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HOUSE OF LORDS

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Inquiry on

THE ECONOMICS OF THE UK HOUSING MARKET

Evidence Session No. 3

Heard in Public

Questions 41 - 58

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3.35 pm

Witnesses: Professor Danny Dorling and Professor Paul Cheshire

USE OF THE TRANSCRIPT

1. This is a partially corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.
2. Members nor witnesses have had the opportunity to correct the record. A final copy of the transcript will be publically available in early 2016.
3. Members and witnesses were asked to send corrections to the Clerk of the Committee within 7 days of receipt in late 2015.

Members present

Lord Hollick (Chairman)

Baroness Blackstone

Lord Griffiths of Fforestfach

Lord Kerr of Kinlochard

Lord Lamont of Lerwick

Lord Layard

Lord Monks

Lord Turnbull

Examination of Witnesses

Professor Danny Dorling (University of Oxford) and **Professor Paul Cheshire** (London School of Economics)

Q41 The Chairman: Professor Cheshire and Professor Dorling, welcome to the Economic Affairs Committee inquiry into housing. You may see some comings and goings from the Committee members because there is a Bank of England Bill on the Floor of the House and a number of our colleagues are very active in the debate on that. I apologise in advance if it looks a bit like a revolving door at some stage.

I

Q42 Professor Dorling, you have written about the overconsumption of housing and that, crudely, we are occupying rather more space than we need to occupy, and if that space could be liberated and distributed it would address some of the demand problems for housing. Could you just elaborate on that and, in particular, what measures or steps you would take to encourage the liberation of that—shall we call it—surplus space?

Professor Danny Dorling: The way we can tell we are overconsuming is by looking at every census for the last 100 years, which measured how many people there were, how many rooms there were and the distribution of people by rooms. By the last census, in 2011, the best-off 1/10th of the population had five times more rooms per person than the worst-off 1/10th. It had shot up from 1991. The last high point was 1921, so we have had an incredible increase in inequality and the distribution of rooms between groups of the population. That is one way of telling.

This is an historic high. It has happened for two reasons. One is ageing. Our housing stock worked quite well when people died in their 70s and works not so well when they live into their 80s and 90s. There is also increased inequality in income and wealth. Tackling that is a much longer-term issue, but if you have a very economically unequal country you will have problems with housing, and we have the biggest income and, probably, wealth inequalities in western Europe.

Short term, though, a huge number of people are rattling around in relatively large houses on their own that they find hard to heat, which they are lonely in, and they would like to move, but there is not suitable accommodation nearby for them. They want to keep their friends; so one way to reduce the overconsumption is to build housing for elderly people

near where they currently live. The other way is anything you do that affects house prices, which means that somebody sitting in a large house does not think that the value of that house will carry on rising, and the longer they hang on in there on their own, the more money they will be able to give to their children and grandchildren. So there is a perverse incentive to stay in a house that they find hard to heat at the moment because it benefits their wider family. We need places nearby for people to go to because they want to stay near to their friends. You cannot simply say, "Can the elderly move out of the more productive cities and be miles away?". Their friends are nearby, so we do need places for them to go. Longer term, you can do things like phasing out the allowance for single people where they pay less council tax. That is another incentive not to overconsume, but it is a phasing out that is needed. You do not want to do any of these things suddenly for people.

The Chairman: So the first step would be to build suitable alternative accommodation for older people nearby and then you would take out the single-person discount, and that would provide a tax incentive for them to move.

Professor Danny Dorling: Yes. One key thing about suitable accommodation is that it can be apartments. It must not have stairs. As we age, we really want to get away from housing with stairs. For the baby-boom generation born after the war, there will be an awfully large number of people who are going to find stairs very difficult. We just do not have the bungalows for that population.

The Chairman: If there is a latent demand for these houses, why are they not being built? I think there are one or two specialist companies, such as McCarthy and Stone, for instance, which focus on that market. If there is a latent demand there, surely they would have sought to meet it?

Professor Danny Dorling: The housing market is wonderful for showing you how economic models do not work in practice. You can make a bigger profit building so-called detached executive housing for families with two car-parking spaces.

Q43 Baroness Blackstone: Who do you think, then, should be building this appropriate accommodation for elderly people to move into? If the private sector is not fulfilling the demands of the market, where do you want this to come from?

Q44

Professor Danny Dorling: It would be very good if a lot of it was rented. As we age, and because the diseases of which we are dying are changing—so fewer heart attacks and more long-term illness—we are likely to have to cascade through a series of properties in our old age. You are looking, ideally, at a rented stock in many cases. Then it is a whole range of providers. I quite like new town models. Housing associations are fine but we do need to plan for ageing. That means that the idea you stay in the house of which you are an owner-occupier into your 80s and 90s becomes dangerous, because you can suddenly find that you can no longer use that house but you then have to deal with the sale. Of course, the point of being an owner-occupier is that you can fix the house yourself—you do not require the landlord to fix it—but your ability to get up a ladder and fix things diminishes with age. We are not preparing our housing for the ageing that is to come. The baby-boom year was 1946-47, so you need to think about that particular age cohort.

Baroness Blackstone: May I just add to that? Housing associations are doing this but, at present, on a relatively small scale. They are able to start off with independent living and no extra care at all and move into additional care, often staying in the same accommodation. It does not have to be a bungalow, either. It can be in a nice apartment.

Professor Danny Dorling: Yes. Apartments are much more efficient than bungalows with this. There are examples. The Joseph Rowntree Housing Trust in York does a very good job on this. Bourneville has a whole cascade down the hill to the nursing home at the bottom. We have a problem in that we see housing associations as providing housing for a particular economic segment of society, for people who are worse-off. Until we get away from defining our tenures by how wealthy, average or poor you are, we will continue to have a housing crisis. This new housing is going to be needed for everybody, irrespective of whether they were earning high or low during their life. You also grow a lot more in common with other people as you age and suffer more disabilities, but we have this model. We have moved to a model where we see council housing as housing for the poor—it was not built like that—and housing association housing as housing for people who are not that well-off, and then the private sector should look after everything else. This is a model that is going to disbenefit the baby boomers, particularly the middle-class baby boomers.

Lord Turnbull: I have some problem with the vocabulary here of “overconsume”. We do not talk about an overconsumption of cars, although we all have much bigger cars and more cars per family. We do not talk about an overconsumption of food, although we certainly overconsume that, but we do not make it a policy problem; but you are quite near the answer, which is that we overinvest. What has happened in recent years is that housing has become an investment—this probably solves your problem—and people are not building so many custom-built properties for the elderly because the demand is not strong, and it is not strong for the other feature that you have mentioned, which is that people hang on for as long as possible because they are not confident that there are other stores of wealth. If they downsize and turn it into cash, what on earth do they put it into? The annuity market, which would help them pay the rent, has been shot to pieces as well. The financial incentive for people to stay in these houses, I suspect, is probably the point of entry into this problem,

rather than thinking that, somehow or other, they have to tax. It is about taxation. It is not about taxation of overconsumption, but it is overstimulation of investment.

Professor Danny Dorling: Yes. Speculation is the main issue. The point about the use of the word “overconsumption” is that land is finite. If you are taking up a certain amount of space in the City of London, that does not allow other people to do it, whereas with many other goods you are not curtailing other people’s opportunities by your consumption. It is the effects on others. If I had five houses—the London flat I might use occasionally, the one in Oxford I use when I am teaching, the family home somewhere else, a holiday home and so on—that would cause an indirect disbenefit to the people in many of those areas who could not live in those places. You never want to force people out. You want to provide people with the opportunities to move when they want to do it. Loneliness is one of our biggest problems in Britain. The danger is this overconsumption of too many homes by a few and homes that are much larger than our needs. Suppose we eventually get a situation where house prices of large properties begin to fall gradually, in which case it begins to make sense to sell. The faster you move out of your house, the better off your children will be, but the difficulty is hanging on to a house that is declining in value because people do not have somewhere to go. The other disbenefit is that, with private renting, you cannot trust what the landlord will do with the rent, and you have no way of increasing your income as a pensioner, or not in an easy way.

