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Inquiry on

THE ECONOMICS OF THE UK HOUSING MARKET

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3.30 pm

Witnesses: Brandon Lewis MP and Damian Hinds MP

Members present

Lord Hollick (Chairman)
 Lord Forsyth of Drumlean
 Lord Griffiths of Fforestfach
 Lord Kerr of Kinlochard
 Lord Lamont of Lerwick
 Lord Layard
 Lord May of Oxford
 Lord Sharkey
 Lord Teverson
 Lord Turnbull

Examination of Witnesses

Brandon Lewis MP, Minister of State for Housing and Planning, Communities and Local Government, and **Damian Hinds MP**, Exchequer Secretary, HM Treasury

Q237 The Chairman: Mr Lewis, Mr Hinds, welcome to the Lords Economic Affairs Committee. As you know, we are looking into housing, with a particular focus on the supply of housing. We have very much in mind the target that has been set by the Government of building 1 million homes in the lifetime of this Parliament. Can we start off by asking you how you arrived at this target? How confident are you that you are going to be able to meet it?

Brandon Lewis: There are a couple of points on that, but first I want to say thank you for inviting us here this afternoon. It is an absolute pleasure to be back in this room; I was here a little while ago.

For us, it is about looking at the requirements with regard to the household formation that we need to achieve and making sure that we are working on what is achievable. Originally when I had the conversation about this, I was asked by a journalist, “What would you see as success?”, and I think it would be that. The Secretary of State in my department and we have been very clear that is not necessarily the end. We need to build 1 million homes and to keep going when we have household formation, on our latest figures, of around 210,000 a year. We are also very conscious that we have not built enough homes in this country year on year for many decades. Certainly, over the last few years, coming back from what was the lowest level of housebuilding since the 1920s just before we came in in 2008-09, there has been a lot of work to do. We have been very clear that we want to be very ambitious. We

want to deliver homes across all tenures. We want to drive up home ownership as well. Working to deliver 1 million homes in this Parliament is a target we should be very ambitious about, and go beyond, if we can.

The Chairman: How did you come up with the target? What was it based upon?

Brandon Lewis: We have household formation at around 210,000 a year, so over the course of the Parliament we need to deliver around 1 million homes to meet household formation.

The Chairman: All the witnesses we have spoken to suggest that is going to be difficult to achieve to unachievable. What is your confidence based upon? What measures do you propose to take that will enable that level of housebuilding to be achieved, which you acknowledge is substantially higher than has been achieved over the last 20 years?

Brandon Lewis: It is based on a range of things. It starts with the Chancellor, in the Autumn Statement, giving us the biggest housebuilding programme since the 1970s. We have been streamlining and speeding up the planning process since 2010. The Housing and Planning Bill that is in your House at the moment plays its part in that. It is not the entire picture; it is part of that jigsaw puzzle, if you like, because the housing market, as people in this room will know as well as if not better than us, is a hugely complex area across the different tenures, as are the impacts on it both from the wider economic cycle and from how the planning process plays into delivering housing.

I am confident. When we look at the fact that housebuilding increased by approximately 25% last year and look at the reports from the Home Builders Federation, we see that 181,000 new homes were created last year, so the trajectory is there showing that we can do it. I make no bones about the fact that I fully accept that this is a big ambition and that we have our work cut out. We have to be absolutely determined and focused on delivering that. For that reason, we have to look at things right across the piece, from the planning side right the way through housing and across all the tenures, whether it is the new starter homes programme, affordable rent or shared ownership. Also, it is about supporting the private sector to deliver and increase its delivery going forward; there is also a huge part to play going forward in the way that we build homes.

The Chairman: The private sector has to play a significant part in that. What discussions have you had with the private sector that would encourage you to think that they can up their game?

Brandon Lewis: I have been having regular conversations with the private sector, as I do across all sectors in the housing market. I am afraid your Lordships will have to bear with me; I will talk more, shortly, about what we are doing with the private housebuilding sector. I am confident. With their own trajectories, they have been increasing their build-out rates. At one point they were averaging around 48 homes per site per year on a build-out rate. They are now at more like 70 homes per year. We need to get that up to 100 homes per year per outlet as quickly as we can. I am confident that we can do that.

Part of that is making sure that we have an efficient and effective planning process, but it is also recognising that the major housebuilders are not the only way of delivering housing. That is why, when we are doing our own projects, whether it is the direct commissioning that we announced in January, building on what we are doing at Northstowe, whether it is how we use our affordable housing programme and working with the housing associations sector more widely, there is a whole range of things going on. Indeed, in the private rented sector, depending on which expert we read in which newspaper on which day, there is between £30 billion and £50 billion looking to invest in our property market.

The Chairman: We can come to some of these points later in the session. A general point that has been made by not only the private sector but the public sector is that it is difficult to establish a long-term business model when nearly every year there is some change. One of the greatest volatilities that the businesses, housing associations and local authorities have to cope with is, bluntly, tinkering by the Government, not just tinkering this Government but Governments generally. Have you considered a self-denying ordinance that you might just leave the market alone so that it can recover under its own steam?

Brandon Lewis: I have a huge amount of sympathy for allowing stability in the sector. One of the things that any Government of any type are going to be looking at, if you are looking to continually move forward, is learning from what you are doing, and if at any given time there is a gap in the market or an opportunity, seeing whether there is a need to intervene and do something to make sure that you do not miss that opportunity.

One of the interesting things for us at the moment, looking across all the different tenures, is that we are very keen to make sure that we do all we can to support people's move into home ownership. There are some shared ownership issues that we want to deal with to make it more available and to encourage more people to take it up. There is some regulatory work that we can do on that.

Things happen as you go through. The ONS decision last year means that, through the regulations, we need to make change in relation to housing associations. That will give them more freedom to do more things. I fully accept that there is a balance to find between that and having stability, but we need to be prepared to take decisions to help move things forward in a positive way whenever we can. We do that in consultation all the time with the sector, whether on the public side or the private developer side. That is why those ongoing conversations are so important.

Q238 Lord Layard: As you said, your target would involve matching the increase in supply to the increase in demand, but we are starting from a position of enormous imbalance between supply and demand, and our children, or in some cases our grandchildren, are facing impossible housing costs. Should we not be aiming to make the supply rise faster than demand? I do not mean tomorrow, but over the next five years for example.

Brandon Lewis: Absolutely. That is why I made the point, and the Secretary of State outlined, that the 1 million homes is not 1 million homes and then we stop; we need to build 1 million and more and keep going. One of the challenges for the housebuilding sector, and one of the problems that our Government have had to pick up from what we inherited in 2010—the numbers were so low because of the economic crash—has been not only about physically going out and building houses but about rebuilding the supply lines. There are some challenges still, but they are pretty much back on stream. Some 75% of the small builders disappeared from the market, and we have to find ways to bring that side of the sector back. There is a huge skills shortage. If you talk to people in the development industry, they all have different issues they raise, but the one thing that is common is the skills challenge. That goes back to people leaving the industry back then, an ageing industry that we need to replenish, and to the way we build houses.

You are absolutely right that we need to increase supply further, and having got the market, and housebuilders, building again, we have to upscale that in a way that is deliverable right across the country.

On the wider picture of housing supply and demand, I would also say that we have to make sure that we do not look at this through the prism of the south-east and London, where there is a huge challenge. There are still substantial parts of our country in which if somebody bought a new-build home, even in East Anglia, near my own constituency, at the top of the housing market in 2006-07, they are possibly still sitting on negative equity and

wondering what we are talking about. There are parts of the country where the gap between housing demand and supply is different from that in the south-east, particularly in London.

That is why it is important for us to make sure that we are looking at the right approach across the country and building up the economies so that certain parts of the north that want to develop and grow have the economic growth to support the housing growth that they want to see. That is why it is important that we have this cross-government approach. I am very fortunate to be a Minister working on a portfolio that the Prime Minister, Chancellor and all the departments are coming together to deliver on.

Lord Forsyth of Drumlean: I want to follow up on the point you have just made and go back to the Chairman's question about how you reached your target. I can see how you might set a target for demand, but thinking about the supply side, as you have pointed out, a lot of small builders, and indeed larger builders, disappeared in the financial crash, and lots of people left the industry. We have had evidence that there simply are not the skills available to build these houses. In setting your target, to what extent did you take account of what needed to be done on the supply side? What assumptions did you make about how much more speedily land would be available from planning authorities and how many more building workers would be available with the necessary skills? Did you do that exercise in working out the target or just think, "A big number is needed, and this is probably as much as we can do", as an arbitrary exercise? Is there a plan? If there is a plan, what assumptions were made about the availability of land, increasing skills and speeding up the planning process? Are there targets in place for all these things and action plans to make them happen?

Brandon Lewis: In the widest sense, yes, but I will go into the detail. I would stress again the key point that we have made in relation to supply, which is not that we will build 1 million homes this Parliament, although we are absolutely determined to do that, but that we need to go further than that. I come back to the point which the Secretary of State has made: that we build 1 million homes, and then we need to keep going. That has to be our ambition, because that gets us up to where we need to be for household formation. As the Chairman and Lord Layard pointed out, that does not get us near starting to cover the backlog of gap that is in the housing market.

Moving forward, there is a range of things that we have looked at, and are looking at, including the planning process itself. One of the biggest challenges at the moment is bringing more small builders back in, as well as small builders becoming medium-sized builders, and medium-sized builders becoming larger builders, as the barriers to entry, which are partly to do with finance and are intrinsically linked to the planning system, are removed. We have done a lot to speed up the planning system over the last few years, which is why the housebuilders themselves would acknowledge, as they did at their conference this morning, that we have been delivering on what they have been asking for.

