

STATE OF PLAY ▶

Challenges and opportunities facing
SME home builders

2023-24

FOURTH EDITION

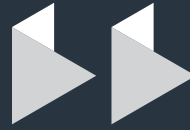


Travis Perkins



Close Brothers
Property Finance





With all the economic uncertainty and higher mortgage rates plus a government that seems to be pursuing a more anti-development agenda, the situation for SMEs is bleaker than ever.

Stewart Baseley



Only by prioritising construction and the provision of much-needed homes to solve the housing crisis, can our economy begin to grow again properly.

Rowland Thomas



One positive from the last year is that supply chain constraints have largely eased, something that is reflected in the survey.

James MacKenzie

FOREWORD



STEWART BASELEY

EXECUTIVE CHAIRMAN, HOME BUILDERS FEDERATION

This is the fourth iteration of this report exploring the issues for small and medium sized home builders. Each time we publish a new one it seems that new barriers for SMEs crop up, while many of the existing ones are getting progressively worse.

There is no doubt that the outlook is getting increasingly tougher. While the home building industry in its entirety has faced numerous challenges in recent years, it has been particularly tough for SME developers. And now, with all the economic uncertainty and higher mortgage rates plus a government that seems to be pursuing a more anti-development agenda, the situation for SMEs is bleaker than ever.

Planning remains the number one barrier, as it has done in each edition of State of Play. On top of the long-term under-resourcing of local authorities which causes significant delays, the debate around planning has become increasingly political over the last year, and policy uncertainty is causing further delays where local authorities are withdrawing or pausing local plan consultations.

The result is that the industry is now seeing constraints on both the supply and the demand side, with SMEs suffering from the impact of this perfect storm the most.

But, with a General Election looming, and housing rising up the list of voters' priorities, these issues cannot be ignored any longer by Westminster. Only when SMEs do well can the housing supply we need be delivered, but as this report demonstrates, a large range of changes are necessary to support these businesses. I hope that the findings and recommendations of this report will provide some food for thought for all the political parties as we enter this period of manifesto formation.





ROWLAND THOMAS

MANAGING DIRECTOR,
CLOSE BROTHERS PROPERTY
FINANCE

This report, now in its fourth iteration, remains the most compelling and conclusive overview of the SME house building sector in the UK. The fact we have seen a record number of responses this year is testament to how deeply the issues that it highlights resonate with the respondents. We, at Close Brothers Property Finance, are proud to have played a part in its creation, as the role played by SME house builders and their considerable contribution to local communities and supply chains, are frequently overlooked.

Sadly, many of the problems experienced by the sector have been exacerbated in the past year due in part to monetary tightening. The long-awaited drop off in inflation notwithstanding it is clear that interest rates are unlikely to fall dramatically anytime soon and the market has had to adjust to the prospect of higher for longer rates.

Planning remains the most significant barrier to growth and development for the fourth consecutive year. SME house builders are particularly exposed to delays caused by under-resourced local authorities and the inefficient, imbedded processes as they often don't have the time or funds to navigate the system. If they aren't building, they aren't earning.

With a General Election on the horizon and development slowing markedly, housing has been propelled to the top of the political and public agenda. Only by prioritising construction and the provision of much-needed homes to solve the housing crisis, can our economy begin to grow again properly.

Innovation is key to helping SMEs navigate these challenging times and grow their business and it is also imperative to see new housebuilders entering the sector. This is why empowering the next generation of developers is so important. Through our Tomorrow's Developer initiative, Close Brothers Property Finance has established a growing network of young property professionals who have the scope and potential to be the most innovative and progressive in the industry. By helping them to overcome barriers to entry we can play our part in enabling them to deliver homes and stimulate economic growth.

SMEs form an essential part of the UK's house building sector and our regional economy. Until the issues outlined in this report are properly addressed, output will continue to drop, and we will fall further behind on delivery targets, exacerbating the housing crisis. We hope that by continuing to shine a spotlight on these issues and working in partnership with leading organisations such as Travis Perkins and the Home Builders Federation, we will finally be able to move the dial and get Britain building again.



JAMES MACKENZIE

MANAGING DIRECTOR,
TRAVIS PERKINS

This report provides an invaluable insight into the issues that SME homebuilders face, between abandoned new housing targets, ongoing skills shortages and high borrowing costs. Travis Perkins is proud to partner with the HBF and Close Brothers Property Finance to shine a spotlight on these challenges and in doing so, help the sector overcome them.

Too often the contribution that SME homebuilders make to our economy is overlooked, as is their role in helping to deliver high quality homes that are tailored to the need of local communities

One positive from the last year is that supply chain constraints have largely eased, something that is reflected in the survey, with 42% of SME homebuilders citing 'Supply and cost of materials' as a major barrier to growth, down considerably from 79% in the previous iteration of the report.

We at Travis Perkins have long been proud supporters of SME home builders and have established strong relationships with our clients, many of these spanning decades.

A key objective of ours as a materials supply partner is to deliver best-in-class products and bespoke services to meet the needs of our customers. This can help to ensure that SME home builders not only survive the current difficult market conditions, but go on to thrive as they deliver quality homes and tackle Britain's housing shortage.

Introduction

This 2023 - 2024 edition of State of Play, conducted jointly by the Home Builders Federation (HBF), Close Brothers Property Finance and Travis Perkins, marks the fourth iteration of the survey and report that was first launched in 2020 at the height of the Covid-19 pandemic.

Much has changed since then and for SMEs, it has unfortunately only been for the worse. From nutrient neutrality and planning delays to economic uncertainty and rising costs, it has arguably never been harder to be an SME developer.

The following report explores these challenges, and the many other barriers facing smaller developers in more detail. With a General Election on the horizon, the report also identifies some of the key areas the next Government needs to focus on if we are to ensure SMEs are empowered not only to survive, but to thrive.

Achieving this is vital not just for increasing housing supply but for diversifying the housing market, fostering economic growth, and supporting local communities.



