Housing Committee – 1 September 2015
Transcript of Item 6: London's Private Rented Sector and Rent Stabilisation

Tom Copley AM (Chair): Welcome to our guests for today: Professor Christine Whitehead, Professor of Housing at the London School of Economics; Anne Baxendale, Head of Corporate and Public Affairs at Shelter; Dan Wilson Craw, who will be joining us shortly, and who is Communications and Marketing Manager at Generation Rent; Kate Faulkner, an independent property commentator and analyst; Hilary Osborne, Money Editor at *The Guardian*; Alan Collett, Residential Sector Consultant, M&G Real Estate; and Simon Chatfield, Director of Research and Operations at be:here. Thank you all very much for coming along this morning.

First of all - this is initially to Kate [Faulkner] and Hilary [Osborne] and I would like Christine [Whitehead] to comment on this as well - could you tell us how demand for London's private rented sector has changed in the last decade?

Hilary Osborne (Money Editor, *The Guardian*): I am not going to quote any figures, I am afraid, because I do not have them to hand, but it is pretty clear that the balance of tenure has changed quite rapidly over the last decade. The rental market is now bigger, I think, than the mortgaged market in London. We have seen a massive rise in demand that has priced out younger people. House prices have become so far out of their reach. We saw the credit crunch, which meant that unless you had a deposit of 20%, for several years you just could not afford to get on the housing ladder. There has been a massive increase in demand. The population of London has gone up as well and so there has just been an incredible increase in demand for rental property.

Tom Copley AM (Chair): Kate, did you want to comment on this as well?

Kate Faulkner (Independent Property Commentator and Analyst): Yes. Overall, I try to look at it from an economic perspective because, when you are looking at the property market, the economics of what is happening locally has a massive impact. When we report on London, where we can, we report on each individual borough. That is probably not detailed enough, but it is really important to understand that there is not one market; there are lots of markets. Therefore, yes, we have had a phenomenal increase in demand but that has become, for example, an increase in students, which can be seen as a good thing. Also, one of the issues that we have is that, since the late 1980s, there has been a preference not to build any social housing. The idea was, as I understand it, that they wanted people to go into the private rented sector.

The economics of that probably worked out at the time, but we have seen phenomenal house price growth since 2000. In 2000, in all the London boroughs, we saw a 30% to 40% increase in one year. The result of that is that since 2000 we have seen that house prices are not, particularly in London, related to wages at all now. We have a massive problem in London in that wage growth is not going anywhere. The house price growth that we have seen in the last 10 or 15 years has been the same in the past and we have coped with it before, but what we have not had is this huge lack of wage growth. That has hit London, I believe, harder than most other areas.

Where that becomes interesting is that, typically, rents move in line with wages. It is the most perfect market I have ever seen from that perspective. Therefore, when you look at the actual rental increases year-on-year, they are nothing like the increases in house prices that you have seen in London. It is far more affordable for people to rent than it is to physically buy, especially when you look at a 95% mortgage. That means that more people, as Hilary [Osborne] was saying, are renting because it is cheaper, quite frankly. For a landlord to cash flow-positive a property in today's market, they have to find a 50% deposit at current rents.

There has been a huge increase in demand. That is for some positive reasons and it is also a cultural change. It is because it is a lot cheaper and, from there, actually, people like renting. Quite a lot of people do not want the hassle these days of doing up a home, particularly if they are living in London.

What we have also seen - some of which has been positive, some of which has not - is a rapid growth in the number of individual rooms being let out. Companies like SpareRoom will tell you they have done research [showing that] people love living together. They leave university and then they do not want the one-bed flat to themselves; they want to continue that [university] lifestyle.

Tom Copley AM (Chair): That is interesting because I am sure there are also an awful lot of people who are renting who do not wish to be in that position. They want to own their own homes. Certainly, anecdotally, I cannot think of a single person I know who is renting and who would rather be renting than owning their own property.

Kate Faulkner (Independent Property Commentator and Analyst): I do not think that is correct.

Tom Copley AM (Chair): I am interested in what you say about people actually wanting to be tenants. Do you have any figures, surveys or any quantitative evidence on this?

Kate Faulkner (Independent Property Commentator and Analyst): I can certainly dig out the surveys for you, but, if it costs you thousands and thousands of pounds less to rent than it does to buy and you do not have to save for a deposit-- If you asked somebody, in this country "Would you like to buy?", culturally, the automatic answer is, "Yes". If you ask them, "Can you save up £10,000 or £20,000 and would you like to go without all of these things to enable you to do that --

Tom Copley AM (Chair): That is simply a result of the fact that the house prices are so large, is it not? If house price inflation had not reached the same level that it has now and people were choosing between renting and buying, surely most people would want to be owning their own home rather than renting from a private landlord?

Kate Faulkner (Independent Property Commentator and Analyst): Yes. If that were the case, we would not have had anywhere near the growth in renting and of people who are renting at £2,000 plus a month. If you look at the number of people who are renting on high salaries and could afford to buy, there are still a substantial amount of those people who are choosing to rent.

This is all about breaking up the market. You have a student market. You have a market of people who are being forced into a private rented sector who in the past would have been in social housing and that is rough for them. You have a section of people who, yes, would like to buy but are having to rent. Then you have a section of people for whom renting suits them down to the ground, and that could be anything from the £100,000-a-month rents that you can get in central London down to £2,000 or the average of £1,000 and £1,200. The problem we have is that London is so economically successful and we have such a short number in the supply of properties versus the demand available that the prices will always be bid up.

If my understanding of wages is correct, you have two-tier wages. You have the lower wage levels, which have pretty much stayed the same if not gone down. Then you have the higher wages, which are continuing to go up. Those are the guys who can keep affording to pay a higher amount for rent. If the properties were affordable, they would not be rented, if you see what I mean. They are affordable to some but there are lots of different markets and it is really important to understand the dynamics of each of those markets.

Tom Copley AM (Chair): Could you perhaps say something about how the quality of properties in the private rented sector has changed over the last ten years?

Kate Faulkner (Independent Property Commentator and Analyst): Where you have landlords and good letting agents - those who, in my mind, belong to the likes of the Association of Residential Letting Agents (ARLA), the Royal Institution of Chartered Surveyors (RICS) and the National Approved Lettings Scheme (NALS) and who have a duty of care to keep up with the legal [ramifications] of letting, which is a substantial job at this moment in time - the rental properties have improved and the safety has improved beyond compare, if you like. Where you have very clear guidelines, like the gas safety certificate, for example, you are looking at a very high number of homes that will have that gas safety. Where you do not have clear guidelines, like the electrical safety certificate, for example, they are extraordinarily grey, which a lot of them are. It is not just that you set a law. It is that the interpretation of that law is not easy and that is the problem we have with the electrical certificate at the moment. Then you will not have as many complying.

It used to be, when you were renting a room, for example, they used to be pretty appalling and one description we had was that they had moved from *Rising Damp* [1970s situation comedy about a landlord letting shabby rooms] to *Friends* [1990s situation comedy about friends renting apartments in New York City]. Certainly, there are companies out there and landlords out there who are promoting a very high-quality room rental. Of course, the problem you have is that that means they are higher rent than other properties and so, in itself, the increased quality increases the cost of delivery and increases the rents.

Tom Copley AM (Chair): Overall, do you think we have seen a rise in standards in the private rented sector in the last ten years?

Kate Faulkner (Independent Property Commentator and Analyst): Yes.

Tom Copley AM (Chair): You think we have and Christine is nodding as well.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Yes, I agree.

Kate Faulkner (Independent Property Commentator and Analyst): Yes, absolutely, but there is a horrendous criminality, particularly in London, and landlords who are absolutely exploiting people. I do not think we separate those out enough.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): Just on the question of whether people are choosing to live in the private rented sector, we do a big tenant survey, the biggest of its kind, which last went out last month, and 13% of people in that survey told us that they were living in the private rented sector through choice. Therefore, it is certainly the case, as you said, that people are priced out of homeownership and cannot access a social home. Many of the people living in the private rented sector are in that situation.

On the question of affordability: on average, London renters are spending 60% of their gross take-home income on their rents and we could consider 30% to be manageable.

Kate Faulkner (Independent Property Commentator and Analyst): Some do 50%, do they not, so it is not just 60%?

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): Yes, they might be managing to pay their rent each month, but what we know from our frontline advice experience of talking to people every day who are struggling is that they are doing that at great cost. They are cutting down on food; they are cutting down on clothes for their children and all of those essentials in order to just keep the roof over their heads. That must not be misunderstood as 'affordable' because it certainly is not.

Tom Copley AM (Chair): Christine, could I ask you to comment on this and also, perhaps, on what you think we can expect in terms of changes in the private rented sector over the next ten years?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): There are far too many different bits going on together. I would agree with Kate [Faulkner] very much that we should separate things and we need very carefully to separate out good landlords of good tenants, which are the majority. Continually saying that landlords are criminal is not helpful. Although a subset are, it is a relatively small subset.

The core issues for London are two things. One: we are now housing four generations rather than three and we have not addressed that right across the board. The result is that those who have to get into the market are being excluded by people like me who live too long. That is important in this context because that means that the people who are coming in are going to, as they always have, have a much more difficult situation for a short period of time. In a period when there is rapid inflation, we could really deal with that, usually, in four or five years. In the current environment, that situation can go on for 20 or 30 years and that is something, again, that has functionally changed enormously from an inflationary world to a deflationary, low-interest-rate world.

Therefore, there are real fundamentals around that we cannot address but the core is that London needs people and, if it is going to be successful, it will get people. The people who are going to be prepared to be there are those who are going to be prepared to put up with worse housing. That means by definition that sharers will outbid non-sharers. Much of the traditional statistics are all in terms of one household in one dwelling and that is not what we are talking about in this part of the market. We could probably put an extra person into these units, but the people themselves may not be paying that much more. Indeed, the evidence from the English Housing Survey is that people are not paying an enormous amount more individually. We were looking at young professionals in this context. Therefore, the sharing issue is enormous.

It is the case that structurally there will have been a reduction in demand for owner-occupation because the costs of moving have gone from 1.5% or 2% to 8% or 9%. Therefore, buying and selling if you are not going to be there for a very long time does not make sense. There is a massive international labour market. People are coming for a year, two years or maybe five years and they will not buy until they are quite sure what they are going to do.

The underlying thing is that the financial crisis and other things - affordability - stop people moving out of London. The movement out of London was cut back very, very considerably. We have seen this in the educational side. We have a lot more families in London than we would have predicted. They will not move until the kids are of a particular age, even if they can. Therefore, it is a tense world, which can only get worse in the sense that there will be more people looking for a little bit more housing. The private rented sector allows you to use the housing stock vastly more effectively. The standards may have gone up but the level of crowding or the level of use has gone up at the same time and that will just continue unless we have a recession.

Stephen Knight AM: Kate mentioned that historically rents have been linked to wages as the tracked wage level rises. I believe that has not happened in recent years because we have seen reports of rents going up by 12% per annum and wages certainly have not done that. What has changed and how much have rents gone up by in the last three or four years?

Hilary Osborne (Money Editor, *The Guardian*): There are so many different indices. That is one of the problems of tracking it. The Office for National Statistics (ONS) one seems to be the best and that is more in line, probably, with wage growth than the ones for new lets. Things like the Reeds Rains and Homelet ones are based on newly agreed lets and they are the ones that tend to have 10% increases. The underlying rents for people who are staying put are not actually going up by that amount. It is the newly agreed ones.

Kate Faulkner (Independent Property Commentator and Analyst): You do have a lot of different inflationary levels. If I am renting my property to Hilary, the idea that I am going to kick Hilary out as fast as I can if she pays me and is a really good tenant is, in the main, not true. In actual fact, we have seen landlords hold rents for five, six or seven years. Coming in here, I must have seen thousands of landlords last year and I had them put their hands up. The majority had not increased their rents at all.

The second thing you then get is when, on re-let, if I've been letting to Hilary for five years and at the time was market rent was £800, the market rent might now be £1,200 and so I will re-let it at the market rent. The other one is if I have bought a property and have redone that property and renovated it, there will be a slightly higher inflation level. The biggest inflation increase is for new builds. Typically, tenants will pay approximately 10% more for new builds. Where you have areas with a dramatic number of new builds coming in that are being rented out, you will see much higher inflation.

