

Headaches for Housebuilders

Bear: Blimey Bull, you look dreadful.

Bull: I feel dreadful! I've been trying to adjust my body clock in preparation for Super Bowl LVIII tonight. And it's fair to say that it has not worked! I'm absolutely shattered!

Bear: That serves you right. I just don't get Super Bowl-mania whatsoever. Why would you want to stay up all night to watch four hours of TV commercials punctuated by a sport that you don't even understand?

Bull: Well, I'm not going to be the only one staying up. A poll this week suggested that almost 13 million Brits will be watching it. That's a big increase on previous years by all accounts.

Bear: I bet that rise is largely attributed to Taylor Swift and her attendance to support her boyfriend who is playing for the Kansas City Chiefs.

Bull: Swifties are taking over the world, Bear! According to trade publication Pollstar, if Taylor was a country, she would be the 199th largest economy on earth!

Bear: And it sounds like you are a fan too, Bear, given how excited you appear to be!



Bull: Whatever. Anyway, I haven't got out of bed to talk about 'Swifties' or the 'Taylor-effect'. Our readership is expecting to be educated on something property-related. What have you got in mind for us?

Bear: Housebuilding.

Bull: Housebuilding? That's a rather broad and uninspiring topic, isn't it?

Bear: Far from it, Bull. There has been a huge amount of news this week. In no particular order:

- Halifax announced that UK house price rises in January 2024 were the highest for a year.
- Knight Frank released their Residential Development Land Index. According to their survey, 70% of housebuilders now favour a Labour Government. Apparently, the existing Government's concessions to NIMBY and anti-development MPs, and the rapid turnover of housing ministers (there have been 15 since 2010), have alienated the industry.
- CBRE released their UK Residential Investment Report which showed residential investment totalled £3.4bn in Q4 2023, up 56% from the previous quarter, and accounted for almost a third of total UK real estate investment.
- CBRE held their UK Multifamily Index webinar on Wednesday morning. It seems that rental values rose by 9.50% and capital values fell by 2.20% in the year to September 2023
- On Wednesday, it was announced that the UK's biggest housebuilder, Barratt, had struck a deal to buy Redrow for more than £2.5bn.

Bull: Stop, stop! That's way too much information to digest so quickly. We'll be here all day if we try and cover all that.

Bear: I wasn't proposing that we discuss it all. I was simply demonstrating that I've been keeping on top of all things residential this week.

Bull: Showing off, in other words. Anyway, it's great to hear some positive noises after a difficult year or so for the housing sector.

Bear: Indeed. But the challenges are far from over. In fact, I reckon that the announcement by Barratt and Redrow is further evidence of that.

Bull: How come? The announcement stated it was a compelling opportunity to do lots of virtuous things, like increase the supply of new homes in the UK and give customers greater choice. What's wrong with that?

Bear: Nothing, but the deal announcement also comes at a time when house builders are still grappling with the biggest housing downturn since the Global Financial Crisis. Both Barratt and Redrow have reported sharp declines in output, revenue and profits of late. Estimates also suggest that the merger will generate cost savings of about £90m a year in three years' time. This looks more like a defensive move than an aggressive one, if you ask me.

Bull: I can see your thinking, but from what I've read, the numbers stack up for Barratt. The acquisition will yield them 24,500 new plots to add to its existing 68,000 plots. In the open market, it might have taken them 18 months to acquire such a pipeline. I can understand why they see the merits of paying for such a job lot, especially when it also spreads the risks of getting sites through a sticky planning system.



Bear: Fair enough. But the acid test is whether the merger will really increase the delivery of new homes. Their promises on that front were pretty loose. Something along the line of there will be "a capacity to accelerate" to more than 22,000 homes a year "in the medium term".

Bull: You would like to think a bigger beast means more houses being built. England added 234,450 net new homes last year, according to official statistics, of which 212,750 were new-builds. The Government's target used to be 300,000 per year, remember?

Bear: How could I forget? And the data suggests supply is set to fall further this year as well. I know I harp on about it, but the UK population is set to grow by 10 million over the next 20 years or so. Building only 200,000 homes a year simply won't cut it. We have to find a way to build more homes, and much quicker too.

