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. 13 *Heard in Public* *Questions 229 - 236*

TUESDAY 15 MARCH 2016

2.35 pm

Witnesses: Professor Hugo Priemus, Monsieur Bernard Vorms

and Monsieur Jean-Pierre Schaefer

Members present

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

Examination of Witnesses

Professor Hugo Priemus, Professor Emeritus, Delft University of Technology, **Monsieur Bernard Vorms**, Chair, National Council of Transaction and Property Management, and **Monsieur Jean-Pierre Schaefer**, Special Adviser, National Council of Cities

Q229 The Chairman: Professor Priemus, Monsieur Vorms and Monsieur Schaeffer, I welcome you to the House of Lords Economic Affairs Committee. As you know, we are conducting an inquiry into housing, with particular reference to the supply of housing in the UK. We thought it would be helpful if we were able to compare and contrast some of the challenges that we have here with those that you have in your countries, and which have been studied by you in some depth and detail.

Thank you for joining us today. I think we have given you a general sense of the questions that we would like to ask. I start by saying that the assessed need in the UK is that we should be building around 225,000 houses a year. We have been building at about 50% of that rate over the past few years, although obviously there was a dip after the financial crisis. The Government have boldly set a target of delivering 1 million homes, which would mean 250,000 a year over the next four years. In France and the Netherlands, has the building of houses and the supply of new homes met the assessed demand for homes? How has that been achieved? How have you managed to hit the right number, assuming that you have?

Professor Hugo Priemus: Thank you for the invitation to be here. I have a general remark: when experts from other countries have asked me to explain the Dutch system, in the past it was implicit in my reply that they might consider following the example of the Netherlands—but that was in the past. I do not think that what I have to say about the current policy in the

Netherlands in many cases is very appropriate for anyone to follow, although of course you are free to do so. It starts with this question. We have a long tradition of national planning of construction activities, but you will be astonished to hear that there is no national planning any more. Local governments are stimulated to formulate for five years or so their so-called housing vision, in which they set out their building activities, but there is no testing by national government. At the moment in the Netherlands the production of housing is behind schedule and behind the development of needs. We are heading for a housing shortage of 4% or 5%, and if we add the new housing need of refugees, that shortage will worsen again. However, it is not a political issue any more. There is no ambition by national government and, as you know, when there is no ambition, you cannot fail—a very strange conclusion.

Mr Bernard Vorms: We are delighted to be here. If the Committee agrees, perhaps the witnesses can work as a team. First, I would like to give you a quick overview of the main lines of French housing policy. The policy implemented since the 1970s has been remarkably stable. I would say that there is strong rhetorical opposition between the left and right wings, but actual differences appear only on some issues such as urbanism and relations between tenants and landlords. At the national level there are no actual differences. For the last 40 years, policies have supported home ownership and social housing and, since 1984, private investment in the private rented sector. There has been no change on that front.

The second point is that we have an equilibrium between different tenures. Just under 58% are home owners, although it is only 33% in Paris, and 32% of households are tenants, 44% of whom are in the social rented sector. The main issue is probably the gap that is widening between territories. What are the results? First, the social finance system has proved to be secure for the mortgagers. We had no repossessions during and after the global financial crisis, and no credit crunch for home buyers.

What are the facts about the housing crisis? According to the media, we are facing a huge housing crisis.

Mr Jean-Pierre Schaefer: All the time.

Mr Bernard Vorms: All the time. Since the First World War. So what is really at stake is that the ratio of housing expense to income doubled in the decade before the crisis, and more than doubled for people in the low income bracket. The second issue is that there are huge difficulties, but only in some territories, for outsiders such as younger people or poor people.

Aside from that, we can say that since 1990 there has not really been any national target, except in political debate, for the number of new constructions.

The Chairman: So the crisis is in affordability, in whether people can afford the rental, rather than in the number of houses. Is that what you are saying?

Mr Bernard Vorms: No. It is the fact that in some places, such as the Paris area—it is interesting for us to compare it with the London area, because it is absolutely not like Berlin—and in the Côte d'Azur, close to the Switzerland area, there is a kind of housing shortage. However, in these areas it does not make sense for the national Government to have a national target for numbers of new housing.

The Chairman: And have the national Government introduced any measures to improve the supply of housing in areas where there is a shortage, or to improve the affordability of housing generally?

