Appendix 1

Housing Committee – 24 January 2017

Transcript of Item 6 – The Mayor's Affordable Housing and Viability Supplementary Planning Guidance, and Funding for Affordable Housing

Andrew Boff AM (Chair): We now come to the main item of this meeting, which is on the Mayor's Affordable Housing and Viability Supplementary Planning Guidance and funding for affordable housing. This is an extraordinarily important item with regard to the remit of this Committee and, indeed, the Planning Committee and we are using meetings of both Housing and Planning [Committees] to discuss the Mayor's proposals.

Because there are so many people that we need to talk to, we have to be quite efficient with the way in which we use time and so this morning we are going to be splitting our work into two sections of panels, first of all, to talk about viability assessments and we have a set number of guests for that and, later on, we will be talking about the funding aspects and there will be a set number of guests for that.

In our first panel to talk about viability assessments, rather than introduce people, if you do not mind, you can introduce yourselves as you contribute - thank you very much - because that will save a bit of time.

I am going to launch off with the first question, if I can address this to Pete Wyatt and Neil Crosby, do we need a new approach to viability assessments?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): I will go first. I am Neil Crosby. I am the University of Reading Professor of Real Estate. I am a chartered valuation surveyor, although they do not call them that anymore but that is how I qualified, and I have been in practice.

The answer is no, but we need to sort out threshold land value. If we can sort out threshold land value and the way in which viability assessments are applied, then the idea of having viability as central to the planning system can work. At the moment, it is not working.

That is the fault of a number of places. Outside of the supplementary planning guidance (SPG), the planning guidance from the Department for Communities and Local Government (DCLG) is appalling. It misunderstands development appraisal completely and has contradictory parts in it. Paragraph 23 or 24 has some very contradictory guidance, which is causing all sorts of confusion. The DCLG needs to get its act together first.

The planning inspectors are not up to the job of development appraisal. Development appraisal is a very detailed, difficult area of valuation and planners are not well versed in valuation. There are only two universities that in the past have combined real estate and planning within their academic programmes. Planners just have not been taught how to do development appraisal and so, suddenly, they are being put into a position where they are being asked to make judgements about some quite difficult practices. Even before we start with the detailed guidance, there is a whole area of trying to get a more level playing field between local authorities, landowners and developers. It is not a level playing field at the moment.

The fall in the numbers of affordable housing was totally predictable from whatever it was to 13% last year. If we do not change the way in which development viability is applied, then it is going to continue. The SPG does not get it right. Existing use value (EUV) plus will not solve the problem and so, yes --

Andrew Boff AM (Chair): If it will not solve the problem, what will, Professor Crosby?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): A different way of looking at it. We could do a masterclass in development appraisal, but not here. There are all sorts of detailed issues within how to do development appraisals.

The development viability assessment is the first valuation technique in my career where one of the inputs into the valuation is also an output. Development is a residual and land value is a residual of what you can put on the land and how much it costs, and the developer's profit should be there. It is an incredible risky business, development, and so developers are quite entitled to have, in a sense, abnormal [profits] - and I do not mean it in that sense - returns.

The way in which it happens is that the land value is the bit that comes out at the bottom and so land values in London should be at a level where the developer can get its proper return and the local authority can also get its proper return in the form of planning obligations. What has happened is that the land value, the way it is being assessed and the way the Royal Institution of Chartered Surveyors (RICS) guidance note is being interpreted by planning inspectors and others is meaning that the planning obligations have become the residual amount that falls off the bottom of the development appraisal. Because of the way in which threshold land value is being applied, you have become, in a sense, the risky bit of the development process.

Tony Devenish AM: This is a very interesting point and I do not think we are going to resolve it here. Both Gavin Barwell MP as the DCLG Minister [Minister of State for Housing and Planning and Minister for London] and James Murray as the Deputy Mayor [for Housing and Residential Development] are more responsive than previous holders of those roles. I suggest, sir, that you write clearly to each of them and copy in the Committee because it is not something we are going to resolve here in a very short meeting. They are both very responsive. I saw them both speak only yesterday. They are open to professional opinion and so make your case directly to them. If you can copy in the Committee, it would be great.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): We are trying to get inside the DCLG.

Tony Devenish AM: Write to them first. Gavin [Barwell] said this to me at a public housing meeting, "Put your case down". He reads absolutely everything, as does James [Murray]. I urge you, rather than going through the civil service - which is never easy, either the Greater London Authority (GLA) or the DCLG - to write directly to them. They do respond, unlike some previous Ministers and Deputy Mayors sometimes.

Andrew Boff AM (Chair): Absolutely. To paraphrase Ronald Reagan [President of the United States 1981-1989], "We're from the London Assembly and we're here to help". Professor Wyatt, do you have something?

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): Neil [Crosby] has covered a lot of ground there, which I will not repeat. Just to take a step back from it, your question was quite broad in its statement. If we think about this perhaps a bit more strategically and say, "OK, there are lots of problems with development viability assessments, the appraisal process, the modelling, the assumptions that go in, the outputs and the thresholds we set", and if we say, "It is too difficult. The method, the modelling and the arguments are too difficult", is there an alternative? Probably, yes.

I suspect from what I can gather that the GLA is already considering an alternative, which is a land value tax (LVT). At the moment, what you are doing is you are taxing uplifts in land values that are generated as and when planning consents are given and so it is an event-based tax, which is avoidable by - obviously - not bringing land forward for development. If you think about a recurrent tax that allows you to tax the uplift in value - the difficult part of LVT is in trying to identify and value all land in London, not an easy tax and we need to talk about that some other time - the idea is that you have a recurrent tax and that you capture that, whether or not it is coming forward for development. That might be an alternative, but it is one that I think you are already looking into.

Andrew Boff AM (Chair): I find it fascinating but, as you say, we will have other opportunities to talk about a LVT and the pros and cons of that approach.

Mr Waters and Mr Singh, you are both from Southwark Council. The Mayor has chosen a 35% affordable threshold for deciding whether or not a viability assessment is required. Is that the right approach, do you think?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): On the whole, the draft guidance is helpful to London boroughs in implementing planning decisions that rely upon viability and it embeds or seeks to replicate quite a lot of practice that has been emerging from the London boroughs. A lot of London boroughs have collaborated together to consider different approaches to viability and the best way to use viability appraisals in the development process.

The threshold approach put forward in this is quite new. It is not an approach that is currently being used by London boroughs through the London Borough Development Viability Protocol. I can see that there are definitely benefits to making the process easier by having a light-touch approach for schemes that do come forward for a policy-compliant affordable housing offer.

However, perhaps the complexity of putting together a development viability appraisal is perhaps a little overstated. It does cost a few thousand pounds to put together a development viability appraisal. It is work for the applicant; it is work for the planning authority to assess that and, as has been mentioned, the skills are not always available in-house amongst planning officers to understand some of that information. However, these skills can be got by commissioning reviews of the viability assessments. There is a cost to this, but it is perhaps a little overstated.

It is always desirable to have a development viability appraisal irrespective of whether or not the scheme that is proposed is policy-compliant. First of all, a scheme may come forward that is policy-compliant, but if the planning authority is not convinced that it is actually viable - the applicant may say it is viable but there is no evidence to demonstrate that - the planning authority is not really able to have assurance that it is permitting sustainable development and that that development will take place. An applicant may put forward a scheme that is policy-compliant based on their own assumptions about changes in costs or values that will make it viable at some later point in time and, if those favourable changes to the developer do not take place, then they will have no reason to build it out. In a sense, not having a development viability appraisal could encourage developers to wait on developing a scheme. It is important for planning authorities to be sure that a planning obligation that is being offered is actually viable.

However, for those schemes, it is not necessary to have such a detailed level of information to assess. The guidance states that when a scheme comes forward that is policy-compliant, there may be a review if the scheme is not built out within two years and so there is that assurance to the planning authority. It means that a developer is unlikely to take too many speculative risks on changes in values and costs. However, a review is very difficult to implement if you do not have a benchmark to make a review against. It would be helpful to have at least the main elements of a viability appraisal agreed, such as what the benchmark land value is that would be used as the basis for a review if the review does have to kick in with two years.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): The guidance says that it will require a benchmark land value regardless of which route so that it does have it. It is expecting that, which means that regardless of route you will have to provide a benchmark land value in there, which is one of my questions. How is that going to happen? You are still going to have to do a viability assessment regardless of Route A or B to get that benchmark land value.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): The benchmark land value alone will not necessarily demonstrate that the offer being made is viable.

Andrew Boff AM (Chair): Can I just quiz you a little more on what you have said? Are you saying that the viability assessments for those that qualify for the fast track - because they have 35% [affordable housing] and will not have to then provide a viability assessment - risks an increase in the number of unviable planning applications coming through? We know that it is big business in London to put forward planning applications that you have no intention whatsoever to develop but purely to increase the land value.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): Without the planning authority being sure that a scheme is actually viable, there is a risk that schemes may not be delivered.

Andrew Boff AM (Chair): It could increase the number? Already a problem is the number of planning applications for homes that are not being delivered and it may increase that?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): It is an area of the guidance that could be tightened up.

Andrew Boff AM (Chair): That is interesting.

Nicky Gavron AM: This is the threshold route?

Andrew Boff AM (Chair): Yes.

Tony Devenish AM: On a point of clarification, the Professor seems to be saying that whichever - Route A or B - we go down, we are still going to need a viability assessment. Does everybody agree with that? Is that what you said, Professor?

Andrew Boff AM (Chair): He said you would still need a land value.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): I am sure I read that somewhere in the document.

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): That is what the guidance says. If you mean the 35% threshold, then there is no requirement for a viability assessment.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): It does say that there will be an ability to review and there needs to be a benchmark land value --

Tom Copley AM (Deputy Chair): That is after two years.

