

The Chairman: Of course, we cannot write a self-interested report, but I think that is of interest to many of our Members. Gentleman, thank you very much indeed.
I have recently moved back to my father’s home in London to save money for a deposit. I am 33 years old and as you can imagine, living with a parent at 33 is not exactly where I hoped to be. However, with about £200 - £300 a month available for savings while renting and paying bills, the possibility of saving for a deposit would take over 7 years – in which time the house prices may have increased even more.

I have previously rented in Bristol and when I first moved there 5 years ago rent was fairly reasonable, and much cheaper than London. However, within the last two years rent has increased substantially and the only option for me there is to share a house with other strangers.

In Bristol I had a room in a house for 3 years at a reasonable rent in a fairly central part of Bristol called St Pauls. The area was renowned for being rough but at the time there were many artistic, young people moving into the area and it was a nice place to live.

However, after three years I was given my notice at this house and asked to leave so that the landlord could redo the house and put it back on the market at a higher rent price.

This is happening more and more to my friends in Bristol as the area becomes gentrified. A friend moved into a shared house recently only to be asked to moved out 4 months later due to this redo and rent higher trend, and then was almost asked to do the same thing when she moved into the new house.

I won’t be looking for any flats in London as on my support worker wage as I can’t ever imagine to afford a studio flat here, let alone a house for a family, even though this is my home and where most of my family live.

My fathers 1-2 bed flat, originally bought for £30,000 in 1984 is now worth over £400,000. Although this is great for him if he ever decides to sell, it is totally out of the market for first time buyers, who would most likely be the most interested buyers in our poky flat.

It seems that working class people, and people on low wages, such as myself, are being pushed out of the cities and into places unknown to us and far away from family.

My best hope is that I save enough money here to get a 95% mortgage which I will spend the rest of my life paying off. Being enslaved to the bank for the rest of my life in an area that I might not want to live in isn’t great for keeping family bonds intact and stress levels down.

As well as our civic duty to contribute to society we are here to enjoy the one life we’re given. The fact that I’ll have to spend the rest of my life working to pay for a human necessity such as shelter needs reforming as soon as possible.

20 November 2015
Submission to be found under Dame Kate Barker (author of the Barker Review of Housing Supply); Martin Wolf (Journalist, Financial Times); Policy Exchange (QQ 1-16).
Select Committee on Economic Affairs

Wythenshawe Community Housing Group was formed in April 2013 and saw the creation of a Group Structure with Willow Park and Parkway Green Housing Trusts. Willow Park Housing Trust formed in 1999 and Parkway Green Housing Trust in 2006, both organisations have sold over 1000 properties through Right to Buy and over 100 through the Right to Acquire scheme. We continue to gain interest from our tenants on owning their own home and support their move into home ownership.

During 2015 / 2016 the average discount that we have applied for Right to Buy cases is 58% of the property value. The average sale value has been £96k from which the Group has received £41k. With a lower than average sale price the impact of the governments changes to stamp duty have had a limited benefit for the tenants of Wythenshawe. Whilst property values are increasing due to the investment and regeneration of the area they are still below the national average, in the last 12 months the average house price in Wythenshawe was £154k compared to the national average of £298k. With a lower than average sale price and land in short supply, government policy needs to be reflective of local circumstances to ensure that a replacement property can be delivered for each one sold.

WCHG was not of supportive the extension of the Right to Buy through the vote that the National Housing Federation held. The Board carefully considered the information that was available at the time and decided that it could not support the proposal as it was not in the best interest of Wythenshawe and felt that a robust process of good governance had not been allowed due to the short timescales and Parliamentary debate denied.

Wythenshawe remains a Garden City with large areas of green space for the local residents to enjoy and is well utilised. WCHG are keen to maintain these green areas and work hard to ensure that its use is protected. However, in order to continue to develop sites it does have to use a mix of green and brown field sites. This involves working with architects, planning and local residents to bring back into use any areas of land that are suitable for housing. Wythenshawe has a strong sense of community and community spirit; this is set within an area of high deprivation and low social mobility. Therefore all developments of replacement properties need to be carefully considered and implemented to ensure that the local area maintains a sense of place.

