



Communities and Local Government Committee

Oral evidence: Capacity in the home building industry, HC 46

Monday 31 October 2016

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Watch the meeting

Members present: Mr Clive Betts (Chair); Helen Hayes; David Mackintosh; Mr Mark Prisk; Mary Robinson.

Questions 36-90

Witnesses

David Jenkinson, Group Managing Director, Persimmon plc; David Thomas, Group Chief Executive, Barratt Developments plc; and Pete Redfern, Chief Executive, Taylor Wimpey plc.

Chair: Good afternoon, and welcome to this evidence session of our inquiry into the capacity of the homebuilding industry. Thank you all for coming this afternoon. In particular, thank you for coming at relatively short notice; we had to change our order of running around. Thank you for that. I just want to put on the record, to begin with, members' interests pertinent to this inquiry. I am a vice-president of the Local Government Association.

David Mackintosh: I am a Northamptonshire county councillor.

Helen Hayes: I employ a local councillor in my staff team.

Chair: Thank you, we have got that on the record. Also for our record, can you say who you are and the organisation you represent?

David Thomas: David Thomas, the chief executive of Barratt Developments plc.

Pete Redfern: Pete Redfern, the chief executive of Taylor Wimpey.

David Jenkinson: David Jenkinson, group managing director, Persimmon Homes.

Q36 **Chair:** Once again, thank you for coming. To start with, could we just establish, as an organisation, what your model is for operating—in terms of getting the land together, deciding what sort of development you want to go ahead with on the site, getting permission and then building out? How does your model operate?

David Thomas: At Barrett, we always buy land on a subject-to-planning basis. Essentially, we take an interest, so that we have control over the land, but we do not take ownership of the land until the point that planning is granted. As an organisation, we trade as two brands throughout the UK: Barratt and David Wilson. As to our annual volumes, we are running at around 17,500 homes per annum.

We are the largest housebuilder in the UK. In terms of our landbank structure, we tend to hold about three and a half years of land bank. We are very much trying to get our land bank to meet the operational requirements of the business. We are not investing in land on a speculative basis; we are simply investing in land for the land that we need to use to operate the business.

Pete Redfern: It is very hard to summarise a business model in a few short phrases, but I will do my best. We source land both with and without planning, and it is roughly 50/50. About 50% of our land is either conditional on planning or already has a planning permission when we source it, and we are aiming, then, to get that through the planning system as quickly as possible. It tends to be anywhere from three months to 18 months, depending on the exact planning environment.

The other 50% of our land is what we would term “strategic pipeline”. It is land that, when we first look at it, does not have an immediate prospect of a planning permission, but it has a reasonable chance of a planning permission in a timeframe that can vary from nought to ten years. Generally, we do not own that land outright when we first take out an option on it. We work with the landowner to try to bring that through the planning system, to either promote it through a local plan or, in some instances, to bring it through in a quicker timeframe. Then the timeframes can be a lot longer, because on day one we do not have any certainty we will get a planning application approved on that site.

Once we have a planning application, the business model is very similar for the two. We start onsite as soon as we are practically able. There were a couple of exceptions through the downturn on high-rise sites, but apart from that, that is generally the route. We develop the sites in accordance with a combination of market demand and access to resources. We are looking to grow the number of active sites we have at any one point in time. At the moment we have around 300 active selling sites. Our main aim with that land pipeline is to continue to build that,

because we find that the number of active selling sites we have at any one point in time is the biggest constraint.

David Jenkinson: The Persimmon model is very similar to Taylor Wimpey's. We source both short-term and long-term land, as we describe it. It is very similar. It is probably 60% short-term and 40% long-term, where we try to take an interest in the land for the long term and work through the planning system. That is on the land aspect. The other big part of this is in terms of what our view of the market is.

I would describe us as speculative builders. We go out and we build to what we perceive a demand is, rather than actually waiting until someone comes and reserves. When we release a site, we may commit to build 30 houses on a development, even though we have only sold five. We will always look to meet the demand and build what is required to meet that demand, as long as other forces are not in place.

Q37 **Chair:** Is it purely about anticipating the demand before you start, or do you have pre-sales at all? Are they an important part of your model?

David Jenkinson: With pre-sales, it is more anticipating what we believe is going to happen. We tend to put a sign up before we start on the site. You get a feel for what the demand is in that area, how much interest you have had in the development, how many people have been on the website and how many people have looked on that site.

Generally, if we want to start doing a site, we would commit to all the roads and sewers. We would commit to, say, 30 foundations, 15 to 20 to roof, and maybe take 10 through to 100%, which would be completely finishing the houses. The only reason we would not do that is demand. We always look to meet demand and that is the key thing for Persimmon. If the demand is there, we will build houses to meet it.

Pete Redfern: We are broadly similar. We have a part of our business that is building large high blocks, and in those instances we would look for some level of pre-sales to actively test the market. To put it into perspective, that is less than 5% of our business.

On a normal housing site throughout the UK, including within most of Greater London, we would not look to launch the site and sell before we started building; it is only within central London that it would be different. We may have sold before we finished building the first plots, but we would have started building and certainly committed quite a lot of infrastructure and work in progress before we got a sales presence on site.

In fact, we have tended to delay the actual sales office opening, over recent years, because we have found we can give a far better customer service if we are not actively selling to our customers without full construction detail, full specification and a really good view of timeline. Until we have show homes open and have those infrastructure stages up and running, it is often quite hard to predict the exact timeline when the

first homes will be ready. We have started the build process earlier than usual over the last three to four years, and slightly pulled back on the sales process, rather than the other way around.

David Thomas: Similar to Taylor Wimpey, we have around 12% of our sales in London, and the balance of the sales are in the regional markets. It is only in London that we would be operating a model where we had off-plan sales prior to us moving towards build completion. I would see pre-sales as being something slightly different. Pre-sales would probably typically be for a smaller developer, where their bank financing is dependent on them receiving a certain amount of pre-sales before they can commence build.

The bank might say, for example, they need to be 40% or 50% presold before they can go into the ground and start the construction process. We have overall financing facilities rather than on a project-by-project basis. We would tend to look at it more as being off-plan sales, rather than pre-sales.

Q38 **Chair:** Is that the same for the international market? Presumably that just applies in London for faster developments. Is that different? Do you actively go out and try to sell overseas for those sorts of developments, before they are even built?

David Thomas: In London, you really need to differentiate between zone 1 and the edge of zone 2, where I think there would be an active overseas interest in developments. That can be either a developer taking the project overseas and effectively marketing it overseas, or people coming to the UK to buy. That is very much about zone 1 and the edge of zone 2, in our view. Once you move out, the rest of zone 2 out to 6, there are not any significant overseas sales. When you look at it in the context of the overall group, with our 17,500 private and affordable completions, we might be talking about 3% or 4% of sales to the overseas market.

Pete Redfern: That is even more so the case for ourselves. Overseas sales are about 2% of total completions. It would only be in extremely adverse conditions, where market conditions were very, very uncertain, that we would look for pre-sales before we commence a development. It is just not a big enough part of the group.

David Jenkinson: We are not in London. We have not got any.

Chair: That is an easy answer.

Pete Redfern: We are in the right order, then.

Q39 **Mr Prisk:** As we are all aware, the Government have a clear target, aim, aspiration or whatever you want to call it of 1 million homes by 2020. What in your individual view is the main obstacle to the industry fulfilling that?

David Jenkinson: Just to take a step backwards, we have to realise how far the industry has moved in quite a short period of time. I was looking at some stats on this to see how much some of the companies increased

output in the last four years, and I was astonished. My own company, for example, has increased our supply by 55%. Barratt has increased supply by 33%.

Q40 Mr Prisk: Over how many years is this?

David Jenkinson: Four years. Interestingly, you have a medium-sized player like Bellway, which has increased its supply by 67% and has now become quite a major player. There is another company, Redrow, which, as a classic example, has gone from a smaller medium player to a serious medium player. It has increased its supply by 92%. I think the industry has done very, very well at increasing supply.

Then you have to ask yourself, "Well, why aren't we hitting the targets? Are the targets wrong?" It is quite clear. I have done a lot of work on this, and it comes down to one main point, and that is green-belt policy. I do not know if we want to talk about that now, or talk about it when we come on to green belt.

Q41 Chair: There will be a question on green belt.

David Jenkinson: It purely and simply comes down to green belt.

Pete Redfern: Your question was very specifically about the million homes target. I would like to try to answer that question directly, but if you do not mind I would also like to touch on an annual level as well, because they are slightly different. The Government's objectives are, as I understand it, both to hit an annual rate and to hit a million homes.

With the million homes, the issue is purely time, and purely that if you are trying to get to a million homes mathematically over a five-year period, and you start that policy at the beginning of that five-year period, you need a pretty strong growth rate. That was always very challenging and remains very challenging. There are a whole series of issues around demand capacity in that period, where outlets are available, the resources onsite and the availability of planning permissions if you accelerate build on small sites and just burn through them so that you do not have the outlets. There is a whole series of reasons that make that difficult.