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): That is after two years, yes.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): Yes, but I am sure it says something about you needing a benchmark land value --

Nicky Gavron AM: Existing use plus 10%, is it not?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): I do not know if that is --

Tom Copley AM (Deputy Chair): Is that not for Route A rather than Route B?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): That is another issue.

Tony Devenish AM: Maybe we can take that up with the Mayor -- --

Nicky Gavron AM: Can we take that up with the Mayor? We need to know this.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): We just need to check that that is not completely wrong, but if I am wrong –

Sian Berry AM: It does. I have it in front of me here. It does say that there will be an early review mechanism triggered automatically if they do not make progress "within two years". It then says:

> *"The section 106 [of the Town and Country Planning Act 1990] agreement should set out an agreed benchmark land value which will form the comparison for the viability assessment if triggered by the review [mechanism]."*

That is what it says.

Andrew Boff AM (Chair): You need a land value.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): You need a benchmark land value at the beginning there. That suggests it needs one at the beginning.

Sian Berry AM: That is what it says, yes.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): It seems to me that having to do a benchmark land value gets rid of one of the good things about having a fixed number, which says to the developer, "If you do not want to go through this process, offer us 35% [affordable housing]".

Andrew Boff AM (Chair): If I go back to Mr Waters, if I may, you also implied that we may see an increase in the number of people who are just sitting on pieces of land. Already that has been a huge problem for decades in London with people sitting on chunks of land. I could take you to bits of Tower Hamlets where just incredible opportunities have not been seized over 30 years.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): I am saying that there are risks and another risk could potentially be that an offer of policy-compliant affordable housing is made and then subsequently a change application - a section 73 application - comes in saying, "We would like to reduce this amount of affordable housing because it is no longer considered viable". Then, when that application is considered, you are looking at just that one element of the proposal, the affordable housing, rather than looking at the scheme in its entirety, which is what you ordinarily do when you are considering whether or not a scheme is acceptable.

Andrew Boff AM (Chair): Thank you very much.

Tony Devenish AM: The Mayor's approach to viability seems to be to make Route A through the planning system, a negotiated route, pretty tough. Do you two developers consider this to be tough or are you happy with the changes? Maybe I will ask this question to the two gentlemen who have to take the risk and develop for a living, Greg [Tillotson] and David [Montague].

Greg Tillotson (Regional Development Director, Barratt plc): As a whole, in terms of the document itself, we welcome the SPG and we welcome the introduction of a threshold. If the objective is to speed up the planning process and deliver more homes quickly and deliver more affordable homes, then the threshold approach is a good approach, particularly if it does not require a viability assessment in order to achieve that. We are accepting there is a need for a benchmark, but that does not mean to say you have to go through the whole viability process, which is a process that is holding up many applications across London.

There will be instances throughout London where 35% affordable housing is simply not deliverable because of the market price-point in that particular area or alternative use values (AUVs), which make it difficult for the landowner to be encouraged to sell the site to a developer to enable the housing to take place. There will still be a considerable number of sites across London, particularly in outer London boroughs or the Thames Gateway, where it is going to be exceptionally difficult for a landowner to release land at 35% affordable housing given all of the other obligations of the Community Infrastructure Levy (CIL), all of the other rights, sustainability issues, the increased emphasis on housing design, etc. These are additional costs, which are needed in terms of improving the quality of homes, but there will be a lot of sites that simply will not be able to accommodate 35%. Therefore, the viability assessment will come into play.

It is probably too prescriptive. It has gone into a huge amount of detail in terms of the relationship with the registered providers (RPs) and in terms of fixing values. In terms of benchmark values, there needs to be an acknowledgement. I know there is acknowledgement of AUVs, but there needs to be a greater emphasis on that. It does say that where there is an implementable planning permission for alternative use, it can be taken into account. When a site is allocated for a number of different uses, it needs to acknowledge that a site could be brought forward for different uses and the value of those different alternatives should be taken into account in the viability assessment.

Tony Devenish AM: When you give your response, presumably you will be writing to the Deputy Mayor [for Housing and Residential Development]?

Greg Tillotson (Regional Development Director, Barratt plc): Yes.

Tony Devenish AM: Will you be able to give some examples? Do you have any feel for how many typical Barratt schemes are going to go via Route A or Route B in terms of looking at the London market?

Greg Tillotson (Regional Development Director, Barratt plc): It depends where. Again, it comes back to location. We have delivered over 16,000 new homes across London in the last 10 years, of which 28% have been affordable homes, not at the threshold. Where we can, we will. It is a very competitive land market and we will be looking to adhere to the planning policy of the GLA, as we do on every site.

There will be a number of circumstances where there are abnormal costs associated with development - where the market price-point is too low or where we are delivering other uses such as community infrastructure, etc - which prevent it from delivering 35%. There will be many instances like that.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Whilst it is true that we make our living out of development, we are also a charity --

Tony Devenish AM: I appreciate that.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): -- as is every other member of the g15 [group of London's 15 largest housing associations]. The vast majority of housing associations are charities. The starting point for us is that we want to deliver as much affordable housing as we can. We are working with the Mayor to 50% affordable and potentially, as a strategic partner, we will aim to do better than that. That is our starting point.

It is true that it is more difficult in some areas than others. As a charity, the approach we take is that 100% of the profit we make will be invested back into development and we will do as much as we can across London, but inevitably there is a centrifugal force within London. It is far more difficult to operate in inner London than it is in outer London and so we are seeing our development programme move from inner to outer and beyond London as well. We are witnessing that within London & Quadrant (L&Q).

Tony Devenish AM: Can we just stick to the point on this? I appreciate everything you are saying, but do you think that most of your applications would go through the Route A process going forward or Route B?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): We will go for the fast track. Our starting point is 50% affordable and so we are 15% beyond the 35%. I would imagine that the vast majority of our applications will be fast-tracked.

Tony Devenish AM: Can I go back and just ask you that question, Greg? Do you think you will be mainly [Route] A or mainly B?

Greg Tillotson (Regional Development Director, Barratt plc): It will be a mixture. It is impossible to tell at this moment, but I would have thought 50/50 at least and possibly more in favour of 35%. It depends on the land and where the location is.

Tony Devenish AM: Thank you.

Tom Copley AM (Deputy Chair): I just wondered whether public transparency about viability itself will encourage developers to go down Route B rather than Route A and actually having the assessments published.

Greg Tillotson (Regional Development Director, Barratt plc): I am not sure that that will be a determining factor to which route we adopt. It will be based purely on viability and the specific circumstances of the site itself.

I understand why making viabilities publicly accessible is needed. One of the fears of it, though, particularly when a site is subject to a lot of objections, is that the toolkit in itself will become subject to scrutiny and there will be a need for further third-party evidence, etc, from those objections. It may ultimately end up slowing the process. That is not to say that I do not accept the principle of it in terms of transparency, which is needed because a lot of people are distrustful of developers and what we say, which is unfair but is out there, is it not?

Tom Copley AM (Deputy Chair): Yes.

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): Can I just add one very quick point? In economic terms, if you set a target of 35%, then you will only ever get 35%. If any bidder is looking to build 50% affordable housing, it will be outbid by a developer that is going to build 35% affordable housing. If the long-term aim of the GLA is to move towards 50%, it makes it harder because land values will adjust to that 35% maximum amount.

Nicky Gavron AM: Is there a review mechanism as well at 35%?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Is there also a 40% tripwire and --

Greg Tillotson (Regional Development Director, Barratt plc): There is a review mechanism if you do not start a site within two years of planning permission.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): I thought there was an incentive to go beyond 35% because you can claim grant on the entire amount if you hit 40%.

Greg Tillotson (Regional Development Director, Barratt plc): It is the land market that I am concerned about.

Tom Copley AM (Deputy Chair): Realistically, I do not know. Obviously, you can talk about an average across London and then you can look at specific developments. How many developments tend to come forward with more than 35%? I do not think we have ever gone more than, on average, 33% across the whole of London.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): With the 35% point, it does state in the guidance that if a London borough can demonstrate that a greater proportion than 35% is viable at the borough level, it should be assumed to be the minimum policy-compliant amount. Some boroughs in inner London have demonstrated through strategic viability assessments that 40%, for example, is viable without grant funding. In that circumstance, you discount 35% and say that it is 40%.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): The point Pete [Wyatt] made about 35% becoming the land value benchmark is right. In a rational market, that is what would happen. That is a big improvement on what we have now because, at the moment, land values are predicated on the grounds that if you can use that land value within the viability assessment, you can get the affordable housing down to - theoretically - zero by bidding up the land price because those bid-up land prices are being used in the viability assessments. That is the circular argument that is being used. The SPG is one of the first documents that has recognised that outside of the circularity argument in the SPG and I welcome that big time.

Andrew Boff AM (Chair): Of course, it is not necessarily theoretical as well. Literally, that has happened.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): It is very difficult to prove that.

Andrew Boff AM (Chair): It has happened, yes.

Nicky Gavron AM: It leads to an endless escalation of land values. That is for sure.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): We think so and we think that that is entirely predictable given the way in which viability assessment is applied and the fact that that land value gets fed back into the viability assessment. It is nonsense in rational economic terms and in valuation terms.

Sian Berry AM: Yes, but the 35% threshold does not solve the problem you have identified with the land values adjusting, does it? The land values, like you say, will just adjust to fit the threshold. You could choose a different one, yes --

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): They will adjust to 35%. If the 35% is held, they should adjust to 35%. If you still have Route B where you can go through the viability assessment and use the land values, if we can get rid of that part of the viability assessments and we get a different way of looking at benchmark land value - unfortunately, I do not think EUV-plus is the answer, but that is another matter - then we can hold and land prices should, rationally, move down again. They should. How rational land markets are is another issue.