Housing Providers such as WCHG are best placed to work with local communities to develop new locations that provide a range of tenures to meet the needs of all in society, this varies from those wishing to buy outright, those who need help into home ownership and supporting the most vulnerable in society for whom rental remains the best option.
Information from the Council of Mortgage Lenders shows that across Wythenshawe over the past two years the value of residential mortgage loans outstanding has fallen slightly, which shows that whilst existing households with mortgages are able to make payments, there is little new entry into the home ownership market within the local area. The Group have experienced significant interest in its affordable home ownership properties and this demonstrates that there is a real need for a range of home ownership models.

We have significant demand from private rented tenants who are looking to move into social housing, because whilst renting privately they have experienced, poor property conditions, poor services from the landlord and unstructured rent increases. Wythenshawe is not currently an area investors are looking to develop private rented portfolios.

WCHG will continue to deliver these affordable housing options for those tenants aspiring to home ownership, whilst ensuring that those who need support are protected within social housing, enabling them to flourish.

The proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget have impacted on WCHG and as a result changes in the operational model have needed to be implemented to ensure that the Group remains financially strong. The implementation of the 1% reduction in rents in April 2016 has had a detrimental effect on the 30 year business plan that the Group has in place and is secured with funding from private banks; this comes at a time when most housing organisations are nearing peak debt due to the Government requirement to achieve the Decent Homes Standard.

Over the next 4 years the Group will need to save £20.1m in order to rebalance the business plan and therefore comply with the funders covenants. The Group has therefore made savings of £4m in the first year of the new policy 2016-2017 to deliver this over the lifetime of the rent reduction process. We are then assuming that rents will increase in line with CPI, should this not be the case a further review of all operations and services will need to be undertaken.

WCHG are keen to ensure that services are maintained to tenants during this period of austerity and this offers the Government the security needed to enable some of the most vulnerable to prosper. Therefore the savings have been made by a reduction in a number of additional value adding activities, the removal of 25 vacant posts and through consultation with Trade Unions 21 redundancies. We are working with those staff to ensure that they have the skills required to find future employment after the Group, but their redundancy is as a direct result of the budget announcement. As an employer of local people, this will have a direct impact on local prosperity.

WCHG are keen to maintain the condition of the properties and local neighbourhood, Wythenshawe has seen considerable investment into home, neighbourhoods and infrastructure such as the tram network. Whilst some aspirational improvements have been
deferred for future years, it is important that the area continues to develop and that the previous investment is not eroded away by these cuts. WCHG will continue to work in partnership with other agencies to deliver VFM services that are at the heart of what the Group delivers on behalf of its tenants and local residents

Whilst the Pay to Stay announcement could provide additional income to the Group, there is a lack of clarity on the implementation of the scheme and the costs required to administer it could exceed the collection rate. We await further information of the scheme.

14 December 2015
Dear Sir or Madam,

YMCA England response to the House of Lords Select Committee on Economic Affairs inquiry into the economics of the United Kingdom Housing Market.

YMCA was established in 1844 and is the largest and oldest youth charity in the world, helping over 58 million people in 119 countries. Here in England where it all began, 114 YMCAs work to transform over 530 different communities, impacting on the lives of nearly 600,000 people every year.

Amongst its roles, YMCA is the largest provider of safe, supported accommodation for young people in England – providing just under 10,000 beds every night.

YMCA launched its manifesto, *We Believe*, in Parliament on the 10th March 2015. The manifesto development process engaged over 350 people, including the five main stakeholders for YMCAS; its chief executives, staff, trustees, young people and service users. It is the thoughts and experiences of these stakeholders, as well as those submitted directly in response to inquiry, which for the basis of this response.

**What measures can be taken to increase the supply of reasonably priced housing in the UK?**
How can we improve the availability of low cost private rental properties? Will the current trend for a decline in home ownership and rise in the private rental sector continue and is it desirable?

1.1 It is recognised that not enough new homes have been built over the past generation and this has contributed to a lack of low cost housing available for young people and first time buyers. As such there are now 4.4 million households privately renting and 3.9 million households renting socially in England.\(^\text{446}\)

1.2 Such is the demand for housing that it is critical that the Government takes bold decision to increase its supply. At YMCA, we are particularly concerned about the supply of housing for young people; their experiences within the rental market, and with soaring house prices how young people will ultimately be able to get on the housing ladder.