Hilary [Osborne] is right on the indices. We look at all of them. The ONS, LSL [LSL Property Services Ltd] - which is Reeds Rains and Your Move - Belvoir Lettings - which is one that I run - and Countrywide [indices] pretty much track each other perfectly. They are pretty good on what they do. The Homelet one is a substantial amount and it is accurate on what people pay, but my understanding is that it just produces rents each month as they have come in and there is no smoothing. Having run that for Belvoir initially, when we talked to the agents we realised it was not reflecting what had happened and so we used the three-month moving average, which we find is much more reflective of what is actually happening on the ground. With Homelet, you will see it going up and down like a yoyo.

You will have completely different inflation rates for every single one of the London boroughs and you will have different inflation rates for students. You will have different inflation rates for the premium market. You will have different inflation rates for families and you will have different inflation rates for the room rents. Those can go up and down during the year purely depending on supply and demand and what people can afford.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): I do think we have to be careful. Families do compete with singles. You are not saying they are separate in that sense.

Kate Faulkner (Independent Property Commentator and Analyst): No, not at all.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): If there are lots of singles coming in and the market for two-bedroom and three-bedroom units is going up, then families will find themselves with an affordability problem, which we know that they do. If we change the welfare system, it will change the whole market, but it will do it in different amounts across the way.

The core issue is always that a very significant proportion of landlords do not increase their rents on a regular basis. They increase them when they re-let and sometimes even not then. Anything that one makes which is for the totality, you cannot assume they will not do that if you then start to say, "You can put them up by 1% or 2% per annum".

Kate Faulkner (Independent Property Commentator and Analyst): They will have to. One of the presentations I do is to tell them about inflation, and that if they do not increase their rents by inflation each year, they are effectively giving themselves a pay cut.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Yes. They are doing it because they think of capital gains or because they are not interested or because they are letting for some entirely other reason, which is quite often the case. One thing we learned from the incomes policy is that everybody does the top end once it is there.

Kate Faulkner (Independent Property Commentator and Analyst): The other thing to highlight is that if you can only increase by inflation plus - or however it works - then they have to increase it by that each year just in case their costs go up. Do you see what I mean? To protect yourself, if your mortgage costs go up by 5% a year, for example, and you cannot put your rents up by that much, then you would have to to manage your funds, exactly like large landlords do and exactly like social rents do. In the English Housing Survey, social rents have gone up as a percentage by twice the rate of the private rented sector since 2008.

Tom Copley AM (Chair): From a very much lower base, of course.

Kate Faulkner (Independent Property Commentator and Analyst): Yes, but it is exactly the same amount of money.

Nicky Gavron AM: Can you give a figure? What is it?

Kate Faulkner (Independent Property Commentator and Analyst): In the English Housing Survey, I have a recollection - it is quite a big report for me to remember it all. Since 2008, the English Housing Survey says rents in the social sector went up by about 15% and in the private sector it was about 7%. The majority of that would have been London because places like the East Midlands are still tracking at lower than in 2008. That is one of the issues that we have with the indices. A lot of the rental indices did not start until 2009. Between 2008 and 2009, even in London there was a 5% fall, but in areas like Nottingham there was a 20% fall in rents. Therefore, they are really not catching up. They are taking a long time to catch up.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): Can I clarify something on the discussion about pegging rents to inflation and those kinds of rent stabilisation measures? Shelter is one of the organisations that are calling for a tenancy of that type. It is not about tackling the affordability crisis in renting: it is about bringing in more stability and more predictability for renters. In order to have longer tenancies that are more stable, you need to be able to have some kind of control on rents so that that mechanism is not available to landlords to kick tenants out. I do not think anybody is arguing that those kinds of measures will do anything substantial to tackle affordability.

Kate Faulkner (Independent Property Commentator and Analyst): No, I agree with you on that. The thing to look at is that for existing tenants there appears to be, mostly, with landlords, the stability therein because in the main they are not increasing. There is huge stability and it is quite a shock if you have been renting for five years to move out into the open market and realise how much market rents are. As I say, that has happened naturally and all large landlords and all social renters always put rents up every single year. I can promise you that this is news to most landlords that they should be doing it. They like to keep their tenants. It is much cheaper.

Stephen Knight AM: I am confused as to how, on the one hand, we can say that rents have not really gone up by much and indeed they are almost linked to wages in terms of their growth levels and, on the other hand, we are saying that in four or five years rents can go from £800 to £1,200 a month and people get shocked by that. That is certainly not the sort of rate that we have seen in wage growth over a four to five-year period. On the other hand, we are told that rents now take up 60% of gross income.

Is there an affordability crisis because rents have gone up or, as we are told, have rents really not gone up, in which case why is there a crisis in affordability? Is it just a fragment of people's imaginations and actually rents are relatively reasonable and low and people do not have a problem paying their rent? We are being told very conflicting things.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): No, you are being told about different elements of the process, not really very much conflicting, although it is difficult. ONS for a number of years showed private rents even in London going up by less than 2% per annum. That is because it did not separate out existing rents from new rents because its job was to do the whole lot. Once it separated them out, it came up with a much higher figure for new lets. It is not as high as many of the market people say it is because the market people look at what is advertised in particular ways. The ONS is covering things that include letting to your friends or family, etc, which never go into that market figure. The market figure will always be higher than the ONS figure.

The issue of what proportion of people are really suffering in this is very much harder to sort out. The vast majority of tenants, probably even now, are not suffering in that context, but what is happening is more people are being squeezed in. Each person may not be paying that much higher a proportion than their income in rent, but if you take it on the consistent basis of looking at the rent of a property or unit and a wage, you get this effect. However, you also have statistics from particular samples that show very high rents for some people.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): Also, the changing demographics of the sector are a factor as well. When you have so many more families with children, it changes the nature of the debate because you are talking about their needs being very different, their costs being very different and the instability question being much more of an issue. Predictability, knowing how long you can stay somewhere, not having to move the children's school and all of those kinds of questions are just as significant for many as the affordability question. The two play into each other.

Kate Faulkner (Independent Property Commentator and Analyst): I totally agree with you on that. What is important to remember is that, when you go to other countries, they all have large landlords. That is who is letting. We have this massive one-person letting of property.

When we let a property, we took a decision to let it to somebody on benefits. We took less rent because we were not interested in that. We would have liked to have made that long-term, but actually what happened - and this was a whole block - was that we wanted to give stability to the person, we wanted to keep it for a long time. It was a housing association that completely messed up the major works programme. The result was that six people sold their flats, including us, in that block because they made it virtually impossible for us to predict what our costs were in the future. The average rent for those six flats was about £600 to £800. They will all be rented for £900 to £950 now. We waited until the end of the tenancy but, as an individual, it is very difficult. Your long-term plan might be for the next 10 or 20 years. Landlords generally want stability themselves and so they want to keep the same tenants. However, the problem is that if I had died, if my husband had died or if we had divorced, we would have had to sell up.

For me, when it comes to families and those who do need the long-term stability, the biggest problem that we have is that we are relying on a nation of one-property owners as renters and that is a horrendously difficult market to communicate to and to work with.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): We will come back to the international story later because I had one query now but that --

Tom Copley AM (Chair): Sure, we will do.

Andrew Boff AM: Just before we move on, just to clarify, what Ms Baxendale was saying is that you look for the rent stabilisation scheme in order to provide predictability, not affordability? That predictability, surely, could be resolved if we had longer-term rental periods.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): Yes, that is part of the proposal. What we want is a five-year rental period so that the tenant could leave or the landlord could evict if the tenant was missing rent or did something wrong, but otherwise the expectation would be that tenants would stay for five years and during that time rents would not go up by any more than inflation.

I recognise that a lot of landlords also want that stability and predictability and it is not a case of lots of evil landlords kicking people out. It is a case of us having a particular renting culture in this country and it will take a lot of different interventions to gradually change that and possibly different types of landlords in the market as well.

Kate Faulkner (Independent Property Commentator and Analyst): Also, that was led by the mortgage companies, remember. They only wanted six-month tenancy agreements.

Andrew Boff AM: Absolutely, yes.

Kate Faulkner (Independent Property Commentator and Analyst): Sometimes there does seem to be a bit of leaning towards the landlord and the letting agent, whereas actually the mortgage companies and the insurance companies should be taking a much greater role in this sector. That is what I am trying to encourage them to do because they are handing out money to anybody to rent and I believe there should be more responsibility when they are doing that to ensure they are being let legally. At the moment, insurance and mortgage companies take no responsibility whatsoever.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): There is a gradual shift. Certainly Nationwide is now allowing three years and that is part of the shift that needs to happen.

Hilary Osborne (Money Editor, *The Guardian*): Also, quite a large chunk of the market is not mortgaged, as well, to the same extent. There are a lot of landlords who do not have those particular shackles to worry about.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): It is worth just saying on affordability that it is really all about supply. The fact is that it is very tempting to reach for easy answers, be it Help to Buy or be it rent caps, but the fact is we just need to build many more homes. Long term, that is the only way of bringing the costs of renting down.

Tom Copley AM (Chair): On the issue of length of tenancy, am I right in thinking that it gets to a point where they cannot have a longer tenancy without charging something to do with stamp duty? Is that right?

Kate Faulkner (Independent Property Commentator and Analyst): There is a cost to it. I am trying to think. Is it £125,000 or something? Above a salary --

Tom Copley AM (Chair): The total value of a tenancy?

Kate Faulkner (Independent Property Commentator and Analyst): Yes, if the value of that tenancy goes above a certain threshold, then it will incur stamp duty.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): The Olympic Village fell into that, but not many other people have fallen into it.

Kate Faulkner (Independent Property Commentator and Analyst): Correct, yes, but that is probably more at the higher end, I would have thought.

Andrew Boff AM: Yes, it sounds higher-end to me.

Simon Chatfield (Director of Research and Operations, be:here): On that point of longer tenancies, though, there is this big issue of whether tenants want them. We have just let about 70 properties now and we are offering three-year tenancies, fixed rent increases and two months' notice after the first year with very little take-up. People just do not want it. I do not know whether there is a trust thing or what, but we are saying, "There are no hidden charges and no catches", and they have said, "No, a year is fine. A year suits us fine".

Kate Faulkner (Independent Property Commentator and Analyst): That was certainly the result of quite a substantial survey from Savills as well that was done by one of the big research companies. It is not wanted as much. In families, it is, and it is about making sure that we understand the different sectors.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Even in families in the first round, it is not much wanted. What does appear to be the case in one or two housing association ones that were done on private rented is that people are now coming back after a couple of years having had two one-year contracts, saying, "Can I now have a longer one?" That is, in a sense, what you would expect because they are trying it out and learning what to do, but it is not in the short run. Most people want to move.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): Again, in our survey, 83% of tenants said that when they are looking for a home, one of the main things they are looking for is whether they can stay for a few years, but then on average people are staying only two years. It is something that is very difficult to look at because, again, it is about this culture. When everybody's expectation is that what you do is you rent for a year or so and people are not thinking in those terms, then they are not necessarily looking for that option because it is not something that occurs to them.

Andrew Boff AM: That just answers the question about multiple markets and people wanting different things. If I had heard about your scheme, I would not have given up renting and bought because that is exactly what I wanted for me. I wanted stability. I did not particularly want to own, but I ended up taking that option because it was the only option that provided me with stability. I am pleased they are coming on line now, these schemes.

Kate Faulkner (Independent Property Commentator and Analyst): My worry is that because we are relying on so many people with one property, I could give you a five-year contract but actually I cannot really promise it because I could get divorced. For me, the long-term side really needs to go through large landlords. What our market is desperately missing is those large landlords that do a really good job and set a precedent. The more people we can have going through there the better. Buy-to-let is not quite the be-all and end-all financially that everybody claims it to be. There are a lot of landlords who are going to be in a lot of trouble fairly soon.

Alan Collett (Residential Sector Consultant, M&G Real Estate): M&G is the investor in the scheme Simon [Chatfield] was just talking about and we also invested in another scheme in Stratford, which is managed for us by Genesis, of 410 flats. We offered five-year, three-year or one-year tenancies there. Nobody took a five-year tenancy, not a single person. About 15% of people took a three-year tenancy and the other 85% took a one-year tenancy. Across the rest of our portfolio in London, in some buildings we offer only one year and in others we do offer three. Almost nobody takes three. Our average length of occupation is two-and-a-half years. Actually, people are choosing to take a 12-month tenancy because they like the flexibility.

One thing comes out at me, which I think is wrong in your paper. A three-year tenancy gives us no stability at all because the tenant can still leave after two months' notice. There is no advantage to us in giving a three-year tenancy because the notice period remains the same. We offer them because, if people want them, we are happy to give them. I am not suggesting that in some markets they may not be appropriate, but in the young professionals market very few people ask for them.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): It is just worth saying that the evidence that on the second round some take it is in the same block as Alan [Collett] is talking about. The first round was exactly those numbers. The second round is showing some people wanting to go for longer tenancies. It is probably the only example any of us know really much about.