Sian Berry AM: One thing I am concerned about is the transparency disappearing once you go over the threshold. I worry that if we have the potential to go above 35%, we will not know about that. As an academic, you must be concerned that if you are not going to see the viability assessments above 35%, any evidence that you could go higher will be hidden away.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): Yes. I agree with Pete [Wyatt]. I cannot see it. Everything will then benchmark to 35% --

Sian Berry AM: Yes. We will not even see it happening.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): -- and it will be very difficult to prove that you can have more than 35%, apart from grant-taking, and so 35% will just become the policy-compliant benchmark.

Andrew Boff AM (Chair): We could have a situation where there is a levelling-down rather than a levelling-up, which is the intention of the policy?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): No, because --

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): Not if Tom [Copley AM] is right because if your affordable housing proportions at the moment are below 35%, then 35% is a good target to have. It is just that if your aim is to raise it - and in parts of London that might be a good idea - then that will be difficult because, at the moment, the Planning Policy Guidance (PPG) says, "Have regard to land prices that are being paid in the marketplace", which will reflect the 35% affordable housing. It is going to be very difficult to rebut that evidence if you are trying to get it up to, say, 40% or 50%.

Andrew Boff AM (Chair): Did you want to come in on this?

Tom Copley AM (Deputy Chair): It was just a quick one about whether or not, particularly from the GLA's point of view, on bigger developments the GLA should be doing its own viability assessments on site when developers have chosen to go down Route A and comparing them and saying, "We have done a viability assessment and we think the land could support this level of affordable housing". Do you think there is a case for the GLA doing that?

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): There are two issues. One that it would be a good idea in terms of the negotiation about what level of inputs should be going in, the values and the costs, put simply. There is another problem, which is agreement on the methodology. That is where, as academics, we have failed at the moment to convince the industry that they should be adhering to a consistent method of doing development viability appraisals. That is a work in progress, but the more we can become more consistent, the better. It still means that you are going to be arguing about the inputs.

Tom Copley AM (Deputy Chair): Just on the methodology point, Nicky [Gavron AM] and I heard that in one development kitchens designed by Versace or something were being put into a viability assessment. It is no wonder that, if you put that into a viability assessment, you come out with zero affordable housing at the other end.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): Can you afford, from the local authority point of view or the GLA's or whatever, to have the same quality of expertise that the developers can afford to have? In other words, will your expertise doing your viability assessments match the expertise that is on the other side, to be blunt?

Nicky Gavron AM: We have asked, actually. We have asked for the Mayor to make sure that there is a consistent methodology. The GLA has to work with the boroughs on this. It absolutely has to.

Andrew Boff AM (Chair): There obviously is a market for Versace kitchens or they would not be in there!

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): Work with the boroughs to get a consistent methodology, yes --

Nicky Gavron AM: Yes. Some resources have to go --

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): -- and with the DCLG so that its PPG actually endorses that methodology and does not cause what I consider to be the chaos that it has caused at the moment through its --

Nicky Gavron AM: That is a good point. We should log that. We should log that point.

David Kurten AM: I would just like to move on to consider whether the new methodology is going to speed up the delivery of housing. I will start off by asking Perry [Singh] and Philip [Waters] from Southwark. Will the new approach speed up planning and delivery, do you think?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): As in the approach set out in the SPG to how it is being used to assess viability appraisals?

David Kurten AM: Yes, with two different routes.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): The London Boroughs of Southwark and Islington both adopted local supplementary documents, which set out guidance for how viability appraisals should be formulated and how they will be assessed early in 2016. A lot of the methodology is quite similar. There are minor variations between London boroughs and the Mayor but, on the whole, you could say it is broadly the same approach.

The experience that we have had is that it has been quite successful, certainly, at speeding up the process because there is more clarity for developers to understand, "If you are looking to achieve planning permission in Southwark or in Islington, this is the approach that we would expect you to follow and this is how you can demonstrate to us, if need be, that your proposal cannot meet the planning policy requirements of the borough". Generally, it is an approach that has been quite welcomed by developers as well. They like the certainty. Transparency has not been an issue, either. It is a useful approach to have a very clear structure to the way that development viability appraisals should be submitted and will be assessed. It is mutually beneficial.

David Kurten AM: There is a difference, though, between the planning permission given and housing that has started.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): The approach of having a supplementary planning document was embedded only early-to-mid last year [2016] and so we have not got through to the point where we are seeing whether it is making -- we cannot definitively say that the actual processing of applications is quicker and more consistent, but at this point we cannot say whether it is resulting in more starts.

David Kurten AM: With the two different routes - the possibility of a Route A and a Route B, which is fast-tracking - do you think that the new approach, for developments that do not meet the 35% threshold and have to go through Route A, will make the process more complex for developments that go through that route?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): My view is that the complexity of financial viability appraisals is perhaps a bit overstated. If a developer is going to be proceeding with a development, it will already have all of that information to hand and it will have thoroughly investigated the costs and values of the development it is proposing and expected level of profit. It is not particularly challenging to then put that into a format that can be assessed by a planning authority.

David Kurten AM: It will not slow down the number of houses being built or planning permission given overall?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): I am sympathetic to having a lighter-touch approach for policy-compliant schemes because it seems unnecessary to be quite as rigorous in the investigation of the financial viability appraisal. However, it is still important to understand the key components of the viability of the scheme.

David Kurten AM: Thanks. If I could bring in Greg from Barratt now, do you think the threat of an early review mechanism will speed up the starts? We give a lot of planning permission but we actually want to get these things started. With the idea that there is going to be an extra review after two years if there is not sufficient progress being made, do you think that that will speed up or increase the proportion of planning permissions that start quickly?

Greg Tillotson (Regional Development Director, Barratt plc): It is going to encourage development. It really depends on the applicant. At Barratt, our business is buying land, obtaining planning permission as quickly as possible and starting onsite as quickly as possible because we have spent the money. We want to get a return on that money and deliver it as quickly as possible. Our business model is to buy, get planning permission as quickly as possible, start onsite and deliver as quickly as possible. That is why we have delivered over 16,000 new homes over the last 10 years in London and 2,000 in the last 12 months. That is our business.

On the 35% threshold, I am responsible for buying land and getting planning permission in London for Barratt and my objective will be to try to buy land at 35% affordable housing where I can. As I said, there will be instances where it is simply unaffordable for the landowner to accept that impact on the land value for the reasons I outlined earlier.

Tony Devenish AM: Just very quickly, do you think there is a risk that you may push some of your operations out of London and do more in, say, greater southeast England with these additional costs and risks?

Greg Tillotson (Regional Development Director, Barratt plc): As a United Kingdom (UK) national housebuilder, we deliver 17,000 homes a year and then there is obviously as a business, we are looking to invest money across the UK and, if it is becoming riskier and more difficult in certain areas, then we will focus on areas where it is simpler.

Nicky Gavron AM: This is to Barratt. With some of the land where you have planning permission but you are not building out at the moment, is it possible that you have bought that land at a higher value? How will this affect you?

Greg Tillotson (Regional Development Director, Barratt plc): We do not have any land on which, if we have planning permission, we have not started.

Nicky Gavron AM: You do not have any land with planning permission that you have not started?

Greg Tillotson (Regional Development Director, Barratt plc): No. As soon as we get planning permission, we start onsite as soon as possible. That usually is within a matter of a few months, if not weeks.

Nicky Gavron AM: You have absolutely no land that you are not building on because you have bought it at a higher value and you are waiting?

Greg Tillotson (Regional Development Director, Barratt plc): Every site we have at the moment we are building on, if we have planning permission.

Nicky Gavron AM: I just remember your accounts from - it was a long time ago now - four years ago and the emphasis was on "value, not volume", quote.

Greg Tillotson (Regional Development Director, Barratt plc): It is always a combination of the two but, as I said, if we have spent money on a piece of land and we have planning permission, we need to get a return on that investment and we will start onsite. There are an awful lot of extant planning permissions that have not started and that is because the owners are either land-banking it themselves or just creating a value for that land. There are many more of those sites than there are sites owned by developers who want to deliver. For most residential developers, it is their business to deliver and they will deliver.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): The option to wait can be a valuable option in land value. It is not priced in these models --

Nicky Gavron AM: In what way?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): The timing of when you do the development can impact on the returns you get. If you want to bring things to the market at a particular time because of your market analysis, there might be value in putting it onto the market at a different time.

Nicky Gavron AM: To get a higher value?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): To get a higher value --

Nicky Gavron AM: Exactly.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): With the existing land value and the existing profitability, even if it is an extended time period, the added value overrides that extended time period and the cost of it.

Nicky Gavron AM: That is why we have land-banking, is it not?

Andrew Boff AM (Chair): Can I just ask? You are talking about the early review period. Why not an earlier review period of a year?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): I do not know. It's not a question I can answer.

Andrew Boff AM (Chair): Anybody else? If Barratt, for example, is eager to get onsite and build, why not have an earlier review period of a year?

Greg Tillotson (Regional Development Director, Barratt plc): I would not necessarily object in principle to that. It is really about the site specifics and what defines a 'start' onsite. Sometimes it depends on the definition.

Tom Copley AM (Deputy Chair): It is called 'implementation', is it not? That is by agreement with the local authority.

Greg Tillotson (Regional Development Director, Barratt plc): As a business, in terms of land-banking, from 2008, we continued to deliver housing on land owned by the London Development Agency (LDA): St Andrews, [Thames] Barrier Park, Canada Water. We were selling them when Lehman Brothers went bust in September 2008 and we did not stop at Canada Water. We are a housebuilder and we will do everything we can to keep building and keep our staff employed. There are a number of investors and institutions that will land-bank, but it is generally not the housebuilders.

Andrew Boff AM (Chair): I have spent decades wandering around the pieces of land that have been land-banked, effectively, by public authorities, not by private owners.

Greg Tillotson (Regional Development Director, Barratt plc): Indeed. That is probably the biggest land-banking.

