



Housing

2 MARSHAM STREET  
LONDON SW1P 3EB

My ref: H/PSO/11280/81

Your ref:

- 3 MAR 81

*John Gifford*

*2 873*

In your letter to Keith Joseph of 10 February about private housebuilding you touched on the question of releasing public sector land, remarking that the procedure seemed to be "subject to a number of bureaucratic stages".

I think you may have misunderstood the reference in my letter of 27 January to land registers. So far as I am aware there are no bureaucratic procedures holding up the disposal of a public body's land once it has decided to put it on the market. (My letter mentioned that we had stopped the practice of offering surplus Crown and nationalised industry land to local authorities: this did indeed cause delay.) Land registers on the other hand are an accounting instrument for inducing reluctant local authorities, nationalised industries and statutory undertakers to dispose of underused land which they show no sign of releasing voluntarily, and I have power to direct the disposal of land on the registers by auction, tender or other means. The provisions are as simple and flexible as they could be, given the element of coercion. I do not see how the Government could proceed less formally while seeking to bring about the sale of land which it does not own.

For the disposal of surplus Crown land the only remaining source of delay is the procedure for offering compulsorily acquired agricultural land back to the former owner before putting it on the open market. This is a question of equity, not of bureaucracy. In extending the established Crichel Down rules to cover non-agricultural land we propose to simplify the procedure to cut out the long delays which can arise from efforts to trace the former owner.

I very much welcome and endorse what you say about the significance of the housebuilding industry to the economy as a whole and the need to give continuous consideration to it. As I said to you in my letter of yesterday our 'share ownership of the shelf' scheme to which I was referring on page 3 provides a means of 'gearing' a given amount of public expenditure with an amount of private finance that will be 3 or 4 times greater. I hope that further consideration can be given to making increasing use of this scheme.

I am sending copies of this letter to the Prime Minister and Keith Joseph.

*yes* *uw*  
*Michael Heseltine*

The Rt Hon Sir Geoffrey Howe QC MP

MICHAEL HESELTINE





*T.L. to see*  
*Horsing*  
*R*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000  
10 February 1981

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1E 6RB

*See Keith*

You wrote to me on 31 December enclosing a paper by David Young, which suggested some ways in which the Government could help any recovery in the private housebuilding industry. I have also seen Michael Heseltine's comments in his letter to you of 27 January.

I appreciate the important role the housebuilding industry has to play. Not only can it open up additional markets for supplying industries, but it also provides one of the means for achieving the growth of owner-occupation to which we as a Government are committed.

David Young emphasises the role building societies have to play, as the main providers of mortgage finance, in encouraging owner-occupation. He also correctly points out that building societies will be under pressure in the coming months, both from the increase in the composite rate of tax due to be implemented in April and from the increased role National Savings is expected to play in the Government's financing plans. I had to accept with reluctance that the depressing effect on building society inflows was part of the price to be paid for the National Savings initiative. But I judged that this was more than outweighed by the benefit which industry (including the housebuilding industry) would receive from a substantial reduction in the public sector's need to raise finance in the markets for longer-term funds. So far, at any rate, inflows to the societies have held up surprisingly well, and inflows to national savings have been more at the expense of the banks.

David Young concludes that the Government should not put pressure on building societies to reduce mortgage rates before the societies themselves choose to do so. The Financial Secretary made it clear in his speech to the BSA

/that we would





that we would not normally want to intervene in societies' commercial decisions, with the important proviso that if societies' position in the financial system changed (for example, if they were to compete more aggressively for deposits than they have in the past) we would have to reconsider our position. I believe that there are anyway many internal pressures which will prevent societies from changing their behaviour quickly. The conflict of interests between existing mortgagors, investors, and those seeking a mortgage will still force the societies to reach difficult compromises on their interest rates. The Government did not intervene in any way in the BSA's decision on their recommended rates following the November reduction in MLR, but these factors were enough to persuade them to bring their rates down. I would hope that in future we could continue to rely on societies' taking their own decisions in this way, in the interests of all their members.

I have noted what David Young says about Development Land Tax, and will bear his comments in mind, along with those made by Michael Heseltine in later correspondence.

More generally, I am sure we need to give continuous consideration to the needs of the housebuilding industry. For my part, I am anxious that building societies should, consistently with their mutual status, continue their services to borrowers and investors alike.

I cannot keep wondering whether there may not be further scope for speeding up Michael Heseltine's programme for the release of public sector land, described in his letter of 27 January. The procedure seems to be subject to a number of separate bureaucratic stages. The rather depressing scene on the ground was well described by Anthony Steen in his speech in last Thursday's debate on economic and industrial policy.

I am sending copies of this letter to the Prime Minister and to Michael Heseltine.

Handwritten signature and initials, likely of Geoffrey Howe, consisting of a large 'G' and 'H' followed by a cursive signature.