To me, the far more important question is: what level can the industry get to and sustain over a longer period? Sustaining a high level of production is far more important to achieve the Government's underlying objectives of more homes available for people to buy and to rent. I do not think there is anything underlying that stops the industry from going to 200,000 homes and beyond, but there is an overall barrier, which makes that less likely rather than more, which is the uncertainty that surrounds an industry like ours, both the inherent cyclical uncertainty of market dynamics, which I am sure we will come back to, and long-term uncertainty on Government policy.

It is both. I would not point the finger at Government policy by any means. It is probably the cyclical issues that are bigger, but those do make long-term sustainable growth difficult for Government to drive and for an industry to be sure of defining. We have seen over, certainly, my

time in this industry, some very dramatic changes in very short order that would blow targets out of the water, regardless of what was done on other issues.

That, to me, is where the focus should be: on the long-term sustainable level of production and what can make a big dramatic difference to those sorts of issues over the long term, rather than the million homes target which, I have to be honest, is too short-term to really deliver much in the way of a sustainable improvement in housing requirements throughout the country.

Q42 Mr Prisk: What about in terms of an actual obstacle?

Pete Redfern: As I say, the obstacle to the million homes is time. We were at a level that was nowhere near the annual rate for that when that policy was identified. Getting to 200,000 homes a year and, at the end of that, getting to a higher number, is perfectly feasible. But getting there in that five-year period is and always was a very significant challenge.

There are 10, 11 or 12 individual obstacles that cause that, because there are lots of bottlenecks at different stages. Some of it is resourcing within the industry. Some of it is resourcing within local authorities, and getting from a planning permission to a start on site. Some of it is sales absorption, where land is available. It is a whole mix of different issues that make growing at greater than a double-digit rate, roughly 10% a year, which mathematically that target would have demanded—next to impossible for any industry, but particularly for a capital-intensive one like ours.

David Thomas: In terms of the official numbers, we expect the CLG numbers for the year to November 2016 to be close to 200,000. The million homes seems to be to the end of 2020. Arithmetically, it looks very possible that we can do five years at 200,000 or 200,000-plus per annum to hit 1 million homes.

There are two additional points to make. The output of the industry and the success of the industry are simply measured by the number of homes, but you need to look at the composition. If you just look at the split between houses and flats, last year we built more houses than we built in 2007, but we built about 50,000 fewer flats. That is a very, very real issue, the reality being that it is easier, in terms of the drain on skills, to build flats than it is to build houses.

There are a whole series of constraints, which I am sure you are covering through this process, but at present the biggest constraint facing the industry is skills. If the industry is going to increase output from, say, 200,000 to 250,000, we need 25% more of everything. While there are opportunities in terms of alternate methods of construction, they are not near-term. Significant output from alternate methods of construction must be three, four or five years away, rather than the next 12 or 24 months.

Q43 Mr Prisk: As to going beyond 200,000, Mr Redfern, is the

industry, as it is currently structured, capable of making that next step? Certainly in some of the written evidence we have seen, there is a lot of emphasis on the fact that the current structure of the sector is creating a natural ceiling on the capacity.

Pete Redfern: I do not think it is as simple as that, because it is about time. It depends how you define the industry structure. Within the current climate of market cyclicity and economics, we have an expectation of how big we think our business will grow. If that environment changes, then that perspective changes. If nothing changes at all, then, yes, I think there is a ceiling.

I do not think it is very easy to work out what the ceiling is. I do not think it is a simple question at all, because individual companies will change. New entrants will come in. They have continued to come in, although perhaps not at the rate that we might like. Businesses will continue to grow and it will shift. I do not think there is this fixed artificial ceiling of "capacity is limited to X".

It is reasonable that we will get to roughly the 200,000 level without major change. It is just that the pace of that is slightly slower than getting to your million homes target. To go much beyond that, you need a slightly different environment.

The biggest issue, from an industry growth point of view, is cyclicity. Often the question has tended to be about why there are not lots of small players in our industry, but what our industry has been through, in terms of the larger players and the smaller players, is not unusual. In fact, it is only unusual in that it has happened far later than it has in many others. If you look at the car industry, and particularly the suppliers to the car industry, smaller players got squeezed out of that market and they consolidated significantly during the 1980s and 1990s. Nobody sees that as unusual.

What people should be asking is: why are there not major new entrants into the housing industry? The returns at the moment are good. There are not massive barriers for entry. Why aren't there new big players? If the opportunity is so good, why is private equity not investing and keeping money in our sector? Why is it not buying up smaller housebuilders and using them as an opportunity for growth?

The reasons come back to: political uncertainty, because it is very much at the centre of political attention and people are not sure that policies will not change; market cyclicity; and capital intensity. If you want to put capital to work in our sector, it takes a long time and the levels of uncertainty are too high. You are not sure you will get a payback before that environment changes. That is the biggest constraint. It affects our strategies, in the short term, but our strategies would change if those things changed. We want to be able to grow our businesses aggressively, but we cannot throw money at things when we have a high degree of uncertainty. It is those uncertainties that stop new capital coming in.

To be honest, the more important question to ask about industry structure is why there are not big new players, rather than why small players cannot grow. Small players find it very difficult, efficiency-wise.

Q44 **Mary Robinson:** I have a question about small players and the role that they have. Clearly, you are in the large-scale building side of the business, but, in terms of those SMEs and others, what role can SME builders play in delivering the numbers and the diversity that we are going to need? How do you then work with and support those SME builders?

David Thomas: If you look at market share over a period of time, it is clear that the medium-sized housebuilders have a similar share to the share that they had 15 or 20 years ago. The large housebuilders' share has increased very substantially, and the small housebuilders' share has reduced very substantially. The definition we would use would be small housebuilders with less than 100 completions per annum; medium housebuilders between 100 and 2,000; and then large above 2,000. Pete has touched on it, but I would emphasise that the position of the small housebuilder is not greatly different to lots of other sectors. The supermarkets would obviously be a good illustration of a sector where the smaller player has been moved out very substantially, and it has been a long-term structural position. It has not been a short-term position. I think the housebuilding sector indicates that. It is over 40 years that the small housebuilders have been in decline.

There has been a whole series of things that have impacted that. Reference has been made to availability of finance, but things like back-garden development and the way the planning laws have changed around greenfield classification have had a very, very significant effect on the small builder. The small builder, typically building one, two or three houses at a time, has been hugely impacted by that kind of change, in terms of planning.

Our focus as a business would typically be more in relation to the medium-sized housebuilder, where, if we have opportunities to jointly purchase land or to sell land to medium-sized housebuilders, then that is something that we would obviously do. The large housebuilders agreed, in conjunction with the HBF, that we would more actively explore the sale of sites to medium-sized housebuilders—not typically to small housebuilders, because I think bringing somebody on to a site who is maybe looking to develop five or 10 houses can logistically be very problematic.

My sense is that the growth in the industry will come more from the medium-sized housebuilders and the large housebuilders than from the small housebuilders, certainly in the short term. You have seen a number of Government-backed initiatives to try to stimulate the small housebuilding sector over the last five or six years, particularly with regards to financing initiatives, and that has not seen any significant

arrest in the decline, in terms of market share, for the small housebuilders.

Q45 Mary Robinson: Before we move on, and I hope this may be something you will take up, to what extent are you working with joint purchasers?

David Thomas: We do make joint purchases, but more, I would say, with medium-sized housebuilders with an output in the range of 100 to 2,000. That will just happen on a case-by-case basis. Sometimes those housebuilders will approach us to jointly purchase sites, or vice versa, depending on the economic interest in the sites.

Pete Redfern: I do not want to duplicate a lot of what David has said. We have a very similar view. I will pick up, though, the point about finance. It has been the view for a long time that the biggest issue for small housebuilders is the availability of finance. I believe that was absolutely true in 2009, 2010 and 2011, but it has not been true for quite a long time. Most small housebuilders, as most small companies, can generally get finance on what I think a reasonable long-term view would say are reasonable terms, in terms of level of gearing and cost of that finance.

The biggest issue for small housebuilders is that housebuilding has become a far more complex business over the course of the last 20 to 25 years. The amount of resources you need to hold for businesses like ours has grown significantly. Each of our regional teams needs far more skills in-house, or far more access to skills, to be able to manage the complex regulations around the industry.

I would not necessarily argue that it is wrong, in a material way, that it has become more complex. There are serious issues around environmental performance, around safety and around other things. A lot of those regulations are necessary. It is a natural trend in many industries. Again, with that car industry comparison, a similar trend makes it very, very difficult for small businesses to compete. Housing is not the cottage industry that it was 30 or 40 years ago.

Actually, I am very much with David. We should want a diverse industry. You should certainly want a diverse industry. But the growth engine in that industry is most likely to be medium-sized housebuilders growing more quickly, rather than necessarily the very smallest housebuilders adding significantly to their overall production levels. The battle they face is quite difficult to surmount. It is not just a short-term financial one. It is a long-term structural one.