METHODOLOGY

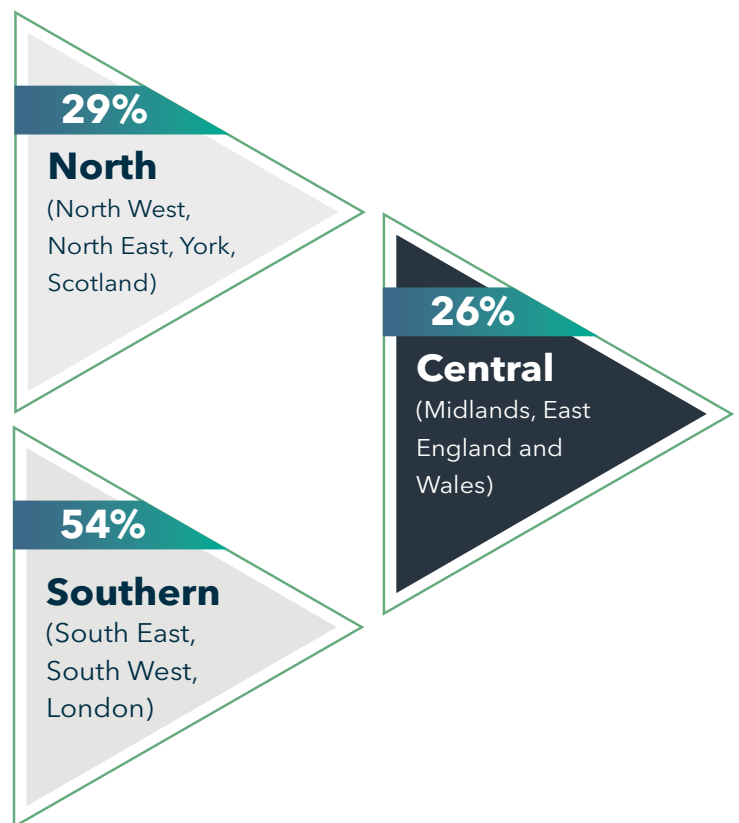
To inform the report, we compiled a comprehensive online questionnaire which was circulated among senior representatives of SME home building companies, all of whom are members of HBF, or clients of Travis Perkins or Close Brothers Property Finance.

Combining a mix of quantitative and qualitative questions, the survey received 305 responses and achieved a 92% completion rate. Perhaps indicative of just how challenging the house building environment has become for SMEs, this year's respondent rate was a 40% increase on 2022 (218) and the highest level of engagement the survey has achieved to date. Respondents were geographically spread across England, Scotland and Wales. The responses also had a good split in terms of business size and how long they had been trading.

REGIONAL SPLIT

South East	31%
Midlands	16%
South West	14%
North West	11%
London	9%
East of England	7%
Yorkshire and the Humber	7%
Wales	3%
North East	2%
Scotland	2%
Northern Ireland	0%

As in previous years, for the purposes of the report, the aforementioned regions have been grouped into three areas:



SIZE OF COMPANY

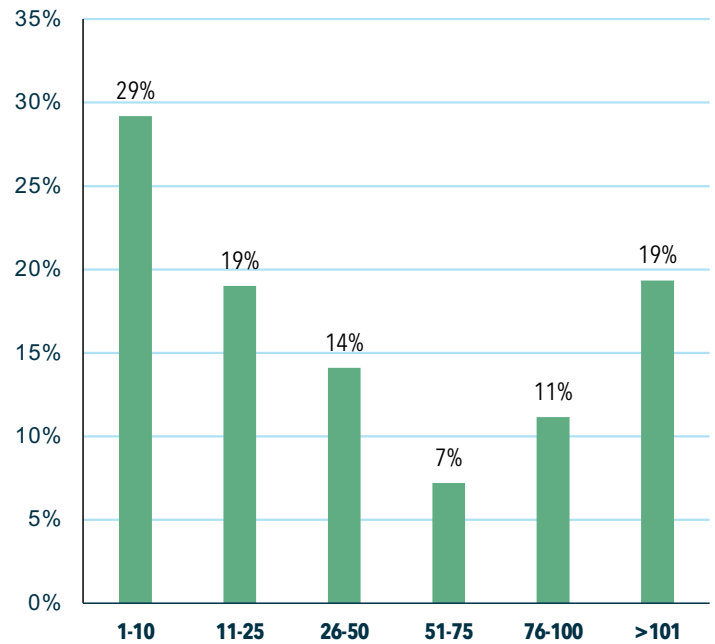
(by units built per annum)

Among respondents there was a good variation regarding the number of homes each company builds per annum.

It is worth noting that the percentage of respondents building more than 100 homes per annum (19%) had declined 10% since last year. This could be due to many factors, including the higher number of respondents to this year's survey, but is also likely due to the numerous barriers developers are facing that have a direct impact on delivery, including planning delays, nutrient neutrality mitigation measures and the challenging economic climate. These issues, among others, are addressed further on in this report.

How many units / homes do you build per year?

■ Responses



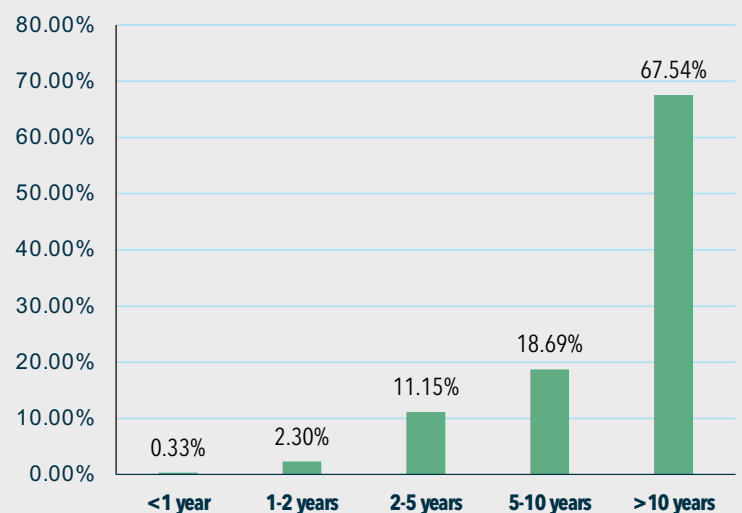
LENGTH OF TRADING

As demonstrated by the chart, 68% of respondents have been trading for more than 10 years, with 19% trading for between five to ten years. Therefore, respondents were typically very experienced in the industry, and many will have encountered multiple economic cycles.

This is broadly in line with the figures from 2022 bar the <2year trading bracket which has halved from 6%. While conclusions cannot be reached based on one year of survey data, it is nonetheless a concern that prospective new entrants may be discouraged from entering the industry due to the current political, economic, and legislative landscape.

How long has your company been trading?

■ Responses



TOP BARRIERS

1.0 Planning

For the fourth consecutive year, SME home builders have consistently identified planning process challenges as the top two obstacles to their growth.

- Taking the top spot was 'delays in securing planning permission or discharging conditions' which was considered a major barrier by 93% of SME developers.
- This was followed closely by a 'lack of resources in Local Planning Authorities (LPAs)' which was declared a major barrier by 90% of respondents.

