Brickflow

SOLVING THE UK'S HOUSING SHORTAGE

A BRICKFLOW WHITE PAPER

OCTOBER 2023

WITH CONTRIBUTIONS FROM INDUSTRY LEADERS ACROSS THE PROPERTY SECTOR

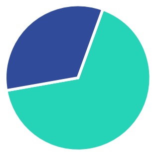
Knight Frank
pwc
NACFB
invest&fund
FIBA Financial Intermediary & Broker Association
NIMBUS
BAYES BUSINESS SCHOOL
Brightstar
HODGE
MARDEN HOMES LIMITED
mint property finance
Searchland

DESPITE ITS SIZE, THE UK HOUSING SECTOR IS IN CRISIS.

The construction sector contributed over **£128 billion** to the UK economy in 2022. It employs around 3.1 million people and contributes around 7% of GDP. Within this, the housebuilding sector contributes over **£42 billion** to the economy and supports over 770,000 jobs.

The **Home Builders Federation March 23 SME State of Play Report** found:

93% of SME developers say securing and processing planning permission to the point where construction can start, is a major barrier to growth.



Over **TWO-THIRDS** are impacted by the requirement for nutrient neutrality restricting developments in over a quarter of England's local authority areas.

52% SAY LAND AVAILABILITY IS A MAJOR ISSUE

RISING MATERIAL (99%) AND **ENERGY (88%)** COSTS ARE A MAJOR CONCERN.

76% believe local authority staffing shortages are the main cause of delays in the planning process.

92% ARE UNHAPPY WITH THE GOVERNMENT'S APPROACH ON HOUSING.

Source: The Home Builders Federation SME State of Play Report, March 2023

Foreword

The media is rife with opinions on where the issues lie (and there are many) and what changes need to be made, but it's rare to find them collated into a single document and shared across the sector.

Our white paper serves to remind decision-makers that the key components of the housing sector, such as; planning, land supply, government investment, funding, material and labour supply, developer incentives and affordability, are interwoven and interdependent.

> **There is no single silver bullet to address the housing crisis and solutions cannot focus on one area.**

We need to consider where changes can be made across the whole house-building process and their impact on other dependencies. Planning reform and developer incentives, for example, are welcomed, but if further along the supply chain, developer funding or buyer affordability is an issue, any improvements made in the early stages of the development process will be wasted.

This white paper endeavours to examine the UK housing shortage, the barriers to growth and recommendations on how to solve it. We cannot guarantee to cover every contributing factor, as the issues are complex and vast.

But, we have consolidated the many layers in order to understand what truly lies at the heart of the housing crisis and how, together, we can best address it.

We also asked thought leaders from across the industry to contribute. Many thanks to the following commentators for their contributions:

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The House of Lords Built Environment Committee says, 'Uncertainty about the future planning system and delays to planning reforms have had a chilling effect on housebuilding and created uncertainty for housebuilders and planners'. The Committee also suggests access to finance is a key barrier, whilst the New Economics Foundation points the finger at unaffordable land.

Fighting their corner, Local Government Association figures from 2020 reveal more than a million homes granted planning permission in the past decade have not yet been built, adding weight to its comments, 'The backlog of unbuilt homes shows the planning system is not the barrier to housebuilding'.

> **Whatever you believe the reasons to be, the housebuilding process is undeniably broken.**

It is essential to join the dots between the different stakeholders across the commercial property industry, to increase transparency for everyone involved and ultimately help facilitate more construction.

The bottom line - radical reforms are needed now to kick-start housebuilding; we're not just providing homes, we're boosting the UK economy and supporting communities. ■

IAN HUMPHREYS
FOUNDER & CHIEF EXECUTIVE OFFICER, BRICKFLOW

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01 Executive summary

The government believes focusing on housing and providing more new homes will be the most efficient way to level up the country and reduce inequality.

Housebuilders however, have not been able to match demand or (now-scrapped) government targets, due to barriers including: outdated planning processes, a shortage of land and funding, environmental issues and more recently, end-buyer affordability.

Given that the Office of National Statistics (ONS) predicts the number of UK households will rise from 23.2 million in 2018 to 26.9 million in 2043 (and potentially higher following increasing migration figures) and we already have a **housing deficit of 4.3 million homes**, it is vital that we now find a way to tackle the UK housing shortage.

Here, we summarise the government's recommendations put forward in its 2020 Planning for the Future white paper, the key contributing factors to the housing shortage as identified by the government in its 2022 Tackling the Under-Supply of Housing in England research briefing, alongside thinking and recommendations from Brickflow and other industry leaders from across the property sector.

Planning

Authorities are either sluggish to adopt local plans (stating what can be built where) or they don't have an up-to-date plan at all. In 2019, the government confirmed it was taking around 815 days to adopt a plan, up from 450 days in 2009.

Delays in the planning and development process have caused SME housebuilder numbers to fall by 80% since the early 90s. Key triggers include: local plans taking too long to adopt, inconsistency in planning decisions, a protracted developer contribution process and a lack of digital tools.

To address these issues, the government recommends:

- Streamlining the planning process.
- Introducing a statutory local plan timetable with a simple framework to assess environmental impacts and more digital assets/tools to support developers and communities.
- Replacing Section 106 agreements and the Community Infrastructure Levy with a nationally-set Infrastructure Levy.

Commentators believe the planning system is a key contributor to the failure to build enough homes in the UK and agree that while streamlining the process may increase efficiency, it won't be effective if authorities continue to be under-resourced. The introduction of a local plan timetable is overdue, but will only work if there is more clarity over the national planning policy reforms. With the Infrastructure Levy, the funds should be used to support local infrastructure, rather than being diverted elsewhere.

Land supply

Over 90% of land in England is of non-developed use with the top three land use groups being agriculture (63.1%), forestry, open land and water (20.1%), and residential gardens (4.9%), leaving just 0.2% vacant. With supply limited and fixed, there are calls for more transparency in the land supply system.

The government recommends:

- A consultation on options to improve the data held on land market activity.
- SME developers to access land via Homes England Dynamic Purchasing System (now available).
- Releasing some areas of green belt land near train stations (funding is already available to bring forward smaller sites for brownfield housing).
- Introducing a Land Value Tax, which landowners pay based on the current market value of the land.

Transparency in the land supply system is crucial, as it will create a level playing field for all developers, and releasing low-quality green belt land near infrastructure hubs is one of the best solutions to the land supply issue. The introduction of a Land Value Tax, however, is not ideal as it will restrict land supply across the country.

Funding

Local plan delays are often due to under-resourced local authorities and while there are treasury commitments to bridge this gap and introduce a new digital system, the government recommends:

- Diverting funding from new developers' contributions.
- Consulting on increasing planning application fees.

01 Executive summary

Finance in the construction sector is not always readily available. While the government has funding programmes, there are calls for the industry to improve access to loans. With the development process vulnerable to market shocks, a greater focus on risk mitigation is needed, which in turn will build lender confidence.

Smaller developers are often ineligible for the government's funding programmes so they need better access to funding, plus market reforms, to encourage them to start housebuilding projects.

Lack of development incentives

The current system fails to encourage development; councils are often under pressure to reject plans, authorities have no immediate financial benefits, the planning permission process is too drawn out and a lack of certainty around the cost of materials and end values, increases the risk for sites, even when permission is granted.

The government recommends:

- Changing the planning system, including a statutory timetable for shorter local plans, clearer rule and design codes and more digital tools and services.
- Introducing National Development Management Policies (with generic guidelines) to speed up permissions.
- Changing the National Planning Policy Framework to: improve build-out rates, create consistency in planning permission timing for large and small developers, and introduce financial penalties for housebuilders who fail to deliver permissioned schemes.

To support SME housebuilders, the government recommends:

- Developments comprise housing from different builders, allowing more phases to come forward together, with a minimum number of SMEs on larger sites.
- Increased resources for authorities to have a wider range of housing in local plans and to oversee larger sites.

Planning delays make it difficult for housebuilders to plan delivery, who only build when there's a demand. Penalising companies that fail to deliver housing stock, when there's no demand, isn't the solution.

Given that builders are required to allocate a proportion of their development to affordable housing, if they build on separate sites the housing will be in different locations, creating more work for planners. Having different builders on a single development enables authorities to site their affordable housing in one place, saving planning costs.

There's also the Brownfield Land Release Fund which helps SMEs secure sites larger developers aren't interested in.

Supply chain

Rising material, wage and energy costs, coupled with ongoing shortages of raw materials and skilled workers, are causing build costs to peak at unprecedented levels. With around 60% of imported materials used in UK construction coming from the EU, Brexit has complicated the supply chain, and a lack of skilled tradespeople is impacting projects, with carpenters, joiners, bricklayers and general labourers most in demand.

Government solutions include:

- New traineeship schemes.
- More apprenticeship and employer funding.
- The relaxation of UK visa rules in spring 2023 for roofers, plumbers, bricklayers, carpenters and plasterers.

With contractors unwilling to bear supply chain cost increases, there are fewer fixed-price construction contracts, reducing certainty and increasing risk rather than profit. Larger developers may be able to absorb these increases but SMEs cannot. Thankfully, the market is beginning to stabilise.

Environmental

Housebuilders face many challenges; the new Future Homes Standard requires homes built from 2025 to produce 75-80% fewer carbon emissions than current homes and there are calls for no new builds to be connected to the gas grid from 2025.

Housebuilders have to comply with The Environment Act biodiversity net gain and nutrient neutrality guidelines, and deliver local nature recovery strategies. Their workforces are stretched, due to the government asking for 29 million homes to be retro-fitted with heat pumps, networks etc. and there's talk of introducing a mandatory whole-life carbon assessment to calculate emissions from the construction, maintenance and demolition of a building, and the energy used in its daily operation.

The ongoing regulatory change is a huge challenge for this industry and housebuilders and developers need more support in this area. Any push for greener homes should be supported by a comprehensive energy infrastructure plan.

Affordability

Spiralling UK house prices are causing huge affordability issues for potential homeowners, which coupled with restricted mortgage availability, the cost of living crisis and inflated rents, is preventing a whole generation from climbing the housing ladder. Developers are understandably reluctant to build houses that may not sell.

Buyer incentives are available from the government and developers, although offering an incentive means less profit for the developer. The government may also introduce its Help to Buy scheme.

But house-buying takes time to plan and save for - people need certainty around incentives and mortgage costs - and with no replacement Help To Buy scheme currently available, many potential purchasers will struggle to meet affordability metrics. ■

01 Executive summary

Looking ahead

Modern Methods of Construction (MMC)

In March 2021, the government announced it was investing £10 million in the use of Modern Methods of Construction (MMC).

Modular housebuilders require 50% fewer workers to deliver the same number of homes, and assembly line efficiency and economies of scale make this process 40% more productive than traditional building methods, with 90% less wasted materials.

Supply chain issues, however, hamper developers taking this route, so through funding and land programmes, the government is working to stimulate MMC demand. It is also difficult to change designs, such as roof pitches, with this type of housebuilding and mainstream mortgage lenders and insurers have yet to embrace MMC.