Andrew Boff AM: I should not have asked that last question. It opened up a whole new area. My next question has sort of been answered, really. It was going to be: are we providing effectively for current demand in the private rented sector? Obviously, it sounds like we are not. What are the needs not being met by the sector? What is it that the sector is not providing for?

Dan Wilson Craw (Communications and Marketing Manager, Generation Rent): There are a few things. I was going to come in on the subject of the length of tenancy. What we would like to see is a flexibility for the tenant but not necessarily for the landlord over three-year, five-year or indefinite tenancies. It is good to hear that Alan [Collett] is allowing tenants to give two months' notice. We would like to see a default tenancy of longer than a 12-month period with limited rent increases and also the flexibility for the tenant to move out if they get a new job, if they have a new addition to the family or anything like that. Tenants cannot necessarily commit to longer tenancies, but they should have that right built in. That is an important part of what we would like to see.

The other aspect of what we are missing from the market is rents that people can afford. The current market rent on average in London is £1,400 and you would need to have a household income of around £50,000 per year for that to be affordable. For huge numbers of Londoners, particularly if you work part-time or if you work in retail or hospitality or public services, you are just not going to be able to afford that level of rent. There is this need for more social housing and for a way of bringing private rents down as much as we can.

The third thing is the quality of the housing. We have heard that in a lot of parts of the market, particularly when professionals are spending longer in private renting, quality is less of an issue. However, for more vulnerable tenants, they are the ones who are bearing the brunt of the worst landlords, the landlords who do not ensure that properties are safe and free from hazards, the landlords who do not respond to requests for repair, the landlords who can harass or bully tenants for whatever reason. Those tenants, who have nowhere else to turn and have very little ability to get social housing, are facing the worst quality issues within the private rented sector. Because London is attracting so much investment in property, lots of landlords are going around, eyeing up properties and splitting them into smaller and smaller parcels of living space. This is a problem as well. Three weeks ago we saw Barking uncover 50-odd people in three properties. It is that sort of trend we are seeing.

Andrew Boff AM: Has that not always happened in London?

Kate Faulkner (Independent Property Commentator and Analyst): I think people naturally lived like that before the 1940s.

Andrew Boff AM: Yes. My first job in London was in 1976 and it was in Earl's Court. It was in a community project there. There, we were getting 16 people in a two-bedroom flat. It was unbelievable. It is not uncommon. Is it happening more now than it was before?

Fiona Twycross AM: It is not acceptable.

Hilary Osborne (Money Editor, *The Guardian*): There is a growth in houses in multiple occupation (HMOs). I know some councils have started cracking down on that. Haringey, my local council, has zones where you cannot create these HMOs, but that was in response to --

Tom Copley AM (Chair): And sheds, of course.

Hilary Osborne (Money Editor, *The Guardian*): Yes, this is houses being, as Dan [Wilson Craw] said, parcelled up. You can see. You only have to go on Rightmove for five minutes to see these tiny places now where people have effectively put a bed in what was a kitchen and are letting it for £900 a month.

Andrew Boff AM: There are planning restrictions on that kind of thing. Do we have a problem with enforcement here?

Hilary Osborne (Money Editor, *The Guardian*): Yes.

Kate Faulkner (Independent Property Commentator and Analyst): Newham is the most interesting to look at from this perspective.

Andrew Boff AM: I am sure it is.

Kate Faulkner (Independent Property Commentator and Analyst): You are talking about over 30,000 landlords there who have registered with their scheme, I believe. Of those, 145 have now been prosecuted. My understanding is that where you have the severe overcrowding and people who are extraordinarily vulnerable, they are often people who have come from abroad. They are being shoved into houses and often there is quite a level of criminality there. That is probably the biggest learning that I have had in terms of how big this problem is, if you like. From the number of landlords it is small, but they have a lot of properties and it affects an awful lot of people because they are shoving in as many as they can. That is 100% an enforcement issue. I have to say that Newham has done a really good job. There was a lot of opposition to what it was doing to start off with --

Andrew Boff AM: There still is.

Kate Faulkner (Independent Property Commentator and Analyst): -- but they have worked really hard and most of the people I work with and some of those who opposed it before are actually very supportive now of what they have done. No system is going to be perfect, but at least we perhaps have some idea that there are small levels of landlords who operate the criminality. They are often criminals and of course they affect a huge number of people.

Hilary Osborne (Money Editor, *The Guardian*): This summer, from my desktop, I found three places on Rightmove and phoned up the local council because they looked so illegal. In all of those cases, it turned out there was not even planning permission and they were supposed to be garages. They are the ones that are in plain sight. They are not the ones that are advertised in newsagents' windows. They are the ones that people have the brass neck to take to a letting agent. Letting agents should maybe check.

Tom Copley AM (Chair): Islington prosecuted one recently where you could not even open the oven because it would hit the side of the bed.

Andrew Boff AM: We all have stories like that. We could spend the entire day talking about those incredible things that people have got away with. Enforcement is a real issue. I do not know if it is an issue in terms of rent stabilisation but it is an issue in terms of quality of life for people. Ms Osborne, do you think that there is still a substantial number of people whose needs are not being met by the sector and, if so, what are the categories of people that the private rented sector is not catering for?

Hilary Osborne (Money Editor, *The Guardian*): We have talked about there being several markets, but it feels to me like there is a fairly big divide. If you look at what is being advertised, for around £800 to £1,000, there is some real dross there and these are people who clearly are not the golden tenants that landlords want to get in. They are people who do not really have much choice. They might be on zero-hours contracts. They might just not have a very good income stream coming in. It seems to me that they are the ones who get these really horrendous places.

Then, not very far up, you do not have to spend much more to go and live in a flat in the Barbican. The differential is not that big but, if you are a young professional with a good income and good credit checks, the market is pretty good. You can haggle. There is a lot of supply at that level and you can get a good place.

Andrew Boff AM: Ms Baxendale, would you confirm that?

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): Again, it is worth just bringing it back to how private renting has changed in terms of who is living there. People often talk about how young people have always dossed down in bedsits and have come to London and do not have much money, but that is a very different thing to families living in severely overcrowded conditions and having to move very frequently. Again, it has been a theme that has come through. Understanding those different groups of renters and their different needs and how the sector has changed is really crucial.

Andrew Boff AM: How would we best meet the needs of those tenants in the private rented sector?

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): Again, what we are looking at is a five-year tenancy with stable rents during that period to give people more certainty. Then, on the conditions side of things, we have a number of proposals that are all about supporting local authorities in their enforcement role. There is definitely more that could happen at the London level as well and we would like the next Mayor to look at beefing up the London Rental Standard and seeing if there is more that can be done to improve conditions and stability across the city.

Andrew Boff AM: There is a general belief it does need beefing up. Can anybody else come in on what we can do for low-income families?

Kate Faulkner (Independent Property Commentator and Analyst): What there has to be is a real understanding of the cost of delivery. When I have looked at this, it is quite a high cost from a landlord's perspective to deliver individually.

For me, those who are low-paid and are socially vulnerable should be in the equivalent of shared ownership or something, but we have to build properties. Hilary [Osborne] is bang-on right in that around the £1,200 mark you will get a decent property but either there is no supply underneath that or they are being let probably quite illegally. That is where other people are being forced. I do not think that we can rely on individual buy-to-let landlords to deliver and look after them. As a landlord, am I really the right person to look after somebody who has a mental health problem or a drink problem? Is it really right for them? Am I the right person because I am going to worry about my flat? Do you see what I mean? There is a belief that the private rented sector can cope. In some areas it has and there are some brilliant cases, but in London, where pretty much even the housing associations are struggling to finance affordable renting and to create affordable renting here, individual private landlords cannot fulfil that role.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): I would echo that. We need to build many more affordable homes, including social homes. Also, there is the welfare system as well.
The Local Housing Allowance has been frozen and that is a factor in terms of low-income families affording to rent in London.

Andrew Boff AM: Maybe another 400,000 homes, but we are not going to get that next week.

Kate Faulkner (Independent Property Commentator and Analyst): On condition, I agree with you that there is a big issue with condition. One of the biggest problems is mould and one of the biggest issues with that is that the landlord does not call the right person. You can do quite a lot to get rid of that. They call their plumber or their builder, who are the two worst people in the world they should be calling. We are doing a lot of work to try to raise awareness of making sure that the right person is called and also making sure that tenants do not think it is acceptable.

Andrew Boff AM: Ms Faulkner, I wish local authorities had solved that problem. Those of us who have been local councillors are astonished at the kinds of conditions that local authorities are happy to see their tenants living in. I went into one flat where I could not see the wall for mould and that was a local authority flat. That tenant was told they would have to lump it and it was all their fault. It is not a particular thing for private --

Kate Faulkner (Independent Property Commentator and Analyst): Yes, but we can improve it and we can do that quite easily and without any extra rules and regulations. That is a job that the industry has to work together on with local authorities.

The second thing is that there is something we need to look at in London, which is that we have a substantial number of properties over and above shops. I do not know but, in terms of the complications of making sure that they are up to condition, I would imagine that it is quite difficult because you have a freeholder involved or you have somebody who owns that block and is actually a commercial landlord who is not that worried about the residential property. I do not know but that is something we are looking at, unless Christine can advise me.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): It is just that we have looked at it probably every three years since 1971, to my knowledge, and they do not produce an awful lot of homes. Yes, of course, there is difficulty. There is a lot of difficulty because people are looking for homes and are prepared to put up with conditions that you and I think are improper. However, if you cut out all of the bad end, you are going to make life hell for a very large number of people and you cannot have legislation or implementation that is specific to a household group. When you do something for the families, you are probably worsening the situation for the individuals who are trying to share, send back enough money to their families and so on.

Andrew Boff AM: I am so pleased you said that because so many solutions seem to be about solving the problem for one particular group rather than the whole housing problem, as you say, by solving it for people --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): I accept the fact that these markets are separate, but they are not completely separate. By definition, the imposition of regulation is going to be about the physicality, not about the people.

Nicky Gavron AM: Yes. I am a bit perplexed by that because I would have thought that we did not accept that markets were separate, but we do accept that and that is why we have social rented housing, affordable housing and so on. I was just interested in what you said because we are very keen on trying to solve particular groups' issues in the housing market.

Anyway, my question is really moving us on a little bit and it is mainly for Alan, Simon [Chatfield] and Kate [Faulkner]. If we start with Alan, we have not heard much yet about the build-to-rent market and it is a new phenomenon. How significant do you think it is?

Alan Collett (Residential Sector Consultant, M&G Real Estate): It is still very small - that is the simple answer - but it is growing and it is growing from a base of zero, unless you choose to go back to the 1930s or 1950s when there was, of course, a build-to-rent market then as well. It is becoming much more significant. Investors, generally, are now looking at it positively because they can see the lack of supply, which will give reasonable rental growth. Kate [Faulkner] made the point about earnings and rents. Of course, being responsible for pension funds and managing other people's pension funds as well, including the local authority pension funds, our commitments are largely in terms of earnings. Anything that gives us a good proxy for earnings is a good investment medium for us, provided that the risks are appropriate. Therefore, you will certainly see it carry on growing.

The real reason it is not going very fast - or anything like as fast in London as we would like it to - is because house prices accelerate faster than rents. Whichever rental statistic you take and compare it with the house price statistic, yields on rents are falling, not rising. Because we are looking for income, it means that for every £1 million we invest, we are now getting less income than we were a year ago and less income than we were two years ago. That is an issue and that is what makes in hard in London. It is much easier for us to do build-to-rent in Bristol, Basingstoke, Bath or Birmingham where the ratio between rents and prices is better for us.

One thing that I would comment on in the very helpful paper that was circulated to us is that there is no single return that investors want. Within M&G itself, we have four different funds that invest in housing in different ways. One of the funds has invested in the scheme in Poplar, which Simon's [Chatfield] company manages, and another invested in the one in Stratford that Genesis manages. That is an index-linked income but it is guaranteed by the landlord. We are the investor. There is a landlord between us and them - Poplar Harca in Simon's case and Genesis at Stratford Halo - and, actually, our investment is in the landlord. Does that make sense? They are guaranteeing us a Retail Prices Index (RPI) or Consumer Price Index (CPI) uplift on the rent. When we talk about a stable, long-term, index-linked income stream, that is one investment class within residential.

The other one is where you take a chance on rents and you are investing for market rents and the expectation is that over five years, ten years or even more than 20 years, rents will rise if anything slightly behind earnings but not much. The best evidence that I have seen - and we are not talking about individuals; we all know the individual horror stories of different markets - is that rents overall in the private sector rise slightly behind earnings as a rule and that is what we model. That is the best evidence that there is.