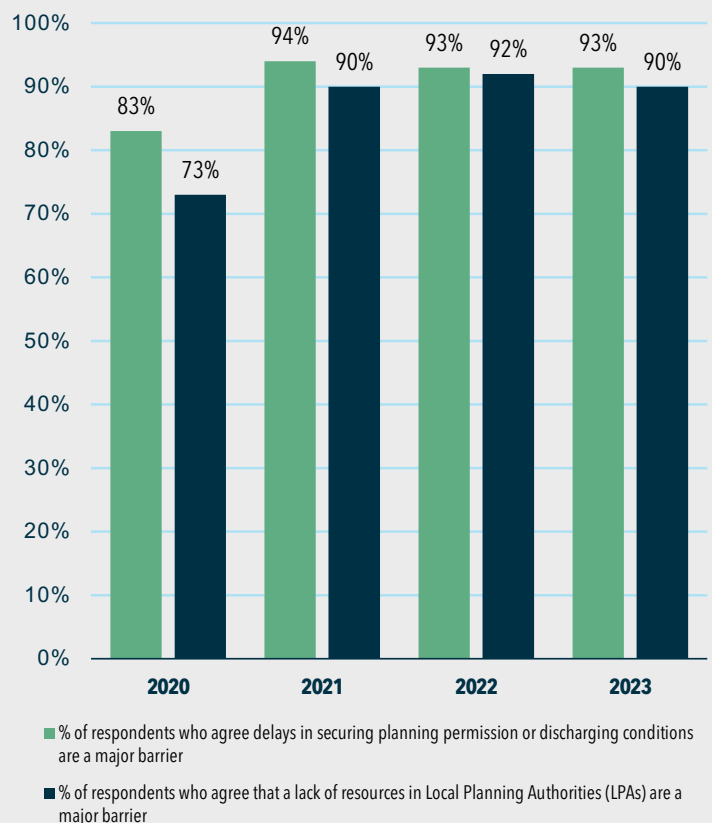


SURVEY RESPONDENT

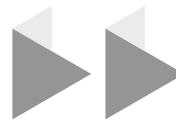
Planning is taking too long to be granted. Increasing interest rates mean viabilities costed up are out of date by the time planning is granted.



Major barriers to SME growth: Planning process



FACING RESIDENTIAL SME DEVELOPERS



SURVEY RESPONDENT

There is absolutely no sense of urgency from any planning department, or any consideration given as how they can assist in making things happen



The consistency of the results, particularly across the past three years of the survey, points to a lack of progress made by Government and LPAs in tackling these issues. As is often highlighted, while a cumbersome and under-resourced planning process impacts developers of all sizes (and other parts of the economy too), it is of course the SME developer who experiences the pain of these challenges most acutely as they are less well-equipped to mitigate them.

For example, if a large developer faces delays on a particular site, it will at least have multiple other sites that it can progress in the interim. SMEs, on the other hand, may have their capital tied up in just one or two projects at a time. As a result, lengthy delays can bring their business grinding to a halt and have an impact on the viability of a site.



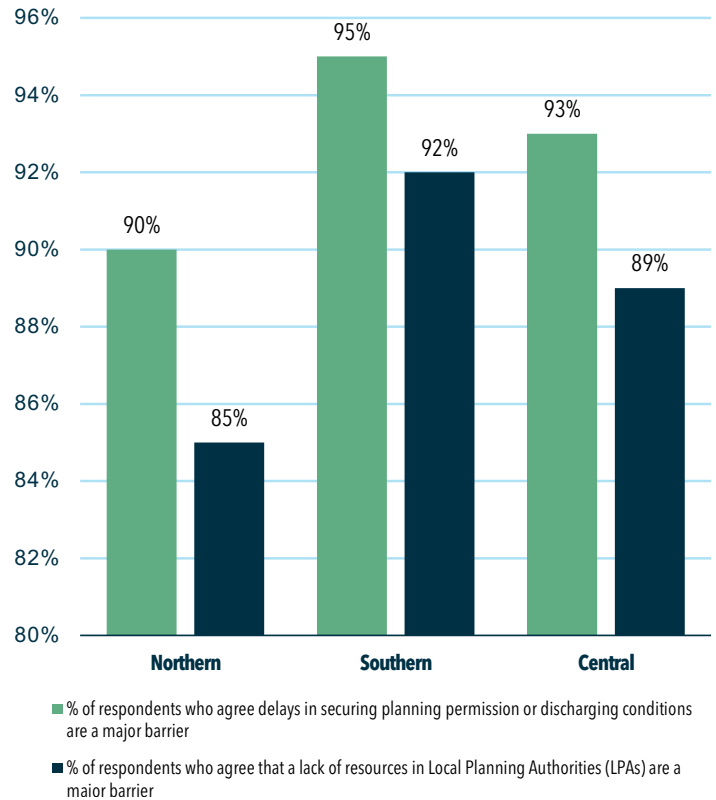
1.1

REGIONAL BREAKDOWN

The top two barriers were the same across all regions, however the issues appear to be slightly less problematic for northern based respondents in comparison to their central and southern counterparts, as demonstrated by the chart.

Even so, that all regions were consistent in their views on planning constraints being major barriers to growth highlights the work the next government will need to take to ensure the planning process helps rather than hinders housing delivery.

Major barriers to SME growth: Planning process (regional breakdown)

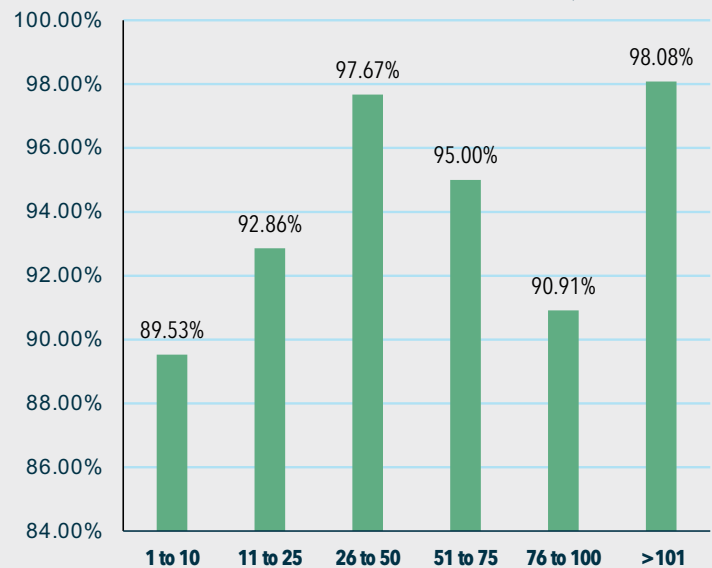


1.2

BREAKDOWN BY SIZE

The largest of SMEs (those building over 100 units per annum) were almost unanimously of the view that delays in securing planning permission or discharging conditions was a major barrier to growth, with 98% in agreement - compared to 90% of those developers building 1-10 units.