Technology

Trends impacting the housing market include using big data to feed into Building Information Modelling, the Internet of Things (smart devices and sensors to facilitate safer working), onsite robots to perform repetitive tasks, 5G (enabling developers to use more MMC and AI-driven volumetric manufacturing and run heavy-resource applications), 3D printing, drones and machine learning.

Current and future workforces also need the right digital training, tools and skills to enable them to retrofit homes, install heat pumps, heat networks and solar panels, and undertake surveying and project management.

While housebuilders may use technology during the construction phase, it's lacking elsewhere. Digitising planning and land supply will help with planning permission and accessing Land Registry data at the start of the process, but at the other end - buying and selling properties - more needs to be done. ■

Where are we now

Levelling Up and Regeneration Bill

The following proposals, going through parliament, are expected to take effect in 2024, although there's debate on their adoption in Scotland, Northern Ireland and Wales:

- Introduce National Development Management Policies (England).
- A design code for all planning authorities.
- Local authorities no longer required to demonstrate a continual five-year housing land supply, providing local plans are up to date, and a review of household projection data.
- Strengthen green belt protections, prioritise brownfield sites and introduce a new Infrastructure Levy.
- Housebuilders to formally notify local authorities when they start a development, report on progress and explain how they'll increase housing tenure diversity.

National Planning Policy Framework (NPPF) Review

A wider review will take place in 2024 and will cover:

- Applying an uplift of 35% more housing in the 20 largest towns and cities.
- Attaching more weight to social renting and retirement planning.
- Changing the definition of affordable housing.
- Considering build-out delivery and development design in planning applications.
- Consulting with the government before granting permission for developments around ancient woodland.

The government is also considering: introducing Environmental Outcome reports, overhauling leasehold laws, increasing planning fees, fining local authorities slow to grant planning permissions, and preventing historically slow developers from being given planning permission.

The Competition and Markets Authority (CMA) has also launched a Housebuilding Market Study in response to concerns housebuilders are not delivering the homes people need at a sufficient scale or speed. At the time of writing, the CMA has yet to publish its decision on whether to make a market referral.

A key issue is the short-term nature of parliaments and the position of housing minister, which means the long-term challenges are never really addressed. There needs to be greater collaboration between the government parties, public and private sectors, and an appreciation that there's no single solution. Until there's a sensible cross-party agreement, housing will continue to be used as a political football, with very little material change. ■

Read on to find out more about the issues this sector faces, contributing factors, and recommendations from both the government and thought leaders from across the industry.

02

Setting the scene

- Homeownership & rentals
- New houses
- Housing need & demand
- Housing supply
- Housebuilding budgets

02 Setting the scene

A PwC survey **Rethinking Levelling Up** found 70% of respondents thought a focus on housing would be the most effective way to level up the country and reduce inequality.

Unlatch research shows we use a tiny amount of land for building. In 2022, Unlatch said out of England's estimated 13.3m hectare land area, around 1.1% (152,380 hectares) has been developed for residential use.

Homeownership & rentals

The 2021-22 **English Housing Survey** says there are 15.6 million owner-occupied households in England, representing 64% of all households. This figure has changed very little over the last decade, as has the split between outright owners and mortgagors (around 35%/30%).

The private rented sector makes up 4.6 million (19%) of households, pretty much unchanged from its peak of 20% in 2016-17.

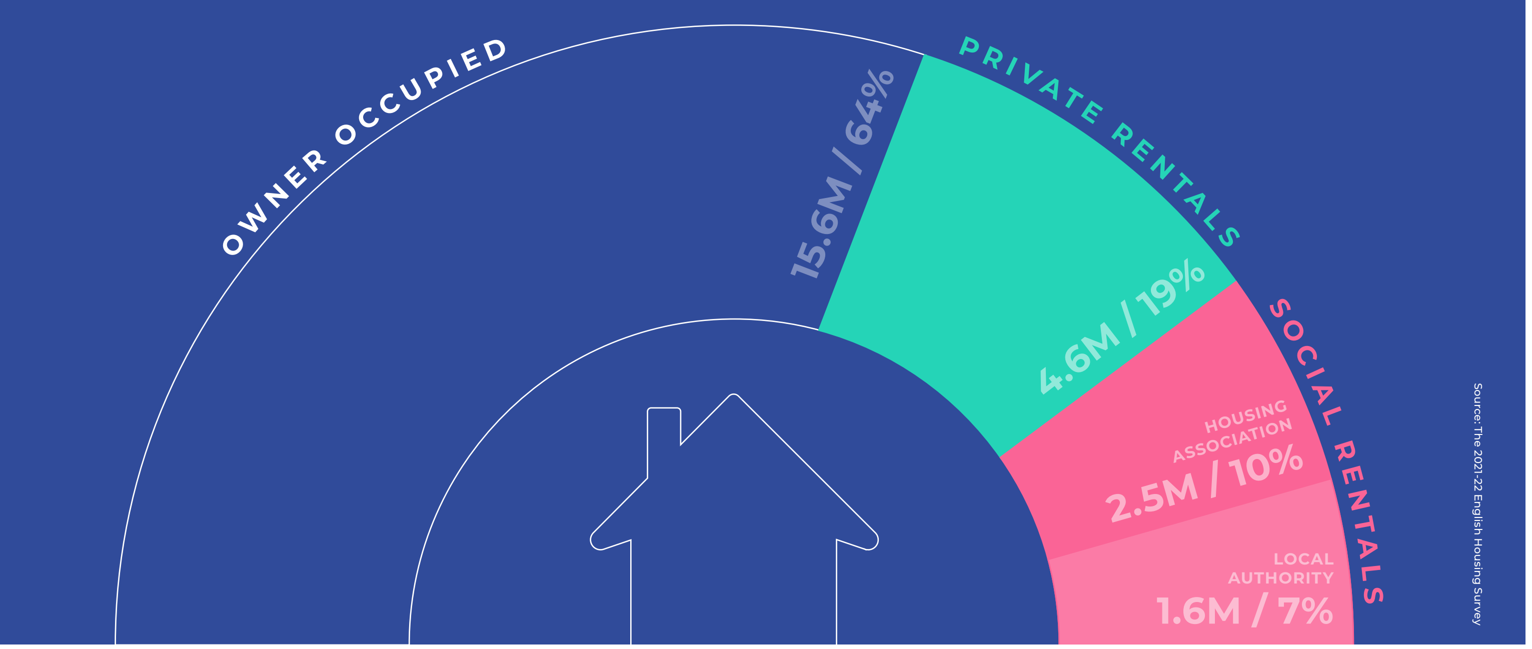
Social renting accounts for 4 million (17%) of households. In 2021/22, 2.5 million (10%) of properties were rented from housing associations and 1.6 million (7%) from local authorities.

The House of Lords Built Environment Committee says the shortage of social housing is forcing tenants to live in private rented accommodation, costing the exchequer £23.4 billion a year in housing benefit subsidies.

Housing in England: Issues, Statistics and Commentary says there were 653,000 vacant dwellings in England (2.6% of housing stock), and 237,300 of those are long-term vacant dwellings (1% of all stock).

> **The shortage of social housing is forcing tenants to live in private rented accommodation, costing the exchequer £23.4 billion a year in housing benefit subsidies.**

The Housing Market Overview (England)



Source: The 2021-22 English Housing Survey

New houses

The government's report on **net additional dwellings** shows the annual housing supply was 232,820 in 2021/2022; 10% higher than the previous year. This includes;

- 210,070 new build homes
- 22,770 gains from change of use (between non-domestic and residential)
- 4,870 conversions between houses and flats
- 5,680 demolitions

Housing need & demand

The **Office for National Statistics** (ONS) says the number of UK households will rise from 23.2 million in 2018, to 26.9 million in 2043 - an average of 150,000 households per year (not taking into account Brexit and the impact on migration).

Given **migration figures** released in May 2023, (up to year-end December 2022) reached record net migration levels, at 606,000, the predicted number of UK households in 2043 could be substantially higher.

In December 2020, the government called for the 20 most populated urban areas to increase their housing supply by 35%, maximising existing infrastructure and reducing the need for high-carbon travel.

In its February 2022 research briefing, **Tackling the under-supply of housing in England**, the Conservatives said there was a need to rebalance the housing market towards more home ownership and progress towards a building target of 300,000 homes per year by the mid-2020s. This, they predicted, would see the building of at least one million more homes,

02 Setting the scene

There has always been debate over the accuracy of the government's housebuilding targets and real estate firm, **Knight Frank**, reports since the start of 2022, over 20 councils have delayed or withdrawn their local plans due to an expectation housebuilding requirements would be watered down.

In December 2022, the government announced it was scrapping plans to impose mandatory house-building targets - by July 2023, 58 local authorities had suspended development plans specifying how they'll meet demand for new homes in their area.

of all tenures, over the lifetime of the next parliament, reducing affordability pressures.

Planning consultancy Lichfields says the confusion over housing policy could cost 100,000 new homes over five years; developers believe the figure could be higher. The HBF says 77,000 fewer homes could be built each year, taking the total to 385,000 over five years - with the fewest homes built in areas with the greatest demand.

In 2019, professors Paul Cheshire and Christian Hilber, from the London School of Economics, argued we've been building houses in the wrong places. Their **housing report** said that rather than building in areas of most demand, we've been building houses where the local economy is slack (in brownfield areas) and where population growth is slower.

To prove their point, they compared 1980-2018 Barnsley/Doncaster and Cambridge/Oxford housing figures and population growth. Barnsley/Doncaster had housing figures of 56,340 and a population growth of 29,430. In contrast, Cambridge/Oxford reported fewer new houses, at 29,430, way below its population growth of 95,079.

> **The 300,000 building target U-turn demonstrates just how difficult it is to accurately predict how much new housing is needed in England. Housing minister Michael Gove concedes 'there's no objective way of calculating how many new homes are needed in an area'.**

How many new homes do we need in the UK?