Mr Jean-Pierre Schaefer: There are two things in your question: the numbers and the affordability.

The Chairman: Correct.

Mr Jean-Pierre Schaefer: We understand, and you probably know already, that the figures are fairly high in France and the Netherlands compared with the UK. Last year, we built something like 350,000 dwellings, and you can see from the figures for the last 30 years that, since the 1970s, new construction in France has been much higher than in the UK, although it is true to say that, in the period before, construction in France was low compared with the UK. That is why it is very difficult to compare countries: because our histories are sometimes quite different. But the fact that we build these numbers of dwellings shows that in many markets, like the ones Bernard mentioned, there is a large supply of housing.

On your question about affordability, we should distinguish between the three different markets that were mentioned. In one market, social rented housing, the Government play a major role, because they take decisions that involve very little money—we can explain that later—but that have a strong impact on the decision to increase the numbers. To give you figures, in 2000, we built something like 40,000 social rented dwellings. The annual figure for the last three years has been 80,000. That means that, including during the financial crisis, we have been able to double our figures. Some advocates for poorer people point out that that is not enough for what we call a "tense market", but 80,000 a year is quite high.

On the second market, owner-occupation, which Bernard mentioned, the policy has been more or less the same for years. There is a cheap loan, which does not play that much of a role but has a leverage effect that is more or less backed by public funds. The main effect on ownership is through a rather wide range of measures, which Bernard might explain later.

The Chairman: You say that 10 years ago the number of houses being built increased significantly. What prompted that increase in housing development?

Mr Jean-Pierre Schaefer: In the public sector it was prompted partly by public funds, but here "public funds" means funds from the government budget and from local authorities. Furthermore, the production of social rented housing was backed by a powerful financial mechanism that is independent of market mechanisms.

The third market that I wanted to mention in which the state, the Government, play a role is investment in private rented accomodation, and here it is very clear that since 1984, I think Bernard said, the mechanism has been a tax rebate.

The Chairman: A fiscal incentive.

Mr Jean-Pierre Schaefer: A fiscal incentive. This is the carrot. This carrot is very efficient, because when you decrease it the figures decrease. When you increase the size of the carrot, the figures increase. It is very sensitive to the measure, not only the real monetary aspect but sometimes the legal framework.

Q230 The Chairman: On another topic, we have taken evidence during this inquiry about the demand for housing. It has been suggested to us that net migration into the United Kingdom will lead to an increased demand for housing of about a third over the next 20 years. Is that also the case in the Netherlands and in France, and something that the Government or local authorities are planning to address?

Professor Hugo Priemus: The Netherlands, like Germany, has experienced a large influx of refugees. Last year, there were 60,000, 70% of whom acquired status and therefore the right to acquire some kind of accommodation. This year, there are no official estimates, but the experts think that there could be an influx of 90,000, the vast majority coming from countries where there is real need. There is hesitation in the national government to change the planning and to say, "Okay, we have to increase not only housing production but social housing in particular", because these are all groups that belong to the target group for social housing. I would say that there is a certain ambivalence in, on the one hand, seeing that this is going to happen; nobody dares to make an estimation for a longer period and to say before the next year that the position is clear. But I do not think there is impact in the measures.

I will try to sketch out what happened in the Netherlands after 2008 when the crisis hit us. We have a number of internationally active banks, and our national Government bought and saved a number of them: ABN AMRO and ING. After that, there was a great need for the national Government to introduce budget cuts and limit their financial commitment. We are champions in two respects. One is that we have beaten Denmark in the size of our mortgage debt: €650 billion. The idea is that we reduce that. At the same time, we have the policy of the European Central Bank and Mr Draghi, which has led to very low interest rates, and as a result the mortgage debt is increasing; there is an increase in the share of owner-occupation. That was not a clear policy goal, but it has happened.

In the rented sector, the idea is to increase the rents considerably, particularly in the social rented sector, where the rents are regulated. In the last few years, the average rent increase has been 5%, while the incomes of the tenants have stayed the same, more or less. That is also an affordability issue. What we are seeing now is very difficult to understand. If we compare 30% social housing, 10% private housing and 60% owner-occupation, and take the value of a dwelling in the commercial rented sector as a point of comparison, we see that the value of the same dwelling, if it is social rented housing, is much lower, because some years ago the Government introduced a landlord levy particularly for social landlords—the housing associations.

