The housebuilding industry

Promoting recovery in housing supply
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Michael Ball
Professor of Urban and Property Economics
School of Real Estate & Planning
University of Reading
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Department for Communities and Local Government
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Contents

Foreword 4
Summary and recommendations 5
Chapter 1  Focusing on housebuilding recovery 15
Chapter 2  Crisis and recovery 21
Chapter 3  Housebuilding in England 45
Chapter 4  Industry views on issues affecting the delivery of new housing 68
Chapter 5  The design and implementation of regulations and policy frameworks 77
Chapter 6  Land-use planning 87
Chapter 7  Regulations and sustainability 108
Chapter 8  Finance 120
Chapter 9  Land assembly and site servicing 132
Foreword

Budget 2009 ‘Building Britain’s Future’ set out a range of measures to support housebuilding activity in the downturn. Additional funding was announced to stimulate housing development in the near-term and boost capacity in the housebuilding industry. The majority of this was directed towards unlocking stalled housebuilding developments through a combination of equity, gap and infrastructure funding, together with additional funding for HomeBuy Direct and affordable housing. However, the Budget also said that government would look to identify measures to promote a strong and diverse housebuilding sector in the long term. The Chancellor’s Pre-Budget Report on 9 December 2009 subsequently announced that government would carry out a study of drivers of housing growth and the steps government or industry could take to improve diversity and innovation, reporting by Budget 2010.

This report informs this work. It is an independent piece of research, commissioned by the Department for Communities and Local Government, which looks specifically at the issues affecting the responsiveness of housing supply in England. It flags a number of challenges for the industry and proposes a range of actions for government to consider.

As part of the research, effort was put into finding out the views of housebuilders themselves on what they feel constrains their ability to respond to recovery. I should like to express my gratitude to all of those who participated in the surveys and focus groups and to the many others that offered information, advice and support. This study provides substantial background analysis on what has been happening to housing supply in recent years and provides an overview of some of the industry’s key drivers. The overall aim has been to present coherent arguments backed by evidence to support a series of practical and feasible recommendations and additional suggestions regarding issues of principle with respect housing supply policy.

My research has confirmed my earlier views that the industry contains many hardworking and dedicated people and that real attempts are being made in the policy domain to tackle difficult and complex issues with some success. Growing housing shortages exist in England and full recovery from the downturn is likely to be hard won. Yet, there are grounds for optimism. So, significant movement towards improving housing supply is feasible with appropriate policy actions and industry responses.
Summary and recommendations

Speeding up recovery

1. Housebuilding has been badly affected by the financial crisis and economic downturn. It is now showing signs of recovery. However, there are indications that increases in housing supply may be slow and hesitant. This report examines potential barriers to increasing housing supply and identifies ways in which it may be feasible to overcome as many of them as possible. Some potential actions are achievable in the short-term and others require longer term action.

2. The purpose of this study is not to replace previous reviews by Barker and Callcutt. Instead, its rationale is that time has passed since those reviews and benefits can be derived from taking a further look at what has happened since then, particularly in light of the impact of the downturn. In terms of its relation to the broader stream of on-going policy analysis, this study is informing government policy developments on housebuilding, as announced in the Pre-Budget Report 2009, and the Low Carbon Construction Innovation and Growth Team (IGT).

3. An overriding aim is to utilise the incentives that market forces offer to expanding housing supply as much as possible. Government rightly intervenes into housing development through land-use planning, building controls and other types of regulation for a variety of reasons. Yet, it is essential that government sets an appropriate policy framework that recognises key trade-offs and enables private initiative to provide for the ever increasing demand for housing.

Seizing an opportunity

4. Expanding housing supply is a priority for government. It has been recognised for some years that English housing supply responds only weakly to price rises; housebuilding rates are low compared to other countries, despite England having experienced some of the most significant price rises. Housing shortages are now intensifying and growing. The output of the housebuilding industry has shrunk by a half and it is not easy to turn it back on, as resources, capital and confidence have been lost.

5. Housebuilding is inherently risky because of the lengthy lead times from initial project conception to completion of dwellings, during which developers face the danger of short-term declines in market demand and cost-related threats to project viability. This is especially the case at present, with builders facing land shortages, increasing costs, production delays, and greater risks.

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6. Yet, the scale of the downturn has focused minds and increased awareness of the feasibility of change. Opportunities exist to turn the situation around, ones that require neither major upheaval nor additional public expenditure but rather industry initiative, better regulation and a healthier business environment. A variety of relatively small changes could have a substantial aggregate impact.

7. It is important to recall that these issues are interlinked. For example, improving the conditions by which new providers can enter housebuilding has little or no effect on aggregate output unless more land is provided on which extra homes can be built. Both historical and international experience show that housebuilding at significantly higher levels is possible, without jeopardising the sustainability of that development or increasing substantially the current 11 per cent of England that consists of built-up areas and gardens.

Housebuilders’ concerns

8. The research that underpins this report has involved in depth consultation with the housebuilding industry and other providers of new housing in order to understand the problems they face, through telephone surveys, discussions with industry leaders, and in-depth focus groups.

9. Builders argue that the most important factor holding back housing supply is a lack of viable land. This is partly due to changed market circumstances, whereby previously viable developments are no longer profitable. The underlying cause, however, is a continuing shortage of residential land being delivered through the planning system. The second greatest concern related to what was felt to be a high and growing regulatory burden. This encompasses a range of issues, from planning requirements through to building regulations and sustainability policies. Additionally, many firms are experiencing problems in relation to finance: either in the form of difficulties potential purchasers are having in raising mortgage finance, or in terms of the development finance they themselves require to sustain and expand their own operations. Finally, there is widespread concern around the scale of the roll back in industry and supply chain capacity that has been associated with the downturn and the constraints that this implies for recovery.

Improving housing supply

10. Improvements in housing supply could be achieved in several potential areas. A broad overview is given below, with greater detail provided in the full report itself.

- Increase the supply of land and speed up the planning system.
- Simplify regulations and restrict growth in them.
• Improve access to development finance.
• Sustain and increase innovation and diversity in provision.
• Boost land assembly processes and utilities’ provision.

Land-use planning

11. More land for housebuilding is needed. While progress has been made in streamlining the system, the planning system could be simpler, more responsive to changing market conditions and generally quicker at what it does. Planning obligations are changing with the introduction of the Community Infrastructure Levy (CIL) and greater certainty is to be welcomed but overall impositions should not be too burdensome.

12. **Incentives for greater land supply:**
Current government initiatives to ensure greater land supply and a faster planning system are to be welcomed. The principal message of this report is that the measures in relation to land supply need to both recognise the urgency of the issue and the difficulty at present of persuading reluctant local authorities to act. The matter may need to be addressed through funding mechanisms to align local incentives with the wider social benefits of increased housing supply. This is because local planning authorities are small relative to the wider housing market, and additional homes built in one authority will improve housing affordability in neighbouring areas. These ‘spill over’ effects represent a positive externality, and provide the rationale for including responsiveness of local housing supply in assessments of central government funding, and influence levels and uses of council tax. Therefore, there should be further investigation of a greater range of fiscal options than exists at present to incentivise local authorities against adopting excessive planning restrictions and reward those providing additional housing.

13. **Quicker mechanisms:**
Thought should be given to identifying opportunities for further speeding up the plan-making and development management processes, beyond current government action. Again, stepping up financial incentives should be considered in these spheres as well as reductions in unnecessary process and informational requirements.

14. Outline planning permission routes are viewed by the sector as overly complex and not offering substantial benefit in comparison to the full permission route. There would be considerable benefit from simplification and reduced information requirements to encourage uptake.

15. The wider use of Local Development Orders and related tools should be promoted through housing specific pilot projects.
16. Consideration should be given to the introduction of Residential Planning Zones for areas where substantial development is going to take place, in which planning operates closer in principle to the zoning-style plans used in most continental European countries; with planning and perhaps building consent linked to one permission as long as development conforms to established rules, regulations and policies. To minimise disruption, it may be beneficial to introduce these in parallel with current sites allocated in plans. Some initial pilots, prior to rolling out the programme throughout England, would enable issues to be worked through, so that they offer genuine opportunities to speed up housing delivery. Government and local authorities should work with the sector to make sure that the approach is practicable.

17. Improved regional and national understandings of likely future housing supply could be derived by extended analysis and publication of local level and aggregate information from local planning authority Annual Monitoring Reports and similarly by monitoring overall site determination times.

18. The Community Infrastructure Levy (CIL) offers considerable benefits in terms of simplicity and certainty over planning obligations. Such benefits should inform discussions over current reform of s106 requirements and over the introduction of recommended Local Authority negotiation tools with respect to s106. Consideration should be given to the use of s106 flat rate charges in a similar way to CIL. Monetary contributions would have advantages in maximising value-for-money in social housebuilding and in avoiding the crowding out of private housing. With regard to CIL, monitoring and advice on its introduction to avoid a bias against higher density development is recommended. Maximum estimated takes on combined CIL and s106 should be set to adequately reflect risk in housebuilding activity and incentivise supply, with 50 per cent of uplift or less a potential guideline. Moves towards common starting points for s106 negotiations should reflect such guidelines as well.

Regulatory and policy frameworks

19. At their best, regulations and associated policies are fit-for-purpose, widely supported and function well. However, achieving this balance is a challenge, particularly in a complex and changing sector such as housebuilding. Difficult issues may crop up because of insufficiencies in specification, co-ordination, evaluation and getting action at all appropriate levels; and weaknesses in evidence bases, detail and understandings of potentially adverse effects. In part, problems can arise because of the breadth of public sector engagement with the housebuilding industry through several government departments and agencies. Policies may also have multifaceted aims that do not always chime together. When designing regulatory rules, policymakers themselves face difficulties, because of a lack of information and the limited research base that exists on the housebuilding industry.
20. There may be benefit in having a clearer chain of co-ordination and authority, strengthening improvements already made. In it, a senior official (or a wider committee with non-government as well as government representatives) could perform a clearing-house and overview function in relation to policy and regulations impacting upon housing supply and the housebuilding industry.

21. To an extent, this mechanism would simply ensure and generalise current good practice. The aim would be to make certain that policies and regulations were well-designed, consistent, indispensable, and had gone through appropriate procedures, including early stakeholder involvement with users and producers. It would also ensure that external expert advice was being utilised effectively, where appropriate, and could be more closely involved in shaping policy developments from the outset.

22. Such a mechanism would also enable better cross-cutting policy follow-up assessments. It would then be easier to draw in experience and information from a wide range of relevant central and local government actors to evaluate whether policies are achieving their stated aims; what lessons could be learned for wider application; and to assess overall impacts on housebuilding in practice.

23. Such an a clearing-house and overview approach would also be of considerable value in implementing the new arrangements for a policy baseline, proposed in the Pre-Budget Report 2009, against which any newly proposed regulations will need to be considered. It is recommended that a clear equivalent cost ‘one in – one out’ approach forms a central part of a baseline in order to contain regulatory costs.

24. A better understanding and acceptance of where policy has greatest leverage in terms of increasing housing supply would be a useful guide for action. There is a need for a clear vision of the overarching policy objectives, and recognising the trade-offs that exist. A road map of planned actions and policy initiatives could then be devised so that all participants were aware of that vision and guided by it, and the interlinkages between initiatives could be monitored and managed.

25. Greater use of rule-based regulation would, in certain circumstances, be advisable to offer certainty and transparency in areas where clear benefits exist in terms of producer certainty and standardisation. A parallel may be drawn here with the substitution of certain aspects of section 106 that, while flexible, generated considerable uncertainty and are now being replaced with CIL.

Regulations and sustainability

26. Building regulations are central to all types of building and influence the components and technologies used. Regulations aim to ensure the appropriateness of buildings for their intended uses and that their health and safety aspects are fit for purpose.
However, in addition, regulations are introduced to achieve social aims, including increasing the sustainability of new build housing. Two recent policies with this objective have been life-time and zero-carbon homes.

27. Policies to increase new build sustainability represent a major challenge to the private housebuilding industry. Implementation to date has raised a variety of issues related to costs, uncertainty, a lack of co-ordination between tiers of government, technical challenges and risks, and consumer understanding and acceptability. The recession has also affected the programme because far fewer dwellings have been built, so that experience has not grown as fast as was originally planned and the resource base and supply chains are more limited than they would otherwise have been.

28. To a great extent, discussions with builders suggest a willingness to rise to the challenge, but that does not mean to say there are no trade-offs. One fear must be that housing supply will be held back by the costs and uncertainties of the changes as they move rapidly forward through the proposed levels towards final goals. This represents further challenges in terms of making sure that the supply of housing is not unduly restricted by rising costs.

29. It is recommended that the experience of the increase in energy requirements, through Part L of the Building Regulations, on private housebuilding be examined as the changes proceed by industry and government and the results publicised. Such work is already undertaken with respect to the Code for Sustainable Homes but the private sector faces particular difficulties, especially in light of the recent downturn, so that additional investigation and analysis is required in relation to it. The analysis should be multi-faceted relating to technical processes and costs, supply chains, consumers, affects on house prices, consequences of market cycles, implications for business models, and impacts on firm entry and diversity. This would be useful from the perspective of learning-by-doing, but also so that adjustments may be made to the programme, as necessary.

30. The impact of changes in building regulations to reflect the gradual movement towards zero-carbon homes on overall housing supply should be monitored and analysed, so that supply side impacts are better understood. Standards should be set to be uniform across all local authorities, rather than subject to local discretion. That all costs are borne by land values is unlikely to be the case, particularly on sites of marginal viability.

31. Given the scale of the challenge, every attempt should be made to reduce any unnecessary risks and uncertainties. Slippages in elaboration of the technical details pose a threat to the achievement of targets and puts substantial costs and risks on the housebuilding industry, because they have to invest considerably ahead of time in land acquisition, planning applications and in the increasingly demanding
technologies required to meet rising targets. Levels of housing investment may be significantly affected, because of the rising costs and continuing uncertainty. Many sites are currently of marginal or negative viability. Any increase in costs or risks worsens further their potential profitability. In consequence, despite apparently high house prices, new build margins are often insufficient to absorb rising costs and risk. It would be unfortunate if that were to happen on environmental grounds. Code level 3 already creates substantial changes in the way that homes are built and improves their sustainability, and it is important to have a significant volume of sustainable, new build homes. If new building is lower than it would otherwise have been, a less environmentally sustainable overall housing stock will persist for longer.

32. Government has recognised some of these concerns, as shown in the Pre-Budget Report 2009. A need to recognise flexibility in the zero carbon definition in consultation with the sector is now accepted. There is now a need to provide certainty in terms of a workable zero carbon definition, which should allow the necessary flexibility (e.g. off-site solutions) to maximise cost effectiveness. Close consultation with the sector will need to be a key part of this process.

33. The Pre-Budget Report 2009 introduced the establishment a national baseline for regulatory costs to manage and mitigate the cumulative impacts of any new requirements, as noted above, whilst supporting the Zero Carbon Homes policy. Delay in introducing Life Time Homes was offered as a first step. This exercise is challenging. Considerable effort will be needed to reduce the uncertainties and costs and to gain acceptance by all stakeholders.

Innovation

34. The movement towards zero carbon homes to a degree raises a fundamental issue within the housebuilding industry: its relatively slow and, typically, path-specific forms of innovation. Innovation does occur quite extensively in a range of areas, including process management, marketing, customer interfaces, finance, project and product mixes, site layouts, internal designs and fittings. All of these are important. Many occur in what can be termed the ‘development’ rather than the direct ‘building’ part of the housebuilding process. It is often not realised that a large portion of non-pure land price build costs are actually associated with site preparation and the many other necessary development activities undertaken by firms, rather than with respect to superstructure and internal fitting out costs. The latter typically constitute well under half of total attributable dwelling costs.

35. Nonetheless, the ways in which houses are constructed still matter considerably and innovation in these areas in England is relatively slow. This has had an effect on progress towards the construction of more energy-efficient housing because this programme pushes the industry towards altering the way in which it has traditionally
The housebuilding industry: Promoting recovery in housing supply

built homes. Some firms have put in a great deal of effort but others have not. In part, the downturn has not helped because along with cuts elsewhere have gone reductions in research and development budgets. Moreover, less new build means fewer opportunities to experiment and to innovate. Nonetheless, industry needs to work out mechanisms enabling the timely adoption of key building innovations and mechanisms of co-operation, whilst remaining competitive. Developing the required skills base will clearly be important. Nonetheless, government should not be expected to play a leading role in such activities and, so, no recommendations are offered with respect to government action.

Finance

36. Financial constraints are affecting many parts of the economy at present. However, they are particularly troublesome in housing because of the long-term nature of the investments made by buyers and suppliers.

37. The constraints on mortgage finance have hit the borrowers that typically buy new housing worse than those in the market for existing housing. This is because of the profile of new buyers: with a greater preponderance of first-time buyers and investors. In addition, lenders are reluctant to lend to properties on large new developments and in quite a number of regeneration areas where house prices and local average credit scores may be weak.

38. Housebuilding has been badly hit by the risk assessments made by banks and through the loss of so many financial institutions that used to provide finance. Small and medium-sized builders are particularly constrained, which means they do not have the finance to rebuild their businesses. It is also very challenging for new entrants and most occasional developers in housebuilding to raise finance for new developments. This has important implications for housing supply because around half of all new housing is provided by such enterprises. Sustained recovery in housebuilding will not take place until smaller and medium enterprises can freely operate again.

39. An enhanced dialogue between house builders and the financial sector should seek to:

- explore ways to improve the banking sector’s relationship with medium-small builders and developers
- investigate opportunities for alternative sources of development finance e.g. clearing houses for private equity; securitisation of development loans; loan default insurance; and potential selective government loan funds and guarantees
• improve monitoring by identifying lending to the housebuilding industry separately from commercial real estate and construction

• inform smaller builders more widely about current government finance initiatives with respect to finance for small- and medium-sized enterprises.

Land assembly and site servicing

40. Key stages in housing development are assembling a site; getting the road and, possibly, rail transport links right; fitting the site out with all the necessary services that households require (i.e. water, gas, electricity, telephones); and connecting them to the respective utilities’ networks.

41. These stages are fraught with problems. For example, if vehicular access cannot be guaranteed, a piece of land will not be used for residential accommodation and there may be other problematic issues affecting the property rights of adjacent landowners. In terms of utility connections, utilities are generally required to provide a universal service but the relationship between utility providers and builders is often a troubled one.

Land acquisition

42. Not much is known about the operation of the residential land market but there is a growing risk that property rights and ransom strip issues could slow housing delivery and force development onto less ideal sites and locations. In consequence, it may be worthwhile examining this issue in greater depth in order:

• To consider whether current practice should be altered to constrain the impact of ransom strip behaviour in key developments. Case law is currently based on a situation that is fifty years old and may not meet modern requirements or expectations.

• To limit potential ransom strip and other constraining behaviour amongst utility and transport providers. The utilities and Network Rail are regulated entities and have special privileges over land development on grounds of public interest, so a reciprocal requirement in relation to their behaviour towards much needed housing supply would not seem out of place.

• To consider the conflict local authorities face in the current climate between bringing forward housing supply in their localities and requirements to obtain best value from land disposals.

• To advise local planning authorities of the importance of recognising landownership issues in their planning practices and land availability studies, if they do not already do so.
Utilities

43. Utilities are key players in housing delivery. Builders feel that there are substantial problems with their behaviour. As a result it may prove worthwhile for industry and government to:

- encourage a better service offer by utilities by asking relevant regulators to introduce improved compulsory codes of conduct, allied with effective monitoring and enforcement
- encourage regulators to widen the conditions under which builders can claim damages for poor utility service and provide a light touch means of recompense
- undertake a strategic review of infrastructure connections and new residential sites; to be carried out by regulators in conjunction with central and local government, builders and utility providers
- support improved adoption by local authorities of facilities and encourage greater flexibility in their requirements.
Chapter 1

Focusing on housebuilding recovery

Introduction

1.1 Housing supply has taken a severe knock as a result of the economic crisis that started in September 2007. There are also long-term concerns about the level of housebuilding in England, which is insufficient to meet rising demand. Government has set a target of 240,000 dwellings a year in order to improve affordability, with an aim of creating three million new homes by 2020. There have been a variety of initiatives associated with this target, including growth areas, growth points and eco-towns; planning reform; housing market renewal; Community Infrastructure Fund; affordable housing initiatives; the Housing and Planning Delivery Grant; and the Community Infrastructure Levy (CIL). Many of these initiatives pre-date the downturn, which has been a blow to the trajectory of increased housebuilding.

1.2 It is important that housing supply recovers as quickly as it can from recession. Government has announced a housing stimulus programme in response to the crisis, as part of ‘Building Britain’s Future’. Elements of this package that offer direct support to new build housing activity include the ‘Kickstart’ programme, which seeks to unlock stalled housing developments through competitive bidding for development finance, additional funding for affordable housing through the National Affordable Housing Programme (NAHP), increased Local Authority new build activity, as well as the Public Land Initiative (PLI). Nonetheless, conditions in the sector remain challenging.

1.3 This research has been commissioned to examine those challenges and to identify ways in which it may be feasible to overcome as many of them as possible. Some potential actions are achievable in the short-term and others require longer perspectives.

1.4 There have been a number of previous studies in the areas covered here; most notably, the two Barker reviews on housing supply and planning and the Callcutt Review of Housebuilding Delivery.2 This current work does not aim to replace or to revise the conclusions of those Reviews. Rather, it is a more

modest, rapid response type of exercise. Time has passed since those reviews and benefits can be derived from taking a further look at what has happened since then. The scale of the impact on housebuilding of the economic and financial crisis makes that observation especially pertinent. In terms of its relation to the broader stream of on-going policy analysis, this study is informing policy work on housebuilding, as announced in the *Pre-Budget Report 2009,*\(^3\) and the Low Carbon Construction Review.\(^4\)

Harnessing market initiative

1.5 Private enterprise builds 80 to 90 per cent of new English homes each year. So, most effort involved in generating new housing supply is through private endeavour and the housebuilding industry plays the principal role, although there are other types of private provider as well. Therefore, an overriding aim is to utilise as much as possible the incentives that market forces offer to expanding housing supply.

1.6 In this context, it is essential that government sets an appropriate policy framework that enables private initiative to provide for the ever increasing demand for housing. This aim is paralleled by other policy objectives around land-use planning and sustainability. Key aspects of housebuilding are regulated through building controls and other types of regulation for a variety of reasons. These factors exist in other countries as well as here. In consequence, even in a market system, central and local government and a series of government agencies intervene in the housebuilding process. The complexities of housing delivery and competing demands in relation to land-use present particular challenges in terms of policy design and implementation.

1.7 Ideally, regulatory interventions should be well-designed and not themselves excessively burdensome but, unfortunately, that is not always the case today. This means that, in relation to barriers to additional housing supply, there are roles for government in limiting the adverse effects of regulations and weighting appropriately the trade-offs they embody. There is the related issue of how government initiates and implements policies with respect to housebuilding in terms of ensuring their effectivity and coherence across a broad range of issues and agencies.

\(^3\) [http://www.hm-treasury.gov.uk/d/pbr09_completereport.pdf](http://www.hm-treasury.gov.uk/d/pbr09_completereport.pdf)

Identifying the concerns of housebuilders

1.8 Key participants in expanding housing supply are obviously firms in the housebuilding industry and the other providers of new housing. The research that underpins this report involved in depth consultation with them in order to understand the problems they face, through telephone surveys, discussions with industry leaders, and in-depth focus groups. Weak demand and staving off bankruptcy have been the overriding considerations for housebuilders for the past two years but as the general economic recovery gathers momentum, the pressure will again be on them to deliver extra housing.

1.9 Housebuilders come in many different forms from large-scale specialists producing thousands of homes a year to small firms, self-builders constructing a home for themselves, and non-specialists constructing housing as a sideline to some other activity. Each broad type of provider was contacted in this research, and extensive discussions were had with them, as explained in detail in Chapter 4.

1.10 Discussions with such a variety of providers inevitably raise some issues of particular concern to specific types of provider but, despite this, there was common consensus on four issues of great importance. They are discussed at length later in this report but are summarised in Box 1.1 and in order to understand the themes of this report it is useful to summarise them and a few other issues now.

Box 1.1: What builders think holds back housing supply today

1. **A lack of viable sites**  
   with emphasis on viability in existing market contexts.

2. **A high and growing regulatory burden**  
   related to land-use planning and to building and other regulations, including Zero Carbon Homes.

3. **Finance problems**  
   partly for house-buyers with regard to mortgages but also with respect to development finance.

4. **A loss of capacity in the industry**  
   associated with skills – trades, professions and managerial; firm competences; supply chains; etc.
The most important factor builders felt is holding back housing supply is a lack of viable land. This is partly due to changed market circumstances, whereby previously proposed developments are no longer profitable. But, it primarily arises because of a continuing shortage of residential land delivered through the planning system. The second greatest concern related to what was felt to be a high and growing regulatory burden. This encompasses a range of issues from planning requirements and building regulations through to progress towards ‘zero carbon’ by 2016. Next, many firms are experiencing problems in relation to finance: either in the form of difficulties potential purchasers are having in raising mortgage finance, or in terms of the development finance they themselves require to sustain and expand their own operations. The final of the four major themes concerned the scale of the roll back in industry and supply chain capacity that has been associated with the downturn and the constraints that this implies for recovery. Productive capacity is a concern for the future, rather than at the current low building levels, but may increasing become a serious issue as output expands.

Apart from these four major themes, a variety of other issues were raised in discussions with housing providers. Some of these were associated with, say, the particular needs of self-builders but many covered cross-provider themes. Given the priority ordering of these issues and the constraints associated with producing a rapid response report, this research concentrates on issues associated with planning, regulation and finance but considers some aspects of innovations and supply chains in relation to these topics. Some policy issues are indirect consequences of the regulation of other industries, for example, in the problems that arise with respect to site connections to utilities’ infrastructure networks. Many firms highlighted difficulties in this sphere and they are considered in depth in Chapter 9.

Identifying the appropriate framework

Understanding the concerns builders have in practice when trying to sustain and expand their businesses provides important evidence. Placing them in appropriate broader contexts adds further benefits. Wider empirical evidence has been utilised and investigation undertaken of housing market and other developments, based on the available literature and economic analysis.

Perhaps, the greatest overriding general contextual factor is the importance of appreciating the role of risk and uncertainty in housing development. Risks are predictable in principle but uncertainties are not, yet in either case housing providers have to deal with them in many aspects of their activities. In the aftermath of the economic downturn and on-going global and national financial problems, the risks and uncertainties faced by builders have grown
substantially. It is important that policy tries to reduce them where possible rather than add to them. Unfortunately, a danger arises of downplaying risk and uncertainty. This can be seen, for example, in the long prevalent presumption that substantial land value uplift exists in residential development that can be redirected towards perceived socially-desirable ends without affecting housing supply.

1.15 Infrastructure provision as a whole is clearly relevant to opening up potential development land but is beyond the remit of this report. Furthermore, only brief consideration shall be made of consumer, supply chain and innovation issues. This is not an indicator of their relative importance but rather due to the practical reasons associated with delivering a rapid-response report within a limited budget.

1.16 Constraints exist in relation to the analysis of housebuilding as well as within the industry itself. There is a relative lack of information and research on the housebuilding industry and the problems it faces, especially compared with the much greater understanding that exists of housing demand and planning-related issues. This is pointed out at various stages of this report and benefits would be gained from improving the evidence base in a consistent and enduring way. Nevertheless, with what knowledge already exists some key themes can be usefully investigated.

Core themes

1.17 Two core questions are addressed in this report:

1. Do barriers exist to expanding housing supply?

2. How can they be overcome?

1.18 A number of areas where opportunities exist to overcome barriers are identified in the research.

- increase the supply of land and speed up the planning system
- simplify regulations and restrict growth in them
- improve access to development finance
- sustain and increase innovation and diversity in provision
- boost land assembly processes and utilities provision.
1.19 These themes form the basis of the analysis and recommendations that follow. After two introductory chapters, examining housing market developments and the nature of the housing providers, the sequence of the remaining chapters follows the subject matter of those themes.