The Chairman: Professor Cheshire, do you think that Professor Dorling is on to something here?

Professor Paul Cheshire: In the overall balance of problems in the housing market, this is a very small component. I tend to agree with Lord Turnbull that it is confusion of this need concept that tends to drive the amount of land that we provide for housing with demand.

The problem we have is that the allocation of housing space is determined by demand, as one would expect in a market economy, but we are determining the supply by, essentially, a fiat. There are some disincentives to mobility, and stamp duty is one of them. Some quite rigorous research shows that stamp duty thresholds, and now just stamp duty, reduce short-range mobility. It does not seem to have much impact on longer-range inter-labour market mobility, but on people downsizing to a smaller house it appears to have a statistically significant but relatively unimportant effect. The other thing is the way that we tax property. Council tax has many disadvantages, one of which is that you are not taxed on the basis of the value of your house. Something like a site value or a land value tax, which would produce an incentive to reuse land for more efficient purposes more quickly, would be an advantage. Again, it is relatively small potatoes in the overall problem that we have with housing affordability and housing availability.

Q45 Lord Lamont of Lerwick: I meant to ask about immigration, but I think I know what Professor Cheshire's view on that is. You just repeated it by saying that you do not think it is the most important problem, if it is a problem at all, because, as I understand it, your views are that the shortage is caused by planning. If I might, I would like to ask a couple of questions instead about planning. I read an article you wrote in which you praised the rule-based system of planning as in continental Europe or the United States, where there are plans covering local communities. Would you like to enlarge on that and say why you think the whole basis of the British planning system is wrong? You refer to countries such as Switzerland or Germany having more sensible systems. Could you tell us how the planning system could be altered to release more land and affect the price of housing?

Q46

Professor Paul Cheshire: May I just make one point on population, which comes back to this earlier point about what drives demand? The issue is that there is a direct demand for one of

the important attributes of housing, which is space in them, and that is very sensitive to incomes. The income elasticity of demand for space in houses seems to be, according to my estimates at any rate, around two, so, as people get richer, they try to buy more space in houses; but we have been providing on the basis of population and not real incomes. We have been systematically underproviding land for housing ever since we set up the system in the early 1950s.

With respect to your second point, again, this is not going to transform our problem, but one of the problems with our system is that it injects additional risk into the development process, because you do not know what the outcome of a decision is going to be in advance and it becomes politicised. As we have development control rather than a zoning or a master-planning system, you have to wait for the political process to discover whether you are going to be able to do the development.

I was on a platform with the Secretary of State for the Department of Communities and Local Government about a year ago—and I was very impressed—where he entertained us with an anecdote of his first experience of making decisions in the department in 2010. An appeal came to him that had been right through the process. It had spent about five years getting there, and it was for a medium-sized housing development in an urban area where it was agreed that the plan said that there should be housing. It had been rejected at the borough level because a particular member, who was an influential local member, did not want the opprobrium of having agreed to this development when there was local opposition to it, but was quite confident that it would be passed through the inspectorate. Unfortunately, the inspectorate did not pass it, so it went up to the Secretary of State. So, almost the first decision by the Secretary of State, according to him, was to agree to this development going through the system. That had taken something like five years and an enormous amount of resources in the form of planning lawyers, appeals and so on, but that

is the tip of the iceberg that you could measure. The bit that you cannot measure is the fact that it makes all development more risky so there is a risk premium that has to be added. Because development is quite a risky process, you have expected future flows of income and costs, but they are expected, and, if you increase the risk, you increase the necessary risk premium for projects to become viable. Making decisions in the way that we do, in contradistinction to much of continental Europe or the United States, means that we have no certainty in the outcome, which has the effect of meaning less development and, in total, less gets built because you have this additional risk premium—

Lord Lamont of Lerwick: But does a rules-based system, as you refer to it, mean that people do not make planning applications but they just put up what they think accords with the rules, and then if someone says, “Pull it down”, they have to pull it down? Is that what you are advocating?

Professor Paul Cheshire: No. For example, because housing in Britain is so expensive, I import my recreational housing services from France. France has a rules-based system. I wanted to greatly increase the size of the house so I simply read what the local community’s plans were, I looked at local building regulations, I got an architect to draw up proposals that conformed to those requirements and it took 13 days to get permission to do it. That is inconceivable in the British system. It was a perfectly democratic process in that the commune had adapted a local plan that set up what could be built where and what the rules were. I simply was able to discover those rules relatively easily and ask for something that was in conformity with those rules.

Q47 Lord Lamont of Lerwick: In your article that I read, you are pretty scathing about the green belt. You say: “The final myth about greenbelts is that they provide a social or amenity benefit. The reality is that a child in Haringey gets no welfare from the fact that five miles

away in Barnet, there are 2,380 hectares of greenbelt land; or in Havering over another 6,010 hectares". You lay stress on the fact that a lot of the green belt is just intensive agriculture, which you say is not really environmentally important—we will leave that point aside—but we do need agriculture anyway. I just wonder whether you are not downplaying the green belt a bit much.

Q48

Someone commenting on your article said: "I think you're being a little disingenuous, Paul. None of the arguments you put 'for' greenbelts have ever been arguments for greenbelts ... The only purpose of the green belt is to stop cities expanding forever". When you contrast the way that planning operates in some parts of the United States, as I have seen, or in Japan with the ribbon development, I wonder whether you are not underestimating how planning is valued by the population.

Professor Paul Cheshire: I certainly would not advocate that one should build regardless anywhere, because there are clear issues of market failure in land markets, and one needs a system of planning land-use regulation to control for those. Obviously, one needs to preserve areas of outstanding natural beauty, parkland, areas that have public access, sites of special scientific interest, areas of water catchment, et cetera. One certainly does not want to build everywhere, regardless. One of the problems that the United States has is that, unless one is aware of the details of how systems work, one is sometimes misled. For example, American urban economist colleagues of mine claim that the Bay area is built out. There is no space for any more houses in the Bay area, which is, they say, the reason for the high price of housing in the Bay area—and it is. However, if you stand on Golden Gate Bridge and look northwards to Marin County, you are looking at a community where there are minimum lot sizes of 60 acres. One of the problems in the US is that they have these enormous exclusionary zoning processes, essentially, where they have minimum lot sizes.

For example, in Phoenix, Arizona, many communities have 10-acre minimum lot sizes and some have 25-acre minimum lot sizes. There you have a system of regulation that produces the exact inverse. Our system produces people jumping across the green belt. If you look at a map of where the highly skilled who work in central London commute from, they commute from all over southern England, even from Norwich, Bournemouth and certainly from Oxford.

Professor Danny Dorling: We have people in Oxford jumping over the green belt to London. Oxford itself has 40,000 people every day driving across the green belt to come in for jobs in Oxford. You must have a measure about when a green belt has failed to be green. The Oxford green belt, which in some places is just two miles from the city centre, so it is incredibly tight, is helping produce an enormous amount of pollution. You could build round Oxford away from the river plains within cycling distance of the centre, which would be much more green than having a green belt that is not green.

Professor Paul Cheshire: We are spending £18 billion on Crossrail, which is going to bring, say, Taplow or Iver within 35 or 45 minutes of central London, but you cannot build any houses there at all, although south of Taplow there is a lot of not very interesting intensive agricultural land. Only 1,500 people live in Taplow. If you look at Iver on Google Earth—I will not go on the public record about the quality of the land around Iver, but it is in the green belt—there is room there for, probably, 50,000 houses, which would probably be an environmental improvement.