So, on the one hand, we have state aid as a result of extra guarantees from public authorities, and the value of the state aid in the social rented sector is estimated at about €700 million. That is a lot of money. But the landlord levy is twice the size—€1.4 billion each year—so we would expect an increase in the production of dwellings as a result of the landlord levy, and the investing activities of the housing associations to be much lower.

On the other hand, a very tiny reform was introduced in the owner-occupier sector. The mortgage interest deduction has decreased a little, but the impact of the worsening situation for the owner-occupiers is overcompensated for by the lower interest rates, so the same dwelling in the commercial rented sector has a value of about 20% more as a result of the ongoing support in the mortgage interest deduction.

The Chairman: And the impact of migration in France?

Mr Bernard Vorms: Yes. Migration is obviously a political issue, but it is not an economic one, since, as you know, people want to come to England; they do not want to stay in France. So we cannot say that it is really an issue that affects the number of new constructions.

Q231 Baroness Blackstone: This is a very broad, general question. Could you tell us how the planning system works in both the Netherlands and in France, and what lessons from your planning systems might we learn here in the UK, where quite a lot of people feel that there are barriers, because of our planning system, to the significant development that is probably desirable?

Mr Jean-Pierre Schaefer: If I understand the word "planning" correctly from the French point of view, we cannot say that there is planning for housing as there was in the 1960s. Of the three markets that we mentioned, apart from for social housing there is nothing like planning, whoever is in government. It is true that various Governments have said that there is a target for the number of houses to be built, but those targets are theoretical, so that is not real planning. The only area where that might apply is social housing, for which I mentioned figures, and that is planning because the figures at national level are shared between the various regions. After that, in each region it is the local authorities that are in charge of housing planning. At the level of towns, large or small, there is a "programme local de l'habitat", a local housing plan, that more or less decides the number of houses to be built. But even the local authorities are part of regulating social housing companies in that they allocate numbers. "In Rennes," they will say, "we are going to build 2,000 social housing units in the next three years". That is a kind of planning.

With regard to private investment, there is no planning. The local authorities can only regulate the authorisation of building, but they cannot oblige the developers to build. I do not know if I am being clear about this. For us, the word "planning" does not mean much for two of the markets—private investment and owner-occupation. Local authorities can only encourage builders and sometimes develop building sites with either private or public bodies. Is that clear for you?

Baroness Blackstone: There is probably a difference between planning as you have interpreted it and our interpretation of planning, which in a sense is a term of art here and means the system of regulating decisions about what can and cannot be built in any particular area. I have a house in France, and I think you have a planning system in that sense. As a private owner-occupier, or as a private company that builds properties, you cannot just buy some land and then build on it regardless of the local regulations about the nature of what you are building and the particular area that you want to build in.

Mr Bernard Vorms: If I understand correctly, perhaps you mean the rule in some areas that when you build you must have more than 20%, or 25% now, of social housing available to rent. But perhaps I misunderstood and you want to know about the new rent regulation in France.

Baroness Blackstone: Not about the rent regulation, no.

Mr Bernard Vorms: The only regulation in some tense areas, in some cities, is that you have to have more than 20% or 25% of social housing, otherwise the city will be fined. That is the way it works.

Mr Jean-Pierre Schaefer: We must make the point that it does not mean that one particular developer has to have that 25% of social housing in his or her programme. It means that the local authorities must consider that in the 1,000 new constructions in the next few years in the area, they should check that 25% overall will be devoted to social housing partners. That does not mean, in answer to one of your questions, that the regulation is the same as in countries where there is a certain percentage in each programme. Instead, there is an overall balance that the local authority should follow, and this should be scrutinised by government agents. The government authority will check. The town, and there are about 2,000 local authorities in France, has 10 years to reach more or less 20% or 25%; it depends. In that case, the word “planning” is correct. The rule is that it is the local authorities will monitor that. If a developer builds just 30 buildings, they are not obliged to make six of them available for social housing, because social housing should be managed by social housing companies.

Baroness Blackstone: I understand what you are saying about the regulation that requires private sector builders to build some social housing as well as housing for market sale or market rent, but do you not have a system where objections can be made by local residents to new developments? That is what we call a planning system here. You cannot just go and buy a piece of land and then build, regardless of the regulations in the local area on the height of the building, its effect on other buildings, the infrastructure that is required, and so on.