David Jenkinson: I would agree with both David and Peter. The only thing I would add is that they still have the same problem we have in getting skills. It is probably even more exasperating for them, because there is a clear skills shortage at the moment out there for all trades. If you are a small builder, it becomes even more difficult when you cannot get any continuity of work. You cannot get any continuity of conditions of

service. They cannot see where their next job is. If someone has a choice between that and working with a guaranteed set of employment conditions, having his work guaranteed for five or six years ahead, it makes it very, very difficult to attract any labour to go and work for them.

Q46 Mary Robinson: Thinking about ways to boost output, which is obviously what we will want to talk about, would a system of fixed-price contractors who undertake constructions at a much lower profit margin and direct commissioning, which has been discussed, significantly help to boost the output?

David Jenkinson: For the SMEs or for large housebuilders?

Mary Robinson: Generally, working together to increase output.

David Jenkinson: We are effectively builders ourselves. That is what we do. We employ all our trades directly in our office. We have our own architects and our own engineers. We have those skills in-house. As Peter said before, that has become much more difficult. You cannot run a large business without having that in-house expertise. There is not much these construction firms, if you want to call them that, can offer us as an industry that we do not do ourselves. In fact, many of us like to think we do it better.

Q47 Mary Robinson: Which changes along those lines could be useful for the medium-sized businesses, then?

Pete Redfern: Just on the previous question, can I make sure I understood the question? I think you are asking about if Government were to commission housing purely on a construction basis, on Government land.

Q48 Mary Robinson: To the HCA, or something.

Pete Redfern: If Government were able and prepared to put the funding into that housing and to directly commission, particularly if it were then affordable housing, some of that could clearly be incremental. It must not be underestimated how much complexity there is in putting that together. Local authorities are a long way from having the skills at the moment. Those skills have long since gone. The housing associations are a better vehicle. They have some of the skills, but they do not have all of them. Could it be partially incremental? Yes.

The other question is: what land is it built on? Is it built on Government land? It is incredibly challenging for Government to bring forward increased levels of land. A lot of work has gone into it over the course of not just the last five or 10 years but the 10 years before that as well. We have seen step-ups in the availability of Government land, but I do not believe there is this huge pot of untapped Government land that has not been thought about.

To a degree, there would be cannibalisation of existing production that would have happened anyway. If it is on non-Government land, then that

cannibalisation risk is even greater. There are risks to it, and there are complexities to it. But some element of it can be additional, I think.

David Jenkinson: These construction firms still have to go and find the labour from somewhere. They are not sitting with a big pot of labour, doing nothing at the moment. The second-biggest area, in my opinion, after the green belt, is the skills shortage. We need to be training more people if we are going to increase output.

David Thomas: Through Barratt, I think we build more houses on Government land than any other housebuilder. Of our 17,500 completions, around 20% to 25% are coming off Government land in all its forms, including HCA, local authorities and so on. The reality is that a big part of our role, in terms of running housebuilders, is about risk management. If the Government provide a risk proposition that is substantially lower risk, then the contractors or developers will build houses at lower margins. If you have no sales risk, then you are clearly going to build at a lower margin. If the HCA is commissioning on a direct-commissioning basis, and the HCA is taking the sales risk, then clearly people will do it on a much lower-margin basis. It is all about the risk proposition.

Currently, we are effectively speculative builders. We are taking all the build risk: the problems that we find in the ground. We are taking all the sales risk: can we or can't we sell the houses? We have demonstrated over the years that, if our returns were unusually high, as Pete touched on, you would see new entrants. That would be true of any market, if your returns were unusually high.

We would encourage the HCA or the Government to look at alternative methods that reduce risk, whether it be reducing risk for us or reducing risk for other contractors. That will help. There is no question that reduction of the risk profile will increase people's appetite to build. The best illustration of that on the sales side would be the help to buy programme. The help to buy programme clearly reduces the risk, in terms of the possibility of not selling properties in the marketplace. Therefore, that is advantageous, in terms of increasing volume.

Q49 **Mary Robinson:** Looking at the local authorities and housing associations, and considering the risk, you may think that going down a different route would be helpful. Are there challenges when you want to work with local authorities? What are the challenges?

David Thomas: The main challenge we see with local authorities would simply be around planning. At present, as a business, we are not joint venturing directly with local authorities; we are joint venturing with affordable housing providers. For example, we have significant joint venture arrangements with London and Quadrant and with Places for People.

Mary Robinson: Housing associations?

David Thomas: Correct. At this point, we do not have them directly with local authorities. We have had a number of discussions with local authorities about potential joint venture arrangements. I appreciate the Committee knows this, but the reality is that the provision of housing has changed fundamentally.

If you go back to the 1960s and 1970s, the local authorities were building very significant volumes of housing. Just to give you a couple of examples, in 1960, the local authorities built 100,000 homes. The total numbers were 260,000 into the market, with 100,000 from the local authorities. In 1975, there were 116,000 homes from the local authorities, with total numbers at 260,000.

Clearly, Government policy has moved away from local authorities building properties. Back in 1975, private developers, companies such as ours, built 131,000 homes. Last year, we built 110,000. We will definitely build more than 131,000 this year. The reality is that the non-building by local authorities has been a huge change, in terms of the landscape for housing numbers.

Q50 **Mary Robinson:** Looking at housing associations, are you in any way in competition with them?

David Thomas: I suppose ultimately you could argue that there is some form of competition, but we have found our partnerships with affordable housing providers have worked well. On occasion, they have the land asset but they do not necessarily have the development capability. That is the situation that we have found on occasion, with London and Quadrant or with Places for People, where it has been advantageous for us to deal with the development of a joint land asset. It depends on the circumstances.

Pete Redfern: I would very much agree with that on RSLs, but I would also add, on local authorities, that it has only been in very recent years—the last two years, possibly—that those conversations about joint ventures with local authorities have started to come back to the fore. We have built in partnership with local authorities in the past. It became something that they were very, very risk-averse about doing for a long time, which they are now looking at again and have obviously been encouraged to seriously think about, such that we have two or three conversations at the moment.

What are the problems? It is hard to predict, because we are at the beginning of that. They are just relearning those skills, so that will take time. It will take time for us, because joint ventures are complex, but I think that will take time for them. They are not insurmountable problems. But, again, the Committee has to be realistic about the pace of that degree of change, the resources and the skills that local authorities need to manage that, whether through joint venture or particularly if they do it directly themselves.

It goes back to David's point about resourcing. You have to be slightly careful you are not just stealing resource totally from somewhere else. If it is a long-term strategy that gives a different kind of investment in housing skills, and means that through future downturns there is a degree of protection of that skill base within local authorities and within that part of the industry, then it can long-term contribute to housing numbers. If it is a short-term question, "How do we get to a million homes in a set target?", it is very dangerous and has far more cost and risk than it has upside. It has to be a long-term strategy; otherwise it will cause more problem than solution.

David Thomas: We talked to the Housing Minister about this. One of the challenges is that, if you just set out with an objective of volume, which perhaps to some extent the UK did in the 1960s, you will end up with a very dubious quality of product, which to some extent we did in the 1960s.

The local authorities demonstrated they could build a very large quantity of housing in the 1960s, but with hindsight the quality of a lot of that housing was very doubtful. You have to be careful; it cannot just be framed as: "We need to build more houses". There need to be some parameters around that.

Q51 David Mackintosh: What are the most significant financial risks for developers?

Pete Redfern: Let me have the first go at that. It is very personal for me. It goes back to cyclicity and it goes back to house prices, and specifically to cash flow. There are not many industries where economic conditions outside of your control, and often outside of anybody's ability to predict, can change the climate for an industry as quickly as in housing. Because we are a large capital investment, and because most of our businesses are dependent on individual, private, discretionary investments, where people can decide, "Now is not the right time", the speed with which that can change is very dramatic.

The 2008 downturn in the UK was, in housing market cycle terms, not a particularly traumatic change. To put that into perspective, house prices fell 20%, and volumes fell by somewhere around 40% to 45%. As a business, we lost somewhere well above 50% and close to 65% of our revenue in very quick order. Trying to keep a business afloat in that, when you have a very high capital investment in land, which is essential for us to be able to run our business, is incredibly difficult.

I say it is not significant because, if you look at the US, where we had a business at the time, we lost 80% of our revenue within the space of about a year. That gives you a bit of a sense as to why we are very focused on not overtrading into uncertain market conditions and not always assuming that a goal of 200,000 houses can be met by market demand in the short term. That, far and away, is the biggest single financial risk that we face.

We then, and David touched on it, take an awful lot of other risks on the way through. We take the planning risk, where we can have a lot of capital tied up in a site for a very long period of time, which, again, often feels very much beyond our control. We take the build risk, both on the actual build solution we are able to deliver through the planning process and the cost of building, which can also change dramatically between the point on which we source a piece of land and the point on which we are able to deliver a product.