Q49 Lord Griffiths of Fforestfach: For the sake of clarity, I would like to ask the question that my colleague never asked because I am not sure of the answer, not having read the piece you wrote. What is the effect of the immigration that we have seen, particularly in the last 10 years or so, on the housing market in the UK?

Q50

Professor Paul Cheshire: I was at a meeting with the GLA this morning, so we were talking about London. Take London as an example, because I was doing my homework on London. The population of London since 1951 has increased by less than 5%. Real house prices in London have increased sixfold—that is, real house prices, allowing for inflation—so it is not population that drives house prices. It is the fact that people, as they get richer—and we in this room are probably all examples of that—choose to consume more housing space and more garden space. You may or may not like it, but cars, for example, are complementary to space consumption. Car ownership since 1951 has gone up thirteenfold. If you are concerned, as I am, about the effects of cars on the environment, it is not a question of where you build houses, although, as Danny was saying, encouraging people to commute across the green belt is not a particularly good idea; it is a question of how you price carbon and how you regulate emissions from cars and provide for cycling.

Lord Griffiths of Fforestfach: I take the point about the elasticity of demand as being very important. If you looked at the market for lower-quality housing, the rental market, which presumably the flow of immigration would impact, do you find in your statistical work any evidence that there is a relationship?

Professor Paul Cheshire: I have looked at interregional population movements, which are induced by regional changes in differential house prices, which is another issue, because how many people live in a place is partly dependent on what the cost of housing is in that place compared with other alternative places. I have looked at the impact of changes in population compared with changes in real incomes on house prices. Back in 1997-98, I did as vigorous a model as I was capable of doing to estimate the impact of different land releases on future house prices. In 1996, a Green Paper was concerned about population growth and where we would house them all. This was a 1996 to 2016 forecast of future house prices

given the land-release policies that we then had. The answer was a 132% increase in real house prices by 2016 if real incomes grew at their long-term trend rates. If you took all the income growth out of that model, so you assumed that real incomes were constant over time, then real house prices grew by only 4%. The problem with our planning system is that it allocates land on the basis of a forecast of household numbers, not on the basis of a forecast of housing demand or space demand. So we have been systematically undersupplying land since the early 1950s.

Lord Griffiths of Fforestfach: Professor Dorling, are you in broad agreement with that?

Professor Danny Dorling: It is hard to determine, because, at the same time as immigration at the bottom end of the market rose, we had a huge increase in university students and then a very big increase in graduates, also at a time when their salaries were not enough to allow them to do anything but rent. There are three sources of population growth. One is fertility and births, which is still below the reproduction rate. The second is immigration. The third one that we always forget is the biggest one, which is ageing. Because life expectancy has been going up so fast in Britain in the last 20 or 30 years, more of us are around for longer and need to be housed. This is not a problem; it is something to be celebrated, but it is by far the largest source of additional demand. Worldwide, the main reason why we are going to get to 10 billion or 11 billion people in the world is not more babies—fertility has been dropping since 1971—but that the world is ageing. If you have a life expectancy for the planet that doubles, you end up with twice as many people at any one time, and it is similar for Britain.

We never talk about that third component, which is the largest component of all. It is particularly tricky for housing because we have these established models of when you traditionally form a family, how you pack yourself in and then what you do. We do not have

an established model for housing in old age. We do not have an established model for what you do when one of you is on your own. Do you stay on your own for 20 years? The Office for National Statistics about 10 years ago did a survey of the elderly asking about options, trying to see whether the 1960s generation might behave somewhat differently from older ones and not stay single so long in old age, because that would have a huge effect on housing demand. We worry about immigration. If we were to leave the European Union, it would be really interesting to watch what the effect on housing demand would be. That will be the independent test and natural experiment that you could do to find out the importance of immigration to housing.

Professor Paul Cheshire: I have to interject there and say that it would not be a controlled experiment because there would be a lot of other effects as well.

Q51 Lord Monks: While we are in the migration/immigration area, over the years there have been some fairly colourful phrases used about migration and immigration. Mrs Thatcher talked about a new Grantham required every year, and Bob Rowthorn recently in a *Civitas* journal talked about a new Letchworth Garden City every month, which is a rather graphic way of putting it. Do you accept that these are the numbers that are realistic, even if you might not use the same colourful language? Where are they all going?

Q52

Professor Danny Dorling: It is several hundred thousand net a year at the moment. It is historically unprecedented. The only slight precedent is after the 1929 crash, when we had in-migration again because the whole of world economy crashed and then people moved. This current peak of immigration is associated with that economic crash. Where do you go? You go to the place where you speak your second language, and you try to make your life in England. So it may well not be a long-term thing. Where do they go? They go to London or to

Oxford. A quarter of the population of Oxford is overseas-born now, and the rate is not just going up, but it is accelerating. Only a small proportion of that is the students. Migrants go to the places where the jobs are, where it is worth them being, and they stay for as long as there are opportunities. Often, they then settle. There is also an enormous moving around of people who come, stay for a short amount of time and then jump to another country. It is very hard to control that.

I wrote one paper looking at the long-term net migration pattern for Britain based on cohorts, so not in one year but what happens to everybody, say, born in 1916. Are we a net importer or a net exporter of people born in 1916? For decades, we were a net exporter to the rest of the world. We were a net exporter in every recession apart from this one. The long-term migration pattern fits birth rates, so we tend to have immigration peaks 30 years after we do not have babies. We had an immigration peak in the 1950s and 1960s from the Caribbean, because we did not have many babies in the 1930s. We had a low point of fertility in the 1970s. We had an immigration peak in the 1990s and 2000s. People find it easier to find jobs when they are not competing with the children who were not born in this country. These are interesting connections to ponder. Given that current birth rates have been pretty high in Britain, you can suggest that in 20 years' time the opportunities for people coming in will not be as good as they have been.

Professor Paul Cheshire: The other factor is partly lifestyle but it is also income. Short-term work-related migrants tend to live at incredibly high densities, in multi-occupation, so they do not take up much space. I would go back, again, to my earlier more strategic point that what really drives it is real income growth and age. Some research suggests that there are three things that influence how much space people demand, one of them being, which is the most important, income, but also education and age. As people get older, everything else being equal, they tend to consume more space. Young work-related migrants also tend to be

quite young, as do students. If you look at the underbuilding which we have achieved during the past 30 or 40 years, you are talking about something that is far, far more housing than Grantham.

Professor Danny Dorling: The other thing worth saying is that we have an enormous number of emigrants, whom we always forget. A lot of elderly emigrants are in Spain, Malta and other warmer parts of Europe. We have more people in the rest of Europe than has any other European country. If a significant proportion of that group were ever to return, housing them would be incredibly difficult and providing a health service for them would be incredibly difficult, whereas, as it is, we are attracting in young, fit and highly qualified people who cram themselves into rooms in London and are massively economically productive, and we export people at the end of their productive lives to somebody else to look after. It is an amazing deal.

Lord Kerr of Kinlochard: It is like the horror movie Brexit “The Return of the Living Dead”, is it not?

Lord Monks: Just to pursue this matter a little more, Chairman, Professor Dorling mentioned to the House of Lords Built Environment Committee that migrants were not the problem, but it is the foreign investors who are stoking up prices and the financialisation of this industry. Again, the evidence you gave was interesting and graphic. How do you square that with what you have just been saying about migration?