GEOFFREY HOWE

10 FEB 1961







TF Case  
NBPM

MA 287

2 MARSHAM STREET  
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My ref: H/PSO/10049/81

Your ref:

27 JAN 81

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*287*

PRIVATE HOUSEBUILDING

I was interested to see Keith Joseph's letter to you of 31 December enclosing David Young's paper.

As you know, I was asked at MISC 14 (MISC 14(8)6th meeting) to consider the place of private housebuilding in the wider economy and I am preparing a detailed paper which will be available to colleagues shortly. I will take account of the points Keith makes.

I very much agree with him on the important contribution that private housebuilding might make in helping us out of the recession. I also take the point that our primary concern should be to ensure that building societies have an adequate supply of funds. I am however also aware that interest rates are still at a level that prevents many first time purchasers from buying. While renouncing heavy-handed intervention in decision-making by the building societies, therefore, our aim should be to achieve a sensible balance between the need to maintain adequate funds and to widen access to home-ownership.

On the release of land for housebuilding, we have as you know taken a number of steps already: the repeal of the Community Land Act; the reduction and stabilisation of the rate of Development Land Tax; the extra provision of housebuilding land in structure plans and the speeding up of both the development plan and development control systems. I have asked local authorities to co-operate with builders to ensure that land earmarked for housing really is available for development and to ensure a 5 year supply of such land consistent with structure and local plan policies. I am encouraged to see the progress of joint studies by builders and authorities of the availability of land in areas of high demand. On publicly owned land, we have abolished the requirement that surplus Crown land and land owned by nationalised industries be offered first to local authorities. Under the Local Government Planning and Land Act registers of unused and underused land in public ownership have been designated in 21, shortly to be 33 districts and London Boroughs. This should ensure that such land is identified

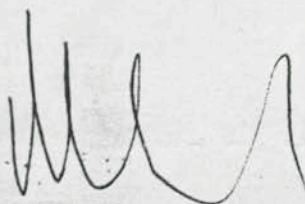


and, if it is not released for development following negotiation, I have powers to direct its sale. I am, therefore, very conscious of the importance of releasing land to help the builders, and am about to hold further discussions with them on whether more needs to be done.

I should certainly be happy for us to look further at the detailed working of Development Land Tax. Perhaps we might learn something in due course from the extent to which house-builders take advantage of the exemption from DLT in Enterprise Zones. We can explore these and other issues further when we come to discuss the subject at MISC 14.

I am copying this letter to the Prime Minister and Keith Joseph.

*Yes am*



MICHAEL HESELTINE

28 JAN 1981







Secretary of State for Industry

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DEPARTMENT OF INDUSTRY  
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31 December 1980

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
HM Treasury  
London SW1

*Ami Amati*

*In view of your discussion  
with David Young, you will  
be interested in this.*

*Dear Geoffrey*

As I told you, my Special Adviser, David Young, who has experience of housing as well as of banking and property has been telling me for some months that a private house building revival is likely in due course. He has written a paper which is attached and which you may wish to consider. R  
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2 The paper draws attention to the current depressed state of new housebuilding, but suggests that a revival in demand can be expected at some stage. If this revival of demand is translated into new housebuilding it could provide a welcome increase in activity in the related industries. Indeed housebuilding has on occasion in the past led industry out of recession.

3 But to ensure that this happens it will be necessary for the Building Societies to be able to attract sufficient funds. The Societies now face extra competition from Granny Bonds and are to pay a higher composite tax rate. They may therefore, be unable to lower mortgage rates in line with general interest rates in the coming months, if they are to attract adequate funds. I think we should all recognise this and not emulate previous Governments by trying to put pressure on the Societies to lower mortgage rates before they themselves choose to do so.

4 Some builders have expressed their concern to David Young about the availability of building land to meet the potential future demand. Michael Heseltine can perhaps advise about the general validity of this, but if there is something of substance here then we should give consideration to measures to increase the supply of building land. The paper puts forward a couple of suggestions but there may be others.

5 I would like to emphasise that the tax measures suggested in the paper have not been subject to detailed examination and that they are being submitted for wider consideration and not necessarily for implementation in the forthcoming budget.





6 I am at this stage sending the paper only to you with copies to the Prime Minister and Michael Heseltine.

*Yours,*

*Kerr*





## HOUSEBUILDING: THE ROAD AHEAD

## BACKGROUND

1. It is sometimes argued that an increase in the rate of new housebuilding has particularly beneficial spin-off effects for the economy at large. The share of imports in new housebuilding, while not insignificant, is for instance somewhat lower than it is with many other forms of activity. It is indeed arguable that the sustained boom in housebuilding during the 1930s helped to insulate the Midlands and the South from the worst effects of the depression. Moreover, building is particularly helpful in providing employment for the less skilled.