1.20 The emphasis is on trying to overcome barriers and the order of the listing above broadly reflects their relative importance in improving housing supply.

1.21 Recommendations are made throughout the chapters and they are summarised in boxes at the end of each chapter. In addition, some more general comments are made which are applicable to setting guidelines and formulating principles in relation to policy but of themselves do not constitute policy recommendations. They are not included in the end of chapter summary boxes. As a result, the chapter on finance does not have a summary box (Chapter 8).

1.22 Finally by way introduction, it is important to remember that issues are interlinked. For example, improving the conditions by which new providers can enter housebuilding has little or no effect on aggregate output unless more land is provided on which extra homes can be built.
Chapter 2

Crisis and recovery

Introduction

2.1 The number of dwellings built at any point in time is a product of market conditions. On occasion, demand will be insufficient and, in consequence, builders will cut back their output in order to contain losses. This was what occurred month on month from autumn 2007 to spring 2009 during the worst of the world financial crisis and the resultant recession. The decline in housebuilding was dramatic when compared to many previous recessions.

2.2 In the opposite direction, when demand outpaces available supply, housebuilders seek to expand their output. This happened for most of the decade prior to 2007 and, more tentatively, has been occurring again since spring 2009. The phrase ‘seek to expand’ in the previous sentence states the nub of this report: barriers may prevent housebuilders from fully exploiting the opportunities offered when demand increases. Inevitably, supply responds slowly at first to extra demand, because the opportunity has to be recognised, resources have to be assembled and homes built. However, unnecessary constraints can hold back production by much more than is technically necessary. What is being investigated in this report are ways of reducing the impact of such constraints on housing supply.

2.3 In order to be able to recognize those barriers, the broad context in which housebuilding operates needs to be understood. In this chapter, a core aspect is examined; namely, the dynamics of the housing market. Unlike many other housing market investigations, which emphasise price dynamics, here the spotlight will be put on what happens to supply. This question will be examined in a variety of ways.

- through examination of the timeline of the recent crash and partial recovery
- through comparison of the latest downswing with earlier ones
- by examining whether experience in England is different or similar to that in other advanced economies
- by examining what happened to Britain’s major housebuilders during the crash
- by looking at what might happen in the future.
2.4 The results are mixed in that there are some clear parallels with past events and with other countries but also some distinct features of the current situation in this country. Historical experience suggests the recovery of housing supply is likely to be a slow process. Evidence presented later also suggests housing supply elsewhere may be quicker to respond to market recovery, with higher elasticities of housing supply experienced in many other countries.

2.5 The prognosis revealed unfortunately is a depressing one. This suggests there are considerable barriers to increasing housing supply, which are likely to persist without strong action. In particular, the scale of the shock over the past two years and the chronic shortage of housing emphasises the need for government policies to facilitate a strong recovery in supply.

The downswing

2.6 The UK experienced a dramatic collapse in housing market activity with the onset of the world financial crisis. The housing market downturn began in earnest in autumn 2007, following the collapse of Northern Rock. Initially, a lack of mortgages caused sales to decline but demand also began to fall as the economy slowed and fears grew of substantial house price falls. The second round of financial shocks following the collapse of Lehman Bros in autumn 2008 exacerbated market weakness.

2.7 Prices in the UK started to fall in spring 2008 and by a year later had dropped by over a fifth, according to the Halifax house price index (Figure 2.1), or by around a quarter in real terms. The decline in mortgage lending was equally dramatic. The number of mortgage advances for house purchase dropped from around 60,000 a month in summer 2007 to only 18,000 in November 2008 (Figure 2.2). Foreign-based mortgage providers and those previously reliant on wholesale funding ceased their lending activity. Because of this, and bail outs in the domestic financial sector, the number of lenders declined substantially. The range of products on offer shrunk; loan criteria sharpened tightly to match available funding to the borrowers perceived as less risky; and interest rate spreads and mortgage set up charges grew.

2.8 In their flight to safety, the remaining mortgage providers reduced maximum loan-to-value ratios and excluded perceived high risk borrowers, including a substantial cut-back on lending to investors. These changes had a particularly significant impact on the new build market, as will be examined in Chapter 5.
2.9 Housebuilding volumes were particularly severely affected by the downturn. Sites were mothballed and staff and contractors were laid off in their thousands. Private housing starts in England by 2008 q4 were a substantial 71 per cent down on their peak approximately two years earlier in 2006. The decline in completions was more gradual. Private completions were around half their previous peak level by the end of 2009; although policy interventions, particularly in the social sector, helped offset some of the decline in total output (Figure 2.3).
Figure 2.2: Mortgage loans for purchase and remortgage, Jan. 2005 – Oct. 2009

Figure 2.3: Total housing starts and completions, 2002q1 – 2009q3

Source: BBA

Source: CLG
Chapter 2 Crisis and recovery

Partial recovery

Bounce back on some measures, but not on others

2.10 Since spring 2009, there have been signs of a partial recovery in the housing market. Prices started to grow again and by January 2010 they had risen by 10 per cent from the spring 2009 trough, according to the Halifax index, in one of the fastest price revivals in Europe. The resurgence was greatest in London and the south east, and supported by buyers chasing a limited supply of good quality properties for sale, coupled with an easing in mortgage constraints.

2.11 Affordability for many existing homeowners and investors has greatly improved since the onset of recession. Unemployment rates though rising have also been somewhat lower than anticipated. These factors, plus pressures to increase lender forbearance, have helped to limit the scale of defaults and the number of distressed sales coming onto the market.

2.12 The substantial drop in mortgage interest rates from the end of 2008 is shown in Figure 2.4. However, it should be noted that many households could not access these attractive interest rates due to credit rationing. Constraints on mortgage lending continue to affect the shape of the recovery, and will do so for some years to come, with significant implications for new housing supply.

Figure 2.4: Mortgage interest rates on new business, Jan. 2006 – Nov. 2009

![Graph showing mortgage interest rates from 2006 to 2009, with fixed and variable rates plotted.](source: Bank of England)

2.13 The ratio of house sales to the stock of unsold properties on surveyors’ books increased throughout 2009, according to the RICS monthly survey. This activity was reflected in completed transactions, up by over 10 per cent in the Land Registry, and mortgage approvals were almost 80 per cent higher in October 2009 than they had been a year before (Figure 2.2). However, the onset of winter has meant that seasonal factors have been clouding clear understanding of short-run market developments in recent months.

2.14 Overall, the market remains subdued compared to the final years of the boom. The more positive figures seen since the trough in early 2009 should be viewed in the context of the earlier market collapse between autumn 2007 and spring 2009. Most indicators remain significantly below their pre-crunch levels. For example, mortgage approvals were still 56 per cent below the 2006 peak levels at the end of 2009. This partly reflects low levels of remortgaging activity, but also relatively low levels of house purchase.

2.15 One important factor in the revival of the housing market in 2009 was an absence of high vacancy rates and substantial forced sales of properties, outside a few localized cold spots, in contrast to experience in the USA to which the UK situation is often compared. Housebuilders had limited excess stocks and what they had was generally run down quickly. Indicators of mortgage distress did not climb as high as some had forecast and improved in 2009 in both owner and investor markets. The Council of Mortgage Lenders twice revised downwards its initial prediction of the number of repossessions in 2009 from the initial one made late in 2008 of 75,000 in 2009 and, in the event, they turned out to be even lower than all of them at 46,000.

2.16 There have been signs of recovery in housebuilding in line with the wider market. Starts rose by 66 per cent in the first nine months of 2009 from the low previous levels, as builders responded to improved market conditions, but that still left output at around half pre-crunch levels (Figure 2.3). Consequently, the revival in supply has been nothing like that in prices.

2.17 Overall, the housing market seems likely to have bottomed out. Some commentators worry about renewed decline in house prices during 2010 but, in the absence of some further economic shock, this seems doubtful. Admittedly, economic growth remains weak and uncertainties abound. Interest rates and tax burdens are also likely to eventually rise, but probably only as growth improves. Unemployment may also have peaked well before the more pessimistic forecasts predicted.
2.18 In terms of further market expansion, the prospects for increases in mortgage finance seem muted over the next few years, which will hold back growth. The availability of mortgage funding will depend on whether difficulties in opening near-frozen private capital market sources can be overcome.\(^6\) Another influence will be the precise nature and costs of the extra regulatory requirements that are going to be imposed on lenders in order to avoid future financial meltdowns.

2.19 The danger is that prices recover without commensurate increases in housing supply. This has been a feature of previous recoveries, as will be shown later.

An uncertain future

2.20 All housing market crashes are followed by uncertain upswings. Confidence remains fragile; economies are weak; and the causes of the initial downturn remain unresolved in part, if not more so. Such uncertainty in relation to the housing market and the economy is particularly prevalent at present. The response to financial crisis was government intervention on an unprecedented scale. Debt levels remain high and there is uncertainty around the timing and impact of withdrawal of monetary and fiscal stimulus measures. In such a situation, short-term forecasting of the housing market is subject to particularly large error.

2.21 Such uncertainties influence housebuilders’ decisions around future output levels and result in slow and cautious increases in housing output as market conditions improve. However, in addition to such potential drags on revival, there may also be particular ways in which the housing supply process operates that heighten builder’s perceptions of risks or dampen profitability. These constraints are more important in a downturn than during a boom; simply because profitability in general is much lower then, so such factors weigh more heavily upon decisions. Other constraints may deny access to necessary resources, such as finance and land. Firm competences, building workers, components and materials may all be limiting factors, especially as they were cut so vigorously between 2007 and 2009.

Comparison of housebuilding responses with previous downturns

2.22 The UK housing market has a long history of booms and slumps. In part, such fluctuations are inevitable because housing supply takes a long time to adjust to changes in demand, so that both prices and supply may overshoot, leading

to periods of readjustment. The timing and characteristics of particular booms and slumps reflect macroeconomic fluctuations, interest rates, regulatory and tax changes, and shifts in credit conditions. Moreover, with low supply responsiveness to increases in prices, much of the process of balancing supply and demand is borne by variations in price.

2.23 No regular pattern exists in these fluctuations, as can be seen in Figure 2.5. Cycles vary in duration and may be relatively mild or large in amplitude from the peak of the upswing to the bottom of the trough. The upswings also tend to last far longer than the downswings.

2.24 Prior to the latest price decline starting in 2007, there were three other downturns over the past forty years when real house prices fell nationally. One was relatively minor – in the early 1980s – and the other two were substantial – in the mid-1970s and the early 1990s. In them, price declines generally occurred in real rather than nominal terms; with the declines driven by house prices failing to keep up with general inflation. Only in the early 1990s downswing did nominal prices fall and then only marginally in contrast to today’s substantial declines (Figure 2.5).

Figure 2.5: Long-run house price fluctuations, 1970 – 2008

Source: CLG
2.25 Yet, when compared with these two past cycles, this particular downturn does not look like it is going to be anything as great in terms of real house price falls as occurred in either of them; although as full recovery has still to be achieved firm conclusions cannot yet be made. By contrast, looking at housebuilding, this downswing can be classified as amongst the worst ever. The fall in housing starts of 71 per cent from their peak in 2006 to the trough in 2009 q1 was the largest drop since at least the Second World War. Even so, these two earlier major downswings exhibit a much closer relationship to today’s in terms of supply falls than they do in terms of prices and several other market indicators.

2.26 The early 1970s housing market crash saw both supply-side and mortgage finance crises. There was a substantial fall in private starts of 55 per cent between 1972 and 1974 in the context of a sudden curtailment of mortgage finance, in an episode known as the ‘secondary banking’ crisis. Even so, the period differs from the current situation in a number of key respects. One important difference is that, then, nominal interest rates were rising sharply. This helped to trigger an economic recession and financial distress amongst overstretched homeowners. Supply flooded onto the market from troubled builders and homeowners; whereas currently interest rates are low and there is little excess supply.

2.27 Turning to the late 1980s-early 1990s episode, starts fell by 65 per cent between 1988 q2 and the trough of 1992 q4; which given measurement and other potential errors makes it close to the recent experience of a 71 per cent peak-to-trough decline. However, the interest rate environment was once again distinct from now with high rates. They helped to generate large-scale owner occupier defaults and an extended period when forced sales helped to generate prolonged excess supply. This situation dragged out the fall in real house prices and falling real house prices lasted for over six years. However, when measured in terms of starts, new building began to increase much earlier than that.

2.28 The dynamics of late 1980s-early 1990s downturn and current one are directly compared in Figure 2.6. In it, changes in the number of private starts, the level of real house prices and the amount of social housebuilding are charted for the 20 quarters following on from the start of the downswing in private starts; 15 in the case of the current cycle, which was the maximum number possible at the time of writing.\(^8\)

2.29 Figure 2.6 shows that the initial path of declines was fairly similar in both cases for the first two and a half years. But, then, matters worsened faster in the latest downturn, because the aftermath of the collapse of Lehman Bros in the

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\(^7\) Housing and Construction Statistics, 1969-1979, HMSO.

\(^8\) The beginning of the 1988 output decline is set at a quarter before the actual initial fall in starts in order to avoid seasonality factors distorting the comparison, so that both periods start in q1 of the respective years.
autumn of 2008 sent housebuilding into a much steeper fall for the next six month period. The winter months are typically ones of slow activity, but Lehman caused a record fall over that particular winter period. However, in the spring and through the summer of 2009 much of that additional winter decline was subsequently recovered, leaving starts close to where they were in the previous downturn.

2.30 In price terms, it can be seen that events in the recent downturn moved much faster than in the early 1990s. Prices have fallen faster but, also, price recovery has started much quicker than in the 1990s.

2.31 Social housing starts in all three periods showed increases at times that partly offset private housing falls, highlighting this approach as a common and sensible policy reaction to rising construction unemployment. However, the scale of the fall in private housing output was inevitably far greater than the rise in social housing, so that the impact on overall output of social housing stimulus was relatively small on each occasion (Figure 2.6). Social housebuilding did reach a third of output in the worst period of the post-2007 crash but that was because of the scale of the collapse in private building rather than because of any sustained increase in social housebuilding. Private housing needs to be at least 40,000 dwellings a quarter before the end of recovery can reasonably be fully declared, which is a rate more than 10 times current social housebuilding levels.

Figure 2.6: The previous and current major downturns in housebuilding compared

Quarters since private starts peak: Late 80s/90s (1988q1 – 1992q4) & 2000s (2006q1 – 2009q3)

Private housing starts

<table>
<thead>
<tr>
<th>Year</th>
<th>2000s</th>
<th>Late 80s to early 90s</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>2001</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>2002</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>2003</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>2004</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>2005</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>2006</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Figure 2.6: The previous and current major downturns in housebuilding compared (continued)

**Private housing starts (Halifax index rebased)**

**Social housing starts**

Source: CLG, Halifax
2.32 An important conclusion from this simple numerical comparison is that, while public-sector driven housebuilding may be a useful stimulus at the depths of a crash, it cannot possibly hope to substitute for private housing in the recovery. This conclusion is simple arithmetic, given the current scale of the private housing market. Moreover, even if there was a desire to increase substantially public expenditure on housebuilding, that would require large-scale public resources. And those are going to be in short supply over the next few years.

2.33 Leveraging extra private output is likely to achieve much more in terms of extra housing supply at far less public cost than extra housebuilding-related public expenditure, whether it is in cash terms, or via releasing land assets or implicit subsidies. Britain several decades ago opted for a predominantly private market in housing provision, and one dominated by owner occupation; a move that was hugely popular. Private endeavour, once again, needs to be stimulated if a major revival of housebuilding is to occur. There are justifications for public-intervention into housebuilding in order to stimulate housing output and increase the range of producer diversity and choice but they are no substitute for putting effort into mobilizing the existing housebuilding industry into sustained recovery.

The lessons of history

2.34 Six conclusions are of particular note in this historical comparison.

1. Sharp collapses of private housebuilding have now occurred three times within 40 years.

2. There are similarities between each of these three sharp downswings, even though the interest rate and other aspects of the macroeconomic environment differ.

3. In each of the downswings, housing starts began to fall well before house prices: by as much as 18 months to two years earlier. This probably occurred because starts are more immediately sensitive to rises in interest rates than house prices are during the final years of booms.

4. Housing output recovered, at least partly, well before house prices did in the early two slumps; whereas in the current recovery the two have been rising together, at any rate during the last nine months of 2009.

5. The peaks of private housebuilding in the 1970s and 1980s booms were virtually identical in scale and turned out to be the maximum output levels for the whole period. They were never matched in the last housing boom, when supply was much less vigorous than it had been in the past (Figure 2.7).
6. The recovery in private housebuilding was muted for 10 years following the major crashes in both the 1970s and 1990s (Figure 2.7). In fact, after the 1972-3 downturn housebuilding did not respond at all to the next house price boom at the end of the 1970s and fell to historic lows in 1981.

**Figure 2.7: Private housing completions, 1970-2008**

England

<table>
<thead>
<tr>
<th>Year</th>
<th>Private housing completions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>180,000</td>
</tr>
<tr>
<td>1972</td>
<td>160,000</td>
</tr>
<tr>
<td>1974</td>
<td>140,000</td>
</tr>
<tr>
<td>1976</td>
<td>120,000</td>
</tr>
<tr>
<td>1978</td>
<td>100,000</td>
</tr>
<tr>
<td>1980</td>
<td>80,000</td>
</tr>
<tr>
<td>1982</td>
<td>60,000</td>
</tr>
<tr>
<td>1984</td>
<td>100,000</td>
</tr>
<tr>
<td>1986</td>
<td>120,000</td>
</tr>
<tr>
<td>1988</td>
<td>140,000</td>
</tr>
<tr>
<td>1990</td>
<td>160,000</td>
</tr>
<tr>
<td>1992</td>
<td>180,000</td>
</tr>
<tr>
<td>1994</td>
<td>200,000</td>
</tr>
<tr>
<td>1996</td>
<td>220,000</td>
</tr>
<tr>
<td>1998</td>
<td>240,000</td>
</tr>
<tr>
<td>2000</td>
<td>260,000</td>
</tr>
<tr>
<td>2002</td>
<td>280,000</td>
</tr>
<tr>
<td>2004</td>
<td>300,000</td>
</tr>
<tr>
<td>2006</td>
<td>320,000</td>
</tr>
<tr>
<td>2008</td>
<td>340,000</td>
</tr>
</tbody>
</table>

Source: CLG

2.35 It is obviously of vital importance that a similar lost decade does not take place following the current market downturn; that supply has the capability to respond to any surges in demand that will occur in the future; and that it has the strength not to collapse badly again in face of the next downswing in the economic cycle.

2.36 History may not repeat itself in precise forms and England is a much changed place since the last two major housing market crashes. Yet, history does show how devastating and long-lasting housing market downturns can be for housing supply in this country, given its institutional framework. Construction capacity is lost; banks become reluctant to lend to developers; and those holding back land supply in the planning system become galvanized, perhaps remembering the excesses of a recent boom rather than recognizing the needs of the future and the urgency of facilitating recovery. What is more, policy takes a long time to adjust to new realities.
2.37 The fluctuations in the housing market can only be explained in terms of wider macro-economic events, but the substantial constraints on housing supply have other more micro-economic causes. Tight planning constraints on land availability are an important factor but there are other influences as well, which will be explored in later chapters.

Comparison with other advanced economies

2.38 Looking at the international scene, the UK situation of substantial house price cycles is by no means unique. Most other advanced economies experienced one or more periods of significant real house price falls (measured as more than a 15 per cent decline from peak to trough) in the years from 1970 to the latest downturn, according to the OECD (Table 2.1). In fact, quite a number of other European countries have experienced at least as much cyclical price volatility as the UK. In the current downturn, the USA has fared worse than the UK, especially in terms of price collapses, hardship and repossessions.

<table>
<thead>
<tr>
<th>EU</th>
<th>Number of prices crashes</th>
<th>Max. % fall peak to trough</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2</td>
<td>41</td>
</tr>
<tr>
<td>Sweden</td>
<td>2</td>
<td>38</td>
</tr>
<tr>
<td>Denmark</td>
<td>2</td>
<td>37</td>
</tr>
<tr>
<td>Italy</td>
<td>2</td>
<td>35</td>
</tr>
<tr>
<td>UK</td>
<td>2</td>
<td>34</td>
</tr>
<tr>
<td>Spain</td>
<td>2</td>
<td>32</td>
</tr>
<tr>
<td>France</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Norway</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>Ireland</td>
<td>1</td>
<td>27</td>
</tr>
<tr>
<td>Germany</td>
<td>1</td>
<td>15</td>
</tr>
</tbody>
</table>
2.39 Where the UK stands out historically is in two interrelated respects: the extent of the upward trend in house prices and the limited scale of new supply. The trend increase in real house prices is one of the strongest in relation to comparable countries; and likely brought about by restrictive land supply for development. In contrast, some countries have even seen long-term declines in house prices, notably Germany and Japan. Germany has been experiencing moderate but steady yearly real price falls for much of the past decade, and with them major improvements in affordability; partly because of its responsive housing supply.

2.40 On the supply side, the UK has historically performed relatively poorly. This is the case whether measured as the number of new dwellings per 1,000 population, or through the share of housing investment in national income, (Table 2.2) and in terms of the price responsiveness of supply.

2.41 Weak supply price responsiveness can be seen in simple terms through a cross-country comparison of eight European countries that experienced substantial real house price increases between 1996 and 2006 and their relative output responses over the same period (Table 2.3). Although the UK had one of the highest increases in house prices, it had the second lowest increase in housebuilding. Evidence of much greater supply responsiveness in the USA has also been documented.9

---

Table 2.1: Experiences of real house price falls, 1970-2005
More than 15% price fall from peak to trough (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of price crashes</th>
<th>Max. % fall peak to trough</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>1</td>
<td>48</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1</td>
<td>38</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
<td>31</td>
</tr>
<tr>
<td>Canada</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>Australia</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>USA</td>
<td>0</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: OECD

---

Table 2.2: Comparative housebuilding rates and residential investment in the EU

<table>
<thead>
<tr>
<th>Country</th>
<th>Dwellings per 1000 population Average 2004-08</th>
<th>Residential Investment % GDP Average 2004-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyprus</td>
<td>24.6</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>18.2</td>
<td>12.2</td>
</tr>
<tr>
<td>Spain</td>
<td>12.7</td>
<td>8.8</td>
</tr>
<tr>
<td>France</td>
<td>6.4</td>
<td>6.0</td>
</tr>
<tr>
<td>Finland</td>
<td>6.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>4.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.5</td>
<td>4.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>3.8</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Poland</td>
<td>3.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>2.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: National statistics offices, IMF

Table 2.3: The responsiveness of housing supply to house price rises

<table>
<thead>
<tr>
<th>Country*</th>
<th>% change real house prices 1996-2006</th>
<th>% change house-building 1996-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>188</td>
<td>177</td>
</tr>
<tr>
<td>UK</td>
<td>118</td>
<td>12</td>
</tr>
<tr>
<td>Sweden</td>
<td>107</td>
<td>128</td>
</tr>
<tr>
<td>Spain</td>
<td>102</td>
<td>187</td>
</tr>
<tr>
<td>France</td>
<td>99</td>
<td>58</td>
</tr>
<tr>
<td>Denmark</td>
<td>96</td>
<td>131</td>
</tr>
<tr>
<td>Netherlands</td>
<td>88</td>
<td>−19</td>
</tr>
<tr>
<td>Finland</td>
<td>85</td>
<td>63</td>
</tr>
</tbody>
</table>

* Ranked from the highest to the lowest real housing price change
Source: M. Ball European Housing Review 2008, RICS
2.42 Despite the already relatively low levels of housebuilding, the current recession has affected UK housebuilding much worse than most of the rest of Europe. The UK experienced falls during 2008 and 2009 that were similar in percentage to those of the countries that had previously had huge building booms, such as Ireland and Spain (Figure 2.8), and to the USA’s in its worst downswing years. Other large European countries by contrast experienced relatively small falls in housing output and are unlikely to see much worse in the near future as their economies are now recovering.

2.43 Explaining the cause of such different experiences of recession is quite complex but not really of direct relevance here. Instead, the point is to highlight that both historically and comparatively, UK housing supply has been particularly badly affected by the past two years of crisis. A long-run low output record compared to other comparable countries has now become far worse as a result of the downturn.

2.44 Finally, other countries are able to increase their housing outputs much more rapidly and to a greater extent than the UK. In other words, during housing market upswings they manage to grab the opportunity to improve living conditions. This suggests that sluggish and poor supply response is not inherent to housebuilding but, rather, that opportunities have to be grasped.
The experience of the major housebuilders during the post-2007 downturn

2.45 A notable difference from previous downswings is that no major housebuilder folded during the current one. Nevertheless, all still suffered badly. Few had anticipated the shock downturn in demand. In fact, many had been building up land banks, expanding output, and been involved in expensive mergers and takeovers during the final years of the boom. Many did get into serious difficulty but an indirect effect of government support for the banks during the financial crisis was that it helped the largest housebuilders to restructure their substantial debts rather than go under, unlike many smaller, unlisted firms. They were then able to start rebuilding their balance sheets with new private market capital injections during 2009, aided by a positive inflow of cash from sales and sharp cost reductions achieved through redundancies and cutbacks in investment. Some made bigger losses than others and, despite strenuous efforts, they still generally remain heavily indebted.

2.46 Overall, the average decline in the completions of the seven largest producers over the course of 2008 and 2009 was close to the national decline of 44 per cent (Table 2.4). So, the majors’ market share remained fairly steady during the downswing, although there were obviously performance differences amongst them.

2.47 Their productive capacities fell significantly as a result of the cutbacks. For example, Taylor Wimpey closed 13 of its 39 regional offices during 2008. Their land stocks with planning permission fell by around a fifth on average. Yet, their land holdings remain substantial at today’s output levels, so it would seem that they have plentiful supplies of land ready for the upswing. However, not all sites are viable in today’s market conditions, given the types of development they represent and the s106 contributions they embody. Moreover, housebuilders need lengthy land pipelines because of the need to juggle the uncertainties and risks they face in housing development with the imperatives of continuous production. In consequence, unsurprisingly, as the housing market picked up in 2009 and their financial positions improved the major housebuilders were again buying land; although only on a small scale compared to pre-crash levels.

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10 Only one publicly quoted firm went under: a relatively small AIM-listed housebuilder, Oakdene Homes, in 2009; which had been only building around 150 dwellings annually.
New market conditions in the recovery

2.48 The concern about the likely weakness of the recovery in housebuilding over the next few years is brought out strongly in recent construction forecasts, especially when they are compared to target housebuilding levels.

2.49 Recent forecasts suggest that in terms of completions 2010 will be the worst, because although more houses are now being started they take time to build. Moreover, after the initial recovery, there will be no surge in building; due to lacklustre demand and constrained supply. These forecasts may also underplay the negative effects of finance and land shortages and poor homebuilder profitability.

2.50 When compared to housebuilding targets, the scale of the problem quickly becomes obvious. Within five years from now, there is a shortfall of over a million dwellings. On the sorts of projections shown in Table 2.4, the levels of housebuilding seen at the end of the boom will not be reached again until 2016/17. Furthermore, such projections are extrapolations that assume no exceptional barriers to the expansion and no further economic shocks over that period. The impact of the economic crisis on housebuilding has been profound and the recovery looks fraught.