Professor Danny Dorling: At the very top of the market in London and a few other affluent places in the south-east, you have investing from abroad. It was one of the things that led to our incredible and current housing inflation. Everything came together at the same time, the baby boom and lots of other factors, but one was that people’s money was no longer safe in

Swiss bank accounts because the Americans were looking there for tax evasion; Chinese investors decided that the Chinese housing market was not safe; Singapore brought in capital controls so that the Chinese could not invest in Singapore and so they jumped over and came to London. It may not be a huge number of properties, although it does result in the population of Kensington and Chelsea falling, as we build more and more rooms in Kensington and Chelsea. The real danger is that the escalation of house prices at the very top of the market is so high—Oxford has a 16:1 housing price to income ratio and London has a 15:1 ratio—and that result in people beginning to believe that the ridiculous income-to-price ratios are okay. I read in *Metro* today of a young couple who had bought a one-bed flat costing almost £600,000. That looks cheap compared with what investors from abroad are paying for luxury properties. The real danger of the overseas purchasers is that it puts people into a false sense of security about what a normal housing price is. We will have to wait to see for what that results in.

Q53 Lord Lamont of Lerwick: Do you have any estimate of what proportion of new build in London is accounted for building for foreign investors? I have seen reports by builders admitting that there is quite a high percentage—30% of new build—for foreign investors, defending it on the ground that it provides capital for other types of building. That would appear to concede that there is quite a significant effect on new build.

Q54

Professor Danny Dorling: For the more expensive properties, it is very high. I do not have a figure. *Private Eye* has accessed the data. You can go and look down your street to see who, from where, has bought property. Because that data has only very recently been released, I have not seen somebody doing an aggregate analysis of it. There are complicated ways in which property ownership is hidden in Britain that make it hard. There are still ways in which you can buy through a company, whereas in fact it is a personal investment but you make it

look as though it is a company flat. If you are going to do a proper analysis of this, I would start off by asking, “Which are genuine homes for genuine residents?”, and for everything else I would be a little bit suspect.

Professor Paul Cheshire: All houses are a substitute for all others; so concentrating on only new build is partly relevant but not entirely relevant, because you have to think of the stock of all houses. You only change the stock in very small percentage each year with new build. There are some Bank of England figures suggesting that foreign ownership of houses in London as a whole, including old houses, is only 3%, but it is much higher in some of the super-prime areas. London is a world city and we are bound to have foreign people wanting to own property here. In a sense, it is to be welcomed because it is part of what London is, but it is reinforced by the short-term asset issue and quantitative easing, which means that sterling has not looked like a bad bet given what has been happening in the world over the last five years, as rates of return on other types of asset class have been so low that you might as well park money in housing in London. In the broad spread of things, that is a short-term rather than a long-term phenomenon.

Professor Danny Dorling: People are parking money where they can get a rate of return on the rent that is tiny at 2%, 1% or ½%. If you buy a million-pound semi at the top end of the Piccadilly Line, which was an upper working-class house 40 years ago, you can probably only rent it out for about £20,000 a year. That is just a 2% return. What I find disturbing is watching the prices carry on rising, and then you suddenly realise that people are not investing to get a return but because they are afraid of every other investment vehicle and they see this as safer in a turbulent world, in the world post 2008. I find it hard to rationalise why somebody would invest their money knowing that the return would be that low unless they are going for the security of land.

Q55 Baroness Blackstone: Do you think a land value tax could help the problem of housing supply?

Q56

Professor Paul Cheshire: On the margin, yes, it would be a move in the right direction, but it would not be an answer. The problem is much more deep-rooted than that. It requires more radical action.

Baroness Blackstone: It is a help but it is not sufficient. It is necessary but not sufficient.

Professor Danny Dorling: Yes; and you would move to it gradually. You would reform council tax first and then you would taper it so it would be over such a long number of years that it would not address the current crisis, but it is a very good idea.

Professor Paul Cheshire: Also, you would try and divert more of those revenues to local authorities to give them some incentive to allow housing to be built. At the moment, we virtually fine local authorities to allow housing to be built, which is very foolish compared with what the Swiss, the Germans or the Americans do.

Baroness Blackstone: What about a capital gains tax on the main residence? Would you favour that? Is it too big a leap?

Professor Paul Cheshire: I do not think that it would solve the problem. It would be politically extraordinarily difficult.

Baroness Blackstone: Yes, it would be.

Professor Paul Cheshire: Yes, in principle, but that is a theoretical answer.

Professor Danny Dorling: You would introduce something else at the same time and you would introduce it tapered. It would start off being 1% so people had plenty of warning. I would know, as somebody with a mortgage, that when, if I am lucky, in 20 or 30 years' time I sell the house I am in, it will probably be full-rate capital gains tax at that point on what I have made. It will be a long time in the future, which would simply discourage people from speculating. The problem at the moment is that you are encouraged to buy the most expensive property you can because it will, probably, go up most in price. You want people to try to save money. You want them to try to buy the lowest price home they are happy with—this is outside London and Oxford where it is impossible to buy for so many people—in other parts of the country, and eventually everywhere, you want it to be rational for people to buy the cheapest property that they are happy to live in, not to do the opposite.

Professor Paul Cheshire: The problem is that we keep sticking our finger into dykes but more holes pop out because, underlying it, is this pressure of lack of supply. Prices go up and it becomes an investment asset rather than simply somewhere to live. In a rational world, you would be indifferent as to whether you rented or you bought, and you would do what suited your lifestyle and age most; but in Britain, where real house prices are doubling every decade or so, you have a big incentive to try to buy as much housing as you can as soon as you can.

Baroness Blackstone: What about far more bands for council tax? I saw somewhere that somebody said we should go up to band Z.

Professor Danny Dorling: If you added them and doubled them, you only need to go to band N, which, at the time I calculated it, captured the Sultan of Brunei's property. It is much

better than a mansion tax because it is graduated and everybody knows that somebody above them is paying a higher rate. People can pay it. Even if they are on a very low income, they can simply take out a small mortgage and pay it. I recently received a letter from a man on a low income in London whose flat had ended up being worth, again, £1 million. It was near Covent Garden, he said, "I cannot possibly pay a higher tax", to which I said, "If you take out a £20,000 mortgage, you can pay the tax. When you sell the flat, you will still have £980,000". That man will still be richer than I will ever be. The argument that people with high wealth but low income cannot pay does not work. The other really important thing, though, is the unfairness across London: the fact that you pay half as much in Westminster and Kensington and Chelsea as you pay in Barking and Dagenham for the same valued property in council tax each year. London should have a London-wide banding.

Baroness Blackstone: You would take this away from local authorities in London and give it to the Greater London Authority.

Professor Danny Dorling: I would give it to the Greater London Authority. I would make it London-wide. That is another part of what is needed for the beginning of a way towards dampening prices. Sensible, boring politics is to try to dampen this current excessive rise, because, if it goes up and up and up, we know what happens from other examples elsewhere in time and in other places in the world. You want to do things that dampen housing inflation. Altering council tax in that way would help, and adding bands would help. Adding bands would be seen to be fair by the vast majority of people because the vast majority of people would not be paying a band L, M and N. This is, in effect, what New York does. You are talking about bringing in what will head towards a flat property tax. New York is not that radical a place. New York is like London in many ways.

Professor Paul Cheshire: Except that local authorities retain the revenues in the United States, which is quite important.

Q57 Lord Griffiths of Fforestfach: I am attracted to the idea that local authorities respond to economic incentives. If they get something from making land available to planning, the suggestion is that they will then spend up the planning process and enable more land to be available. The question is that they are politically driven as entities, and because of that they will have many pressures, if they find they have more resources available. To what extent do you have confidence, if you had to give evidence, that they will respond positively if they are allowed to keep the council tax, for example?

Q58

Professor Paul Cheshire: There is fairly convincing and rigorous evidence. This relates to commercial property, but I did a study, which was published in the *Economic Journal* in 2008, which looked at the impact of going from a local business rate to the uniform business rate in terms of the impact it had on the supply of offices. That showed that, as a result of the increased reluctance of local authorities to give permission for office development, the increase in the price of office space had greatly exceeded any possible business rate. There is some quite persuasive econometric evidence from the United States showing that local jurisdictions that impose what is called an “impact fee”, which is a tax on development which has to be related to the costs that that development imposes on the community, are less reluctant or more willing to grant development approval than authorities that do not impose that tax. There is reasonably persuasive evidence. Also, in Switzerland, where you have a local income tax, all the revenues essentially from growth go to the local community. That appears also to keep house prices down. There is quite persuasive evidence but I would not rely on it as a total solution.