Leonie Cooper AM: We are beginning to touch on this. We all know very well that there are instances where people have bought sites, sometimes with things built on them that they know they are going to have to transform because they are listed or whatever. Battersea Power Station is a great example of that. It was bought and then sat on for decades and decades. It is now, finally, being developed out but, of course, the values that are now being achieved are completely unaffordable at £1 million for a studio flat. I don't know, perhaps you might have bought several, but for most people who live locally that is completely unaffordable. If that had been developed out years and years ago - because the site is absolutely massive, even if you did not do very much to the power station - would this early review mechanism have speeded up the start rather than having it sit there for decade after decade?

Tom Copley AM (Deputy Chair): I did want to say, just on land-banking, just because we were on that, of course you will have a current land-bank but you will also have a strategic land-bank, will you not? Do you, as Barratt homes? A lot of developers do. You will have your current land-bank, which has planning permission, and then you will have a strategic land-bank of land that you own but do not have planning permission for.

Greg Tillotson (Regional Development Director, Barratt plc): Yes, but we are trying to get planning permission on it.

Tom Copley AM (Deputy Chair): You are trying to get planning permission?

Greg Tillotson (Regional Development Director, Barratt plc): Yes.

David Kurten AM: If I could move over to the Professors from Reading [University], we were talking about land-banking and how we need to try to get sites that have been given planning permission to start building early. The review process that we have in both routes needs some kind of agreement between the planning authority and the developer as to what is going to be the level after two years. They have to agree a level of progress at the beginning.

Do you think that that is going to be easy to agree? How are local authorities and developers going to be able to come to an agreement that suits both of them to say, "After two years, we will have built this much; otherwise, we will have to be looked into by the local authority"?

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): My experience is only anecdotal in this matter, but it will be difficult to agree when that start date would occur consistently across a bunch of what would be fairly heterogeneous developments in London particularly. What is the trigger? What infrastructure needs to be put down? Is the trigger a certain amount of housing or started housing or whatever it might be? It would be quite difficult to pin that down, in my view.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): For a lot of these things, the devil is going to be in the detail. In a sense, with all due respect, you are asking the wrong two people that question because we sit outside this process and it is quite a detailed 'how process works' question. I suspect it will not be easy to define those things.

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): Sorry, there is one reply that I could give from an academic perspective, which is creating maybe part of the need for these review mechanisms, which is that your current modelling approach is to have current values and costs in it and not forecasts. What you are trying to do with the review is to say, "Has stuff changed further down the line? Can we claw back some more section 106 planning obligations or affordable housing in the latter stages when we have looked at it?" You could probably get around that by having forecasts of costs and values in your modelling because, remember, even a zero forecast is still a forecast that you expect to come. That might be something that you could consider.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): With the proposed Route B schemes and the two-year benchmark, it helps to have a ballpark figure, but it would depend very much on the scheme. Planning authorities and developers would need to agree an appropriate period based on the specifics of the scheme. It may be longer in some cases. It may be less time. The purpose of that review is to incentivise schemes to get built out and so it is welcomed that there is a review to try to incentivise schemes to get onsite and complete.

With the Route A schemes, there should be a review in all cases because they have been awarded planning permission for schemes that are not policy-compliant. All development appraisals are based on forecasts and there always comes a point when that forecast becomes an actual value. Once built contracts are let, for example, or once some presales start, it is much easier to then revise some of those assumptions in the appraisal and identify that the forecast has moved to perhaps generate more value or not as the case can be. Then that should enable the planning authority to claw back some of the foregone planning contributions.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): The impact of having a final review where the outcome might be a profit-share between the local authority and the developer raises some interesting questions about whether that process will persuade developers that going for the other route - the 35% plus route - is actually a safer route in the sense that, if they do make more profit than they thought they were going to make, they have to start sharing it.

What I could not see in the SPG was a mechanism for, if the thing went wrong and the developer was getting less than what it considered to be the required return, a profit-share the other way in the sense that, as part of taking part in the development risk on the upside, what was [the local authority] going to do about it if it went wrong on the downside? Is it going to let the developer take that one? If that is the case, it would be an incentive for the developer to go through the 35% route and not keep away from having a final review, possibly.

David Kurten AM: If I just finally come back to the London Borough of Southwark, you mentioned the reviews. Do you have the resources to carry out these new reviews and multiple reviews successfully? Will you be able to negotiate and do that?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): The resources could be made [available] through the section 106 agreement that goes with the permission that the costs of a review have to be borne by the developer.

David Kurten AM: Thank you.

Tom Copley AM (Deputy Chair): Just quickly before I come on to my question, just to Mr Waters first, we have heard that developers do produce multiple viability assessments. They will do one for their investors, for example, or they will give one price per square foot to their investors and will give another one to the local authority. Famously, there was the Shell Centre, but was that the London Borough of Lambeth as opposed to Southwark?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): That was not Southwark.

Tom Copley AM (Deputy Chair): It was Lambeth. Do you think that if a developer does multiple viability assessments, they should all be made available to the local authority and it should not be keeping any secret?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): The developer is asked to provide a viability appraisal on which it is basing its affordable housing offer. That is what is important to the planning authority: that it is able to be persuaded that the developer is putting forward an implementable, deliverable scheme.

I do not see how it would be possible to go to a developer and say, "We believe that you are proceeding with your scheme on the basis of figures that you have not presented". As long as there is agreement between the planning authority and the developer that the figures provided are reasonable, then that is perhaps about as far as it may be possible to go.

Islington has an approach where it requires developers to sign a declaration of integrity, essentially, saying that they are acting ethically and that the decision to proceed with the scheme is based on the figures that are provided to the borough. Some boroughs have considered that approach.

Tom Copley AM (Deputy Chair): The Shell Case, famously, went to court --

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): You are in cloud cuckoo land here, quite frankly, with the idea that a development appraisal done for a developer is going to be exactly the same or even remotely similar to the one that is done for viability. You are in cloud cuckoo land. They are going to be very different.

One of the reasons is because the policy guidance says you cannot do forecasting. Any developer in their right mind is going to do an appraisal that looks at what its thinks is going to happen through the development time. There is option pricing, which we talked about. There are ways of doing that. That is certainly not asked for. There are all sorts of things that are not asked for in the PPG that would go into a proper development appraisal.

The developers - or the agents for the developers - are just using the framework that you have given them. If you give them a fairly basic framework, they will give you the basic appraisal that fits that framework. I am sorry, but I am back to my original point. It is almost rubbish in, rubbish out. If you put the framework in correctly, you will get the developers and their agents giving you exactly what you have asked for.

Tom Copley AM (Deputy Chair): I am going to move on to the last question for this section and it is to Professor Wyatt first of all. What is wrong with a market-based approach to land valuation?

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): It is circular. If you want to grab land transactions from the marketplace as evidence to support what you think is a viable policy-compliant land value, you have to adjust those land prices accordingly, but that adjustment is what you are trying to find out and so the whole process is circular.

The only way you can derive or estimate a policy-compliant land value is by using the residual methods and by sticking into the listed costs what the affordable housing costs will be and what the section 106 planning obligations [costs] will be. Out will pop a policy-compliant land value. That is the only way you can do it. If you go to the market to try to find it, then you are just going to go around in a circle and it will be a circle that gradually goes to the bottom and gives you no affordable housing.

Tom Copley AM (Deputy Chair): What evidence is there that the Mayor's approach of using EUV-plus would reduce land values?

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): On that, everything is EUV-plus. Whatever the landowner accepts as an agreeable price, it is EUV-plus. It is all about the 'plus'. How big is our 'plus'? If you are thinking of pegging it to a percentage of EUV, if I am a farmer and my land is worth £5,000 and you reckon that the 'plus' is 20% of my land value and I get planning permission for housing and it is worth £1 million and someone offers me £5,001 for my land, I am not going to accept that price because I know that it is worth a heck of a lot more with planning permission and so I want a part of that uplift. If your 'plus' is pegged to your EUV, then it is not going to provide a competitive return to the landowner, which defies the PPG.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): That means that you need to know what the full residual land value (RLV) is - not with planning obligations; literally gross development value (GDV) minus costs but done minus profit - and you need to know what the EUV is or the AUV is because I do accept the issues that have been said about AUV being part of this equation. Then you will have some idea about what the development gain or the uplift in value is from the grant of permission.

Then you possibly can start talking about EUV plus but, as Pete [Wyatt] said, plus what? In the policy guidance, there is no indication of how that 'plus' is going to be assessed. Where the negotiations take place will be around this mystical 'plus', which nobody really knows what it is.

In Shenfield Road in Reading, and the case there that was agricultural land, what they did was to take the EUV - agricultural land - and they took the RLV and split the difference. The landowner got 50% of the gap and the planning obligations were the other 50% of the gap. It seems to me that those two numbers are integral to starting a negotiation about what the correct price is for the landowner. I absolutely --

Tom Copley AM (Deputy Chair): Do you think that approach would work in London?

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): It is too high. No, it would not work in London. The approach that would work in London is to start looking at the RLV with the policy-compliant planning obligations taken off.

The major problem at the moment is that 'policy-compliant' is being interpreted by the planning inspectors as it was at Parkhurst Road, which is not that policy-compliant equals the planning obligations required - ie the maximum - but whatever the planning inspector thinks might be reasonable. It looks at how much is being delivered - like 13% - and possibly takes the view that that is reasonable. In other words, it opens up another completely open argument about what is reasonable.

'Policy-compliant' should mean policy-compliant. That is what the PPG says. The first bullet point in the valuation section says it should be a policy-compliant market value. What we would contend is that the third bullet point has wrecked that because it says the policy-compliant market value equals the prices that are being paid for sites in the marketplace. We do not believe that they are policy-compliant, but the PPG implies that and that is what a lot of the planning inspectors are now using. That is the circular argument. Peter [Wyatt] has talked about it and I have talked about it. Until you solve that problem and get 'policy-compliant' to mean the maximum amount in the policy or the amount in the policy, you will have this problem.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): Given that the SPG has to work within the context of what the PPG says, setting out that EUV-plus should ordinarily be the benchmark land value is helpful to boroughs because the alternative to using EUV-plus is using a market value approach, which, as has been mentioned, can result in circularity whereby the planning obligations are reduced. Having clear support for EUV-plus is a helpful approach in determining planning applications under the current framework that we have to determine them under.