We then take the risk around the pricing within the overall market. We are taking a view on what we think the pricing will be on a particular product at a particular point in time. Even if the market is stable, that is still a risk that is far more significant than most businesses face, in terms of its volatility. We are a business that is very much about managing risk and we are very capital intensive.

While we can turn off the taps on land supply quite quickly when things change dramatically, there are an awful lot of other cash flows that we cannot turn the taps off on, which is why housebuilder share prices tend to be the most volatile in the stock market and why, on 24 June, it was our three companies that declined by more than anybody else, because the market understands that we face bigger financial risks that are down to economic situations beyond our control.

David Jenkinson: Persimmon is probably a little more positive about that, to be honest. We understand that we are in a speculative business and there are risks associated with that. That is what the margins are there for and that is what we do. "If it was easy, everyone would do it", is the saying.

The things that worry me, for my business, when I look it, are things that are out of our control. When things are in your own control, you can do something about it. You can mitigate your risk; you can manage your own business. The last recession was pretty bad because we do not believe that was in our control. It was not about a housing problem; it was more about a financial problem. Things like that, which are out of your control, worry us a lot. We consider that to be a major risk.

Apart from that, I think the thing that would make the biggest difference to the business is if help to buy was to change. If help to buy was to suddenly disappear, that could have a big impact for the business. It has made houses very affordable for people to buy. It has encouraged us to invest and grow our business beyond what we normally would have done. It has been a hugely successful policy at increasing output. Without that policy coming along, you would not have seen the level of growth we have seen already. That would be my major concern, if something was to happen to help to buy.

David Thomas: I would echo those points. They mainly feature in terms of mortgage availability. If I am asked by shareholders or investors what my biggest concern is, my biggest concern is always about the things that are outside of our control. Mortgage availability is

unquestionably our biggest concern. Mortgage availability, or the absence of mortgage availability, has tended to be a precursor to a downturn in the market. In 2008 and 1990, withdrawal of high loan-to-values had a very, very significant impact on the market.

When you look at the overall management of risk, we are buying land. Clearly, every site will vary, but typically our investment horizon is over a four or five-year period. We are having to make assumptions about where mortgage availability will be in four or five years' time, and therefore, implicitly, where house prices will be in four or five years' time. We have lots of other risks, which Pete has outlined, but really the mortgage availability is our big, big concern. It has been the big challenge for the industry. If you go back to the 1960s, the availability of high loan-to-value was fundamentally different. There just was not the availability of high loan-to-values that there are now. But the reality is that we are in a high loan-to-value environment.

Back in the 1960s, there was limited high loan-to-value availability and significant housing output, which was accompanied by relatively little house price inflation. It is not surprising that, if you are in a high loan-to-value environment and you do not have significant housing output, you will create house price inflation. Hence, in the vast majority of the last 30 or 40 years, we have seen relatively high house price inflation in real terms.

Q52 David Mackintosh: Can you help me to understand why there is such a difference between planning permissions, building starts and completions?

David Thomas: To me, the way to think about it is just simply that when a planning permission is granted, it is granted over a number of units. For us, typically our average site size will be around 200 plots. When we obtain planning permission for 200 plots, assuming we are just starting from that site, clearly the register says "200 plots have been granted planning", and inevitably it will take us time to build those 200 plots. We cannot build them all on the same day.

What you are seeing, in terms of the housing planning consents against volume, is that planning consents are rising ahead of volume, which is not unexpected. You have to grant the planning before you can build the houses. You see annual output numbers with planning consents at maybe 250,000, and annual output at 150,000 or 160,000. But if you keep granting at 250,000 or 260,000, you will eventually get annual output running at 250,000 or 260,000. The things will equalise.

Bear in mind that housing completions four or five years ago were back down at a level of 90,000 completions for the industry. Inevitably, there is a process of rebuilding, in terms of planning consents, and rebuilding, in terms of completions.

Pete Redfern: Can I just add a couple of specifics? Generally, I very much agree with the time impact. The data that most people look at for

planning permissions is generally woefully inaccurate. It often double-counts some reserved matters and some outline permissions. It depends on whether we are looking at permissions that are extant without being developed, or whether we are looking at new permissions, but there is not very good reliable data on either of them for either the whole of England or the whole of the UK. It is quite hard to work out whether you are comparing apples and applies.

Secondly, there are generally two stages to the larger planning applications, which means that you have quite a long delay, for the bigger sites, between outline permission and then a reserved matter. Then you have the time delay that David outlined, from building starts to completions.

Broadly, I would agree that over time the number of completions should trend towards the number of planning applications. If you look back historically, I would have always said, at any point until perhaps the last two years, that the biggest constraint on the scale of our industry was planning. I have been in the industry now for about 16 years. In the last two years, that has changed, and it is down to the changes that have been made by the Government.

You have to accept that there is time for that process to work its way through from granting of a permission, to granting of a deliverable planning consent, to actual build, to actual sales and completions. That does not happen overnight, but the two should trend together. But planning has always been the biggest single constraint that we have had. I do not think that is the case any more.

David Jenkinson: To get to the answer, you have to understand how a planning system actually works. If an authority is going to allocate, say, 1,000 houses, it has to objectively assess need of housing numbers in that location. You have a have range and choice of sites. You do not just say, "I am going to build 1,000 houses. I am going to have one site." They do a trajectory, where they will have, maybe, 10 sites, for example, and each site produces 100 per annum over the five-year period that they have to have a land supply for. It is inevitable, if I have 10 sites with 500 each to meet the target of 100 per output, that the planning permission is going to be bigger than the output. It has to be.

It is so easy to describe. If you want, I could supply evidence to show on paper how it actually works, Clive, because I can see you are not so sure. It is very, very clear that, when you go to a local plan inquiry or a planning appeal, you do not just allocate one site.

Q53 **Chair:** I understand that. In the second year, then, there are no planning applications granted for that site, but you are still building houses.

David Jenkinson: Yes, that is exactly right. You have to remember that you can only get a planning permission through the local plan, unless it is a windfall site. What happens is that the local plan comes along and gets

adopted. It then identifies the sites. They will have a trajectory of which those sites are. The builders all put their planning applications in for those sites. They then start on those sites.

If site A, which was, say, a Persimmon, was for 500 units, the local plan trajectory might assume there was going to be 100 per annum, and would have a planning permission for 500 units, but the trajectory would show 100 per year for that site. The planning permission would always be bigger than the yearly output, because you are never just building what the planning permission is for in one year.

Q54 Helen Hayes: I just wanted to press on that point. Surely what is happening there is that the local authority is making an assumption, based on how the development industry behaves, about the rate at which those homes are likely to be delivered, but its objectively assessed need is sitting there being met at a slower rate, as a consequence of how the development industry behaves.

David Jenkinson: We will discuss why there is a slower need later on, I suppose, but that is quite right. What happens is you sit in a room like this. You discuss what the historic output has been for those locations. You have to remember this goes to an independent inspector, whose key objective is to make sure he meets housing need through that inquiry. There are lots of examples of our not meeting housing need where the inspector just has not accepted the plan and has made them go back and allocate more sites.

Q55 Helen Hayes: But the inspector does not have a role in the delivery and building out of planning consents. There are two separate processes at work. One is the allocation of sites within the local plan process. The second is how the development industry behaves with regard to the building out of planning permissions that are then granted under the local plan.

David Jenkinson: That is correct, yes. If the local planning authority had identified its 10 sites and we had not started our site for three years, so there was no output coming from that site, what would happen then is that another housebuilder would putting a planning application in and say, "You are not meeting the need. You have not got a five-year land supply." Therefore, they would put a planning application in and take it to appeal to get a site.

The only exception to that, which is the core problem we have, is in the green belt. Normally, with a five-year land supply, there is a presumption in favour of development if you do not have a five-year land supply. In the green belt, there is not. You need "exceptional circumstances", and you can only take land out of the green belt through a local plan process. If the building industry does not perform where it is a non-green-belt area, the planning process will bring sites forward, or other builders will bring forward sites to produce their numbers. I can give you evidence to say that. I am sure we will talk about that later.

But you can clearly see that in those areas, where the planning permissions are not constrained by green belt, we are overproducing. In the areas where they are constrained by green belt, we are nowhere near the supply. What is worrying is that local authorities are not planning to build on the green belt either.

Q56 David Mackintosh: Would you be prepared to pay higher planning fees, in exchange for a quicker and more certain planning process?

Pete Redfern: For me, the answer is definitely yes, but we have very little confidence that local authorities are physically able to provide the planning process that would be enhanced. That is not necessarily from lack of will. They have the same struggle for scarce resources that we do. Planning skills are just as scarce as bricklayers. They have even more funding constraints.

If we genuinely felt that, yes, we could pay for this service, that will ring-fence the resource and that will mean that we get a faster-paced planning decision, then for us as a business, yes, we would see that as a positive. We just question whether it is able to be executed, because of resource levels within local authorities.