Equally, we need to do more on the bureaucracy of that process. Planning permission in principle, which is in the Housing and Planning Bill, helps with some of the access to finance issues, because of certainty of delivery rather than what can be effectively a gamble on planning permission.

We are now pretty much back to record levels. Some 253,000 homes were given planning permission last year.

Lord Layard: My question was about the assumptions that you made about how all these things that you are mentioning would be improved in setting the target—or did you say, “This is the target”, and then, “We need to do something about all these things”? The evidence that we have had is that there are simply not the skills in the marketplace to build the number of houses that has been set. Do you agree? If you do, how did you think you would meet the target? What targets were set for more building workers, for example?

Brandon Lewis: I am confident that we can build 1 million homes in this Parliament. I will be talking about that even more over the next few weeks. I am very aware that we have a challenge with skills. If we want to go further, we need to do more than just increase the amount of skills; work is being done between my department and BIS on apprenticeships. A gentleman by the name of Mark Farmer is doing some work on that at this moment for us to take that forward. That will be intrinsically linked to the work on how we build homes. We need to speed up the delivery of homes and the build process from 20 to 24 weeks to several weeks.

That starts moving us into the discussion on advanced and off-site construction, and changes the skills requirement and the speed at which we build. BIS has put substantial amounts of money into developments in that. We have seen the Laing O’Rourke development joint venture coming through, in the last couple of weeks we have seen Legal & General coming

into this market, and others are developing through this market already. There is a lot more that we need to do on that. That is all part of that agenda.

Yes, we look at all these things. They have been part of the conversations and work we have been doing on how we deliver these houses and make sure that we are confident we can deliver them. You are also right that it is inherently complicated.

Lord Layard: Could you give us a piece of paper from your department that sets out what assumptions you made and the increases that were required in all the areas that make up the targets and how you see them being achieved?

Brandon Lewis: Yes. Over the next couple of weeks I can let the Committee have an outline of how we get to 1 million homes.

Q239 Lord Sharkey: The Treasury told us that if you were to succeed in building 1 million homes in the period you are talking about, average house prices would still rise annually by around 6%, which is clearly faster than the growth in wages. As we are talking about price and availability, how many houses would you need to build in excess of the 1 million to reduce the rise in prices to the rise in wage inflation?

Brandon Lewis: I will say one thing on that and then hand over to my colleague, Mr Hinds, from the Treasury. I know that your Lordships will be fully aware of the difference between the average house price, and how that has changed, and the average price paid by a first-time buyer buying a new home. One of the challenges that we will always have, and what plays into the point, is that even building 1 million homes will not necessarily reduce house prices. An awful lot of homeowners will be very pleased about that, because it is the biggest piece of equity anyone owns and people want confidence, understandably, that equity is secure, if not reasonably increasing. That is an entirely human approach to take. We also need to make sure that people can access home ownership and the housing market. That is about new build and why it is important that we keep that supply going. That will not change the fact that in some areas, in the secondary market in particular, if there are properties that are sought after there will be an inflationary price challenge. We have to make sure that we are producing enough new build homes, so that people can access the housing ladder and the changes within it become proportionate between the bands. I will let Damian chip in.

Damian Hinds: I do not think there is a single, simple formula, because there are other factors that affect house prices, such as the availability of financing, and so on. The

modelling suggests that in order to keep the house prices to earnings ratio constant, somewhere between 250,000 and 300,000 homes per year need to be built.

Q240 Lord Lamont of Lerwick: We have had a certain amount of debate both within and from witnesses about the contribution that population or rising incomes make to house prices. Do you have a view on that?

Brandon Lewis: In the sense of the pressure that it puts on?

Lord Lamont of Lerwick: Some witnesses have said population and migration growth are responsible for two-thirds of house price increases. Other people have argued that it is less than that and that the growth in incomes is an important factor. Obviously they both have an impact.

Brandon Lewis: I would not deny that there is an impact from any change in population growth, whatever outlet it comes from. Migration has a much, much lower impact than that. The biggest impact is a mixture of income growth and population growth. I have a brother and a sister. We all lived in one house with my parents, and we now have our own homes and we all have two children, so our families are growing in size. One of the biggest pressures in population numbers that we are seeing coming through is that we are all living longer and are living in our own homes longer, which is good news. Roughly 40% of the equity in this country is sitting with people who are over 65. People are downsizing, if they are downsizing at all, much, much later in life. That puts quite a big pressure on. That is probably more than two-thirds of the pressure.

Lord Lamont of Lerwick: Professor Rowthorn strongly disagreed with you on that, and said, “There is not the slightest doubt that longevity is much less important than migration for population growth”. That is not quite the same as demand for housing. He was distinguishing between the demand and new household formation from people staying longer in the same house.

Damian Hinds: The ONS made these projections of the numbers of households being formed. There are three big factors, among others: longevity, net migration and the average size of household. You cannot look at any of them individually and say, “This one is solely responsible”, because they all interrelate. Whether you are an immigrant or a non-immigrant you are also likely to live longer, and as people get older they are more likely to be in a single household than when they are younger. On the ONS numbers, which were estimated at 230,000 a year and have recently come down to 210,000, as Brandon said they

can also strip out of the modelling what this number would be with zero net migration, and that number is 142,000.

Lord Lamont of Lerwick: There are two points that might be argued against you. One relates to rents, which are subject to the same forces as house prices but are not complicated by things such as mortgage availability or the relationship to incomes of mortgage. Rents have risen very, very sharply, and I suggest that probably owes quite a lot to population. Secondly, the proportion of income spent on housing has increased markedly, and the ratio of house prices to incomes is markedly higher than it was.

Damian Hinds: Because of where interest rates are, the proportions of incomes that are going on financing mortgages are at historic lows. I do not think there is any doubt that the population growth factors that you mention will have an impact on rents as well as on house prices. Although the value of homes to income is at a very high level compared to historic averages, the low interest rate means that the cost of servicing is lower.

Lord Lamont of Lerwick: The cost of servicing is lower, but the cost of repaying the principal is larger.

Damian Hinds: Yes.

Lord Lamont of Lerwick: So it is less affordable on a cheaper mortgage. Some witnesses have questioned the accuracy of the DCLG household projections, saying that they underplay immigration. Are your household projections consistent with the latest population projections from the ONS?

Brandon Lewis: Yes. Our household projections show, as Damian outlined, that 32% of growth up to 2037 is due to migration, and that 77% of the net increase in households is due to households headed by a person aged 65 and over. That is how our projections lay it out.

Q241 Lord Lamont of Lerwick: Can I ask Mr Lewis a question about planning? It is rather a general point. We have all been a bit mystified at the inability of the private sector, with this huge demand and runaway prices, to satisfy the demand or build more rapidly. Despite all the Government's reforms, I wonder whether the planning system still does not impose huge risks on the private sector, on the larger developments. I happened to have a conversation with someone who was involved in a site in the Home Counties—I had better not embarrass you by saying where it was—for 2,000 homes, 250 acres, including a 160-acre park in the middle of it. It was a brownfield site in the middle of the green belt. Initially, the local authority indicated that this was the key project in their local plan, but the local plan

kept getting delayed. You will know that there are various reasons for that. After they had spent tens of millions—even excluding the value of the land, they spent another £10 million on advice, exploring bus routes, all sorts of things—planning permission was turned down. One can understand, faced with that, why people feel very much at risk in going for these projects.

Brandon Lewis: Absolutely. Lord Lamont, you make a very good point. It is one of the challenges in the planning system and why the changes that we are bringing forward are so important. One of the problems is that these things take a long time to come through the system. Although we have seen the changes and a 53% increase in the number of properties getting planning permission in the last year from where we were in 2010, we are now starting to see the benefit of a lot of the changes that got Royal Assent in 2011 and 2012. Some of the measures in the Housing and Planning Bill are looking to address exactly the point you outlined.

You mentioned larger builders, but this is even more of an issue for small and medium-sized builders. At the moment, when you go for planning permission on a piece of land that is brownfield, identified in a local plan, even identified in a neighbourhood plan, in theory you can still be refused for planning in principle. That means that it is very difficult to access finance, and the companies that have the finance can spend a lot of money without any confidence in being able to build. We think that is wrong. It is wrong for the community as well, because it takes confidence away from a community that has spent all its time allocating land as well and going through those processes.

One of the things that we are doing now, and the Housing and Planning Bill does this, is planning permission in principle. If you have land on the brownfield register and ultimately in the neighbourhood and local plan, it has been out to consultation, and the local community has said, “We are happy for building to be done there”. Then you will have planning in principle to build X number of homes. Your full planning discussion then is not, “Can we build or not?”, but, “What does it look like? Is it Tudor? Is it Georgian? Where do the roads need to be laid out?” It gives that confidence back to developers and to the communities that have gone to the trouble of allocating land in the first place to be built out. We need to speed this up.

One of the other challenges in some cases is local authorities putting in preconditions that mean that a developer can get planning permission and still spend a year or two before they

can physically get on site and build. That has cost implications that do not help either the eventual purchaser or the community, which spends two years wondering why nobody is building on land that they have given permission for.

These are all areas that we need to do more in. Some of that is in the Housing and Planning Bill and some is outlined in the Budget last week.

Lord Lamont of Lerwick: Is there a specific problem with brownfield land within the green belt?