Tom Copley AM (Deputy Chair): How do we work out what the 'plus' is?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): On the 'plus', my view would be that as long as the scheme is policy-compliant, then we can be quite comfortable about any magnitude of 'plus'. If it providing 35% and if the 'plus' is 50% or 1,000%, it is not necessarily a huge issue because it is providing a policy-compliant amount.

It is only when the policy-compliant amount of affordable housing is being reduced that you have a contest between the landowner's surplus and the public benefit of the affordable housing. In that case, it is perhaps useful to look at what has ordinarily been considerable to be reasonable in contentious cases. It is not case law, but generally planning inspectors have said that about 20% is a reasonable surplus where the affordable housing cannot be policy-compliant and so, if the 'plus' that is being argued for exceeds 20% or 30%, then it would be unreasonable. It is helpful to have some guidelines that state that the 'plus' should ordinarily be within the parameters of 20% to 30%.

Tom Copley AM (Deputy Chair): Do you want the Mayor to set some guidelines on that?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): It would be helpful to have some broad parameters that the 'plus' should be within so that it is easier to argue that plus 80% or plus 1,000% is unreasonable when the uplift is being achieved only at the expense of affordable housing.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): That is unworkable. When you have sites where the EUV and the RLV are widely apart, no landowner is going to come forward with EUV plus 10%, 20% or 30%. If you want to release that land, you are going to have to get off this EUV-plus and start to think more rationally about the uplift in value from the development gain.

Tony Devenish AM: We have been talking a lot about uplift in land values because of course the market has been great recent years and house prices are going up, etc, but now - apart from three London boroughs - basically, they are going down. The Government and the Mayor are trying to dispose of more land than they have ever done.

With all of this land coming on the market - and Gavin Barwell MP [Minister of State for Housing and Planning, and Minister for London] was talking yesterday about the enormous amount of land that he is going to put into the market - do you think that all the points you have been making remain valid if land values do start to either go down or not go up?

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): It could be a problem. Landowners do not have to sell their land and so they are perfectly entitled to just sit and wait. There is, as we have discussed, a price for doing that but, in volatile times, it is often a price well worth paying. If you are tying your community benefits and affordable housing to land value uplift that is generated by the private-sector land market, it is the price you are going to have to pay. You are going to have a stop-start supply of affordable housing in that case.

Tony Devenish AM: They have made it very clear in the Government that they are going to release these huge airfields, military bases, National Health Service (NHS) [land] and all the other land and they are going to say, "You have to build it out in three to five years or there will be penalties". You will have that huge plus of land coming into the market and that is going to create some kind of turbulence.

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): It is almost taking the land price out of the equation by doing that because, if it is going onto the market at zero price - and I do not know if that is what you are suggesting or not by best value - then the landowner, whether it is the taxpayer or the private sector, is going to have to see a return on that. It is still probably going to have to go into the equation. You are going to be asking the market to accept lower and lower land prices as you flood the market with housing land. There will be an impact, but it depends on volume.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): If you have a downturn in land prices, all the evidence is that in any other market the owners will sit on their hands. They certainly will not bring it to market because the option to wait becomes really valuable. You might have a load of land coming on from those sources, but a private landowner who has any sense at all would sit on his or her hands.

Tom Copley AM (Deputy Chair): Yes, Mr Tillotson, what effect will EUV-plus value have on your approach as a developer to buying more land?

Greg Tillotson (Regional Development Director, Barratt plc): The objective is, clearly, to bring forward land for housing development as quickly as possible and so a landowner does need incentive to release it. The guidance is not prescriptive about what the uplift should be on EUV. It talks about certain percentages but leaves it for the developer to explain why it should be any different. That is reasonable.

There does need to be more of an emphasis on AUVs within a London context, where landowners have multiple different directions to go to develop their land, which is different to outside London. In London, there are multiple different ways to bring forward a site. To focus just on existing use is not the right approach. It needs to recognise the alternative uses.

Tom Copley AM (Deputy Chair): I am aware of time and we are already slightly over. Can I just ask a quick final question to Professor Wyatt and Professor Crosby? Is the 20% developer profit built into the viability system justifiable or should it be lower?

Professor Peter Wyatt (Professor of Real Estate Appraisal, University of Reading): It is the wrong way of thinking about developer profit. The model that you have constructed and described in here has some problems in it. These are things that I will feed back in terms of the consultation process, but at the moment you have finance in there and you have the profit margin separately.

You have a cash margin. I know housebuilders like cash margins as their measure of profit but, generally speaking, corporate finance theory works on the basis of an internal rate of return (IRR), which you have downplayed in here. We need to look at that more carefully because developers' profit margins vary an awful lot, particularly in London because we are looking at much more diversity of risk with sites and complexity of sites and all of that adds to the profit margin that the developer wants. The build periods could be quite long, in which case a cash margin is almost meaningless compared to a rate of return, which is what comes out of a proper appraisal. There are some real problems with that measure.

Saying that it is 20% goes against the logic of many of our students and practitioners, which is that it varies an awful lot and so pinning it down to one figure is difficult.

Professor Neil Crosby (Professor of Real Estate and Planning, University of Reading): There is also time. A small six-month project is a very different project to a 10-year massive development scheme. The idea of 20% of GDV has no timeframe to it and there should be returns through time.

One of the projects that we are working on at the moment is trying to relate percentage profit margins in those very simplistic terms to actual IRRs through time, different development periods and different types of development and what the range of real returns are and what the developer is really getting through a set of scenarios, as opposed to this mythical figure of 20% of GDV or cost. It is another area where the development appraisal model as specified in the PPG and now the SPG is so basic and is, in a sense, out of touch with reality.

Andrew Boff AM (Chair): Thank you for that. We are now going to switch the panels, if we can. Everyone is welcome to stay, but we are now going to be talking more about the actual affordable housing programme.

I am going to start this section by asking Mr Singh and Mr Waters from the London Borough of Southwark whether, basically, the balance of affordable products that the Mayor proposes matches the kind of need you have in your borough.

Perry Singh (Strategy and Performance Improvement Manager, London Borough of Southwark): The focus on affordable rent and social rent at 60% and going up to 70% - and 30% has to be intermediate - feels about right. It is incredibly welcome to see a return to something that is properly affordable. The previous definition of 80% of market is massively unaffordable, certainly in a borough like Southwark. The proportion is probably about right. The London Living Rent is a new model, but it is welcome given that for a borough like Southwark it is probably more like 60% of market rent. We feel it is appropriate for keyworkers and other people who are priced out of the market. Clearly, flexibility around proportions locally would be welcome.

Andrew Boff AM (Chair): You welcome the London Living Rent? Of course, in the long term, it is directed at homeownership.

Perry Singh (Strategy and Performance Improvement Manager, London Borough of Southwark): It is directed at homeownership, but there are some questions around moving to homeownership and how we assess that. Given that moving to homeownership can happen over 10 years, lots of things can happen over that 10-year period. What happens at the end of that 10-year period if a person cannot afford homeownership? There are some questions there.

Andrew Boff AM (Chair): Could I bring in David Montague here? Will build-to-rent providers deliver many genuinely affordable rented homes?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): We will. As I said earlier, we are a charity and our aim is to provide as much genuinely affordable housing as we can. Whether pure-profit build-to-rent providers will remain is to be seen. You will have to ask what is in it for them. Why would they do it? It is a fairly difficult market to operate in. It is capital-hungry and your initial yields can be pretty tight. Squeezing more affordable rent out of a build-to-rent development is quite challenging. It is easier for us because we have charitable objectives and because we are funded through the bond markets and so our margins are more capable of sustaining those early-year affordable rents than would be the case for a pure-profit developer.

Andrew Boff AM (Chair): It is generally optimistic? We can do it?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Yes. In the g15, we have a group of housing associations that are moving into built-to-rent and our aim is to provide as much affordable housing as possible. If you are dealing with housing associations in London, you will see more affordable in the build-to-rent sector.

Nicky Gavron AM: How is it broken down? When you say "affordable rent", are you talking about the London Living Rent plus the new London Affordable Rent?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): No, this covers them all.

Andrew Boff AM (Chair): No, this is specifically over private rented.

Sian Berry AM: I wondered if it is possible to go a little bit more into the numbers and the balance between the different products, if that is OK, and to ask Southwark. The Strategic Housing Market Assessment done in 2013, amongst the affordable rented products, wanted a balance of 61% social to 38% intermediate. That is what it assessed London needed. The balance in the Mayor's figures and his targets is, basically, the other way around. It is 58% intermediate and the other proportion social.

I just wondered. You mentioned before needing flexibility within different boroughs to be able to set different targets. Is that more like the number you are looking for?

Perry Singh (Strategy and Performance Improvement Manager, London Borough of Southwark): It is probably a bit too early to say, really.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): It is possibly too early to say. Boroughs do conduct their own Strategic Housing Needs Assessments. We have to refresh that and see whether what is proposed is going to be aligned to what the current local need is. I am afraid I cannot answer that.

Perry Singh (Strategy and Performance Improvement Manager, London Borough of Southwark): The London Living Rent is a new product. In terms of affordability, as we said earlier, it is about 60% of our market rents and so it is something that is a preferable option for lots of people who are privately renting at the moment. One of the things that we need to do is try to assess the demand for it, work out a way of allocating properties and all the rest of it. That came out only in November [2016] and so we are still doing some analysis.