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Source: Conservative Manifesto (2019), Bramley (2018), DLUHC, ONS

Bull: What I'm also concerned about is the impact this consolidation will have on SME housebuilders, including the likes of Sky-House and Fenwood Estates that St Bride's finance through their White Rose Residential Partnership.

Bear: Further consolidation by the big boys hardly offers them much encouragement, does it?

Bull: You wouldn't have thought so. The challenges they face now are considerable and they seem to be ever-growing. There is clearly a new super league developing in the sector.

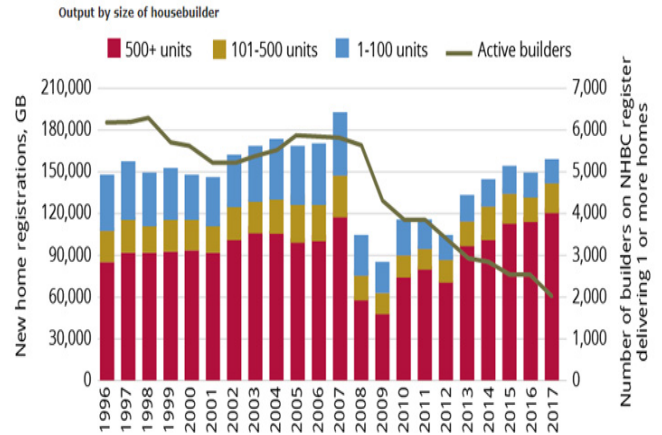


Bear: I can't recall of an SME housebuilder growing into a larger housebuilder over the past 30 years. This clearly indicates something is broken. And, I assume when you talk about challenges, you are referring to the report by Lichfields that you shared with me titled 'Small builders, big burdens'?

Bull: Yes. Some of the findings in there were stark, weren't they? For example:

- SME builders built 40% of all homes back in 1988. It was just 10% in 2020.
- The time taken to achieve an outline permission has increased fourfold from around 13-14 weeks in the early 1990s to the best part of a year in 2023.
- The associated costs of obtaining a planning consent have also risen. The broad costs were £12,000 in 1990 (or £28,000 in 2023 prices). Today it costs around £125,000 in consultant fees just to establish the principle of development, alongside a 72% increase in planning fees.
- The politicisation, and associated risk associated with achieving planning permissions has also increased, exacerbated by a lack of public sector capacity.

Bear: The result of all this for SME developers is draining. Securing outline permission is slower, less predictable and is more akin to what is necessary to achieve a detailed planning permission.



Source: Savills and LDS. A review of the availability of development sites for SME housebuilders in England and Wales (2021): <https://ldyoursite.com/savills-sme-housebuilders-report-demonstrates-huge-potential> [accessed 16 December 2021]



Bull: Indeed. And the impact of these extra costs disproportionately affects SMEs. The higher costs create barriers to entry and any delays or unexpected decisions can be hugely damaging. The report, though, wasn't all about bashing the status quo.

Bear: Was it not?

Bull: Nope. It also included several ideas:

- Outline planning needs to return to being genuinely outline, rather than only a small nudge below a full planning permission.
- Local Planning Authorities need to allocate more land suitable for development by SME housebuilders.
- Tackling the resourcing crisis in LPA planning teams is essential.
- LPAs should work with consultees and committee members to ensure that expectations for outline applications are understood.

Bear: Those are four highly sensible recommendations. Do I have any great faith that they will be implemented? Nope!

Bull: Sadly, I agree with you. But if that is the case, that doesn't bode well for a vibrant independent SME developer sector, does it?

Bear: Probably not. And that will only add to the mounting frustration and a growing demand for practical solutions.

Bull: Absolutely. It's hardly rocket science to suggest that the loss of SMEs has affected the industry's ability to meet its housebuilding targets. The evidence is already there. The Home Builders Federation calculated that returning to the number of home builders operational in 2007 could help boost housing supply by 25,000 homes per year.

Bear: Let's just hope then that Rishi (or Kier) read these reports! Shall we call it a day? You probably need to head back to bed if you want to stand any chance of staying up for the Super Bowl tonight.

Bull: Good call. Night, night!