Table 2.4: Relative performance of the major housebuilders

<table>
<thead>
<tr>
<th></th>
<th>England total private completions</th>
<th>Top seven housebuilders</th>
<th>Top seven housebuilders %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>176,000</td>
<td>68,400</td>
<td>39</td>
</tr>
<tr>
<td>2008</td>
<td>143,000</td>
<td>53,600</td>
<td>37</td>
</tr>
<tr>
<td>2009</td>
<td>98,000</td>
<td>40,000</td>
<td>41</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Barratt</th>
<th>Taylor Wimpey</th>
<th>Persimmon</th>
<th>Bellway*</th>
<th>Redrow**</th>
<th>Bovis</th>
<th>Berkeley***</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>19,018</td>
<td>14,862</td>
<td>15,905</td>
<td>7,626</td>
<td>4,823</td>
<td>2,930</td>
<td>3,186</td>
</tr>
<tr>
<td>2008</td>
<td>16,437</td>
<td>13,394</td>
<td>10,202</td>
<td>5,318</td>
<td>3,925</td>
<td>1,817</td>
<td>2,505</td>
</tr>
<tr>
<td>2009</td>
<td>11,325</td>
<td>10,186</td>
<td>8,976</td>
<td>4,581</td>
<td>2,113</td>
<td>1,803</td>
<td>1,447</td>
</tr>
</tbody>
</table>
Table 2.4: Relative performance of the major housebuilders (continued)

c) Housing completions % change, 2007-2009

<table>
<thead>
<tr>
<th></th>
<th>Barratt</th>
<th>Taylor</th>
<th>Wimpey</th>
<th>Persimmon</th>
<th>Bellway*</th>
<th>Redrow**</th>
<th>Bovis</th>
<th>Berkeley***</th>
</tr>
</thead>
</table>

Note: The majors do build elsewhere in UK, so England market share somewhat over stated.
+ Ranked by 2009 figures. * Feb 07-Jan 08 etc, ** Jul 06-Jun 07 etc, ***Nov 06-Oct 07 etc
Source: Company reports, CLG

Table 2.5: Housebuilding forecasts, housebuilding targets and cumulative shortfalls

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Actual</td>
<td>Estimate</td>
<td>Forecast</td>
<td>Projection</td>
<td>Projection</td>
<td>Projection</td>
</tr>
<tr>
<td><strong>Starts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>182</td>
<td>108</td>
<td>80</td>
<td>92</td>
<td>108</td>
<td>125</td>
<td>137</td>
</tr>
<tr>
<td>% Growth</td>
<td>–41%</td>
<td>–26%</td>
<td>15%</td>
<td>18%</td>
<td>15%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td><strong>Completions (000s)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>183</td>
<td>141</td>
<td>113</td>
<td>105</td>
<td>109</td>
<td>118</td>
<td>128</td>
</tr>
<tr>
<td>% Growth</td>
<td>–23%</td>
<td>–20%</td>
<td>–7%</td>
<td>4%</td>
<td>9%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td><strong>Annual Shortfall</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>240K target</td>
<td>57</td>
<td>99</td>
<td>127</td>
<td>135</td>
<td>131</td>
<td>122</td>
<td>112</td>
</tr>
<tr>
<td><strong>Cumulative Shortfall</strong></td>
<td>57</td>
<td>156</td>
<td>283</td>
<td>418</td>
<td>549</td>
<td>671</td>
<td>782</td>
</tr>
</tbody>
</table>

Note: Forecasts and projections from Construction Products Association; shortfall own calculations.

Government support for housebuilding

2.51 The Government has provided a range of support for housebuilding since the advent of the economic crisis. Overall, the building of around 60,000 social and private homes is being supported in programmes costing over £2bn in total. This effort undoubtedly staved off even further falls in housebuilding and has meant that more resources and productive capacity now exist in the housebuilding industry than would have otherwise been the case. This improves the prospects for recovery.
1. **Kickstart Programme**: 270 development projects have been short-listed. Expected to deliver 22,000 homes.

2. **Kickstart Programme 2nd Round**: Shortlisted bidders include a mix of Registered Social Landlords (RSLs) along with national and local developers, aiming to unlock up to 22,000 homes across the country.

3. **Public Land Initiatives (PLI)**: to deliver 1,250 new homes over the next three years on surplus public land. The PLI model involves sharing risk between public bodies (the HCA and local authorities) and builders.

4. **Local Authority New Build**: to deliver 3,000 new homes for social rent by 2012; plus allowable prudential borrowing by LAs to build 900 social homes.

5. **Expanded National Affordable Housing Programme (NAHP)**: to build 12,500 homes for social rent (8,000) through RSLs and low cost home ownership (4,500).

6. **Public Land Initiatives (PLI)**: to deliver 1,250 new homes over the next three years on surplus public land. The PLI model involves sharing risk between public bodies (the HCA and local authorities) and builders.

7. **Local Authority New Build**: to deliver 3,000 new homes for social rent by 2012; plus allowable prudential borrowing by LAs to build 900 social homes.

**Market conditions and future major development opportunities in London**

2.52 Regions experience housing market cycles in different ways. It is illustrative to look at one region to see some of these effects and also to illustrate more clearly the actual impact of the housebuilding crisis and the opportunities available in the future. London is a good case study in this context.

2.53 London’s housing markets experienced the downturn as badly as elsewhere and have seen a strengthening revival since spring 2009. Overall, prices rose by 1.5 per cent on an annualized basis in 2009 4q and were up by 3 per cent over the third quarter, according to the Halifax index. However, the situation for new build is by no means good. Many sites were halted in 2008 and have not restarted yet. An analysis of the experience of the London boroughs around the Olympic site highlights the changes that have been wrought in the past two years (Box 2.1).
### Box 2.1: East London Olympic boroughs housing markets: key findings January 2010

- The initial Olympics euphoria has been swept away by market realities. Values in the area have fallen harder and faster than the Greater London average.
- The four Olympic boroughs (Hackney, Newham, Tower Hamlets & Waltham Forest) have some of the largest development pipelines across London.
- Sales transaction volumes in the area have plummeted to historic lows.
- Widespread evidence of rescinded contracts on units sold off-plan at the height of the market.
- Construction activity has slowed and a number of sites in the pipeline have stalled.
- The study area has the potential to deliver 5,800 units per annum between now and 2020: 25 per cent of the historic Greater London annual delivery rate.
- Fifty-seven per cent of the schemes identified are at application or site stage and suffer from risks relating to planning, delivery, phasing and over-supply.
- Actual delivery will underperform the current potential identified – by a considerable margin.
- There are tentative signs that sales activity is increasing and the off-plan market is returning.

Source: Drivers Jonas

2.54 Yet, London offers many opportunities for future development and, typically, many schemes do not face political resistance; in contrast to many other parts of the south east. Instead, the GLA and local authorities generally support regeneration. Even so, there are potential development constraints associated with most schemes. They relate to current demand conditions, infrastructure, funding, planning, planning obligations, and delivery teams. This can be seen for 25 of the largest schemes, as shown in Box 2.2. So, London illustrates the challenges and opportunities facing housing supply in England.
Conclusions

2.55 The economic and financial problems of the past few years have badly hit housing supply. House prices may be bouncing back but housebuilding is reviving at a much slower rate. The two are connected in that supply shortages push up prices. England has a long lasting poor housebuilding record; putting it amongst those at the bottom of the international league, despite having some of the fastest price rises which should have stimulated output. Housing shortages that existed prior to the financial crash are now intensifying and growing. The output of the housebuilding industry has shrunk by a half and it is not easy to turn it back on, as resources, capital and confidence have been lost.
2.56 This crisis is not unique. Similar sharp downturns have occurred in housebuilding twice over past forty years. While history is unlikely to repeat itself, the risk of a slow recovery in housebuilding is high. This is especially so because builders are facing land shortages, growing costs, rising production delays, and greater risks, as later chapters will show. Yet, opportunities exist to turn the situation around, ones that require neither revolutionary change nor additional public expenditure but rather industry initiative, better regulation and a healthier business environment. The experience of many other countries today shows that housebuilding at significantly higher levels than now is possible, without destroying the environments that many hold dear.
Chapter 3

Housebuilding in England

Introduction

3.1 The purpose of this chapter is to explain the broad dimensions of housebuilding. Such an elaboration is necessary in order to understand the complex framework of housing supply that currently exists in England.

3.2 It does so by looking at what takes place when land is developed for homes. The process is quite complicated. The biggest division is between development and actual building. Development is an activity with considerable business risks. Some of the key aspects of development activity are explored, and the importance of facilitating entrepreneurship is highlighted.

3.3 Projects have to be viable and firms adopt various business models in relation to development, building and risk. This variety of firm types is not a matter of voluntary choice but has arisen through a long process of competitive evolution, which leaves certain organisational forms best placed to cope with particular aspects of the building process. However, there remains considerable variety in actual firm sizes, so that smaller firms can prosper next to their larger brethren.

3.4 Supply chain linkages play a key part in understanding the nature of housing supply. There are also close links to the rest of the construction industry. Roughly, a third of all dwellings can be estimated to be produced by general building contractors; usually working under instruction from residential developers. Unfortunately, these links mean that much information on housebuilding is lost within general construction data. If there was better specific housebuilding data that would enable some light to be shed on key evidence relating to productivity and building costs and how housebuilding compares to other countries.

3.5 Self-build housing is a distinctive type of housing supply, providing particular benefits to particular types of housing consumer. Working out its real scale is not easy but an attempt is made within this chapter.

3.6 A concluding section draws out some key points from the analysis.
The housebuilding process

3.7 Housebuilding involves a wide range of activities when bringing forward land to create finished dwellings. For firms, these activities will be part of a continuous process. As some sites are completed, others will be being started or planned. In the case of the majors, building will be spread across the country. For example, towards the end of 2009, Taylor Wimpey was active on 223 sites throughout the UK. Continuous mass production methods are consequently at the heart of housebuilding, but in ways that are distinctive from a classic manufacturing industry.

3.8 Figure 3.1 describes the principal activities undertaken in private housebuilding. They are listed in the typical order in which they occur, though in practice several tasks might take place at different times (e.g. pre-sales before construction). The sequence is drawn as a circle to highlight the fact that firms will be undertaking these activities repeatedly on different sites, with the arrows illustrating the continuous flow of production which arises across a range of sites. For one-off producers, the flow nature of development and production will obviously be limited to one site only but they will still be concerned to dovetail activities relevant to them as closely as possible in the sequence required in order to minimise costs.

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3.9 The four broad ranges of activities and the tasks involved in relation to any specific site are listed below.

A. Project conception and evaluation

3.10 Housing projects have to be formulated, designed, evaluated and financed for land sites to be identified as ripe for development:

- identifying a site, which may be bought on the open market or drawn from a ‘land bank’ of sites already owned outright or on option
- devising and designing a scheme – including layout, roads and other infrastructure
- arrangement and mix of dwelling types; and external and internal building design
- assessing the probability of a scheme winning planning consent and conformity with other regulations
- estimating the time line when the development will be in production based on build and market demand factors
- weighing up financing requirements and costs
- viability analysis of likely streams of revenues and costs (including overheads and public charges) to ensure profitability, including consideration of potential risks and uncertainties.

B. Land preparation

3.11 Land has to be made ready for building, both in terms of site preparation and works and, also, in regulatory terms, particularly by gaining planning approval and paying the assigned charges:

- application for and negotiation of planning permission, including resubmissions and appeals where necessary
- site preparation, including any demolitions and remedial works
- payment of charges and levies, such as those associated with section 106 agreements and the new Community Infrastructure Levy
- implementation of site works
- making connections to utility networks and provision of other site services and facilities.
C. Building construction

3.12 Building superstructures have to be erected and internally fitted out. This requires the detailed logistics of bringing work teams, materials and components in the appropriate sequence to site over an extended period of time plus actual construction and the management and monitoring of it:

- initiating supply chains in order to have ready build teams, manufactured components and other materials on site at the appropriate times
- foundation works and installation of services to the building
- erection of the building superstructure
- internal sub-division and fitting out of the building.

D. Marketing and sales

3.13 Homes have to be sold and transferred to their new owners. This is achieved through site-related activity and through the general promulgation of the housebuilders’ brand. Some sales will occur before building commences:

- branding – promoting brands to assist company wide sales
- marketing – use of range of marketing tools to create consumer awareness of developments
- selling – agreeing dwelling reservations and purchase, conveyancing, etc
- bespoke fittings, etc – carrying out additional purchaser requirements
- after sales e.g. snagging – fixing faults, site and road maintenance until handover
- client relations – ensuring customer satisfaction.

Functional continuity

3.14 The activities described occur in a variety of ways in all types of housebuilding, large and small. For most firms, production is continuous in nature. Furthermore, many of the required functions are undertaken at separate locations (such as on-site, in the office, and in dialogue with third parties elsewhere).

3.15 Housebuilding as an industry relies on six interrelated production principles:

1. **Continuous production** when that one site is completed, moving rapidly to another, using.

2. **A complex division of labour** based on.
3. **Simplification of component tasks** which is made possible through.

4. **Standardisation** which also facilitates.

5. **Repetition** so that actions can be practised, quick and effective with minimum unproductive time.

6. **Effective monitoring and control** so that problems can be resolved, costs controlled and innovations made.

3.16 These principles are generally recognised as the foundations of modern, efficient industries in manufacturing but also in others, such as retailing. The use of examples outside of manufacturing is important because housebuilding is often mistakenly seen as akin to a pure manufacturing process and, then, criticised for not being a ‘modern’ highly capital intensive one. A better analogy is that housebuilding is a hybrid mixture of assembly, production and distribution. Land and project designs, property rights and regulatory approval, people and materials all have to be present and correct and to be so at changing locations, because dwellings are made where they are going to be used.

**Development**

3.17 Many prior construction works have to be undertaken on sites before dwellings can be erected and fitted out, related to preparation, roads and parking, utilities, etc. They involve a substantial amount of work and typically absorb around half of total project build costs, as shown in the estimates provided in Figure 3.2. An additional large amount of work is done off-site prior to building and as it continues: land purchase, design, evaluation, project planning and procurement are just a few of the myriad of activities. Moreover, quite a number of them involve regulatory engagement, such as obtaining planning permission and a series of non-planning consents and actions. It is obviously important that the same optimal process flow principles pertain in these areas as in those elaborated above for the actual process of building itself.

3.18 The stages prior to housebuilding are often termed development. Many potential barriers to improving housing supply relate to development issues: to the factors that halt, slow down, or raise the costs of getting sites ready and equipped, so that housebuilding can take place. They will feature often in the rest of this report.
The importance of viability and risk

3.19 Housebuilders are profit-making entities, so projects have to achieve target rates of return to be viable. Those target rates of return will factor in risk and as risks are high in housebuilding, expected rates of return will have to be high to compensate for them. Expected profitability will be determined by a combination of factors related to site, construction and finance costs, and marketability of the completed development. These factors are shown in Figure 3.2. Each of them contains substantial risks, which are broadly identified under the ‘contingencies’ categorization in Figure 3.2.

3.20 The significance of risks in housebuilding operations cannot be over-emphasised. The recent sudden and unexpected collapse of housing demand in the wake of the world financial crisis has brought the riskiness of housebuilding to the fore, but that has only highlighted several aspects of risk – those related to overall market conditions and finance. Many others also exist in the four spheres identified in Figure 3.2.

3.21 Dealing with risk helps to explain why the housebuilding industry is organised in the way in which it is and how much it builds. Moreover, at any point in time, the risks of development are going to make some sites unprofitable and the number will be greater in downswings and periods of recovery when margins are squeezed. Risk factors highlight potential barriers to increasing housing supply and regulatory environments can exacerbate risks.
Firm types and business models

3.22 Firms undertake distinct parts of the overall housebuilding process and, in consequence, there is a variety of firms with distinctive business models. Various common firm structures are summarised in Box 3.1 and will now be briefly described.

3.23 The most common type is the ‘classic housebuilder’: specialist independent firms that focus on housebuilding and undertaking all the development, build and sales tasks described in Figure 3.2. They sell onto a general market populated by owner occupier and investor purchasers (the latter tend to exist only in a limited number of locations). There may be some pre-sales before construction starts but, typically, the business model is to build ahead of sales; using recent sales data as a measure of how much output to commit to at any point in time. Such firms manage construction work themselves, including on-site staff, and directly purchase most of the materials but they subcontract out much actual building work to specialist sub-contractors and labour-only gangs. Other specialist tasks will also often be done by independent agencies, working to contract; for example, in design or areas of specialist advice. Standard house
designs are generally built, although configurations will vary substantially from site to site. Most new houses in England are built in this way and firms of all sizes adopt this business model. With respect to blocks of flats and more complex structures, there is a greater likelihood that the building work will be let out to contractors (in relation to groundwork, superstructure and fitting out or various combinations and subsets of them).

**Box 3.1: Types of housebuilder (tasks based on Figure 3.1)**

1. **Classic UK private housebuilder**  
   Integrated operation, selling on general market  
   - Sub-contract out building on task basis, retaining site management (Tasks A – D).

2. **Residential developer**  
   Common in standalone brownfield schemes of apartment blocks  
   - Undertakes land development and dwelling sales, but neither building nor design (Tasks A, B & D)  
   - Lets out build or design & build (D&B) contract to contractor (+ architect, etc) (Task C).

3. **Land developer/housebuilder**  
   Separated land development & housebuilding. Is common form for suburban building in Australia and USA; occurs in land swaps between housebuilders on large sites or mixed-use schemes. Found in partnerships  
   - Land developer buys land; ensures broad planning approval; adds infrastructure; sells sub-divisions (Tasks A – B) & Housebuilder builds and sells (Task C – D).

4. **Variants:**  
   i) **Land developer/residential developer**  
      As 3. above, but sub-divided land bought by a developer that lets out a build or D&B contract.
   
   ii) **Investor developer**  
      Buys land, conceives a project, lets out D&B contracts, holds completed development as investment e.g. student housing, some private renting, most social housing:  
      - Many investors prefer completed properties rather than getting involved in the risks of development.

5. **Self builder**  
   Typically build as owner-occupier, using land purchased ‘raw’ or from a land developer, and full- or part-letting out of design and build.
3.24 Classic housebuilders are associated with complex supply chains. They have core staff to decide on and control of all the activities required for building but they contract out development functions to, say, planning specialists or architects and, with respect to building, use specialist sub-contractors to undertake the on-site building tasks under the control of the firm’s own site managers and senior management teams. As noted, with blocks of flats fixed price contracts may be used for the construction work in its entirety but control is retained over the final sales of the properties themselves.

3.25 Most building firms on some of their projects will contract out most of the actual building work. But some firms specialise almost entirely in this business model, acting as residential developers. They have adopted a business model that is similar to the predominant one in commercial property. Such firms cover the range of firm sizes and tend to specialise in urban apartment blocks, often in only one or a handful of cities and regions. This type of firm played an important role in the last boom, when they focused on site acquisition and residential (sometimes mixed) development of blocks of flats on brownfield development. Developments were often relatively small of, typically, 10-20 dwellings and such firms might not have continuously built. Some starting from a small-scale and have become relatively well-known, like Urban Splash and Beetham Developments. Others initiated some spectacular developments and then sold out, such as with the 60 storey, mixed-use Inacity Tower in Manchester. It may be a reflection of the relaxed financial environment of the last boom that such start-ups were able to exist and flourish. The post-credit crunch world is likely to present a challenging picture of rationed credit, which could severely impact on such enterprises and inner-city regeneration (Chapter 8).

3.26 A common business model in the suburbs of such countries as the United States and Australia is where the land development operations are undertaken by distinct groups of firms that sell on land to housebuilders that build and sell their own bespoke products. It is less common in England, because severe land shortages make the separation less economically attractive. However, it is found in some partnerships where a developer sells out part of a major site to another housebuilder and in land purchases (and swaps) between the larger housebuilders.

3.27 In all the business models considered so far, the firm is selling homes on the open market. By contrast, some investor developers hold onto the completed product as an investment. Many investors prefer completed properties rather than getting involved in the risks of development but some have a special understanding of a particular type of housing product that is typically going to be used in a specialist sub-market. So, this approach is common in areas like
student housing and parts of the private rented sector. Most social housing is built in this way, with housing associations acting as social investors in subsidised rental properties.

**Firm sizes**

3.28 One feature of the UK industry has been a growing market share for the largest producers. Between the early 1990s and the mid-2000s, the market share of the top 11 firms doubled to around 45 per cent of all dwelling sales. Takeovers amongst them further heightened the market shares of the top few firms towards the end of the boom. During the last couple of years of downturn, those market shares have stayed roughly steady. Nonetheless, over 50 per cent of all output is produced by a variety of other providers: small and medium-builders and developers; firms were housebuilding is a sideline; social housing providers building for market; and self-builders.

3.29 A note of caution may be worthwhile in pointing out the meaning of the term ‘small’. A single block of flats by itself can be worth millions of pounds. For example, building 15 flats selling for an average price of £150,000 each would generate revenue of £2.25m, so even small developers can be quite substantial businesses in terms of their turnover. They are classified as small here relative to other larger producers and in relation to the businesses models and limited specialist in-house staff they are likely to have.

3.30 Less is known about the market shares of the smaller providers. However, a recent survey gives some indication of firm sizes and the nature of residential development schemes. Data were derived from 45 English local authority areas, encompassing most large cites and also smaller suburban and rural areas; although it excludes the smallest of firms and self-builders as it only investigated ‘major’ schemes with more than ten dwellings. Almost two-thirds of projects surveyed in that study involved the construction of 25 dwellings or less, highlighting the dispersed brownfield nature of much modern English housebuilding. Three-fifths of schemes were of flats only and a quarter was mixed commercial and residential, reflecting the emphasis on flat building and mixed-use urban regeneration at the time of the study period, 2005/6. The market shares of the various types of producer are shown in Table 3.1. The shares vary substantially depending on whether residential sites or number of dwellings are measured, because larger sites produce far more dwellings. Large builders only built on around a fifth of sites but constructed almost two-fifths of the dwellings, because they specialise more in larger developments.

3.31 A fifth of sites were associated with non-traditional developers. They are firms or other landowners with a predominant activity in a non-property sphere but
have some land suitable for residential development and hire contractors to undertake the work. These enterprises include supermarket chains building mixed-use schemes, schools and existing businesses in many spheres that have land available for housing. Some were individuals interested in developing land adjacent to their own dwelling, such as a large garden. Some of the housing built may not be for the general market but rather for the enterprise’s employees but the vast majority is put up for sale. Whatever their motivation non-developers are clearly a significant factor in the development for housing and add to the diversity of providers. They also can start and stop whenever they like and, so, are particularly adversely affected by downturns; instead they stop housebuilding until better times come again.

Table 3.1: Developer type shares of sites and dwellings

<table>
<thead>
<tr>
<th>Survey of 45 English local authorities 2005/6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer type</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Large developer</td>
</tr>
<tr>
<td>Medium developer</td>
</tr>
<tr>
<td>Small developer</td>
</tr>
<tr>
<td>Non-developer</td>
</tr>
<tr>
<td>Social housing</td>
</tr>
</tbody>
</table>

Source: Ball, Housing supply and planning controls, NHPAU.

3.32 One noticeable and surprising feature of the housebuilding industry over the past two decades is that, according to NHBC data, the number of active firms has fallen from around 12,000 to only 4,000; mainly due to a substantial loss of small firms. This remarkable decline has gone virtually unnoticed and there has been no research to understand why and whether this should be of serious concern or of little consequence.

Partnerships

3.33 One way in which housebuilding takes place is through partnerships; a common form being the ‘joint venture’ (JV). Partnerships may involve a variety of the housebuilder business types outlined above; plus non-residential uses and associated enterprises; the public sector as development partner; and, frequently, social housing institutions and local community groups.

3.34 Partnership benefits are varied. They spread risk; allow the potential for subsidy when the public sector is involved or when regeneration grants can be accessed in consequence; smooth planning negotiations; make development funding more attractive for lenders; possibly enable knowledge transfer and innovation derived from working in new ways with partners.
3.35 For developers, however, partnerships are not unequivocal benefits because they involve the trading-off of some of the value-added of their skills as developers for some potential improvements in items, such as liquidity and reduction in project risk. There are also costs in terms of partnership transaction costs and less flexibility because binding commitments have to be entered into with partners over project content, timing and the division of costs and rewards. In good times, the trade-offs mean that only a limited number of schemes will operate in this way; perhaps because of their exceptional scale, mixed-use, the need to bring landowners on board, knowledge transfer, or in order to raise finance. But, in bad times, the conditions of the trade-off alter and they may become more attractive.

3.36 For the public sector, partnerships offer benefits in terms of enhancing the range of feasible policy aims over other potential policy models, such as subsidy with no managerial involvement: e.g. steering regeneration of a locality; improving value-for-money from subsidies; involving local communities; and generally strengthened negotiation positions.

3.37 When the aims of the public and private sectors coalesce public-private partnerships can work well. But they can create problems if handled badly: such as a lack of clear aims, decision-making processes and responsibility; excessive delay and cost over-runs; and confrontational rather than co-operative working practices. There is also a danger that partnerships dampen competitive pressures, because once appointed private sector partners are relatively protected from market forces through the existence of public sector partners with deep pockets. They may adopt rent-seeking practices in consequence.

3.38 Whether to go down the partnership route in residential development is consequently a difficult choice for both private and public sector participants. It does offer benefits but also the threat of significant costs and failed outcomes. Each opportunity has to be judged on its merits rather than partnership being regarded as a necessarily superior business model.

Where do the greatest risks lie in housebuilding?

3.39 Land development is generally the most risky part of the housebuilding process. So many things can go wrong in it. An indication of the greater riskiness of land development can be seen in the generally higher volatility of ‘oven ready’ residential land prices compared to house prices.

3.40 Risks are affected by several key factors:

- individual project success – whether a scheme will sell quickly at the predicted prices
• general housing market conditions
• interest rates and other finance matters, as much capital has to be invested a long time before returns from dwelling sales can be made
• regulatory hurdles, particularly in respect to building regulations and land-use planning controls
• the price paid for the land
• the size of planning obligations required by local government before permitting development
• the costs of preparing sites for housing construction
• the time taken, which may stretch out way beyond what was anticipated, delaying revenue streams and raising costs and debt.

3.41 By contrast, housebuilding itself has a lower (though non-zero) profile of risks, because:

• the technologies used in housebuilding are generally well-known and repeatedly used in thousands of other instances
• the tasks can be well specified and monitored as work goes along.

3.42 Evidence of the lower risk can be seen in the experience of letting housebuilding work out as fixed-price contracts. Detailed designs, work plans and bills of quantities are provided initially, narrowing risk profiles considerably, against which bidders can work out closely what has to be done and price accordingly. So contractors know what they are committing themselves to and can operate on typically low contracting margins.

3.43 Risk is further limited by the practice of paying contractors for work on a regular basis as it is done, so that contractors have to extend little own capital or debt. In contrast, developers put at risk substantial and growing amounts of capital from the start of schemes.

The consequences of risk

3.44 Several observations in relation to this division of risk are important here:

3.45 1. Residential development functions require high gross margins in order to compensate for the risks associated with them. These are necessary to create the incentives to build by compensating for the risks incurred. The high risks make some developers wealthy when they are lucky but doom others to losses and possible failure. The risks tend to be cyclical in nature and they are often masked in boom periods when risks appear less but become more apparent in
times of crisis. Unfortunately, by their nature, it is not possible to predict with any degree of accuracy the lower risk phases of the housing market cycle from the higher risk ones. However, these risk profiles are not often recognised when estimates of land value ‘uplift’ are made, the aim of which may be to provide an easy source of funding for desirable social aims. Further comments on this are made later on in this report.

3.46 2. The standard ‘residual’ models of land values, which subtract the build costs of a typical housing development from expected sales revenues to leave a return to land, as described in the Callcutt Report, can give a misleading impression of the dynamics of housebuilding, if they do not incorporate sufficient weighting for risk. They frequently suggest that development is a passive and risk free operation by including a standard, relatively modest development profit margin, in contrast to high risk profile of development outlined above.