Lord Kerr of Kinlochard: It would be important, surely, to keep the council tax revenue going to the level where the planning decision is taken.

Professor Paul Cheshire: Yes.

Lord Kerr of Kinlochard: So London-wide might not work.

Professor Paul Cheshire: There is also a good argument for having a city-region input into the planning process because you also have the problem of gains from free trade. You have big losses from free trade for those who have an engagement in the present occupation, but you have small gains that are spread out over very many people. If left to themselves, people would never choose free trade. Similarly, with development, there are big costs in development and one has to recognise that for very local people, because they have more congestion, noise and pollution going on, they may lose local amenities, their roads become more congested and they have no payback from that. There are big losses to local people. The more local you put the vote, the more voice you give to people who lose from the development process. You need to balance the wider social interest against the spatially narrow interest. Having, for example, mayors and, with the city deals, city regions having a big say in things such as demarcation of the green belt for their city and the strategic aspects of planning and transport provision, would effect an improvement.

Q59 Lord Kerr of Kinlochard: I feel very depressed because you both make a powerful case for a complete reform of the planning system, which, I am sure, politically is not going to happen. I am not quite sure what the answer is. Would you like to look at the things that the Government are trying to do and tell us whether you think they are useful in their effects or not? In your published works, you have both been a bit rude about Help to Buy. I would guess, from the way that this discussion has gone, you would not be too thrilled by the

inheritance tax changes that were in the Autumn Statement. What are the Government trying to do that you would support?

Q60

Professor Paul Cheshire: Business rate retention is potentially useful, but the problem is that if it is done in isolation from residential property it is going to provide an incentive for local authorities to provide more business property and less housing, which is not what we want. Although it is a good thing in itself, it is not a good thing for the housing market. To have a parallel change, which gave more tax revenue advantage to local authorities from allowing building, as the New Homes Bonus attempted to do, is a move in the right direction. The New Homes Bonus went in as a good idea but it came out as so opaque, short term and small that I do not think it really had very much impact.

Professor Danny Dorling: One thing that is good is the beginning of curbs on buy-to-let landlords. We have had a sudden and massive increase in buy-to-let landlords. Within London, there are now a quarter-of-a-million children who are below the poverty line who are in private rented accommodation, slightly more than those in local authority housing. These children are likely to be forced to move home every two or three years. That is the rate at which the rents are being put up to a point where their family has to leave and find somewhere else. They are moving around London going from school to school to school. This is disastrous. London has had the most amazing improvement in its education in the centre of London in the past 20 years. To suddenly do this to families is very bad, but the rise in private renting by poorer families in London has been very sudden. So much of this was a result of the crash in 2008. People simply could not buy because the banks would not lend then. The number of mortgage transactions halved. Families carried on moving so they rented, the prices of rents shot up, landlords made more money and they invested that, until you get to a point in many areas where only landlords and investors can buy. The problem is

that we were trying to move towards a European system where it is more normal to have more private rented, but we have ended up suddenly putting lots of families with young children into this tenure, which has such little protection that a family with children can so often be outbid by a couple of young professionals without children who can pay a higher rent. This is a very recent change in the middle of London. The implications of it are very worrying outside of housing, in education and other areas of policy.

Lord Kerr of Kinlochard: I see that, but where do these people go? If we are bearing down on social housing and we are bearing down on housing associations, where are these poor families with these children to go?

Professor Danny Dorling: They progressively move out from inner London to outer London. Then there is an increase along the coast, and particularly the east coast of England, in the index of deprivation, which is some kind of guess as to where the continued move has been heading. We know that the rate of moving is high. Often, they are at first moving to something just 10 miles away that is of a lower quality and a lower rent when they cannot pay it any more. Households affected by the benefit cap, which is normally a household with a disabled child, are particularly likely to be moved. This very rapid rise in private renting among families with children was not planned, and the rise in the figures is shocking to see. It could be much better effected by improving the tenancy conditions. That might be the short-term way to do it. Because we have such short-term tenancy contracts, it is relatively easy to change the law. You can change the law, but not retrospectively, to say that all new shorthold tenancies now have to be of a new form without altering anybody's existing contract because the contract only lasts for about a year. Politically, it is very possible.

Lord Kerr of Kinlochard: I see the argument for it, but that is not what the Government are trying to do. The Government are trying to reduce the incentives to buy to let.

Professor Danny Dorling: Yes.

Lord Kerr of Kinlochard: That is going to have precisely the effect that you do not want.

Professor Danny Dorling: No. Current government policy will have the opposite effect, and it will, on the margin, help pretty affluent first-time buyers to buy.

Professor Paul Cheshire: The effect is going to be extremely marginal. I am not going to get excited. The problem that has been discussed is a very real problem, but, again, it is a symptom of the underlying problem in lack of affordability of housing and a lack of provision of social housing for those who cannot get on to the housing ladder. There always will be people who cannot get on to the housing ladder. We are not doing a good job there. There is a really serious underlying problem and none of these changes is going to make that much difference. I would not challenge you, but my judgment is that we are between a rock and a hard place, that nothing short of radical reform will solve the problem, but radical reform is politically unacceptable. The real problem is that 10 years down the line we will find that the whole system collapses and that we have something that is not reform. What we need is considered reform that is also radical if we are going to solve the problem. Otherwise, we may get down the line and have unconsidered reform.

Baroness Blackstone: On the same point, is part of the problem that the Government are overcommitted to home ownership at the expense of affordable social renting?

Professor Paul Cheshire: In an ideal world, most sensible people would be tenure-neutral. It does not matter if you are a home owner or if you are a renter. It depends on what suits your personal circumstances. Given that we have constructed a world where real house

prices are doubling every decade, it is creating huge inequality between the housing haves and the housing have-nots. Last year was the first year ever that more owner-occupiers did not have mortgages than did have mortgages. The proportion of under-35s who are owner-occupiers has fallen from 59% to 36% in 10 years. In itself, I would not mind. If we were living in Germany where real house prices have not changed for about a generation, that would be fine, but we are not living in that world. What we are doing is engaging in an unwitting, huge redistribution away from the poor and the young to the old and the rich.

Q61 Lord Lamont of Lerwick: Just going back to the Help to Buy—I understand the criticism made that anything inflating demand may prove counterproductive—are we being completely fair when we remember the circumstances of 2013 and the precise targeting of the scheme, because in 2013 it was still very difficult for first-time buyers to get a mortgage? Mortgage lending was not increasing quickly, and the emphasis was on first-time buyers and new-build homes. Given that we are in a situation where we need to create confidence for the industry to build houses, the first-time buyer is, surely, crucial and new-build homes are crucial. Did it not result in about 50,000 new-build homes being built? Although I would normally be rather sceptical of increasing demand, in the circumstances in which we found ourselves in 2013, maybe it was important to give the building industry that confidence.

Q62

Professor Paul Cheshire: If Help to Buy had been only confined to new-build homes, and originally there were two schemes, one of which was and one of which was not, then, on balance, I would not have been against it, so to speak. Again, it is one of these marginal things, because you may be helping these people to buy but that means that you are not helping those people to buy; and, because it will have the effect of pushing up house prices, those who are not helped by the scheme are in a worse position than they would otherwise have been. All that is very marginal. I do not accept the 50,000.

Lord Lamont of Lerwick: Fifty thousand houses are a lot from where we started.

Professor Paul Cheshire: This is a box-ticking number. It is not a real number.