1.3 YMCAs up and down the country are increasingly seeing young people struggling to afford the costs of private rent. Even for a young person in employment, a combination of low wages and high rents can quickly seem them priced out of the market. This problem is further compounded in London, with the average price of renting a flat or house now £1,500 a month.\(^\text{447}\) This is illustrated by the fact that within the 16-24 year old age bracket, the number of households privately renting has decreased from 16% in 2003-04 to 12% in 2013-14.\(^\text{448}\)

1.4 YMCA England’s research ‘Delayed until Further Notice’,\(^\text{449}\) found that over four in five (81%) of supported accommodation residents surveyed confessed to worrying about being able to find somewhere to live when they are ready to move on. With over half of residents (56%) feeling ready to move on but unable to do so, and one in five (20%) left waiting for over six months.

1.5 In addition, the research found that over two thirds (70%) of supported accommodation residents felt that it was the lack of available housing that was either very likely or likely to prevent them from being able to move on.

1.6 Accordingly, YMCA is calling on the Government to invest in the development of alternative models of housing to solve the current crisis in this country. To help young people make the transition and address the chronic housing shortage in London, YMCA London South West, in partnership with architects Rogers Stirk Harbour + Partners, has developed Y:Cube.

1.7 The unique off-site construction and design system provides high quality accommodation which can be built quicker, and for up to 40% less than the cost of

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YMCA England – Written evidence (EHM0076)

traditional construction. The self-contained one-bed flat with its own bathroom, living room and kitchen are all housed in a compact 26 square metre unit, built-off site and craned into place.

1.8 Y: Cube uses a pre-constructed ‘plug and play’ modular system which enables the streamlined units to stack easily on top or alongside each other, making them completely adaptable to the size and space available and therefore perfect for tight urban sites, particularly in London.

1.9 Each unit is constructed from high quality, eco efficient materials (primarily renewable timber), creating accommodation that is so well insulated that they require little or no heating, even in winter months with a three week test showing each home can be lit and heated to 20oC all day and night for £7 per week. This presents further valuable savings as the cost of energy rises.

1.10 The design of the scheme means that the units can be moved off site as quickly as they are installed. The programme operated on short-term leases and people are expected to stay on average for between three to five years, giving them the time to save for a deposit.

1.11 For the Y:Cube development in Mitcham, opened in September 2015, the weekly rent is set at around £145. This is 65% of market rent in the area and, looking at London renting costs, a single room in the capital will soon be comparable to renting a Y:Cube flat and the project will still pay for itself in 15 years.

1.12 In addition to building new homes, there are also clear examples across communities where previously unused buildings can be brought back into use. The Empty Homes Scheme run by YMCA Downslink Group is one such example, which works to bring these empty properties in Sussex and Surrey back into use. The aim of the scheme is to provide affordable and safe accommodation to young adults and families in housing need. This is achieved by leasing properties from private landlords and refurbishing them to a standard that means they are ready to be let.

Is there a case for restricting rent increases in the private sector?

2.1 YMCA is calling for the Government to introduce a rental cap to reduce the amount that landlords can increase rents annually to help tackle the rising cost of rent that prevents so many young people from accessing the private rented sector.

2.2 In addition to the large rents young people identified high charges by letting agents as a significant barrier to being able to access the private rented sector. The recent upsurge in the private rented market seems to have exacerbated the situation and YMCA believes that this whole area needs to be regulated. YMCA is therefore calling for the Government to reduce the upfront costs to tenants by regulating the fees that letting agents can charge them.

2.3 For many people access to the private rented sector is further inhibited by the initial upfront costs needed to make the move. Buyers who are able to afford mortgage
payments but not the deposit are assisted through Government schemes. The Government, in association with banks, should take similar action to support those seeking access to the private rented sector.

2.4 Rent deposit and bond schemes run by local authorities, housing associations and charities operate across England but despite such schemes being in place, it remains a postcode lottery as to whether they are available in a given area, as well as who is eligible to receive them. The transfer of Community Care Grants and Crisis Loans into local welfare provision schemes has made it even more difficult to access this support.

2.5 Even where such schemes are still in place, many are viewed as worthless or second rate by landlords in the private rented sector, again further limiting the options available for those leaving supported accommodation.

2.6 The introduction of a national ‘help to rent’ scheme which provides individuals with a deposit that they can then pay back over a 12 month period is needed.