What is of the greatest importance is that development is where much of the entrepreneurship takes place that is so essential to housing supply. Searching out profit opportunities pushes developers to take consumer preferences on board; to hunt out sites that others may not have thought worthwhile; to innovate in design, quality, process, methods and product; to attempt to limit costs; to bring together and mould teams focused on project success; to confront and try to beat the competition; to find better and cheaper sources of finance; to bring complex projects in on time or better and, generally, to confront and overcome barriers. It is the rationale for a market-driven economy and the essence of a private housebuilding industry rather than a residual associated with it. Encouraging and supporting such entrepreneurship should a central purpose of government policy and of the housebuilding industry itself, if the aim of high quality, responsive housing supply is to be achieved.

3.47 3. When looking for potential barriers to increasing housing supply, large pay-offs are likely to be found in the development process side of housebuilding, especially if any changes can succeed in lowering risk.

3.48 4. Business models are designed in order to incorporate flexibility. The ways housebuilders organise the whole of their operations aims to incorporate approaches that facilitate speedy responses to changing circumstances. Limiting that flexibility can consequently be highly detrimental to an effective and efficient industry.
The integration of housebuilding with the rest of the construction industry and supply chains

3.49 The description of the housebuilding industry given so far suggests that it is an independent stand-alone industry, which in a number of respects it obviously is. Yet this should not detract from the supply chains that stretch back from the housebuilding site in terms of materials and components and into the rest of the construction industry.

3.50 Materials and component producers tend to be the almost exact opposite of housebuilding in the technical sense because they rely on capital-intensive production processes that work best when dealing with steady, high volumes. They tend to be an important route through which innovations occur in housebuilding in new components and factory-based ways of doing things previously done on site.

3.51 The supply chain links to the rest of the construction industry exist through specialist and main-subcontractors and in substitutable workforces, materials and components. Given the prevalence of high density apartment building in recent years, main contractors have probably been building around a third of all new dwellings; under the instruction of developers that then sell the completed product on the open market. Furthermore, much social housing will be completed in this way as well.

3.52 The integration of housebuilding with the rest of the construction industry helps to justify the absence of clearly separate statistics on much of the housebuilding industry, which gets grouped together with the rest of the construction industry as a whole. However, it would greatly help understanding of the housebuilding industry if more distinctive statistics about the industry were produced.

3.53 Current statistical practices are especially problematic with regard to housebuilding in two ways at present.

1. There is no clear understanding of input costs, because at present private housebuilding cost indices include house prices as a substantial element. This procedure is at variance with practice in other countries, which makes international comparisons detrimental and misleading.

2. A lack of information about the size of the housebuilding labour force (and other inputs) means that productivity measures and benchmarks cannot be produced.
<table>
<thead>
<tr>
<th>Box 3.2: Coping with and profiting from risk in housebuilding</th>
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</thead>
<tbody>
<tr>
<td>- Appreciating the risks of housebuilding and the profit opportunities they bring are keys to understanding the nature of the industry.</td>
</tr>
<tr>
<td>- The information available to developers and builders at any point in time is limited, but they have to invest large sums of capital for long periods of time before they earn a return.</td>
</tr>
<tr>
<td>- One way of managing risks is to apportion tasks between different enterprises and to use sub-contractors. Incentives can also be structured through this route to ensure task efficiency and quality.</td>
</tr>
<tr>
<td>- Flexible production techniques are more able to cope with risk and volatility than fixed capital intensive ones. This affects the nature of housebuilding innovations.</td>
</tr>
<tr>
<td>- Most risk is associated with land development and the pricing and timing of dwelling sales.</td>
</tr>
<tr>
<td>- Most actual building work can be set up as a relatively low risk, low margin activities to be undertaken by building contractors; development cannot.</td>
</tr>
<tr>
<td>- Entrepreneurs need to be rewarded for their risk-taking. Development uplift calculations need to take that fact on board.</td>
</tr>
<tr>
<td>- Land scarcity raises rewards but may also heighten risks by requiring more capital to be invested upfront.</td>
</tr>
<tr>
<td>- Public sectors bodies are poorly structured to deal with development risk and, so, would be advised to avoid undertaking development directly or getting into partnerships where they carry most of the risk burden.</td>
</tr>
<tr>
<td>- Residential development is not as easy as it seems, because loss-making projects by their nature receive little publicity.</td>
</tr>
<tr>
<td>- If housebuilding business models do not take account of risk, they fail or require substantial public subsidy.</td>
</tr>
<tr>
<td>- If housebuilding was a low risk industry, it would look very different from the way it does now.</td>
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</table>
Self-building

3.54 Another avenue through which housing is provided is through ‘self-building’, or self procurement of housing by the final occupant. Self-build occurs when a prospective homeowner buys a plot of land and builds a dwelling. The actual amount of self-building undertaken varies as architects and other professionals are typically used and builders may be hired to undertake part or all of the works. But in all cases, the self-builder takes on key development tasks. They include raising the finance, acquiring the land, applying for planning permission, deciding on designs, opting for building methods and standards, and choosing the final dwelling fit-out. They are usually involved in project management as well.

3.55 This approach is much more common in a number of European countries and in many developing countries than here. This may be due to a range of regulatory, institutional and cultural factors, and in the case of the developing (and some developed) countries, to create opportunities to obtain land cheaply. None of these factors have been as strong in England, but self build is nonetheless a potential option for those wanting a distinctive home, and who are willing and able to make the time commitment.

3.56 Self-building in the UK has become an identifiable sector, with its own dedicated businesses, representative associations, brokers and mortgage products. Unfortunately, a considerable degree of uncertainty surrounds its size and role within the housing market. It is difficult to find accurate information, so reliance has to be put on indirect VAT evidence and the limited surveys undertaken by participants in the industry and by a study for the Joseph Rowntree Foundation, published in 2001.

3.57 The principal source of information on the number of self-build dwellings is VAT rebates to self-builders for building materials used to bring them in line with the zero rating of housebuilding (Figure 3.3). These data are by no means accurate representations of the dwellings completed annually but are the best available. On the basis of them, it has been suggested that around 20,000 self-build dwellings are currently being built in the UK each year and that self-build has been on a sharp upswing prior to the onset of crisis in 2007. It is impossible to derive firm estimates of self-build numbers for England itself but they are likely to be much less than 20,000 and rather around 5,000-6,000 units a year. The latter figure is still substantial and, so, the sector should not be dismissed as irrelevant. But, given the scale of the difference, it is probably worthwhile going through the reasons for the lower projection.

12 In the interest of brevity, such housing provision, which is delivered via a diverse range of channels, will be referred to as ‘self build’.
15 Self Build Moving Centre Stage, Buildstore, 2009.
Estimating self-build output

3.58 Recent self-build VAT rebate data only starts at 2004 but there is also information for the second half of the 1990s, so that trends over time can be examined. VAT data are UK aggregates. Data on self-build for England specifically do not exist in the 2000s but they did for 1990s. So, as an approximation, the earlier 1990s regional ratios can be extrapolated to the later 2004 onwards period. Use of the England share a decade ago seems more reasonable once the relative stability in the data over long periods of time is recognised. The England share was virtually constant throughout the late 1990s at 52 per cent of the UK total. In consequence, in the estimate given here the UK data were scaled down by that fixed percentage to derive an England number.

3.59 In terms of the UK data, there is a surprising steadiness in the annual amount of self-building. Prior to the massive cutback in mortgage finance in 2008, the situation had been quite steady for some years before (Figure 3.3). It can be seen that the number of rebates is fairly steady over time, though there seems to have been a roughly 10 per cent fall between the 1990s period and the 2000s one. That building rates are relatively steady may either reflect measurement issues or the smoothing effects induced in the self-build process by the variable time required to find preferred sites once the decision to build has been made and the irregular build times inherent in the self-build ethos.

Figure 3.3: Estimated VAT returns England

Source: HMRC
3.60 That self-build has fallen somewhat over time may be accounted for by the growing scarcity of land, apparent in other areas of housing supply, and the resultant rising cost of land. This leads to a gradual move up-market in self-build activity over time, as only increasingly better-off households can fund the self-build process as development costs rise. Barlow et al (2001) argued that rising land values had led to self-build becoming an option solely for better-off households during 1990s. Such an effect would have been reinforced by the increases in land prices since then. This conclusion is strengthened by comparing that study’s evidence and more recent information which indicates that the average floor-areas of self-built properties have risen substantially over time. This contrasts with declines elsewhere in new build dwelling sizes; where land constraints and prices have continued to bite into space standards.

3.61 The generally affluent nature of self-builders is shown in a recent survey.16 According to it, virtually all of the self-build properties are detached homes; many of substantial size with an average floor area of 218m²; 65 per cent had four or more bedrooms; and 35 per cent had three or more bathrooms. Most self-builders had previously been home owners for some time and, so, they brought considerable own equity to their projects. Half had annual incomes of £60K or more. Two-thirds of self-build properties were made using traditional masonry methods and most of the rest were timber-frame kits.

3.62 A problem arises of whether and how to scale up the data on VAT materials cost rebates in order to derive a better estimate of self-build output. The VAT data includes those purchasers who fitted out dwelling shells bought from developers; which is strictly not new self-build but does show how the sector blurs into the small professional builder category. The crossover is heightened because a significant number of self-builders construct several dwellings over the course of several years or find a site for several dwellings and develop them all; living in one property and selling off the others. However, counter to that, excluded from the VAT data are those failing to submit a claim even though they are eligible and, also, those where the building works were done in their entirety by contractors. The latter do not appear in the VAT data because they would not have been charged VAT by builders because new dwellings are zero-rated.

3.63 However, the extent to which the VAT data miss out self-builders is debateable, particularly as the figures are known to include non-self-build elements as well. For example, how many self-builders actually fail to claim VAT when they are entitled to it, given their active ‘go-do-it’ profiles? In addition, even when using contractors to do the ground works and build superstructures, VAT claims may still be submitted on fittings installed in the property. How many
self-builders actually want a general contractor to install all of the final fit-out, given the desire of most self-builders to have an ideal bespoke home in some way self-made?

3.64 When applying a scaling up factor to the VAT returns data, self-build organisations suggest a 40 per cent mark-up. This may easily be an exaggeration in light of the arguments just made. However, there is another route to examine the evidence in terms of estimates of the total land used for housebuilding each year in England, which suggest that self-build cannot be that high. Self-build in its current form consumes relatively high proportions of land compared to most new housing. Assuming that self-build sites average a relatively modest eighth of an acre (though plots are generally larger than that on self-build land sales websites, so this may be an underestimate) and taking the estimates from the VAT data as being valid, 5,000 dwellings were self-built in England in 2006, which would have accounted for 6 per cent of the residential land used up in that year (though only 3 per cent of the dwellings). 10,000 units would have accounted for almost an eighth of all the land used for housebuilding, which seems unrealistically high, and higher numbers even more.

3.65 There is also a location issue in terms of increasing housing provision. Most self-builders search out attractive plots in rural and semi-rural locations, outside of the expensive and planning constrained south east. A survey in 2000 found that 88% of self-builders seek a plot in rural or semi-rural areas, which are often subject to tight planning constraints.17

3.66 The benefits of self-build relate primarily to the ability of people to exercise detailed choice in the location and nature of their property; mainly for its characteristics but also, for the minority, because of the ability it brings to fulfil an interest in creating a dwelling or an ability to live under higher than normal environmental standards. Properties may also be cheaper relative to equivalents from a homebuilder and of higher quality, though there is no reliable evidence to support this claim.

3.67 The costs of self-building are associated with all the responsibilities of development the self-builder takes on and, in addition, some or all of those associated with the construction process itself. Many self-builders may relish the prospect but the exercise all the same is time consuming and carries with it many of the standard costs and risks of development. Once the value of the self-builders’ own time plus and the development costs and risks they face are brought into the calculation, many of the apparent financial benefits of self-build may vanish.

17 Build Link quoted in Barlow et al, ibid.
3.68 The cost dimension probably puts a cap on the likely expansion of self-build. Many people would not think the benefits of self-build outweighed the time commitment required; nor would wish to bear the costs associated with self-build; nor be capable of absorbing the downside of the potential risks. Moreover, the areas of the country where those costs and risks are greatest are where housing demand is the highest in relation to new supply. At its current scale, even a substantial increase in the amount of self-build would add little to the overall supply of housing but the sector, all the same, provides worthwhile, niche, benefits.

3.69 Whatever worries exist about the data, the benefits of self-build should not be dismissed, even when recognition is given to the true costs involved. Self-build makes a significant contribution to the diversity of housing supply, and the options of households to meet their housing aspirations. However, self build developments are generally (although not exclusively) of low density. Current land-use planning conditions resulting in higher density housing development may therefore represent a barrier to significant expansion of the sector.

3.70 Self-build highlights two general features of housing supply in Britain – the lack of suitable land for building, particularly of larger, lower density properties, and an environment of significant development and build risk. That new build plays such a limited part in the provision of spacious accommodation and is less able to cope with demands for individuality in housing owes much to the restrictions of planning control, as the Rowntree report on self-build noted a decade ago. But self-builders also suffer from many of the same impediments on housebuilding that housebuilding firms themselves do, although in somewhat distinct ways, and so will feature again at various places in later chapters.

Conclusions

3.71 This chapter has laid out the dimensions of the housebuilding industry. It has highlighted that the industry is diverse, both in what it does and who does it. It is distinctive from that of many other countries for a wide variety of institutional reasons. However, it is an industry in which there is substantial competition and ease of entry and exit. Building technologies are rarely proprietary, so that firms are able to choose from the best techniques around when choosing their production strategies. Although regulatory constraints may hinder the adoption of some processes and components, they are universal barriers rather than firm specific. Overall, there is consequently no reason to think that the English housebuilding industry is any worse, or any better, than that elsewhere. There are no easy profits to be made on efficiency grounds by new entrants. If there were they would almost certainly have happened already.
3.72 There is consequently an important distinction to be made between the competences of individual firms and those of the industry as a whole. Individual firm competences are influenced by competition and the feasibility of takeover. If a firm is underperforming, it will more likely than not fold or be acquired. In contrast, the competence of the industry as a whole is affected by what it is allowed to do. Influences will include the juxtaposition of feasible technologies and market conditions; the availability of land and the terms under which it can be developed; regulations and their costs; the quality and costs of inputs and competition for them; feasible innovations; and what is acceptable to consumers and to those that provide mortgages and development loans. An analysis of potential barriers to housing supply is, therefore, best focused on industry wide issues.

3.73 There is a predominant business model in the classic British housebuilder, encompassing all phases of the housebuilding process and selling onto a general market. But other types co-exist with it; typically because they offer benefits in particular areas. Firm sizes vary considerably and there is a vibrant self-build sector.

3.74 Self-build is probably of the order of 3-4 per cent of annual new build in England, with an output level that varies far less than that of housebuilding firms, but one which seems to be gradually declining over time. One issue is that high quality land plots for lower density development have become increasingly scarce and expensive over time. However, the statistics are poor and, so, its true role is uncertain.

3.75 Diversity did not happen by chance but is a result of the nature of housebuilding, entrepreneurship and competition, and of the environments in which they exist. Diversity of provision offers benefits to consumers in a wider range of product choice, including self build. It also encourages entrants that may have innovatory ideas in terms of design, building methods, or consumer service; improves competition within the industry; and helps to ensure that smaller types of sites are developed. Diversity of provision should be supported but only to ensure a level playing field, rather than to offer preferential subsidies or land deals to particular types of provider.

3.76 Nevertheless, the extent of diversity shows that a variety of business models are feasible within housebuilding and that the scope for more exists. Whether they appear through innovation and market forces or through policy initiative, the potentials for new types of provision do not alter the fact that key ways to improve housing supply are found in addressing the concerns of the core providers, because they are likely to remain so for a long time to come. Firms may come and go, but they will be broadly replaced by similar types.
3.77 The significance of risks in housebuilding operations cannot be over-emphasised. Dealing with risk helps to explain why the housebuilding industry is organised in the way in which it is and how much it builds. Moreover, at any point in time, the risks of development are going to make some sites unprofitable and the number will be greater in downswings and periods of recovery when margins are squeezed. Risk factors highlight potential barriers to increasing housing supply and regulatory environments can exacerbate risks. In consequence, it is recommended as a general principle that policy is designed and evaluated using methodologies that incorporate a sound understanding of housebuilding risk.

3.78 Statistics on the housebuilding industry are poor, so improving them and monitoring industry changes would assist policy analysis considerably. On some key issues, such as productivity change, comparative performance, and productivity-adjusted build costs, information remains scarce. As well as more industry wide information, better statistics on self-build and on other types of small and medium-producer would be of great benefit. More effort should be put into understanding the drivers and constraints of the wide variety of medium and small producers, because after all they produce a significant share of total new housing. Many are not represented by industry organisations and, so, do not have their interests articulated.

<table>
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<tr>
<th>SUMMARY OF RECOMMENDATIONS</th>
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<tr>
<td>• Encourage diversity and competition</td>
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<tr>
<td>• Improve housebuilding statistics and information</td>
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<tr>
<td>• Enhance understanding of housing provider types and their drivers</td>
</tr>
<tr>
<td>• Incorporate an understanding of housebuilding risk into the policy process.</td>
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Chapter 4

Industry views on issues affecting the delivery of new housing

Introduction

4.1 As part of this study, effort was put into finding out the views of housebuilders themselves on what they feel constrains their ability to respond to recovery. The aim was to cover the whole spectrum of firm types: housebuilders, large, medium and small; specialist developers; building contractors with housebuilding divisions; overseas firms; and those involved in supply chains.

4.2 Two approaches were adopted. The first involved telephone interviews with around 40 firms and industry representative bodies. The second approach involved more detailed, focus group style discussions. These were undertaken over three meetings; each with around 10 attendees, all of them senior managers in their respective businesses. The groups discussed the issues raised in the previous interview survey. On the bases of these surveys and stakeholder meetings, confidence exists that the research has managed to identify the major concerns of housebuilders.18

4.3 The results of these discussions were both important in providing an evidence base for the research and in formulating the core issues identified as barriers to housing supply. Many of the themes will be addressed in detail in subsequent chapters. Here, the purpose is to give a broad overview of what the industry feels are the most important issues confronting them and constraining their ability to increase housing supply from its current low levels.

4.4 A broad consensus was found to exist in terms of the major problems. Naturally, specific issues may affect firms differentially, depending on their size and specialisation.

Business models in crisis and recovery

4.5 Housebuilders were in universal agreement that the downturn had been the worst in living memory, with very large falls in output experienced by all firms. Regrettably, firm capacities have had to be cut severely as cost bases needed

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18 Warm thanks to all of those who participated in these exercises. They involved a considerable investment of time, particularly by participants in the focus group meetings.
to be reduced and cash flows used to promote survival. But all firms remained committed to the industry and looked forward to expanding their activities again.

4.6 Industry leaders expected recovery to be slow, taking some years – perhaps five or more – to reach ‘normal’ output levels. This highlights the concerns raised earlier in this report about the potential threats to housing supply for a number of years to come. Firms all agreed that if some of the barriers they face were reduced recovery was likely to be quicker. Inevitable lags are associated with rebuilding productive capacity, land purchase and the development pipeline but volumes could be significantly increased in a more business friendly environment.

4.7 Firms have not changed the broad framework of their business models, but they are doing so in the more detailed aspects of their businesses. For example, they are building more closely to demand and focusing on cash flows in order to keep debt down. There is a greater preference than in the past for smaller sites, because these are quicker to build out and less demanding of capital investment. In the near future, nearly all firms said that they would be concentrating more on houses, where market demand is now stronger, and less on flats, where it is weaker. This is in contrast to experience in the last boom when the share of flats in total output rose significantly.

4.8 Both the shock of the crisis and uncertain prospects for the future have made firms more cost conscious. They now prefer to be less leveraged, partly in recognition of the problems high debt levels had brought in the wake of the downturn, but also in expectation of the tighter financial environment in years to come. This approach to debt is associated with a general desire to be more risk averse. These characteristics are likely to continue to affect business decisions in what is expected to be a more risky future.

4.9 There was industry interest in business models that could spread risk and lower capital needs. In this respect, joint ventures were seen as particularly attractive. These have been common in the past, particularly with regard to large-scale schemes and major regeneration projects. However, greater involvement of HCA and local authorities in such frameworks is occurring and further opportunities would be welcomed. So, current policy initiatives in these respects were welcomed; provided that they did not crowd out independent developer activity.

4.10 The downturn has made the industry more sensitive to policy because margins were now much lower, risks higher, and demand scarcer. This creates considerable opportunities for policy initiatives to have a high leverage effect in stimulating output and speeding up delivery. A political uncertainty effect ran through firm perceptions of the future; given the forthcoming general election.
4.11 Recent policies met with support. Policy initiatives in relation to interest rates, repossessions and stimulating new build demand were recognised as key to supporting the industry and putting a floor on output decline. Recent and proposed reforms to the planning system were also seen as beneficial but it was felt these will take time to bed in and, only then, would the success or failure of their impacts become clear. Improving market conditions are recognised to be taking place now, but home purchasers are still subject to widespread constraints and there are heightened market risks that will remain for some time to come.

4.12 Many firms expressed particular support for the HCA initiatives announced in response to the crisis. However, concern was expressed about uncertainty over their future, in part due to funding constraints. In addition, respondents emphasised the benefits to HCA and government of drawing in more feedback from the experience of users of the schemes.

Constraints on expansion and recovery

4.13 Major constraints on expansion from current low levels of activity are perceived to be:

1. A lack of viable sites, with the emphasis on viability in existing market contexts.

2. Concern over a high and growing regulatory burden related to land-use planning, building regulations, other bodies e.g. highways departments, and zero carbon homes.

3. Concern over a high and growing regulatory burden related to land-use planning, building regulations, other bodies e.g. highways departments, and zero carbon homes.

4. Finance problems, partly for house buyers (mortgages) but also with respect to business development finance. This was especially the case for mobilising large-scale, long-term projects and for smaller producers, many of whom cannot obtain development finance.

5. A loss of capacity in the industry across the board, related to skills – trades, professionals and managerial; firm competences; supply chains; etc.
Land shortages

4.14 Housebuilders were unanimous that land shortages have been and remain the greatest constraint to expanding their businesses. The planning system is not delivering enough land. There was general scepticism regarding most local authorities’ attitudes to the housing growth agenda. Viable land supply in most areas was hard to find and complicated to put through the planning system.

4.15 Recourse to appeals was regarded as burdensome but an essential tool, given problems with planning delivery. One major developer was said to turn to appeal on virtually all sites as a matter of course.

4.16 Such comments and business strategies raise worrying concerns about the current effectiveness of plan-led development in achieving housing objectives in many parts of the country.

4.17 Concern was also expressed over the scale of land taxation, s106 and other planning-related land requirements that allocate parts of sites to non-revenue earning uses. There was a general anxiety that collectively the cost of these was becoming too high. The result was dampened incentives for landowners to sell sites for residential uses; insufficient profit-margins for housebuilders on too many potential development sites; and little encouragement to entrepreneurship and innovation.

Regulation

4.18 The second greatest concern of builders related to regulation. There was a general feeling that the overall costs of regulation were too high and growing. The cumulative impact of regulations is now substantial. They hoped that there could be greater prioritisation of new regulations and greater transparency and openness in policy discussions prior to their formulation. Better understanding and identification of feasible timelines were also needed and value-for-money should be identified more clearly.

4.19 Regulations come from a variety of sources, so there was wish for better regulatory alignment to avoid conflicting objectives. There was also a feeling that better co-ordination could be achieved across regulatory bodies both nationally and locally. Inspections of builders’ conformity to building regulations were regarded as sometimes being slow and haphazard. The view was expressed that they could be speeded up and improved.
4.20 There was general positive sentiment over a greater need for consumers to be consulted and brought on board. Homebuilders’ projects sell in a general market place and consumers did not always recognise that certain features of new dwellings were driven by regulatory agendas or even want them. Many purchasers do not positively respond to the public interest concerns new regulations embody, e.g. with respect to zero carbon homes; nor do they necessarily approve of the detailed consequences arising for the physical nature of new dwellings, especially in terms of their internal fittings and the facilities provided in them.

4.21 Firms did not express a general opposition to regulation as such. They recognised that governments promote specific issues on public interest grounds. Rather firms focused on the need for less risk, lower costs and a continued ability to uphold the marketability of their products.

4.22 Firm representatives expressed a general view that there is a great deal of regulatory uncertainty at present. Higher costs brought on by regulation make fewer sites viable. A simplification of regulatory requirements would reduce uncertainty, time and costs; all of which improve site viability.

Self builders

4.23 Self-builders echoed many of the issues raised by the housebuilding industry. They report difficulties in finding appropriate land; shortages of finance; planners having narrow views in respect of house designs and being unfamiliar with new technologies; unreasonable s106 demands; and overly-complex regulations.

Overseas firms

4.24 Britain’s housebuilding industry has only a handful of firms with an overseas parent. This characteristic is common of most other countries’ industries as well.

4.25 There are a few examples. One the larger firms active in the North West, Yorkshire and the Midlands, Crosby Lend Lease, is currently owned by an Australian company, Lend Lease, which acquired the firm in 2005 along with other residential interests in London as well and it is keen to continue its presence in this country. A US company, Centex, did own a subsidiary in Britain but withdrew following difficulties it experienced in the US housing market and no longer exists as an independent company.
4.26 There has been entry into the English market by Irish developers, such as Ballymore Homes, which has been active in England since 1992, especially in London’s Docklands. Interestingly, British firms generally have limited operations abroad either, although TaylorWimpey is a significance producer in the USA.

4.27 The OFT study on the housebuilding industry raised some concerns, stating that "...entry barriers for larger foreign firms attempting to enter on a large-scale appear to be significant." They cited problems with complex planning procedures; the acceptability to planners of 'off-site' technologies; and onerous building regulations.

4.28 More generally, foreign firms face information difficulties in that the institutional framework of English housebuilding is distinct in a variety of aspects from those which foreign firms are used to. This is also true of most other countries. So, it does not make foreign entry especially hard here but helps to explain why foreign entry is generally low in housebuilding everywhere. It means that new entry to a country's housing markets is particularly risky and requires that a considerable commitment has to be made.

4.29 As there are so few overseas firms active in the UK, it is hard to build up an extensive evidence base. However, the research reported here did manage to have discussions with a handful of them.

4.30 Responses were mixed. Some reported no particular issues with building in England, apart from the general ones facing housebuilders and developers with respect to planning and regulation outlined above. One large Australian developer regarded the UK as a good market, especially as the trend in house prices was so high.

4.31 Costs bases were important to some foreign firms’ UK activities. For example, a foreign provider of timber-frame building systems and associated construction services supplies them to both British housebuilders and self-builders. It aims to keep its overheads low. As a result, it recently closed its UK headquarters and showroom, moving to them to Poland, and now relies on a new commission-based UK sales network for business.

4.32 One director of a large Scandinavian based firm argued that major overseas developers in the main are unlikely to be interested in coming to the UK housebuilding market, because it is a mature one. Yes, they might be able to bring some specific skills but they were unlikely to be able to differentiate themselves much from existing British firms and earn higher returns. So, it was not that profitable a business opportunity. Firms had better options in emerging and other markets where knowledge transfer could offer better profits.

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19 Homebuilding in the UK. A market study, 2008, Office of Fair Trading, p73.
4.33 A senior manager of one major Netherlands residential developer that builds in many continental European countries had a more jaundiced view of the UK market. The problem was not the specific regulatory nature of the British market. They commissioned a study of the UK scene and found regulatory burdens not to be that different in broad scope to those elsewhere. Rather the difficulty arose because of the problems of finding a UK partner and the nature of UK development bidding processes. These routes were necessary to enter the market because direct land purchase and development posed too many risks due to knowledge and information barriers. They had approached a number of the major UK firms in the early 2000s and found none interested in working with them. They then tried to adopt another entry route, investing in tendering for some development competitions but had found the detailed development specification in them left little opportunity to use their own specific development skills. Instead, they felt that such competitions reduced bidders to contractors only, operating on narrow margins rather than as fully fledged developers. They did not find UK local authorities and builders welcoming, unlike their experiences elsewhere in Europe, and have now decided to avoid the UK altogether.