% of respondents who agree delays in securing planning permission or discharging conditions are a major barrier (by number of units P/A)



1.3

PLANNING COSTS

At a time when the planning service is performing poorly, developers are also having to absorb increases in the costs of achieving an implementable planning increase. This is compounding an already difficult situation further, particularly for SMEs.

When asked whether the costs of obtaining implementable planning permission have changed in the past three years, 97% of respondents believed the costs had increased.

- Nearly half of respondents (45%) agreed costs had risen by between 11-30%.
- And the other half (46%) said they had risen by over 30% (up from 26% last year).
- Just 1% thought costs had decreased and 2% thought it was the same.

Planning costs are only set to increase further in the years ahead following the Government’s announcement in July 2023 that it was planning to proceed with an increase of 35% in fees for major applications, and a 25% increase for all other applications.

While the industry largely accepts the need for more resources in LPAs, the Government’s decision not to proceed with ringfencing the money was disappointing. Concerns also remain as to how much of a difference it will make to the performance of LPAs and consequently, the operations of developers.

1.4

LAND AVAILABILITY

As in previous survey years, the lack of land availability for SMEs continues to be a hindrance with 44% of respondents citing it as a major barrier to growth. This was a decrease on the 52% of respondents who reported it as a major barrier in 2022. However, this may also reflect a reduced appetite for new sites.

Perhaps unsurprisingly, there were some differences in the results when broken down by region:

- 39% of northern SMEs agreed land availability was a major barrier to growth compared to 43% of central respondents and 46% of southern respondents.

The Government has acknowledged that there needs to be greater provision of

land for SMEs. Indeed the revised NPPF, published in December 2023, included a new paragraph calling on Local Authorities to “seek opportunities, through policies and decisions, to support small sites to come forward for community-led development for housing and self-build and custom build housing”.

However, much more still needs to be done to ensure there is an adequate supply of available land for SME developers.



Land availability is very poor and small housing providers get overlooked by state owners of land as being too small.



1.5

POLITICAL DECISION MAKING

Some of the most significant challenges faced by developers with regards to planning extend beyond practical matters such as resourcing.

This year’s survey results show that political decision making is a significant barrier to growth for SME home builders, and that SME developers are dissatisfied with the current Government’s approach:

- 91% of respondents were not satisfied that the Government’s approach to planning and housing was positive for SME house builders.
- 69% of respondents believe that local and/or political opposition to new development will be a major barrier to growth over the next 12 months. This was the fourth biggest barrier overall.

The Government’s approach was also considered to be positive for those who oppose the building of new homes. Over half (52%) of respondents said the Government’s approach to planning and housing was positive for opponents of new build housing, with just 6% believing that the policy approach is supportive of SME house builders.

The survey results come as planning policy has taken a different direction under Prime Minister Rishi Sunak and the Secretary of State for Levelling Up, Housing and Communities, Michael Gove. A Government statement issued in December 2022 outlined changes to the National Planning Policy Framework (NPPF) which would make housing need figures generated through the Whitehall standard formula “an advisory starting point” for local authorities, rather than mandatory. It also

included a proposal to end the obligation on local authorities to maintain a rolling five-year supply of land for housing where their local plans are up-to-date. These changes were confirmed in December 2023 with the publication of the revised NPPF.

In part due to these changes, over 60 Local Planning Authorities (LPAs) have now withdrawn or stalled their local plans, and planning permission approvals have fallen to record lows.

Inevitably, the changes have also caused significant concern for SME home builders:

- 59% of respondents stated that abolishing mandatory housing targets would be a major barrier to increasing housing delivery over the next 12 months.

The changes to the NPPF come after several years of rapid ministerial turnover and a period of stop-start reform in national planning policy, which have further heightened levels of uncertainty for SME home builders. Therefore, while the Government has more recently attempted to unblock new homes by amending nutrient neutrality requirements, the broader policy environment clearly remains hostile and challenging for the industry.

Finally, only 13% of respondents said that the Government’s approach to planning and housing was positive for first-time buyers (FTBs), down from 40% a year ago. These results follow the closure of the Help to Buy support scheme for first-time buyers in March 2023, and come at a time when support for first-time buyers has never been more vital given rising mortgage costs and interest rates.



The Government doesn’t currently provide any support and actively discourages housing in my view.



Government should act in the best interests of the voters and the economy and not political self-interest.



1.6

PLANNING CONSTRAINTS

In addition to being asked about the major barriers to development generally, respondents were also asked to specifically rank the biggest constraints in the planning process.

- There was little change at the very top of the table in comparison with other years, with staff resourcing/shortages being seen as the number one major constraint (68%) followed closely by red tape (54%).

'Other' completed the top three and in the comments provided by respondents, a variety of issues were mentioned. These include a lack of redress for developers if LPAs miss a statutory deadline, under-resourced legal services to complete S106 agreements and lack of process management within LPAs.

It is also worth noting, in light of the previous section in this report, that uncertainty and risk/political decision making moved up the ranks to fourth (41%) from sixth last year (34%).

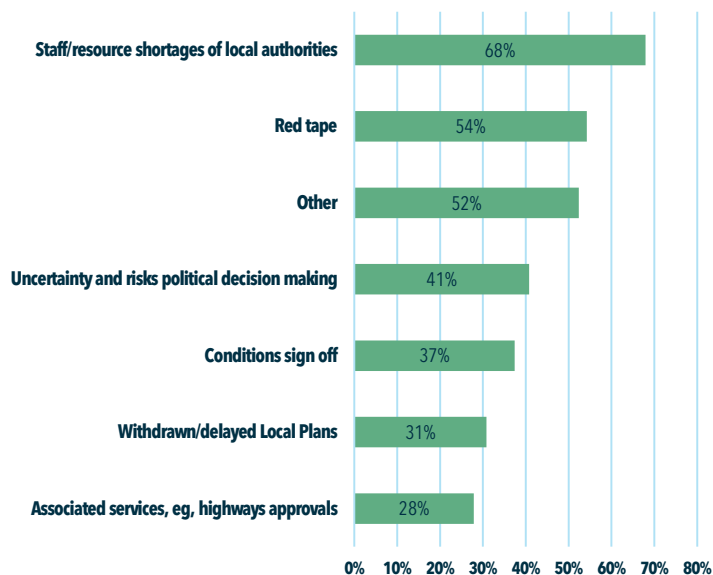


SURVEY RESPONDENT

Uncertainty on planning even when following the planning guidelines to the letter as planning committees make their decisions based on politics and do not follow planning officer recommendations which are based on planning policy. Going to a planning committee poses a very high risk.