4.75 MILLION
ACROSS THE UK

300,000-340,000
PER YEAR

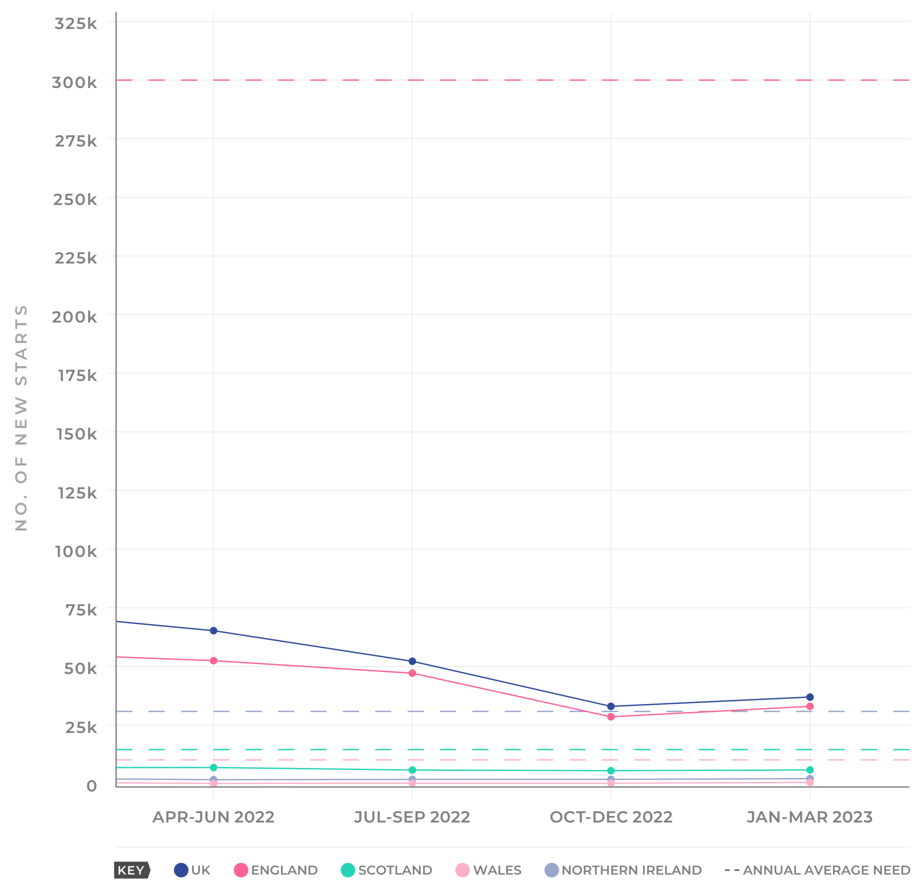
110,000
BY 2032

7,400
PER YEAR 2019-2024

33,000
PER YEAR UNTIL 2030

Sources: Estimates from the National Housing Federation, Gov.uk, Heriot-Watt University, Gov.scot, Gov.ie

New Starts Q2 2022 - Q1 2023



Source: Office for National Statistics (ONS)

02 Setting the scene

Housing need is different from housing demand; need is the amount of housing required for households to live in accommodation that meets a certain standard, and demand is the amount of housing space households choose to buy, given their preferences and ability to pay.

The National Housing Federation and Crisis estimate that 4.75 million households are in housing need across Britain (4.3 million in England). This includes concealed households (adults living separately from their current households), and those in overcrowded, unsuitable and unaffordable accommodation.

Increasing demand, however, continues to put the housing market under pressure. The Joseph Rowntree Foundation says one of the reasons for a lack of affordable housing is the rates of multiple home ownership. Between 2000 and 2020, it found the number of adults owning multiple properties in the UK increased by 147%, and in the same time frame, the number of 16-34-year-olds trying to enter the housing market dropped by 38%.

Heriot Watt University says 340,000 new homes are needed in England each year, of which 145,000 should be affordable.

Housing supply

Over the years, housebuilders have been unable to reach the now-scrapped 300,000 target for England, as evidenced by DHULC statistics showing a low of 125,000 in 2012/13, a peak of 243,000 in 2019/2020, and a fall-back to 216,000 in 2020/21. Development starts in Q1 2023 were 38,000, down from 56,000 in Q2 2022.

Scotland
In Scotland, the accumulated shortfall of homes of all tenures built since 2008 is estimated at 110,000, with housebuilders highlighting a 'worrying' drop in starts.

All-sector new build home starts decreased by 2% (19,204 in the year to end March 2023), marginally down from 19,509 the previous year, and 25% below the number of new homes started, pre-pandemic, year to end March 2020.

By year end March 2023, private-led new build starts were up 1% (105 homes), whilst housing association new build approvals were down 11% (305 homes) and local authority new build starts decreased by 5% (105 homes).

Scottish government figures, published June 2023, show a decline of 12% in homebuilding starts and 27% fewer social housing approvals.

Wales
In Wales, new housebuilding starts are similarly stark. StatsWales calculated Wales needed around 7,400 new houses every year between 2019/20 to 2023/24 to keep pace. In 2021/22, 5,273 were built.

Prior to the 2007/08 economic downturn, housing starts and completions were relatively stable; between 9,000-10,000 starts a year and around 8,000 completions. Since 2008/09, the number of starts fell steeply and they remain below levels seen before the Global Financial Crisis.

Long-term vacant homes (second homes/ holiday lets/vacated) remove swathes of housing from the UK market - the Welsh government has introduced various measures to help tackle the issue, including:

- Increasing the maximum level at which local authorities can set council tax premiums on second homes from 100% to 300% (effective since April 2023)
- Increasing the threshold that self-catering accommodation is liable for business rates instead of council tax; since April 2023 properties must be available to let for 252 days minimum and actually let for 182 days in any 12-month period (previously 140 and 70 days respectively)
- Grant funding to renovate and improve energy efficiency for homes registered as empty for a minimum of 12 months

The effects are yet to be analysed.

Northern Ireland
In Northern Ireland, Land and Property Services data shows new housing starts in Q1 2023 were 1,361 - 29% down on the same time last year and the lowest level since 2014. Housing completions, meanwhile, were also down 25% on an annual basis in Q1 and likely to fall further given the slide in starts.

Social housing is becoming increasingly unviable; in Q1 2023, over 45,000 applicants were on the waiting list for a Belfast home and just 835 new housing units were built during 2021/22. 25,000 of those are officially classified as homeless – an increase of 160% in a decade - and reports published last year suggest it will take 50 years to clear the housing backlog.

The government's Housing for All strategy estimates Northern Ireland needs an average of 33,000 new homes each year from 2021 to 2030. However, unpublished research by the Housing Commission says Northern Ireland may need up to 62,000 homes per year until 2050 to meet demand.

02 Setting the scene

England
In its 2020 **Planning for the Future** white paper, the government said the result of long-term and persistent under-supply is that housing is becoming increasingly expensive. In Italy, Germany and the Netherlands, it reports you can get twice as much housing space for your money compared to the UK.

Between 2013 and 2020, new housing supply increased, year on year, with relaxed planning rules a contributing factor. The key factors affecting the amount of new housing delivered include: the level of housing need, local demand and the amount of available land for building. Some local authorities have little undeveloped land within their boundaries or are constrained because the land has a protected status.

Areas with the highest level of housing supply relative to their size include: Salford (north west), south Derbyshire and Harborough (east midlands), Tower Hamlets and Newham (London) and Bracknell Forest and Vale of White Horse (south east).

Low supply levels include Portsmouth (south east), Rossendale (north west) and south Tyneside (north east).

The House of Lords Built Environment Committee **Meeting Housing Demand** report 2021/22, says one in four people will be over 65 by 2050, up from 19% in 2019, and called for new homes to comprise a mix of mainstream and specialist housing for later living.

Housebuilding budgets

Pressure is on local authorities and housing associations to make a bigger contribution to housebuilding. In 2019 the National Housing Federation said by investing **£12.8 billion** per year, spending levels would reach those last seen under Churchill's government in the 1950s, when enough homes were built to meet the country's needs. ■

> **The result of long-term and persistent under-supply is that housing is becoming increasingly expensive. In Italy, Germany and the Netherlands, you can get twice as much housing space for your money compared to the UK.**

> **In the 2021 Spending Review, the government committed to investing nearly £24 billion in the housing sector, up to 2025/26.**

03

Barriers

- Planning
- Land supply
- Funding
- Lack of development incentives
- Supply chain
- Environmental
- Affordability

03 Barriers

Planning

In its **Planning for the Future** white paper, the government confirmed the average time for local planning authorities' plan publication to adoption increased from 450 days in 2009 to 815 in 2019.

The House of Lords Built Environment Committee confirms a key contributor to local plan delays is under-funding. It says spending on planning has fallen by 14.6% since 2010, causing recruitment issues, staff shortages and over half the local planning authorities to be without an up-to-date local plan.

Our planning system was shaped by the Town and Country Planning Act 1947 and since then we've had years of complexity, uncertainty and delay. And it's not just the adoption of local plans; under current rules, it takes an average of five years for a standard housing development to go through the planning system.

The **Home Builders Federation** (HBF) says delays in the planning and development process are the biggest obstacle to building new homes, causing the number of SME housebuilders to fall by 80% since the early 90s. A planning permission delay on one or two sites can be the difference between a year of growth and a year of contraction.

> **In Boris Johnson's Planning for the Future foreword, he said England had an 'outdated and ineffective planning system' and proposed to 'tear it down and start again'. He hinted there would be 'radical reform unlike anything we have seen since the Second World War'.**

A Planning System in Crisis

Average of **5 years** for standard housing development to go through the system

48% of SME housebuilders' output constrained by the planning system

36% OF MAJOR PLANNING APPLICATIONS **OVERTURNED**

30% OF MINOR PLANNING APPLICATIONS **OVERTURNED**

39% OF PLANNING AUTHORITIES HAVE NO LOCAL PLAN IN PLACE

THE AVERAGE TIME FOR LOCAL AUTHORITIES' PLAN PUBLICATION TO ADOPTION **UP BY 81%** BETWEEN 2009-2019

SPENDING ON PLANNING **FELL BY 14.6%** BETWEEN 2009-2019

Sources: Gov.uk, Home Builders Federation, The House of Lords Built Environment Committee

Planning reform paused in autumn 2021, following Michael Gove's appointment as secretary of state at the Department for Levelling Up, Housing and Communities (DLUHC), despite the House of Commons 2022 research briefing, **Tackling the under-supply of housing in England** agreeing that the planning system is central to the failure to build enough homes.

The House of Lords Built Environment Committee agrees the process is particularly challenging for SMEs and cites HBF statistics confirming that 48% of SME housebuilders' output is constrained by the planning system.

Q4 2022 DLUHC **planning application statistics** confirm local authorities decided on 12% fewer applications (91,700) than the previous year. Of these, 49,600 were householder developments, down 17%.

> **The government concedes the planning system works best for large investors and companies, and worst for those without resources to manage the process.**

In its Planning for the Future white paper, it pledged to tackle issues including:

- Planning decisions are discretionary, rather than rule-based. They're made on a case-by-case basis and over-turned on 36% of major and 30% minor planning applications.
- Local plans take too long to adopt. Although there's a statutory obligation to have a local plan, currently only 61% of local authorities have one in place. Local plans can take around seven years to prepare, meaning many policies are out of date as soon as they're adopted.
- Local housing need assessments are too complex and vague, based on predictions up to 20 years ahead, rather than immediate local demographics.
- Loss of public trust - A recent poll found only 7% of respondents trusted their local council to make decisions about large-scale developments that would be good for their local area.

> **Planning decisions are discretionary rather than rule-based. They're made on a case-by-case basis and over a third are overturned.**

- Planning is based on 20th-century technology, yet systems use legacy software with repetitive tasks. The planning process remains reliant on documents, not data, reducing the speed and quality of decision-making. There's little use of digital tools and services; the system is too dependent on the views of a particular official at a particular time.
- The process for negotiating developer contributions to affordable housing and infrastructure is complex, protracted and unclear, creating uncertainty. Over 80% of planning authorities agree planning obligations cause delay, increasing planning risks for developers and landowners.
- There's not enough focus on design and little incentive for high-quality new homes and places. Local plans do not provide enough certainty on the approved forms of development, allowing quality to be negotiated away.