Mr Bernard Vorms: When it comes to the difficulties and main hurdles for new construction, the reasons are the same as the ones in your Kate Barker review of 2004. In my opinion, the main hurdles are exactly the same.

Professor Hugo Priemus: There are some elements of national planning in the Netherlands. Infrastructure is funded nationally, for instance, so it is clearly a matter of priority for planning on the national scale. We have spatial regulations, which have an impact on the local scale. The spatial legislation includes something like an ecological urbanisation letter, which says that it would be better not to build on greenfield locations but to try to strengthen cities, and so on. However, as I explained earlier, there is no planning for housing production; you cannot find it anywhere. The national Government provide information about development demand, and that is important. On 5 April, the new housing need study will be published, which is really something because we do not have a census. That study will be more or less a proxy census, with elaborate data on housing demand. Planning is then in the hands of municipalities and a political matter. They are supposed to look at the demand and co-ordinate it on a regional scale. When they have established that housing vision, the idea is that achievement agreements are made between housing associations and local government for social housing only. There are no such agreements between commercial developers and local government, only between housing associations and local government. There is no investment planning, but since last year there has been an agreement on energy and its introduction. As part of that, we see planning as being about improving the energy quality of housing properties and so on, but not about the number of houses built.

Baroness Blackstone: But that is not what planning means here either. Are there any incentives to the municipalities or local government to release land for new housing where it is needed? Are there ways in which you can persuade local residents who are opposed to such developments to accept them so that you can add to your housing and meet the housing needs of a particular area?

Professor Hugo Priemus: Perhaps it is management by speech, but I am not aware of any instruments used by national government to influence what is going on at the local and regional level.

Mr Bernard Vorms: In this field, the issue in France is changing the level of the decision so that the planning is not so close to the private citizen but at a higher level. That is a permanent issue.

Mr Jean-Pierre Schaefer: When encouraging the local authorities to accept a social housing project, for example, the fact that the town is obliged to reach the figure of 20% or 25% within a certain period, otherwise there will be a fine, is—I put it this way—an argument that is put to the local authority, which then says, "We are obliged to do that even if the neighbours complain". I exaggerate only a little. The other point is that the neighbours might complain about any construction, as Bernard mentioned, but overall the fact that we managed to build these 350,000 dwellings shows that the neighbours are not always against any construction.

Q232 Baroness Wheatcroft: I would like to move you on, gentlemen, to the shape of the housebuilding industry in your country. In the UK, it has become dominated by a few really large companies, which tend to buy big sites and then develop them slowly. There is a feeling that they sit on the land in order to make longer-term profits out of it. Does your industry follow that pattern, or do you have more agile, smaller builders?

Professor Hugo Priemus: I have read of this experience in the UK. It is not at all the case in the Netherlands. We have huge variation in the size of building companies, including developers. The larger ones are mostly active in infrastructure. Before 2008, they were very active in acquiring land, and they had big problems when there was not the production that they had expected. So they did not have the inclination to sit on the land; they had an inclination to get rid of it. The same applies to local authorities that are also the proud owners of too much land. You see that local authorities want to develop the land when there is no building activity. I do not think that the market power of developers and builders in the Netherlands is strong enough to push up prices. I do not see that happening.

Baroness Wheatcroft: And in France?

Mr Jean-Pierre Schaefer: The situation in France is more or less the same, because while the main developers might be more powerful in relation to large developments, they are always under a certain amount of control from local authorities. The most important aspect is that more or less half the production of housing is houses, and houses are built on a very small scale—either one by one, for single-family dwellings, or in groups of five to nine, which are built by very small developers who are sometimes contractors. There is a large network of about 2,000 companies, so there is very great competition, and big developers do not occupy the single-family house market. When it comes to flats and large developments, there is a balance between owner-occupation and social housing. It is true that negotiations over the price of construction by social housing companies are quite different, because social housing companies are very powerful bodies, so when it comes to price I would say that they can manage. Is that a clear explanation?

Baroness Wheatcroft: Yes it is, thank you. How much do the smaller builders build for individual customers—what we call self-build here—and what evidence is there that this can produce much more economic development?