% of respondents who agree the following are major planning constraints



2.0 Housing market and economy

The housing market has faced significant difficulties in recent years, particularly since September 2022 and the then Government's mini-Budget, which created a sustained period of turmoil in the mortgage market. Prior to this, the Help to Buy scheme was also ensuring sufficient mortgage availability and affordability, particularly for first-time buyers. While demand peaked in the post-lockdown period due to the impact of the pandemic, the Stamp Duty holiday and a rush to use Help to Buy before the scheme closed, the increasing unaffordability of buying a home has since dampened appetite.

With builders only able to build if buyers can buy, these demand-side constraints will have a direct impact on supply, which will be most felt by SME home builders. Smaller developers, who work to tighter budget sheets and do not have the same luxury of the financial stockpile that the larger builders do, are far more susceptible to shocks in the market.

The most significant indicator of the growing problems SMEs are facing in this regard is the fact that Bank of England challenges/interest rate rises was identified as one of the top three barriers facing SMEs over the next 12 months. Almost three-quarters (72%) of respondents identified this as a major barrier, up significantly from 38% last year.

A further 24% highlighted this as a minor barrier, meaning that just 4% of SMEs think that fiscal challenges aren't a barrier to housing delivery.

On top of this:

- In 2021, just 14% of respondents identified mortgage availability as a major barrier to housing delivery, and 7% identified consumer confidence as a major barrier.
- As of 2023, the proportion of respondents identifying mortgage availability and consumer confidence as a major barrier had increased significantly, to 48% and 45% respectively.
- 91% of respondents perceive that a fall in property prices could act as a barrier to supply over the next 12 months, up from 77% last year.

The current constraints in the mortgage market are affecting builders of all sizes, but particularly SMEs who do not have the funds to survive a market downturn, as seen at the last financial crash.

TOP BARRIERS



OTHER CHALLENGES

3.0 Other Challenges

3.1

NUTRIENTS

Since 2019, the construction of new homes in 74 local authorities in England has been delayed owing to a series of interventions by Natural England, the main one being the requirement for home builders to demonstrate nutrient neutrality rules.

Data suggests nutrient neutrality measures alone are holding up around 150,000 homes, with thousands more not able to be delivered each year. In addition, up to 40,000 more homes are currently held up by water neutrality rules and recreational impact zones.

While the industry is sympathetic to the need to protect water habitats, HBF's research finds that occupants of new homes account for less than 1 per cent of the nutrient (nitrogen and phosphorus) emissions flowing into waterways via the sewerage system each year. While agriculture accounts for 70 per cent of the nitrogen released into our rivers, the existing housing/population contributes 30 per cent through discharges into the sewerage system and new housing just 0.29 per cent. For phosphates, agriculture is responsible for 25 per cent, and the existing housing/population 74 per cent, with new homes accounting for just 0.73 per cent.

In comparison, despite being main contributors to the problem, neither the water companies or agricultural sectors have faced the same level of scrutiny and there remains no proportionate or workable solution to this embargo on thousands of new homes.

Home builders also make contributions to water companies via the provision of new infrastructure charges and connection charges, with the value of these payments totalling billions of pounds. In the past three years alone, developers have provided £1bn in infrastructure payments to

water companies which includes:

- £427m in developer payments for infrastructure charges and connection fees; and
- More than £600m in new assets being added to water company balance sheets in the form of new pipes and other infrastructure from which water companies will ultimately also derive a long-term income stream.

Despite this, water companies have failed to invest in the necessary wastewater infrastructure over the past 30 years, such that they end up discharging sewage into our rivers.

As with the other barriers outlined in this report, SME home builders are disproportionately affected by Natural England interventions as they do not have the ability to turn their attention to other regions or sites not affected, as large home builders do.

- 34% of respondents identified nutrient and/or water neutrality restrictions as a major barrier to home building, with a further 25% identifying it as a minor barrier.

These results are broadly as expected with around one-quarter to a third of the country affected by the nutrient neutrality malaise.

Despite the Government indicating it wishes to intervene to amend the nutrient neutrality requirements, the commitment to do this via legislation has been abandoned, with the Government opting instead to announce further funding for nutrient mitigation schemes in the Autumn Statement. While this funding is welcome, it will only unlock a small proportion of the homes currently held up. We encourage the Government to work with the industry to bring forward a proportionate arrangement as soon as possible.



SUSTAINABILITY

Improving the sustainability of new homes is a top priority for the home building industry. From the construction of increasingly energy efficient and innovative new properties to playing a central role in the creation of the Future Homes Hub, residential developers are making a significant contribution to the country's journey to net zero.

While the industry is proactively taking steps to reduce carbon emissions and improve the energy efficiency of new homes, progress is also being made as a result of changes to Building Regulations which are having a significant impact on the way new homes are constructed.

A key milestone was June 2022 which saw the introduction of two brand new Building Regulations namely, Part S, electrical vehicle charging and Part O, overheating calculations and heating performance of new dwellings. Substantial updates were also seen to Part L, conservation of fuel and power and Part F, ventilation.

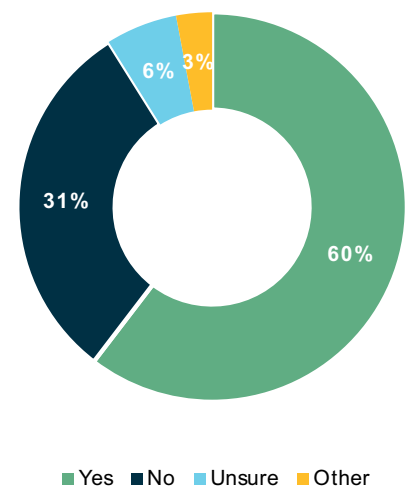
Following these changes, the next significant milestone for developers will be the introduction of the Future Homes Standard (FHS) in 2025 which contains a central ambition is to ensure that homes built from 2025 onwards will produce 75-80% less carbon emissions than those built under current building regulations.

To achieve this, the electrification of heating will be necessary, most likely through the introduction of heat pump technology as well as larger cavity wall construction. Such transformative changes, especially when considered against the background of the Government's broader environmental commitments, will certainly be challenging for developers of all sizes to adapt, but it will be particularly difficult for SME developers especially as the regulations and associated guidance are yet to be published.

Ahead of the implementation of the FHS, we were keen to better understand the degree

of progress smaller developers were making with regards to sustainability and the results were encouraging.