03 Barriers

Government 2020 Planning for the Future white paper recommendations

1. Streamline the planning process

- Local plans should set clear rules for development, alongside locally produced design codes. Plans will be shorter with a core set of development requirements, such as: identifying areas that meet a range of development needs, those that can absorb the level of housing proposed and least affordable places with an under-supply are to take a greater share of developments.
- In addition to the Housing Delivery Test, local plans will be subject to a statutory sustainable development test with assessments so they meet social, environmental and economic objectives. This will replace the existing test of soundness and 'duty to cooperate'. They'll also be visual and map-based, following a standard template.
- Local councils to better engage with communities at the plan-making stage and streamline opportunities for consultation at the planning application stage.
- Local authorities and planning inspectorate will be required, through legislation, to meet a statutory timetable (30-month limit) for key stages of their local plan process.

This comprises:

STAGE 1 (6 MONTHS)

Plan-shaping - where the development will go, what it will look like and how to secure public involvement.

STAGE 2 (12 MONTHS)

Local planning authority draws up a local plan with evidence to inform and justify it.

STAGE 3 (6 WEEKS)

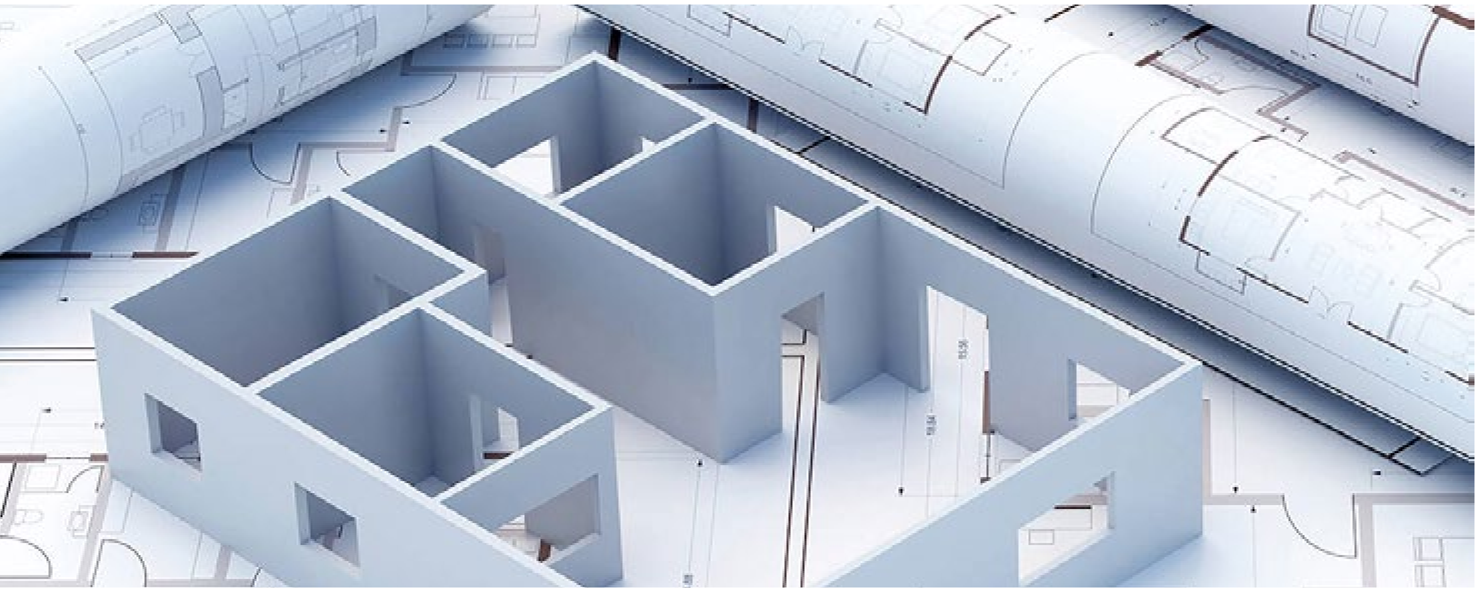
Plan submitted to secretary of state for examination, explaining why it's been drawn up and published for public comment. Those seeking change must explain why and how the plan should be altered.

STAGE 4 (9 MONTHS)

Secretary of state planning inspector checks plan sustainability and makes any changes necessary to meet statutory test and national guidelines.

STAGE 5 (6 WEEKS)

Local plan map, key and text finalised & comes into force.



- To support the transition to a new system, local authorities will be required to adopt a new local plan either 30 months from the legislation coming into force, or 42 months for those who adopted a local plan within the last three years (or where it's been submitted to government for examination).
- Every local plan will need to be reviewed every five years from the date of adoption, and there will be sanctions for those who fail to meet the timescales. In May 2022, the government announced councils with up-to-date local plans will no longer need to demonstrate a five-year supply of housing sites.
- Incentives will be introduced, such as an automatic refund of the planning fee if an application is not processed within the statutory time limit, and to support the implementation of its reforms, the government will develop a resource and skills strategy for the planning sector.
- Local authorities will be required to use data and digital tech to make faster and more certain decisions and strengthen their enforcement powers to support a rules-based system.

Natasha Rakova, director, Consulting, PwC:
"The planning system plays a significant role in the failure to build enough homes in the UK, mainly due to its complexity and slow processes. Providing more resources and support to developers and housebuilders to navigate the system could streamline the process and increase efficiency. For example, a semi-automated, efficient, well-understood, and timely approach will give current and potential future SME builders greater incentives to participate in house-building. Another issue to be addressed is derived from resource and workforce constraints. There just aren't enough planners to get through the work."

Ian Humphreys, CEO and founder, Brickflow:
"Introducing a statutory timetable for local plans is long overdue, however, it's important to acknowledge the government's dithering over national planning policy reform is a key reason for local plan delays. It causes uncertainty for local authorities, which is why 58 (as of July this year) have stalled, delayed or withdrawn their local plans to deliver housing, making it impossible for developers to progress projects."

03 Barriers

2. Take a digital-first approach

- Move to a position where all development management policies and code requirements, at national, local and neighbourhood level, are in a machine-readable format, so where feasible, they can be used by digital services to automatically screen developments and see where they align with policies and/or codes.
- Retain neighbourhood plans and support communities to use digital tools. Help local planning authorities use digital tools for people to give feedback using different devices and formats.
- Local plans to follow digital guidelines with interactive maps and data accessed across the public sector and by PropTech entrepreneurs. New style digital local plans will also help local planning authorities better engage on strategic cross-boundary issues and use data-driven insights to assess local infrastructure needs.
- Make other digital assets more accessible, including planning decisions and developer contributions.
- Work with tech companies and local authorities to modernise software used for making and case-managing planning applications and engage with the PropTech sector through a PropTech Innovation Council and utilise innovative new approaches.

In March 2022, the government announced over £3.25 million from its PropTech Engagement Fund was to be spent on projects across England, trialling digital tools, such as 3D interactive maps and virtual reality, to make the planning system more open, engaging and accessible.

The funding was distributed across 15 Local Planning Authorities (LPA), with each council-led project awarded between £30,000 and £375,000. Nottingham City Council & Bradford Council, who secured the highest funding, already use elements of 3D technology to inform planning decisions and the new funding will take this further. The Digital Nottingham Initiative created a 3D model of the city that can be adapted through map-based data, and from a planning perspective, can be used to demonstrate how a new building or development would look and fit alongside the existing infrastructure.

Using existing knowledge and learning, the authority will work with suppliers, partner LPAs and other stakeholders to co-create a range of resources in the form of enhanced 3D tools, 3D data, demonstrations and support/learning material. The plan is to enable most LPAs to develop the capability themselves.

Some councils are using the funds to implement tools like scannable QR codes, giving people local planning information straight to their mobile devices. Increasing local community engagement with planning has been successful during pilot schemes, with a reported 1000% increase against normal engagement levels.

3. A new focus on design and sustainability

- Through the National Planning Policy Framework (NPPF), ensure the planning system supports government efforts to combat climate change, maximises environmental benefits and has a greater focus on 'placemaking' and 'the creation of beautiful places'.
- From 2025, the government, through its Future Homes initiative, states that new homes should produce 75-80% fewer carbon emissions, making them more energy-efficient and able to meet the UK's net-zero carbon commitment by 2050.
- Introduce a simple framework for assessing environmental impacts and enhancement opportunities, and fast-track applications for high-quality developments that reflect local character and preferences. The current frameworks - Strategic Environmental, Sustainability Appraisal and Environmental Impact Assessments - cloud transparency and cause duplication of effort and delays.
- While referring to the National Design Guide, National Model Design Code and Manual for Streets, prepare design codes locally, based on community involvement. Make design predictions more visual and predictable and ensure codes are binding on development decisions.
- Establish a new body to support the delivery of design codes nationally, perhaps an arms-length body reporting to government, a specialist centre in Homes England or reinforcing existing architecture/design centre network.
- The government has created an Office for Place (within the DLUHC) to pioneer design and beauty within the planning system and each local planning authority will have a chief officer for design and placemaking.

- Refresh Homes England's strategic objectives, with greater emphasis on delivering beautiful places, and ensure the framework for protecting historic buildings/areas is fit for the 21st century.
- Introduce a fast track for beauty through changes to national policy and legislation; incentivise and accelerate high-quality development that reflects local character and preferences.
- In line with the government's 25-year Environment Plan, introduce initiatives to promote environmental recovery and long-term sustainability. The Environment Bill, approved by parliament in November 2021, makes it mandatory for most new developments to deliver net gains for biodiversity. Local nature recovery strategies identify opportunities to secure enhancements through the developments themselves and contributions.

03 Barriers

4. Improve infrastructure delivery and reform developer contributions

In 2016, when reporting to the Lords Economic Affairs Committee, small builders said Section 106 Agreements and the Community Infrastructure Levy (CIL) were ineffective and an obstacle to development. The National Audit Office in 2019 said only 47% of local authorities implemented a CIL.

Property developers anecdotally say it takes 16 weeks to get planning consent and a further 22-44 weeks to negotiate Section 106 Agreements. Smaller builders report they often have to buy in expertise to navigate the system.

While the merits of Section 106 agreements and CIL requirements are questioned, it's clear they make a huge contribution to affordable housing. The 2020 **UK Housing Review** autumn briefing paper reported developer contributions totalled almost £7 billion, with affordable housing contributions worth almost £4.7 billion.

Analysis from the **Centre for Progressive Capitalism** indicates that while Section 106 agreements and the CIL redistribute the increase in land value for public benefit, a high proportion of windfall profit accrues to landowners/traders.