David Thomas: We would echo that. We would be happy for Taylor Wimpey to pay higher fees. We would be happy to pay higher fees, but I think the key point is that there has to be some deliverable, otherwise we would just pay higher fees and end up in the same situation.

David Jenkinson: I am very similar. In my own personal experience, where we have paid a local planning authority to employ a planner at Newcastle Great Park, it has not really worked. We had exactly the same service. We paid the extra money, and we did not get any extra value out of that service at all.

Q57 Chair: We talked about how eventually the building rate will catch up with the planning applications. For the 12 months up to June 2016, there were 378,200 planning applications, according to the figures. The building rate is not going to catch up with that, is it?

David Thomas: First of all, is it an outline consent or is it a detailed consent? I think the 378,200 is an aggregated number of outline and detailed. If you are trying to match completions, you can only match completions against the detailed consent; otherwise it is just apples and pears. The outline consent might be granted now, and the detailed consent may not be granted for five years.

If you are looking at detailed compared to completions, once you get down to a local authority level, it is quite easy to match it. The problem is you are looking at aggregated numbers with outline and detailed. If you took any local authority as an example and you looked at their detailed consents, that would be at a site level, and you would be able to match completions against detailed and see it at a very granular level. But you have to separate the outline consents from the detailed consents.

Pete Redfern: Can I just check what question we are being asked? I heard 378,200 planning applications.

Q58 **Chair:** That is the figure I have here. That was the number of planning applications granted. There were 378,200, in the 12 months leading up to June 2016.

Pete Redfern: David is right that that sounds like a number that includes both outline and detailed, which will duplicate, so you will only ever get one building start and one completion for the outline and the detailed combined. I have never heard a number of anything like 378,200 in an annual period as being a clean number.

Chair: We will double-check that and let you have a note.

Pete Redfern: But it is a dramatically different number. It is not just off by 10,000.

David Jenkinson: It would not surprise me if that number was correct, if you think about the last two years' output and if you think that some of them would be large strategic sites—

Pete Redfern: Not in one 12-month period.

Chair: These are the Government Department's figures.

David Jenkinson: Let's see.

Chair: We always believe those, of course.

Pete Redfern: But my question is: Government Department figures for what? If it is total planning applications, but that includes reserved matters and outline, then it duplicates significantly, and you will never get one completion. They are not different planning permissions.

Q59 **Chair:** I would be surprised if it is double-counting, but we will go and double-check that for you.

Pete Redfern: It is very hard to answer the question without knowing precisely what the number is. Clearly the number has run well ahead of build levels, but only in very recent years. Again, you have the timing of recovery from the downturn and there is a catch-up.

Q60 **Mary Robinson:** To press for some clarity on that, is it the case that you are saying, at a local level, when people are looking at these figures for planning permissions, there may be double counting between what are extant planning permissions?

Pete Redfern: Yes, certainly. I think it was the number that David was referring to of 478,000—a number that has been used for extant planning applications, which is obviously very different to planning applications granted in a particular period. That number definitely includes some double counting. In the same way as was the case recently with the numbers of building starts, the numbers released on a quarterly basis seem to be quite materially different from the numbers that are released

on an annual basis. There are some quite significant flaws in some of the data.

Chair: We can follow that up after the meeting.

David Thomas: We can definitely provide more information from our perspective. But I think the key point is that every site will see an outline and a detailed, albeit in different periods. They will see an outline and a detailed, potentially in the same 12-month period or potentially in different 12-month periods.

Chair: We will look into that point. We will write to you and make sure we get this point sorted out.

Pete Redfern: If it is helpful, from a company-specific point of view, while obviously it is our data, I can give you a sense of how similar numbers would look. We are building about 14,000 homes a year. Over the course of the last three to four years, we have been getting somewhere between 10% and 20% more planning permissions granted than build. Build is accelerating by high single digits. We have about a 10% bow wave, which we are catching up with over time.

Because our land investment is now relatively neutral, we are catching that up, so the number is going back the other way. The number of completions we are getting over the course of the next two or three years will tend to exceed the number of planning applications. There is roughly a three to four-year catch-up process, as you go from planning application to completion.

Q61 **Helen Hayes:** I would like to turn to the question of build-out rates, and in particular the build-out rates for large sites that have planning consents. Essentially, is what is going on that, where developers have planning permission for larger sites, you restrict the building rate in order to maximise the profit, in order to constrain supply so that you are not flooding the market with homes that you can only then sell at a lower value?

David Jenkinson: Absolutely not. We will meet the demand of what is there at that time. There is absolutely no way at all that we are doing that. If there is the demand for houses on our sites, we will sell them. Of every big site we have with detailed planning permission, there are only two sites on which we have not started. One is in Ipswich, where we still need to improve the planning consent. The other one is in Manchester, where the ground conditions prohibit development. For every site we have with a detailed planning permission, we are on build.

Q62 **Helen Hayes:** Think of the largest site for which you have planning consent. What would be the maximum number of homes that you would release on to the market at any given point?

David Jenkinson: We would normally dual-brand that site. We would have the whole range of houses on that site, from a two-bed apartment,

to four or five different three-bed houses, to numerous four-bed houses and five-bed houses. We may have 40 houses on sale at any one time, and we aim to maximise output. We have looked at this in a lot of detail, and looked at all our individual sites and on our large sites. The output on them has increased dramatically in the last three years.

Pete Redfern: My real answer to the overall question is the same: no, absolutely not. Let me give you as an example our single largest site, which is 3,300 homes in total, in terms of planning application, in Didcot. It is a site, which is unusual, that Taylor Wimpey own the bulk of, about 90%. Normally, with a site that large, there are often, at the beginning, two or three developers involved.

David's business originally owned the other 10%. We started developing there in about 2009 or 2010, so literally coming out of the downturn. We have sold a piece to David's business. We have sold a piece to a smaller developer. We have sold a piece to Bellway. At any point in time, there have always been at least three developers on the site.

We ourselves have two different access points. We run two different build and sales operations on the same site. In total across the industry, its output has varied from 150 units in the first couple of years, as we were coming out of the recession, up to a maximum of about 280. We never quite made 300. Now, you could argue that you could build 1,000 homes there. If we build 1,000 homes there, we would never source the £200 million of infrastructure that has gone into that site to provide three schools, major new access to the A34 and all the groundworks that a site of that scale and nature needs.

Of course, we are balancing what the market will absorb with price. We are not trying to withhold supply to drive prices up. We are trying to make sure that our investment proportion does not get massively watered down. Our local residents would be deeply unhappy if we suddenly released 1,000 houses on to the market, if we had the capacity to build them. We are certainly not constraining it.

We are supplying upwards of 250 houses a year and we are pulling all the levers of selling to competitors, using smaller developers. In some larger sites, not that particular site, we have sold properties to the MoD for officer accommodation. We are using the private-rented sector as another route to market. We are trying to maximise, but have a bit of a balance.

David Jenkinson: I do not think the planning system would allow it. If we had that inward trajectory to build 200 units a year and we were only building 20 a year, as an example, other sites would come forward. The local planning authority would have to get a five-year land supply. It would have to bring other sites forward. If we were not producing that trajectory here and if the output was too low, they would have to go to other sites.

Q63 **Helen Hayes:** Even on that site where you are maximising supply in a number of different ways and maximising your build-out rate,

that will take 10 years before you have built all of those 3,500 homes.

Pete Redfern: Yes, and we will have built a new town. If you want communities that have new schools, infrastructure and identity—and we have a number of different village centres that take time to develop—and you do not want to it to be populated by 90% renters who are not there during the weekends and for whom it is simply dormitory, it takes time. We are building a new place and you cannot have both at a much greater scale.

If we are in London and we have the infrastructure, then the absorption rates can be higher than that. Even then you have to be careful; there are places in London where the place does not develop even as the homes get sold. There is a large amount of sensitivity around high proportions of investors, particularly overseas investors, on schemes.

That is where you get to when you are trying to drive maximum build without any sense of reality about what the local community will reasonably absorb. The place we are talking about has a major mainline route into London. It is a very practical, sustainable place to live and that can absorb that sort of level. If you go further out of the south-east, then the numbers are not 250,000 to 280,000; they may be 150,000 to 170,000 for a similar nature of site. Even then, we have to spread our market presence across a number of competitors. We have to use different levers to get to that level of absorption.

Q64 **Helen Hayes:** You describe the process of breaking down the site into a series of smaller areas and engaging different providers in delivering some of those homes. Is that something that there is scope to do more of across the country, in order to accelerate the level of delivery?

Pete Redfern: I think so. The Government and the industry have had a dialogue over the course of the last 12 to 18 months about this. It has caused us to go back and look again, and there are some sites where we think we could take a slightly different approach. Some of the things I have just described we are not doing everywhere. That is not an unusual example I just gave. It is not unrepresentative, but because it is the largest site we have it has most of the things that we would do to try to increase production.