Brandon Lewis: Yes. Brownfield land within the green belt is treated as green belt, because it is within the green belt. You still need to go through the entire planning process.

Lord Lamont of Lerwick: Are you planning to alter that?

Brandon Lewis: At the moment, we are not planning centrally on doing anything to alter green belt. If a local area wants to look at its green belt, it does so through its local planning process.

Lord Lamont of Lerwick: You are not planning changes to brownfield sites within the green belt.

Brandon Lewis: No, we are not planning any changes on green belt at all at the moment.

Q242 Lord Turnbull: The Prime Minister described housing as “one big piece of unfinished business”. The Chancellor has made a great deal of fuss about the infrastructure. There is lots of talk about the northern powerhouse, and frequent repetition of, “We are the builders”. What seems to be missing is the idea that housing is part of infrastructure. Most of the discussion about infrastructure is about railways, which is fine, but why is housing not regarded as part of infrastructure and within the remit of the National Infrastructure Commission?

Brandon Lewis: I do think housing is part of infrastructure. I am in the process of writing an article on that very issue at the moment. I am about half way through writing it for a publication. It is intrinsically linked with infrastructure at a couple of levels. It is infrastructure, it is something we need, but you cannot have one without the other. You cannot have good housing without good infrastructure, because housing needs the infrastructure. Whether you think of the infrastructure as education, health, transport, or, indeed, communications with broadband, all of them are intrinsically linked. You need good education facilities, good work facilities, access to them both with communications and

transport. It is intrinsically linked. I am seeing Lord Adonis in the next few weeks to have that conversation with him.

Lord Turnbull: You have already mentioned that there are three main tenures and that we need to work on all of them. Two of them, the local authorities and registered social landlords, have been more or less out of the game for the last 20 years. I have not seen anything in here that adopts the philosophy that you have to fire on all cylinders; that all these tenures have to up their game, and up their game substantially. The principal emphasis of the Government's pronouncement is on home ownership, principally first-time buyers, which is absolutely fine, but there is a huge shortage, as you can see in the growth of rents, in the rented sector. In the last Autumn Statement there were measures on the private rented sector that are actually antagonistic to it. I cannot understand why you are making life more difficult for the private rented sector when it needs to expand just as much as the home ownership sector.

Brandon Lewis: I agree that we need to build across all tenures. We have one of the most complicated housing markets, in terms of the amounts of tenures that we have, in the modern world. I see that as a positive. It means that wherever you are on the demand side, you can look at the right product for you. I think of it as a menu, and you look at what is right for you, from starter homes through the private rented sector, affordable rent, social rent and a whole range of other niche products. We have to make sure that we keep all these tenures available and look at any gaps that need to be filled.

There is huge opportunity in the private rented sector. As I touched on earlier, there is £30 billion to £50 billion of institutional investment that wants to invest in this market. I have seen a couple of different organisations, each of which is looking to spend £4 billion in our property market in this area. I prefer to say that we are looking to develop a more professional rented sector that is institutionally led. We are starting to see that come through, but I also appreciate that we are at least a decade, and some might argue two decades, behind the multifamily housing that we see in other parts of Europe, and certainly the United States, and what that can provide, and at all different points of the economic scale. Also, there are something like 30,000 properties at the moment that either have planning permission or are in the build process in the PRS sector in this country. It is just now starting to come through, and over the next couple of years we will start to see the benefit of that. I would like to see more of that. It is good for the tenant because there is good

choice, and more supply means that we can get control of prices. My economics degree is some years behind me, but the supply and demand to me still seems a pretty straightforward target.

Lord Turnbull: We took evidence from some professional landlords about what might happen in the future. We heard about this wall of money, but we did not see much evidence of what they were doing with it. Something is still discouraging them. You may want to be developing them, but I think you need to develop them in addition to the family-owned homes. I cannot see why you are trying to turn that tap off before you have turned the other tap on.

Brandon Lewis: The other tap is that 30,000 properties are already in planning or are physically being built now, so that tap is very much on. The Government also have a very big guarantee scheme that we are running, as well as the Build to Rent scheme that we have facilitated. In the Budget, the Chancellor extended the guarantee scheme for a further year for the private rented sector. I was with a big chunk of that sector and the big institutions last week on Thursday, straight after the Budget, and they are still very positive about what they want to do, bearing in mind the fact how they get involved in the market that the changes do not particularly affect that.

I appreciate your point about the buy-to-let sector, the smaller landlords, the non-institutional individual landlords. I accept that the changes change some of the situation for them, but we have to look at this in light of the fact that there has been an anomaly in some parts of the property market. If somebody is buying individual properties as buy to let, until now they have been able to have a position that no owner-occupier can have, so they can outprice the owner-occupier because they are able to get an interest-only mortgage and 40% mortgage tax relief. No owner-occupier can get that. That has led to an anomaly in the system that means that owner-occupiers are disadvantaged by buy to let, and that cannot be right.

The changes the Chancellor has brought in, particularly to the mortgage tax relief, bring it into line with other equity investments, so it still works as a sensible investment. I had a conversation along these lines with a large individual buy-to-let landlord on Thursday last week. We have to put into context the fact that even the stamp duty change puts the average property price paid for buy to let back to where it was just two years ago when the market was, in some people's colloquial terms, flying anyway.

Lord Turnbull: I am not sure I find that entirely convincing, given the complete absence of any kind of Schedule A imputed rent income and the fact that one sector is completely free of capital gains tax. We are not going to agree on that.

Can I come back to registered social landlords, who have been producing 20,000 or 30,000 a year perhaps? I do not quite understand this whole business of why they have been accidentally classified to the public sector. How quickly can you get that reversed? What can you do to bring housing associations, which would be professional landlords in your definition, back into play, when at the moment they could be large contributors of good quality, maybe not affordable rents but lowish rents? At the moment they are stymied.

Brandon Lewis: I do not agree with the last part about them being stymied. I will explain my logic. Certainly we in government do not want them on the government books and did not want them on the government books. That was the ONS decision, and it is an independent body. We are going to great lengths to deregulate and therefore hopefully to have them removed from the government books. Those are the changes in deregulatory measures in the Housing and Planning Bill that are agreed cross-party. We see housing associations as entirely independent organisations. We want to work with them on their future development. I would hope that the ONS will look at what is in the Housing and Planning Bill and some time later this year make a decision to take them off the government books. The ONS has put them on the government books and looked at some issues that go back to 2008, or 2007. We are working very hard to get them back to being fully independent bodies. That is what those deregulatory measures are about and which I hope you will support in the Housing and Planning Bill.

In relation to their building, there are 1,500 to 1,600 housing associations across the country, which interestingly is more than local authorities. Some of them are building right across tenures, which is interesting. The larger ones in particular have been developing developments that include private rented sector, affordable rent, social rent and outright sale. We have been working with the National Housing Federation and its representative body, the G15, the core of the 15 largest, over the last year or so, which was what led to the voluntary agreement on right to buy, which gives them access to assets and the ability to use them, which they have not been able to do before. I have to say, talking to the National Housing Federation, that it is very, very bullish in their desire, ability and plans to build. It is keen to build more and to build out faster. That is partly what the voluntary deal is about.

We are working with it very closely to make sure that we get to into a place where it can do that. Indeed, it was very supportive of the Chancellor's spending review measures in the Autumn Statement that give us the massive building programme that it intends to play a very large part in as well.

Lord Turnbull: The impression that we got from them was that they were bullish in their enthusiasm but were still not helped, for example, by rent control, which would also be a reason why they might be classified as public sector. In trying to reduce the housing benefit bill by controlling rents, you end up building less as opposed to trying to control the build by building more and bringing rents down.

Brandon Lewis: There are two points. One links back to the PRS point. I accept the point you made about the PRS and the gap between what they would like to build and what is actually built. One of the big challenges is that there is an issue for the PRS in how the land values are dealt with. If you are buying for PRS compared with build to sell, you will get outbid pretty much every time. I put a challenge out there to the PRS sector—there are various ways in which we can look at dealing with that, if it is right to deal with that—for them to come back with a unified sector voice. They have done that through the British Property Federation. There is a piece of work on my desk at the moment which we are looking to respond to over the next month or two.

In relation to the housing associations and the social rent reduction, the reality is that social rent had increased by roughly double what the private rented sector has gone up by over the last five years. We need to make some difficult decisions about the deficit and bring down that bill, and look at it in the context that housing associations have not had to make any of the efficiencies that, for example, local government has had to make over the last few years, which is, if you like, its competitor in this field and has a hand in delivering that side of the public sector. We are asking them to make a 1% saving a year for four years in a sector that last year made record surpluses of about £2.2 billion. I think that their finding efficiencies, finding that 1% a year, is achievable, which is obviously also good for the tenant as they get a reduced rent, while still building more properties.

Lord Lamont of Lerwick: I am still a little mystified by your reply to Lord Turnbull about this level playing field between the small landlord and the institutional landlord, who does not yet exist, whereas the small landlord does exist now. You explained the interest relief point, and I can follow that argument in relation to the owner-occupier, but you have this positive

reverse discrimination against stamp duty. What you left out in the list of measures was the change in capital gains tax from 28% to 20%, which, as I understand it, does not apply to buy-to-let landlords.

Brandon Lewis: It applies to small and large. I would also say that there is substantial institutional investment now that is building out these 30,000 properties across the country at the moment.

Q243 The Chairman: In 2010, you set up the Government Property Unit. We also have the Homes and Communities Agency. According to Savills, 2 million homes could be built on public land. Could you explain what the Government Property Unit has been doing to try to build out on this public land since it was set up?