However, again, within that, you have individual sectors. Our initial schemes and the schemes that we are currently having built - and we will be doing many more - are aimed at the 25-to-35s; people who have been through university and who have had the experience of a well-managed property, largely, while they were at university. They have a job, are getting promoted and want high standards. People will pay for those standards if they are available to them. That is the market that we are operating in and that will grow. It will not grow as fast as I would like it to grow. It will not grow on its own fast enough to deal with London's housing shortage or anybody else's housing shortage.

It is interesting to read the Mayor's housing team's comments on dwellings around transport nodes. Wherever you are getting into a very large scheme, particularly a tall scheme and - dare I say it - a tall scheme that cannot be forward-sold in Singapore, Beijing or Taipei, it needs long-term, patient capital to get that scheme to come forward. That is really where we can operate best with companies like be:here because we can fund that scheme and can then manage it intensively.

In terms of housing people, our existing portfolio is occupied between 97.5% and 98.5% of the time. If you think about it, it means that each flat is empty for five or six days a year on average. In the housing association that I am a non-executive director on, we think we are doing quite well as a housing association. Our average void is 27 days. If you look at the average buy-to-let landlord and if you look at some of the investors who are not that bothered about whether they let their property or not, by encouraging build-to-rent landlords from the institutional sector - and there are quite a few of us now - you get much more housing occupation for your money than you do in any other way. We are certainly looking forward to working with the local authorities that are welcoming this concept of properly managed, high density, flexible accommodation. We want it flexible and either Kate [Faulkner] or Christine [Whitehead] made the point about sharing --

Nicky Gavron AM: Sorry, what do you mean by 'flexible'?

Alan Collett (Residential Sector Consultant, M&G Real Estate): It is flexible in terms of who can occupy them. When we are getting involved with developers on having something built, within our fund, we will not take the development risk itself. It is a point that each fund has a different risk profile and so we need a developer to deliver the scheme for us. We want two bedrooms of equal size. We much prefer two-bedroom flats to one-bedroom flats because a two-bedroom flat you can let to one person, a couple, two people sharing, three people sharing or four people sharing.

In the just under 500 flats that we currently have let in the Greater London Authority (GLA) area now, we have virtually 1,000 tenants. Everybody occupying one of our homes has a separate agreement with us and they know their landlord is M&G Real Estate. We do not hide behind another name. Every one of our tenants knows that they are a tenant of M&G Real Estate. Therefore, we want that flexibility because we want to keep the properties occupied and we want to keep people in them. As I said, people stay on average for two-and-a-half years, but some of our buildings are only two-and-a-half years old and so that average period will grow, not shorten.

There is quite a lot of encouragement for institutional landlords like ourselves already within London and outside London by probably, roughly speaking, 50% of local authorities and certainly by the GLA itself. We can make a difference, but I am afraid it will still be only a relatively small difference if you think that every £1 billion that I can raise from other investors is going to be only about 3,000 properties.

Simon Chatfield (Director of Research and Operations, be:here): It is a significantly growing sector. There was a Molior report that has just come out and the pipeline is now 30,000 homes, which is not insignificant but in the overall scheme of things it is --

Kate Faulkner (Independent Property Commentator and Analyst): It was 100 last year or something.

Simon Chatfield (Director of Research and Operations, be:here): Yes. It is starting to grow. The point was coming out earlier around how wide the market is because we are targeting only quite a small sector, the 24-to-35-year-old young professionals. To pick up on the point earlier, affordability for that sector is not an issue. We are letting our units off-plan. We have three or four tenants and we have a criterion, which is 40% of gross rent. We have not let anything at a level that I would say is potentially unaffordable.

The point about viability is well made. We are trying to compete and grow in a market dominated by for-sale developers in a planning system that has not quite caught up in terms of the planning permissions. However, we are starting to see it make quite a significant difference. We ran lots of focus groups. We did lots of research. We are now starting to see it come through in lettings. There is this huge demand from young professionals for a quality product that is well managed. As scale comes, that will have an impact on other landlords in the area.

The scheme that Alan [Collett] was talking about we are letting next door to a new-build block and we have had six tenants move out of that block into our block purely on the basis that they are saying, "My landlord is absent. My landlord is in China. My landlord is somewhere else. The managing agent is in Chester. I cannot get any sort of service from them". They are seeing this very intensive service offering that we are proposing and they are saying, "Great. Fantastic. It is not costing me any more in rent. I will vote with my feet and move". As this sector grows, that may well have an impact. How far down the chain that impact goes, I am not entirely sure, but there is an impact there.

We are also designing for rent, as Alan said. Our product is a result of extensive research and so we like to think we are delivering what that relatively narrow part of the market actually wants. However, we are seeing our two-bed, equal size, en-suite bathroom model being incredibly attractive. We are having people come in looking for a one-bed and going away and renting a two-bed because the accommodation is great and is fantastic for sharing and that increases their affordability. We are letting one-beds at around £1,300 a month and we are letting two-beds at around £1,700. If you are renting a two-bed, you are paying £850 but you are getting this quality accommodation with a whole load of services on top.

It is going to be interesting. I cannot say because I do not think we will get to scale quickly enough. What I can say is that we are putting a building in and we are seeing that impacting on the current buy-to-let market.

Kate Faulkner (Independent Property Commentator and Analyst): Actually, there is evidence of exactly what Alan [Collett] and Simon [Chatfield] are saying. There is guy who is a very big landlord in Leicester. He owned about 1,500 properties locally in the area. He is a Leicester lad. He saw a lot of the houses around there and I think he had some support from the Family Fund as well. A lot of the houses around there were becoming student housing and the area, unfortunately, was going downhill. He just thought, "Would it not be better if I built specific, bespoke student accommodation?" Then the really important thing is that he designed it for rent, which is very different to how you would design a new-build property that somebody is going to buy.

The massive advantage of that is that they are much better quality and are much less likely to have problems with boilers because you normally just do electrics or however it works. Also, there is the understanding of the difficulty with mould and damp, which is one of the biggest issues. A lot of work goes in, as I understand it, to reduce that.

What I also like about the bespoke rental model is that you are not getting an individual landlord going in and buying a property that could be a first-time buyer or family home. Most of the build-to-rent funding side was 100-plus properties and so there is a severe scale. It is solving the biggest problem that we have and anything else is almost papering over the cracks, as Dan [Wilson Craw], which is supply. Take away the problem with supply and most of these problems disappear overnight, although you are still left with problems for the socially vulnerable and low-paid workers. However, the build-to-rent model is fantastic. What we have seen in Leicester is that they have this great student accommodation, really good for renting, at good prices. Then all of the houses that he has have now gone back into family homes and so it has really improved the area as well.

Therefore, the fact is that build-to-rent adds stock and is good quality so that people realise. Even if only one person gets it, if 20 people went to see the quality, they are not going to necessarily accept the rubbish that they saw down the road with the landlord that is illegally letting. A lot of the problems could be solved, to some extent, for tenants who just accept that a property you rent will be in poor condition. They should not accept it and, if they keep walking out of those, those landlords will do something about it.

Simon Chatfield (Director of Research and Operations, be:here): There is a huge trust issue.

Kate Faulkner (Independent Property Commentator and Analyst): Very much so.

Nicky Gavron AM: I just wanted to put one point in, which is that about the examination-in-public of the London Plan where we were introducing the whole build-to-rent model. A lot of people said that they wanted safeguards and covenants on them because there was a fear that down the road they would get permission to build-for-rent because there is such a demand for rented homes and market rented homes, too. At the same time, people were very fearful - and these are the non-governmental organisations (NGOs), local authorities and so on - that down the line five years, eight years or ten years they would be then sold and, meanwhile, they would have squeezed out other forms of housing: social rented housing, affordable rent housing and shared ownership. I just wondered if we could have a reaction on that?

Simon Chatfield (Director of Research and Operations, be:here): I will cover that briefly and Alan [Collett] will comment as well. Certainly the investors we are talking to are very interested in a long-term model. They may not hold it long term, but they are very much interested in a 30-year or 60-year rental model. We have one fund, who, I am sure, are going to hold their properties for 30 years. We will have others where, if you look at the United States (US) market, there is now a very intelligent market in terms of resale of investment. One investor may well come and may well look at holding for a period of five to ten years and then that property will get sold on to another investor. Ultimately, they will always want the flexibility to be able to sell, but the reality is that that is not why the investors are looking at it. I have not had one investor model that is looking at a breakup. They are looking at long-term.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Probably the reason why our housing system has survived since 2008 is our capacity to move dwellings from one tenure to another. The American system, where you cannot move from one tenure to another, is a significant cause of the worst situation that they had. However, that is the totalities. Having a small niche, which is buy-to-rent, you cannot go via the planning system. The planning system should enable better quality housing that meets rental standards as easily as owner-occupier standards and it does not enable that. The idea that you should say that forever something should be rented has caused trouble in many countries. Therefore, it is about this separate market aspect. We moved 1.5 million units from the owner-occupied sector to the private rented sector in the country as a whole over the last seven years. Some of them will go back.

Alan Collett (Residential Sector Consultant, M&G Real Estate): Just in answer, where we are talking about public sector land and where we are talking about a public agreement that enables build-to-rent, which otherwise might not be viable, a 10-year or 15-year covenant is absolutely acceptable to us as an investor because we are modelling a 20-year cash flow anyway. However, it has to be seen as part of the overall agreement. In the consultation, which we responded to, and the thing on clawback, if it is public sector land that is being sold for that purpose, again, as an investor, we have no problem with those concepts.

Stephen Knight AM: Just to follow up this issue of the rise in the build-to-let market, really. What impact will the rise in build-to-let properties have on rental levels and tenancy terms offered? What difference is it going to make?

Alan Collett (Residential Sector Consultant, M&G Real Estate): In terms of tenancy terms offered, as I said, we are very happy to offer three-year terms. We do not like to offer longer than three. In fact, where it was done by Genesis on our behalf, nobody wanted them. We are happy to offer three. We are happy to offer one. We do not offer less than one because we do not want tenants who want to be there for only six months or who say they do.

In terms of rental levels, we will charge the initial rent that the market will bear. We are creating much higher-quality accommodation than most of the accommodation that it is competing with. Our rents will be higher than average rents in the area because our accommodation will be of better quality and with, particularly, much better energy efficiency. We look at the total housing cost that the tenant will have, not just the rental element of that housing cost. Whether it is a commercial property or a residential property, we want to build significantly above the minimum energy performance standards that are required. Over time - and this is almost counsel of perfection - the additional choice will be felt elsewhere in the market, but it is going to take quite a while for that to trickle down.

Stephen Knight AM: Do you have annual inflation built into your rent levels? We heard earlier one of the issues is that a lot of landlords have some fixed rent levels over periods and then there is a big hike when they re-let to somebody else. Do you manage it in that way or do you stagger the levels?

Alan Collett (Residential Sector Consultant, M&G Real Estate): So far, we negotiate a new rent with each tenant at the end of the first year or, to be more exact, we do it at ten months. At ten months, we are saying to the tenant, "Do you want to stay? We would like you to stay. Would you like to stay?" We encourage them to stay. We have market evidence as to what rents in Woolwich or rents in Abbey Wood have moved by in the market and we suggest that rents have gone up by 3% or 4% and that we would like to set the rent at that level. Then it is a negotiation but, on the basis that having an empty property costs us more than a slight reduction in the increase in the rent at review, we take each one as it comes. There is a very old saying that a good property finds a good tenant and a good tenant is an asset. A responsible landlord will negotiate with their tenant. Clearly, we are going to move with the market overall.

Stephen Knight AM: On the whole, you are saying that the build-to-let market is higher quality and therefore higher rent than the general rental market?

Alan Collett (Residential Sector Consultant, M&G Real Estate): Yes.

Simon Chatfield (Director of Research and Operations, be:here): It could be a higher rent. The difficulty we have at the moment is that it is a very immature market. We are probably the first people to launch a build-to-rent product in London and we are not charging any more than the market rent.

This comes back to the point I was making earlier around trust. We are going out to the market with a very different product, but people are finding it quite difficult to accept some of the things we are saying. The three-year tenancy is a good example of that. People say, "Where is the catch?" We are saying, "There is not one. We are quite happy for you to stay for three years if you want to stay for three years. We are quite happy with fixed rent increases". They have been in this position where, for everything a landlord tells them, they have had an experience in the past where that has not been fulfilled. At the moment, we are seeing rents very much at market rate butwe are offering a better quality product, but it is about the level of service offer as well. Landlords like us have onsite management teams. We deal with repairs the same day. We offer a range of facilities --

Stephen Knight AM: In terms of the management, it is much more reliable and a much higher quality of offer in terms of management.