% of developers building or planning to build homes that include technologies/features that go beyond the requirements of current Building Regulations



In response to the question, "Are you building or planning to build homes that include technologies/features that go beyond the requirements of current building regulations?", the answers were as follows:

- Three-fifths of respondents are already building beyond current Building Regulations, which is encouraging and should ensure a smoother transition to the FHS.

Some developers provided further detail on their approach within the comments:

"Attempting to achieve EPC A where possible".

"We have built beyond current Building Regulations since inception".

- However, with 31% of respondents not currently building homes that go beyond Building Regulations, there is a substantial proportion of SMEs who will need to make some significant preparations ahead of 2025.

For some, the main barrier to them doing so is cost: "Would like to but can't afford to", responded one. Others expressed concerns about the ability of the supply chain to keep up with requirements.

TECHNOLOGIES

Among those who confirmed that they are or are planning to build homes that go beyond the requirements of Building Regulations, the top five most commonly used technologies or features were as follows:

1. Photovoltaic panels - 72%
2. Air/ground source heat pumps - 67%
3. High performance double glazed or triple glazed windows - 63%
4. Preservation/protection of wildlife and nature e.g., bat boxes/hedgehog highways - 60%
5. Aerated showerheads and taps and low flow devices e.g., dual flush toilets - 45%
6. Some of the least commonly utilised technologies included:
 - › wastewater heat recovery - 18%
 - › green roofs/walls - 18%
 - › and grey water recycling - 12%



3.3

INFRASTRUCTURE

While planning approvals and subsequent housing supply are currently on a downward trend, much of the past decade has been characterised by record levels of permissions being granted and significant increases in supply.

Unfortunately, while delivery has increased, so too have issues relating to the provision and adoption of utilities and infrastructure, with Section 278 and Section 38 requirements at the centre of these frustrations.

Section 278 and Section 38 agreements relate to the adoption of new public highways by local authorities. While the process and costs associated with the adoption of new roads may be considered arcane or tangential in the context of debates about new housing developments or broader national debates about the delivery of new homes, it is a critical feature in the housing supply landscape.

While planning reform is often discussed among Parliamentarians, there has been little proposed so far regarding reforms to the process for adopting new roads. This is having a cumulative effect on the wider home building industry, particularly for smaller developers as the vagaries of the process also impact upon their accessibility and cost of finance.

Although the direct planning system and its processes attract much attention, it can often be in agreeing the design, provision, financing and adoption of new utilities or infrastructure that can hold up the commencement of construction on site or the completion of new homes.

Indeed, HBF research has found that the disparity between the costs and timescales for works across local authorities can vary significantly:

- Highway bond values can range from anywhere between £11,500 per development to £2.8 million.
- The length of time between a technical submission and technical approval for both S278 and S38 agreements can be anywhere between 1 and 66 weeks.

Unsurprisingly, these timing and budgetary inconsistencies are a hindrance on the output and productivity of house builders, particularly SME house builders. In order to better understand just how much of a challenge it poses for smaller and medium-sized residential developers, this year's respondents were asked if the "costs/timescales involved in the provision and adoption of utilities and infrastructure" were a barrier to their business:

- 89% of respondents agreed that it was, with 45% stating it was a major barrier.
- This was consistent across the country with 46% of Northern, 46% of Southern and 43% of Central respondents agreeing it was a barrier.

These findings are particularly timely given the Competition and Markets Authority's decision at the start of 2023 to launch a market study into house building. The study is focusing on four areas, including housing quality, within which it is exploring the fairness of estate management fees charged for 'unadopted' roads and amenities.



There is absolutely no understanding of the challenges on the infrastructure.



Traditionally, the management, maintenance and upkeep of areas such as roads, drains, street lighting and open spaces has been the responsibility of local authorities, often built by developers as part of new housing schemes but funded in the long run through council tax.

However, largely due to local authority budget cuts, the home building industry is increasingly finding that local authorities are reluctant to “adopt” these areas unless the developer pays what are often excessive fees as highlighted above. This is despite these spaces being built to an adoptable standard as set out in the requirements of the respective local authority. Local authorities also charge these residents the same amount of council tax which therefore is additional to the sums residents may be expected to pay privately to maintain unadopted roads.

Following the publication of its update report in August 2023, the CMA confirmed

it will be considering the issue further, including matters of process and funding constraints at Local Authorities. In a working paper published in November, the CMA said it had identified a number of barriers which are preventing the adoption of public amenities on housing developments. Its final conclusions will be published in February 2024. The industry welcomes the opportunity that the CMA market study has provided to shine a light on this, and other issues, which developers have raised with numerous governments over decades.



SURVEY RESPONDENT

The whole system is broken and doesn't function.



ELECTRICITY GRID CONNECTIONS

In addition to the general concerns around infrastructure, some parts of the country are facing specific challenges regarding delayed electricity grid connections.

In Summer 2022, the home building industry was informed that the Scottish and Southern Electricity Networks (SSEN) had announced that owing to a lack of additional electrical capacity, residential, commercial and industrial development would be unable to connect in the three west London boroughs of Hillingdon, Ealing and Hounslow for the foreseeable future.

All residential schemes for 25 homes or more would be affected and thus would be unable to connect to the electrical energy network. This was the result of an influx

in requests from data centre operatives throughout West London for new electricity connections.

While some action has been taken since then, it remains an issue for developers in affected parts of the country. For example, 39% of Southern respondents to our survey said it was a barrier to growth, compared to just 29% of Northern respondents and 24% of Central respondents.

With a greater policy emphasis on the electrification of home heating and the potential for this issue to spread to other parts of the country, this issue may intensify in the months ahead.



3.4

AVAILABILITY OF LABOUR AND SKILLS

The home building industry is a major source of training, apprenticeships and employment. However, the supply of labour has been a major barrier to the building of homes, particularly for SME builders, in recent years.

While the number of respondents identifying labour supply as a major barrier to housing supply has dropped on previous years' results - at 41% as compared to 64% in 2022 and 59% in 2021 - this may be more of a reflection of the fact that other issues are becoming more problematic and thus taking precedence. It may also be influenced by a reduction in demand for labour as new site activity slows.

While the proportion of respondents identifying the supply of labour as a major barrier has dropped, the proportion of SMEs identifying this as either a major or minor barrier has consistently been over 90% for the last three years.