Mr Bernard Vorms: I think that around two-thirds of the construction of new housing, apart from social housing, is single-family houses, although not in a tense market. When you go outside the first ring around Paris, Lyon or the Côte d'Azur, the main construction of new houses is single-family houses built by very small entities. So in my opinion, although I am not a specialist in that area, there is tough competition among these small builders, as there is among big builders for huge projects in a tense market.

Q233 Lord May of Oxford: I have a curious sort of question. It is not exactly what we have been talking about, but it relates basically to the ratio of residential mortgage debt to GDP. We have been given a fascinating document on the subject, comparing 18 European countries. The third worst, by a large measure, is the UK, while the third best is France. The difference is not small; it is by a whole factor of two. Does that mean that, although there are a lot of other issues and problems in this area, this difference puts us at a huge disadvantage in the way that houses get built and who lives in them?

Mr Bernard Vorms: You are perfectly right: the level of mortgage debt to income is relatively low in France, and it has increased less than in countries where mortgages were in pain. When you try to characterise situations where there were a lot of repossessions and a credit crunch, you find that in all those countries there was a very high level of home-owner occupation, a very high level of mortgage debt that was increasing quickly, and some characteristics of the credit supply channel that allowed banks to transfer the risk either to the mortgagers or to the investors. In my opinion, and it is not an original one, the reason why we had no problem with mortgages was because French citizens have a very low level of debt while the French state has a huge level of debt.

Professor Hugo Priemus: Regarding the Dutch situation, although we are a densely occupied country we are 70% owner-occupied, and I guess that the share of owner-occupation of new dwellings will be of the same order of magnitude. Recently, there have been more apartments and high-rise buildings, because since the start of the century cities have been hugely economically successful. The average income in Amsterdam, for example, is 10% more than the average in the Netherlands, while in Rotterdam and The Hague it is 8% more. In general, we see huge differences in housing needs.

Lord May of Oxford: It just seems to me that if in France you have to pay half as much for your debt-to-GDP ratio as we do here, that is a hell of a disadvantage that we are under.

Professor Hugo Priemus: Yes, but you have to relate the huge mortgage debt rate in the Netherlands to our pension systems. Many people have a tradition of saving a lot, so if you add housing debt to what you have saved for your pension, there are some problems in relating them. That makes a difference. This is a matter of concern for the OECD and the IMF. In the Netherlands, it is more a matter of concern for the banks than for the building industry or for owner-occupiers. So far there have not been too many problems in paying the debt and so on. There has been discipline so far.

Q234 Lord Turnbull: May I clarify one point with Professor Priemus? What is the rate of new build in the Netherlands, equivalent to the 350,000 that we have heard about from France?

Professor Hugo Priemus: If the rate followed the need, there would be at least 80,000 a year. In the 1970s, we produced 150,000. At the moment, it is something like 50,000, which is not enough even to keep up with current need.

Lord Turnbull: The scale of new build in the Netherlands and Britain is roughly 1:4. Is that about right?

Professor Hugo Priemus: I do not know.

Lord Turnbull: In terms of population.

Professor Hugo Priemus: Yes.

Lord Turnbull: Those numbers are still bigger than ours. Can I clarify the question of what we call Section 106, which is the social obligation that housebuilders have? In our case, the obligation to provide social housing, or to provide the money for it, rests with the developer. You are saying that in France it rests with the local authority. In our system, it is the developer that has to find the money for the 25%. Who funds the 25% that the local authority has to come up with every time 100 houses are built?

Mr Jean-Pierre Schaefer: The social housing companies own and manage about 4.7 million units of social housing, which is slightly lower than the British figure—I think you have about 5 million. But the figures have been steadily increasing through the following mechanism. The funds are provided by 40-year off-market loans that are provided by a special financial body. The savings are from something that is more or less like the ISAs that you have in the UK.

Lord Turnbull: This is Livret A.

Mr Jean-Pierre Schaefer: Yes. It is a special fund that provides about 6% of the financial assets of the households in France. It is a special savings account, demand saving, of about €240 billion. This money is used for financing social housing. In order to finance a project, the social housing company will borrow about three-quarters of the funds through this special scheme. The last quarter will come partly from the state in the form of subsidies, partly from local authorities, which will also provide some subsidies, and partly from social housing companies' own funds. Those companies will probably find that for a €120,000 project they will borrow about €90,000, they will find about €10,000 to €15,000 themselves, and the balance will come from the state and local authorities.