Professor Danny Dorling: The Treasury released the Help to Buy figures on 9 December. They say that up until September of this year it supported 65,920 mortgages, and many of those will not be new-build properties.

Lord Lamont of Lerwick: Half were supposed to be new build.

Professor Danny Dorling: Yes, but half of 65,000 is not—

Lord Lamont of Lerwick: No, half of 110,000.

Professor Danny Dorling: The key thing is that the average house that has been helped has only gone for £155,000. This is housing in the north of England. It has stopped any northern town seeing price falls. The problem with that is that it makes the population think that price falls do not happen because Help to Buy is being used most in those areas where prices have not been going up much. If we did have prices falling in some places where demand would have been less, people would at least by now be better informed because you have to be fairly old to remember when prices fell after 1989 and 1990. I worry that Help to Buy has made the population, as a whole, more confident about the housing market in a way they should not be as confident about the housing market. The liability is not great so far. The liability is only something like £1.4 billion to us, but Help to Buy is going to rise to a 40% chunk of property prices in London in 2016. We are putting taxpayers' money into housing to make loans that banks themselves think are not safe to make.

Lord Lamont of Lerwick: I agree with that.

Professor Danny Dorling: We are increasing the scheme. It was supposed to taper away.

Q63 Lord Layard: I wanted to come back to what we can learn from foreign countries. If we accept that we have a bigger problem than most other European countries, including ones that are as densely populated as we are, and this is certainly, to an important extent, due to issues of planning and land supply, what can we learn from these other countries about how to incentivise local authorities? It also comes back to the question that was asked here. What can we learn about how to incentivise the people who are organising the supply of land to allow houses to be built?

Q64

Professor Paul Cheshire: The trouble is that incentives that work in one institutional and tax regime do not necessarily work in another institutional and tax regime. The Germans and the Swiss both have big tax advantages in a decentralised fiscal system, which means that there are fiscal incentives for local authorities, particularly in Switzerland, to accommodate housing.

In the Netherlands, as you know, you have a system that has grown out of the municipal drainage of the delta so that local authorities have a statutory obligation to provide land, and they buy and have developed over the years an institutional structure to support them in developing the ability to get agricultural land, either to service it and sell it on and keep the profit, or to sell it on unserviced but with development rights. The issue is that that has grown out of the particular institutional and legal structure of the Netherlands' local authorities that have acquired this expertise, and they also have borrowing powers. Their financial regulations allow them to do this.

As I said a long time ago, development is a very risky process. We did try something like this with the Community Land Act 1975, which lasted for two-and-a-half years and produced 150 acres of land for development, because the local authorities simply did not have either the financial capacity or the commercial capacity, and the rules governing their borrowing were such that they did not engage in the process. What works in the Netherlands does not necessarily work here. On the other hand, the tax incentives that one could see coming out of property taxes, with a significant proportion going to local authorities, on additional housing that they permitted, which would not then be revenue- equalised across authorities, might have a beneficial effect on their willingness to allow development.

Baroness Blackstone: It is sometimes said that, for local authorities, there are no votes in providing lots more planning permissions. As long as that is the situation, whatever you do in terms of fairly marginal changes to the planning system, it will make very little difference.

Professor Paul Cheshire: Yes, and that has grown up out of the system that we have. It is partly this insider/outsider problem that there are local losses, which are very localised, that bring people together to lobby against a development portal, whereas the gains are spread out over a whole housing market; if you built houses anywhere in the whole London region, there would be a small benefit for everyone.

Professor Danny Dorling: A planner once told me that the most politically powerful group in Britain are nimbies, the people who will most organise when something is going to happen. If you talk about adding a hundred houses to the edge of a small village, you will see signs up saying “No houses”.

Professor Paul Cheshire: But are processing powers there? In the Netherlands or France, this simply does not happen because you have an agreed plan, which has been adopted, and it allows this to be built here, that to be built there, and you do not have any gain from lobbying because it will not affect the outcome.

Professor Danny Dorling: All the effort goes into saying, “Do not build those hundred houses”, which might well make sense because the village will not get a primary school but it will just add a to congestion. However, nimbies never say where they would like the houses otherwise built. We need to introduce something that allows that to happen because people themselves, when they oppose housing, do not or cannot organise to say, “It would make much more sense to add it on to the edge of the city rather than put it into our village”.

Professor Paul Cheshire: And the community gets no resources. An impact fee, which I mentioned earlier, is one way of getting resources to the local community to support it, but having property taxes, a proportion of which stays with the local community, is another way of getting it. You also need to make the change. The National Planning Policy Framework set out to do something moderately radical, and it got, essentially, stifled in that process, so you ended up with a document that has just as much restriction on where you can build, what you can build and, indeed, reinforced some restrictions in the sense of increasing densities in suburban areas and advising against it. We ended up with this basic situation where you have to say that, if there is no environmental value associated with keeping a piece of land undeveloped, then there is a presumption in favour of allowing development.

Lord Layard: This is the approach that puts pressure on local authorities to give permission, rather than giving them an incentive—the notion that they have to give permission if the price differential is big enough. It seems that a more natural approach would be to start from wanting to give them a positive incentive. I do not know—you must have done

calculations—but I have just done a back-of-an-envelope calculation that planning permission is worth something like £5 billion a year. If the local authority could capture the value of the planning permission that it gives, it would have £5 billion to buy off the opposition. It seems to me that we ought to be able to find some way to pilot that, to have some local authority given the power to develop in the way that it captures the land value, and see what happens. Surely, there is a case for that.

Professor Paul Cheshire: Yes. The proposal to build an urban extension to Oxford is quite an interesting one. The trouble is that Oxford City is quite in favour of it but it is surrounded by local authorities that have no potential gain from it at all. I doubt if it will happen. You have to have both incentives, which impact fees and property tax retention would provide, plus compensation, and you have to recognise that, like it or not, we are allocating by fiat but we are then allocating by market price, and that market price reflects the shortage. We do not want to create a world as, for example, the South Korean success created, where there is an incentive for local authorities to restrict supply because they get more value uplifts, some of which they can capture. We want to think about housing as something that generates a benefit, a welfare. Housing is important to people's lives.

Q65 Lord Lamont of Lerwick: I wanted to ask Professor Cheshire about something he once wrote—I do not think you repeated it today, but it was pretty remarkable—that twice as many houses were built in Doncaster and Barnsley in the five years to 2013 as in Oxford and Cambridge. That strikes me as quite extraordinary when you think of what is happening—I do not know Oxford so well—in Cambridge, with a big expansion. With no disrespect to Barnsley and Doncaster, I do not get the impression that they are booming in the same way. I put that alongside a newspaper article that I was reading at the weekend, which referred to the fact that in some areas—it did not mention particularly Doncaster and Barnsley—the cost of new build is so expensive compared with the price of an existing house that there is a

huge disincentive to build houses. In fact, I read that in one area the land had negative value. Putting that alongside the fact you highlighted, it seems most extraordinary. I wondered if you could expand on all this.

Q66

Professor Paul Cheshire: Our system, as it is, systematically, leads to a higher probability of allowing building in less prosperous areas than in more prosperous areas. That is partly what underlies it. It is partly the brownfield land target. There is abundant, cheap-to-renovate and cheap-to-build-on brownfield land in many of the declining northern industrial cities. In the south-east of England where the demand—

Lord Lamont of Lerwick: Does it have a negative price?

Professor Paul Cheshire: It is more likely to have a negative price in parts of London, the reason being that we have built on all the brownfield land that was easy to build on, it did not require very expensive remediation, et cetera, whereas where you have large tracts of brownfield land, as you have in many of the former industrial cities of our heartland, there is an ample supply of brownfield land. Going back to the point I made earlier, you need to allow building on greenfield land, which is much cheaper to build on, but we simply do not have enough brownfield land. One of the interesting things that some people at the University of Reading showed was that it is, in planning terms, more difficult to build on brownfield land than to build on greenfield land. The average was 43 weeks going through the whole system from beginning to end for greenfield land, and well over that for brownfield land, because they tend to be small areas, they tend to require a lot of remediation and there are a lot of surrounding property owners who have interests who can lobby and engage in activities. It is really not the case that brownfield land is a panacea. One

of the outcomes is that you get twice as much housebuilding in Doncaster and Barnsley as you do in Oxford or Cambridge.