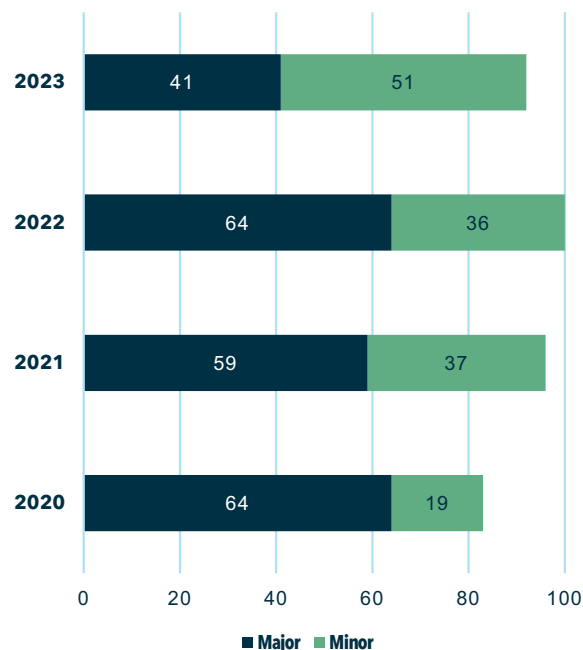
The issues with labour supply are more pronounced for certain roles, in particular on-site roles.

- When asked if they have been struggling to recruit for site-based roles over the past 12 months, 71% identified this as an issue. This is up from 59% in 2022.

When asked which roles were particularly difficult to recruit for, the top five are listed below. Encouragingly, the number of respondents identifying a particular trade has dropped across the board, last year's results are listed in brackets:

- Brickwork - 33% (53%)
- General labour - 30% (40%)
- Management / professional - 28% (55%)
- Carpentry / joinery - 23% (36%)
- Plastering - 21% (26%)

% of respondents identifying labour supply as a barrier to housing delivery



The skills gap is an issue that has been many years in the making. Despite great efforts from the industry to improve recruitment and retention among our domestic workforce, historic labour supply issues mean that over the years, home building companies have become increasingly reliant on migrant workers. As such, the impacts of Brexit and the pandemic have only exacerbated the issues with availability of skills.

The reliability on overseas workers can be clearly seen in the parallels between the roles outlined above, which respondents were finding it difficult to recruit for, and the trades which have the highest proportion of non-UK born workers. HBF's 2023 workforce census, which analysed the make-up of our on-site workforce, found that brickwork, general labouring and plastering all had at least 20% of the workforce made up of migrant workers.

Since Brexit, new migration rules have made it harder for overseas workers to join the industry, even where there are significant gaps. To recruit for roles not on the Shortage Occupation List - which is the majority of construction based roles - organisations have

to become a “licensed sponsor”, a process which is expensive, time consuming and bureaucratic. With so much of the subcontractor workforce made up of small and medium-sized businesses, this presents a huge administrative burden for firms.



There is insufficient labour in the market



APPRENTICESHIPS

This year’s results showed a marginal shift in the employment of apprentices, with 49% of respondents employing apprentices, down from 50% in 2022.

The regional split was as follows:

- North 44% (down from 48% in 2022)
- Central 65% (up from 57% in 2021)
- South 44% (down from 46% in 2022)

SME home builders are instrumental in developing the next generation of workers for the industry, as they disproportionately train up and employ apprentices. However, organisations repeatedly face many barriers:

- Conversion rates between education and employment are low - just 25% of FE students undertaking construction courses are able to readily move to employment in the construction sector.
- There is not enough flexibility in the delivery of apprenticeship and FE courses - there is often too great an emphasis on theoretical learning over practical skills.
- Larger employers are reticent to “transfer” any of their Apprenticeship Levy payment to SMEs as the responsibility for all of the administrative management of the apprentices hired remains with the “gifting” company.
- The CITB levy in its current form is unable to support the industry’s drive for new green skills - plumbers and electricians, two key occupations within the industry and the drive to net zero, are outside of CITB’s grant remit.

To help SMEs and to ensure a new pipeline of talent, the Government should consider:

- Introducing Level 2 T-Level style qualifications for routes into home building.
- Ensuring existing apprenticeship schemes and FE courses have a greater emphasis on practical skills.
- Working with CITB and the Department for Education (DfE) to ensure CITB’s remit covers all skills necessary to the home building industry, particularly in the transition period towards the Future Homes Standard when green skills are ever more important.
- Changing the rules for the Apprenticeship Levy to pass the responsibility of administration for hired apprentices to the company that “receives” the levy transfer, rather than leaving it with the “gifting” company.
- Providing sufficient support on an ongoing basis through CITB and otherwise to help SMEs manage apprenticeships and so optimise apprenticeship recruitment.



[we need the Government to provide] incentives for apprenticeships.



3.5

ENERGY, BUILD AND LABOUR COSTS

This year's survey again questioned respondents on the impact of energy prices. The results suggest that energy costs are less of a concern than they were a year ago, with energy prices beginning to decline from their peak last year:

- 32% of respondents believe that the cost of energy will be a major barrier to their business growth over the next 12 months. This is significantly lower than last year (62%).

However, it is worth noting that only 14% of respondents said energy costs would not be a barrier to growth at all over the next year, with energy prices remaining high. Therefore, despite the more positive outlook for SMEs as inflation rates begin to fall, it is important that ongoing attention is given to businesses affected by high energy costs and inflation.

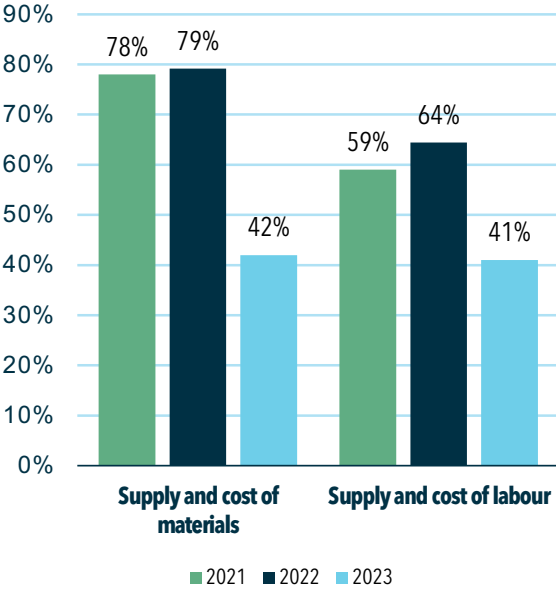
The supply and cost of labour and materials are also less of a concern for SMEs when compared to previous years:

- 42% believe the supply and cost of materials will be a major barrier in the year ahead, down from 79% in 2022 and 78% in 2021.
- 41% view the supply and cost of labour as a major barrier, compared to 64% last year and 59% in 2021.

While the results indicate a far more positive outlook for home builders in the year ahead, it is important to note that the smallest home builders remain disproportionately affected by higher material and labour costs. For instance, 57% of developers building between 1 and 25 units a year cited the supply and cost of materials as a major barrier to growth - compared to 23% of those that build more than 101 units a year.