4.34 So, the evidence is mixed. Firms already active were critical of English planning and regulations but did not see them as exceptional. Those that were not active, after some effort at trying to enter, were more critical. The truism is that the successful entrants are relatively content with the English context as after all they succeeded in entering but unsuccessful ones were unhappy with it. Interestingly, most of the successful firms came from countries where housebuilding operations are quite similar to those in the UK, namely Australia and Ireland. Overall, the limited evidence suggests that the barriers to overseas entry may not be so great.

Supply chains

4.35 It was not the brief of this study to undertake extensive investigation of supply chains. Nevertheless, discussions with relevant firms and industry organisations highlighted some interesting issues.

4.36 There is a big contrast between the business models of housebuilders and those of many suppliers to them, due to the different technologies associated with various stages of the supply process. The interests of material and components produce are in large, steady volumes to make viable their heavy investment in capital equipment. This they have not had in recent years because of the massive decline in housebuilding. So, they had been badly hit by the downturn, with some significant losses of domestic capacity.
4.37 Firms in the supplier chain are keen for housebuilders to innovate using their products. Yet, they felt that builders’ interest in innovation was being diverted by regulatory issues and costs. Much housebuilding innovation, particularly in the construction of superstructures, is associated with the application of new components developed within supply chains. Lower and more uncertain builder margins arising from the impact of regulations were hampering such exercises, except in the context of housebuilders having to adopt methods able to cope with tightening regulation in relation to energy emissions.

4.38 The unpredictability of housebuilding levels forced many suppliers to be cautious in their investment, innovation and productive capacity decisions. One benefit for most supply chain enterprises is that they have diversified markets, so that they do not rely totally on housebuilding. So, it was the general movement of their markets which affected producers. Nonetheless, housebuilding remain a core market and therefore affects them substantially.

4.39 One wood products producer highlighted the difficulties such firms now face in the UK due to the subsidies offered by government for bio-fuel production. Firms with such subsidies could outbid traditional woods users in timber sales. This was forcing wood products producers’ input costs to unsustainably high levels, threatening UK based production. The irony in terms of carbon emissions of this discriminatory policy was pointed out because wood used in construction locked carbon into buildings for many years, whereas its use in bio-mass activities led to the release of significant emissions.

Conclusions

4.40 This chapter has outlined the views of builders and others about the barriers to increasing housing supply. It has highlighted that a broad range of issues are of concern to them: planning, finance, regulation and skills and other input capacities and capabilities. These themes will be developed further in later chapters.

4.41 However, it is important at this stage to point out the interlinkages between these issues and the centrality of land supply. Improving access to finance, getting more firms active in the industry, providing more opportunities for self-builders and encouraging the supply-side generally to be more efficient and responsive are unlikely to increase housing supply unless far more land is made available for building. Without that, most of the hope for benefits of overcoming barriers to improving housing supply would not arise or their effects would be simply lost in higher land prices.
4.42 There may also be a lesson industry could learn from this exercise. There are a number of dedicated individuals keen to communicate the messages of housing providers to government about the concerns of industry and the impact of policies. However, the messages often come from various sources and representative bodies, rather than represent a coherent voice of industry. To an extent, this may be inevitable because of differences of interest but there are costs of that fragmented approach in terms of less clear messages and a greater consultation burden for both industry and government, when the scarce resources of professional people’s time may be better employed.

4.43 Industry would also benefit from providing a superior research base for its concerns to assist in general debate about them. There are some good reports coming from industry on some issues, but they tend to be few and far between. There is little funding of independent research. Housebuilding is renowned for low R&D but there is a high cost in a limited research base on matters where policy affects industry. It hardly seems justifiable the public sector should have to fund all of the research on what is a multi-billion pound industry. Other real estate sectors have in some respects managed this activity better, such as in commercial property with organisations such as the Investment Property Forum at the UK level and INREV at the European scale; although other research models are equally feasible.

4.44 With these factors in mind, while government has been improving its abilities to have dialogues with the housebuilding industry, the industry should prioritise:

- **improving and consolidating its voice**, so that its more joined up in terms of opinions on issues and the ranking of their importance
- **supporting more research and providing a better evidence base** on issues of concern to it.
Chapter 5

Design and implementation of regulations and policy frameworks

Introduction

5.1 Regulation refers to the control of activities by rules and restrictions. That they need to exist in some form in relation to new housing is incontrovertible and government is typically a superior provider of many of them through their imposition in law and government scrutiny of particular actions. Dwellings have to be safe and sound. Their existence creates positive and negative externalities, so land-use planning and other constraints attempt to create optimal configurations. Life chances, public expenditure and personal wealth are also affected, so that regulation of housebuilding may tip into the realm of taxation, as with s106 planning obligations. However, all regulations impose costs as well as benefits and some ways of imposing them lead to higher net costs than others. What is more, the distribution of costs and benefits varies across the population, so that distributional issues matter as well. Given this long, and by no means exhaustive, list of pluses and minuses getting the level and mixed of regulation right is by no means easy. Changing circumstances can also alter the appropriate balances as well.

5.2 Housebuilders are concerned about the regulatory arrangements under which they operate. The impact of the downturn has heightened those worries because margins are down and risks are higher. Participants in the surveys undertaken as part of this research ranked these issues as the most important they faced with respect to current policy contexts. Their biggest concern was the impact of the planning system on the supply of viable land and the cost of doing business but problems were also identified in building regulations, including progress towards ‘Zero Carbon’, and in other regulatory requirements they have to meet. This chapter and the following ones aims to build on this initial evidence base to provide a more analytical and rounded understanding of the issues at hand.

5.3 Some types of regulation are associated with clear, well-defined rules of universal application; for example, in relation to fire prevention. Others involved broad institutional frameworks within which restrictions change and that involve a considerable amount of discretion and negotiation. The planning system is the clearest example of the latter approach: local planning procedures and plans
evolve over time and individual projects are subject to evaluation and negation through the planning applications process. To distinguish between these two broad types of approach to regulation here, the narrow based strict rules one will be called ‘rule-based regulation’ and the more over-arching discretionary institutional framework approach will be termed ‘policy frameworks’. Of course, in practice in some areas, one type of approach may blur into the other.

5.4 Firms approached in this research argued that they often did not have inherent objections to specific policy frameworks and regulations as such, but felt that the cumulative impact could often be burdensome. The overall costs of regulation and control were felt to be rising and it was argued the broad regulatory environment has been subject to substantial change in recent years. There was a general feeling that this is likely to continue. Keeping up with regulatory change was felt to be costly, and regulations were seen as being a source of uncertainty. Regulations were also felt to represent a significant barrier to industry entry.

5.5 Regulation can alter the competitive advantage of particular types of housebuilding enterprise. For example, regulatory costs can be more significant for medium and smaller builders. They do not have the volumes over which to spread compliance costs, nor do they necessarily have the staff to dedicate to keeping up with them. The OFT in its housebuilding study argued that the complexity of UK regulations acts as an entry barrier for overseas firms. A similar argument could be made for non-specialist housing providers and new entrants. However, this point should not be over-emphasised, as a regulatory environment also creates markets for the required expertise, so that often the barrier is one of cost and time; although some technologies may be proscribed.

5.6 Self-builders were said to be often motivated by environmental and sustainability objectives, which may lead them to be in advance of existing regulations. Even so, many find the presentation and complexity of regulations daunting, including planning applications; though this clearly depends on the level of expertise of the individual concerned.

5.7 The research brief here is not to evaluate the objectives of regulations pertaining to housebuilding but, rather, to consider procedural and implementation aspects and whether there is scope to improve regulatory outcomes. Such an investigation is not starting from scratch. Government has signalled concern around this issue for some time. Recent examples include responses to the recommendations of the Killian-Pretty Review on and the associated move towards development management, on which a consultation document was issued last year.20

20 Killian Pretty Review Government Response to the Killian Pretty Review, Department of Communities and Local Government and Department for Business Enterprise & Regulatory Reform and CLG, 2009; Development Management: Proactive Planning from Pre-Application to Delivery, Department of Communities and Local Government, 2009.
5.8 There was also an announcement in the Pre-Budget Report in November 2009 on the establishment of a national regulatory baseline. This is aligned with a wider government commitment to better regulation, and reflects the need to consider the cumulative impact of regulation. Again, it is not the purpose of this study to comment in detail about such measures. Instead, the objective is to explore some of the evidence and views of housebuilders on the applications of regulations; to highlight some core issues; and to point to some potential mechanisms for improving housing delivery.

5.9 Regulation in its broad sense as it affects housebuilding emanates from a wide variety of sources. It may come from the EU; from a variety of government departments; from local authorities; and from government agencies. Regulations may also affect housebuilding indirectly. For example, housebuilders have to deal with utility providers, with their own sets of procedures, which themselves are overseen by regulatory bodies, such as OFWAT. The breath of regulation is considerable as are the various and potentially unpredictable ways in which it affects housebuilding. Regulations are also subject to continuous change. Not all regulations can be covered here but discussion of a few illustrates themes of more general relevance.

5.10 This chapter makes some further general comments about regulations. The following two chapters will then consider in turn land-use planning and building regulations, including zero carbon.

The impacts of regulation

5.11 At the outset, it is worth noting that regulation has five broad impacts on housing supply:

Regulations require certain actions and exclude others

5.12 This is seen most clearly in planning, which permits building on some land but not elsewhere. Exclusion by its nature reduces housing supply and is justified in terms of the net positive economic, social and environmental benefit of such actions.

Regulations raise the costs of providing housing

5.13 Meeting regulatory standards is costly, so the justification for regulations is that the benefits of having them in place outweigh their costs.

5.14 In general, higher costs are likely to lower housing supply by rendering marginal development unprofitable. There is a complication here in that development land is in extremely short supply in England, so that there is a
frequent presumption that extra costs are borne by land prices alone. If that is universally the case, additional regulations reduce land value uplift accruing to the land owner, but do not deter them from bringing forward their land for development, as expected profits are higher than under alternative uses.

5.15 However, it is important to take account of the heterogeneity of the sites available for housebuilding. Many schemes may not produce substantial development gains, because of local housing market conditions, or because expensive remedial works are necessary to prepare the site for development. In cases where housebuilding is only marginally profitable, regulations may make development unviable.

**Regulations may increase response timings**

5.16 Meeting regulatory requirements involves time commitments on the part of housing suppliers, and there may be lags associated with evaluation activity, as with planning applications. The additional time between initial decisions to invest in housing development and revenue earning outcomes may deter investment.

**Regulations create risks and uncertainties**

a. *In processes*

5.17 Some regulations are associated with discretionary decision-making processes, as with the evaluation of planning applications. Discretionary outcomes are by their nature uncertain.

b. *Timing*

5.18 Regulatory regimes are also subject to change. Often, announcements of impending changes happen far in advance of implementation, but they may not.

5.19 The results of risk and uncertainty will be to:

- encourage suppliers to delay making investment commitments
- raise target rates of return.

**Regulatory impacts depend on the way they are implemented**

5.20 The design and use of regulations affects their impacts, so it is important to design them well and avoid unintended consequences. This may be difficult with housebuilding due to factors such as information and evidence limitations and to the highly variable contexts in which regulations will be applied, given the heterogeneous nature of housing development.
5.21 Therefore, dividends in a higher and more responsive housing supply can be achieved by ensuring that regulations provide net public benefit (i.e. the benefits outweigh the costs). Key aspects of this are ensuring they do not unduly raise building costs or slowdown development; avoid regulatory uncertainty and risk; and are easy for those affected by them to understand and implement. Getting the process of regulatory design and implementation right is therefore of key importance.

5.22 These principles also suggest the need for a collaborative approach towards regulation between government and providers of new housing. Once regulatory objectives are agreed politically, considerable benefits can be achieved through effective collaboration in terms of detailed design and implementation. This is particularly important with respect to housebuilding because of the evidence constraints and heterogeneity issues highlighted above.

Rules versus discretion

5.23 Discretionary regulation requires criteria against which judgements can be made. Land-use planning has a variety of means through which criteria evolve, including legislation, government policy statements and circulars, professional education and local practice. However, discretionary outcomes do not always meet with support. Complaints by housebuilders in the focus groups that formed part of this study are that planning judgements are inconsistent; that an understanding of the economics of their business is often lacking; and that local authorities may apply national guidance in varying ways.

5.24 Even if such complaints are upheld, solutions are not easy. Monitoring and controlling local authority behaviour is complex and costly and raises issues with respect to local autonomy. Furthermore, requiring ‘better’ evaluations of development proposals would be time-consuming; face information deficiencies; and some aspects of case-by-case evaluations may be overly burdensome for decision-makers.

5.25 Rules have the benefit of greater certainty. Their impact is known when initial investment decisions are made, although cannot generally be adapted to changing circumstances. So, there is a trade-off between applying standard regulatory rules and improving the content of local evaluations. In several cases, a top-down approach of having clear prior rules may be preferable to extensive local variation, which adds little to the benefit of regulation but much to its potential cost. In this respect, many other countries may have a better mix of discretion and rule-base regulation. As the OFT Housebuilding Study notes, overseas developers are often surprised at later stages in development process
that regulation can enforce changes or lead to abandonment of projects, because most countries have much clearer prior rules.\footnote{Homebuilding in the UK. A market study, 2008, Office of Fair Trading, pp70-73.}

5.26 Consideration of the costs and benefits of specific rule-based and discretionary regulatory systems requires deeper evaluation, because the costs of getting the balance wrong are substantial. Current evidence suggests that there may be benefits to giving greater weight to rules-based, rather than discretionary, approaches in some key areas in order to improve housing delivery and lower costs. A good example is given in Chapter 7 in relation to the sustainability and energy efficiency of new housing development; where at present local planning authorities can impose higher code level requirements through planning conditions. This is despite the fact the Code for Sustainable Homes was designed to facilitate a gradualist implementation of higher sustainability standards in affordable housing, with the specific energy efficiency requirements only becoming binding on all new build at later dates through Part L of the Building Regulations.

5.27 Both housing supply and innovation would benefit from greater regulatory certainty. Standardisation of procedures across regulatory agencies, notably local authorities, is an important element of that.

5.28 When designing regulatory rules, policy-makers themselves face difficulties, because of a lack of information and the limited research base that exists on housing supply and the housebuilding industry. Most current information on the behaviour and dynamics of the housebuilding industry comes from a handful of recent reports. There is not a stream of quality, applied and academic research on which to build up debate and a good evidence base. Data are lacking on many issues. The major funding bodies for academic research, EPSRC and ESRC, fund extensive research on the built environment, particularly in relation to sustainability; on construction management; on planning-related studies; and to a lesser degree on housing. However, they fund very little housebuilding research, despite its outputs (housing) being of major interest to the themes they do fund. Other sources of research funds, such as the charities or government itself, similarly provide little or no finance. Housebuilding technologies and, to a degree, training issues (through “Constructingskills” and others) are covered either directly or indirectly, but not the behaviour and operation of the industry as a deliverer of housing supply.

5.29 A case in point is testing the proposition that the cost of a particular regulation will be passed onto land prices and, so, neither affects the supply of housing nor that of residential land. The only land price data available are valuers’ estimates published by the valuation office at the regional and local level, which
are insufficient to enable a robust micro-level analysis to be made. Although
projects in a particular local authority area may seem to offer substantial returns,
this may not be the case for specific ones: either because of higher than typical
build costs or weaker demand. Similar variations will occur over time with the
housing market cycle. The lack of richer, more spatially disaggregated land
price data is a problem in housing supply analysis in general and great
benefits would be derived from improving on the current situation.

Conclusion and recommendations

5.30 This chapter has made some comments on general application of regulations. In
relation to them, conclusions and recommendations fall into two broad types:

- processes through which regulations and policies are formulated
- the regulatory approach adopted.

Processes through which policies and regulations are formulated

5.31 At their best, regulations and associated policies are fit-for-purpose, widely
supported and function well. However, achieving this balance is a challenge,
particularly in a complex and changing sector such as housebuilding. This has
been illustrated in some of the broad themes discussed in this chapter and will
arise again in subsequent chapters. Difficult issues may crop up because of
insufficiencies in specification, co-ordination, evaluation and getting action at all
appropriate levels; and weaknesses in evidence bases, detail and understandings
of potentially adverse effects. Policies may also have multifaceted aims that do
not always chime together.

5.32 In part, problems can arise because of the breadth of public sector engagement
with the housebuilding industry through several government departments
and agencies. As a result, the routes through which regulations and policies
evolve are varied and they can originate from different institutional sources.
Some emanate from housebuilding's place within the construction industry as a
whole, while others are specific to it.

5.33 There may be benefit in having a clearer chain of co-ordination and
authority, strengthening improvements already made. In it, a senior official
(or a wider committee with non-government as well as government
representatives) could perform a clearing-house and overview function
in relation to policy and regulations impacting upon housing supply and the
housebuilding industry. Such an arrangement would be of considerable value in
implementing the new arrangements for a policy baseline, proposed in the Pre-Budget Report 2009, against which any newly proposed regulations will need to be considered. It would also help overcome the informational challenges for policy making in a technically complex sector.

5.34 To an extent, this mechanism would simply ensure and generalise current good practice. For example, policy impact assessments are now undertaken as a matter of course. Yet, there is still a need for leadership across the extensive range of initiatives coming from a range of public bodies. The aim would be to make certain that policies and regulations affecting housebuilding were formulated and progressed against a standard set of criteria related to their design, impact evaluation and stakeholder consultation. The requirement would be to guide practices so that policies and regulations were consistent, indispensable, and had gone through the appropriate procedures, including early stakeholder involvement with users and producers (and consumers when affected). This type of governance mechanism could also ensure that external expert advice was being utilised effectively, where appropriate, and could be more closely involved in shaping policy developments from the outset. Additionally, expertise overseen by some senior co-ordinator and decision-maker could provide mentoring and advisory input for the policy teams involved in each programme of work.

5.35 Such an approach would also aim to ensure greater follow up assessment after new policies and regulations are put in place to evaluate whether they are achieving their stated aims, what lessons could be learned for wider application, and to assess overall impacts on housebuilding in practice. It is widely accepted as best practice to undertake such policy evaluation exercises at present, but the principle is not always effectively applied. For example, there is much to be gained from evaluating the effectiveness and value-for-money of the counter-cyclical measures initiated during the current downturn, to inform policy responses to any future downturn.

5.36 Policy cannot always be effective in the face of particular issues, while the market is often well equipped to respond. This maxim is universal and applies as much to housing supply as elsewhere. A better understanding and acceptance of where policy has greatest leverage in housing supply would be a useful guide for action. There is a need for a clear vision of overall policy aims with respect to housing supply, recognising the trade-offs between the various policy objectives. A road map of planned actions and policy initiatives could then be devised so that all participants were aware of that vision and guided by it, and the interlinkages between initiatives could be monitored and managed. Industry would have to co-operate in and agree the setting of development and lead in periods for some polices, because their timelines are specifically designed to facilitate easier industry adoption. This would be assisted by having the clearing
house and overview function suggested above.

5.37 Communication with industry would also be improved in such ways. Where feasible, actions and policy stances should be signalled clearly and well in advance and, through feedback, assurance gained that housebuilders have the capacity to adapt. This would parallel the comments made in Chapter 4 about the importance of industry having a coherent voice and sound evidence base in its dialogue with government.

5.38 Analytical inputs to policy formulation have greatly improved in recent years but there are still deficits. Of assistance would be more research on operation of the housebuilding industry and monitoring of its behaviour and performance in order to provide better data and evidence bases about the industry and its inputs and outputs when formulating policy. Currently, there is a substantial imbalance with the demand and planning sides of housing in this respect.

Which regulatory approach to adopt?

5.39 Housebuilding involves engagement with a wide variety of bodies. Such interrelations are guided by rules and conducted through negotiation. Rules offer certainty and transparency and negotiation facilitates flexibility and compromise, so there is trade-off between them. Of particular importance, negotiations may not be between equals, because, say, one party has greater negotiating strength than the other or because there may be an unequal distribution of the costs and benefits of particular actions. Policy tends to err towards the benefits of the flexibility of negotiation perhaps too often with respect to housebuilding, in situations where a rule based approach may be better.

5.40 The point was raised above, but two examples highlighted in the following chapters illustrate the point succinctly. Firstly, early introduction via planning conditions by some local authorities of higher levels of the Code for Sustainable Homes; proving their political credentials but generating regulatory uncertainty for the sector. Note that, while the Code for Sustainable Homes is not a regulatory requirement, PPS1 enables local authorities to set higher than national standards in terms of Code levels. The energy efficiency requirements at the various Code levels coincide with those that will become mandatory through Part L of the building regulations. However, under the Code, these become mandatory at earlier dates for housing units receiving Government funding for affordable housing, those built on HCA land, or where LPA’s opt to impose them as planning conditions as per PPS1.
where regulations are seen as providing greater certainty. Secondly, utilities and housebuilders currently have problematic relationships, which could be improved with greater action by regulators in specifying the appropriate guidelines and rules.

5.41 Consequently, a final recommendation here is to consider **greater standardisation in regulation than is currently the case**.

### SUMMARY OF REGULATORY AND POLICY FRAMEWORK RECOMMENDATIONS

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Details</th>
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<tbody>
<tr>
<td><strong>A clearer chain of co-ordination and authority</strong></td>
<td>with a senior official (or a wider committee with non-government as well as government members) performing a clearing-house and overview function.</td>
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<tr>
<td><strong>Early stakeholder involvement in policy design and implementation</strong></td>
<td>improved collaboration with those affected by policies, including new baseline.</td>
</tr>
<tr>
<td><strong>A road map of planned actions and policy initiatives</strong></td>
<td>so that all participants were aware of the policy vision and guided by it, and the interlinkages between initiatives monitored and managed.</td>
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<tr>
<td><strong>Greater standardisation in regulation than is currently the case</strong></td>
<td>Greater use of rule-based regulation to offer certainty and transparency in areas where clear benefits exist in terms of producer certainty and better housing delivery.</td>
</tr>
<tr>
<td><strong>Improve the availability of spatially disaggregated land price data</strong></td>
<td>to enable better understanding of what land sites are viable and the risks associated with residential development.</td>
</tr>
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Chapter 6

Land-use planning

6.1 A series of studies have identified the role of the planning system in restricting land supply, of which the Barker reviews of housing supply and planning are the most well known. As Barker highlighted, the price elasticity of supply in England is low. This means that little additional housebuilding occurs as prices rise. Although, at any point in time, new supply is only a relatively small proportion of market sales (11% in 2007) and only adds 1 per cent or less each year to the existing stock, the cumulative effect on supply is substantial and, therefore, the scale of housebuilding has considerable impact on house price trends. Sufficient land for new residential development, its financial viability, and its timely availability are consequently essential to achieve affordability aims.

6.2 In relation to these issues, this chapter examines three planning related topics: land availability; the overall time taken to decide planning applications; and s106 and the soon to be introduced Community Infrastructure Levy (CIL).

Land availability

6.3 The recovery over the next few years will vitally depend of how much residential development land is available to build on. However, a long run decline in the area of land changing to residential use, together with the reduced financial viability of many sites, suggests securing an increase in viable sites for housing development may be difficult. The Government’s current support programmes like Kickstart, the Public Land Initiative, Surplus Public Sector Land and Local Authority New Build are helping to bring some additional land forward for housing development and to stimulate more housebuilding. The commitment to improve the local authority five year land supply by undertaking comprehensive checks and introduce greater enforcement of this policy requirement, announced through the Pre-Budget Report 2009, will provide further help in this regard, as discussed later. Initiatives to speed up decision-making are also to be welcomed, including the end-to-end review of the call-in process. The call-in process is often associated with large sites that can have a major impact on housing supply. The general planning appeal process can be lengthy and cumbersome. The Planning Inspectorate is currently working on the potential role for mediation in streamlining appeals.


Residential development land

6.4 Experience over the past two decades has been one of significant falls in residential land supply. Despite the last housing market boom, when prices roughly doubled in real terms, the amount of land used for housebuilding fell by a quarter between the late 1980s and 2006 on a trend basis (Figure 6.1) and the recession since then has accelerated the reduction. The number of dwellings built did not fall in the same way as land did because housing densities per hectare rose, especially after the early 2000s. This occurred principally in response to government planning policy aimed at promoting higher density development and as the share of flats in total output rose in the final years of the boom.

6.5 Within the decline in residential land, the overall percentage of new dwellings built on brownfield land rose from 55 to 80 per cent between 1989 and 2008, comfortably surpassing government planning targets. However, because brownfield land was being built on at much higher densities, there was not actually an increase in the brownfield land acreage used (Figure 6.1). Looking at previous land-uses overall, a convergence had occurred in the broad types of residential land. The acreage of greenfield land fell rapidly in the 2000s, ending up being no greater than that from previously housing land and that from other brownfield uses; so that greenfield was being built on at only around half of the amounts used in the late 1980s (Figure 6.1).
6.6 Not only is more land required but, within that, more land suitable for housing rather than flats is going to be needed, if housing supply is to increase strongly. Typically, after downturns, the demand for houses and better quality properties rises to a greater extent in initial years of an upswing than does the demand for smaller dwellings and flats (outside of London). This effect is likely to be exacerbated in this recovery because of the unusual scale of buyer interest in flats at the end of the last boom and because of the new era of mortgage constraints, in which existing homeowners with substantial own equity are strongly favoured over first-time buyers. Houses tend to be in most demand in the suburbs and on greenfield land and, so, higher proportions of houses are possible only if there is a disproportionate increase in greenfield and brownfield land in suburbs and beyond.

6.7 The new market realities are likely to constrain recovery in urban regeneration and mixed use commercial schemes involving developments of blocks of flats, probably in most areas other than in parts of London. They were a major source of housing supply for most of the 2000s. But, now, a lack of investor demand for new residential properties, the depressed commercial development market, combined with banks’ greater caution in providing funding, are lowering the returns on such schemes and, hence, their feasibility. The sites concerned may sometimes be suited for lower density development, but such schemes are frequently unable to provide the sort of returns allowing the complex land and accessibility issues on these sites to be financed out of development returns. Sites may therefore be sterilised for some considerable period of time, limiting the supply of homes coming forward through such schemes.
Taking all these factors together and assessing the overall situation in terms of land requirements, it is more realistic to expect the situation in this recovery and beyond to be closer to the scale and proportions seen in the late 1980s and early 1990s than in the final years of the last boom. The percentage of greenfield in total residential land in 1994 in the early stages of the 1990s’ recovery was 56 per cent but, at the peak of the boom in 2006, it was only 36 per cent.

PPS3 introduced a requirement on local authorities to be more proactive about identifying sites and secure a five year rolling supply of deliverable sites. In addition, local authorities were asked to manage land supply more proactively to ensure viability in changing market conditions. Even so, the supply/release of suitable land for the right forms of housing by local authorities continues to be a challenge. The requirement to take account of changing market conditions and viability has been particularly challenging given the rapid deterioration in market conditions. Therefore, it is important to review whether there is scope to put in place better mechanisms to enable provision of sufficient, viable, allocated land in development plans and, in addition, to facilitate the rapid deployment of more unallocated windfall sites. The latter have often provided important residential land sources in the past and can be expected to play a similar role in the future.

The land-use data examined in this report are for England as a whole but there is a well-known regional effect in housing market cycles whereby recovery ripples slowly out from London, through the south east and the rest of the south, before moving northwards in a process that takes a number of years. This pattern of recovery puts particular strains on land availability in the South East where planning constraints are often the tightest.

The need for more greenfield land and land in the south east poses a policy choice between relaxation of tightening constraints on greenfield land in the south or permitting escalating housing shortages and declining affordability. However, changes in the proportions of brownfield and greenfield land do not necessarily imply breaching current brownfield targets, because average housing density is significantly higher on brownfield and because those targets have been comfortably achieved. Nor do they imply a substantial loss of greenfield land but rather a return to an already constrained previous situation.