Simon Chatfield (Director of Research and Operations, be:here): Yes. Therefore, two things will happen. Either our product will command a premium because it is a better service and it is a better product, or the market will have to accept that there is this competition there and will have to look at what it does in terms of either the quality of its accommodation or its rent levels. I do not know which way it is going to go. I can tell you from an investor's perspective that they will not model the premium.

Stephen Knight AM: Has this premium increased?

Simon Chatfield (Director of Research and Operations, be:here): As I said, it is such an emerging market. I do not think anybody is getting a premium.

Alan Collett (Residential Sector Consultant, M&G Real Estate): No, we are not getting a premium on our existing portfolio because it is individual flats in buildings that other people build. We have between 30 and 50 per building, but we do not own an entire estate. The ones we are building now --

Stephen Knight AM: Was the £1,700 for a two-bed figure that you quoted, that was the new-build price?

Simon Chatfield (Director of Research and Operations, be:here): Yes.

Stephen Knight AM: That is the premium?

Simon Chatfield (Director of Research and Operations, be:here): That is market level, though. We are not charging anything above the market. That is in that location, which is just north of East India. That is the market rent. If you look at Get Living London in Stratford at the edge of the Olympic Village, they are getting a premium. If you look at that particular development in relation to the other developments in Stratford, you will find that that is letting at higher than the market rent.

Kate Faulkner (Independent Property Commentator and Analyst): The analysis on the student market is that the institutional builds there are higher rent than the buy-to-let market overall.

Stephen Knight AM: Yes, we have been told that.

Alan Collett (Residential Sector Consultant, M&G Real Estate): We recently looked at two further American cities; we have looked at a number of them. We were recently in Chicago and Washington and, there, the premium for a professionally managed, onsite-management building is between 2.5% and 4% over what they call the 'grey market', which is what we call the buy-to-let market. After you have established that it is better to live in one of your buildings, you can get a small premium for the additional service you are providing but, as with Simon [Chatfield], we do not model that yet because we have not proved it yet.

Stephen Knight AM: In terms of the segment of the market that you are addressing through these, is it mainly the young professionals? Are you getting many families? Obviously not too many from lower-income groups because the rents are at the higher end but --

Simon Chatfield (Director of Research and Operations, be:here): It is predominantly young professionals.

Stephen Knight AM: It is predominantly young professionals? The whole market is predominantly young professionals, to a certain extent. I suppose it is the comparative to the whole market. Are you getting more families than the rest of the market or is that not something you can answer?

Simon Chatfield (Director of Research and Operations, be:here): We have done very little letting to families.

Stephen Knight AM: The families are going in the rest of the --

Alan Collett (Residential Sector Consultant, M&G Real Estate): Out of our current build, it is almost entirely one-bedroom and two-bedroom flats and so we are not expecting families. The next scheme that we announce, which is just outside the GLA area, there will be some family houses as well and we may well treat those slightly differently.

Stephen Knight AM: Most families are looking for two-bedroom flats because at £1,700 a month they probably could not afford much more, I imagine.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): First of all, just to make the point, over a third of the market are families with dependent children and so that is quite substantial.

From a tenant's perspective, there is a lot to welcome in build-to-rent in terms of the professionalisation of the sector and everything, but it is very unlikely that in the short, medium or even long term this is the solution for low-income renting families. There is no other way of helping them other than building a lot more homes and for a substantial proportion of those to be social rented homes that people can afford. We are very clear on that, although we really welcome a lot of what build-to-rent is bringing.

Stephen Knight AM: You do not think the argument that the private sector could build lots of high-quality stuff for rent and solve some of London's housing problems that way is a likely solution?

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): It would take a long time for it to get to that kind of scale, first of all. Then it is hard to see, when this is a market offer and there needs to be a return and you are operating in a market where rents are very high and you need to match that, how you can help people who cannot afford the market rent.

Simon Chatfield (Director of Research and Operations, be:here): This is the big difficulty, though. Yes, it is --

Stephen Knight AM: We were told earlier that rents are not, historically, high. I am interested to know where you got this idea that rents are high. Although £1,700 is sounding rather high to me, I must say.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): We are an advice service and we see people every day who are struggling and so that is the perspective that we are coming from. That is coupled with all of the research that we do, which shows that people are really struggling.

Kate Faulkner (Independent Property Commentator and Analyst): Rents are high versus wages because they --

Stephen Knight AM: You told us earlier, with respect, that rent increases have only matched wage increases. Why is it that they historically --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Sorry, but 'high' and 'increased' are not the same thing. Wages have been going up very slowly. Rents have been going up quite slowly. They have been going up slightly faster, on average, than incomes. Rents in London are high as compared to Berlin or Leicester or wherever.

Tom Copley AM (Chair): Could we just clarify this? We are hearing about wages and rents going up at about the same rate. We have had wage stagnation for the last I do not know how many years and rents have been going up. Therefore, in real terms, are rents significantly higher than they were ten years ago?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): In relationship to a specified income, they are higher than they were.

Kate Faulkner (Independent Property Commentator and Analyst): Correct, and we have two-tier wages. You have some who do quite well and others who do not do well. You have to bear that in mind. If you take somebody who is on an extraordinarily low income and who has had no increase in the last ten years, then it will feel like rents are up quite a lot higher.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): That person will be on Housing Benefit and they will be constrained by --

Kate Faulkner (Independent Property Commentator and Analyst): The minimum wage or --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): -- the welfare system. We have not mentioned welfare for the whole meeting.

Stephen Knight AM: Median wages, let alone low wages, have not increased much in the last five or six years, have they?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): I believe it to be possible, although I have not yet identified the property, to be paying 40% tax and still be getting Housing Benefit in central London for one or two units. Universal Credit will make that much worse.

Stephen Knight AM: Might build-to-let landlords offer indefinite leases as standard? The answer we have had to that is probably no because we have heard earlier that people are choosing only one-year tenancies on the whole.

Alan Collett (Residential Sector Consultant, M&G Real Estate): Most people only choose one. Some choose three. It is up to them. However, in answer to your direct question, no, we would not offer an indefinite tenancy.

Simon Chatfield (Director of Research and Operations, be:here): That would be the experience of our investors as well.

Alan Collett (Residential Sector Consultant, M&G Real Estate): We are investigating the possibility of a senior living-type product, which might offer an indefinite tenancy because it would be of much more value to somebody well into retirement, but that is only an investigation we are running at the moment. It is quite hard to model that.

Simon Chatfield (Director of Research and Operations, be:here): The point is whether we are happy for people to stay as long as they like. Yes. There is a subtle difference.

Stephen Knight AM: Do you offer them the right to stay as long as they like?

Simon Chatfield (Director of Research and Operations, be:here): In effect they have, although we would not put that into a tenancy. If they took a three-year tenancy and wanted another three-year tenancy, we would not put any barriers in their way in terms of doing that.

The other thing we are looking to do is to create community. This is one of the things that does not come out of the buy-to-let. We are very interested in the places that we create because the more we can do in terms of community and giving people the ability to put down roots and feel they are part of something, the longer they will stay. There is an interesting thing that build-to-let can do that a block of potential buy-to-let landlords can never do in terms of our long-term [situation].

Stephen Knight AM: You are struggling to do that if you are not letting to families, are you not? If you are letting only to young professionals, you are not creating that mixed community of age groups.

Simon Chatfield (Director of Research and Operations, be:here): We will let to families. We are not in any way restricting our letting.

Stephen Knight AM: I am not saying you restrict them. I am saying you are failing to find the family tenants at the moment, are you not?

Simon Chatfield (Director of Research and Operations, be:here): Yes.

Alan Collett (Residential Sector Consultant, M&G Real Estate): The American experience indicates that we can certainly create communities of young people who do not yet have children every bit as well as we can create communities out of anybody else. That is certainly our aspiration and we have seen how to do it. Come back in a couple of years' time and we will show you where it is working. We have complete confidence that we will make it work.

Fiona Twycross AM: The one thing that has not really come out is that you might say you are happy to let to families or potentially to people on lower incomes, but it is not really a free market because a lot of letting agents who are renting private rented properties will have restrictions that they will impose on people wanting to get properties through them. I would be quite interested to know how that fits into the mix with this idea. It sounds great that people can choose to live in different areas, but the choice is not there. Do you put restrictions on people at all in terms of demonstrating that they have income? That prevents it being a genuinely open market.

Simon Chatfield (Director of Research and Operations, be:here): As any landlord will, we have a vetting process and criteria that we would expect our tenants to meet.

Fiona Twycross AM: Your tenants probably would not fall into any sort of Housing Benefit situation?

Simon Chatfield (Director of Research and Operations, be:here): No, but I made the point earlier that we are looking at a very specific 24-to-35-year-old - or slightly older these days, I think - young professional market.

Fiona Twycross AM: Largely without children?

Simon Chatfield (Director of Research and Operations, be:here): Yes.

Fiona Twycross AM: That brings that in as well.

Simon Chatfield (Director of Research and Operations, be:here): Yes. I would say that we do not exclude families but we have not let one to a family yet.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): They are legally allowed to do age. They are not legally allowed to do family.

Alan Collett (Residential Sector Consultant, M&G Real Estate): We are very clear with our letting agent that they cannot restrict choice.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): I am not saying that you want to. I am just saying that legally you cannot do families but you can do age, oddly.

Alan Collett (Residential Sector Consultant, M&G Real Estate): The one thing that we insist on in the buildings which we have managed - not Simon's [Chatfield] one - is that rent cannot be more than 35% of gross income because we want --

Fiona Twycross AM: Compared to the 60% that Anne [Baxendale] was talking about earlier, that excludes massive numbers of people.

Alan Collett (Residential Sector Consultant, M&G Real Estate): Yes, but there is no point in putting somebody into a home that they cannot afford to maintain.

Simon Chatfield (Director of Research and Operations, be:here): Our criteria is the same. The point I was making earlier was that we are finding many more tenants who can meet that criteria. I am sure there are people who are paying 60%, but there is a whole range of young professionals and 35% or 40% is affordable for them.

Alan Collett (Residential Sector Consultant, M&G Real Estate): We are meeting one of the particular needs. You, of course, have to focus on all of the needs. I fully recognise that. As I said, I also work with a housing association. I can recognise all those needs as well. However, in the build-to-rent sector, we are focusing on one of the great needs that London has, not all of them.

Tom Copley AM (Chair): Thank you.

Darren Johnson AM (Deputy Chair): Now we are looking at the different types of rent stabilisation measures that exist and are in use today. If I can start with Professor Whitehead, can you give us a brief explanation of the different types of rent stabilisation measures that exist and say which are the ones most commonly used today elsewhere?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): The most common today, particularly in Europe, are indefinite tenancies as a starting point and then rent stabilisation that allows for market rents - or significantly above market rents to take account of the future - and then a stabilised increase. The market for a stabilised rent takes account of the fact that rents might not rise in line with expectations. In Germany, for instance, you can have 20% above market rate and sometimes 40% above market rate at the beginning. The norm is very much indefinite tenancies. There are very clear-cut reasons for eviction on both sides and the tenant has a right to leave after one month, two months or whatever.

Darren Johnson AM (Deputy Chair): In terms of the so-called 'first generation' rent controls, are there any countries and cities that still use that or are they looking at more sophisticated measures everywhere?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): The simple answer is no. Basically, there are odd cases. At the moment, the Netherlands for about a year and a half will be a rent-control system of the past because --

Darren Johnson AM (Deputy Chair): That is while they are moving from set of --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): For the same reasons our Government has put in our system: you get a cap on something. Basically, first generation kills the market and generates some really unpleasant results.

Darren Johnson AM (Deputy Chair): When previous first generation rent controls is thrown at anyone advocating any sort of new measure --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Everybody goes, "Whoa".

Darren Johnson AM (Deputy Chair): It is a red herring now because no-one is using it and no-one is seriously considering it?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): No one, no. You can only use it, actually, in the same way as you did in 1914. That is when something massive changes, you have a typhoon or something like that, and then you just put it in and you hope you are going to keep it to only a year.

Darren Johnson AM (Deputy Chair): To stabilise the market over a certain period?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Yes.

Darren Johnson AM (Deputy Chair): Which countries and cities use long-term tenures as a stabilisation measure? Is that both Europe and the United States?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): No, sorry, long-term tenancies are a European phenomenon. America has roughly the same length as us, sometimes shorter. The fact that people stay for the long time is by the way. They do.