Brandon Lewis: The Government Property Unit, which works with the Homes and Communities Agency, which is in its triennial review at the moment, is the Government's department that deals with land development. I am sorry, but I do not recognise Savills' comment about 2 million homes. The Prime Minister set us a challenge. We had 100,000 homes in the last Parliament and we wanted to go further in this Parliament. We have found land for 160,000 homes that we want to release during the course of this Parliament. In the Budget last week we were also able to announce that we are working with local government and aim to build a further 160,000 through local government as well. That gets us to 320,000 homes on public sector land in this Parliament.

Nobody is denying that we want to go further and look at making sure not just that we are releasing land that becomes surplus—again, the Housing and Planning Bill has quite an important clause on the duty to dispose of land that becomes surplus and for both central and local government to work together—but that we are making good use of the public estate. That is where the Government Property Unit comes in: in identifying this land and parts of the public estate where we can bring things together. Local government has a big part to play in this as well.

Q244 Lord Forsyth of Drumlean: Perhaps I am being a bit thick, but can I follow on from Lord Lamont's point about the changes in the treatment of buy-to-let landlords? Mr Lewis explained how buy-to-let landlords buying properties were at an advantage over, say, first-time buyers, because their mortgage interest was fully allowable against tax, they would find it easier than an ordinary person to get an interest-only loan, they had an advantage and were able to bid up the price and pass that on to the hapless first-time buyer in the form of a

higher rent. I understand that argument. Is that the problem that the Chancellor was trying to tackle by putting the stamp duty on buy-to-let property and by changing the rules so that the tax relief was only allowable at the basic rate? If that is the case, I do not understand how it works, because if people are incorporated they will be able to set the interest on the debt against their income and against tax.

Also, originally the proposal was that larger landlords would not have to pay the stamp duty, although in the Budget the Chancellor appeared to reverse that and say that they would now have to. Could you explain the thinking here? Why were the large landlords exempted from the stamp duty and are now not exempted? Why was there different treatment of small landlords, perhaps using their pension fund or whatever as an investment, and not incorporated, and those who might decide to be incorporated? Can you explain the logic of all this?

Damian Hinds: Starting on your last points, there was a consultation that followed the initial proposals on how multiples should be treated relative to individuals. It was not that it came in and then changed; this was a consultation to clarify the rules. We believe that as a simple matter of fairness there should not be an exemption for these large multiples that is not available to individuals.

Lord Forsyth of Drumlean: So why did you propose it in the first place?

Damian Hinds: You will remember from your time in government that there is often benefit to be had from consultation.

Lord Forsyth of Drumlean: I do not recall ever consulting on something that I did not think was sensible.

Damian Hinds: We have ended up in the right place, which is that the odds are not stacked against the individual. On the other hand, since 2000 there has been a big move from equities into buy to let property. Buy to let has been a big, big part of the growth in mortgage lending of late. They are not making land any more. In the short term there is a fixed supply of houses and building more time. In the short term, a house that is bought by one person is not bought by another. We want to make sure that more property is available to first-time buyers and young people. It is fair that the treatment of buy to let property should come closer to what it would be if you were invested in equities. You still have leverage on buy to let that you would not have in the same way if you were in stocks and shares. There is still basic rate tax relief. It is fair to bring it closer together so that there is

not this distortion in the market, which encourages the growth in buy to let, where undeniably there has been a big growth, and therefore allow more space in the marketplace for young buyers. The changes we have seen in home ownership rates are particularly acute the further you go down the age scale. If you look at people in their 20s today, the difference in rates of home ownership compared to the past is truly significant.

Brandon Lewis: First-time buyers were the hardest hit part of the housing sector in the crash.

Q245 Lord Kerr of Kinlochard: Can I come back to Mr Lewis on the Chairman's question about the evidence that we had from Savills that surplus land is available in government ownership on which 2 million houses could be built? I am scarred by an attempt 35 years ago, when I was in the Treasury, to persuade the Ministry of Defence to release land for housing. I was seen off with the argument then that it was necessary to maintain training facilities for a conscript army of 1 million men. We have been given evidence that under the Ministry of Defence, TfL, the NHS—in a large number of areas—there is land, mainly brownfield, that could be made available for housing. You mentioned the Government Property Unit. Who is in charge of the Government Property Unit and how powerful is it in negotiating with, say, defence or transport or health about the disposal of land?

Brandon Lewis: The Government Property Unit comes within the portfolio of the Cabinet Office.

Lord Kerr of Kinlochard: Who is in charge?

Brandon Lewis: The Cabinet Office.

Lord Kerr of Kinlochard: Who is the Minister?

Brandon Lewis: Matthew Hancock.

Lord Kerr of Kinlochard: Is he the tzar of surplus land disposal?

Brandon Lewis: No. Surplus land disposal will come generally through the Homes and Communities Agency, which is an NGO of DCLG, my department. Your Lordship may have noticed my smile when you commented on dealing with departments and surplus land. I am the Minister who has been having meetings across departments leading up to securing land for 160,000 homes. To be fair to the Ministry of Defence, it was the first to identify a big chunk of its land in an announcement in January, and it outlined where that is and when it is likely to come forward. Obviously some of that is dependent on movement around the Armed Forces as well, and indeed overseas. There is a challenge. For example, I co-chair the

London Land Commission, and you are quite right that there is land, whether it is TfL, Network Rail, or an individual health trust sitting on it, that we all want houses to be built on it. It is surplus land and we want to see it built out. The challenge for central government, of course, and for the Department of Health, is that health trusts are independent, individual bodies, so the issue is how we work with them to get them to release that land. In London, the health world has a large part to play. We are doing that by working across government departments, with Ministers working together and putting that pressure on identifying that land. I do not underestimate the real challenge in getting that land, particularly when you are dealing with agencies such as TfL and Network Rail. Again, I will be fair even to TfL, as odd as that might seem to me, sitting on the London Land Commission, and say that there has been a definite change in the last year or so in the attitude to getting some of this away, and TfL is becoming far more proactive, not just on releasing surplus land but on working with the GLA—this is devolved from us to the mayoralty—and where we have transport hubs and TfL land, we are also getting best use out of it. We have the issue of not making the most of some of the land that we have, as well as whether it is surplus.

Lord Kerr of Kinlochard: I think there is an innate conservatism in all departments or agencies, which is understandable. They want to hang on to what they have as an insurance policy for the future. You only really tackle this if you make it the responsibility of some very senior member of the Government to act across the board. If it is a question of a piece of MoD land and they want to hang on to it, that requires the Secretary of State for Defence to persuade X, the guy who does not exist at the moment, who has across-the-board responsibility. When that happens, the departments will find that the Secretary of State looks at their case and is not prepared to defend some of them, therefore you get some movement.

In evidence to us, Kate Barker said that the main point she wanted to make was that housing policy is “totally un-joined up” within government. I deduce from that that there is something mechanically wrong with the process involving government-owned land, the easiest thing on which you can act because it is within your power. I am sure Mr Hancock is an excellent Minister, but does he have the seniority to go and persuade?

Brandon Lewis: I appreciate that I am biased, and your view may be that I would say this, but I disagree with the point you say that Kate Barker made. First, Matthew Hancock sits in the Cabinet, so he has the authority to do that and is doing an excellent job of working with us

and delivering the Government Property Unit. More than that, in relation to identifying the land, Ministers across departments worked together. I disagree with her about joined-up government. I think we are more joined-up than I can imagine we have seen for a very long time in the sense that there is an absolute join-up between the Prime Minister and the Chancellor and generally, right across No. 10, No. 11, the Treasury and DCLG, on housebuilding and releasing public land. To be fair, all landholding departments are playing their part in that. That is reported back on regularly. We have a cross-government task force—we are meeting tomorrow—and at every meeting one of the standing items on the agenda, having worked up and identified that public sector land, is now reporting back on the progress on it. Every landholding department is represented there, and it is chaired by the Secretary of State. From the Chief Secretary through to the Chancellor, the Prime Minister, the Secretary of State for DCLG and other Secretaries of State, we have absolute buy-in to this agenda, so I would argue that we have an immensely joined-up approach to this and a very cross-government approach and determination to deliver it.

Lord Lamont of Lerwick: I want to return to Lord Forsyth's point about tax, and I will shut up after this. You talked about the changes to capital gains tax not disadvantaging buy-to-let investors compared with the larger institutional investors. I take that point, but, taking everything together, it seems to me that it disadvantages buy to let, or is certainly not going to encourage it to continue. I notice what you say at paragraph 1.171 on page 48 of the Red Book about the reduction in capital gains tax not applying to residential landlords. I wondered why this was. You say, "This will ensure that CGT provides an incentive to invest in companies over property", i.e. you do not want them to invest in property. It seems rather odd, if you are trying to get investment in property, that you appear in the small print of the Red Book to say that you do not want them to invest in property.

Damian Hinds: We are not trying to stop anybody investing in property or anything else that they want to invest in. As I was saying earlier, we are trying to make sure that there is space in the market for first-time buyers and younger people. I could not find the statistic I was looking for earlier, but today fewer than 10% of people who were born in 1990 own a home, whereas of those born in 1970—I was born in 1969—a quarter did by the same age. I would say there is a dramatic difference in young people's ability to access the housing market.

Lord Lamont of Lerwick: I agree with all that, but I would put it to you that there is a need to encourage investment in rented property just as much as in other forms of commerce.