**Policy actions over land availability**

Government has put considerable effort into ensuring local authority development plans facilitate increases in housing supply, through public sector land release as promoted by current support programmes, designated growth
areas, eco-towns and planning reforms. Success in this respect has been mixed because residential land supply has been falling, as noted above, due to many local authorities in areas of housing demand remaining reluctant to make sufficient viable residential land available.

6.13 One problem is that many local authorities have yet to have agreed Local Development Frameworks in place. This both limits land supply and increases risks for housebuilders. There is a greater chance that a development proposal for an unallocated site may be refused, which can lead to abandonment of the project or to protracted negotiations with local authorities.

6.14 Moreover, policies to encourage local authorities to identify residential land availability have met with mixed success. Strategic Housing Land Availability Assessments (SHLAAs) are required under PPS3, which specifies a need for Local Planning Authorities to identify 15 years of land, with five years of it deliverable. A requirement is that SHLAAs should be agreed by a local Housing Market Partnership (including developers and housebuilders). SHLAAs must also take account of changing market considerations. Where no other plan documents are in place, these assessments can be used as a material consideration in determining planning applications and appeals. However, evidence suggests that the implementation of the requirement to have a five year supply of land is inconsistent across the country. The majority of council’s claim they have a five year land supply for housing between 2009 and 2014. Yet, this is contested by the industry and local authorities appear to be failing to consult with housebuilders over sites’ viability. The commitment in the Pre-Budget Report, to review local five year land supplies is therefore important. However, it will be important to ensure that the better enforcement of the policy requirements outlined in PPS3 are in place in order to secure the delivery of more land for housing.

6.15 Currently, the principal incentive offered to local authorities concerns the level of housing and planning delivery grant (HPDG), whereby local authorities have to meet planning-related targets for their allocations. This has an impact in some cases but the evidence does not suggest that it has led to substantial increases in residential development land availability. The incentive could also lead to perverse effects, whereby the loss of HDPG could lower local planning capacity by reducing resources, slowing planning delivery further.

25 For example, see The Housing Green Paper Homes for the future: more affordable, more sustainable, 2007, CLG.

26 According to CLG information by July 2009 only 11% (41) local authorities in England had a developed core strategy.
6.16 The consultation on revisions to the HPDG\textsuperscript{27} will hopefully lead to policies that, if implemented, go some way to address these issues and provide better incentives to local authorities to facilitate the availability of sufficient, suitable land for housing development in response to the significantly changed market conditions.

**Slow response**

6.17 It is worth noting that the response of the planning system to the housing crisis and the shortage of developable land has been slow, despite considerable central government effort. PPS3 was introduced in November 2006. The housing crisis started with the failure of Northern Rock in September 2007 and recovery started in spring 2009. So, the years are passing with still no confidence that sufficient land is available to deliver new housing, to respond to changing market conditions, or to meet housing targets. Yet, the risk remains that insufficient viable land will be available to permit rapid recovery in housing supply even to pre-crash levels, let alone to expand supply beyond that.

6.18 All firms surveyed in this research expected that planning constraints will slow recovery and reduce output. The analysis of land availability set out above has been discussed in a planning context with respect to land allocations, given that the planning system plays a critical role in bringing forward new development opportunities. But in terms of the business plans of builders, the key issue for them is one of viable sites. Many current sites with planning permission are now unviable and unlikely to be for some time. Respondents argued that many local authorities are reluctant to renegotiate on the basis of the changed market, despite the Government’s reminder to local authorities that they should do so.

6.19 Given the timing of the study, a particular concern of housebuilders related to uncertainty in the policy framework with an impending general election. Respondents argued that no matter which government is returned, they expected policy changes to result. The uncertainty generated makes them cautious and less inclined to invest in expanding output, although this is to some extent to be expected in any pre-election period.

**Stronger incentives**

6.20 A conclusion of this brief assessment of the challenges which exist in relation to land availability in recent years is that broader incentives may be necessary.

\textsuperscript{27} The consultation *Housing and planning delivery grant (HPDG): Consultation on allocation mechanism for Year 2 and Year 3*, CLG, 2009, proposed that in future HPDG will only be available for a completed SHLAA... where local authorities can demonstrate a five year supply of deliverable sites for housing and only where the SHLAA and update of the five year supply has had the involvement of the a housing market partnership.
6.21 PPS3 sets out a clear policy that planning applications for housing development should be determined favourably if no deliverable five year land supply assessment is in place. This strong policy position is to be welcomed. However, the exceptional market decline since the publication of the planning policy statement means that ‘deliverability’ is more often being hampered by the non-viability of developments in the financial sense. Given changed market conditions, there needs to be a particular emphasis placed on the viability of five year land supplies. Many sites identified in five year land supplies will have been acquired at pre-crunch price levels and, even where successful s106 renegotiations are possible, may remain unviable for years to come.

Box 6.1: Housing Delivery: A local or national prerogative?

Local planning authorities currently set housebuilding levels in relation to local circumstances and preferences and following guidance from Regional Spatial Strategies and central government. Nonetheless, there are informational advantages that make local planning authorities better placed to decide upon certain aspects of housing provision (e.g. related to design and local services, or to local environmental impacts).

The current system seeks to balance the tensions between national policy interests, for example increasing housing supply or reducing carbon emissions, and these local prerogatives. There will always be debate regarding the preferred balance between national guidance and standards and local preferences because of factors, such as differences of interest and opinion and, also, due to changing local and national circumstances.

Some key considerations need to be taken into account when designing policy interventions:

1. Problems exist discovering and representing local preferences with respect to housebuilding

Turnout at local elections is low (36% of voters in 2008), with younger people and certain social groups particularly under-represented. Furthermore, opposition to development is often concentrated among particular interest groups; whereas the beneficiaries of development are more diffuse, even within the local area. This is a challenge for local decision makers.

Box 6.1: Housing Delivery: A local or national prerogative? (continued)

2. Housing provision has wider spillover benefits beyond a particular LPA’s boundary
Better housing availability improves housing opportunities and affordability for people far beyond local authority boundaries, but this may not be reflected in local planning authorities’ incentives. This is an example of a positive externality spilling over from one local authority area to others (or a negative externality when housebuilding is unduly restricted).

3. Participation and representation in local decision making
There is a role for central government in supporting the interests of quite significant parts of the population, even in the context of strong localism. Many people are mobile, particularly when they are young, and are less likely as a result to vote or to participate in lobbies in the local areas where they live or, indeed, in the places to where they may subsequently move. It is a longstanding question in a representative democracy that this constituency has less say over local development strategies, although as movers they are significantly affected by them via housing supply.

Are incentives a solution?
These issues may be addressed through appropriately structured incentives, although they are likely to need to be substantial and to be well-aligned with new housing provision. Such incentives have a particularly strong rationale in accounting for the wider spatial ‘spillover’ benefits of housing supply and also in order to correct for the participatory and representation issues, as highlighted above. Matters around eliciting precise local preferences are likely to remain problematical.

Barker recommended greater use of market signals in local planning decisions, although this has since happened only weakly. There will always be a risk that even ‘appropriately’ incentivised local voter preferences may not match market supply responses, or may not be sufficiently strong. This is a policy design matter requiring detailed consideration as options are worked up.

6.22 In such cases where the new unviability of sites threatens housing delivery, it should be an important policy objective to ensure that there is the necessary flexibility in the system for new sites to come forward. This would help facilitate an accelerated recovery in housing supply.

6.23 A further policy objective should be to have a more balanced set of local incentives. The majority of local expenditure is funded from central government, in other words from taxation at the national level. Given that the social benefits of additional housing supply go beyond local authority boundaries, there is a case for ensuring that local incentives are appropriately aligned. A funding
mechanism reflecting the benefits of additional housing units in terms of increased affordability across the wider housing market would be one way of addressing this issue. Under such an approach, local communities would receive a ‘fairer’ share of the social benefits of additional housing supply in terms of improved quality of local services.

The processing of planning applications

6.24 Planning approval for individual developments can be a lengthy and costly process for housebuilders (and for local authorities) and there is a wider end-to-end process of pre-application discussions and discharging of conditions which needs to be taken into account when assessing the length of time which development proposals take before they can be implemented. A series of studies and reports have highlighted the issues.29 A recent study30 found that:

- developers of even small 10 to 20 dwelling schemes must expect the planning process as a whole to last at least a year and face the risk that it could take longer
- the processing of large developments takes considerably longer than small ones, i.e. well over a year
- there is substantial variation in the time similar sites take, generating a great deal of uncertainty for applicants
- wide differences in times for similar type sites occur within each local authority, so uncertainty and time variability is near universal (i.e. there is no best practice or simple ways to overcome these problems).

6.25 These lengthy times to get sites through the planning system, even when they are approved in the end, has serious implications for the likely speed of recovery in housebuilding. Even if much more land comes available for building, as is required if new housing supply is to grow rapidly, there is a risk that proposals would then be held up in the approval system, unless times are greatly reduced.

6.26 Uncertainty in the time to achieve approval, as well as its actual duration, is an important factor. The greater the uncertainty, the more builders’ are likely to hold land supply in reserve and the more applications they have to submit to achieve a target level of output within a specific time frame. This is not only costly and time-consuming for builders, which may dissuade them from investing, but also for the planning system itself.31 It is often argued that

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30 Ball, M. Housing supply and planning controls- the impact of planning control processing times on housing supply in England, NHPAU, 2010.
31 ibid
housebuilders hold unreasonably large ‘land banks’ with planning permission, but such analyses tend to neglect the market and regulatory timing risks which require firms to hold substantial stocks of land in order to ensure continuous volume production. Planning issues tend to be debated as though the development process exists in a context of total certainty; whereas quite the opposite is the case.

6.27 The planning systems in most other countries are similar to that operating in the UK in that they are hierarchical, with key decisions made at the local level and set within a national framework or policies and regulations. However, in England the planning system is more flexible at the local level affording less certainty to applicants and developers than in many other countries, because development plans are not legally binding. Although in England, decisions need to be taken in accordance with an adopted development plan, the concept of ‘other material considerations’ afforded by the Town and Country Planning Act 1990 (as amended) leaves local authorities with considerable discretion in dealing with planning applications. The implication is that there is a lot more negotiation between developers and planning authorities – often late in the planning process -and more risk and uncertainty for developers. The English approach has the benefit of providing greater flexibility to changing circumstances but the benefits are diminished if the resultant additional delay is high.

6.28 The outline planning permission route was intended to offer a faster, more certain route through the planning system for development proposals. But the evidence suggests that this does not seem to be the case. Feedback from the industry indicates that outline applications are no longer the preferred way to determine the acceptability of the principle of development. This is because local authorities typically ask for a considerable amount of information from applicants, even when such information has limited application to the broad principle of a development and, so, there is often no real benefit for an applicant to choose this route over a full application where similar information requirements are sought. This is unfortunate and reconsideration of the constraints on this route seems worthwhile to encourage greater use of outline applications. Limiting the information requirements for such applications would be one way to achieve this and would give applicants greater certainty of the general acceptability of their proposals by a local authority. Wider uptake through such incentives could have considerable benefits in terms of housing supply, although procedural changes may be required in order to facilitate this.

32 RTPI, Opening up the Debate. Exploring housing land supply myths, 2007
33 NHPAU, Review of European Planning Systems, 2009
6.29 Builder respondents argued that the time, cost and uncertainties related to obtaining planning permission were too great. It was generally believed that better incentive structures for local authorities would speed up delivery, lower costs, and improve housing supply. Greater consistency across local authority practices in areas of design and renewable energy policy would have similar effects.

6.30 Feedback from the industry has also suggested that the development management system would benefit from greater certainty being introduced through the use of non-detailed area wide master plans or design codes. This would accelerate processing times for applications and re-applications; speed up appeals’ processes; and enhance use of practices that limit recourse to appeals. Improved monitoring of the progress of sites through the planning approval process, and associated incentives, may also help to speed up determination.

6.31 Planning Performance Agreements (PPAs), introduced in 2008, are a key tool for collaborative working between local authorities and applicants along agreed timescales and priorities. However, their take up has been limited so far. It may take time for the approach to bed in but there are indications that they are not being regarded in ways that have been hoped. Local authorities typically only see them to be relevant for large scale proposals: where there is more negotiation and where time scales typically extent beyond statutory ones. The interplay between statutory determination periods, performance indicators and the HPDG have been cited by stakeholders as problematic, because PPAs are voluntary and cannot override statutory periods or anticipate local or member opposition to proposals.

6.32 It was suggested that, rather than being voluntary, PPAs should be legal agreements setting out obligations and penalties for non-performance, with timescales being allowed to vary from the statutory periods where an agreement has been reached. At the same time, stakeholders said there should also be a degree of flexibility, enabling an applicant to appeal where discussions breakdown once an application is submitted. They need to be fair, transparent and publicly available to avoid challenge. A need to look at the barriers to their wider take up to learn the lessons of experience is important. Part of this work should aim to identify the scope to adapt PPAs to suit a broader range of applications and to examine whether their use could be better incentivised or, even, required.

6.33 The current measure of the percentage of major applications processed within 13 weeks has weaknesses, as the Killian Pretty Review and NAO report have argued. The Government is considering a new key performance indicator (KPI) in response to the Killian Pretty Review’s recommendation. However, there
is a danger that important quantitative insights with respect to processing times might be lost in consequence. Therefore, it would be advisable that any introduction of such a new measure should be accompanied by a mechanism which monitors how long successful applications take to be considered by a local authority, once fully approved. Such measures could be added to already existing annual local monitoring reports.

Self-builders

6.34 Self-builders face difficulties over obtaining planning permissions and often do not have the skill sets to deal with complex planning procedures. They also complain of excessive interference in design matters and a lack of understanding by planners of technical developments in housebuilding and components. Many of the problems they raise are similar to those of professional housebuilders.

6.35 A need was identified by those interviewed in this research for better advice from local authorities on how self-builders should deal with planning applications and for simplified procedures to be introduced for small-scale developments comprised of single-unit developments or community self-build schemes. Perhaps, a dedicated support officer should be assigned to specialise in small-scale housebuilding in local authorities where self-build is prevalent or where there is large proportion of small or single-unit developments. Alternatively, there may be a role for the self-build organisations themselves to provide assistance or information on the planning system for potential self-builders.

6.36 PAS may usefully play a role here. Information improvements have already been made through the Planning Portal. However, consideration could be given to the scope for the Portal to incorporate a small builder/self builder element. This could be similar to the information provided through the interactive house and terrace platforms or be made available in the form of a mini guide; perhaps in sponsorship with industry.

Policy responses in development management

6.37 As noted earlier, government has been concerned for some time about this issue. Targeting has been put in place, funding offered as incentives, e-planning introduced, support for development control through the Planning Advisory Service and ATLAS, and major reviews initiated. The Penfold Review of Non-Planning Consents has recently reported interim findings, with a final report due by summer 2010.34

34 http://www.bis.gov.uk/policies/better-regulation/policy/simplifying-existing-regulations/penfold-review-for-non-planning-consents
6.38 The Government’s implementation of the Killian Pretty Review recommendations is of particular importance. Of relevance to the housebuilding industry are three key reforms, which have been published for consultation, and are due to be implemented soon:

- *streamlining information requirements for planning applications* making information requirements clearer, simpler and more proportionate
- *publicity for planning applications*
- *development management* setting out a new framework for development management and options to improve the performance framework.35

6.39 When implemented, they will improve the effectiveness of the planning system and are likely to have a beneficial effect on the housebuilding industry. As Killian-Pretty have argued, less paperwork, greater simplicity and standardisation of procedures and of explicit and implicit decision-making rules within and across local planning authorities would be of considerable benefit. However, reform is hard to achieve. Current proposals, in part, emphasise the need for goodwill and cooperation between planners, local councillors and builders. Success will therefore be contingent on this.

6.40 There may be a need for central government recommendations to be allied to better and stronger financial and other incentives for local authorities. At present, as noted above, most weight is put on the incentive to local authorities of HPDG, which represents a relatively small quantum of funding in comparison to aggregate local government finance.

6.41 Incentives are also not always aligned under current procedures, where applicants have to bear most of the costs associated with delay, negotiation and project revision; as well as face the costs associated with the unexpected rejection of schemes. Some housebuilders in discussions, for example, suggested that applicants should be able to recover wider costs, if they win on appeal, or if local planning committees overturn officer recommendations that are subsequently won on appeal. The issue of incentives in this area is a complex one. Circular 03/2009,36 for example, already provides for a robust costs regime although the award of a costs framework remains a flexible one (in that it is exercised by planning inspectors and the courts), and costs are confined to those which have been incurred in the appeals process.37 Greater investigation of the potential options is therefore desirable.

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36 Costs awards in appeals and other planning proceedings (CLG Circular 03/2009).

37 Para A26 makes clear that awards of costs cannot extend to compensation for indirect losses such as those which relate to delays in obtaining planning permission via an appeal.
Making planning more predictable

6.42 Proposals to streamline the planning process by introducing more predictable policy tools into development plans are not new. Kate Barker recommended the introduction of Design Codes and the use of Local Development Orders (LDOs)\(^{38}\) in her report in 2004; recommendations which were subsequently implemented by government. Simplified Planning Zones (SPZs) as a tool to stimulate development and investment by granting planning consent for specified types of development without the need for planning applications have existed in planning legislation for some time.

6.43 However, the take-up of some of these tools has to date been limited.\(^{39}\) Their use has been voluntary or restrictive and they often regarded as procedurally cumbersome to introduce. They are also believed to remove local discretion over how development proposals are considered. Yet, if incentivised or pushed, they could be more widely used with respect to residential development, as Killian-Pretty have argued. Builders interviewed as part of this research certainly welcomed the idea, subject to such tools not being overly prescriptive, because they would provide greater predictability about what a local authority would find acceptable. The need for less local discretion over detailed site layout and design matters, and reduced variation in such practices across local authorities, were key themes expressed by practitioners during this study.

6.44 The use of LDOs, linked to Design Codes,\(^{40}\) provides considerable opportunities for making the policy framework for the consideration of applications housing development more predictable. Typically they are seen by planning authorities to be more applicable to smaller-scale development (e.g. householder developments, such as extensions). But piloting and incentivising their wider use to stimulate new housing development is recommended. In this regard, it is noted that the Planning Advisory Service (PAS) is currently running a series of pilots with several local authorities, which may provide some insights and lessons and an opportunity to extend this programme.

6.45 Another possibility, which would require legislation, is to introduce Residential Planning Zones. These would be areas where planning operates closer in principle to the zoning-style plans used in most continental European countries. Such areas would be designated in development plan documents and implemented through a basic, or high level, design code. That code would...

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38 DCLG Circular 01/2006. Subsequent legislation has since June 2009 removed the requirement that Local Development Orders must implement local development plan policies. PPS3 and related guidance also provides for the use of design codes in the planning system.


40 Preparing Design Codes: A practice manual (CLG and CABE, 2006) sets out various routes to formalising and implementing such codes and orders and their relationship to development plans.
guide the form and type of development acceptable without removing the freedom available to applicants to design schemes which are financially viable. Local authority discretion and the scope for public consultation could be limited because the zone would be designed with due local community involvement. Applications for development within such zones could then be fast tracked, perhaps through a prior-notification procedure. There would also be scope to link outline permissions to such zones.

6.46 To minimise disruption, it may be beneficial to introduce Residential Planning Zones in parallel with current sites allocated in plans. Some initial pilots, prior to rolling out the programme throughout England, would enable issues to be worked through, so that they offer genuine opportunities to speed up housing delivery. Government and local authorities should work with the sector to make sure that the approach is practicable.

6.47 Such Residential Planning Zones would most successfully operate in areas of change where there was broad agreement on the feasibility of development, or in established suburban areas or villages where the form and type of acceptable development is likely to be predictable. Alternatively, they may be suitable in areas where there is a rising local housing shortage and where development needs to be accelerated and incentivised.

6.48 Whatever the tools that are used, greater local authority enthusiasm is likely to be needed together with stronger financial incentives – and local keenness will be aided by incentives. These could be in terms of, for example, larger grants (or higher priority) for infrastructure. Alternatively, their introduction could be linked to broader housing supply incentives related to local expenditure grant and council tax.

Planning obligations and the Community Infrastructure Levy

6.49 A particularly contentious area for the industry relates to s106 agreements. Builders complain about both in the time they take to negotiate and the costs that result. They would appreciate greater planner awareness of housebuilding economics and finance, especially in relation to understanding development viability.

6.50 Builders report reluctance on the part of some local authorities to renegotiate s106 agreements in light of changed market circumstances. Some local authorities have recognised the impact of the recession, but others have not.41

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41 See Interim Guidance Note – Draft – Responding to the recession: Bringing flexibility to S106 Planning Obligations, London Borough of Barnet, June, 2009, for an example of a local authority prepared in principle to recognise new market realities in an attempt to meet housing objectives.
Areas resistant to new development have a particular incentive to keep s106 requirements high. There is a danger that high levels of s106 on land with current planning permission may sterilise residential development land. CLG advice to local authorities on revising existing s106 agreements to reflect new market conditions may help free up development, especially if linked to financial incentives.

6.51 Local authorities also still expect s106 payments upfront, a long time before developers receive revenue from the site. This is especially burdensome given firms’ new financial constraints. There are also concerns that s106 charges will not fully adjust downwards to reflect the introduction of the Community Infrastructure Levy (CIL) in April, 2010; although the Pre-Budget Report 2009 did offer a commitment that this would happen.

6.52 The predominant use for Section 106 agreements is to provide serviced land and other contributions for in situ social housing. Unless social housing densities are higher than private ones, this approach does not increase the overall supply of housing, although the social housing provided is regarded as having wider social benefits. However, as it does not usually add to housing supply in areas of housing shortage, the extra social housing raises the price of market housing by crowding out new private supply. The scale back of s106 is currently being proposed following the introduction of CIL. Consideration should be given to greater use of monetary payments and to ways of limiting crowding out of private supply.

6.53 The costs of s106 may deter developers from building on sites. This is a justification for negotiation. However, hitting the ‘sweet spot’ that does not deter development is difficult, so that local authorities should err on the side of caution when assessing the scale of planning obligations.

6.54 The development value estimation models used by local authorities in s106 negotiations need to include realistic risk-adjusted rates of return and forward looking scenarios (pessimistic as well as optimistic) for development costs and revenues. It is important, if such an approach is to be used, that such scenario exercises are undertaken and that clear and firm guidance is given on the principles of s106. For example, the HCA’s Economic Appraisal Tool uses a residual valuation approach for typical developments in local authority areas as a guideline for s106 negotiations related to specific sites. Although in principle it offers a useful guide, it may nonetheless be subject to misinterpretation. The manual notes that ‘Property development is inherently risky and great care must be taken in using the residual method of valuation due to the very sensitive

42 Economic Appraisal Tool User manual, HCA.
nature of the valuation. Small errors or inaccurate estimates of any of the key variables can have a disproportionate effect on the residual answer.' Although this is undoubtedly true, it is not clear what advice local authority negotiators should follow with respect to it. Should they reveal their calculations and accept they are open to challenge or use their own intuition? Model assumptions also matter; for example, about the riskiness of sites and the appropriate risked-weighted returns to assume.

6.55 The point is not so much to offer criticism of the details of residual site value appraisal models but to highlight potential problems with their appropriate use. They are indicative rather than accurate, so outcomes are better specified as a range rather than as a single final figure but a single figure is likely to be what local authority negotiators want and use. They can only clarify parameters in negotiations rather than close down debate, so that uncertainty over the scale of obligations still remains when developers are estimating the viability of projects, prior to their submission to local planning authorities.

6.56 What is more, there is a danger that such models are justification for a near de facto 100 per cent tax on land value uplift in s106 negotiations. If they are to be used, guidance should be offered on maximum estimated land value uptakes and they should fall well below 50 per cent of a model’s estimated development gain for reasons of limited accuracy, developer risk, and to enable realistic returns to landowners and to developer entrepreneurship and innovation (Box 6.2). Moves towards common starting points for s106 negotiations should reflect such guidelines as well.43

6.57 CIL is being introduced as a fixed charge per square metre across local authority areas.44 Justification for this is simplicity and transparency. Although its level will be set by local authorities, that will be subject to external adjudication of reasonableness. Once CIL is introduced, it would seem sensible to fix s106 levels in the same way and preferably simultaneously; rather than to have two divergent approaches, one of which is subject to length and costly negotiation and contentious requirements. It is therefore recommended that government considers the merits of such a fixed-charge approach to s106.
**Box 6.2: Risk, uncertainty and the capture of development value uplift**

This report has highlighted that residential development is a risky and uncertain process. Some sites are more viable than others on a risk-adjusted basis. Exceptionally high construction costs, land costs, delay, poor market prospects and other items factors may threaten profitability on particular sites, even in areas where average development returns are good. In less attractive or difficult to develop areas, the calculus becomes worse. Housing market volatility adds further concerns.

Nonetheless, such problem sites are often favoured by local planning authorities, because they meet desired social objectives and may be less controversial locally than potentially more profitable sites. Housing supply and social benefit aims consequently often are maximised by encouraging development on marginally profitable sites. But their developers will need to be compensated for their riskiness. Can negotiations between the two parties over uplift capture cope?

There are several issues here related to asymmetrical information.

1. Developers do not know precisely what s106 contributions will be required when they commit to trying to get development underway. Uncertainty over contributions, therefore, adds to all the other imponderables related to the development. This will raise target rates of return and push more marginal sites into unviability as a result.

2. The fear that the charges may be high may deter development, even if in practice the charges turn out to be low.

3. Local authorities do not know developer’s actual costs but, instead, have to estimate them and the only available option is an average local development return model plus some local professional advice on the site in question.

4. If local authorities set a high target for uplift capture, they are more likely to deter development by producing ‘too high’ s106 charges for many more marginal sites than if they had set a lower target.

5. Lower targets for development capture may actually produce both more housing supply and a higher aggregate s106, depending on the elasticity of s106 revenue with respect to the rate charged.

6. 100% development uplift capture may sound like a good idea to a financially stretch local authority but their aims are more likely to be achieved at much lower capture rates.

CIL is a positive step forward from s106 in terms of being a flexible approach with greater certainty for the applicant. The standard CIL rate is fixed for the locality prior to when a decision to develop is made, while a developer still has the option to negotiate a discount on grounds of site viability when applying for permission to develop. However, the points about deterring development with excessively high charges still hold.
6.58 However, there is one concern around using a fixed charge per square metre for CIL in that it may alter the pattern of development rather than simply be a charge on the price of land. Higher density developments will pay higher amounts of the levy than lower density ones and the proportionate affect on lower value properties will be greater than on higher value ones. This may deter such developments in favour of the lower tax burden types. When CIL is relatively low, this affect is likely to be small but becomes more important as the levy rate rises. Consequently, in situations of high CIL, it is advisable to include some tapers depending on the type of development in question and government should consider offering advice to local authorities with regard to this.

6.59 Government is currently consulting on the future of s106 after the introduction of CIL. The sum of CIL and s106 should not be such as to deter development from actually taking place. They would also benefit from being cyclically adjusted, although in practice that may be problematic to implement, unless the charges were made conditional on the time of the start and completion of development. At times of crisis, it may also be beneficial to lower or remove s106 and other charges on a temporary basis in order to kick start development.

Conclusions and recommendations

6.60 The chapter has discussed challenges with respect to land supply and the role of planning within them. It has noted a considerable amount of effort by government in these respects. However, concerns remain over the availability of land. Land supply has to be far higher than it has been over the past decade for housebuilding to recover; to meet housebuilding targets and people’s housing aspirations; and to avoid escalating house price rises that worsen affordability and constrain general economic recovery.