Lord Turnbull: So the effect is that if 1,000 homes get built in a particular commune, the local authority then has an obligation to build, say, 250, but the funding for that is available from outside, so it does not have to find that from its own resources.

Mr Jean-Pierre Schaefer: You are perfectly right: the local authority has no obligation to find that. The state, the government, has a budget for, let us say, 80,000 dwellings at about €5,000 per dwelling, so the public money—the budgetary expense—is very low-level. The local authorities are not obliged to provide the money, but, as Bernard pointed out, they provide a guarantee for the loan. That is very important, and that has been the case since we started social housing companies about 100 years ago: their loans are always guaranteed by local authorities—

Lord Turnbull: Right.

Mr Jean-Pierre Schaefer: —with no cost.

Lord Turnbull: You have discussed the fact that you have three main kinds of tenure. We have the same three kinds of tenure, but the present Government have a very strong preference for the first, which is owner-occupation and in particular helping owner-occupation by first-time buyers. Am I right in saying that there may be a small degree of preference in France for owner-occupation, but the Government are still committed to supporting the development of the other two?

Mr Bernard Vorms: Yes. You are perfectly right. Since 1976, Governments have been supposed to foster ownership. I think we passed over 50% in 1984. All Governments, whether conservative or labour, foster home-ownership, but all Governments also support social housing, as you said—as well as the private rented sector since 1984. There are very few constructions that do not have the support of the public authority.

Lord Turnbull: When social housing is built, you say that they have access to the Caisse des Dépôts or Livret A—this privileged source of finance. When the French Government are drawing up their borrowing requirement, financial plan or whatever, and presenting it to the European Union, that borrowing from that fund counts as borrowing by the—

Mr Jean-Pierre Schaefer: Definitely not, because it is private money. About €130 billion from these funds have been loaned to social housing companies in France. It is social housing company debt, and it is funded from private funds, because Livret A is private funds.

Lord Turnbull: The deposit is a private fund.

Mr Jean-Pierre Schaefer: Yes.

Lord Turnbull: You do not include the borrowing. When a social housing developer borrows from Livret A, that borrowing is not treated as part of the borrowing of general government.

Mr Jean-Pierre Schaefer: Of course not, because it is not government budget.

Lord Turnbull: Even though some if it is guaranteed by government.

Mr Jean-Pierre Schaefer: Is it guaranteed by local authorities? Yes. The point is that we have no example of failure.

Mr Bernard Vorms: I must add that it is guaranteed by collectivity via a local authority, but behind this local authority there is also a guaranteed fund.

Lord Turnbull: Right. You have created a mechanism whereby social housing can borrow from a well-resourced fund. Even though these institutions are heavily regulated and supported by the state, you have manged to find a way of getting that borrowing off the the republic's balance sheet.

Professor Hugo Priemus: In the Netherlands, this would be considered state aid. Also, the guarantee is not used, because in practice it has the impact of a small decrease in the interest rate. You asked whether the Government have a preference for one tenure or another. In 2010, a committee of so-called social and economic experts published a paper, *Towards an Integral Housing Market Reform*. Their point of departure was that we need, as far as possible, a tenure-neutral policy. It is not the Government who decide; it is the people. In the Netherlands at the moment, commercial rented dwellings are given clear and explicit priority over social rented dwellings—a transformation from social rented to commercial rented. Our Housing Minister even comes to London to advocate a large social rented sector to investors here, such as Round Hill Capital. There is no official policy that promotes owner-occupation, but different parties have that position, of course.

Lord Turnbull: The problem we have had in Britain is that, by and large, the residents of a particular local authority do not want new housing, and if it adds 10% to the number of dwellings in its area and the local tax revenues from that, we have created a system in which if you have more tax revenues you end up getting less government grant. So we have created a system where the local authority has no incentive to increase its population and thereby get increased revenues. Am I right in saying that your local taxes that have been created by new building stay with the local authority?

Mr Jean-Pierre Schaefer: That is a very important point, and it is not always very clear to local authorities, because each time something is built it might appear that some expenses, such as for schools and some infrastructure, will have to be paid. There are two main local taxes. One is what we call the taxe d'habitation—a habitation tax, the fact of living there—which is paid by the resident, who might be a tenant or an owner-occupier. The other tax is land tax on the building, which we pay. It is a huge amount of money, because it is a very large part of the income revenue of local authorities. From that point of view, building is a very good operation for local authorities, but it might not be seen as such immediately.