Brandon Lewis: I agree, but it affects institutional investors as well, as you can see if you look at how many institutional investors have come in, where they are coming in at the very beginning as part of the development. There is the latest largest development that Greystar is doing in London and, because it is involved from the very beginning, the stamp duty change does not affect it because it pays stamp duty on the land value, not the individual properties.

Damian Hinds: CGT is not coming down for residential landlords.

Lord Lamont of Lerwick: That is the point.

Damian Hinds: The point of the CGT change is to encourage an entrepreneurial and investment culture, which will create jobs and wealth.

Lord Lamont of Lerwick: Not to invest in property.

Damian Hinds: Of course, we are not trying to discourage people from investing in residential markets, but that is a different point.

Q246 Lord Sharkey: Lord Porter of the LGA told us that it is the state sector that has not delivered the housing units, and he went on to say that somewhere between councils and registered social landlords we are going to have to start delivering a lot more homes that are owned by the country. We have also heard that local authorities have a huge appetite to get involved in housebuilding again. How can the Government support the ambition of these local authorities, and, in particular, do you think that they should be allowed to borrow more to fund housing?

Brandon Lewis: I do not think they particularly need to borrow more, but we always have to be cautious about that because, the way the fiscal rules work, any borrowing that local authorities do from their HRA accounts has an impact on the PSBR and we have to make sure we deal with that deficit and debt issue. There is also borrowing headroom in the sector at the moment of about £3.4 billion. I want to see local authorities build out more and not only in the social rented sector. They have the capacity to build out across tenures as well if they want to and to get involved in that. Lord Porter is very ambitious for local authorities to get involved right across the housing delivery sector, and I absolutely support that. We work with local authorities and we very much have an open door to local authorities to come and talk to us that want to get involved and deliver, whether it is through delivering garden settlements or new settlements, or whether it is how they make better use of their HRA accounts. We are very happy to work with them.

Lord Sharkey: In your view, what is the barrier currently holding these people back if this £3.5 billion is available?

Brandon Lewis: I think there is a range of things. Some local authorities literally would not have the land. Some local authorities may not have the expertise, and I think that is where Lord Porter's organisation, the Local Government Association, can play a very helpful part in bringing together some of the expertise around the sector. One of the challenges for local government, which I see very much on the planning side as well, is that there is still an institutional desire, it seems sometimes, particularly on the part of small district councils to work very much in isolation. Particularly on the property side of things and in planning, we need to encourage them to work together far more to break down those barriers. They are doing it very well at some senior management levels, but they need to share services and expertise across local government. Some local authorities, such as Ealing, are doing some phenomenal work in delivering not only in the private rented sector but affordable rent and using a model that delivers. Last week, we launched the new Legacy model in central Bedfordshire. This is about how we spread that news and opportunity around other local authorities. The LGA itself has a big part to play in that.

The Chairman: Local authorities have something like £35 billion in capital reserves, which sits there doing nothing. Has the Treasury found a way of releasing that money to help build houses?

Damian Hinds: We are keen on local authorities using their reserves, particularly where they have high levels of reserves, and these are all very legitimate things to invest money in, so, yes, absolutely we encourage sensible use of reserves. As Brandon was saying, the borrowing facility is there. For most authorities it is not necessarily the finances that are holding them back.

Brandon Lewis: For local authorities more generally, it sometimes comes down to the expertise. I spoke to a local authority last week that has a really interesting programme. It is building in the private rented sector and using the income from that to finance some social and affordable rented housing and some for-sale build. It is a really interesting model. I asked them whether they were talking to other authorities about what they were doing, as it is really interesting work and really good regeneration work as well, and they said, "No, no". They were a bit too humble to spread the good news of some really excellent stuff that they are doing. I think there is an issue with spreading expertise. Local authorities are becoming

very aware of what even the Localism Act of 2011 says. They have that general power of competence and ability to use that in a much more commercial way, which is to the benefit of local residents and to their own balance sheet eventually.

The Chairman: They have told us that they do not have the finance to do it, yet they are sitting on these reserves, many of which arise from the sale of land. If that money is not spent in the same financial year, then effectively it increases their borrowing under the current rules that are applied, so this money sits there as dead money. We have also been told that the cost-benefit analysis that has been done favours infrastructure projects such as transport rather than housing, and, as Lord Porter explained, the payback on a swimming pool was greater than the payback on housing, so he was able to borrow the money to build a swimming pool but not to build a house. This is Alice in Wonderland economics.

Lord May of Oxford: Not for somebody who lives in a pool.

Brandon Lewis: I am always looking for innovative housing styles and techniques, so I appreciate Lord May's point. Obviously, local authorities have to take decisions about what they do locally, but I have been on the record many times before about looking at what local government is doing with its reserves and how it uses them. Some local authorities are very smart about how they use capital reserves in that way. Overall, even on the revenue side, local government has gone from £13 billion to over £22 billion of reserves in the last five or six years, and I think it is quite right that local communities ask how they can use that in a way that helps in the areas where it is needed to solve some of the housing challenges.

Lord Sharkey: To be clear, you are saying that in fact finance is not a significant barrier to local authorities building houses?

Brandon Lewis: For some local authorities it will be, but I would not say that it is across the board when there is that kind of headroom in the sector.

Lord Sharkey: Yes, but if we are looking at the larger picture and the overall targets, you conclude that finance is not a barrier.

Brandon Lewis: In the overall picture, when you have £3.4 billion of headroom, there is a lot of capacity for building there, yes.

Lord Sharkey: You seem very reluctant to say that it is not a barrier exactly.

Brandon Lewis: If you have £3.4 billion of headroom, I am not quite sure how that is a barrier.

Lord Sharkey: That is what I was hoping you would say.

Brandon Lewis: I know, but I am quite sympathetic because some local authorities will have barriers, whether it is the availability of land or expertise. That is why I am a bit reluctant to use the term, but when you have £3.4 billion of headroom floating around in the sector, I would expect local authorities to be looking to use it.

Q247 Lord Teverson: Perhaps I could come back to social housing, which is where Lord Turnbull started this discussion. I was interested, Brandon, that you mentioned social landlords and them not really having the same pressure as local authorities and therefore maybe needing a bit of pressure to become more efficient. In fact, when the Chancellor of the Exchequer was here a few months ago, he made a similar comment. Is it the Government's feeling that social landlords are lazy or inefficient, or that they have not really had enough pressure from government as quasi-public bodies?

Brandon Lewis: I would not describe my view quite like that. When you bear in mind that there are 1,500 to 1,600 housing associations out there, a huge number of them are not building houses. There are some that are doing fantastic work and are building houses. I want to see more of the sector building houses and partnering up to deliver more housing. When you are having record surpluses I want to see that sector really moving forward. I know from talking to the National Housing Federation that the sector itself—and I appreciate I am talking in generalities—also has those kinds of ambitions. It is very keen on that, and some in the sector will say that there are people in the sector who are not doing enough. It is the same in any sector; you will get a bell curve, and our job is to try to work with the sector to make sure that we are getting the most out of it in delivering the housing that we want to see.

On the social rent cut, my point is simply that the housing association sector has not been subject to the kinds of efficiency savings that other parts of the public sector, such as local government, have been. When it has those kinds of surpluses, I do not think finding 1% a year savings is too much to ask in the efficiencies they could find. That is backed up by the fact that there are some in the sector who have been talking to our department about wanting to go further than a 1% cut, in some cases because they find they are having to compete with the private rented sector and are not as competitive as they would like to be. I appreciate that is only a handful, but I think there is an understanding in the sector that they want to deliver more and do more for less, and that is a good thing.

Lord Teverson: If it were the full private sector, as you say, and you make the good point that there is great variability within that sector, with an asset base such as that you would have the performers taking over the non-performers, if you like. You would have a consolidation in the market. Is that something that should happen that energises this sector?

Brandon Lewis: As it is an independent sector, I want it to be an independent sector. It is not for me to tell them what to do.

Lord Teverson: I understand that it is not up to government.

Brandon Lewis: I think we will in the years ahead. We are already starting to see some of that sector looking towards each other to partner up. We probably will see some mergers in the years ahead. If that works for them as an independent body, I would encourage that, but it is about making sure we are doing it in a way that the sector is able to continue to deliver more housing and high-quality housing, which I know it is very keen to do.

Lord Teverson: I deal commercially with a fairly major housing association in the south-west, which is one of the better ones, or one of the good ones.

Brandon Lewis: I can guess which one.

Lord Teverson: Is it not a fact that reducing rents by 1% means that it is the most efficient that are hit most? Mathematically, they are the ones that have to cut their plans back more, because the efficiencies have already been put in, whereas the not very good ones finally get around to sorting it out. That seems a real issue to me.

Brandon Lewis: That is a point that you can make about any sector. The other side to that is that of course a 1% rent cut in many cases is a rent reduction and so more money in the pocket of the tenants. We have to remember that it is the people who pay the rent, whether it is the public purse or an individual, who benefit from that, and I am very focused on making sure that individuals get that benefit. Equally, some of the large organisations, the ones that are efficient and well run, are like any good business, and I doubt that there are many businessmen out there who, if they put their minds to it, would not put their hands up and say that they could find 1% efficiencies a year and would spend a lot of their time focused on doing just that. I still think that even the very best organisations, by definition of being the best, find that a 1% efficiency is what they are looking for anyway.

Lord Teverson: But a 1% efficiency is going from an indexed base to a minus 1, is it not, so the difference is significantly more than 1%?

Brandon Lewis: Not based on current interest rates, but I appreciate what you are saying.