There is more that we can do. It is not that there is this fixed cap and it can never be more than 150 units on a site. We can push it up. However, to believe that you can suddenly make it 500 on a site like that without having some serious consequences, both for the kind of development risk we talked about before and also for the communities that you are trying to build, would be wrong. It can make a difference, but it is not that suddenly it should double.

Q65 **Helen Hayes:** If parts of those large sites are being built out by housing associations or even by councils, and the absorption of

those homes is not from people seeking private finance from the wider market but from people sitting on waiting lists, waiting for a home, presumably that also accelerates the rate of delivery.

Pete Redfern: That is part of it, on that particular site and on the majority of sites. Yes, that does contribute to it and it is part of it. You would see the market risk of that being not an additional market risk. That can be incremental.

David Thomas: I will just add a couple of points. First, for the housebuilder, we are very much a price-taker. We are not a price-setter. If you say for the sake of argument that our private output as an industry is 150,000 or 160,000 per annum, that is sitting against 26 million homes or sitting against the second-hand market, which is trading at probably seven or eight times the transaction volumes per annum that we are trading at. The vast majority of properties that we sell, particularly in the regional market, are subject to mortgage valuations. The mortgage valuers are using the second-hand market as a price point. We have no incentive to constrain supply on the basis that, if we constrain supply, house prices will go up. That patently is not correct.

Q66 **Helen Hayes:** Presumably, there is a level of price at which you will not take it and there is a relationship between supply hitting the market and the local price that will be generated by that level of supply. To that extent, there is a constraint, isn't there?

David Thomas: I am not quite sure I understand the question. If we reduced our prices very substantially, we would have more demand, but the second point is that we have to build the houses. Therefore, I think our incentive as such is for more output. As a company, our incentive is for more output, not less output. Our constraints will tend to be about local demand and the availability of skills.

If somebody said, "On this site, rather than taking 40 completions next year, you can take 100 completions", we would always sign up for 100. We would have no reason to take 40, but the issue is that we need a whole lot more people to build and we need the demand.

Q67 **Chair:** You would have to sell it at the same price. You are not going to drop your price.

David Thomas: No, we are clearly not incentivised to sell at below market price. That is not the basis on which we bought the land. If we bought the land on the basis of a below-market-price sale, that would be a different thing.

Q68 **Helen Hayes:** The market price is itself a function of other factors, but in part the interaction between demand and supply.

Pete Redfern: It is. You are absolutely right. To me, it is not a sensitive point. Clearly, we are not looking to drive down the market price, having bought a piece of land, but we are price-takers, not price-setters. We are not looking to control the price and we never have

been, either locally or nationally. There is no attempt from the industry to restrict supply, but we are absorbing what demand we can find in the local areas where we have sites, at more or less the market price. That is because that is the financial case on which we have bought the land in the first place.

As I say, that financial case often includes, particularly on these large sites, a very significant infrastructure and affordable housing contribution. If we start off with an assessment of market price, the costs that we have to bear, the risks that we have to take and then say, "Right, we are going to cut our prices by 10% below the market price", we would not buy any large sites. We would only buy small ones, and we would not get the infrastructure funding that we get from new housing because it would make it almost impossible to make those schemes work. They are the ones that have the most risk in terms of future build costs, future market, future sales price inflation, and the longest lead time from when we commit our capital to when we start to be able to get income back.

Q69 Helen Hayes: Do you see evidence across the sector that either housing developers or investors are land banking, essentially, i.e. acquiring sites and holding on to them, either not progressing planning applications or not seeking planning permission and then failing to build out?

David Jenkinson: That would be commercial suicide. If I went to my board and said, "I have a cunning strategy. I am going to buy a lot of land and not develop it for three years", I would lose my job. It is that stark, the reality of doing that versus not doing that.

The only examples where I see planning permissions being secured when people have no intention of building is for valuation purposes. You may get an industrial business that is operating and will put a planning application in to secure planning permission, because the asset value for housing is worth more than the factory. I do not see any examples of major builders—medium, small or anybody—buying a bit of land and just holding it, because the finances simply would not work.

Pete Redfern: That is generally the case. There have been exceptions historically in London, thinking about the mechanics of land in London and its tendency over the last 15 years to accelerate in price more strongly. Price growth in the wider market on land has been pretty muted over the last seven or eight years. As David said, what has generally been the case is even more so for everybody outside London.

In London, land prices have moved more quickly, but also the complexity and cost of building in London is a lot greater. You are more geared to that land price movement if you buy a piece of land. You have seen, over the last 15 or 20 years, times when you have had significant land speculation in London specifically, but it is very limited elsewhere. There is possibly the odd original landowner who, as David said, wants the certainty of a planning application but is not really that interested in

getting the cash out now. They have what we would view as a very uneconomic view of cash flow—family trusts, for example. They have a totally different perspective. It is not the norm.

David Thomas: For the housebuilders, we are essentially a vertically integrated business. We get planning, we build and we sell. Our minimum cost of capital is going to be 10% or 12%. We have absolutely no incentive to sit on owned land that we are not developing. You would have to be assuming that you were seeing significant house price inflation to be doing that. It is clearly not a good business model to sit and assume significant house price inflation.

David Jenkinson: We would want to turn that money over and invest to buy some more land.

David Thomas: Exactly. Where people have held land historically we have touched on. People who do not have the development capability or are not vertically integrated and have to sell the land on to somebody else are more likely to be storing land, because they do not have the development capability themselves.

Q70 **Helen Hayes:** In London in recent years, banking on house price inflation has been a pretty safe thing to do, hasn't it?

David Thomas: Until very recently, that may be true, but I would not imagine that anyone who is sitting on undeveloped land now thinks that that is a good strategy.

Q71 **Helen Hayes:** In circumstances where somebody is behaving that way, what can be done to point them to action and to start delivering homes for which they have permission?

David Thomas: Historically there have been inquiries into this and people have looked at options. Something like a tax on it will simply mean that people will hold it further back down the chain. They will not bring it forward for planning; they will just sit on freehold land with no planning status, knowing that they can obtain planning at some point later. It is very problematic. It is much better to put a backdrop in place where people want to build houses and the market will sort itself out.

David Jenkinson: The planning system, if that site was not coming forward, would bring another site forward to replace it. If I knew of a landowner in a district who had secured a certain amount of a plot that had not been built in those five years and I knew he had no intention of bringing it forward, I would be putting in a planning application to try to capture that and build it myself.

Q72 **Helen Hayes:** That slightly assumes an unlimited supply of land that councils can just swap.

David Jenkinson: That is how it works. They can do exactly that. That is what paragraph 49 of NPPF says. If they do not have a five-year plan supply, that is a presumption in favour of the development. That is what has worked extremely well across the industry, where there is no green

belt. It has worked remarkably well. That is why we have been able to increase the output so much in those areas outside of the green belt, with that one policy, because the local authorities have to determine it. If they do not, then they are going to get a planning application submitted and appeals are being won across the country, where they do not have five-year land supplies, as long as it is a reasonable site.

Pete Redfern: The specific question you asked was: if someone has a planning application that is implementable and they are consciously not implementing it, what can we do? There are a couple of fairly simple things that have very few unintended consequences.

At the moment, there is a time limit on a planning application. Clearly that helps, but the hurdle that has to be passed to preserve that is actually quite low. The amount of work that has to be done in order to preserve a planning application past its time limit is quite low. The time limit is necessary because, on these large sites, moving from the final stage of a planning application to physically committing all the work does sometimes take time. There are often areas such as negotiations with the road authorities, which are not included in the planning application.

Then having to commit more serious capital to developing the site and starting the process rather than putting a spade in the ground stops somebody who simply wants to buy the site and hold on to it, because they have to commit some additional funds. It is relatively simple and has a relatively small set of unintended consequences, unlike some of the other tax-type options which, as David said, have unintended consequences about taking landowners out of the land market and certain ones wanting to sell that land.

Q73 **Helen Hayes:** Do you provide local authorities, where you are developing, with a schedule showing your intended build-out rate? Are you happy to be held to account for that?

Pete Redfern: We have not always done so historically. It depends on the local authority. We do at the beginning, but things change both ways, if you see what I mean. Often we do not start on site when the planning application intended to and the like, but what I am talking about as being more important now is having an ongoing dialogue about what that current expectation is. That is more important as time goes on.

Local authorities need to know what the plan is for a site that got planning permission five or six years ago, if you see what I mean; it is that initial view. As long as we are held to account, taking into account major changes in market conditions, then yes.

You go back to risk. Something which ties developers to building out regardless of the market increases our exposure to big changes. If we cannot sell because the market has changed dramatically but we are being forced to build, it makes these big sites materially more risky. That is a problem, because it pushes up our costs quite significantly. With that one proviso, my answer is yes.

Q74 **Chair:** Thinking back to the Conservative Party Conference and bearing in mind that you might have some family viewing for this programme, what were your thoughts when the Secretary of State announced, "The big developers must release their stranglehold on supply. It's time to stop sitting on land banks." Can we have your commentary, Peter?