Sian Berry AM: Yes. These are the grants that the Mayor is offering. He is, clearly, offering more grants to achieve London Living Rent homes than he is to achieve social rent homes. I would have thought the balance in most inner London boroughs would need to be the other way around --

Perry Singh (Strategy and Performance Improvement Manager, London Borough of Southwark): Yes.

Sian Berry AM: -- whereas in outer London maybe intermediate rent is more affordable because of the differences locally.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): Not all of the affordable housing supply will be funded with the benefit of grant. A proportion of affordable housing comes forward as the 35% without grant, and in Southwark's case, of that 35%, there is a split of 70% to be social rent and 30% to be intermediate. That is why it is difficult at this point to see how the grant contribution overall will be aligned with local housing needs.

Sian Berry AM: Thanks for that.

Leonie Cooper AM: Will build-to-rent providers be able to deliver many genuinely affordable rented homes? I would like to address it, first of all, to David Montague and then I would like to bring in Mairéad [Carroll] as well.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Do you mean pure build-to-rent, as in market rent or do you mean the rental market generally?

Leonie Cooper AM: No, intermediate and --

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Housing associations will. The g15 will. We currently have 93,000 homes coming out of the ground and we have committed to double that number. We welcome the funding package that will support delivery of more affordable homes. Yes, absolutely.

Leonie Cooper AM: Do you think it makes sense for the Mayor to try to decouple the affordable intermediate rent levels from market prices?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Yes, we do, because the market price can be a long way from what people can afford locally. In L&Q's case, our affordable rents are based on a percentage of net income rather than the market price. Our rent in the London Borough of Westminster would be 20% to 25% of market rent, whereas in the London Borough of Bexley it will be 70% - or perhaps more - of market rent. We think that our affordable rent should be based upon people's ability to pay rather than what the market determines.

Leonie Cooper AM: You mentioned Westminster, but one of the concerns that Assembly Member Devenish was just referring to earlier - and something you also talked about in your initial remarks - is the issue about building more affordable [housing], potentially, either in the outer London boroughs or even going beyond London into other areas, rather than continuing to build in places like Westminster, Wandsworth, Lambeth and Southwark. Is that something that is a concern to you? Do you think that is likely to be impacting on the g15?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Yes, of course. It is not easy developing in Westminster and we would be foolish to say otherwise. We have a commitment to deliver as much affordable housing as we can in London. We are bound to work in those places where it is more affordable. We take a balanced view and so 100% of our profits are invested back into affordable housing and we work in those areas that want to work with us, but it is a constant dilemma. We can deliver more affordable housing by working in outer London boroughs than we can by working in inner London boroughs. That is a constant tension within our business.

Leonie Cooper AM: That is talking specifically about the g15 - or the g12 or whatever it is now. I was just wondering if we could bring in Mairéad at this point and move beyond the g15 to other housing associations that operate in London that are still able to develop. What is the situation for them in terms of developing in inner London boroughs or indeed in the outer London boroughs these days? What is happening to them?

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): As David [Montague] said, inner London is a challenge. Going forward, we need to be looking at what the long-term market is going to be in inner and outer London. The prices are going up, as people have seen. One of the challenges is going to be the fixed grant rate that is applicable across both inner and outer London. Housing associations are already cross-subsidising London Affordable Rent, social rent as it previously was, or discounted rent. We really need to think about where that cross-subsidy comes from and how housing associations can continue to do so. People will build in outer London. It is slightly cheaper, for want of a word, to do so in outer London and people will continue to do that.

Leonie Cooper AM: That brings me on to the point about the ratio between the different rental products: London Affordable Rent, the London Living Rent and London Shared Ownership. What kind of ratio is the g15 going to make work between those different products? What are you likely to be looking at either to cross-subsidise or just to develop anything?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Last year, the g15 delivered 12,000 new homes and 70% of those new homes were affordable, of which about two-thirds, from memory, were affordable rent.

Leonie Cooper AM: How many of those were in London?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): I will have to let you know. It was 12,000 in total. The vast majority will be in London.

Between now and 2021, in London, we have the capacity and we plan to deliver 97,000 new homes, of which 66,000 will be affordable; again, the majority.

Leonie Cooper AM: Affordable rent?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): That is a mix. It is about half-and-half affordable rent and shared ownership. That is what our current plan is. Of course, we will each negotiate with the Mayor and with local authorities and come up with something slightly different, but that is broadly what our business plans assume.

Leonie Cooper AM: Beyond the g15, what else is going to be added into the mix? What else is going to be added to those numbers and how will the ratio pan out for smaller organisations? Is it going to be more skewed towards sale or shared ownership?

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): It will ultimately depend on those organisations' business plans. Housing associations are committed to delivering low-cost rent across London. It really does depend on how you cross-subsidise your business and where that money comes from in order to provide low-cost rent. We have to accept that we have gone away from a position where grant fully funds low-cost rent. We have to use some cross-subsidy, whether that cross-subsidy comes from shared ownership, from private sale or private rent. Housing associations have to take quite difficult decisions. People are committed and do want to deliver low-cost rent - in the new model, it will be London Affordable Rent - but it is a challenge. Housing associations over the past few years have very much used cross-subsidy to provide low-cost rent across the board, as opposed to having access to that from grant funding.

Sian Berry AM: L&Q is a nice, big housing association. You have probably done the most so far to look at the Mayor's offer and decide what you will be able to do with it. A minute ago, you said your 66,000 affordable homes would be half-and-half split between affordable rent and shared ownership. Is the affordable rent there split further between the London Affordable Rent as defined by the Mayor and the London Living Rent? Is that a further split?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): In L&Q's model at the moment we are assuming 50% affordable, of which half will be shared ownership and half will be social rent. That is what we assume in our business plan. We are flexible. We will do what works and what is needed locally. We are now in discussion with the Mayor's office.

Sian Berry AM: Does the London Living Rent figure in your plans?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): It does not presently, but it will. It is a new product and it is quite helpful because in viability terms it is somewhere between shared ownership and social rent or whatever we choose to call it. It is something that responds to a need in London and it is helpful in viability terms as well.

Sian Berry AM: You have not yet decided what proportion it might be?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): We have not decided the exact mix. We have only just entered into discussion with the Mayor. We are very comfortable with the prospect of delivering the London Living Rent.

Sian Berry AM: Thank you.

Andrew Boff AM (Chair): You made the comment that, generally speaking, we cannot expect schemes to come forward that are 100% grant-funded. There are some schemes, however, that come forward with grant funding. I am thinking of the Old Oak and Park Royal Development Corporation. Yet the Mayor is anticipating reducing the amount of funding to that development. Is that going to be a problem for the delivery of new housing, if it is so dependent upon grant?

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): It will present a challenge. We need to review the approach that is being taken at Old Oak. There is a group that is making recommendations to the Mayor on the Old Oak process. We need to think about how that delivery of affordable homes will continue going forward. Housing associations that are involved in Old Oak are committed to delivering as many affordable homes as they possibly can. It is going to come down a little bit to the funding, but also a little bit down to how to approach works long-term.

Andrew Boff AM (Chair): The £4.5 million he is going to be removing is going to have an impact, surely. Is it going to have an impact on the quality of homes to be delivered there?

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): It definitely will not have an impact on the quality. It could have a slight impact on the number, but housing associations will try to deliver as many as they possibly can.

Nicky Gavron AM: To David first and then moving on to Mairéad, what are the disadvantages and advantages of there being two lots of fixed grant, one for social rent, so to speak, and one for shared ownership or intermediate?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): There is £60,000 for social rent and £28,000 --

Nicky Gavron AM: Yes. What are the advantages and disadvantages of that?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): The first advantage is that it is a lot better than nothing, which is what we had been working on before. It makes the process so much simpler. We know what we can expect and you know what we will be asking for. Hopefully, it will speed up the process. We think that the levels are about right, looking at the big picture.

The disadvantage, as Mairéad [Carroll] mentioned earlier on, is that £60,000 is worth more in outer London than it is in inner London and so it could incentivise more development in outer London. Some of us will look at the big picture and do as much as we can in inner and outer London, but there is bound to be some incentive to do more in outer London if there is just one fixed grant across London.

Nicky Gavron AM: My next question is whether the higher grant - you said it was much higher - will mean that there are more starts and more completions.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Yes, definitely. If you look at the 12,000 homes g15 completed last year, we invested £3.1 billion of our own money to deliver those 12,000 homes and we received £64 million worth of grant. Currently, our programmes operate almost entirely without grant. In fact, during the year we repaid £64,200,000 and so the net we received was -£200,000. We are developing almost entirely without grant at the moment. We are benefiting from cross-subsidies, resale and market rent. Of course, if we are now in receipt of grant, we can do much more. That is what we will do.

Nicky Gavron AM: You are the biggest housing association and so, presumably, you had surpluses. In fact, we know you did. You were able to do that. It was not a viable model, was it, longer-term, the old model, as opposed to now with the clarity of the fixed grant?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): L&Q is delivering 50% affordable and our assumption is that there will be no grant. If you like, 50% of our programme is either market rent or market sale. We make a profit last year of £280-odd million from that programme and every penny is invested into affordable rent and shared ownership. That is a 50/50 model. If you step back and look at the whole of the g15, it is more of a 70/30 model and they are able to deliver more affordable housing because they draw capital grant. Our model is more dependent on sales and market rent profit. While there is a degree of cyclicality within our model, we will be more affected by a downturn in the market.

Nicky Gavron AM: Because of the higher fixed grant?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): No, because we are currently dependent on the sales profits. If an element of grant returns to our business plan and to that of the g15, it is a cushion against the unexpected and so it will help us to do more affordable.

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): From more of a medium housing association point of view, fixed grant levels are a really good thing because it helps them to think about how they are going to develop. They will not have as much access, possibly, to the borrowing that an organisation like L&Q have and so it gives an opportunity for housing associations who might want to develop and who have not been developing for a while to get back into development. If we are seeing it from a smaller and medium housing association perspective, this is a good, positive thing to be happening.