Tom Copley AM (Chair): Sorry, do they not have an automatic right to renewal, though, and a landlord cannot kick them out after a year by putting the rent up?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): That depends entirely on which town you are in.

Tom Copley AM (Chair): Yes. In New York, for example, the rents stabilised.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): In New York, you have automatic right of renewal. Under certain circumstances, there are now constraints.

Darren Johnson AM (Deputy Chair): In terms of just using length of tenure without any price regulation, is that one of the other examples of where simply longer tenures are used as a way of stabilising rents rather than any form of price regulation?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): It is quite normal for tenancies to be longer in some of the countries that do not have indefinite, but indefinite is so much the norm in Europe that it is not obvious that that is the case.

Darren Johnson AM (Deputy Chair): All right. What impact would longer tenancies alone have on London's rental market?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Only if you just put in longer tenancies, there will be some very minor adjustments around it. There will be a lot of tenants who will feel that they are paying more for something that they do not want and there will be a subset of people who will be getting something that probably will not cost that much more. It will scare off certain landlords, but how many? They are scared by almost anything.

Darren Johnson AM (Deputy Chair): It is fair to say that this Committee has noticed that over the years.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Let me say in that context that the sort of research we used to do in the days when these things were, you know, important showed that landlords were scared whether or not they were going to be affected. Indeed, in the main, they were scared when they were not going to be affected because they did not know much about it and why should they?

Darren Johnson AM (Deputy Chair): It is easier to be scared than to find out.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Yes. It does not mean they will stop, but they are scared.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): We have recently published research that we commissioned from Cambridge University looking at six different models of rent stabilisation. We wanted to look at the United Kingdom (UK) context because it is very interesting and important to look at international comparisons but the UK market is obviously different in many ways. One of the models that we looked at was the one that we are proposing with longer-term tenancies. We also looked at indefinite tenancies.

Based on a combination of quantitative analysis and then qualitative interviews with landlords, letting agents and lenders, the conclusion was that just having the longer tenancies and rent stabilisation through pegging rents to inflation would not cause huge disruption in the market at all. Yes, there would be some impact, but you can do that without any real risk of upheaval for tenants. However, if you look at, say, bringing rents down by a third, two-thirds of landlords said they would sell up, which would obviously have a huge impact on tenants, which is our concern in terms of the collateral damage of that.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): The thing to say there is very much that what you do in the short term, as long as you do it quietly and carefully and properly, probably will not have that much effect but the reality will be there. If you do not then allow rents to go up, people will get out. The worry is - and it is the worry that Germany is seeing currently and having riots about - that you start with very heavy regulation and then you are asked for more regulation because things are not going the way you want them to go. That is what scares institutional investors because they cannot predict 30 years.

Darren Johnson AM (Deputy Chair): Dan Wilson Craw, in terms of generation rents, what is your view on rent stabilisation measures and particular models?

Dan Wilson Craw (Communications and Marketing Manager, Generation Rent): We were pleased to see Shelter's research and were particularly interested to see that it seemed that indefinite tenancies, as well as fixed-term tenancies, did not have that big an impact based on the research they did. Indefinite tenancy is something we would support. You need to have an element of rent stabilisation and certainty within that so that a landlord who is fed up with having a fixed amount of rent and is wanting to get a new tenant in for whatever reason could not just hike the rent by 10% or something like that. You need to have that mechanism in place to protect the tenant who is there.

With any sort of new regulation on rent, there would be some landlords who, for example, are in it only for rising house prices and are not that interested in providing a service for their tenants and who would immediately say, "If we are suddenly going to have a professional rented sector, I am going to leave and sell up".

Darren Johnson AM (Deputy Chair): If it cleared out, say, the accidental landlords, the hobby landlords, the amateur landlords and so on, it would not be a problem and you would welcome that?

Dan Wilson Craw (Communications and Marketing Manager, Generation Rent): Overall, if we had a much more professional body of landlords, then we would support that. In any transition, you would want to have certain measures to protect a sitting tenant in a property that is being sold. The potential buyer of that property could be an institutional investor. It could be a local council. It could be a housing association. We would want to see measures to encourage that practice to take place and, indeed, have an opportunity for the sitting tenant to buy that property if they were in a position to. It is good to see from Shelter that a system of longer-term tenancies would not have that huge an impact on landlords, but we would want to make sure that tenants who are affected would have those protections.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Sorry, could I just back on one thing that is slightly concerning me? We are saying that small landlords are bad landlords. This is not true. We are also saying that countries that have good rental sectors have large amounts of institutional investment. That is also not true. In Germany, the norm is a buy-to-let landlord but for the last 20 years, except in a small number of places, house prices have been going down. Therefore, your rental income is what you are interested in and, therefore, you are more professional than the person who has been looking for capital gains. It is very much the inflation story that differentiates it, not the size of the landlord.

The other thing that one needs to be very careful about is what responsibilities the landlord has. In Germany, the landlord will normally not provide whitegoods. They will normally not provide fixtures and fittings in some cases. Sometimes, they will not provide baths. In those circumstances, if the tenant takes on that place, they have a very different relationship. They have put stuff in which costs them to get out, so you have a much different relationship. I just do not want you to take two or three variables as determining what the equivalents are.

I must admit - and I hate to say it - that I would like to do some research on what is going on in Germany at the present time as large numbers of relatively poor people are thrown into the market.

Darren Johnson AM (Deputy Chair): That is a useful point. Kate Faulkner, what impact would longer tenancies alone have on the rental market in London?

Kate Faulkner (Independent Property Commentator and Analyst): It is what landlords want. It is one of those things. Landlords would prefer, it appears, longer tenants themselves to date, whether that is just a cultural thing or not. It is quite interesting when you talk to landlords, and Christine [Whitehead] is absolutely right: They are quite a cautious bunch and they are always very careful with their money, typically, which is why they have that money to invest.

The issue is that when we talked to them about the rent controls, however, they all went into an absolute sea of panic until I explained it to them. When I am standing there and there are less than 5% of them saying that they have increased their rent over the last five years, I say, "Actually, you should in theory be charging this rent if you had increased it in line with inflation", and they are probably about £100 or £150 a month out of pocket from increasing it that way. They sit there and cannot believe their eyes. I am saying, "Rent controls potentially, under that format, would be good because you could increase it if it is done in line with inflation". It is a very difficult thing to communicate with them.

Andrew Boff AM: Are you saying that the introduction of rent stabilisation could have the effect of increasing rents?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Of course.

Kate Faulkner (Independent Property Commentator and Analyst): Yes, to existing tenants, absolutely.

Steve O'Connell AM: From the science that you have used? For example, strangely, I rent and I also was formerly a landlord. I never upped the rent because, as you said, a good property attracts a good tenant and you keep them happy. It is fair to put a little bit of balance around this debate and you, scientifically, have commented on that. Many landlords would probably just freeze their own rent. They would choose not to. The bad ones will not, perhaps. Therefore, potentially, a stabilisation scheme that builds in a percentage increase could in certain circumstances - which was Andrew's [Boff AM] question - be attractive to some landlords who up until now for whatever reason had not even contemplated increasing their rent.

Kate Faulkner (Independent Property Commentator and Analyst): You get a weird situation. Partly why they do not want to increase the rent is because, if they increase the rent, the tenant might ask for something to be fixed.

Again, the block that I operated in had a really interesting situation. There was one lady and I think her husband had died who had bought the property originally. Her tenant paid £600 rent and this was supposed to be rented out at £850 a month. The agreement between them was that she did not increase the rent as long as that person did not ask her to do any work. He had no central heating, but that was their agreement on the ground.

To some extent, an inflationary increase for landlords that they put through would be a good idea because part of the reason on the condition side is that they do not always have the money left. Shelter and Strategic Society in a report on the wealth of landlords suggested that 20% of them were earning no income at all from their property. That means there is nothing left over to put aside for a new boiler every ten years, which is going to cost £3,000, a new kitchen or new decoration. We reckon it is anything from £30,000 to £50,000 that you need to maintain a property for 25 years. No landlord I know and no mortgage lender I know builds that in at all and so some inflationary increase could help the condition side of things. If that brings stabilisation, then that is right.

The idea of an indefinite tenancy would send quite a few of them into a flat spin, just as the landlords in our block were spooked by the major works costs and how badly that had been managed. I have never seen people sell so fast in my life. They really did just go. They had been in the market for 10 or 15 years and so they had made their money and were cashing in now. One of the things we have to remember is that this market is now 25 years old and most of our landlords are over the age of 55. We are coming to a stage where maybe quite a few of them will look to exit and it does not take a lot to spook them. I am not saying it is the wrong thing to do. I would rather that a lot more build-to-rent was going up and tenants had that opportunity or social housing for the vulnerable and low-paid, but it will be increasingly difficult for buy-to-let landlords to cash flow-positive their properties in areas like this.

Darren Johnson AM (Deputy Chair): Who are they selling to if they are getting out? Other landlords? Or are they going back into owner-occupation?

Kate Faulkner (Independent Property Commentator and Analyst): Yes, other landlords who will now be renting those out at £900 a month. We chose to reject the higher offer that we had been given for our flat to a first-time buyer because we thought they had offered too much money.

Andrew Boff AM: Are you saying that the small buy-to-let landlords are much better value for the tenant than the institutional ones?

Kate Faulkner (Independent Property Commentator and Analyst): Yes. It is certainly there in the student report. It sits there and says so.

Andrew Boff AM: If we follow Mr Wilson Craw's line of thinking - and stop me if I am paraphrasing too much - that it seems to be that we would not miss them if they went, but, actually, there are a lot of people who would not have a good deal if they did disappear?

Kate Faulkner (Independent Property Commentator and Analyst): They would not have another option and that is the point because these guys are providing brand-new properties at market rent, which would normally attract a good 10% higher than market rent just because of the fact that they are new builds. That is important to remember. We know that new builds - and we monitor 140 areas on a quarterly basis - will always attract a 10% premium over and above the market. They are getting good value for money for the service that they are being offered. Buy-to-let offers you something different. If you have a great landlord who takes care of it, that is fine, but you might not have such a good landlord and it depends on who you get.

Darren Johnson AM (Deputy Chair): Hilary Osborne, have you looked at the likely impact on the market of rent stabilisation measures and longer tenancies and have you looked elsewhere at what is going on?

Hilary Osborne (Money Editor, *The Guardian*): We have looked at other countries and we have looked at Shelter's reports. Our readers are always heralding Germany as the place to go and the be-all and end-all. I agree with Dan [Wilson Craw] completely. If you have an indefinite tenancy but you have said nothing about rent rises, the thing that drives a lot of people to jump ship is being told that overnight their rent is going up £200 a month, so there would need to be some sort of mechanism to stop that.

Also, I do not know how it would work with things like the section 21 notices that landlords can serve now. I wrote recently about an agency that was doing that as a matter of course even though it did not want the tenants to move out because the balance of power, then, was in favour of the landlord. They were saying that at the end of the tenancy the tenant can just walk out. Therefore, you would need to think about whether those things would still exist for people to --

Tom Copley AM (Chair): I have to say, when I reviewed my tenancy this year, I was served with a section 21 and they said, "Would you like to sign another tenancy with a 5% rent increase?" By the way, I would love meet one. Can you introduce me to all these landlords who do not put their rent up every year? That is not my experience.

Kate Faulkner (Independent Property Commentator and Analyst): Come along to the Landlord & Letting Show and they will all meet you guys together.

Tom Copley AM (Chair): Sorry to interrupt, Darren.

Darren Johnson AM (Deputy Chair): Alan [Collett] and Simon [Chatfield], has this conversation been spooking you?

Alan Collett (Residential Sector Consultant, M&G Real Estate): It is "a little bit of what you fancy does you good and a lot of it does you harm". Prior to the general election, we modelled the impact of three-year tenancies with mandatory CPI plus 1% on the grounds that at that point that was what the social sector had. We modelled it for ourselves and the conclusion was that, across the three-year tenancy, the position was largely the same. That is only three years. If you think of your experience and if I think of my experience of the UK economy, we are modelling for 20 years because we are modelling to pay pensions in 20 years' time, including some local authority pension funds, which are investors in our fund.

If we look at 20 years and we start with a three-year rent stabilisation, let us look at a number of scenarios. The first scenario is that house prices keep on rising fast but rents do not. That means that at the end of the third year, there is a greater incentive for us to sell the property than to just keep renting it because we invested it at a 4% yield, we now have a 3% yield and yet our investors are expecting us to pay them 4% so that they can pay their pensions out. Therefore, even a short-term thing can create issues.