The high cost of materials, labour and energy must also be considered alongside the increasing cost of regulatory compliance as well as ongoing inflation, all of which are leading to rises in overall build costs.

Proportion of respondents identifying supply and costs of materials and labour as a major barrier to increasing housing delivery over the next 12 months



Therefore, despite some improvement since last year, these factors are still cumulatively having an impact on the ability of SME home builders to deliver new homes.



We have very little, if any support...There is insufficient labour in the market and interest rates are rising.



3.6

DEVELOPMENT FINANCE

To ensure that SMEs can continue to grow and deliver the housing that the country needs, it is important that they can access the necessary development finance and that lenders and investors are incentivised to operate in this space.

In the current challenging economic environment, the availability and terms on which development finance is offered to SME developers are of particular importance. Therefore, it's encouraging that 39% of respondents did not consider it to be a barrier at all.

However, the survey results suggest that access to finance is becoming increasingly difficult likely influenced by higher prevailing interest rates:

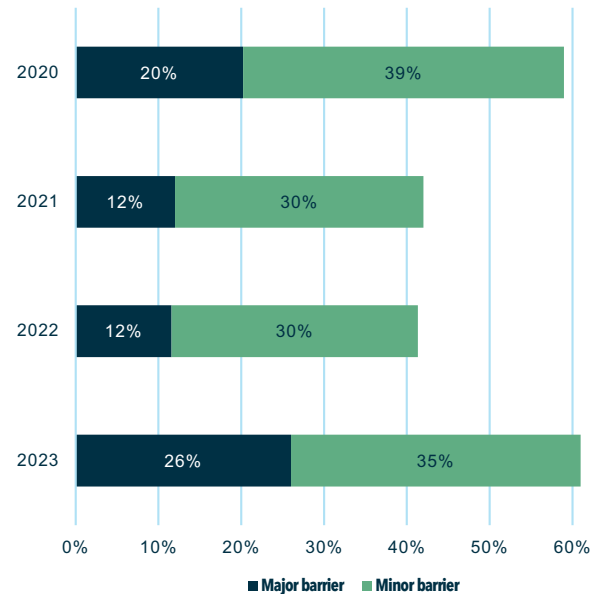
- 61% of respondents said that they considered development finance to be a major or minor barrier to housing delivery - a higher proportion than in any previous year.

Therefore, while access to development finance may not pose the same difficulties as some of the other issues mentioned in this report, the survey results suggest there is still work to be done and that this issue is of increasing concern.

In particular, the survey results suggest that the growing complexity, risk and cost involved in the planning process is increasingly hindering the availability of good finance on competitive terms.

- For instance, when asked whether access to development finance or the terms have been negatively impacted by planning delays, 43% of respondents said yes - up from 33% in 2022.

Proportion of respondents identifying development finance as a major or minor barrier to increasing housing delivery over the next 12 months



Therefore, resolving issues with the planning system can, in turn, help to increase the availability of finance for SME developers.

PERCENTAGE OF RESPONDENTS BY REGION CITING DEVELOPMENT FINANCE AS A MAJOR BARRIER:

- North - 32% (up from 8% in 2022)
- South - 24% (up from 8% in 2022)
- Central - 24% (up from 20% in 2022)



The planning delays mean one is not able to secure development finance for unconsented sites.



I am having to factor in higher finance costs and this is affecting the ability to be competitive in offering on and purchasing sites.



CONCLUSIONS & RECOMENDATIONS

Conclusions

The crisis facing SME house builders is rapidly reaching a crescendo. While the challenges of the past few years, particularly the Covid-19 pandemic and the uncertain economic climate have undoubtedly had an impact, this crisis is one that has its roots in the early 1990s and was exacerbated by the Global Financial Crisis of 2008.

Inevitably, some of the pressures facing SME developers, such as the inflationary economic environment will take time to resolve and are somewhat dependent on other external factors, there are multiple systemic challenges which could be tackled but have been ignored by politicians from all parties for far too long.

With the next General Election set to take place no later this year, it is pivotal that whichever party is successful at the polls takes action to address the concerns raised by SMEs in this survey.

In addition to answering the survey questions, almost 50 individuals provided comments on the areas they believe the next Government should focus on. These were broadly categorised into ten key themes with planning, unsurprisingly coming out on top as demonstrated by the word cloud on the following page.



depoliticise planning ^{Green Belt} consistency

regulation

land supply _{S106}

PLANNING

skills **LPA resources**

interest rates housing targets

support for FTBs

Nutrient Neutrality

development finance

Within these broader categories, respondents put forward some specific recommendations, including:

- **PLANNING** - Speed up the process and upskill planning officers.
- **LPA RESOURCES** - Increase resources and efficiency.
- **LAND SUPPLY** - Ensure LPAs allocate a greater supply of small sites in Local Plans and streamline the Local Plan process to make land available faster.
- **CONSISTENCY** - Greater consistency and clarity on planning decisions.
- **HOUSING TARGETS** - Reinstate mandatory housing targets.
- **SUPPORT FOR FTBS** - Introduce a new form of Government support for FTBs to get on the property ladder.
- **DEPOLITICISE PLANNING POLICY** - Replace the current planning committee system with an independent body manned by trained planning experts. This takes the political decision making out of the system. Local input should be at the Local Plan stage.
- **NUTRIENT NEUTRALITY** - Introduce new legislation to release the 150,000 new homes currently being held by nutrient neutrality mitigation measures implemented by Natural England.
- **REGULATION** - Consider streamlining the planning process for small sites by reducing the number of reports required.
- **DEVELOPMENT FINANCE** - Introduce more competitive finance facilities through Homes England. Create an SME Tsar in Homes England to lead on this and other issues.
- **S106** - Amend the process so that S106/CIL contributions of SME developers are payable at the end of a project rather than the start. Increase the threshold for Affordable Housing contributions to developments of 50 units and over.
- **INTEREST RATES** - Continue efforts to bring down inflation and interest rates.
- **GREEN BELT** - Undertake a national review of the green belt.
- **SKILLS** - Work with industry to attract new talent into home building careers.



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HBF is the representative body of the home building industry in England and Wales. Our members are responsible for providing around 80% of all new private homes built in England and Wales and most of our members are small or medium-sized enterprises.

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At Close Brothers Property, we are property specialists who provide personalised, flexible finance to property developers and investors across the property industry. Over the last four decades we have consistently supported small and medium sized businesses and we are currently funding over 7,250 homes with a loan book of £1.7 billion. Our bespoke financial products include development finance, bridging loans and commercial investment and our specialist teams are based in three offices across the UK.

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