> **Property developers anecdotally say it takes 16 weeks to get planning consent and a further 22-44 weeks to negotiate Section 106 Agreements. Smaller builders report they often have to buy in expertise to navigate the system.**

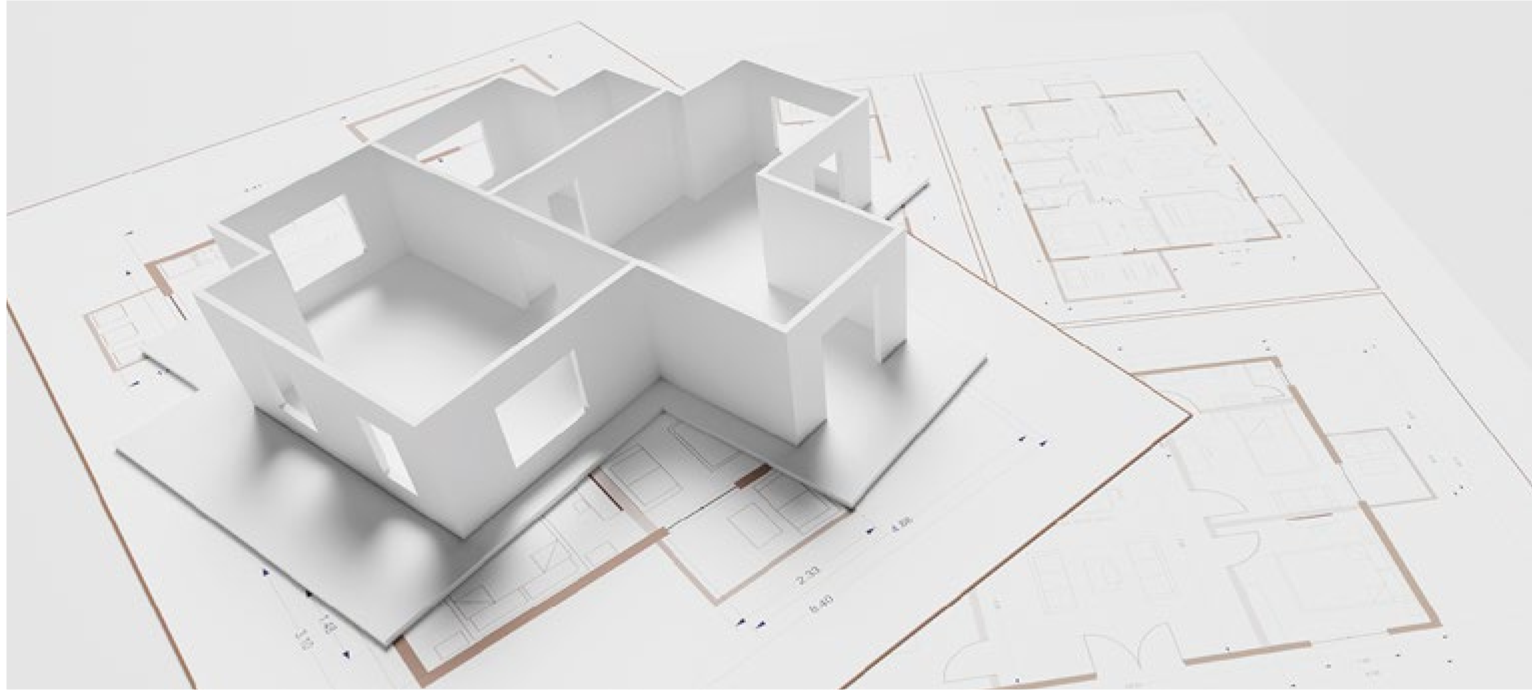
Government recommendations

- To better share land value increases between landowner, developer and the public, replace the CIL and planning obligations with a nationally set Infrastructure Levy.
- The new levy will have a value-based minimum threshold (reflecting average per square metre build costs, with a small fixed allowance for land costs), and be sensitive to economic downturns, reducing risks and cash flow issues, giving greater certainty to developers regarding their level of contributions.
- By removing Section 106 Agreements, local authorities will have greater flexibility on how they use developer contributions, including expanding the levy's scope to cover affordable housing and support existing/new communities.

Other proposals include:

- Make the Infrastructure Levy optional and set by individual authorities, or take a national rate approach and capture more land value. While developers would be liable for paying the levy, this cost would be capitalised into land value, ensuring land owners who benefit from planning permission contribute to the infrastructure and affordable housing.
- Retain the Mayoral Community Infrastructure Levy and similar strategic CILs (in combined authorities).

There are concerns that the creation of a single levy will put affordable housing in competition with other infrastructure projects. The Chartered Institute of Housing, Royal Town Planning Institute, and Town and Country Planning Association say more evidence, modelling and policy development is needed to establish whether the new levy would impact the delivery of affordable housing.



Industry view

Justin Martin, LLB FCA AMIIA, partner, Assurance, PwC: *"Levy changes may provide only marginal benefits, but when considered as part of a wider package of planning reform, collectively they will yield significant improvements."*

Ian Humphreys, CEO and founder, Brickflow: *"If authorities can demonstrate the benefits of the Infrastructure Levy - and how it can improve, rather than add to the pressures on local services - it may go some way in allaying the concerns of NIMBYs and anti-development protestors."*

"Landowners unduly profiteering from planning gain is a negative for society. Whilst we fully support the risks taken by landowners to negotiate the arduous planning process, consented land shortages mean prices are often bid so high, that the end developer has to compromise on build quality to make a reasonable profit. By including landowners with planning permission in the levy, it should make for a fairer, more balanced, supply process."

Justin Gaze, head of residential development land, Knight Frank: *"To get support for a development, it's vital to show money from the Infrastructure Levy will be used to cover the increase in demand for services locally, such as road use, doctors' surgeries etc. It's dangerous to divert the money to areas remote from the development itself."*

"There's some logic in land value capture, and let's not forget, developers already contribute towards infrastructure and affordable housing. The danger of a betterment tax, as was demonstrated in the 1960s and 70s when this was attempted and failed, is that it disincentivises landowners to bring forward land for development. Landowners tend to be long-term holders of property and view the tax as a political issue, so are prepared to wait until there's a change in government. Land value capture will hinder the availability of development land in an already heavily constrained market."

5. Create/increase developer incentives for affordable housing

Developer contributions deliver over half of all affordable housing, via Section 106 Agreements, and the reforms will allow authorities to divert funds raised through the new levy, to affordable housing. Secured via in-kind delivery on-site, authorities would be able to specify the form and tenure of affordable housing, and a nominated affordable housing provider could purchase dwellings at a discounted market rate, as now.

The difference between the price the unit was sold to the developer for and the market price paid by a housing association, would be offset from the final cash liability to the levy, making the payment lower and so where appropriate, incentivising developers.

If the market falls and levy liabilities are not enough to cover the value secured through in-kind contributions, the authority could flip a proportion of affordable housing units back to market units which the developer could sell.

Ian Humphreys, CEO and founder, Brickflow: *"Whilst this could work in theory, the lack of a national framework makes it difficult to deliver in practice. There is no uniformity across local planning authorities, with Section 106 Agreements utilised differently across the UK and subject to discretion. Not only does this restrict innovation and deter new developers from entering the market, but it creates situations where an S106 agreement is made with the council, only to be deemed unviable by the local borough. This leaves developers waiting six months for viability studies and 12 months to re-agree the S106. Developing a national framework is something that needs to be included within the NPPF review due next year."*

Incentive recommendations:

- To incentivise developers to build and design high-quality homes, local authorities could have the option to revert to asking developers for cash contributions if no affordable housing provider was willing to buy due to poor quality.
- Another option is to create a 'first refusal' right for local authorities or any nominated affordable housing provider to buy up a set proportion of on-site units at a discount, broadly equivalent to build costs. The proportion is set nationally (with a smaller site limit, below which cash payment in-lieu could be made) and the developer has discretion over which units are sold.
- Once purchased, the units are used for affordable housing or sold back to the developer to raise money for affordable housing elsewhere.

Justin Gaze, head of residential development land, Knight Frank: *"Developers have to build to a certain standard, so the design/quality aspects are already covered. Local authorities rely on housebuilders to develop for them, and if they want to produce housing for themselves, they'd need to set up as a separate entity, which is unworkable. The solution is to incentivise developers to deliver affordable housing."*

6. Increase freedom on Infrastructure Levy

Currently, the neighbourhood share of the CIL ensures up to 25% is spent in the area where the development occurred. The government proposes to keep this and give authorities more flexibility on where the money is spent; for example, in addition to infrastructure, to improve services, reduce council tax or spend more on affordable housing/digitalisation.

> ***Developing a national framework is something that needs to be included within the NPPF review due next year.***
>
> *Ian Humphreys, Brickflow*

7. Short-term measures to immediately improve the system

To immediately improve the current planning system (England only), until the transition to the new system, the government recommends:

- Changing the standard method for assessing local housing need.
- Securing first homes through developer contributions, sold at a discount to first-time buyers.
- Temporarily lifting the small sites threshold to 40/50 units - below this developers do not need to contribute to affordable housing.
- Extending permission in principle to major developments, so landowners/developers do not have to draw up detailed plans before securing initial agreement.

Ivor Watson, Sites Coordinator, Marden Homes: *"It is clear councils lack the resources to deal with the number of applications, and for a developer, the financial knock-on effect of planning delays can be catastrophic. As an example, we submitted two planning applications in December 2022 with determination dates of March and May 2023. We're still waiting on a decision when we should be on site, building. In terms of a solution, I believe most developers would even agree to higher application fees if deadlines such as eight weeks for minor developments and 13 for major ones were met."* ■

> ***We submitted two planning applications in December 2022 with determination dates of March and May 2023. We're still waiting on a decision when we should be on site, building.***
>
> *Ivor Watson, Marden Homes*

03 Barriers

Land supply

According to government 2022 **land use** statistics, over 90% of land in England is undeveloped. While there's sufficient land to build on, supply is limited and fixed due to how the land is already used, with agriculture accounting for 63.1%, forestry, open land and water at 20.1% and residential gardens using 4.9%. This leaves just 0.2% of unused, undeveloped land vacant.

Land Use in England

LAND OF NON-DEVELOPED USE **91.1%**

LAND OF DEVELOPED USE **8.7%**

0.2% VACANT LAND

TOP 3 LAND USE GROUPS

AGRICULTURE 63.1%

OPEN LAND, FORESTRY & WATER 20.1%

RESIDENTIAL GARDENS 4.9%

85% OF SME BUILDERS SAY LAND AVAILABILITY IS LIMITED OR VERY LIMITED

Source: Gov.uk, Federation of Master Builders, Knight Frank

In the **2022 Federation of Master Builders Housebuilders Survey**, 62% of SME housebuilders viewed the availability and viability of land as the most prominent barrier to building more homes, and 82% said small site opportunities were decreasing.

In its **Meeting Housing Demand** report 2021/22, the House of Lords Built Environment Committee identified land availability as a 'significant barrier to meeting housing demand' and highlighted how different land values impact the ability to raise funding for infrastructure in low-value areas.

Knight Frank, in its Q4 2022 survey of volume and SME housebuilders, reported that 85% of respondents said land availability was limited/very limited and the economic/market outlook has caused land buyers to be more selective. Unsurprisingly, sites offering 100-250 units in core locations, subject to planning permission, are in highest demand.