Q248 Lord Teverson: I have a final couple of points to make. Stock could be a threat—or it might not be, as you say. On the extension of right to buy, we have seen in the past that replacement one by one has not been effective. Is that another pressure on social landlord housing stock coming down?

Brandon Lewis: I think it is the opposite. If we look at where we are with right to buy as was, one of the problems for a decade or more from 1997 was that for every 170 homes that were sold only one was built. In 2012, when we reinvigorated the scheme, we said that it would be one for one. At the moment, the only direct correlation we have is that first year, and in first-year sales it is one for one. In London it is about two for one. Local authorities get three years to build those homes, and we have said there will be one-for-one replacement. If local authorities do not build them, the money will come centrally and the HCA will build them. In the voluntary agreement with the housing association sector, at least one home will be built for every home sold. That drives up housing supply, because every time an asset is released it gives the finance to build an extra home, so for every home sold somebody is still living in a home and an extra home gets built. Over the medium and long term, that will increase housing supply and the number of houses being built by the housing association sector. It allows them to realise and access assets that they have not been able to before.

Lord Teverson: Some of the evidence has perhaps shown the opposite of that, but I take that point. Lastly, one of our concerns about government policy on starter homes—and we understand why that policy has been brought in—is that it can substitute for affordable homes in Section 106 agreements, which again puts pressure on social or affordable housing coming down. Starter homes are not necessarily the same as affordable homes.

Brandon Lewis: I would say a couple of things. More generally, as the Prime Minister rightly outlined, we are going to correct the fact that, at the moment, affordable housing in government language is technically a home that you rent, but affordable housing for 86% of our population who want to own their own home should be a house that they can afford to buy. Starter homes will be affordable housing, which is in the Housing and Planning Bill that is going through at the moment. Very shortly, we will publish a consultation document in which we will start looking at exactly how that works. We are very clear, as I was all the way through Committee in the Commons, and I think my colleague Baroness Williams in this House has also been very clear, that we believe that we can deliver starter homes and still give local authorities the ability to have affordable housing across different types of tenure.

We are very clear that we want to deliver 200,000 starter homes for first-time buyers. As Damian has said, this area has been hardest hit since the recession. We think we can do that as part of the mix.

Q249 Lord Griffiths of Fforestfach: Mr Lewis, I am sure that as Minister for Housing you would say that the Government value home ownership, but that they also value the private rented sector. From the actions you have taken, it would appear that the Government have a clear preference for home ownership over the private rented sector. Am I right in thinking this is true? If it is, what case would you make for home ownership over renting?

Brandon Lewis: As a party, we launched our manifesto with two key housing policies, both of which were around moving home ownership forward: starter homes and the extension of right to buy. Home ownership has been falling since 2003. The latest figures show that we are just starting to stem that tide, but we want to see it increase. Ultimately, we are public servants and serve the people who elect us, and 86% of them want to own their own home. It is entirely logical that we are very clear that our focus is on increasing housing supply and moving home ownership back in an upwards direction. I am also very clear that we need housing supply across tenures. I think the private rented sector has an important part to play, not merely because of economic pressures, although I accept that is one of the reasons we will see it grow in cities such as London, and Manchester to an extent, but because we are at the start of seeing what we have seen in other parts of the world. America is probably 15 years ahead of us on this. It is the millennials, if you like, the young professionals who, even if they can afford the equity to buy a house on the outskirts of London, choose to rent, either because they want to be closer to work or because they want the kind of facility, the multifamily housing as they call it in America, with the amenities and structure that that delivers, and we are starting to see those products coming through. Some of the evidence is showing that the number of empty nesters will also continue to grow. This is why I made the point earlier that, for us, home ownership, as well as increasing housing supply, is absolutely a priority, but I fully accept that we want to be delivering housing across all the different tenures, and the private rented sector is part of that.

Lord Griffiths of Fforestfach: Do you think that the buy to let sector crowds out home ownership?

Brandon Lewis: I think there is a difference between the buy to let sector and the institutional investors who are building and developing purpose-built units. They also have

the advantage of giving a different type of security of tenure. One of the threats in the private rented sector that many people cite is that your landlord might sell to an owner-occupier, whereas, if you are in a purpose-built private rented sector unit, when your landlord sells to another landlord your invoice header changes rather than the tenure.

We are seeing in places such as the Olympic Village in Stratford that the institutional investors are driving longer tenancies, which give better security because they are in the institutional investors' interests as well. It is a different type of tenure. As Damian outlined earlier, because buy-to-let landlords are buying individual properties in some areas and can buy with easier access—if not with access that an owner-occupier cannot get—to an interest-only mortgage, plus the tax relief as was, they have the ability to squeeze out the first-time buyer.

Q250 Lord Griffiths of Fforestfach: Finally, you mentioned the £30 billion to £50 billion of funds that are available to the sector. We had a discussion earlier about tax changes. If I were an investor with money like that to spend, or some of it, I would be nervous that the rate of return I would expect to get could be changed by any tax change that was made. We have seen some coming recently that are adverse. Are you really trying through fiscal policy here to effectively subsidise home ownership at the expense of the buy to let sector?

Brandon Lewis: As I said earlier, on Thursday I was with a large chunk of the property industry and my first conference on Thursday morning was with people from the private rented sector. Institutional investors were there, as were my officials, and the point that was made was that the changes do not fundamentally change the underlying financial points for them in the sector. Obviously, all these things are kept under review, but, for us, it is about making sure that we are supplying homes right across all tenures. I make no apologies for the fact that with 86% of the population wanting to own their own home, my prime focus is on increasing housing supply and home ownership.

Q251 Lord May of Oxford: I have a short question that takes us right back to the beginning, when you explained your aim that at the end of this Parliament you would have had 1 million houses built and that you are way behind the run rate here. The end of the Parliament, as I understand it, and I could be wrong, is five years off, which means that you have a major task if you are to accomplish your aim. I am curious as to whether you seriously believe that you are going to be able to do it in light of the discussions we have had?

Brandon Lewis: In complete contradiction to my role as a politician I will give you a very short answer: yes.

Lord May of Oxford: Good.

Brandon Lewis: I am very confident.

Lord May of Oxford: I am happy with that.

Brandon Lewis: Working with the housing industry as well, if you look at the trajectory of housebuilding growth, with what we are doing and some of the extra work that we are putting in place, thanks to the Treasury and the Chancellor and the programme they have given us through the spending review, I think it is achievable. However, I do not hide from the fact that it is a real challenge. We are giving ourselves a very high ambition. We have to do everything we can. I am determined that we deliver on that, because we owe it to the next generation.

Lord May of Oxford: We would all like to be able to help you.

Brandon Lewis: Thank you.

Q252 Lord Kerr of Kinlochard: At the beginning we talked about the three factors behind rising prices: rising incomes and expectations, net migration and longevity. Does the inheritance tax change discourage downsizing?

Damian Hinds: It is deliberately designed in a way not to, so if you sell your home an allowance of £175,000 can then be bequeathed in non-residential property, so there will be no discouragement against downsizing.

Lord Kerr of Kinlochard: I can imagine my children crowding round to tell me, “For God’s sake don’t downsize, because the bill we’ll pay will be greater if you do”.

Damian Hinds: It is not for me to advise your children how to speak to you, Lord Kerr, but I do not think they need to do that, because there is this provision that if you have disposed of the main family home, the £175,000 on top of the existing inheritance tax nil-rate band of £325,000 can be bequeathed through other assets.

Brandon Lewis: Lord Kerr, if you will forgive me, I will add to Damian’s point. In encouraging people or seeing more people downsize, I think there is also an issue about what people downsize to. Putting aside the fiscal decision that people have to make, there is also the product or the home they are going to. I have been talking to my counterparts in America and their view is they do not have this right yet. I think there is still work to do on supplying enough homes of the right type for people to want to downsize to. Not everybody who is

downsizing is ready or wants to move into a managed property. I have often used the example that I am very fortunate that both my in-laws and my parents are still with us. My father is 73. He has been to the gym today and is still running his business. If I go home tonight and say, “I’ve found you a really good unit built by a famous builder and you and mum will be very happy there; they do Sky TV”, I will get a two-word answer. There is not yet necessarily the product that makes everybody, when they are still capable of doing that, say, “I am choosing. I want to move to this kind of property”. There is a very big psychological challenge here. There is a very big opportunity for the industry as well. There are moves, and we are seeing more of it come through, but not enough yet. As we have a population that is staying in its own homes longer, we need to provide more opportunity, products and more of an offer for people who may choose to downsize as a positive thing; that it is a home they want rather than feeling they need to move either because of their own view or pressure from somebody else in the family.

Lord Kerr of Kinlochard: Stepping back from what we are hearing from both of you, I think you are maintaining that the Government’s acknowledged proud encouragement of owner-occupation is not in conflict with building more homes. That is what you are telling us, is it?

Brandon Lewis: Yes.

Damian Hinds: Far from being in conflict, I think it goes hand in hand.

Lord Kerr of Kinlochard: Yet I cannot help feeling that if you do not make something your highest priority, inevitably, because it is not, it loses out. We have seen lots of theoretical arguments about why encouragement of owner-occupation is inimical to the achievement of your 1 million new homes target. I do not know if they are right or not, but it seems to me that they cannot be of equal priority; one has to be ahead of the other.

Damian Hinds: Did you say over occupation or owner-occupation?

Lord Kerr of Kinlochard: Owner-occupation.

Damian Hinds: Why do you say this would create this conflict?

Lord Kerr of Kinlochard: It seems to me if that is the Government’s principal concern in the housing sector, then, by definition, building more homes is not.