Of course, if rents do not rise - and we have heard that some rents do not rise and it is back over the same debate - and we go to the tenant after the second year and say, "Your rent is going up by CPI plus 1% and so that is another 3.5%", and they will say, "But the flat next door is available for £50 a month less", and they can still give us two months' notice and move out. Therefore, we have given them a benefit and we have had no benefit in return. That just needs to be considered.

Now, it is not for me to say what is right or wrong, but you have asked for our view. We have to model the potential impact of these things as to what benefits we will be able to pay to our pensions. There is a risk in the three-year thing because in three years - and rents have risen a lot in the market - what would my daughter say if she gets to the end of her three-year tenancy and she has had CPI plus 1% and CPI plus 1% but the market rent is now £200 a month more, to pick a number out of the air? She is going to say, "That is not fair. My rent has gone up £200". People would quite rightly then say, "Are we sure three years was the right period? Should it have been five? Should it have been seven?"

I am just saying that you cannot look at it as if it is a three-year deal because the world carries on moving in those three years. Although we can model three years, we cannot model more than that. From the professional landlord's point of view and from this burgeoning build-to-rent market, which is taking pension fund money, we are in a very competitive situation. We have pitched to 70 different pension funds. We currently have 11 wishing to invest with us. The others are still thinking that Tokyo offices or New Zealand farms are a better investment for their pensions than London housing. We are the intermediary; we have to deliver a return to people. Every time that the potential return is interfered with, we have to recalculate. If we have to recalculate, it may be better or it may be worse. For a three-year tenancy with a fixed uplift, what is the uplift? Is it CPI? Is it CPI plus 1%? Is it a local market index? Who is running the index? How accurate is the index? We heard an hour-and-a-half ago about how the different indices give different answers. Therefore, a lot of uncertainty is created by this, which is why you are investigating it, which is good.

Simon Chatfield (Director of Research and Operations, be:here): That is a good point. As I understand it, two years ago, institutional investment was limited to something that was backed by a covenant-strength. That was only two years ago. We have moved quite a lot in the investor market in that period. We are now at a point where investors are prepared to invest and take, if you like, rental risk. We certainly have a significant amount of investment interested in it, but that is quite a big move for the investors. Anything that starts to create uncertainty will make that raising of funds more difficult. I am not saying it would necessarily stop it but, as Alan [Collett] said, we have pitched to an awful lot. There are significant numbers of people looking at it, but there are a lot more who still have not made up their minds and who would almost certainly probably not, and some who currently may well rethink investing as well.

Alan Collett (Residential Sector Consultant, M&G Real Estate): Can I just add one thing? A lot of people talk about the US example. Thirty years ago, the US market was dominated almost entirely by what they call the 'ma and pa' or 'mom and pop' landlords. It has taken 30 years to get to the financial institutions, using the term broadly, to have about one-third of the market. We have just started and I would love to think that in my working lifetime, which I hope will carry on for a bit longer, we will have come closer to the 10% to 15% rather than the 3% or 4% we currently are at.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): I just wanted to say that, in the German context, remember, when you set this market rent, it can be a lot higher than the next-door property. That is in an environment where inflation has been close to zero throughout and so the expectation is low inflation. It does generate a certain amount of uncertainty and an attempt to say, "All right. If they are going to stay a long while, I need a cushion', in that context. To that extent, yes, it is going to make the situation worse, but the question is whether we are talking about the total market or whatever.

Fiona Twycross AM: I understand the point that was made about some of the overseas examples being slightly different markets, but obviously we have proposals coming forward in Scotland, which I would argue is probably a pretty similar market in terms of the people who have been buying properties to let and the people who were renting them.

What significance will the changes that are likely to take place in Scotland have on the market and what could we potentially learn from them in terms of longer tenancies and things like that?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): We would love to know. We want to do a research project up there, but the work we did two years ago said that it is dominated by how the social sector works in Scotland. There is an intermediate rental market, which basically takes all the demand except in parts of Glasgow, Edinburgh and ex-Aberdeen. I do not know what is happening in Aberdeen at the present time. We could not make institutional investment work in the vast majority of places unless it was before the complexities. Some of the stuff they have done on agencies and other things are extremely sensible and beneficial, but one would expect that there will be less appetite on the part of certain types of private landlords. However, it is dominated outside these very specific areas by the intermediate social market. It is not really a private rented sector as such.

Stephen Knight AM: I am interested in the wider effects of rent measures on the wider housing market. If any measure did reduce demand for buy-to-let homes from investors or, indeed, encourage some to sell, what would be the effect of that on house prices given that a large part of the demand for housing at the moment is from people wanting to get into the buy-to-let market? I see an awful lot of homes being sold into that market at the moment. I do not know, Professor Whitehead, whether that is an area you might comment on.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): It depends a great deal on what is happening in the general economy. We are very low in terms of owner-occupation by first-time buyers still and we know we have a Government that believes in first-time buyers. Maybe what would happen if you scared a few landlords off - or anyway - is that that property would move back into owner-occupation and I do not think it would --

Stephen Knight AM: Do you think house prices would drop in order to enable that?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): It would depend upon how massively you managed to upset the market.

Kate Faulkner (Independent Property Commentator and Analyst): For that to happen, you would have to make sure that the buy-to-let investor sold at a lower price.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): That should get rid of the next lot.

Kate Faulkner (Independent Property Commentator and Analyst): Yes, exactly.

Stephen Knight AM: You would sell at whatever the market price was but, if everybody was selling at the same time, the market price would drop quite dramatically.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): People would take that into account. They would stay on for a year, two years or whatever. They have welfare costs going down. It is all very well to say you do not let to welfare tenants, but you end up with welfare tenants. All these sorts of issues will become more difficult.

Kate Faulkner (Independent Property Commentator and Analyst): I am not so sure it would impact on prices that much because, unless the buy-to-let investors are forced to sell, then they would just wait.

Stephen Knight AM: We were told earlier that 75% would sell under certain circumstances. That is probably not true. The reality is that that is not true. However, if a significant proportion did sell, it would clearly have a very significant effect on the market.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): They would not do it tomorrow, in the main.

Kate Faulkner (Independent Property Commentator and Analyst): They are not --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Except in the specifics of a particular property. They may sell up as in your example, but in general it would happen slowly.

Stephen Knight AM: It would be a gradual effect, yes.

Hilary Osborne (Money Editor, *The Guardian*): It would depend as well on access to credit because first-time buyers are able to outbid each other. However, there is a big issue with churn and the fact that buy-to-let landlords, as I saw something recently saying, quite often hold on to their properties for maybe 17 years. If you are buying a one-bedroom or two-bedroom flat, usually someone would have traded up after a few years, but instead that is taken out of circulation in the selling market. If some of those came back in, it would be some good news for first-time buyers.

Kate Faulkner (Independent Property Commentator and Analyst): Yes, but you are looking at over 50% of the market being owned outright now. One reason that prices did not fall perhaps as much as they were predicted to is that people decided to stay put because they were not forced to sell, partly because the interest rates had come down.

When you have an owner-occupation market that is 50% owned outright - and that will only go up probably quite a lot over the next years - and you add in a lot of buy-to-let investors, then the average time for it to churn is about 20 years now. We did some work looking at London versus Blackburn, for example. The churn in Blackburn was three times the rate over a similar period. Therefore, the churn rate is important but, actually, it is the people who own their properties outright who are causing lack of stock. Also, what that does is almost put a floor on prices because they do not have to sell and will sell only when they are forced to. You will not get 20% of buy-to-let investors suddenly selling their houses. It just would not happen.

Tom Copley AM (Chair): Let us say a rent stabilisation measure was introduced and it had the effect over the medium to long term of reducing demand. There was not some sort of mass exodus but it reduced demand over the long term for buy-to-let. Surely that would then result in house prices in the future being lower than they would have been had that measure not been introduced and would have a stabilising effect on house prices.

Kate Faulkner (Independent Property Commentator and Analyst): Say, for example, you had 20 people chasing one house at the moment. If you took five buy-to-let investors out, it would not make any difference as long as that person can still afford it. You have to look at the 'bank of mum and dad'. That is really the one that has fuelled, if you like, prices being able to go up. A lot of the reason in London why people can afford to buy is because they are reliant on the 'bank of mum and dad'. If that was not there, that demand would disappear. Taking out a chunk of buy-to-let investor demand in somewhere like London, where you have far more people chasing properties, you only have to have two people chasing one property to put the price up.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): We are talking about scales here. The most likely impact and the really negative impact will be on supply because an awful lot of developers are assuming that they can sell to a buy-to-let market. It is not so much that people move out very fast. It is whether they move in.

Tom Copley AM (Chair): How much supply does buy-to-let add, do you think?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): The developer does not give - forgive me - a damn whom it is selling to, except when it has built particular styles of property. It does not mind if it is a first-time buyer or buy-to-let or an international investor who is looking to buy large-scale and let out, etc. In that sense, if we remove a bit of demand, then it has an impact on prices. How much of that impact on prices? It will normally be very small. However, I do worry that it might not be as small on the developers, who have seen Help to Buy and buy-to-let as their fall-back position and who also run scared very easily.

Andrew Boff AM: Bit by bit, we have kind of answered my question a little bit about international comparisons and the effect. What are the advantages and disadvantages of the various schemes in Berlin, Paris and New York? Perhaps, Professor Whitehead, you can give us an example of what the effect of these stabilisation schemes has been in those cities.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): New York has had traditional rent control but with increases, etc, built in. There, the main issue has been how to get out, although sometimes it is easier to get out than not. At the moment it is rather easy to get out and so the size of the market is going down. The big problem is that, if you get a rent control property that is nicely below the market, then you stay there. The people who are benefiting are like the people in the block I was staying in, who were all over 50 and who were professionals. That is what the general evidence says. If you have extreme types of control, basically, those who are there benefit and those who want to get in do not get in. That is an extreme version of New York but it is not unrelated.

The issue in Europe is often about how big the social rented sector is. When you are talking about Germany, you are talking technically 7% or maybe less being social rented. A large part of that private rented sector is housing the sorts of people that we do and the regulations make an awful lot of sense in that type of context. Where it is breaking down is in Munich, Frankfurt, Hamburg now and a number of other places where the housing demand pressures have gone up very rapidly and inflation is now taking over. There, we are seeing a massive shift into owner-occupation and significant problems with the private rented sector. Of course, they are starting from lower rents. The work that I know the GLA did, which showed that rents have gone up faster in Germany because of the stabilisation than they have in London without the stabilisation, was not starting from the bottom.

Andrew Boff AM: We need to get that on the record. You are saying that rents have gone up higher in Germany as a result of rent stabilisation?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): They have increased faster, not higher.

Andrew Boff AM: They have increased faster?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): They have increased faster from a much lower base because people saw a permission to put them up and did not have to argue with the tenant in the same way as Steve [O'Connell] was not prepared to do.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): This is an important point, though. There are a lot of arguments for stabilisation, but dramatically improving affordability --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Is not part of it.

Anne Baxendale (Head of Corporate and Public Affairs, Shelter): -- is not part of it. That is a really important point to say.

Steve O'Connell AM: That is the point we talked about earlier because it is right for many private landlords. There will be some who will just say, "I have a great tenant. I do not want to put the rent up. I am quite comfortable with this. We get on fine. They leave me alone and I leave them alone. It is great". However, if you drop that system in, the property we are talking about will have a natural increase in its rent, albeit reasonable and not above whatever percentage, which creates a completely new dynamic between the landlord and the tenant.

Andrew Boff AM: It is very much about repetition. Sometimes you just have to keep repeating that these schemes are not about increasing supply. They are about reducing variations, and that --

Hilary Osborne (Money Editor, *The Guardian*): On that argument, though, I can see that it would stand, but then surely if someone keeps it at the same level for three years when they have a great tenant, as soon as they get another tenant, they will probably go back up to the market rate. In effect, it is not great for that tenant and not --

Steve O'Connell AM: Yes. They would be charging under market rate, which is kind of odd but they chose to do it because it works. Then that tenant chooses to leave. What is wrong with the market rate being charged for another incoming person? It seems perfectly reasonable.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): It looks exactly like the rent stabilisation system.

Tom Copley AM (Chair): Have they not recently made more strict the rent control in Berlin? There has been about a 3% fall in rents since ... I cannot remember those figures.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): It is quite difficult because, as you know, Germany does not have the same rules across the country. They have moved to what they perceive as short-term and in certain circumstances to rent control. That is to say you cannot put them. In those circumstances, you get that effect.