Pete Redfern: Again, I have been in the industry for a while and I have seen a number of genuinely independent reviews of exactly that question. We are very relaxed about being open book as to where our land sits. We do not get a planning application that we could implement and not implement it. Areas where we have a legally implementable planning consent but we are not physically able to start on site—and we have probably about 500 or 600 sites—are fewer than the fingers on one hand. They are all down to, as David touched on, either extreme ground conditions that we had not identified when we bought it or very extreme market conditions.

Q75 **Chair:** The Secretary of State presumably considered those words very carefully. It had presumably gone through No. 10 and been cleared, but he still used the phrase and still went on the attack.

Pete Redfern: It is not my place, and probably not any of our places, to judge why he used those words. We have heard similar words before, but we are always happy, as I say, to open our books about how we move from getting a planning application to starting on site. We do not sit on land and not develop it.

David Jenkinson: If that leads to healthy debate, that is what we are here for: to discuss these things. It will be interesting to see what comes out of the debate, but we have nothing to hide. We are more than happy to debate these points because, if you step back and think about it, it is completely illogical that someone would spend a lot of money buying a bit of land and not start. Your business just could not run like that.

Q76 **Chair:** We will no doubt ask the Secretary of State when he comes to see us in a few days' time. David Jenkinson, your time has come now. I am going to ask about the green belt. You have been itching to have your say on that. The question I was going to ask was: is there a case for reviewing the green belt? I think I know your answer; give it to us.

David Jenkinson: It is absolutely impossible, in my opinion, to reach the output numbers unless we do. I have touched on this quite a bit as we have gone through. The way the planning system regulates at the moment, to make sure local authorities build enough houses, is through NPPF, where there is a presumption in favour of development. If a local authority does not review its plan, does not approve enough housing numbers so we can build on them, then we put in a planning appeal, and we tend to win the appeals.

The exception to that is what I call the policy conflict, in that you have the strength of paragraph 49 here, but, under the actual definition of green belt, you need exceptional circumstances to take it out and you can only take it out through the local planning process. At the minute, case law is trumping paragraph 49, which basically means that any district surrounded by green belt that has not reviewed it and made the housing numbers available is free to ignore the need of NPPF.

The numbers are so compelling. It amazed me when I looked at some of those figures. If you have a look, outside of London, it is not too bad. The current output on green belt outside of London is 49,800 a year. These figures might be a bit off, but that is the best I could come up with. They had a requirement of 88,950, which gives us a 587,000 deficit by 2031. If we have a look at what they are planning to do, which is probably more important moving forward, to be fair to most of the authorities outside of London, they are planning for 91% of the housing requirement in those districts.

Where we have a massive problem is in London and the surrounding London areas. The current output in local planning authorities surrounded by green belt is 29,000 dwellings. They should be producing 89,900. That gives us a shortfall of 913,500 houses by 2031. The most damning stat in all that is that they are only planning for 46% of the housing need. They are not only not producing at the moment; they are actually planning in their own local plans to only provide 46% of the need.

I had a look at this and I said, "At the minute, we are building 171,000 houses a year". I thought, "What does the shape of those numbers look like?" Interestingly, in the non-green-belt areas, where paragraph 49 works, we have built 92,200 and we should only really be providing 72,000. We have built 20,000 more houses, where the planning system has allowed us to function properly, than we were supposed to have done. That tells us that, when we are free to meet the demand in those operating areas, we have met that demand and exceeded it. If you have a look at the 100,000 houses we are short of a year, it is all tied up in the green-belt local authorities, every piece of it.

Q77 Chair: We have talked about number of planning permissions that are given and are in the system. The public reaction is always very much against building on the green belt. There may be exceptions, but most people, and certainly Members sitting here, would say, "Why do you have to go and build on these lovely attractive areas that we can all enjoy, when there is all this brownfield land sitting there that developers simply will not touch? The more you give them that green-belt land to build on, the less they build on the brownfield sites. They will just cherry pick and move there."

David Jenkinson: That has been the debate in Sheffield for 12 years now. I am very familiar with Sheffield, and that is a classic example

where they said they wanted a lot of town centre developments and apartments, and it is very difficult, to be fair.

Q78 **Chair:** Why can we not build houses on brownfield sites?

David Jenkinson: We can, but we cannot get the density in Sheffield. It is not there. To be fair to Sheffield, it is a bit different because of the hills. The advice on that is that there is a duty to co-operate with neighbouring authorities. If something is so sensitive that you cannot take the numbers, then you are meant to have a duty to co-operate and another local authority is meant to take them.

Q79 **Chair:** Isn't it an easy answer to say, "We have a few problems. Let's go and stick houses on green fields"?

David Jenkinson: Not if you are not meeting the supply. We have had that before with PPS3, on brown field and presumption in favour. All the readily available housing on brownfield sites has been taken up. You have to remember that that was in a period of really constrained supply.

Q80 **Chair:** Is that true? There is lots of brownfield land around. It may be remedial work, which is something you might want to talk about. Do other developers have views?

Pete Redfern: My views are not as strong as David's in terms of green belt being a dominating issue. If I stand back and look at housing supply shortfalls, I think green belt is an issue in that. Like so many other areas, the emotion tends to take over the reality and people talk quite regularly about green belt and brown field, ignoring that there is green field in the middle, and talk about there being no development on brown field, even though more than 50% of what we build at the moment as an industry is on brownfield sites and has been for the last 15 years. We built more on brownfield sites than on greenfield sites, let alone on greenbelt sites.

I find it frustrating that we, as a country, do not seem to have a rational, sensible conversation about green belt, understand what its original purpose was and work out what its purpose should be today. I believe it should exist and I believe that there should be restrictions on its development. I do not think that is the problem. It is our inability to have a proper grown-up conversation about it and work out what choices we should be taking, particularly in the south-east, that are in the best balanced interests of all.

Green belt has this aura of certainty to it that it does not necessarily deserve. I have to be honest: in the balance, I would rather we preserved it in the way that we do than that we removed it completely. It is right that we focus on building on brownfield sites as much as possible and then focus on what I would redefine as a greenfield site that did not qualify for greenbelt status. We are long overdue a proper review of what green belt means and what sites should be green belt. It is really sad that we cannot have that conversation in a more grown-up way.

Q81 **Chair:** Should that be part of the local plan process?

Pete Redfern: To be honest, it is very, very difficult to do it on a purely local basis because it is so emotional, as you pointed out yourself. There need to be some policy decisions on what a site should be to be green belt, and it needs heavy involvement from somebody independent like the Planning Inspectorate. I would not be an advocate of a free-for-all on greenbelt sites by any means. That is very dangerous in a different way. It is way past time to have a proper review of what green belt is actually for and what its objectives are.

David Thomas: From my perspective, given the planning policy framework that exists, the best thing to do is to focus on getting local authorities to produce their five-year supply. If they have issues producing that five-year plan because of restrictions in terms of green belt, then, fine, they should have a mechanism through the Minister or the Planning Inspectorate. The key thing must be to get them to produce their five-year supply.

Q82 **David Mackintosh:** Do you think the skills shortage is the major constraint facing the industry at the moment?

David Thomas: Yes, from my perspective, it absolutely is the main constraint facing the industry. If you go through different constraints that we could have—demand, mortgage availability, access to land and planning—skills is unquestionably the main constraint.

Q83 **David Mackintosh:** Is that everyone's view?

Pete Redfern: It is one of the single biggest constraints at the moment in the relatively short term. I would not put it quite so strongly as that it is the main constraint. There are a whole series of bottlenecks that you face, and that is one of the challenging ones.

It is worth having in mind that that has not been the case consistently for a long period of time. It is a relatively recent thing. It is not that I think it will suddenly go away, but I do not think we should assume that that is the biggest challenge we face for the next 10 years. It is a challenge we face at the moment, may face for a while and need to work on. I do not think it is necessarily the biggest issue over the next 10 years for the industry.

David Jenkinson: On that, I agree with David more. It is probably the second biggest issue we have. If we are going to increase our output, where are all these tradesmen coming from? In our own company, and I know the other two companies are as well, we have employed and trained an awful lot of people in the last four or five years. In our own company, at any one time, 14% of our people are in training. We have trained over 1,000 people and it is still not enough to meet the output, especially if we are going to increase the supply by 25%. We need Government's help on that.

If you look back at previous industries in the past, the traditional apprenticeship is not really fit for purpose anymore. What we have tried to do in our company is a scheme called "Combat to Construction".

Basically, we take people from the forces and try to train them in a much more intensive period, so we try to get a joiner in nine months and a bricklayer in 12 months. If those courses were available and the Government wanted to intervene—that is exactly what happened in the 1970s. They had a scheme that the tradesmen called “dilutees”, where basically they shortened the period required to do training. If there was some sort of Government support for that, that could make a massive difference in terms of meeting the output.

Q84 David Mackintosh: You talked about the cyclical nature of the sector. How best do you think we can provide longer-term security for workers to protect them against this cyclical nature and future recessions?