Lord Turnbull: Right. That is certainly the opposite of what we have heard.

Q235 Lord Forsyth of Drumlean: Looking at the figures for tenure in France over the last nearly 20 years, home ownership has gone up to quite a high level, but both private rented housing and social housing have gone down. How important is institutional investment in the private sector in France and in the Netherlands, and are the Government encouraging this?

Mr Bernard Vorms: Today, more than 84% of the private rented sector is owned by natural persons who own fewer than three dwellings. We have no more institutional investors such as insurance companies. They went out of the housing sector, as in most countries, as shown by a survey by the LSE. Every Government has said that they would foster investment by insurance companies and other institutional investors, but the fact is that in most countries now the private rented sector is mainly comprised of natural persons.

Lord Forsyth of Drumlean: Do you mean small landlords?

Mr Bernard Vorms: Small landlords who own fewer than three dwellings.

Lord Forsyth of Drumlean: Is that a consequence of rent controls?

Mr Bernard Vorms: No. I think it is a consequence of uncertainty, because relations between tenants and landlords are subject to permanent change. When you want to protect the tenant, you change the rules. When you want to foster investment, you change the rules. It is not liquid. Institutional investors prefer to go into offices or commercial buildings, but no longer into housing.

Mr Jean-Pierre Schaefer: We could add that the question of liquidity is probably a strong difference between individual households that might invest in one, two or three flats, and large companies that are looking for short-term investments. That might be an explanation.

The other point is that the private rented sector has been developed since 1984 through a tax rebate—I mentioned the stick and the carrot—which has been bigger or smaller according to the period. It has led to the construction of 1.3 million new dwellings. The main idea was to increase the quality of the private rented sector, which has the image, and perhaps the reality, of bad or old buildings. The investment over the last 30 years has provided a large supply of new dwellings.

Lord Forsyth of Drumlean: Professor Priemus, I think you said that in the Netherlands the commercial rental market had been identified by the Government as a solution and a tenure to be stimulated, but that does not seem to have happened.

Professor Hugo Priemus: That is right. In the Dutch tradition, they have formed many different committees in turn to come forward with proposals.

Lord Forsyth of Drumlean: I think we have that tradition as well. This might be one of them.

Professor Hugo Priemus: One of the problems in proposing and judging those solutions was state aid. If you really wanted to stimulate private renting, all of a sudden there could be state aid, but that has limitations. We are now in the same position as the UK years ago when it was the country with the smallest share of private renting. Now we have the smallest share: 9% or so. When the institutional investors—the pension funds and insurance companies—compare international options, they think very often that the Netherlands economy is a bit too slow, and even that the EU economy is not spectacular, so they invest in Australia and other parts of the world where apparently there is a nice combination of risk and yield.

Our Minister of Housing is trying to stimulate this area. He is clear about that goal, but his success is limited. There are certainly no subsidies. It is always good to know that the

Netherlands now has a system where there is no subsidy at all for the rental sector. As a result of our housing policies, there are two open-ended schemes. One is the market debt interest deduction, and the other is the rent rebate. As you can imagine, when you increase the rents considerably, the public expenses for rent rebates also go up. Still, the real impact of the preference of national government for stimulating private renting is limited.

Q236 The Chairman: Could I come back to the question that Lord Turnbull was probing? To what extent do local authorities and housing associations have the opportunity to fund themselves independently of central government? In Holland in the early 1990s, housing associations were liberated, and it would be interesting to hear from you about their powers for raising money, what oversight the Government have of that, and whether that has been a successful liberation or whether there have been some problems.

Professor Hugo Priemus: This is an important point for understanding what is going on in the Netherlands. In 1995, we had the grossing operation, in which all of a sudden the property subsidies disappeared and public loans were made private. The opinion that you will hear most often is that that was a good method for stimulating entrepreneurship, variation, initiatives and so on. But step by step we discovered, as did national government, that there were some side effects that we did not like. At one point there were more than 100 directors of housing associations—we have nearly 400 housing associations—with a salary higher than the Prime Minister's, which was a bit peculiar. We saw mergers all the time in which some, although not all, of the housing associations became huge and powerful. We saw all kinds of activities that at first glance we would not relate to the traditional mission of housing associations, such as the well-known example of the housing association in Rotterdam that had an investment in a huge boat, and huge cost overruns. Some housing associations said, "Well, Robin Hood was a nice person. When we invest in owner-occupied dwellings, we can make the same profit as commercial developers and use that money for extra social activities".