Q67 The Chairman: The Government have set out their objective of building a million houses during this Parliament. How is it to achieve this objective? You are making the point that it should be easier to build houses on greenfield or green belt land, however we describe it, and you have made the powerful point that the houses that are being built are not necessarily in the right place. You referred earlier to a broken business model. I suppose one example of that—we have received evidence—is that in London planning consents given each year far exceed the number of houses built. So there is a stock of unbuilt houses already. What measures do you think should be put in place to fix, or help to fix, the broken model? Certainly, going back to Harold Macmillan's time, when there was rebuilding after the bombing of the Second World War, local authorities took the lead. Do you envisage local authorities, maybe blessed now with some receipts from the planning gain, which they could capture, playing a role? If not, who is going to build these houses?

Q68

Professor Danny Dorling: That will determine whether the actual building is beneficial. We should not forget that it is quite possible to build a lot of houses and to still end up with a very large proportion of the population very badly housed. As our income and wealth inequalities keep on widening, there is no guarantee that just building flats and houses will make the situation better. One of the reasons for wanting to have a decent chunk of social housing in there, local authority or housing association, is partly to make sure that those people who are worst-housed at the moment benefit from any building and it does not end up being used by people who are already pretty well-housed or an increase in second or third homes, which can happen.

There are also practicalities. The *Guardian* is releasing a report tomorrow about the number of bricks and brick factories in Britain. If you really did want to build a million houses this fast, you have to worry about the fact that we cannot make enough bricks in enough time. The nitty-gritty of it requires some looking at it. Then later claiming that you never realised we had lost our capacity to make enough bricks should not be a good enough excuse for failing. I would emphasise that it is important that we think about building from the point of view of who most needs the housing. We must remember about helping people who are rattling around a house that is too large for them, helping them to have somewhere to move out to. Just because there is not the demand at the moment, because there is an incentive for the elderly to stay in their home, it does not mean that we should allow private buildings not to build retirement apartments, because we can tell that we are going to need them, but that requires planning. The market will not deliver it because, in the short term, it does not look like it is going to make a profit.

Professor Paul Cheshire: I am afraid—this is my judgment—that there is simply no way that we will build a million houses by 2020. My recommendation would be that we should set some very modest target of 750,000 houses by 2020, perhaps, and agree that, if we have not met that modest target, we should set up a serious commission to review fundamentally how we go about planning and incentivising the building of houses in this country. I just do not think it is going to happen. I am sorry. There is no way that the present system can deliver that number of houses.

Lord Kerr of Kinlochard: What did Harold Macmillan do?

Professor Paul Cheshire: He started off in a world where there was lots of land because from 1947 up to 1955, when we first established these green belt boundaries, we established room for growth as well, albeit on the basis of population growth rather than understanding

that there was income growth that was also important in that process. We also had a whole programme of building new towns, which were on separate land that was available for housing, so you were dealing with a completely different world. We were also dealing with a world where local authorities had the capacity to build, and they did. On the other hand, we managed quite well. In London, the GLA area, between the two world wars, the peak building was 80,000 houses a year. We built 70,000 over several years in that period through the private sector, almost entirely with almost no social housing, because we had an ample supply of land and we were investing in transport systems to service that land. There are many worlds, but it takes time to get there. It is like turning a super-tanker round, which is why I am, sadly, confident that we will not build a million houses, because you only build a small number of houses. We have created a world whereby we have almost monopolised the development industry because it is so complicated to operate the system that it is a real barrier to entry. We supply relatively little land because of value uplift, and that generates a financial incentive not to build out rapidly. If you could change expectations so that people really thought that the prices were going to be stable over the next 20 years, because you were really going to increase supply, then they would have an incentive to build out more quickly.

Q69 Lord Monks: Just to change tack a little, assuming that we really did make an impact with the kind of ideas that we are talking about at the moment in boosting the supply of houses, is the construction industry up to it?

Q70

Professor Paul Cheshire: Not at the moment. It would take a long time. We would need to build more bricks, have more training and have more small development firms. We would have to have entry into the whole process. It has taken us 50 or 60 years to get into this mess, so it is going to take us a good 10 to 15 years to get out of it.

Professor Danny Dorling: Even if we plan for that now, you will not get it. Macmillan had the great advantage that just before Macmillan the Labour Government were producing very near to this, and all he did was slightly 'up' the rate. We are in a very different situation. The number of medium and small-sized builders that went bust in the crash means that those skills have gone.

The Chairman: You say that those skills have gone, but if he was a carpenter in 2007, he would still be a carpenter in 2015. Where have those skills gone?

Professor Danny Dorling: Those skills have gone as the carpenter is now working as a taxi driver, for example and he have a greatly increased numbers of taxi drivers today in the UK. They could become carpenters again, but the firms have been dissipated. People have gone and found themselves other employment when they were made unemployed by the small builders. As for the builders, the person in charge was often an elderly man who has taken early retirement, so the younger people involved will still be around but are doing different jobs. You can turn all this around but you cannot just wish it to happen suddenly. You do have a few very large building firms that do have an interest in this not happening, in there not being competition from many medium and small builders, in slowing building out and maximising profit, so it is not happening.

The Chairman: What measures could the Government take to improve the competitive environment in the housebuilding market?

Professor Paul Cheshire: It could release five times as much land, so you had actual competition in the land market.

Baroness Blackstone: I am sorry, but may I interrupt? You say that, but if there is no capacity in the construction industry, however much land you release, you have a problem.

Professor Paul Cheshire: As I said, it will take 10 to 15 years. We need to train people.

Baroness Blackstone: We have to come back to further education and training where the Government are slashing the provision of further education, which is the main source of skills for people who work in the construction industry. If those courses were reinstated and young people were encouraged to take those courses, you would then be building up a new supply of appropriately qualified skilled labour.

Professor Danny Dorling: I like that. That is definitely worth doing. The other thing to remember is the opposite to “Auf Wiedersehen, Pet”. There is a very quick way to get in builders at the moment.

Baroness Blackstone: How?

Professor Paul Cheshire: By skilled migrants. It has taken two generations to get to the position we are in and we cannot get out of it quickly. We clearly need to have training in skills. We need to have a market that encourages new brick manufacturers, new tile manufacturers, new architects, and new entrepreneurs to set up small building companies, because the whole process of development has become more and more monopolised in this country.

Professor Danny Dorling: In Germany, there are a huge number of building companies. I think about one-third of property is built by the owner working with a small building company. There is incredible competition in building in Germany as opposed to here, which

also means that you get a much nicer variety of housing, as opposed to an estate built by one of the big builders.

Q71 Lord Griffiths of Fforestfach: I have two questions. The first is that someone said that bricks are outdated technology. My impression is that certainly some housebuilders are looking at building houses in a manufacturing plant and then taking them to where they need to be placed rather than having bricks from the London Brick Company and expanding to brick-building in Bedfordshire or somewhere. I just wonder if we are not living in the 20th century rather than the 21st century from the point of view of innovation in housebuilding.

Q72

Professor Paul Cheshire: This is what Richard Crossman was arguing in the 1960s—system building, industrialising building, to solve the problem. Yes. I was using bricks partly as a symbol of building materials that we need to have a building materials industry. There are many ways of building houses, obviously. We do seem to have an attachment to brick-built houses in this country, and in Europe generally. The problem is that so much of the cost of a house is now embodied in the land because we have made land so expensive.

