HOUSE OF LORDS

Revised transcript of evidence taken before

The Select Committee on Economic Affairs

Inquiry on

THE ECONOMICS OF THE UK HOUSING MARKET

Evidence Session No. 6 *Heard in Public* *Questions 94 - 110*

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 land 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 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.

John Stewart: Yes.

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 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 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. I 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 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.