In response to calls for more transparency in the land supply system (i.e. releasing data on land market activity), and for incentives to encourage development on stalled sites, **Fixing our Broken Housing Market** 2017 set out measures including:

- HM Land Registry to achieve comprehensive land registration by 2030.
- All publicly-held land in areas of high housing need, registered by 2020.
- The rest to follow by 2025.

In 2019, in response to a parliamentary question, Kit Malthouse MP said the government is working with the Land Registry to meet these targets. The general consensus is that better data would create a more level playing field and enable small builders to find sites more easily.

The government says it will consult on options to improve the data held on land market activity, creating greater transparency. This will assist SMEs and new entrants, promote developer competition and better inform communities. In addition, it'll ensure publicly-owned land and public investment in development supports SME/self-build sectors and the regeneration of town centres.

In June 2020, Boris Johnson suggested: 'A new ambitious cross-government strategy will look at how public sector land can be managed and released so it can be put to better use'. This would include home building, improving the environment, contributing to net-zero goals and injecting growth opportunities into communities.

Three months later, the government announced a £30 million fund to help release surplus land for housing, with a focus on SME housebuilders.

Comprising £10 million for the One Public Estate Programme (public bodies working together to use public assets more efficiently) and £20 million for the Land Release Fund (LRF) - available to councils for remediation works and infrastructure to bring surplus sites forward for housing - these measures go some way to helping housebuilders meet the now-scrapped annual target for new housing of 300,000 per year.

The first round of bidding closed in November 2020 and council projects included:

- Broadland District Council in Norfolk - site highway/surface water drainage improvements and the completion of 22 homes.
- Griffin regeneration area in Blackburn - new highways access and remediation work to accelerate the release of brownfield land for 140 new homes.
- Burnholme development in York - a health and wellbeing hub with permission to build 78 new homes and five self-builds (one-third to be wheelchair accessible).

Since then, the One Public Estate Programme has continued to release funds to English councils to support the release of council-owned brownfield land for housing, as covered in our brownfield section.

03 Barriers

Industry view

Paul Davis, co-founder, Nimbus: *"Transparency in the land supply system is crucial, and better, more open data plays a significant role in levelling the playing field for all developers. While some may argue that accessing land is already easy for developers, the reality is the availability of comprehensive and reliable insights greatly enhances their ability to identify suitable sites in real-time - removing traditional barriers and helping generate affordable and viable residential sites at scale to help meet demand."*

Mitchell Fasanya, CEO, Searchland: *"There are in effect two sources of land - public and private sector. It would be politically untenable to suggest, as Labour is, that private sector land be snatched from owners for the purposes of development. However, willing sellers could be added to a database to be searched by willing buyers and this would help improve transparency while aiding small builders in their search for suitable sites."*

"However, the issue is not just the identification of such land, but also obtaining the contact details for the seller, considering the likelihood of gaining planning consent, the risks and land undulation, plus other challenges associated with the development process."

"We also believe there should be a database of all public sector land, both local authority and national government-owned. There's over 180,000 hectares of land owned by the public that could potentially be utilised as brownfield housing yet no one has access to its whereabouts in a digestible format."

Government recommendations

SME feedback to the government's 2020 **Planning for the Future Consultation** prompted the now DLUHC Committee to call for:

- Homes England to dispose of small parcels of land to SMEs with permission in principle for development.
- The ring-fencing of land for self and custom build.

Both options are coming to fruition and SMEs can now access varying parcels of land via Home England's Dynamic Purchasing System.

Using a **Land Hub** portal, SMEs can view land opportunities and bid to develop homes on land owned by Homes England or other public sector bodies. Applicants have to go through a procurement system evidencing their experience in obtaining planning permission, supply chain management, house design and construction and sales and marketing.

To ensure enough land comes into the system, the government says it will either maintain the Housing Delivery Test and favour sustainable developments, or allow local planning authorities to calculate how much land they need to release to meet the development needs of each area.

The House of Lords Built Environment Committee believes another solution is to build more homes around railway stations (using existing infrastructure) and release green belt or agricultural land for development, and offset green belt release through land swaps.

Paul Davis, co-founder, Nimbus: *"The Homes England Dynamic Purchasing System provides valuable opportunities for SMEs to access land, allows for greater visibility of land opportunities and offers a fair procurement process. However, it's important to continually assess and refine such systems to ensure they meet the ever-evolving needs of the industry. This can only be done with tried and tested PropTech that's able to provide accurate property intelligence instantly - and consistently - everywhere."*

Mitchell Fasanya, CEO, Searchland: *"The Delivery Partner Dynamic Purchasing System is great in theory but its effectiveness is diminished due to the real issue of the identification and supply of land."*

Brownfield land

The current National Planning Policy Framework (NPPF) gives substantial weight to the value of using brownfield land, and under the Town & Country Planning Regulations 2017, local planning authorities are required to compile and maintain a register of locally available brownfield sites (above 0.25 hectares), suitable for residential development.

Action to date

In the 2021 Spending Review, the chancellor announced a £ 1.8 billion package of investment to regenerate communities and level up the country, unlocking around 160,000 new homes on derelict and underused brownfield land, primarily outside London and the south east.

To support the take-up of brownfield regeneration, the same year the chancellor released £300 million of locally-led grant funding for mayoral combined authorities and local authorities to unlock smaller brownfield sites for housing.

In July 2022, DLUHC announced that £180 million was going into its Brownfield Land Release Fund - to help transform disused urban areas, creating around 17,600 new homes and 54,000 jobs over the next four years.

03 Barriers

Ian Humphreys, CEO and founder, Brickflow: *"The Brownfield Land Release Fund is a welcome initiative, with the first round of funding delivering 7,750 new homes across England. Brownfield sites are good for SMEs because they're often too small for bigger companies, creating opportunities for smaller developers. By offering funding for brownfield sites, developers have a chance to acquire parcels of land they wouldn't otherwise have access to and secure finance to cover remediation costs."*

"But this only makes a small dent in the number of new homes that are needed per year. The expense involved in remediation, especially in contaminated sites, also restricts project viability, potentially meaning fewer affordable homes will be delivered if proportionate funding isn't granted. Project viability is further compounded by nutrient neutrality regulations since brownfield sites are particularly affected by phosphate levels. Nonetheless, government funding to transform these types of sites is a positive move."

Paul Davis, co-founder, Nimbus: *"One of the potential barriers to brownfield development is the finance - particularly the costs associated with demolition, remediation and dealing with difficult ground conditions or contaminated land. As most seasoned developers know, the financial outcome of a project is often won or lost in the ground. While government funding is a step in the right direction, it's important to regularly review and ensure it adequately supports this type of development."*

Mitchell Fasanya, CEO, Searchland: *"Much like building on the green belt, brownfield development faces many obstacles, such as demolition and remediation costs, difficult ground conditions, contamination of land and financing issues."*

"The typical cost of remediating brownfield land can start at £25,000 and climb as high as £100,000 per acre. For those requiring more extensive remediation, this cost can climb as high as £500,000 per acre, which demonstrates why it's largely overlooked. The issue with brownfield is not just the cost of remediation, but the fact it's piecemeal and lends itself to sporadic development."

Green belt

A green belt report from the Campaign to Protect Rural England and Natural England says the green belt covers 1.6m hectares - nearly 13% of England. The government's policy is to prevent urban sprawl by keeping land permanently open and maintaining a clear physical distinction between town and country.

> ***"A number of protected green belt fields are not particularly beautiful and building on them could form part of the solution."***
>
> *Martin Wolf, chief economics correspondent, commenting for the Financial Times*

Paul Cheshire, professor emeritus, economic geography, LSE, agrees building on the least attractive and lowest amenity parts of green belts could solve housing supply and affordability problems.

In its revised NPPF, the government says clear criteria will need to be satisfied to justify (in exceptional circumstances) the release of green belt land.

The Lords Built Environment Committee criticises the lack of detail around 'exceptional circumstances', but supports development on undeveloped green belt land close to train stations, where there might be a small proportional impact.

The government confirms the boundary of green belt land can only be changed in exceptional circumstances, and after the local authority has demonstrated every other development option has been explored.

Proposals include:

- Off-set the loss of green belt land with compensatory improvements to environmental quality and access on remaining green built areas.
- Create rural exception sites, where a development or change of use for sport/recreation etc. is not inappropriate, if it preserves openness and does not conflict with its purposes.

> ***"The green belt status across the UK needs a full and proper Royal Commission undertaken to reclassify areas that could easily be developed for housing."***
>
> *Mitchell Fasanya, CEO, Searchland*

Justin Gaze, head of residential development land, Knight Frank: *"A lot of green belt land is low quality and if we want sustainable developments, we should take a small element of green belt land, close to infrastructure hubs, and develop there. This is one of the best solutions to the land supply issue and more sustainable than putting in new infrastructure and building around it."*

Paul Davis, co-founder, Nimbus: *"Any decisions regarding green belt land should be made with careful consideration of the potential impact on the environment and local communities. It's essential to strike a balance between addressing housing needs with preserving the character of an area and conserving valuable green spaces. With the right tools and tech in place, organisations can be empowered to work collaboratively and confidently to identify what's viable and beneficial."*

Mitchell Fasanya, CEO, Searchland: *"The Centre for Cities has suggested releasing green belt land within a short distance of train stations that serve major cities for development. There's no doubt green belt building could provide the key to solving the housing crisis and our research shows that releasing just 1% could provide the potential for over 700,000 new homes."*

"But releasing bits of land around specific infrastructure such as train stations is a blunt instrument. Much of it may be appropriate, much of it not. The green belt status across the UK needs a full and proper Royal Commission undertaken to reclassify the 'bad bits' - scrap yards, old industrial estates - areas that could easily be developed for housing but because they sit in the green belt, planning officers habitually say 'no'."

Farmland

With 57% of the UK's agricultural output coming from 33% of our farmed land area, the government is calling for the food production value of land to be taken into account in planning decisions. Freeing up farmed land for a building project is a decision not to be taken likely. If agricultural land is included within a planning strategy, the decision must be scrutinised, debated and not forfeited just to meet housing supply.

03 Barriers

Land costs

The 2022 research briefing, **Tackling the under-supply of housing in England**, says land price is a barrier to housebuilding, and the value gained from planning permission encourages strategic land trading, rather than development - delivering profits for land owners, rather than developers.

It reports high land prices impact and reduce the quality and size of new homes, causing problems for SME developers who end up competing for sites.

The New Economics Foundation **What lies beneath** report agrees unaffordable land is at the heart of the housing crisis and opines any solution will never succeed unless it takes major steps to address the broken land system.

Knight Frank says a slowdown in the private sales market and higher financing costs in Q4 2022, pushed development land values down an average of 3.5% for greenfield sites, and 8.5% for brownfield. However, in London, where there's an ongoing scarcity of sites for sale, land values have gone up 2.5% annually.

Shelter and KPMG in their 2014 **Building the homes we need** report, say the combined features of the land market (including barriers to entry and market concentration) put little competitive pressure at the consumer end of the development process, which might otherwise drive down margins.