When the crisis started in 2008, it was clear that a number of housing associations were losing not millions but billions of euros in developing owner-occupation as demand collapsed, and in acquiring positions in land that had to be reduced in value. A number of housing associations came to London to learn about modern financial markets and came back to Holland with derivatives. Some of them lost billions of euros. One, Vestia, has become very famous, because it lost €2 billion and is being supported partly by partner housing associations. So yes, we were glad about the change in 1995, but there were a number of side-effects that we did not like. That is why, in 2014, a parliamentary inquiry on housing associations was started, initiated by what had been in the newspapers. The report was published in 2014. Last year, we had a revised Housing Act that was the political translation of the lessons learned. When you read the Housing Act now, you see that the housing associations have to focus on social housing, not on other kinds of investment.

The Chairman: Can housing associations still borrow independently of the Government?

Professor Hugo Priemus: Yes. Most of them have a sound financial situation. Risk is backed by national and local government—that is, state aid; the €700 million per year that you mentioned earlier. We also have two banks that are very active in the area of housing associations and local government. One is the municipality bank, which is a public bank, and the other is a water board company that is also a public bank. These are banks that on the one hand are commercial, like any bank, but which have a strong relationship with their area. They have managed to continue financing housing associations since 2008. You could say that finance has never been a bottleneck for housing associations.

The Chairman: And local authorities in France, if I understand Mr Schaeffer's answer to Lord Turnbull correctly, are able to borrow, and their borrowing does not count as part of the national debt. They are free to borrow. Is that correct?

Mr Jean-Pierre Schaefer: I would like to point out that there is a difference between France and the UK. When we speak of social housing companies, there are two kinds in France. Some are offices, which are considered to be public offices but their accounts are entirely separate from those of the local authorities. They are really economic bodies that are independent of the local authorities, even if the chairman might be a representative of the local authority. The second kind of housing companies are like co-operatives—the sociétés anonymes. They have private status and are independent of the accountancy of any local authorities. I mentioned that the local authorities provide a guarantee for the loan—this was settled at the beginning of the 20th century—but they are not obliged to do so. If the local authority does not want to guarantee the loan, the social housing company will take the guarantee from a special fund that is settled, as in the Netherlands, by all the housing companies. Is that clear? You mentioned that the debt of the social housing companies is about €140 billion. I just calculated that it could be considered, although this is purely theoretical, that the market value is somewhere above €400 billion. So the level of debt is altogether rather good. As in the Netherlands, overall the financial situation at present is good.

The point is that the companies are controlled. The situation with Vestia, for instance, as well as some other examples, could not happen as all their activities are controlled by public agencies. There is a public agency in charge for each five-year period, controlling and checking the companies' accounts. Social housing companies might create developments and sell flats. That is possible. But they make something like 2,000 or 3,000 a year, and it might be only social ownership. If a buyer has an income ceiling above social housing levels, for example, the social housing company will pay a tax and will be considered to be a private developer. So the examples in the Netherlands could not happen, because for each five-year period they are controlled.

The Chairman: I see.

Professor Hugo Priemus: May I add something that relates to the Housing Act that I mentioned earlier? The Act is not concerned particularly with housing associations that use state aid for market-oriented activities. They have said that every housing association should come forward with a proposal this year in which they make clear that this part is social, with a rent lower than €700 a month, while that part is not social but commercial. When we look at the housing stock now, 4% is not social but market-oriented. That looks simple, but the rents are regulated over a very long period on the basis of valuation points. You could argue that when a dwelling has 142 valuation points or more, it looks like a social rented dwelling but it could move step by step to being a market-oriented dwelling. Then we would be talking not about 4% but about 40% to 50%. This is going on now. So we have to split each housing association, whether administratively or legally, into the social and the market-oriented sectors, but is the market only 4%, or could the share be higher? That will be clear at the end of this year, I guess.

The Chairman: Thank you very much, gentlemen. That brings this session to an end. Thank you for your most helpful answers.