Professor Danny Dorling: Let me say that the LILAC project in Leeds is the biggest communal self-development project of housing, and they have built it all with straw bale filled walls. It is beautiful but it is slightly more expensive than brick, but very environmentally sound.

Lord Griffiths of Fforestfach: Coming back to the question I asked on migration, I am still not clear. I am not in favour, necessarily, of restricting migration. It seems to me that, if you have 300,000 people who come into this country, they may, in Professor Cheshire's model, not be significant in terms of demand, but in terms of a housing need they have to live somewhere. In terms of a housing crisis, it seems to me that, if our population is going to grow in the next

20 years by what is predicted by government statisticians, that is a serious issue. One can say it all depends on income and not population—you quoted London and you said that the population of London increased over 50 years by a very small amount—but if you looked at the population of Hertfordshire, Bedfordshire and Northamptonshire, I suspect you would find it was very different from 5%. Finally, there is more in issue here than saying there is an economic demand function in relation to price, income and other factors, which I do not think we are really getting to the heart of.

Professor Paul Cheshire: The population of the whole London region has certainly increased more rapidly than the population of the GLA area over the last 50 years. Of course, over the past 10 to 15 years, the population in the GLA area has increased, so people are looking at this recent increase in the population of the GLA area and saying that this is the cause of the problem, but it is not. You can look at the long-term increase in real house prices and the long-term increase in population in the GLA area, and the increase, as you say, is very small. Population is not irrelevant. I am not trying to say that population is irrelevant. Providing social housing for people who would, in any world, be unable to get into decent housing, is something that, as a society, is a perfectly sensible obligation to take on. But the real underlying problem is that we simply made housing unaffordable for everybody, and this question of income elasticity of demand is far more important in terms of the increase in house prices and, therefore, it is reduction in affordability rather than it is population change, and Polish builders can help us build houses.

Lord Kerr of Kinlochard: I am completely unwrung by this horror story about no bricks, no brickies and big evil companies crushing little companies that might otherwise build houses—

Professor Danny Dorling: They did not crush them. It was just that little companies went bust because of the recession, and the big companies could survive.

Lord Kerr of Kinlochard: It seems to me that that is exactly what it is. It is the consequences of the state of the housing market, not the causes of the state of the housing market. If we are going to try and think of solutions, surely Lord Layard is right that we need to be thinking about giving an incentive for a more rapid planning system. Where a person sits on permitted land—that is, land where housing construction has been approved but is not happening—he should surely be paying a higher price. So we come both to the incentive and to the price. We need some sort of land tax, a tax on land permitted for development. Do you both agree with that? I think I know that Professor Cheshire agrees with that. I do not know if Professor Dorling does.

Baroness Blackstone: Could I just ask whether the land tax should only be on land already agreed for development or whether it should not also be on land that is undeveloped and no agreement has been made about it?

Professor Danny Dorling: Yes, but the danger of just doing it on land with a permit is that it puts people off getting permission because they then know that they will be taxed, but if you were to begin to introduce it, again, slowly on all land, then it gives you an incentive to get on with something that you were thinking of doing, now. Suppose you are an Oxbridge college, you happen to own a few acres and you are thinking that at some point you might build some housing on that. You would have an incentive to do it now and not lose money, but people really do need these incentives because it is easy to put these decisions off. It needs to be on all land, not just on land with a permit, otherwise it puts people off getting the permission.

Professor Paul Cheshire: I would agree broadly with that. There is an argument for a site value tax that would apply to all land whether developed or not, which is a better way of taxing property than the council tax and the business rates, because it encourages the redevelopment of land as better uses come forward. So you build Crossrail, et cetera.

Lord Kerr of Kinlochard: I agree. Thank you.

Lord Lamont of Lerwick: Let me put a contrary view, which was put by Kate Barker, who said that, if land was taxed from the date of permission being given, there are almost certainly delays in starting due to meeting planning conditions. It would also increase developers' risk "and the cost of that will get borne somewhere else ... or if you did it today of course, people would build out more quickly, but they would be a lot more cautious about the next set of planning permissions they applied for, so actually it might make the future market less elastic".

Professor Paul Cheshire: Yes, except virtually everything is capitalised into land prices. This is why you could make brownfield land, which is not very costly to redevelop, non-viable by increasing the risk premium. That is one of the consequences of having a system that does not make clear-cut decisions, which are non-gamable, so to speak. If you were to put a land tax on it, all that would happen is that people would pay less for the land in the first place. It would get capitalised into land prices, just as impact fees are capitalised into land prices. They come out of the landowner's take rather than the developer's profit.

Lord Griffiths of Fforestfach: If you think of the impact that Uber is having on black cabs in London and other cities, my impression—it is only an impression—is that an increasing number of people in London, particularly young professionals, are looking to rent out a room for people who might come to work in London from Monday to Friday, and more and more

of this is happening anywhere, but particularly in London. If you own a house and you rent out one room, imagine if you paid no tax on the rent you get from one room. Do you think that that would have an effect on increasing the supply of accommodation? The Treasury might be horrified by it.

The Chairman: Airbnb does just that.

Professor Paul Cheshire: It has changed the supply of room space. If you think of each room, Airbnb has changed the supply.

Professor Danny Dorling: But, in theory, you should declare your income. My worry is that I suspect a huge number of people do not declare the income they get from the informal agreement of somebody to stay in the spare room.

Q73 The Chairman: Leaving aside people's tax planning arrangements, which is beyond the scope of our inquiry, Airbnb—the "sharing economy", let us call it—offers the opportunity of addressing one of the problems that you have identified, which is the amount of spare space, on a very flexible basis.

Q74

Professor Danny Dorling: It does, but it is worse than our current shorthold tenants who have no tenancy agreements. You have no rights at all. You can end up as a resident by using Airbnb continuously. Maybe you get squatting rights—I do not know—without having a tenancy agreement.

Q75 Baroness Blackstone: I have a specific question about current government policy. In the Budget, the Chancellor announced that social rents were to be reduced by 1% per

annum over the next five years. Do you have a view about whether that was the right thing to do, particularly from a perspective of housebuilding by housing associations?

Q76

Professor Paul Cheshire: It will reduce housebuilding by housing associations because it will reduce the value of their balance sheets and make it more difficult to finance building, and since they account for 20% of new construction, that is probably non-marginal, but it will be small.

Professor Danny Dorling: However, one reason for doing it was that there is no point in introducing a so-called living wage and not controlling rents. You need to do something about rents, otherwise a living wage becomes meaningless because your rents go so high that it is no longer a living wage. I can see why they are worried about it, but there are other ways of getting our housing costs down. Our housing costs are very high as a proportion of our income in this country as opposed to housing costs in France and Germany. You could improve the standard of living of the vast majority of people in Britain by reducing the cost of our rents and mortgages. You need to ask why they are so high and what you can do.

Professor Paul Cheshire: The answer to that is a long-run shortage of supply. We have underbuilt by more than 2 million houses during the last 20 or 30 years. Of the houses we have built, they have not tended to be of the right type in the right places to satisfy demand. It is not surprising that housing is as expensive and as cramped as it is.

Professor Danny Dorling: We have also increased inequality.

Professor Paul Cheshire: Yes. On that basis, we have increased inequality.

Professor Danny Dorling: We had more rooms per person in 2011 than in 2001. I agree that we have the smallest rooms in Europe, and we want more rooms than we have. But we have been building rooms on to housing. We have slightly more housing than we have ever had. The problem is the distribution of who is cramped in some parts of London and who is sitting in housing that is mostly empty rooms. That inequality is getting wider as well. It is going to get much worse because of this demographic ageing boom that we going through – the 1946 born baby-boom generation will be aged 70 next year.

The Chairman: Gentlemen, thank you very much for an interesting and wide-ranging discussion.