6.61 Current initiatives to ensure greater land supply and a faster planning system are to be welcomed. The principal message here is that the measures in relation to land supply need to both recognise the urgency of the issue and the difficulty at present of persuading reluctant local authorities to act. The problem may need to be addressed through funding mechanisms to align local incentives with the wider social benefits of increased housing supply. Given the size of local planning authorities in relation to the wider housing market, benefits from improved housing affordability ‘spillover’ to a much wider geographical area than the authority where the housing is built. Society loses from the absence of housing, and the economy loses in terms of constrained labour mobility, so there is justification for including responsiveness of local housing supply in assessments of central government funding. Therefore,
there should be investigation of a greater range of fiscal options than exists at present to incentivise local authorities against adopting excessive planning restrictions, and reward those providing additional housing.

6.62 Circular 03/2009 provides that costs can be awarded against local authorities. However, consideration should be given to extending the costs regime to enable costs to be claimed beyond those which have been incurred during the appeal process to discourage local councilors from overturning officers’ recommendations, unless there are clear and substantiated grounds.

6.63 Opportunities should be identified for further speeding up the planning and development management processes, beyond current government action. Again, stepping up financial incentives should be considered in these spheres as well as substantial reductions in unnecessary process, excessive consultation and the need for documentation.

6.64 The outline planning permission process would benefit from more encouragement through facilitating reduced information requirements and greater recognition that it was part of a three-stage process of planned, outline permission and reserved matters.

6.65 The wider use of LDOs and design codes should be promoted through housing specific-pilot projects.

6.66 Consideration should be given to the introduction of Residential Planning Zones for areas where substantial development is going to take place, in which planning operates closer in principle to the zoning-style plans used in most continental European countries; with planning and perhaps building consent linked to one permission as long as development conforms to the established rules, regulations and policies.

6.67 Improved regional and national understandings of likely future housing supply could be derived by extended use and publication of aggregate and analysed information from local planning authority Annual Monitoring Reports (AMR) and similarly by monitoring and including in AMRs the determination times for sites (including pre-apps and fulfilment stipulated conditions).

6.68 With regard to CIL, monitoring and advice on its introduction to avoid a bias against higher density development is recommended.

6.69 With respect to the reform of s106, consideration should be given to the use of monetary contributions to maximise value-for-money and to
**avoid the crowding out of private housing.** The use of economic valuation tools can have benefits but they should be introduced with clear identification of the limits of the approach and guidance on what to do with respect to them. The most important responses would be to ensure transparency on relevant assumptions and data; an openness to discuss the issues with planning applicants; the need for sensitivity analyses and a range of potential valuations associated with them; plus advice on how to interpret outputs, including inter-linking them with an understanding of the riskiness of development and market cycles.

6.70 **Switching s106 contributions to CIL type formulae would have benefits.** Maximum estimated takes on combined CIL and s106 should be set to adequately reflect risk in housebuilding and incentivise supply, with 50 per cent of uplift or less a potential guideline.

**SUMMARY OF LAND USE PLANNING RECOMMENDATIONS**

- There should be investigation of a greater range of fiscal options to incentivise local authorities and reward those providing additional housing
- Consideration should be given to extending the costs regime in the appeals process
- Opportunities should be identified for further speeding up the plan-making and development management processes
- The outline planning permission process would benefit from greater encouragement and simplification of requirements
- The wider use of Local Development Orders should be promoted
- More analysis of information from local planning authority Annual Monitoring Reports would improve understanding of likely future housing supply
- Monitoring and advice on the introduction of CIL may be required to avoid a bias against higher density development
- With respect to the reform of s106, use of monetary contributions to maximise value-for-money and avoid crowding out of private housing should be considered
- Maximum estimated takes on combined CIL and s106 should be set to adequately reflect risk in housebuilding and incentivise supply, with 50% of uplift or less a potential guideline.
Chapter 7

Regulations and sustainability

Introduction

7.1 Building regulations are central to all types of building and influence the components and technologies used. Regulations aim to ensure the appropriateness of buildings for their intended uses and that their health and safety aspects are fit for purpose. However, in addition, regulations are introduced to achieve social aims, including increasing the sustainability of new build housing. Two recent policies with this objective have been life-time and zero-carbon homes.

7.2 As well as building regulations, housebuilders have to comply with a range of controls before work can commence on a site (Box 7.1). These are investigated in the Penfold Review and, so, are not considered in any depth here. However, it should be noted that they involve both cost and time for builders.

7.3 Policies relating to zero carbon homes are having a significant and growing impact, and will be a focus of the discussion here. This issue, which was extensively raised in discussions with housebuilders as part of this research, will constitute a major change in building regulations, and is leading to significant changes in building technologies and site practices.

Housebuilders’ views on the progress towards zero carbon homes

7.4 Progress towards zero carbon homes is being made through two distinct policy routes: the Code for Sustainable Homes and Part L of the building regulations (see Box 7.2 for greater explanation of the policy relationships). Progress towards Zero Carbon will be incremental, and so the implications for housebuilding are set to grow. Percentage improvements are stipulated in Part L of the Building Regulations, with a significant increase in 2010 and another planned for 2013. So, the target time for all new housing reaching an energy efficiency standard corresponding to code level 6 (‘zero carbon’ homes) has been set for 2016, which is less than six years away, with substantial stepped increases in regulatory requirements in the interim. Already, new homes are achieving a considerably reduced carbon footprint.

<table>
<thead>
<tr>
<th>Box 7.1: Examples of non-planning consents required before starting on site</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Utilities/Wayleaves prior to starting</strong></td>
</tr>
<tr>
<td>• Disconnection of services prior to demolition (costs can be very large).</td>
</tr>
<tr>
<td>• Consent to divert or erect new infrastructure on third party land.</td>
</tr>
<tr>
<td><strong>Archaeological investigations</strong></td>
</tr>
<tr>
<td>• Have to be agreed with the planning authority and implemented.</td>
</tr>
<tr>
<td><strong>Ecological considerations and Environment agency</strong></td>
</tr>
<tr>
<td>• If protected species of animals/plant life are present it must be managed by planning/other agencies.</td>
</tr>
<tr>
<td>• Floodplains</td>
</tr>
<tr>
<td>• Attenuation</td>
</tr>
<tr>
<td>• Contamination (remediation strategy).</td>
</tr>
<tr>
<td><strong>Building regulations</strong></td>
</tr>
<tr>
<td>• All detailed drawings and engineering and structural drawings need to be worked up to enable a submission to be made for building control.</td>
</tr>
<tr>
<td><strong>NHBC or other warrantee company</strong></td>
</tr>
<tr>
<td>• Full submission of information needs to be in place.</td>
</tr>
<tr>
<td><strong>Secured by Design</strong></td>
</tr>
<tr>
<td>• Needs to be agreed with the SBD officer if affordable units on site.</td>
</tr>
<tr>
<td><strong>Code for Sustainable Homes</strong></td>
</tr>
<tr>
<td>• Energy assessment and ecological reports need to be commissioned if affordable units on site. Once received, drawings and specifications need to be adapted to comply with findings.</td>
</tr>
<tr>
<td><strong>Adoptable Roads and Sewers</strong></td>
</tr>
<tr>
<td>• If roads and sewers are to be adopted the design has to be drawn up and submitted to the relevant authority for approval. Inspection fee has to be paid to the relevant authority.</td>
</tr>
</tbody>
</table>
Box 7.1: Examples of non-planning consents required before starting on site (continued)

Stopping up Notices/Permission to connect into Sewers/Section 278

- If roads or sewers need to connect into existing network off-site, various permits and payments are required. If work needs to be carried out to existing highways, a 278 agreement is required.

Footpath closures/Scaffold licenses/Over sail crane licenses

- If development fronts onto a highway, a footpath closure or scaffold license is required.

Party Wall Agreements/Rights of Light

- If new properties come within 1m of existing properties a party wall agreement is needed.

Network Rail

- If development is close to a railway network, permission to work near the line has to be agreed by Network Rail and an inspection fee paid.

Source: Kier

Box 7.2: The Code for Sustainable Homes (CSH) and building Regulations, Part L

The CSH assesses the sustainability of a home by awarding points in nine design categories. They are:

- Energy and carbon dioxide (including insulation, electric lighting, heating, domestic appliances)
- Materials (responsible sourcing of construction and finishing elements)
- Ecology (protection or enhancement of site habitats, use of the BRE’s Ecological Value Checklist)
- Waste (household recycling facilities, site waste management, composting facilities)
- Pollution (insulators with low global warming potential, low NOx emissions)
- Health (specific room daylight factors, sound insulation, Lifetime Homes)
- Water (internal and external potable water consumption)
- Surface water run-off (rainwater recovery, less surface water run-off, lower flood risk)
- Management (Home User Guide, site information, use of the Considerate Constructors Scheme).
Box 7.2: The Code for Sustainable Homes (CSH) and building Regulations, Part L (continued)

The Achieving Level 1 for energy and water (a 10% improvement over 2006 Building Regulations) must involve investment in higher thermal insulation, improved fabric air permeability, and the use of flow reducing or aerating taps throughout. To rise to Level 3, a home needs to be 25 per cent more energy efficient compared to Part L 2006 and so on until zero carbon is reached.

Part L of Building Regulations is closely related to the energy efficiency aspects of the Code for Sustainable Homes. Unlike the Code, it relates exclusively to energy related sustainability issues. However, its provisions in this respect are virtually identical to those in the Code, although introduced across all new build at a slower pace.

The earlier introduction of stages in the Code is linked to affordable housing funding; housebuilding on certain public land (e.g. owned by the HCA); or planning conditions as set out in PPS1: Delivering Sustainable Development.

The requirement for housing funded through the National Affordable Housing Programme (NAHP) to be built to Level 3 is intended to help build supply chains; reduce costs; and improve understanding of how to build to higher levels of energy efficiency, ahead of mandatory introduction of energy efficiency standards in Part L.

The correspondence between CSH and Part L may be summarised as follows:46

<table>
<thead>
<tr>
<th>Code Level</th>
<th>Current energy standard (Percentage improvement over 2006 Part L)</th>
<th>When equivalent change to regulations is due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10%</td>
<td>2007</td>
</tr>
<tr>
<td>2</td>
<td>18%</td>
<td>2010</td>
</tr>
<tr>
<td>3</td>
<td>25%</td>
<td>2010</td>
</tr>
<tr>
<td>4</td>
<td>44%</td>
<td>2013</td>
</tr>
<tr>
<td>5</td>
<td>100% regulated emissions</td>
<td>2010</td>
</tr>
<tr>
<td>6</td>
<td>zero carbon onsite (100 percent regulated plus appliances - equivalent to approximately 150 percent in total)</td>
<td>2016</td>
</tr>
</tbody>
</table>

It should be noted that, unlike Part L, the Code for Sustainable Homes covers a much broader range of sustainability issues than energy efficiency alone.

46 Source: http://www.communities.gov.uk/thecode
Concerns

7.5 In the survey of builders, there was a range of views from acceptance, enthusiasm, or acquiescence in relation to zero carbon. However, there was broad consensus on a variety of concerns about implementation and the consequences for housebuilding. They related to:

1. Cost

7.6 Progress to zero carbon, through amendments to Part L of the Building Regulations, is expected to significantly raise build costs, although it is hoped that component prices will fall as volumes rise.

2. Limited impact on prices

7.7 Builders interviewed for this research argued that customers are currently not prepared to pay a price premium for the homes at a higher ‘Code Level’, so that it represents a cost to them without an offsetting revenue increase. There have been surveys which suggest consumers are willing-to-pay more for homes with enhanced energy efficiency, but there is little robust evidence of sufficiently higher prices being paid to cover increased build costs.

3. Uncertainty

7.8 Building technologies, the costs of using them, and the durability and maintenance costs of new equipment are all subject to a high degree of uncertainty. Concerns were expressed over the riskiness of some technologies; uncertainty in their viability; the long-term obligations they lock firms into in terms of warranties; and the lack of detail on some future regulations.

4. Consumer resistance to new technologies

7.9 Builders reported that customers often did not use, or replaced, facilities introduced to meet emissions targets and switched to older, less energy-efficient technologies. This mainly related to lighting, sanitary ware and other internal fittings but also to heating systems and other estate-wide facilities. They highlighted the importance of bringing customers on board if policy objectives in this area are to be realised.

5. Extended build times

7.10 The use of innovatory or relatively untested inputs can extend build times, which has a cumulative impact on housing supply delivery times, plus project and market risk (the latter arising partly from consumer resistance).

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Funding difficulties
7.11 Lenders are more wary of providing development finance when projects involve a higher level of technical risk.

Varying practices between local authorities
7.12 As noted earlier in this report, some local authorities choose to move beyond current national requirements in their planning requirements with respect to sustainability issues. They may also impose what some builders saw as idiosyncratic site or design sustainability requirements. The costs and uncertainty that such discretion can generate were seen as significant, and builders would prefer a more standardised and rule-driven system.

A lack of information about how future milestones are expected to be achieved
7.13 Some definitions and technologies are still to be agreed or are in their infancy. The complexity of the technical and organisational changes required is already showing in the significant slippage of a year or more that has occurred in the items already being implemented in the zero carbon homes time line. This can be seen in reports from the Carbon Hub (Figure 7.1). Further slippage is probably inevitable. This generates uncertainties that are important because development has long-time horizons, where investment decisions may have to be made many years before returns are achieved e.g. with respect to land purchase or when participating in a major regeneration scheme.
Impact on viability

7.14 Higher sustainability standards always had the potential to raise building costs, although with the hope that they would be driven down over time with greater volumes, innovation and learning-by-doing. Policies were designed at a time of strong expansion in housebuilding; rising house and land prices; growing, profitable housebuilding firms; and expanding supply chains. Unfortunately, this is no longer the case, and policy makers and the sector did not foresee the crisis that was shortly to befall the housebuilding industry. Now, housebuilding is in much more straightened circumstances: with a substantial loss in capacity and skills; shrunken supply chains; higher market risks; and reduced profit opportunities. These, as this report has argued, threaten a long period of poor housebuilding performance. Thus, increasing new build sustainability poses greater challenges to housebuilders than was originally envisaged.

7.15 A consequence of those greater challenges is that levels of housing investment may be significantly affected, because of the rising costs and continuing uncertainty associated with the move towards zero carbon homes. The economic reasons for this outcome were essentially elaborated in earlier
chapters. Many sites are currently of marginal or negative viability. Any increase in costs or risks worsens further their potential profitability. This could be circumvented by releasing far more viable sites through the planning system but this is unlikely to happen. In consequence, despite apparently high house prices, new build profitability is often insufficiently large to absorb rising costs and risk and housing supply is choked off. It would be unfortunate if that were to happen on environmental grounds.

7.16 Building to energy efficiency requirements above code level 3 creates substantial changes in the way that homes are built and lowers their energy usage. So, if new building is lower than it would otherwise have been, more emphasis would be put on the existing stock, which is widely recognised to be far less environmentally sustainable. The Government introduced in March 2010 its Household Energy Management Strategy, setting out its plans for meeting the target of a reduction of 29 per cent in (non-traded) carbon emissions from the household sector. Yet, new homes will still be more energy efficient, even if that strategy is successful.

7.17 Energy issues associated with housebuilding stretch further. Less new housing would also induce people to commute further in search of suitable accommodation, raising emissions through transport.

7.18 The downturn has changed the environmental and commercial trade-offs implicit in policy decisions in this area. Government has recognised some of these concerns. A need to recognise flexibility in the zero carbon definition in consultation with the sector is now accepted, as highlight in the Pre-Budget Report 2009. There is now a need to provide certainty in terms of a workable zero carbon definition, which should allow the necessary flexibility (e.g. off-site solutions) to maximise cost effectiveness. Close consultation with the sector will need to be a key part of this process.

7.19 Recent announcements by government are to be welcomed with regard to ‘allowable solutions’ with respect to offset payments. There may need to be some further flexibility in allowable solutions, with more scope for off-site mitigation, to permit progress and to enable factors such as scale economies to be realised. Development and finalisation of the Allowable Solutions mechanism needs to be as quick as feasible and clear information given as rapidly as possible, including the timeline.  


The Pre-Budget Report 2009 introduced the establishment a national baseline for regulatory costs to manage and mitigate the cumulative impacts of any new requirements, whilst supporting the zero carbon homes policy. Delay in introducing Life Time Homes was offered as a first step. These announcements are to be welcomed, although implementation will be challenging. Considerable effort will be needed to reduce the uncertainties as well as the costs associated with zero carbon and to secure acceptance by all stakeholders.

Consumers

Builders report they have encountered widespread consumer reluctance to use energy efficient facilities, or even removal of them when people move into their new homes. Builders reported this happening frequently on their new sites and one said that residents had switched off an expensively erected district heating unit and reverted to individual dwelling heating solutions, because they were more flexible and less prone to maintenance issues. How widespread such incidents are is unclear, but such reactions have an especially detrimental energy impact in terms of wasted inputs and subsequent use of less energy efficient alternatives.

There is a need for raising consumer awareness of the environmental benefits, but also a need for greater recognition of consumer preferences, market testing and consumer engagement by government and the industry. This would also help to ensure that consumer preferences are reflected more effectively in the regulations being imposed, and in the homes being built.

Evaluation

The zero carbon homes policy is part of a wider drive to improve the environmental sustainability of the built environment. But it is also a series of innovations and experiments with new ways of living and building. Such changes inevitably necessitate monitoring and evaluation. The Code is updated from time to time and the decision to update the definition of zero carbon comes, in part, from the lessons learnt from experience of the Code to date. Cost estimates of the Code are updated and published regularly and case studies are published. However, the question arises of how easily these experiences can be transposed from government funded housing to a fully market driven sector.

Policies to increase new build sustainability represent a major challenge to the private housebuilding industry. As noted earlier, implementation to date has raised a variety of issues related to costs, innovation, uncertainty, a lack of
co-ordination between tiers of government, technical challenges and risks, and consumer understanding and acceptability. The recession has also affected the programme because far fewer dwellings have been built. As a result, neither the experiences of operating under the new regulations, nor the production volumes, have grown as fast as was originally planned. Crisis hit firms have been less able to plan ahead. Resource bases and supply chains are more limited than they would otherwise have been. Recovery in housebuilding will draw in new, inexperienced personnel at a time when technologies will be changing fast to cope with increasingly demanding energy requirements. Moreover, a barrier to new entrants to the industry may inadvertently be created, particularly for many potential small-scale developers that will have few resources with which to cope.

7.25 A learning-by-doing approach to such innovation would be beneficial but has not been fully adopted to date on the assumption that experience in the publicly-funded sector would be sufficient. Assessments would have to be broad-brushed and responses fast-tracked to be of use, given the current timetable. The sustainability agenda is one that would benefit substantially from periodic reflection and improvement when it is fully introduced into a testing market place.

Innovation

7.26 The movement towards zero carbon homes to a degree raises a fundamental issue within the housebuilding industry: its relatively slow and, typically, path-specific forms of innovation. Innovation does occur quite extensively in a wide variety of areas, including process management, marketing, customer interfaces, finance, project and product mixes, site layouts, internal designs and fittings. All of these are important. Many occur in what can be termed the ‘development’ rather than the direct ‘building’ part of the housebuilding process. It is often not realised that a large portion of non-pure land price build costs are actually associated with site preparation and the many other necessary development, sales and marketing activities undertaken by firms, rather than with respect to superstructure and internal fitting out costs. The latter typically constitute well under half of total attributable dwelling costs.

7.27 Nonetheless, the ways in which houses are constructed still matter considerably and innovation in these areas in England is relatively slow. This has had an effect on progress towards the construction of more energy-efficient housing because this programme pushes the industry towards altering the way in which it has traditionally built homes. Some firms have put in a great deal of effort but others have not. In part, the downturn has not helped because along with cuts elsewhere have gone reductions in R&D budgets. Moreover, less new
build means fewer opportunities to experiment and to innovate. Nonetheless, industry needs to work out mechanisms enabling the timely adoption of key building innovations and mechanisms of co-operation, whilst remaining competitive. Developing the required skills base will clearly be important. Nonetheless, government should not be expected to play a leading role in such activities and, so, no recommendations are offered with respect to government action.

Other building regulations

7.28 Recognition exists that the building control system is not working as efficiently as it could be. The *Future of Building Control Implementation* has made a number of sound recommendations for improvement, relating to the number of times specific regulations can be changed within a given time period, simplicity, clarity, etc.\(^{50}\) There is no purpose to duplicating that effort here.

Conclusion and recommendations

7.29 Policies to increase new build sustainability represent a major challenge to the housebuilding industry. Implementation to date has raised a variety of issues related to costs, uncertainty, a lack of co-ordination between tiers of government, technical challenges and risks, and consumer understanding and acceptability. To a great extent, discussions with builders suggest a willingness to rise to the challenge, but that does not mean to say there are no trade-offs. One fear must be that housing supply will be held back by the costs and uncertainties of the move to zero-carbon homes, as the requirements of Part L of the Building Regulations are increased towards the final objective. This represents further challenges in terms of making sure that the supply of housing is not unduly limited.

7.30 It is recommended that the experience of the increase in energy requirements on private housebuilding be examined as the changes proceed by industry and government and the results publicised. The analysis should be multi-faceted relating to technical processes and costs, supply chains, consumers, affects on house prices, consequences of market cycles, implications for business models and impact on firm entry and diversity. This would be useful from the perspective of learning-by-doing, but also so that adjustments may be made to the programme, as necessary. Such exercises should be undertaken until the zero carbon programme is fully implemented and beyond.

7.31 **The impact on overall housing supply should be monitored and analysed**, so that supply side impacts are better understood. A presupposition that all costs are borne by land values is unlikely to be the case, particularly in the transitional phase and for some years beyond.

7.32 Given the scale of the challenge, every attempt should be made to reduce any unnecessary risks and uncertainties. Slippages in elaboration of the technical details pose a threat to the achievement of targets and puts substantial costs and risks on the private housebuilding industry, because they have to invest considerably ahead of time in land acquisition, planning applications and in the increasingly demanding technologies required to meet rising energy saving targets.

7.33 The housebuilding industry needs to cooperate more closely in dealing with the issues and problems that arise in implementation of the zero carbon homes; to raise its game in relation to innovation; and to concentrate on improving supply chains and liaising with suppliers on key issues.

**SUMMARY OF REGULATIONS AND SUSTAINABILITY RECOMMENDATIONS**

- It is recommended that the experience of the increase in energy requirements on private housebuilding be examined as the changes proceed by industry and government and the results publicised.
- The impact on overall housing supply should be monitored and analysed.
- Every attempt should be made to reduce any unnecessary risks and uncertainties.
Chapter 8

Finance

Introduction

8.1 The impact of the global financial crisis on the housing market has been profound, and it will take some time for a full recovery in the mortgage market. The general impacts on the housing market were explored in Chapter 2. This chapter looks at some specific finance issues that arise with respect to new building.

8.2 The first concerns mortgage finance and the way in which the new regime of tighter credit and mortgage rationing particularly affects new housing. The second relates to development finance, which is used extensively by firms and others, given the long lead times in housebuilding. This latter issue tends to be neglected in debates over finance and housing but it is central to rapid recovery in new build housing supply. Without finance, land development and construction cannot begin.

8.3 The experience of recent loan losses has affected the willingness of banks to lend to housebuilding in general. At present, UK lenders tend to categorise all property and construction together and give it a strongly negative rating. Yet, the performance of housebuilding is clearly different and the housing market has experienced a substantial revival. The prospects for housebuilding have consequently greatly improved over the past year but banks’ risk assessment procedures tend to be backward-looking and based on adaptive expectations. Such a pro-cyclical approach is damaging for housing supply.

8.4 Though policy recommendations are not straightforward in this sphere, a concluding section highlights the potential areas for greater consideration by the relevant actors, without making detailed recommendations for government.

Mortgage finance and new housing

8.5 The sharp reduction in mortgage finance has affected new housing particularly badly for several reasons:
i) Purchaser mixes
New build housing has amongst its customers a higher than average proportion of first-time buyers, the self-employed, and others that either have been rated as higher risk by lenders or have been unable to afford the required equity for purchase because of increases in required loan-to-value ratio requirements.

ii) Loss of mortgage providers
The loss of non-bank lenders has particularly hit new build markets, so that there are now only a few lenders active in them. This particularly affects larger sites as individual lenders are reluctant to extend their exposure to more than a portion of the properties.

iii) New building in urban regeneration areas
Lenders’ risk assessment models may include high weightings against particular localities because of their housing histories (e.g. arrears rates). New build in those localities is then scored badly in assessments, although their purchasers are unrepresentative of the locality itself.

8.6 Due to such effects, housebuilders are likely to be:

- more reluctant to invest in and build out large-scale schemes
- prefer houses and more expensive locations, as they are favoured by existing homeowners who are more able to raise mortgage finance
- avoid inner city areas and projects involving large numbers of flats, apart from areas with continuing high demand from cash-buyers and those able to obtain mortgages. This is rare outside parts of London.

Development finance

8.7 Finance to fund the development and construction stages of housebuilding has been particularly difficult for many builders to obtain since the onset of the financial crisis. In the survey of builders undertaken for this report, many of them highlight development finance as a barrier to recovery and expansion, especially for smaller firms.

8.8 On sites already in operation, the cost of constructing and fitting out the buildings needs funding. With houses, building can be phased on a plot by plot basis closely to market demand, so that external finance requirements are limited and cash generated on sales. But with blocks of flats, building takes longer and quite a number of flats will be ready for market at the same time, creating the risk that not all will sell quickly. So, finance needs are greater and
risks higher with flats. Once development has commenced, builders and their financial backers have a strong incentive to complete the buildings because until sold they represent a drain on cash flow. With regard to starting new buildings, the decision is less urgent and finance commensurately more difficult to obtain.

8.9 In strong markets, developers will generally not start constructing blocks of flats until a proportion of the properties has been sold. Pre-sales only generate a small portion of liquidity in deposits but, as they boost confidence in project success, they can be used to trigger bank loans and enable work to commence. Pre-sales evaporated with the downturn and have only returned in certain locations, so that the normal triggers for development finance are reduced in an era when lenders are reluctant to advance loans. This currently makes it difficult for firms to build in advance of all but near-term market demand.

8.10 With regard to new developments, finance is required some years in advance, with time horizons obviously the longest on larger projects. Finance is needed to fund land purchase, and the costs associated with project conception and planning, land-use planning applications, possible land remediation, site works and firm overheads. Long time horizons raise project risks, particularly in an era of greater market uncertainty. With respect to major long-term schemes, the finance requirements are high but the uncertainty and problems of raising loans are the greatest. This is a particular problem for the medium-term horizon of housing supply, because large sites have a disproportionately large impact on housing output going forward.

8.11 Land purchase has the longest time horizon and most uncertain income-generating time profile. Builders will often buy on option, but land owners will obviously need convincing that full sale will occur on a timely basis. Full purchase costs invariably have to be paid well before work commences on sites (typically when planning permission is achieved), unless some form of partnership arrangement has been agreed with the landowner in which payments are delayed or on the basis of an equity share in the development. Recent policy initiatives, such as the Public Land Initiative (PLI)\textsuperscript{51}, have intervened into the development stage through partnerships, reducing the need for development finance and making schemes more attractive for lenders. In particular, the PLI allows public landowners to take ‘deferred payment’ upon disposal of land for housing development, rather than requiring outright sale.

8.12 An important dimension of the financing of new housing development prior to 2007/8 was the purchase of new homes by investors. They included both buy-to-let investors and buy-to-sell investors. A 2006 study found that investors accounted for almost two thirds of new private home purchases in

\textsuperscript{51} See http://www.homesandcommunities.co.uk/public-land-initiative
London. Investors played a key role in the funding model for new apartment development, providing an element of upfront capital to help cover the high working capital requirements of apartment developments. More importantly, banks insisted on schemes achieving a certain level of pre-sales before they provide tranches of development funding.