Damian Hinds: Our principal objective is to make sure that there is a sufficient supply of housing and that it is of the type and tenure that people want to live in. As Brandon has alluded to, there is an overwhelming majority of people—between 80% and 90%—who, given a free choice, “Would you like to rent your home or buy a home?”, have said

consistently over many years, “I would like to buy a home”, and only 63% or 64% of them actually do own a home. I am guessing that most of us here have chosen to be owner-occupiers. The reasons for that include the fact that we want to invest in an asset, in a place our families will recognise as their own that we can adjust in all the ways we want to, as security to bring us into retirement and one day hopefully have something to pass on to our children. We want more people to be able to make the same decision that I am guessing a lot of people around this table have made.

Lord Kerr of Kinlochard: I am not taking a moral stance. I am not disagreeing with what you are saying. It is a worthy aspiration that many, many people have. However, because that is your highest priority, does that colour your approach to, say, housing associations or building by local authorities?

Brandon Lewis: I understand the point you make, Lord Kerr, but I still think the two work hand in hand in the sense that if you look in practice at how we increase home ownership, I would argue that two of the key things are contained in our manifesto, which is the delivery of extending the right to buy to 1.3 million people who currently do not have access to that, and the fact that for every home that is sold another home will be built. That is how the voluntary agreement works. That increases home ownership and, by definition, will increase the supply. If you look at starter homes, bearing in mind that the hardest hit area of the house-buying market has been first-time buyers, by doing more to support first-time buyers to be able to buy homes means we have to build those homes for them to buy. Starter homes will be new-build homes. Obviously Help to Buy is delivering an increase in supply. We have seen that over the last few years, and even the independent reports in the last couple of weeks confirm that Help to Buy has helped increase supply. The measures we are taking to increase home ownership have a huge part to play in increasing supply as well. I think it would be almost impossible for us to increase home ownership without increasing supply. We need to be doing both.

Q253 Lord Layard: Mr Lewis, as you mentioned, we really need local authorities to be giving more planning permission. Would it help if they had a much stronger financial incentive to do this? I know that the New Homes Bonus has been provided by the centre, but you are getting a bit short of money. A huge pot of money is going to every landowner who gets planning permission on his land. Could we not use some of that money to incentivise the local authorities to give planning permission? Here is a suggestion: you could have a

substantial levy on the value of every completed development that would be given to the local authority automatically and hypothecated for the infrastructure on that development, and for financing a better planning department and some housebuilding. That could replace the complexity of CIL/Section 106 and could also be set at a level that generated a lot more extra money. Do you find that idea attractive at all?

Brandon Lewis: I am not in favour of putting a levy on land and private individuals and how they use their land. I would be nervous of the Government in a sense suddenly taking away something that private individuals have been able to negotiate if they sell the land. However, I think there are a couple of points inherent in what you are outlining. First, you are absolutely right that the community infrastructure levy and Section 106 can be complicated and slow. It is part of the problem in the speed of the planning system. CIL has the advantage of being very transparent and upfront, but it only really works if you have a number of small and medium-sized developments. It does not work on larger developments. Section 106 gives that flexibility, but there is no transparency and it can take too long. The Housing and Planning Bill will change some of that, but we have a review of CIL led by Liz Peace, who was the chief executive of the British Property Federation. I am very keen that when we get that review back, we look at how the interaction of CIL and Section 106 works so that we get a better overall approach that delivers for both communities and the councils. Effectively, what Section 106 and CIL should do is exactly what you are talking about: give that payback, feedback and infrastructure to the local community. For local authorities, we are consulting and looking at what we do on planning fees, but there is something quite important that I have been talking to local authorities about and will take every opportunity to say to them: that they need to see their planning departments as their economic regeneration departments. It should be the absolute heartbeat of a local authority on a couple of levels. The local authority is there, as I am sure most, if not all, local authorities are, to work in the best interests of their community. That is about shaping your community and delivering for your community. Whether that is commercially or for housing, it needs a strong planning department. If you are running your council to keep your Section 151 treasury officer happy, you need your finances, and that needs business rates, council tax and the new homes bonus—which I am delighted the Chancellor extended as it was only a six-year programme originally and we have another four years—all of which need a good planning department. The local authorities need to go further in understanding that the

planning department is a vital department. Personally, I do not think they should be—and I say this as an ex-small district council leader—sitting in isolation in small councils. They should be sharing this resource to have better career paths, more interesting careers and more specialties, as well as efficiencies for planning departments across districts.

Lord Layard: Could I try another tack? That would be a carrot.

Brandon Lewis: I thought you meant a question, but I will take a tack.

Lord Layard: If you can find ways within your existing structure of making it more attractive financially, that is important, but there could also be a bit more of a stick. It has been suggested by some people that there should be more of a presumption in favour of giving planning permission, particularly when the price of land is very high, which shows that its value for building is very high. Could one not have more of a presumption—I do not mean in the green belt, but elsewhere—in favour of the giving of planning permission in principle than we have at the moment?

Brandon Lewis: Absolutely. That is exactly what the planning permission in principle in the Housing and Planning Bill is moving towards, because at the moment it is difficult for developers and very difficult for communities and local authority leaders. They go through what can be a quite a long, difficult and contentious process of identifying and allocating land in a local plan, and then there are two problems. From a developers' point of view, if you go for planning permission you have no guarantee of getting permission to build anything at all, even on land that has been identified. The council and the community have the challenge of going through what can be a quite a contentious process a second time, having already done it. Once land is identified in a local plan or in a neighbourhood plan, or even better a brownfield register, we should be moving towards planning permission in principle delivering what you are talking about.

The Chairman: You said earlier that you were not looking to change the planning regime or process to accelerate building on brownfield land that sits within greenfield or green belt land as if it were brownfield land along the lines you describe.

Brandon Lewis: Technically there is quite a big difference between green belt land and greenfield land.

The Chairman: I appreciate that.

Brandon Lewis: We are not doing a government review of green belt land. I am happy to say this for the record as often as possible and to make sure that all the journalists from the

Daily Telegraph are listening: “We are not doing a review of the green belt”. What we are seeing around the country is that this is a matter for local authorities. It is not a matter for me as the Housing or Planning Minister. Some local authorities have a process in their local plan of looking at their land allocations and their green belt and deciding whether it is still appropriate for them, if it is still serving the right purpose, and how they should treat it. They go through full proper local consultation on that. Some local authorities have done that and have taken that decision.

Q254 Lord Forsyth of Drumlean: Can we go back to the Budget? The Budget said the Government would take measures to speed up the planning system. Could you explain what these measures are?

Brandon Lewis: The Budget outlines what we will be looking at over the next few months, and I will be looking at that. One of the things we will be looking at is how we extend and take planning permission in principle further. Another area, as I noted earlier, is the preconditions. I will give a very good example. A local authority leader recently complained about a developer not being on site almost two years after planning permission was given, and he had not realised that it was because his council had put 200 different planning conditions on the site. We need to do something about the whole process of planning from the pre-application process right the way through to getting developers on site as quickly as we can.

Lord Forsyth of Drumlean: We have had quite a lot of evidence from smaller builders that the complexity of the planning system is a barrier to entry for them. How can you encourage local authorities to support developments on smaller sites?

Brandon Lewis: I think there are three levels to this. One challenge is that we have seen a 253,000 overlap, where homes getting planning permission last year were getting less of the smaller sites. We need to encourage local authorities to identify smaller sites. We are doing our bit. We are going to be doing more with direct commissioning and are going to use the small and medium-sized builders for this. The key thing—I come back to the point I made earlier—is planning permission in principle. One reason why that will be key for small and medium-sized developers is that planning permission in principle will also make access to finance easier, because you take away what some might refer to as the “gamble” of planning permission.

Lord Forsyth of Drumlean: I should perhaps declare an interest as a director of a bank. Small and medium-sized builders told us that access to finance is one of the main reasons for the decline of their sector. What can the Government do to help? In particular, does the Treasury have any plans to deal with the change in the risk weighting that applies to loans for property development arising from Basel III?

Damian Hinds: I should say that Basel III is not my first area of expertise. The Economic Secretary to the Treasury covers that.

Lord Forsyth of Drumlean: Broadly speaking, the risk weighting is being greatly increased, so it is more expensive and less profitable for banks to lend.

Damian Hinds: Broadly speaking, there is absolutely a recognition of the need for finance facilities for smaller builders. That is why we have the two building funds.

Brandon Lewis: We have the housing growth fund and the builders' finance fund. One thing I did last year was extend the builders' finance fund to cover more small and medium-sized builders. The home building fund is £1 billion, which was announced in the Autumn Statement. One of the things we are looking to do with that is to focus particularly on small and, indeed, custom build. We want to see custom build grow. There are some measures in the Housing and Planning Bill to facilitate that. This is a particularly opportune market for small and medium-sized builders.

Lord Forsyth of Drumlean: At the other end of the scale we have heard about land banking by large house builders. Do you really think they have the inclination to build the number of homes required?

Brandon Lewis: Yes, I think they have the inclination to build more. Obviously, there is a capacity issue for any individual company. The same is true for the larger housing associations, and some of that can be affected by a range of issues, not just finance bills, but skills, et cetera. I think data on the large housebuilders shows that land banking is not as prevalent as some might suggest. The figures between 2010 and 2014 show that they have been holding a land supply that pretty much runs in line with having a continuous pipeline to work on. Bearing in mind that we want local authorities to have a five-year land supply, larger developers having a two, three, three and a half year land supply to work through with continuous works is quite logical. I do not criticise them for that.