2. Housebuilding is well known as a cyclical industry and it exhibits larger divergences between peaks and troughs than most other industries do. Notwithstanding this, total housebuilding during the 1970s was generally at a significantly lower level than during the previous two decades and the secular decline also appears to have continued during the decade - see figures in Appendix. Within the total, private sector housing was more stable, with the rate of completions being surprisingly steady at close to 150,000 over the period 1974-78. Since then, housebuilding for both private and public sectors has declined, and the 1980 figures are expected to show a significant decline.

## FUTURE PROSPECTS

3. New housebuilding is currently rather depressed. This is perhaps not surprising in view of the high interest rates and the uncertain economic outlook now prevailing, which have led to a general lack of confidence in both builders and potential house buyers. Of these factors, soundings made of the building trade suggest lack of confidence is more important than high interest rates in depressing sales. At some stage, therefore, assuming a revival in general economic confidence, a cyclical recovery can be






expected. This seems likely because the current rate of housebuilding is perhaps rather low both in relation to real incomes and to demographic factors. Moreover the existence of inflation, both generally and in house prices, also encourages people to trade-up and to buy houses in the first place, even though the rate of inflation may be falling. Although a revival in activity can be expected at some stage, we do not expect the total rate of housebuilding to increase significantly above the levels achieved over 1974-78. There may, nevertheless, be rather more private sector and rather less local authority building than in the recent past, and this will be relevant to requirements for finance - see next section.

#### ROLE OF BUILDING SOCIETIES

4. The Building Societies have always played a central role in providing funds for private housing and it is generally accepted that the supply of Building Society Funds is an important element in translating "underlying" demand for housing into actual demand. In the past there have been periodic, well-published mortgage famines when the demand for housing has been constrained by lack of funds. The most recent shortage of funds, from about mid 1978 to mid 1980, probably started even before the major recent surge in house prices. If there is to be a cyclical revival in the demand for private housing, it is therefore of some importance that Building Society funds are available to finance demand. Indeed, availability of finance is probably of greater importance than the cost.

5. The flow of funds to Building Societies is very sensitive to the relativity between the Societies' deposit rates and other competing interest rates. Indeed, the mortgage shortages in the past have sometimes arisen because of political pressures to keep the mortgage rate, and hence the deposit rate, down. In the immediate future the Building Societies face extra competition from new issues of Granny Bonds and potentially from BNOC bonds. The Societies are also likely to have to pay higher composite tax rates both this year





and next - recent surveys suggest the average tax rate of investors is higher than had previously been thought. A higher composite tax rate means there will need to be a wider gap between the interest rate Societies pay and the mortgage interest rate.

6. These new developments could have implications for the ability of the Building Societies to finance any revival in demand for private housing. The increasing lending by banks for house purchase may not yet be on a significant scale to ease the pressure on the Societies. If the Building Societies are to generate sufficient funds, then it may be necessary for them not to reduce their deposit rates as general interest rates come down, or at least not to the same extent. The Government may therefore need to desist from putting pressure on Building Societies to lower their rates before the Societies themselves would choose to do so. As mentioned such Governmental pressure in the past has on occasions led to mortgage shortages. If the Building Societies are left to compete freely for funds, this should lessen the likelihood of there being an overall shortage of funds for housing. Emphasis is placed on this as builders believe the availability of mortgage funds is more important than the mortgage rate in affecting new house sales.

7. There can be little doubt that a revival in National Savings and in other public issues aimed at the personal sector, eg BNOC bonds, could have implications for the flow and cost of funds to Building Societies. On the other hand for any given PSBR, if one funding means is discouraged another has to be found. The likely alternative to increased National Savings is to sell more gilts, largely to institutions, and this could affect the cost and flow of finance to industry and to builders. Financing the public debt is clearly a complex matter, and all we would urge is that the decisions taken recognise the various ramifications involved.





## SUPPLY OF LAND

8. Some builders have expressed concern to us about the availability of building land to meet demand. Various policy approaches to this problem may be justified. First, both local authorities and nationalised industries could be encouraged to sell off surplus land. This has the potential advantage of not only making more land available, but provided any incentives are not too costly and there are appropriate adjustments to EFLs, it could also be helpful from the point of view of the short term PSBR problem. Secondly, though perhaps more costly, changes could be made to the Development Land Tax (DLT). If DLT were to be removed completely on residential land (at a cost of perhaps £10-15m), or if the annual exemption was substantially increased, it could help to increase the supply and reduce the cost of building land to some extent, especially in areas with inadequate available land. More study is clearly required, however, about the need for such a measure and how effective it is likely to be.

## CONCLUSION

9. If a welcome cyclical revival in housebuilding is to be forthcoming at some stage, then the Government should

- a) not put pressure on Building Societies to reduce mortgage rates before the Societies themselves choose to do so;
- b) consider measures to increase the supply of building land, perhaps by giving local authorities and nationalised industries encouragement to sell off their surplus land or by removing DLT from residential land.

ICA/1

19 December 1980

*This would be ideal for first time buyers since the resale value of houses bought for would reflect inflation in building costs only & not land value.*



-2 JAN 1981