Still, within the fixed grant rates, whether it is £60,000 or £28,000, there will be a degree of cross-subsidy required. Generally the level of grant you need to make social housing work is around about £100,000. Organisations will have to put an element of their own money in, whether that is borrowing or through surplus that they have generated. It is a really positive thing. As a whole, there are still the challenges of that difference between inner London and outer London, but it potentially does bring different organisations back into developing that might not have been able to develop previously.

Nicky Gavron AM: That is very good to hear. Can I just ask, going back to David or both of you, actually, something that I wanted to clear up in the first session? The 35% - I am sure it must be now across the board - is based on habitable rooms and, David, you keep quoting units or homes. Is this a shift to habitable rooms?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Yes, it is, and it will incentivise the provision of more, larger family homes. That is a good thing.

Nicky Gavron AM: It will incentivise that? I was just thinking that if you are talking about 35%, it could be 12 three-beds and perhaps a couple of two-beds. Then you could have 65 one-beds, say, outside that 35%.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): In a development of 100 homes, if it was on a pure unit basis, you would get 35 homes. If we need more, larger family homes, it might be less than 35 homes but more, larger homes.

Andrew Boff AM (Chair): The incentives were for building front doors beforehand, not for solving any particular housing problem.

Nicky Gavron AM: The new incentive is to build more family homes.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): It recognises the need for larger homes and will fund them.

Andrew Boff AM (Chair): Certainly this Committee in the past has been of the opinion that it is a good thing.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): It is. That is good.

Tony Devenish AM: We all know that the public sector and various housebuilders have had land banks in the past. Do you think you have been guilty of that at all in the past? Are there major bits of land adjacent to public sites that you can get on and build out?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): I would say this, but I do not think we are guilty of that. Our mission is to build as many affordable homes as we can, as soon as we can. Our model is completely different from that of a private housebuilder. We measure success by the number of homes we build each year. As soon as we have it and as soon as it is consented, we start onsite.

Tony Devenish AM: Thank you.

Nicky Gavron AM: Just to go on, David, what does the Mayor mean when he is talking about having a strategic partnership with the larger housing associations that can do more than 50%? What does that mean?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): We are working through that ourselves. We have had some discussions between the Mayor and the g15. Clearly, from the Mayor's perspective, it is about simply getting from 50% to something more. From our perspective, it is about having a seat at the table and making those big decisions together, sharing risk and hopefully lobbying the Government for those things that are in our shared interest.

A good example of that is where we are working with the Mayor at Barking Riverside. Together, L&Q, the GLA and Barking and Dagenham are delivering an 11,000-home new town with 65,000 square metres of commercial space, five new schools and one new railway station. We sit around the table together. We make those decisions together. The risks we take we take together. We own 50% of the land and the Mayor owns 50%.

Nicky Gavron AM: It is a joint venture?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Indeed, yes. We see ourselves moving towards something that is more like that across all of our projects. We would meet regularly. There would be some kind of investment board that sat over our entire development programme in London and there would be people from the Mayor's office around the table as well as people from our industry.

Andrew Boff AM (Chair): Just on that point, I need to declare an interest in Barking Riverside. Sorry.

Nicky Gavron AM: You own a bit of land?

Andrew Boff AM (Chair): I do, yes.

Nicky Gavron AM: Are there ways the Mayor could encourage the smaller associations that are not already happening?

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): Yes, and we are looking to do some more work with the Mayor and his team in order to support smaller housing associations to develop. For smaller housing associations, often it is about capacity and resources. They have not had the same experience and they do not necessarily know how to go out and buy land and they can be outbid through section 106. We are looking at a range of different ways that we can work with smaller housing associations and we are meeting with the team in the next couple of weeks to look at what resources we can provide to those smaller organisations.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): I would add to that that perhaps the strategic partners of the Mayor should have some responsibility to support smaller and medium associations as well. That is what strategic partnership is about.

Nicky Gavron AM: The strategic partnership could embrace the smaller ones, too?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): It should.

Nicky Gavron AM: You think it should but it is not on the table at the moment?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): We are in the process of defining what the strategic partnership looks like. It is still fairly early days but my view is that a larger association has a responsibility towards smaller and medium associations.

Andrew Boff AM (Chair): Can I just ask on that whether you are requesting that the Mayor puts an obligation on strategic partners to go into partnerships with smaller housing associations?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Not at this stage. We should approach strategic partnership on the basis that it is an equal partnership. The moment the Mayor starts placing obligations on us, it does not feel like an equal partnership. We have to solve this stuff together. Obligations are not the right place to start.

Andrew Boff AM (Chair): Do you view the reduction in number of smaller housing associations as a good or bad thing?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): A bad thing.

Andrew Boff AM (Chair): Thank you.

Tony Devenish AM: Would you be able to support the Mayor in a couple of pilots? We can always talk about grand principles and philosophies. It is choosing a couple of more proactive smaller housing associations. Perhaps you could help with the GLA to make it happen.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Yes, we would.

Tony Devenish AM: Thank you.

Andrew Boff AM (Chair): That would be welcome.

Nicky Gavron AM: How can we support more innovative forms of construction: custom-build, self-build, fast-build and so on? How can we both, in our different guises, encourage that?

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): It is one of those things where there is an element of planning and the planning framework in terms of how we can do a little bit more custom-build. We need to make a substantial difference between self-build/custom-build and modern methods of construction. Those two things are very separate. Housing associations are looking at modern methods of construction. It is not easy to get started. We had a couple of housing associations, one that is doing some work on it and another housing association with a factory in the Midlands.

It is one of those things where you have to put the resources in at the front end to then get the results at the back end, and that is a challenge. It is trying to find the space to build the factories, trying to find the capacity to do so and then having to go through and then build the homes. It requires a completely different set of skills, it requires a very different approach and it also requires local authorities and the GLA accepting that as a planning approach in order to do custom-build. It is possible but in this country I do not think we have embraced custom-build in the same way as it has been embraced in some parts of Europe. We still very much like our bricks. Going forward, if we are going to build at the levels that we need, we need to accept that it is OK to do custom-build and to move toward mixed, modern methods of construction.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): The Mayor could take the same approach that the Homes and Communities Agency (HCA) is taking, which is to require that a certain percentage of all developments to take a custom-build approach. The challenge in London is different from the challenge everywhere else because we do not have as much land and we build up rather than out. It is an altogether different challenge.

My preferred route, again, comes back to this idea of strategic partnership. If there are a relatively small group of strategic partners, together we should invest, we should try new things, we should learn what works and what does not work together and then grow our exposure to custom-build. This is about long-term planning. We are not going to get there overnight. Individual associations and developers are going to be worried about putting their money into the Betamax of custom-build. We just need an honest conversation about the risks that are involved, and to share some of those risks and some of the costs as well.

Nicky Gavron AM: That is interesting. The strategic partnership could be a catalyst for innovation.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Yes.

Sian Berry AM: We are wanting to ask some questions now about the London Living Rent. We have Seb [Klier] here from Generation Rent to get the renters' perspective on this. Can I ask you how attractive you think the London Living Rent project, as outlined by the Mayor, will be?

Seb Klier (London Campaigns Manager, Generation Rent): When it was first proposed pre-election we had three major questions around it. Is it a viable, long-term route for genuinely affordable housing for private renters? Is it possible to use this supply route to set standards that could drive up conditions across the wider private rented sector (PRS)? Would it viably provide homes for the range of households who are currently privately renting? There is also a fourth that has come in quite strongly in terms of how renters view this, which is development into a home ownership product or a product towards shared ownership.

On affordability, absolutely, it would be attractive to some private renters in some parts of London. Shelter's analysis has shown already that given the base rents across the city, depending on where these homes are built, they will not be genuinely affordable for people on average incomes in boroughs.

Sian Berry AM: Can you explain why that is? What is happening?

Seb Klier (London Campaigns Manager, Generation Rent): The base rates are set at ward level and links to house prices in wards across the city. If you are looking at somewhere like Lambeth - this is the example that the Mayor gives on the website - you are able to charge up to 20% more rent on the base level depending on the house prices there. A London Living Rent property in Oval, for example, is going to have significantly higher rent than other parts of Lambeth. We do not know where these homes are going to be built, but the idea was that they were predicated on a third of average wages in an area. What that leads to depends on where they are built, but you can see greater returns happening if you build in more expensive areas. There are a load of complications here that we cannot begin to work out at the moment.

Just to go on to higher standards and whether that sets something, part of the offer that is here that is attractive to private renters is the fact that there will be longer tenancies. We support that. Security of tenure is absolutely vital for a number of reasons to support private renters in London. That is welcome in and of itself. We do not think that this product is going to affect the market in any way just because the numbers are not high enough to do so. It is focused in such a way that it does not really compete with the wider PRS. The wider PRS has a much wider market and the people going on to London Living Rent will be a narrower group. I am sorry if I am going on but there are a number of issues here that we need to resolve.

In terms of the supply for a wider range of households, we have seen already that that is not really going to be the case. The base rents and the way this product is looked at is as a general two-bed flat, which is fine, but that does not take account of the increased number of families who are renting in London. One-third of private rented households have dependent children in London.

Beyond that, now that it is a shared ownership product, looking forward 10 years, how does that work for sharers in any format? They are talking about one-bed, two-bed and three-bed properties. So many renters in London are obviously in shared properties in order to make their homes affordable. It does not work if you are trying to plan 10 years ahead, moving into shared ownership.

Finally, to move on to the point around it becoming an ownership product, it is not surprising that L&Q has not yet factored in the number of London Living Rent homes it is going to build going forward because there is so much uncertainty around how allocations will work in the sector. Of course, the guidance states that providers need to take notice of whether a household can afford the rent and can also afford to save towards a deposit for shared ownership. How that is possibly done is unclear.