¹ According to the Home Builders' Federation (see above)

The challenge for us, though, as I said earlier, is that there is still a gap between the 181,000 new homes built last year¹ and the 253,000 homes given planning permission. We need to analyse exactly why that gap is as wide as it is and how we narrow that. I also want to see more planning permissions. This comes back to a point raised in your earlier question about the preconditions that councils put on them, which can create quite a big gap, and the issue with some of the large sites. Part of what people refer to as a land bank, when you look at it, is a developer building out a site of 5,000 homes. Even if they are building out at 400 a year at the top end, the rest of that site is still technically a land bank, which is not a land bank in a way we would criticise.

One area we need to look at is how we challenge some of the organisations, which I am trying really hard not to name here today—not the developers, but some of the land agents who will go and get or seek to get planning permission. They may own the site, or they may not. They then spend a year or two hawking it around until eventually a developer buys it. Then we have two problems. One is that the site has not been built on for a couple of years, despite having planning. The agent has sold it at a profit, which now means that the developers are looking at the viability of it, and the viability is different from what it was when the planning permission was granted. Straightaway, you have an adversarial system between a developer and a local authority, neither of whom are to blame. There is an issue there. That is one of the things we need to look at as we move forward.

Q255 Lord Turnbull: The developers who we have taken evidence from endorsed your view that many planning departments are underpowered and underresourced. They have also said that in many cases they would be prepared to pay a larger fee for the planning application, provided that it went to boosting the power of the planning department. As I understand it, the Government control fees. Is it not possible to find some scheme that enables two willing partners to come together and reach an agreement?

Brandon Lewis: We have planning performance agreements that allow a local authority to do that with a developer, and they are used on the larger sites, particularly in London. At the moment we are also talking to the sector about having more competition in the planning sector and having planning fees linked to a fast-track process—and there is a facility for this in the Housing and Planning Bill—particularly aimed again at small and medium-sized builders. There is a balance to find. There was quite a big increase in planning fees a few years ago. If we had complete freedom right across local authorities—and I am sure that

none of us in this room could think of a local authority that would abuse that—there is the potential for a local authority to use that in a way to discourage development at a time when we are very keen to encourage it. It is about getting a balance, but we are looking at this at the moment.

Q256 Lord Sharkey: Can we talk about direct commissioning in the context of whether or not direct commissioning is helpful to SMEs? I think the Government have four or five direct commissioning ventures at the moment, including Northstowe. Do you think they are going to be helpful to SME builders, and will they be able to generate significant volumes of new houses, bearing in mind the delays at Northstowe, for example?

Brandon Lewis: Northstowe is the largest example of direct commissioning. Obviously there was an agreement in Northstowe that the development would follow the infrastructure improvements around the A14. One of the things we are doing at Northstowe is making sure that we get everything working in parallel so that we get everything in place early. Some of the planning permissions have now been granted at Northstowe. Yes, we announced in January some other sites that we want to look at doing that. We are doing direct development at Connaught Barracks in Dover, Northstowe, Lower Graylingwell in Chichester, and Daedalus on the waterfront in Gosport. There we will be looking to deliver homes in a slightly different way. Again, this is an opportunity for small and medium-sized builders and construction companies, because we will commission them to come and build. That also has an advantage to the conventional house buyers, because we will not, and they will not, be making developer profits. The construction margins are different from those of outright developers, who also have a speculative margin to make. It is an opportunity that works both for us delivering housing and looking at how we can deliver housing more quickly. For some of these sites—coming back to the point Lord Forsyth rightly made—there is a range of barriers to entry for small and medium-sized developers, and with some of these schemes we can start looking at how we can help remove some of those barriers to make it easier for them to come in.

Lord Sharkey: There are other schemes around, too. The *Morning Star* reported on Saturday that Mr Lewis shared the stage in Cannes with Rio Ferdinand to launch what it describes as a “joint venture with the Government”. What kind of scheme is that?

Brandon Lewis: That is not direct commissioning. That is in central Bedfordshire, and the Legacy organisation, with which Rio Ferdinand is involved, is not in a joint venture with

central government. We have worked with them and the local authorities, and they are talking to a few at the moment. Central Bedfordshire is where they are moving ahead to start with. They are looking at a model where they will deliver homes in the private rented sector, affordable rent and social rent, using the income from that to facilitate community facilities, sporting facilities, potentially a school, whatever that local authority wants. The surpluses and profits go into the local community and local authorities. If Members want to look at it, Google “Legacy”. It is their product and I am not going to go selling their product for them, but that is what was being announced at Cannes. Central Bedfordshire and Legacy asked if we could join them to launch that. It is a really exciting opportunity. It could deliver thousands of new homes, and it is an interesting way to do regeneration, which is what Central Bedfordshire is using it for.

Lord Kerr of Kinlochard: As a Queens Park Rangers supporter, you are welcome to Rio Ferdinand.

Brandon Lewis: As a Queens Park Rangers supporter myself, that is fine.

Lord Kerr of Kinlochard: I would like to take you back to what you said about land banking because, as you said it, you sounded just like the witness we had from Berkeley. I remember a number which the Local Government Authority published not very long ago, which was that nearly half a million permitted development houses were not being built. I understand the economic rates of build out and all that—I take your point—but if this number, which is said to be a record, having gone up from 380,000 to 475,000 since 2010, represents more than just economic greater build out, Lord Layard must be right surely that you need to have some sort of stick in the machine as well as a carrot to encourage people not to sit on land that has been permitted. How would you go about that? Would you consider allowing some sort of council tax on the development gain to be made from the giving of approval?

Brandon Lewis: As you say, Lord Kerr, as my dad is from Shepherd’s Bush and I am a QPR fan I will not deny that I was quite happy to share the stage with Rio Ferdinand. I would not be particularly keen on that as a stick. Let me explain why. This is part of the challenge of looking at what is the gap and why we have that land out there that is not being developed. There are a lot of different things going on. It is the same with increasing the housing supply. Any Minister who sits in front of anybody, your good selves or anybody else, and says, “I have a silver bullet to fix this problem”, is probably not fit to do the job, because they are

kidding themselves. It is about getting lots and lots of different things in place at the right time and in the right format.

The problem with having something such as council tax or some kind of tax levy if property is not developed out is that could create the unintended consequence of hiding the planning permissions, so people will not go for planning in the first place. We are always looking at, and I am continuing to look at, some kind of a stick or carrot. What is going on at the moment is a mixture of different things. There is a percentage of that land that has been given planning permission that has not been built out because a landowner has decided to be speculative and thinks they are about to become a multimillionaire by selling their land if it gets planning permission. They get planning permission and then find that nobody wants to live there and nobody wants to build there, so it is not viable land in the first place. That is probably a relatively small percentage, but all these things add up. Some of that land will have within it a number of sites that have planning permission for 5,000 or more homes in place and developers are building through them. I visited Didcot recently. They are building out 400 a year, but they still have permission for 7,000 homes there, so that will count as part of a land bank. We want to see builders building at a faster rate. That is coming through now. I think we will see some figures on that very shortly. We need to encourage them to build faster, and that is where site construction comes in.

There is the issue of land agents, as I outlined earlier, doing that kind of work. There is also the issue of a local authority putting in so many preconditions that, once you get planning, there can be quite a big gap before you physically get on site. In some areas, because of the time it has taken from going for planning permission to getting planning permission and being ready to go on site, the economics of the site have changed dramatically. There is a whole range of things going on, and we have to be a bit cautious and not get into thinking that there is a very simple stick or carrot that we can use. We have to analyse them quite carefully, and that work is going on.

Lord Kerr of Kinlochard: I understand. So you are saying you are not against the concept of the stick, but that it has to be very carefully designed so that it does not punish the person who is developing at the economically correct rate and does not act as a disadvantage to seeking planning permission.

Brandon Lewis: Whether it is a stick or a carrot, I am a much bigger fan of carrots.

Lord Kerr of Kinlochard: Lord Layard is too.

Brandon Lewis: Whichever it is, the work for us is making sure that if we are going to come forward with proposals of any type across the housing sector, because of how all the different parts, whether it is planning or housing, intricately link together and how one thing that we do over here has a big impact very much further down the line, we have to make sure that what we do is very focused and laser-like and hits the spot without having unintended consequences. It is right that we take our time to assess that, but I will be very clear: we want to see build-out rates get closer to planning permission rates, and we have work to do on that.

Q257 The Chairman: Gentlemen, that brings this session to an end. Could we have two follow-ups? The first was a question from Lord Forsyth about how the target was made up and an analysis of the various drivers of the target. The second question on which we would welcome some input and a note from the Treasury concerns the £35 billion that sits in the reserves in local authorities. How can that be deployed to help build houses, because it seems to sit there frustratingly unavailable? Is there a way in which some or all of that could be released to fund local authorities, which are very keen and highly motivated to get back into the market, and in the past they have always been a very large part of the market? If you could help us with that, that would be very helpful.

Lord Teverson: Could the Treasury comment on the £24.5 billion-worth of housing benefit that currently gets paid? Is there any way of changing that almost dead money, which is very important socially, into a way to invest more in combination with that money to get better housing?

The Chairman: That takes us back to a comment that Lord Porter made, which is that we are putting the money into subsidy and away from bricks and mortar.

Damian Hinds: In a sense, almost everything that we have talked about goes to that question, because it is a question about the availability of housing and therefore demand versus supply and the effect on price, but of course we will come up with a note.

The Chairman: Thank you very much indeed.