8.13 This funding modelling is currently no longer viable in many areas. However, new ones are arising as large-scale investors recognise the opportunities in residential since values have dipped below their boom levels. HM Treasury has issued a consultation document in relation to the private rented sector. HCA is also currently exploring ways to increase the involvement of investment funds in new build for the private rented sector, with a particular emphasis on facilitating institutional investment through the Private Rented Sector Initiative (PRSI), launched in May 2009. However, this initiative by itself even if successful will only replace a portion of previous investor demand in the boom years, which was dominated by BTL investors. Given that couples/individuals own around three quarters of stock in the PRS, with a much smaller proportion accounted for by institutional investors, replacing the shortfall represents a major challenge.

8.14 Furthermore, the relative sizes of individual and institutional investment are now substantially different in the private rented sector, with around three-quarters of tenancies owned by individuals. The decline of the institutional landlord may consequently only be halted rather than reversed if there is revival in institutional interest in the sector.

Financial constraints and firm size

The majors

8.15 Large firms have a greater ability to raise finance than do smaller ones. It is one of the benefits of scale. They can raise equity finance and access capital markets through corporate bonds and other instruments. This ability enabled most of the UK majors to improve their balance sheets during 2009. In the past, they have been able to expand rapidly through rights issues and share-driven mergers and acquisitions.

8.16 In order to raise finance from capital markets, firms have to structure and present themselves in ways that appeal to investors. Transparency, plentiful supplies of information, updates on strategies and regular dividends are

54 http://www.homesandcommunities.co.uk/private_rented_sector_initiative
all important, and there tend to be frequent meetings of senior managers with the investment community. Size almost means that investors are less concerned regarding the prospects for individual development projects because development risk is to be pooled across a large number of sites. Managers may rail against the tyranny of the share price but such pressures generally improve firm efficiency.

8.17 The importance of direct access to capital markets distinguishes UK housebuilders from many in continental Europe where banking arrangements are more relational and credit is supplied to conglomerates of which the major housebuilders are a part on the basis of close long-term relationships with banks. As a result, it is often hard to find housebuilding firms in Europe comparable to those in the UK; whereas they are commonplace in the USA. Where investors go, banks follow. So, the same principles encourage banks to lend to UK large housebuilding firms as well.

8.18 On occasions, the relationship between large housebuilders and the financial community can lose sense of the underlying nature of the housebuilding business in surges of excess. For example, the share prices of the majors in the final years of the housing boom became caught up in merger frenzy (Figure 8.1) to which the competition authorities acquiesced. The major housebuilders, from having relatively low levels of leverage as late as 2005, then borrowed heavily; a classic defensive strategy against acquisition as well as a means to buy competitors and to expand land banks and output organically.

8.19 The outcome was disastrous as firms entered 2007/2008 heavily indebted, with high costs and tumbling sales. It was one of the worst busts on record, leaving most housebuilders in dire financial straits. Without extensive government support for the financial sector, there was a high risk of the demise of several UK major homebuilders.

8.20 The debts of house builders have affected their behaviour during the downswing. All have greatly reduced their loan burdens but at the cost of a considerable loss of capacity. However, leverage still remains high and the housing market recovery may yet prove to be bumpy as further debt repayments become due. The continued high debt burden has some benefits in that lenders need to ensure their previous loans are serviced and, therefore, are less likely to hold back funding for site build out. The majors also need to generate higher levels of income to move into sustained profitability, so there may be some hope that the output of majors will expand faster in the recovery than that of the industry as a whole, as happened after early 1990s downturn.

8.21 However, the majors in the medium-term may continue to be cautious and, so, are likely to be less interested than in the recent past in large-scale projects – because of the long pay-back periods associated with them.

**Figure 8.1: Share Prices of UK Housebuilding Firms (Barratt Developments)**

![Graph showing share prices of UK housebuilding firms from 1994 to 2010.]

Source: Barratt Developments

**Medium and small firms**

8.22 The problems of finance have been much greater for many medium-sized and smaller firms than the majors. Some have been fortunate and been able to secure funding for their businesses. Other small firms and developers have essentially closed up shop until better times to come: not simply in terms of housing market conditions but, more importantly, waiting for when loan markets become more borrower-friendly again. However, such an option is not open to the many firms with on-going overheads, land banks and employees. If they fold, they will not return.

**Shrinking sources of loans**

8.23 Some firms contacted as part of this study reported that their long-term banking relationships were cancelled by their bankers, including well-known high street banks, even though their businesses were still viable. This has put them in some difficulty.

8.24 Part of the problem in relation to the current availability of development finance was that during the boom years the loan market was a major sphere of activity for the non-bank and foreign bank lenders that had aggressively entered the UK market. Consequently, when they quit the market during the financial
crisis, housebuilders were left bereft of sources of funds. This problem parallels that in the mortgage market itself, because alternative sources of funds are inadequate. However, the problem is intensified with regard to development finance, because it is seen as a high risk lending category.

**Rising loan costs**

8.25 Not only has the availability of funding shrunk but also the costs of loans have risen significantly:

- interest rate spreads have grown
- loan set up charges have risen
- loan monitoring has risen, the costs of which are passed onto the borrower.

8.26 Lenders are also writing tougher stipulations into loan contracts. For example, they may require loans to be secured against firm assets, with minimum LTV stipulations. This can effectively freeze firm equity, already much reduced by the crisis, and constrains the ability of firms to mobilise activities in other areas, thereby limiting their flexibility and ability to recover their previous operational levels.

**The slow return to normality**

8.27 All respondents contacted in this research were pessimistic about when finance markets would return to normal conditions, citing expectations of five years or more. Financial constraints could have a devastating impact on housing supply, if they were to last that long, because medium and small firms provide half of private housing supply.

**Small firm funding problems**

8.28 Some of the financing issues currently affecting SMEs in the housebuilding industry are long-term ones. Their own equity is limited and external sources of private equity are hard to find and may compromise independence. Firms find it difficult to access capital markets in other ways, so bank funding is virtually the only option.

8.29 Lenders also face difficulties when lending because small firms lack financial transparency and are not subject to the forensic investigations by equity traders experienced by the majors. A traditional solution was found via local bank managers building up a relationship and knowledge base, but now those are rare.
8.30 To an extent, these features are a general problem for small firms in any industry but they are intensified for housing development. The industry is high risk and small producers particularly so. Small firms are dependent on a few land sites, which lack public information. They face lumpy, volatile cash flows as land is purchased, sites developed and sales made.

Results of a CLG survey of housebuilders

8.31 In parallel with research undertaken as part of this study, CLG conducted in February 2010 an e-survey of housebuilders with respect to finance issues and received replies from around 70 firms. While not fully representative of the sector, responses were received from firms across the whole range of scales. The results supported the evidence that development finance constraints are a substantial barrier to increasing housing supply.

8.32 Brief headline analysis shows a picture of substantial credit constraint. Twenty-six per cent of respondents did not apply for funds in 2009. Virtually all firms when looking for finance approached their main banks but, in addition, 22 per cent approached private investors and 7 per cent of respondents undertook public equity rights issues. Only 11 per cent reported having no difficulty in obtaining loan approval; 36 per cent obtained finance but with some problems or difficulties (e.g. related to loan restrictions or onerous terms); 38 per cent found that their requests were cutback, so that they were offered only a part of the loans they requested; and 16 per cent were completely refused. A substantial 52 per cent of firms expected to have insufficient finance to enable their businesses to expand, as planned, over the next few years. Although planning constraints were highlighted as the biggest barrier by most firms, financing problems were still a binding constraint for many firms, nevertheless.

8.33 The CLG housebuilder finance survey consequently reinforces the findings and arguments made in this report. Finance is a barrier to housebuilding recovery because constraints affect a substantial proportion of firms. Although the recovery is still in its early and uncertain stages, so that full ‘recovery’ evidence remains unavailable, finance for development is probably constraining housebuilding expansion in a way that was not the case in previous post-crash upswings since the 1970s or earlier.

8.34 The input to this research and to the CLG housebuilder finance survey are from housebuilding firms and developers that have survived one of the worst market crashes for decades. As the survivors from over almost three years of highly challenging business conditions, these firms have clearly been severely stress
tested in the most practical way possible. In consequence, most of them can be expected to be relatively sound bets with regard to the threat of future default. Therefore, the risk of lending to them in a period of recovery is low.

8.35 By contrast, the possibility of new entrants to housing development and construction raising finance in the present conditions must be extremely bleak, with the exception of the most financially robust enterprises. If the established, expert housebuilding firms cannot raise sufficient funds, what hope is there for new entrants? Yet, new entrants are the lifeblood of both housing supply and competition. Small producers and non-specialist ones build over half of housing output in normal market conditions. Amongst them, there will be many new entrants. It is difficult to find adequate evidence on potential new entrants by nature of the fact that most will be deterred by the actual or expected rejection of loan applications. But if they cannot find finance, a key flow of new housing supply dries up.

Market responses

8.36 Problems tend to generate market responses and the issues just discussed are no exception. One route is for broader based construction enterprises to enter housebuilding, utilising their own financial muscle and cash flows to fund housebuilding operations. This business model is already quite common and firms that adopt it may find their market positions strengthening.

8.37 For example, there are a number of small to medium-sized contractors with sizeable housing divisions, which operate in both the private and social housebuilding markets. Often they are in family ownership or have large, long-term shareholders. This firm form provides benefits in that residential development activities can be closely monitored in such ownership frameworks, which overcomes the lack of transparency issues raised above.

8.38 The contract-house builder conglomerate was common amongst the largest firms in a previous era of credit constraint from the 1950s to the 1980s. However, in the 1980s and 1990s the large contractor-house builders tended to demerge into independent entities as credit markets loosened, financial markets became more sophisticated and easy public sector contracts faded. Generally, they found that their shares were underpriced in the new circumstances. This was due to the lack of transparency that arises in multi-function construction businesses; a limited ability of senior managements to control divisions operating in distinct lines of business; and fears about the risk of contagion from one part of the business to others. Now that credit conditions have tightened this contractor-housebuilding business model may once again flourish more actively. But it should be noted that if this does happen it is because of a
revived market failure associated with excessive credit constraints. The history of earlier construction conglomerates highlights the limitations of this model.

8.39 There has also been a growth of a new breed of investor land developers in recent years in which firms and funds are floated with the aim of buying up potential development land sites, putting them through the planning system, and then selling them on to house builders. This business model may offer benefits, if such enterprises and funds are more able to access investors than house builders are directly. House builders then gain from having ‘oven ready’ sites, without the costs and risks associated with the development pipeline.

8.40 Whether investment funds will take up the shares and investment opportunities offered by those building up this business model, so that it grows in significance, remains to be seen. At present, such firms say that they aim to target the larger house builders but the model may offer greater benefits to capital constrained medium and smaller firms. It would also bring the UK housing supply market more into line with that in the USA and Australia. However, as was noted in Chapter 3, this type of approach works best in a context of relatively good land supply.

Conclusions and recommendations

8.41 Financial constraints are affecting many parts of the economy at present. However, they are particularly troublesome in housing because of the long-term and capital intense nature of the investments made by buyers and suppliers.

8.42 The constraints on mortgage finance have hit the borrowers that typically buy new housing worse than those in the market for existing housing. This is because of the profile of new buyers: with a greater preponderance of first-time buyers and investors. In addition, lenders are reluctant to lend to properties on large new developments and in quite a number of regeneration areas where house prices and local average credit scores may be weak.

8.43 Housebuilding has been badly hit by the risk assessments made by banks and through the loss of so many financial institutions that used to provide finance. Small and medium-sized builders are particularly constrained, which means they do not have the finance to rebuild their businesses. It is also impossible for new entrants and most occasional developers in housebuilding to raise finance for new developments. This has important implications for housing supply because around half of all new housing is provided by such enterprises. Sustained recovery in housebuilding will not take place until smaller and medium enterprises can freely operate again.
8.44 There is a need to reinforce the dialogue between house builders and financial institutions. This would increase the financial sector’s awareness of the characteristics and risk profile of the UK housebuilding sector. Improved information sharing information could help overcome some of the issues raised by this study. But, in general, financial markets are competitive and current caution to some extent reflects an insufficient aversion to risk before the onset of the financial crisis.

8.45 There are two key issues requiring attention: improved mortgage lending to new build and wider sources of development finance.

**Getting mortgage lending to new build right**

8.46 The industry should work with lenders to provide better information on the profiles of purchasers of their properties and improvements in lender understandings of the viability of the developments they create. Developers will have already done much research on the projects and localities where they build and could share this with lenders, on a confidential basis if necessary.

8.47 Mortgage market reforms currently under consideration by HM Treasury and the Financial Services Authority rightly seek a more sustainable mortgage market, avoiding short run speculative excesses that may damage longer term investment. While this report does not seek to produce detailed recommendations around mortgage finance, it is worthwhile to recognise the need to:

a. encourage lenders to ensure they have a proportionate response to new build risk, with a ‘fine-tuning’ of loan assessments

b. monitor flows of mortgage finance to new build, and assess the impacts over time

c. discourage the development of ‘red-lining’ practices, whereby lenders exclude all lending in specific postcode areas, which is particularly damaging to regeneration.
**Improving the flow of development finance**

8.48 There is a need to facilitate greater dialogue between the housebuilding and financial sectors, in particular to:

a. explore ways to improve the banking sector’s relationship with medium and small builders and developers

b. consider opportunities for alternative sources of development finance e.g. clearing houses for private equity; securitisation of development loans; loan default insurance; and potential selective government loan funds and guarantees

c. improve monitoring by identifying lending to the housebuilding industry separately from commercial real estate and construction

d. inform smaller builders more widely about current government finance initiatives with respect to finance for small- and medium-sized enterprises.
Chapter 9

Land assembly and site servicing

Introduction

9.1 Site assembly and the provision of on-site services such as roads and footpaths, public transport links and linking the site to existing services (water, gas, electricity, and telephone) are key stages in the housing development process. However, feedback from the industry and research indicate that these stages raise significant concerns with regard to housing delivery. For example, if vehicular access cannot be guaranteed, a site will not be used for residential accommodation and there may be other problematic issues affecting the property rights of adjacent landowners. In terms of utility connections, utilities are generally required to provide a universal service but the relationship between utility providers and builders is often a troubled one.

9.2 These themes are dealt with in turn in this chapter. They have interlinked aspects because utility and transport providers may be adjacent landowners to a new development and have potentially affected property rights (e.g. in relation to rights of way) that may hold-up or raise the cost of development.

Land assembly concerns

9.3 Land can only be utilised for housebuilding if access is possible and negotiation with adjacent landowners is successful. There may be ‘ransom’ strips, where owners of small pieces of land necessary to a development hold out for a significant portion of the uplift in development value. Typically, problems with such issues are greatest with larger developments; although even small ones can be held up or made impossible through access difficulties or disputed property rights.

9.4 In the main, ransom strip issues are regarded as a matter of negotiation between private entities and, as such, not the role of government or arbitration. Precedent for this was confirmed in 1961 in case law by Stokes versus Cambridge.56 In practice, ransom strip owners will be interested in coming to terms with those wanting to develop or they will fail to achieve a return for

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56 The price agreed, but then tested in the courts, for a small piece of ‘ransom’ land was substantial and equivalent to a third of all of that project’s development value uplift.
their land, but they may calculate that holding out, possibly for years, is their preferred option to selling now, especially as the trend of land prices is sharply upwards in England.

9.5 Planning procedures may exacerbate the existence of ransom strip practices. Development plans and related land availability assessments designate where development will occur and, so, in certain circumstances, may encourage hold-out behaviour. There may also be more site specific factors. They could occur, for example, if off-site provision needs to be made for some community facility as part of a s106 agreement and a ransom demand is made for that land, or if the planning authority stipulates some other requirement with respect to a site that triggers such a ransom situation with an adjacent landowner or someone with affected property rights.

9.6 A problem of timing can also arise with respect to planning procedures. Often, it is only worth developers entering into negotiation with adjacent landowners if they are sure of winning planning permission for the development that they want to build on a site. As a result, builders interviewed in the survey reported that it could take a year or more to negotiate full land rights following the winning of outline permission. In practice, most builders would avoid such situations, leaving potential residential sites out of the land supply chain altogether.

9.7 The extent of ransom demands depends on the scale of land shortages, because in plentiful land supply situations developers have alternative sources of supply. But many parts of England face a situation of acute and growing land shortages. More opportunities will arise and the rewards will be greater as housing demand, house prices and land values grow over time, as they are predicted to do so. Thus, ransom strips may act as an increasing barrier to housing supply, either because they push the remaining share of the development value uplift below what is acceptable for other landowners and viable for a builder or, more importantly, strip holders hold out for long-periods of time, effectively freezing out building on affected sites.

9.8 Housebuilders in the survey related to this research suggested that some of the most difficult land owners to deal with were the utilities, some local authorities and Network Rail. This is partly for institutional reasons. Land issues are not at the forefront of these agencies’ activities because they mainly deal with customers in the existing building stock – of which new build represents less than 1% each year – and, so, it may be difficult to strike agreements, because no-one has clear authority or prioritises it in busy agendas. But it may also be because some are adept at ransom strip practices.
9.9 Currently, the law gives local authorities powers to compulsorily purchase buildings or land that are privately owned for improvement or redevelopment for the benefit of an area. These powers are used in the context of regeneration areas, though sparingly.  

9.10 The area of negotiation over land acquisition and setting a price for land rights is a difficult one, as extensive case law demonstrates. How much such practices actually affect the location, volume and timing of housing development is unknown, because there is little public evidence on transaction processes within residential land markets. However, there is a risk that property rights and ransom strip issues are quite significant and the expectation is that they will grow in importance as land prices continue to rise on a trend basis, as argued above. As a result, it is recommended that this issue is investigated in greater depth, considering whether current practice should be altered, whether compulsory purchase should be extended on planning grounds, and advising local planning authorities of the importance of recognising such land-ownership issues in their planning practices, if they do not already do so.

9.11 The utilities and Network Rail are regulated entities. It is recommended that within the scope of their regulation the need to avoid unduly hold-up housing supply through land disputes should be recognised. Reluctance by utilities and rail enterprises to release brownfield land for redevelopment has been a theme of research for many years. These bodies are with good reason favourably treated in terms of reduced impediments to land acquisition and planning requirements for their principal business activities. However, there are also social benefits to ensuring land for housing development is not unduly held back.

9.12 It may also in some cases be paradoxical for local authorities to have duties both with respect to housing supply in their localities and, at the same time, requirements to obtain best value from land sales, because the two obligations may come into contradiction in land hold-up situations.

The provision of infrastructure

9.13 The provision of infrastructure varies in its scale depending on the size of the development. All sites require connections for gas, electricity, water, sewage and telephones. Larger ones may need a combination of new roads; improvements to existing road networks; larger infrastructure facilities, such as sewerage works and electricity sub-stations; land provided as a condition of planning

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57 By way of illustration, examples of designated CPO areas for the City of Liverpool can be found at http://www.liverpool.gov.uk/Environment/Planning/Compulsory_purchase_orders/CPO_maps/index.asp

approval for green space and other uses; plus a need for extra schools, health facilities and other local services. Table 8.1 lists a range of infrastructure facilities and the types of provider involved.

| Table 9.1: Potential additional infrastructure required for new housing development |
| Networks | Transport | Roads, footpaths, cycle routes | Public |
|          |           | Bus and rail                  | Mixed  |
| Utilities | Gas       | Private                       |
|          | Electricity | Private                      |
|          | Telecoms   | Private                       |
|          | Water      | Private                       |
|          | Drainage   | Private                       |
| Services | Education | Schools                       | Public |
|          | Further    | Public                        |
|          | Nursery    | Mixed                         |
|          | Health     | Primary care                  | Mostly public |
|          | Hospitals  | Public                        |
|          | Ambulance  | Public                        |
|          | Public safety | Police                       | Public |
|          | Fire       | Public                        |
|          | Transport  | Public transport              | Mixed  |
|          | Community heating |                  |
| Facilities | Green     | Public spaces                 | Mostly public |
|          | Recreation | Mixed                         |
|          | Other services | Flood defense              | Public |
|          | Culture    | Mixed                         |

Source: adapted from the Calcutt Review

9.15 If the builder has constructed some of this infrastructure directly, such as roads on site, the completed facilities will need to be handed over to the final providers of the services. The providers could be either utilities, local authorities, or some other agency. Such handovers have to go smoothly or they could add to site costs and risks and, thereby, add to the threats to development viability.
9.16 There are two broad aspects to infrastructure provision with respect to housing development. The first concerns the general impact of infrastructure on the residential development potential of land: as determined by the current level of infrastructure provision in a locality; the timing of new investment; and the ways in which decisions are made. These issues have been extensively covered in the Callcutt Review and, more recently, in a survey undertaken for the National Housing and Planning Advisory Unit.\(^59\) They both argue that although the roles were undoubtedly important, most issues in relation to ‘big-picture’ infrastructure provision are ideally dealt with at the local development plan formulation level. Moreover, infrastructure provision has to be put in the context of the long planning horizons utilities face for their major works and the high investment costs associated with them, which required prioritisation and rationing of scarce resources.

9.17 However, neither of these two studies investigated the second aspect, namely, the ‘coal-face’ relationships between infrastructure providers and housing developments. These exist once housing projects have received outline or detailed approval (in which the large-scale infrastructure issues would have been material considerations) and building work starts.

9.18 The concern at site level relates to the provision of connections and other utility-related works and their impact on building out projects in the most efficacious and cost-minimising manner. In this respect, builders identify a variety of problematic issues; ones that damage profitability and, hence, project viability. Improving them may offer significant benefits to housing delivery.

9.19 With respect to local authorities, highways departments were singled out for particular criticism. Of greatest importance to the housebuilders surveyed were general problems with respect to local authority adoption, especially those with respect to highways. They said practices varied across local authorities, which could create difficulties. Some highways departments would specify distinct road requirements, and even reject hi-tech (often for the purpose of increased sustainability) variants when offered to them. This may inhibit both standardisation and innovation, despite the publication of the Government’s Manual for Streets, which sets out clear guidance for the design of residential streets.\(^60\) There were also said to be frequent problems with delayed adoption, so that builders were obliged to continue taking responsibility for roads and their maintenance well after their obligations should have ended. Formal agreements with redress for delay would seem to be an advisable and simple means of creating the appropriate incentives in this field.

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\(^{60}\) Manual for Streets, Department for Transport (2007)
9.20 However, although local authorities created difficulties, the infrastructure areas housebuilders were most unhappy with related to their relationships with utility providers. There was a great deal of concern over:

- the charges imposed by utilities
- the limited ability to negotiate over such costs, or over the actions utilities required of developers, or of the site procedures utilities would undertake themselves
- the requirement for all funds to be paid up front, even for large developments that would take some years to build out
- the failure of utilities to stick to agreed work schedules on-site, causing delay and disrupting production flows
- poor communication
- a general inability to gain recompense for costs incurred through the failure of utilities to conform to agreements
- overall, the generally poor ‘take-it-or-leave it’ quality of the service given by utilities.

9.21 There was a feeling that new build suffered from not being a core part of utilities’ businesses, which mainly relate, on the consumer side, to households that live in the existing housing stock. There was also a general sense of having to deal with inflexible ‘monopolies’, with little opportunity in practice to go to another provider. The needs of housebuilding were felt to be rather neglected by both the utilities themselves and by their regulators.

9.22 Utilities were also argued to have an incentive to over-specify requirements that builders have little power to dispute. Builders would like to see greater clarity and predictability in charging and a chance to seek redress when utilities fail to keep to agreements, beyond those currently in place.

9.23 In cases where the developer has to provide infrastructure and hand it over to a utility, there was a concern about fair-value; as typically there was no recompense for what could be expensive equipment. Discomfort with this arrangement was greatest in situations where the equipment would provide wider benefit to the utility provider than those related to the direct needs of development itself.
9.24 There is other evidence on utility problems. The National Federation of Builders (NFB) produces a survey every other year of the experience of building contractors seeking new connections for electricity, gas or water. Its members cited gaining connections as one of the most serious operational problems they face. Eighty-eight per cent of sites experienced problems, according to the 2008 survey. The report recommended:

- single points of contact for builders at the utilities
- binding standards set by regulators, with penalties for underperformance, rather than the current voluntary arrangements
- deposits on connections rather than full up-front costs and better breakdowns of costs
- greater awareness of competition and supplier alternatives, although the industry itself needs to play a role in becoming better informed.

9.25 In discussions, as part of this research, the NFB suggested that five issues were of particular importance in relation to new connections services provided by utilities:

- cost
- payment and construction terms
- companies are penalised for over-running but receive no compensation if utilities companies fail to meet deadlines
- lack of coordination, especially with sub-contractors e.g. those coming to sites have no knowledge, plans or designs of the project in question
- no single point of contact provided to builders.

9.26 There were some signs of improvement in relation to water. For example, OFWAT is trying to improve matters and Severn Trent Water now has regular round table meetings with a wide variety of industry (building, planning and utilities) representatives to discuss an overview of up and coming projects. They are able to highlight potential delays caused by work set for conflicting dates and where possible try to work towards rescheduling projects in order to reduce delays. However, the general feeling echoed that of the builders with whom discussions were held in this study that many serious problems remain that can only be resolved by regulators adopting stronger approaches.

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Conclusions and recommendations

Land acquisition

9.27 Land acquisition raises some challenging issues around property rights and the ability of individual land owners to hold up development in order to profit by doing so. The principle that landowners’ property rights are not absolute underpins the very existence of land-use planning in Britain. Moreover, compulsory purchase has been used in specific contexts by local authorities for many years. The public sector and the utilities are major owners of potential residential land and can be considered as having obligations towards residential land provision.

9.28 Unfortunately, not much is known about the operation of the context of land acquisition but there is a growing risk that property rights and ransom strip issues could slow housing delivery and force development onto less ideal sites and locations. In consequence, it recommended that this issue is examined in greater depth in a strategic way to:

- **Consider whether current practice should be altered to constrain the impact of ransom strip behaviour in key developments** and whether compulsory purchase should be used more extensively on planning grounds to deal with ransom strip cases, when reasonable agreement cannot be reached between the parties. Case law is currently based on a situation that is fifty years old and may not meet modern requirements or expectations.

- **Limit potential ransom strip and other constraining behaviour amongst utility and transport providers.** The utilities and Network Rail are regulated entities and have special privileges over land development on grounds of public interest, so a reciprocal requirement in relation to their behaviour towards much needed housing supply would not seem out of place.

- **Consider the conflict local authorities face in the current climate between bringing forward housing supply in their localities and requirements to obtain best value from land disposals.**

- **Advise local planning authorities of the importance of recognising landownership issues** in their planning practices and land availability assessments, if they do not already do so.
Utilities

9.29 Utility providers are key players in housing delivery, yet feedback from builders is that their relationship is problematic. It is therefore recommended that Government works with the regulators to:

- **Encourage a better service offer by utilities** by asking relevant regulators to introduce improved compulsory codes of conduct, allied with effective monitoring and enforcement.
- **Widen the conditions under which builders can claim damages** for poor utility service and provide a light touch means of recompense.
- **Support and promote improved adoption by local authorities of facilities** and encourage greater flexibility in their requirements.
- **Undertake a strategic review of infrastructure connections and new residential sites** in association with builders and utility providers.

### SUMMARY OF LAND ACQUISITION AND UTILITIES RECOMMENDATIONS

#### LAND ACQUISITION

- consider whether current practice should be altered to constrain the impact of ransom strip behaviour in key developments
- limit potential ransom strip and other constraining behaviour amongst utility and transport providers
- consider the conflict local authorities face in the current climate between bringing forward housing supply in their localities and requirements to obtain best value from land disposals
- advise local planning authorities of the importance of recognising land-ownership issues in their planning practices and land availability studies.

#### UTILITIES

- support and promote improved adoption by local authorities of facilities
- encourage a better service offer by utilities with respect to site connections
- widen the conditions under which builders can claim damages for poor utility service
- undertake a strategic review of infrastructure connections and new residential sites.