Also, if you look at the figures, when we are talking about the eligible household incomes being £25,000 at the bottom end towards a cap of £60,000 at the top end, it is difficult to see how a household on £25,000 could manage, even over 10 years in a shared ownership property, given the projection in those 10 years is that house prices will go up by 50%. There are no projections around wages or job creation that in any way keep track with that. Does that suggest that this will be focused at the higher end of that level of household income? There is a problem for the lower-income renters who are not able to access social housing. Maybe I will just stop there for a bit.

Sian Berry AM: You have raised some interesting points there. It has enormous similarities to the Government's previous Rent to Buy scheme. It seems like the Mayor has more or less adopted that for his project here.

Have you tried to do any sums on the ability to save for a deposit? I have and, even if you are only saving up to buy half the average home, you are going to need something like £45,000. That is several hundred pounds a month that you are going to need to save up in 10 years, even if house prices stay where they are. From a renter's point of view, it seems like the idea of saving up for a deposit within 10 years is quite out of reach at this level of rent. That seems to interact with the high levels of rent, the 20% flex that is allowed that is not really related to wages. All of that introduces lots of uncertainty, as far as I can tell from what you said.

Seb Klier (London Campaigns Manager, Generation Rent): The other issue is that it is predicated on the idea that at the end of those 10 years it will definitely go into shared ownership. If the tenant cannot afford that, it goes to whoever can eligibly afford it. Maybe we cannot look at this as providing for those lower-income tenants who cannot access social housing. A large number will have to move out after those 10 years and they will not be getting into shared ownership. It will be providing for a different group of private renters, potentially.

The other question is around tenancy length and whether we will see providers saying to someone, "You can stay in this home for 10 years", or not. The guidance says that the expectation is three years at least. Again, there is no greater certainty beyond that.

The other thing is that the guidance says that in terms of overall provision, up until the point of letting, providers can decide whether a home is going to be London Living Rent or [London] Shared Ownership. It feels as if a lot of this is moving away from a large supply of London Living Rent homes. Of course, the Mayor suggests that one third of affordable housing under this programme will be London Living Rent, but we think that because of the uncertainty there for providers and tenants and for the side of the Mayor himself, we may see those levels pushed down.

Then of course there is another issue beyond the affordable housing guidance about what build-to-rent outside of this will provide as an affordable product.

Sian Berry AM: Do you have any thoughts about that? That is potentially a source of longer-term rented homes where you are not being forced into shared ownership at the end of it.

Seb Klier (London Campaigns Manager, Generation Rent): Yes, absolutely. That is right. Build-to-rent would have a covenant of at least 15 years within the PRS. Our concern there is the fact that build-to-rent schemes like that are removed from the SPG 35% limit. Given what we know about how levels of affordable housing have been negotiated, we would expect that to be negotiated down below that level, although there are schemes coming forward where that level does exist. In Lewisham at the moment they are developing a fully build-to-rent scheme that is 65% market and 35% London Living Rent.

We have questions over whether that would provide many London Living Rent units because when you speak to build-to-rent providers - I am not talking about housing associations here but institutional investors - they are not thinking about London Living Rent, as far as we can tell. They are thinking about submarket rent as their affordable provision, nothing like the level of rent that London Living Rent provides. We are more talking about your standard intermediate rent.

Yes, we have questions about whether one third of homes coming out of this programme will be London Living Rent and, beyond that, how much this product will be developed to be a long-term, appealing product for renters. The principles are all good and we feel it is a great step forward that the Mayor has recognised that private renters do need a rent that is linked to income as opposed to the market, but the devil is so massively in the detail that there are still quite a few questions to be answered.

Sian Berry AM: Would you say the Mayor has fulfilled his manifesto commitments on this so far with what he has done? If not, what would you like him to do more for private renters? Maybe just spread it into the wider market?

Seb Klier (London Campaigns Manager, Generation Rent): Absolutely, we believe that there needs to be greater oversight of the wider PRS. Clearly, at the moment the Mayor does not have the powers to act very strongly there but we think he should be pushing towards that. We would hope that the principle of London Living Rent within new developments should start the wheels in motion to think about affordability across the wider PRS. That is how we see it.

In terms of his manifesto commitment, we were not necessarily expecting a home ownership product out of London Living Rent but we understand how the political negotiations around it have come to that. It is just that it is still not enough for private renters in the city. Even in and of itself, we do not yet know enough details to make a positive or negative claim.

Sian Berry AM: If I can move on to the potential adopters of this model, the National Housing Federation and L&Q, what do you think of it? We discussed a bit before that L&Q has not yet decided what it is going to be doing in terms of applying for grant to build London Living Rent homes. Is the wider housing association world looking at this?

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): Yes. That is essentially the answer. Most of the members who will be bidding will be looking at what percentage of London Living Rent they can deliver. At the moment, the guidance states an intention of delivering London Living Rent. Part of that will come down to expectations that the boroughs place on housing associations in terms of what they are looking for. Hackney has come out and said that it wants to see 500 London Living Rent homes delivered within that borough. It will depend on negotiations with boroughs and with the GLA and what is viable to deliver.

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): We will do it and we are keen to do it sooner rather than later so that we can learn from that experience. There are a lot of unanswered questions but we will answer those questions by doing it.

As Seb [Klier] said earlier, it is going to work better in some places than others. If you contrast the London Borough of Barking and Dagenham with the London Borough of Kensington and Chelsea, if you live in Kensington and Chelsea you will earn 52% more but house prices will be 499% more. You are going to get more London Living Rent in Barking and Dagenham than you do in Kensington and Chelsea. They are just the harsh facts of life. It works better in some places than others and so it is more likely that we will do it in those places.

L&Q did something similar at the very beginning of Boris' [Boris Johnson MP, former Mayor of London] first term. We called it Up to You. It was very similar to the London Living Rent. The interesting thing was that we offered the opportunity to move in and pay a discounted rent, stay for as long as they liked and buy as much as they liked whenever they liked. Around half bought straightaway and half did not. Now that we are in

2017, they still have not. It is partly because they are quite happy with the tenure that they have and are quite happy paying discounted rent, but it is also because they could not save the deposit. There are some learning points from the experience across the sector.

The key thing is that when we did that Up to You product all those years ago, it got homes built. If the worst possible scenario is that people are going to have a home for 10 years and they are going to pay a more affordable rent, then that is not a bad thing.

Sian Berry AM: Have you thought about how you are going to square this idea that people must save within 10 years? The sums do not look very good. It seems like you will be forced to prioritise the higher-income people, who will more realistically be able to achieve that. Is that something you have started to look at?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): That is not unlike shared ownership. Every potential shared owner goes through an assessment. We use an independent assessor to make absolutely sure that the commitment and the capability is there. We are used to that kind of process.

Sian Berry AM: That is when it is shared ownership. This is supposed to be for a different audience, though, is it not?

David Montague CBE (Chief Executive, London & Quadrant, and Chair, G15): Yes, although shared ownership is now moving to £19,000 and this is coming in at a £60,000 maximum. It is quite similar to the traditional shared ownership group.

Sian Berry AM: Yes, that is what we are thinking. I just want to ask Southwark about this. You are presumably looking at requiring some of these homes. You have not made a statement. What are your thoughts on this product?

Perry Singh (Strategy and Performance Improvement Manager, London Borough of Southwark): We think it is quite positive. In terms of shared ownership, house prices have gone up so much in Southwark that it is quite difficult to afford even shared ownership, raising the deposit, with a house price in excess of £500,000. The London Living Rent, given what has been said earlier, is linked to local incomes and it is correct that some people will not be able to afford even the London Living Rent. As we switch to the London Living Rent and [London] Shared Ownership, we are fairly positive about the London Living Rent.

In terms of numbers, we are not there yet in terms of defining how many we want but we do think it is a good product. It is certainly not a panacea. Some of the issues have been set out. The point that you have raised about how to raise the deposit or save money during that period is one of those unanswered questions.

Sian Berry AM: One of the things Generation Rent raised just now was the idea of getting this level of rent out in the wider market. Are you looking at including in planning policy that rents at that level might fulfil an affordable housing requirement in an unsubsidised, non-mayoral grant situation?

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): We are reviewing our borough affordable housing policy as part of the refresh but we will only be able to consider the options once we have undertaken a detailed viability assessment of what the cost of delivering London Living Rent are as opposed to [London] Shared Ownership. If they do have viability implications, we will be able to adjust the percentage requirements accordingly and potentially state that certain types of intermediate housing are more appropriate in some areas than others. At this point, it is too early to say.

Sian Berry AM: If you are looking at it in detail, presumably you can then take account of some of the issues raised about this not being particularly suitable for families as it stands at the moment. You could look at the levels of [London] Living Rent needed for families. One issue I raised was women, who have a lower income. Families have higher expenses but the income of a woman, on average, is lower. You could look at those issues when you are looking into planning policy, potentially. It is a start in that direction.

Philip Waters (Planning and Policy Team Leader, London Borough of Southwark): Yes, absolutely. That is certainly something we could look into.

Tony Devenish AM: Will London Shared Ownership providers be developing a charter on service charges, as the Mayor suggests, please, and, if so, what should the charter say?

Mairéad Carroll (External Affairs Manager (London), National Housing Federation): We are about to consult with our members on that. I cannot tell you what the charter should say as we are about to work through that.

It is going to be interesting. Housing associations are generally committed to trying to keep service charges low. If you go and do a section 106, it is a difficult matter because it is often set out by the developer, who has already put in a lift, a concierge and various other bits and pieces. We have to look at the balance between section 106 developments and developments the housing associations do on their own. We will be talking to our members about that in the next few weeks.

Tony Devenish AM: Thank you.

Andrew Boff AM (Chair): Thank you very much to the guests. It has been an extraordinarily valuable session in which we have seen a diversity of opinion. That is always good in our investigations. Thank you to all of our guests and a late thank you to those guests from the previous panel who have now left. I am very grateful.