Alan Collett (Residential Sector Consultant, M&G Real Estate): The crucial thing that needs to be also considered in this is who is increasing the supply. In most German cities, there is not a shortage of housing. In fact, the value of rented housing is less than the cost of building more housing --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): That is right.

Alan Collett (Residential Sector Consultant, M&G Real Estate): -- because Germany's population by and large has been ageing and is relatively static. That would be like comparing the whole of England with the whole of Germany. If you want to compare London, you have to compare London with, say, Munich or Berlin. Looking at Holland, you need to compare Greater London with Greater Amsterdam and the Randstad. There, the Dutch Government has now said, "If you build new accommodation to rent, it is outside rent control", because nobody is building housing within rent control.

Andrew Boff AM: It was most telling what you said about how in Germany only 7% is social housing, whereas in inner London 32% or 33% is social housing and so the comparison --

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Of course, that makes it look much more like the Netherlands, which has 32% across the country.

Andrew Boff AM: Yes. Where has rent stabilisation met the policy objectives? Is there anywhere that it has actually met the requirements that it originally had?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Rent stabilisation fits well into a generally comfortable housing market. If things are not moving very rapidly anyway and people can build enough to deal with the population, etc, then rent stabilisation --

Andrew Boff AM: So it works well where you do not need it?

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): Rent stabilisation benefits the landlord if there is a reasonable capacity to make sure you get your tenant out if there is a need to do so, etc. Yes, I am afraid it works well where you do not need it, but that is true of most regulation.

Steve O'Connell AM: Talking about the commercial landlord business involvement and the effect of stabilisation on you. again, we have had some debate around that and so I do not want to go into great detail, but we could just bring out some points if we could. Of the stabilisation measures that we talked about - and we have already had a bit of a narrative around how unattractive generally; not your own opinion, but it is an observation - are there any of these stabilisation measures that could work for you and your investors? Is there a preference for any of them? You said the three-year one, clearly, does not make a lot of sense but have you any idea of any preferences that could work, either Alan or Simon, at all? If you found yourself in an environment where it was going to happen, what could work for your guys?

Simon Chatfield (Director of Research and Operations, be:here): The third option, where you can set your market rent every time you do a tenancy but then potentially are restricted to in-tenancy conditions, might be something. The point Alan [Collett] made is that investors are all looking over a 20-year or 30-year model. Anything that makes that modelling harder to do creates a problem for them. Certainly, for the North American and other investors we have been talking to, one of the positives they see in the UK market is that there is not any rent control. The moment you start to introduce any possibility, they will look again at their modelling. I do not know what the answer to that would be. Anything that restricted the market would be a big problem. Anything that potentially capped rent increases through a tenancy, perhaps less.

Steve O'Connell AM: When you are talking to investors and them to you, you would both model the investment over that 20 years. You would do some modelling, obviously, because they are businesspeople and you need to know you can produce that yield to pay for the pensions and that kind of stuff.

Simon Chatfield (Director of Research and Operations, be:here): Absolutely.

Steve O'Connell AM: You can never have certainty but, I suppose, with a stabilisation situation, it would provide a kind of certainty but the wrong kind of certainty, potentially.

Simon Chatfield (Director of Research and Operations, be:here): Potentially. It is uncertainty that is the problem. As we said, in the last two years we have now got institutions to the point where they will take market risk, but the reason they have become comfortable with that is that it is the market that dictates it. The moment you say that something else is dictating that, then they have another uncertainty. I do think they would necessarily at this point know how to model that or the impact of that in their 20-year or 30-year models. As I said, we would see certainly a lot of people stopping and certainly regrouping. It may well take us another two years and the impact of some of that stuff to come out before we see institutions coming back.

Steve O'Connell AM: We have already seen in countries where there is this stabilisation and the sort of modelling work that you are doing and what you are providing with the higher quality that the money is not going there because they have the systems that would resist that. I get that.

Alan Collett (Residential Sector Consultant, M&G Real Estate): I have a couple of points, if I may. The first is that in countries where there is a long history of rent stabilisation, yields are much higher. You can buy large portfolios of rented housing in Germany but it will yield 6% or 6.5% net. That is the net return to you. In London, you are lucky to get 4% net. The reason we accept 4% net in London is because London has a strong economy. Over time earnings will rise and, as the earnings rise, rents will rise.

Just to add to what Simon [Chatfield] said, it is not that UK investors or overseas investors like the story of the market. What they like is the story of southeast England. They like the London economy. They are investing in the London economy and they are investing in housing in the London economy because they have confidence in that economy. That does just set the scene generally.

Just very briefly, if I deal with Fiona's [Twycross AM] point because she asked about Scotland, the simple fact is we will not invest in Scotland in housing because of the uncertainty. I cannot model something that I cannot model. The Scottish Government cannot tell me what rent control might look like in Scotland and therefore I cannot model it. The one thing that will be absolutely certain is that, if rent stabilisation comes forward as a serious policy, while it is being debated and while it is being implemented and for the first couple of years, the investment will dry up, period. This is because we cannot take the risk with other people's money and we do not know what we are going to be modelling. Yes, it is real risk.

I have worked in housing since 1972 in London and so I have seen the catastrophe of the 1974 Rent Act and the even greater catastrophe of the 1977 Rent Act. I saw an institutional investment model destroyed and I saw lots of very good landlords put out of the market. Now that we are just seeing the start of a new market - which, outside of my working lifetime, I am very confident will be a major contributor to housing supply in London and elsewhere - I would hate to see that ruined by anything that was ill-considered, which is why you are all debating it. I completely accept the purpose of the debate and so please do not take any of that as a negative.

If there has to be anything, you can model three years because three years is not that uncertain. I would strongly suggest that the current rental indices are too indistinct to be used as a reliable method to put it dimly. On attaching rents to inflation, do earnings rise with inflation? Sometimes they rise faster than inflation. Sometimes they rise slower than inflation. Sometimes there will be people with an advantage. Other times there will be people with a disadvantage. Of course, what you are tending to do is to benefit tenants who already have a tenancy and disadvantage people who do not currently have a tenancy at all. People who do not have a tenancy at all deserve a voice as well, not just those who have one.

Professor Christine Whitehead OBE (Professor of Housing, London School of Economics): I do not want to be totally negative about rent stabilisations. Our report to Camden said that voluntary ones are fine. The Government making sure that there are clear-cut ways of doing these things - and that has improved a lot over the last two years - is highly desirable because there are tenants and landlords who want that match. However, it does not solve the affordability problem. The rates of return - rental rates of return, not other ones - are higher and that is why landlords, to some extent, like them.

However, you should recognise that institutional investment is not that straightforward. Every country I go to in Europe says, "There sheds of it out there. We have been talking. We have been talking. We have been talking". We have done very well compared to other countries in getting people to take part and that is partly about the market aspects of it. In the Netherlands, which is always quoted as being the one with the highest institutional investment, it has a private rented sector of under 10% and declining. Basically, that was older companies and it is sort of like us in the 1960s. The companies are dying out. It is not the case anywhere that I can mention, other than some parts of the US, the institutional investor is going to be the saviour of anything.

Alan Collett (Residential Sector Consultant, M&G Real Estate): Chair, might I just add to Christine's [Whitehead] point, if I may? The concept of a voluntary one was touched on in answer to Nicky Gavron's question. There have been two large GLA sites that were sold on the Mayor's rental covenants, a three-year tenancy and a fixed uplift. Regrettably, M&G was second on both of those. We bid very competitively and we would have loved to have won both of them because that is voluntary. We know what we are getting. We know what we are getting when we are bidding for it and everybody is bidding on the same basis. They are all bidding against the rental covenant. Therefore, I entirely welcome the GLA and local authorities carrying on disposing of sites for market rental on that basis as a voluntary thing because we understand what we are bidding for and everybody is bidding on the same basis.

Otherwise, if we bid on a site as we recently did on another one in Woolwich - and there has been some great stock in Woolwich - and we are bidding against people who are going to sell individual flats to people who have a lower income expectation than we have and a greater propensity to gamble on future house prices, we are just not competitive.

Tom Copley AM (Chair): That is similar to the second generation rent control system they have in New York. In exchange for a discount or the city government stumping up some of the money for the land or something like that, whoever develops on it has for 25 years to offer, essentially, rents that are stabilised. That is similar to the system you raised earlier, which is an interesting way of doing it.

Alan Collett (Residential Sector Consultant, M&G Real Estate): A huge amount of the current Dutch housing stock, which we all talk about, was created on the back of tax incentives given to institutional companies and pension funds to build it.

Tom Copley AM (Chair): Yes, the New York one had tax incentives as well.

Andrew Boff AM: The trouble with the Dutch is that if they have a land problem, they just build more land. We do not seem to have that option.

Nicky Gavron AM: We do have the option.

Fiona Twycross AM: One of the problems with going last in the questioning is, because it has been quite a broad discussion, quite a lot of the questions I was going to ask about the impact that the measures might have on buy-to-let landlords have already been covered. There were a couple of points that it would be helpful, Kate [Faulkner], if you could comment on and other people are welcome to come in if they have something to add.

In terms of the measures we have been discussing, which of the measures would be the most problematic for buy-to-let landlords, do you think?

Kate Faulkner (Independent Property Commentator and Analyst): The idea of an indefinite tenancy would scare the living daylights out of them. One thing we have not mentioned leads on from what Alan [Collett] was saying. Typically, in London, you do not invest for income unless you are going to be doing an HMO and even then you might as well go somewhere else, to be honest. Most of the people I know down south are looking at now moving up to the likes of Manchester and Leeds. We have a whole bunch of them coming into Nottingham. However, there is also the capital growth and so it is really capital growth here that is the benefit.

One of the things that might be worth looking at - and I know that Alan Ward from the Residential Landlords Association mentioned this - is the potential for some deal on the rents in return for some reduction in the capital gains tax. Think of having two sets of landlords. If I am a landlord today and I buy a property for £300,000 and I have to put £150,000 down to make that cash flow-positive, I cannot do much. I cannot make anything affordable. However, if I am a landlord who bought that same flat for £150,000 10 or 15 years ago and I am looking to sell in the next 10 years, there might be some deal, willing or able, to be able to do something on the rent side in return for a reduction on the capital gains. I do not know how possible that is, but there is a potential trade-off there.

The smaller landlords are very similar to the larger landlords. They do not like uncertainty. I also know that the mortgage tax relief changes that have come through have spooked a lot of people and they will also find it much more difficult to come into the market now in London because you have to be a higher-rate taxpayer, really, to buy in London and let a property out and you have to have substantial sums behind you. Now you have just had quite a substantial drop in the potential cash flow, which was pretty difficult to achieve anyway, and so I do not think you are going to get huge numbers of people coming in. Anything that happens to spook the guys who are here already is what could be the thing that would produce supply. If they were to sell, the likelihood is they will sell more to a first-time buyer, if you like, or to another person and so you will see it leaving the rental market.

Fiona Twycross AM: That was helpful. I am just trying to work out how you could guarantee things over a capital gains tax in the long distant future when taxes change between governments and you cannot necessarily predict –it.

Kate Faulkner (Independent Property Commentator and Analyst): Whether it is a discount or whether you get a set reduction or something along those lines, it is just a thought. How possible that is to do I have no idea. The original idea that Alan [Collett] came up with, which I thought was quite sensible, was that if a buy-to-let investor sells to a first-time buyer, there is a potential for a reduction in capital gains tax to give an incentive to sell it on. That was where that original idea came from. Thinking about it, you can see landlords who are cash flowing-positive properties very nicely now because they bought ten years ago in London. Then there is some possibility - and that might be the affordability side - that they could drop the rents quite substantially in return for not getting hit so hard with capital gains.

Fiona Twycross AM: Are there other ways that the measures could be best formulated to work for the buy-to-let landlords?

Kate Faulkner (Independent Property Commentator and Analyst): We have heard a lot of things about this. In terms of the average increase and having an increase put in there, there is this balance for a tenant to move in the private rented sector from one that is wage-related as much to that person as possible to one that goes up in line with inflation irrespective of what happens with wages. On the other hand, would that mean that the landlord then has enough money each year to be able to maintain that property in a better condition than they are? There is perhaps a benefit more to the tenant, which is always my worry, and that you will just dramatically increase the existing tenant's costs when the landlords are being pretty fair to them overall. However, if there is a benefit that that property is better maintained because there is more cash flow, maybe that is the right thing to do. It depends whether you want to move from relatively good economics, if you like, that work for the tenants - for the majority, not for those who are vulnerable and low-paid - or whether you want to change the dynamics of the market to one that just naturally increases every year.

Tom Copley AM (Chair): That has been a very interesting session. Can I thank our guests for their contributions?

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