Pete Redfern: Government have a number of levers they can pull. They cannot, I do not believe, ever control economic cycles fully, but, in certain industries and to a certain extent overall, they can dampen the effects. They have levers in housing that already exist. For instance, the affordable housing industry has very clear potential for counter-cyclicality. It can fund and procure housing in a downturn at lower cost to Government than by buying at the same level all the way through the cycle, and will particularly protect the tradespeople who are building the homes in the first place.

That is Government’s biggest lever, particularly if Government are able to plan ahead and, knowing that we live in a cyclical world, have some sense of planning for that circumstance, rather than it being a reaction when it happens. That means those tradespeople and the smaller businesses providing those subcontractors are able to rely on that being something that will dampen the cyclicality, to a certain extent.

Some of the more demand-side measures that Government use around support to individual buying groups, whether it be help to buy or whatever, can also be used in a more counter-cyclical way, rather than just to amplify cyclical effects. While that does not directly impact on that same group of tradespeople, it can have a dampening effect on overall industry demand.

A product like help to buy, which was used steadily through the last downturn but was invented in stages through that learning process, used more consistently through a downturn would have quite a positive effect on maintaining demand through more extreme conditions. There are some levers Government can pull. I do not think they can remove the effect entirely, but there are levers that Government have.

David Mackintosh: In relation to modern methods of construction, are they something that you can use in traditional building to help relieve some of the skills shortage issues and do they have a higher build quality?

David Thomas: You can definitely look to implement modern methods of construction to address the demand side of the equation in terms of skills. The traditional, modern method of construction for the industry has been timber frame. The market in Scotland is almost entirely timber frame. The market in England overall is relatively low in terms of its utilisation of timber frame.

In my view, it has largely been because of custom and practice that Scotland, over the last 25 or 30 years, has done a huge amount of timber frame. The supply chain is in place; the site managers and the trades are very familiar with it. That is a generalisation, and Persimmon use timber frame far more in England than most of us. Generally, in England, that is not the case, so timber frame would be an example.

We have been trialling other formats, like gauge steel frame and a large-format block solution, which the Secretary of State went up to look at very recently. The reality is that the supply chain there is not fully in place. The supply chain is not geared up for large levels of production. It definitely could be, but it will clearly take time to bring through large levels of production.

In the medium term, we come back to the fact that the vast majority of houses will be brick and block construction. That is the domain of the bricklayer and our main shortage of skills is bricklayers. We have done a lot of analysis in terms of our current workforce and we see that we have significant elements of non-UK labour in our workforce. Around 70% of the London workforce is non-UK labour. That will be an additional hurdle that we will need to cross over the next few years, which will further increase the demand in terms of labour.

David Jenkinson: Persimmon runs a timber frame company, so we are probably a bit further ahead on that. Some 40% of all our completions come through the factory in Birmingham. Is it the answer? No. The only answer will be if we train more people, because you still have a lot of other trades working on site. Does it help? Certainly. I think it can assist the growth in terms of units, but we cannot get away from the fact that we need some support now to train more people and create more jobs.

Pete Redfern: I would not argue with anything that David and David have said on timber frame. If you look at less traditional, modern methods of construction, at the moment we are actively trialling, as in building on site, six different alternative production methods. We have six additional desktop studies of different methods, and over the course of the last 15 years we have probably trialled a good 20 different methods. Some of those we have used in a production sense, but we have yet to find something that can deliver consistent quality, flexibility and meet our

build regs. That does not mean it does not exist and is not out there, but it is not straightforward and it is not for want of looking.

On the second part of your question, whether it is higher quality, sometimes it is and sometimes it is not. Like any different production method in any industry, it tends to solve some problems and create others. In the past, we have built houses in factories, both in the UK and overseas, and moved them out to site. We were doing it when I joined the business 15 years ago.

Believe me, it did not work very well. That does not mean that building houses in factories is necessarily the wrong thing, but it certainly does not mean it is the obvious, universal answer to all the problems, if you see what I mean. The sense that modern methods of construction are the solution has some real questions in it, because it is nothing like as simple as that.

Q85 David Mackintosh: I am conscious that it is a very open-ended question I am about to ask and we are short on time. Very briefly, what impact do you think Brexit will have on your work?

David Thomas: We have covered it. From Barrett's perspective, our concerns pre-referendum were purely around skills. A very significant part of our workforce, particularly in London and southern areas but also elsewhere in the UK, is not UK-based. The availability of skills is going to be our big concern.

Pete Redfern: The only thing I would add is that it introduces an additional market risk. I do not think it necessarily escalates market risk dramatically, but over the course of the next two or three years it just gives us another series of things to watch that have risk potential in terms of lending, interest rates and things that affect our customers' decision to buy homes.

David Jenkinson: To be clear on the question, is it what the impact of Brexit might be on skills or Brexit in general?

Q86 David Mackintosh: In general.

David Jenkinson: Obviously we do not know what the impact will be and we will have to be very alert to it. As we carry forward at the moment, it is pretty much business as usual.

Q87 Chair: To pick up on modern methods of construction, do we need to have some system of verifying that these systems, as far as we can be sure, are going to stand the test of time? I am just thinking back. After the war, we had steel-framed Airey houses, which had real problems. In my constituency, we are demolishing whole estates of 5M houses built in the 1970s. Then we had problems with timber frame in the 1980s and damp coming through the membrane. One after another, these do not seem to have worked. Can we be sure, if we make changes, that they are really going to be here in 100 years' time, as other houses will be?

Pete Redfern : The start of your question was: do we need to have some system to make sure that they will stand the test of time? That is absolutely right. Again, sometimes the industry has a reputation of being very negative about new developments. We are not, but we have just seen an awful lot of situations where, as you say, they have not worked very well. We want to make sure they work, at the end of the day. We are bearing the costs of putting them in and it is our customers who then maintain them and live in them for not just months but years and decades. We tend to be risk averse, but it is on the base of an awful lot of experience that it is an area to be risk averse.

David Jenkinson: It needs to be regulated properly, quite rightly. We would welcome that regulation.

Q88 **Chair:** Should what used to be the BRE be involved? Should the industry be working together, collaboratively, to try to establish this?

Pete Redfern We do, inevitably. On specific initiatives and sites, sometimes we work together and sometimes we are competing, but we do work together with the BRE and the HBF on standards and investment, sometimes in partnership between two or three companies. It is quite hard, particularly when you are talking about funding and trialling new methods. We are quite a fragmented industry, and to get even the top 10 players all doing the same thing and funding one development programme would be tough, but we tend to work together to make them work.

David Thomas: There is also the overarching requirement in terms of insurance. The NHBC, for example, is the main insurer in terms of the industry. The NHBC has to sign off any build methodology that it is going to insure, and therefore clearly it is fairly rigorous in terms of its sign off process.

Q89 **Chair:** Persimmon, you were saying that you have your timber frame, and you actually have your own company doing that. Is that going to be a general requirement, so you can make sure that supply chain is in place if you move into it?

David Jenkinson: Yes, that is important. The other part of the labour is the material side, and we have plans in place to move that on as well and make sure the materials are there. We will look after the supply chain.

Q90 **Chair:** Briefly, tell the Committee which initiative that the Government currently has in place you would want to see continue, and, looking ahead to the White Paper, which one new initiative you would want to see the Government bring in.

David Jenkinson: The first thing is help to buy. This has obviously been a great policy that I have totally supported. I will be a bit greedy and I will ask for two. First, I would like the Committee to look seriously

at green belt and have an open and frank discussion about it, based on sound planning logic rather than emotive decisions.

Secondly, we need help in training more people. It is a great opportunity to create good jobs for people, both school leavers and people retraining. We want the opportunity to have your support because we cannot do it off our own backs as an industry.

David Thomas: In terms of initiatives presently in place, help to buy unquestionably has been a hugely positive initiative on the demand side of the equation. If I was looking for one thing, it would be some longer-term proposition, whether it be help to buy, or a mortgage indemnity solution, that underpins and gives some certainty to the market in the medium to long term.

Pete Redfern: One thing that is currently in place and has been developed over the last six or seven years—and this is a catch-all description—is the overall changes to the planning system. They have moved in the right direction. There are still bits to sort out, but having some degree of certainty around that would be a major positive. The system does not need throwing up in the air and changing dramatically again. Let us gradually improve what we have, rather than trying to come up with a new answer, because it is the best answer we have had in a long time.

In terms of something that I would like to see, this is not a policy initiative or something that would be announced, but I would just like to see from whichever party is in Government a genuinely longer-term view of housing strategy that takes into account the fact that housing is often cyclical. They should put into the plan some of the things that we have talked about before, not assuming that the next two to three years are what really matters but understanding that, in housing particularly, house prices are driven by long-term supply and not what happens in the very short term. We need a real shift to a longer-term, clearer, principle-driven view of what is going to create a healthy housing market, rather than a short-term, policy-driven view.

Chair: At that point, thank you all very much for coming this afternoon and giving us so much information on so many issues.