> **Competition is focused on acquiring land, rather than satisfying consumers, creating a vicious circle where high land prices ensure housing output remains low and house prices high.**

And with the development process highly challenging, for example with planning hurdles, regulatory change, construction costs, supply chain issues and a volatile financial market, developers are required to minimise build costs and maximise sale prices by building at a rate not related to demand for homes, but demand for homes at certain prices.

In September 2018, the HCLG Select Committee held an inquiry into land value capture and concluded there was scope to claim a greater proportion of land value increases.

In November 2019, the government agreed, but said it intended to 'evolve the existing system of developer contributions to make them more transparent, efficient and accountable'.

This has since evolved into the Infrastructure Levy proposals, mentioned previously.

Another potential solution was a Land Value Tax (LVT), where landowners make payments based on the current market value of the land, regardless of whether, or how well, the land is used. Some economists support an LVT replacing business rates, and ultimately council tax and stamp duty land tax, however, this option doesn't have widespread political support.

Justin Gaze, head of residential development land, Knight Frank: *"There is some truth in the land acquisition comment, but the market determines price, not developers. Margins reduce when there's less risk - so in a strong sales market, land prices are higher and in a weak market, they're lower."*

"Those outside our industry do not appreciate the mechanics and cost of getting planning permission, say for example, with a 200-unit scheme. It takes at least two years for planning at a cost of £500k to £1.5 million, so the land owner is paying over £100,000 per acre to secure planning permission, plus there are onsite and offsite servicing and infrastructure costs. A 2,000-unit scheme will typically see infrastructure costs of over £100 million, so rather than focus on land value capture, the government should be looking to incentivise landowners to bring more land forward. If politicians bring in what is essentially a betterment tax on land capture, it will turn off land supply of land across the country."

> ***"A better solution is to de-risk the planning process and make it cheaper, with less expensive reports to produce. It's currently politicised at a local level creating uncertainty."***
>
> ***Justin Gaze, Knight Frank***

Gareth Davies, head of business development, Hodge Bank: *"The availability of quality development land continues to be at a premium and the price expectations of land owners remain much higher than many developers can afford to pay. With the dramatic rise in development and finance costs, in a very short period of time, there is less money available to purchase land and property. To open up more sites, vendors' price expectations need to realign with purchasers' capabilities."* ■

03 Barriers

Funding

Planning

As previously mentioned, the House of Lords Built Environment Committee confirms a key contributor to local plan delays is under-funding, causing recruitment issues, staff shortages and over half the local planning authorities without an up-to-date local plan.

In a bid to bridge the funding gap, in 2021, the Levelling Up, Housing and Communities Committee said it would seek a treasury commitment for an additional £500 million over four years for local planning authorities, recommending this was in place before any Levelling Up and Regeneration Bill planning reforms.

In the (same year) Spending Review, the government set aside £24 billion for housing up to 2025/2026 and an additional £65 million to improve planning through a new digital system.

To ensure the planning system is better resourced, the government is **consulting** on a 35% fee increase for major applications and 25% for others. In addition, a small proportion of income from the new proposed developer contributions will be earmarked to cover authorities' overall planning costs, including local plan/design code preparation/review and enforcement actions.

Housebuilding

Even if the planning system is better funded, housebuilders equally need sufficient funding.

Housebuilding requires considerable up-front investment, which means in most cases, housing developers need access to finance. However, in common with the rest of the economy, finance was less readily available in the construction sector after the 2008 financial crisis, prompting the House of Lords Built Environment Committee to surmise that 'access to finance is a key barrier to housing growth'.

The 2017 Institute of Public Policy Research report **Think small, build big**, said SME developers faced a 'toxic triangle' of mutually reinforcing issues; the planning system, the land market and insufficient access to finance.

In the 2022 **Federation of Master Builders Housebuilders Survey**, 41% of SME housebuilders said sites they were interested in had stalled due to finance-related reasons and confirmed interest rates charged on new loans were the most significant finance issue.

The Home Builders Federation confirms development finance providers are tightening their lending criteria, restricting SMEs' ability to grow.

Ian Humphreys, CEO and founder, Brickflow:
"Lenders are undoubtedly being more picky, but this isn't the main factor contributing to finance being less readily available. With every 1% increase to the base rate, a developer needs £10,000 more in equity per £1m borrowed. This means that, based on the UK's £8 billion development finance market, £400 million more is needed in equity."

> ***With less equity available, the amount developers can borrow with the same amount of equity is now 25% lower than last year, creating a liquidity crunch rather than a credit crunch.***
>
> *Ian Humphreys, Brickflow*

What has the government put in place to help with funding?

- £500 million Builders Finance Fund (Budget 2014), helping developers unlock 15,000 housing units - extended to £1 billion of funding up to 2021 (2015 Spending Review).
- £3 billion Home Building Fund (launched 2016), enabling SME builders to obtain loan finance to assist with development and infrastructure costs - £1.5 billion added to the fund (2017 Budget).
- £1 billion Housing Delivery Fund (launched in 2018), in partnership with Homes England and Barclays, providing loan finance for SMEs.
- £7.1 billion National Home Building Fund (Spending Review 2020), spread over four years, backing smaller developers, unlocking brownfield land and supporting innovative construction techniques. Includes funding for a new self-builder Help to Build equity loan scheme, £2.2 billion of loans for SMEs and innovative housebuilders, and £100 million in grants for 2021/22, to unlock brownfield sites and support housing on less attractive land. Expected to support the building of around 70,000 homes.
- Partnered with Invest & Fund (September 2020) to provide construction loans between £400,000 and £2.5 million (supporting applications below the Levelling-Up five-unit threshold).
- £11.5 billion Affordable Homes Programme 2021-26 (March 21), with grants to increase the construction of affordable housing, including supported housing for older, disabled or other vulnerable people.
- £1.5 billion Levelling-Up Home Building Fund (February 2022) offering loans starting at £250,000 to SME builders and developers to deliver around 42,000 homes.
- £150 million Help To Build Scheme (June 22), helping people build a home tailored to their needs.
- Investor in the Housing Growth Partnership, providing equity capital for residential development projects.

03 Barriers

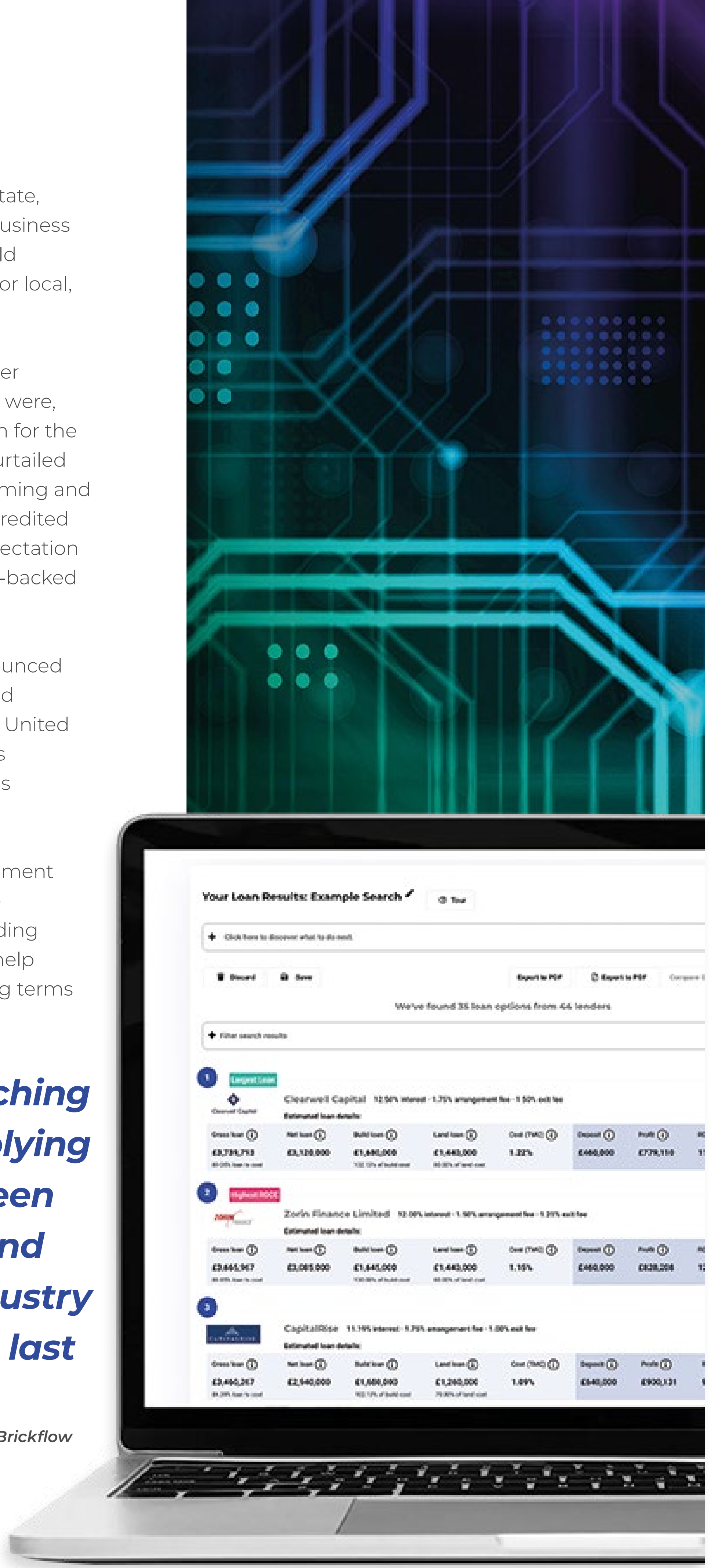
In January 2020, the then secretary of state, Robert Jenrick, confirmed the British Business Bank's ENABLE Build Programme would shortly begin guaranteeing new loans for local, independent construction businesses.

A year later, housing minister Christopher Pincher said: "A number of transactions were, and continue to be, under consideration for the programme, but some of these were curtailed by the onset of Covid-19. Activity is resuming and while there are currently no lenders accredited under the new programme, it's our expectation SMEs will have access to ENABLE Build-backed lending shortly."

In February 2021, the government announced a £250 million Housing Accelerator Fund (supported by Homes England and the United Trust bank), to help SME builders access development finance at up to 70% gross development value.

In January 2022, the Lords Built Environment Committee received evidence from the Home Builders Federation, recommending government guarantees to lenders 'to help bridge the gap between current lending terms and even higher loan-to-cost ratios'.

> ***"The process of searching for funding and applying has until recently been a manual process and the CRE finance industry has been one of the last to digitise."***
>
> *Ian Humphreys, Brickflow*



Industry view

Ian Humphreys, CEO and founder, Brickflow: *"Soaring inflation and interest rate hikes mean that finally we're seeing land price reductions, after they were bid up by government intervention and stimulus during the pandemic. Despite the economic challenges for lenders, the fundamentals of the UK market, primarily chronic under supply, remain strong, and therefore an abundance of credit is available to property developers - if they know where to find it."*

"The key barrier to funding is undoubtedly access, or the lack thereof, to the lending market. Most developers, and brokers who don't specialise in CRE funding, normally know two or three trusted lenders, whom they revisit for every deal."