2.7 This would give people who have been homeless an important helping hand in moving towards independent living, meaning that they are no longer caught in supported accommodation or with their parents when they are ready to make the transition into independence. It would also free up supported accommodation for those who are in need of the support that YMCAs provides.

2.8 As well as ensuring national coverage, having similar Government backing to the schemes to that are provided for prospective home owners would improve its credibility amongst landlords, opening up more of the private rented sector to those leaving supported accommodation.

Are new measures needed to increase the supply of social housing?

What will be the impact of the Right to Buy for housing association tenants?

3.1 For the most part, the accommodation provided by YMCAs would not fall under the regulations for which Right to Buy could be extended to. However, one area which could potentially be affected is the ‘move-on’ accommodation YMCAs provide.

3.2 The purpose of the move-on accommodation is to be an intermediary step between supported accommodation and full independence. Move-on accommodation generally exists where YMCA’s have purchased properties that enable young people who have previously been living in supported accommodation to move into, prior to moving into the private rented sector or social housing.

3.3 If move-on accommodation such as this would be eligible under the Right to Buy extension it would eventually reduce YMCA’s housing stock and no longer allow the organisation to provide the necessary support that vulnerable young people require to complete the full transition to full independence.
3.4 YMCA England’s research, *Delayed until Further Notice*, highlights the problem that YMCAs are facing with increasing numbers of young people trying to access its homelessness services and YMCAs being forced to turn them away individuals in need of accommodation in the past year due to being at capacity.\footnote{YMCA England, *Delayed until Further Notice*, December 2015}

3.5 With YMCAs already struggling to move young people into the private rented sector, the issue would only be exacerbated further were YMCAs no longer able to provide move-on accommodation as part of its homelessness support due to a lack of properties within its provision.

3.6 The extension of Right to Buy to housing associations would also likely discourage YMCAs from investing in move on properties through fear of having these purchased by residents.

What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are there any additional or alternate changes to social housing rents needed?

4.1 YMCA supports some of the most challenging and vulnerable young people in our society. A natural consequence of this is that they will often be in and out of work or claiming housing and unemployment benefits which enable them to stay at YMCA while they rebuild their lives.

4.2 The provision of supported housing is specifically designed to help disadvantaged people to achieve or remain as independent as possible and live healthy lives. The income in rent received by YMCAs in its projects goes straight back in to providing this support and educational opportunities to enable these young people to get their lives back on track. If YMCAs had to absorb the costs of a 1% reduction in social rents, it would in turn mean that the level of support they would be able to offer to vulnerable young people would decline.

4.3 An alternative option would be to ask young people to contribute more towards their accommodation. However, due to the financial tightrope that these young people will often walk, with most living hand to mouth asking them to make up the shortfall is simply unfeasible and would have a significant consequence on their ability to make ends meet.

4.4 Therefore if the 1% reduction in social rents is introduced, the only way of potentially mitigating this damage to the individual’s financial situation would be for the costs to be absorbed by the association, which is likely to result in a reduction of support thorough a limitation of services and/or a loss of staff.

4.5 Accordingly, YMCA is calling on the Government to remove supported housing which meet the definition of specified accommodation (as defined in the Housing Benefit and Universal Credit (Supported Accommodation) (Amendment) Regulations 2014) from the mandatory 1% annual reductions.
4.6 Exempting specified accommodation, as with previous benefit changes, presents a straightforward solution because the definition was already exists and was agreed after two years of work between the Government and charities. The definition has been in place for over a year and has worked well in protecting supported housing for the most disadvantaged.

4.7 In addition to the 1% reduction in social rents, the most crucial announcement for YMCA’s ability to provide supported accommodation is the Government’s announcement in the Comprehensive Spending Review that social rents as funded by Housing Benefit will be capped to Local Housing Allowance (LHA) levels.

4.8 While much of the detail surrounding the announcement is yet to be revealed the potential effects of the policy, if specified accommodation is not made exempt as with the 1% reduction, will fundamentally undermine the ability of YMCAs across the country to support those people in the most need.

If you require any further information or have any follow-up questions regarding our response, please do not hesitate to get in touch using the contact details included.

Yours faithfully,

Denise Hatton
YMCA England
Chief Executive

16 December 2015