"This is problematic because equity requirements vary hugely between lenders, so by not shopping around, borrowers fail to find the best value loan for their developments, potentially losing hundreds of thousands of pounds."

"The primary reason for the lack of transparency within the market has been the absence of technology. The process of searching for funding and applying has until recently been a manual process and the CRE finance industry has been one of the last to digitise."

"Historically it's been hard to source best-fit development finance loans; borrowers and intermediaries have not been able to easily compare the market. There's also an inconsistent loan application process, a lack of transparency when it comes to lenders' criteria (resulting in a high proportion of rejected loan applications), and a lengthy credit-approval process even if a loan request is accepted."

"Brickflow now provides a digital marketplace for the specialist property finance industry; a single destination for borrowers and brokers to compare loans from across the breadth of the market and apply online, saving months of time whilst securing the best deal available for their projects."

"If we can help eliminate inefficient equity deployment, the money borrowers save can be used to accelerate business growth and ultimately deliver more housing."

Alan Fletcher, partnership director, Invest & Fund: *"Collaborations between the government housing sector accelerator, Homes England, and private sector businesses, such as the seven-year partnership with Invest & Fund, have increased the amount of finance available to SME developers, but more can be done to support them."*

Andrew Lazare, director, Mint Property Finance: *"The government funding programmes are great at face value and represent creative funding for those that prove eligible. However, this does not apply to large numbers of borrowers, due to the comparatively small size and scale of development being undertaken. While we fully support government guarantees to bridge the gap in funding, would-be developers still face challenges; overall awareness of these schemes remains low, and they're complex and difficult to navigate."*

Norman Chambers, managing director, NACFB: *"Government initiatives, although commendable in scope, need a cohesive, strategic vision. While schemes like the Builders Finance Fund and the Home Building Fund provide some backing, their impact would be amplified by harnessing the potential of established brokers and lenders already operating in the development ecosystem."*

"The proposed government guarantees – which have been backed by the NACFB - in tandem with other strategies, can bridge the current financing gap. We must also prioritise strategic clarity in housebuilding, emphasising existing, yet underutilised, suppliers, financiers, and developers."

03 Barriers

> ***Our message to the impending government, irrespective of its political orientation, is that they must prioritise building homes en masse. However, it should be achieved not by reinventing the wheel but by maximising existing resources and ensuring the finance community's integral involvement in any steps forward.***

Norman Chambers, NACFB

Bill Rodney, senior lecturer, Bayes Business School: *"In addition to the government's funding solutions, there's also Impact Investing - an innovative finance model that supports projects aiming to deliver financial returns and positive social or environmental outcomes. This helps address the challenges connected with social housing provision, such as securing funding and land and overcoming planning or regulatory hurdles."*

"Institutional investors can equally boost social and affordable housing, contributing through direct investment, investment in housing associations and local authorities, and Real-Estate Investment Trusts (publicly-traded companies that own and manage real estate assets) and bond financing (issuing bonds to raise capital)."

Martin Reynolds, chairman, Financial Intermediary & Broker Association (FIBA): *"Access to finance has never been without its hurdles, but for those looking to close deals, our brokers report there are many challenges in the commercial sector at the moment which may become harder to overcome. Government assistance has been sporadic and with a constantly changing political climate, Brexit, Covid and ministerial leadership, it has at times been confusing and counterproductive. While a number of channels were set up to functionally support access to finance, only a small percentage of those requiring funding can actually be helped for a variety of reasons, resulting potentially in a case of form over function."*

Gareth Davies, head of business development, Hodge Bank: *"Government funding works for some developers but not all. In reality, it can be difficult and take a long time to get, putting people off applying in the first place. Given the original government plan was to build 300,000 new homes per annum, the existing schemes appear not to have fulfilled their expectations (acknowledging Covid may also have limited opportunities). This in itself presents challenges; it is rarely one issue that creates a problem. The shortage of housing cannot be altered solely by government-funding schemes - it requires multiple solutions."*

Bradley Moore, managing director, Brightstar Financial: *"Government policy, planning processes and regulation will always have an impact on housebuilding, but when it comes to funding, it's the private sector that can make the real difference. Experience tells us that headline-grabbing government schemes just don't have the scale and longevity that's offered by the lending market."* ■

03 Barriers

Lack of development incentives

Planning permission

Witnesses to the House of Lords Economic Affairs Committee 2016 housing market inquiry said the system fails to provide authorities with sufficient incentives to allow developments, impacting residents and developers.

Key issues:

- Local opposition putting pressure on local councils to resist developments.
- A lack of any immediate financial benefit to the local authority from the planning process. In contrast, a 'windfall', created by granting planning permission is retained by the landowner. While the existing CIL acts to address this disparity, it's not always transparent and clear to residents what a development has funded.

Hesitancy around planning permission prompted Litchfields in its 2021 report **Feeding the pipeline: assessing how many permissions are needed for housebuilders to increase the supply of homes**, to surmise a need for an uptick in planning permission activity was necessary. It confirmed the scale-up needed is equivalent to each district in England granting permission for an extra four to five medium-sized sites per year, or four to five large sites which deliver each year over a longer period (in addition to the usual level of permissions granted).

Justin Gaze, head of residential development land, Knight Frank: *"The 'windfall' the government refers to, is not retained by the land owner as funds are required to pay for the high cost of gaining planning permission as well as service and infrastructure costs. Landowners need incentives."*

Timely delivery

The Town and Country Planning Regulations (pre-commencement conditions) launched in 2018, and five years on, the government intends to introduce clearer and more consistent planning conditions - National Development Management Policies (NDMPs) - to speed up planning permission delivery.

The NDMPs will contain standardised national guidelines covering common issues that apply to local authorities across England. Historically, information covering areas of national importance, such as green belt land, is included in local plans, leaving developers wading through hundreds of pages (of often irrelevant) material.

The NDMPs will:

- Help local authorities streamline their plans, making them more locally relevant.
- Make it easier for developers to align their proposals with policy requirements.
- Give greater statutory weight to policy safeguards around climate change, flood risk, green belt, wildlife sites etc.
- Guide local decisions, even if local plans are out of date.
- Address gaps in national policy, such as carbon reduction in new developments, protection of green spaces and housing in town centres and built-up areas.

Timely build-out

The issue, however, is not just about the need for more planning permission; local authorities say even when it's granted, developers are often slow to build out. In 2020, the Local Government Association revealed **more than a million homes granted planning permission in the past decade have not yet been built**, adding weight to its comments that the 'backlog of unbuilt homes shows the planning system is not the barrier to housebuilding'.

Developers counter this by claiming this can be due to issues outside of their control, such as financial pressures, people/material supply and costs or environmental regulations.

To address this, the revised National Planning Policy Framework (NPPF) recommends 'to help ensure proposals for housing development are implemented on time, local planning authorities should consider imposing a planning condition saying the development must begin within a shorter timescale than the relevant default' (without threatening the development's deliverability or viability).

To support smaller housebuilders, the NPPF says 'for major developments with planning permission, local planning authorities should assess why they didn't grant planning permission earlier for a similar development on the same site'.

Guidelines for time limits for construction completion include 18 months after release of planning conditions for work to commence on site, and non-financial penalties where limits are exceeded without good cause (such as other parties completing the work and a full council tax levy for each uncompleted housing unit).

The **Levelling Up and Regeneration Bill** recommends authorities consider financial penalties for companies failing to deliver housing, despite planning approval, and it will give councils powers to refuse further permission to sluggish developers.

> ***"Housebuilders only build when there's a demand; they respond to market conditions and vary the design to match what customers want. They will not build houses that won't sell, so penalising companies that fail to deliver, when there isn't demand is not the solution."***
>
> *Justin Gaze, Knight Frank*

Ian Humphreys, CEO and founder, Brickflow: *"Planning delays make it very difficult for housebuilders to plan delivery, which let's not forget is cyclical. So even when permission is granted, if over the next five years economic conditions are not right, houses will not be built."*

Gareth Davies, head of business development, Hodge Bank: *"The LGA comment 'the backlog of unbuilt homes shows the planning system is not the barrier to housebuilding' is a naive view when you take into account other factors such as the Stamp Duty Land Tax changes in 2015, the Brexit referendum, our departure from the EU, Covid 19, the most dramatic inflationary increases seen in decades, a mini-budget and consequent base rate increase of nearly 5000% in nine months. Perhaps some of the planning consents just simply aren't viable to build out."*

03 Barriers

Diversity

In a 2018 independent review, Sir Oliver Letwin recommended the government adopts a new set of planning rules, specifically designed to apply to all future large sites (initially 1500+ units) in areas of high housing demand, requiring developers to provide diverse offerings.

Fast forward two years and this idea was included in the government's **Planning For The Future** white paper which said its revised NPPF would recommend 'master plans and design codes, for sites prepared for substantial development, should seek to include a variety of development types from different builders which allow more phases to come forward together'.

This means there will be a minimum number of SMEs on larger multi-developer sites, and increased resources for local authorities to oversee larger sites and promote a wider range or mix of housing sites in local plans.

These recommendations, we hope, will reverse the declining role of SME housebuilders.

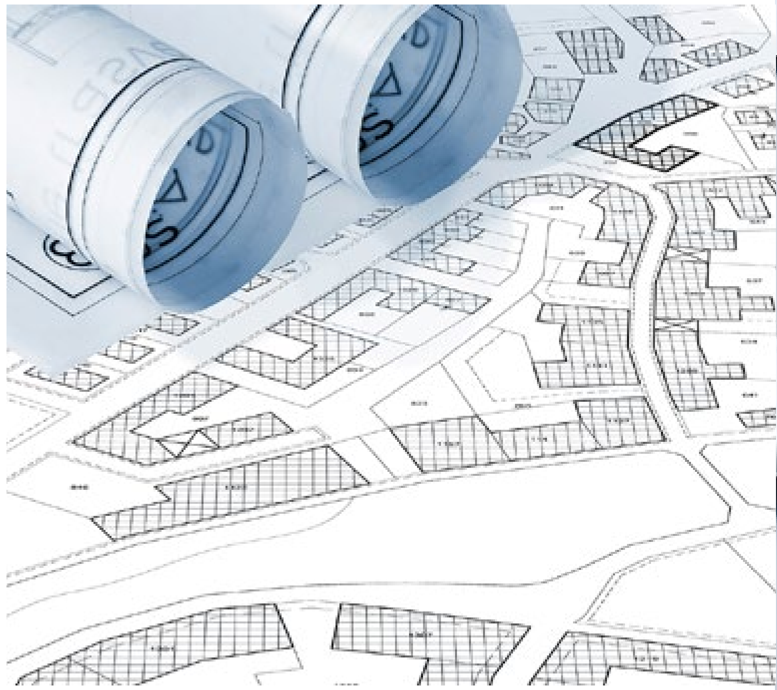
The House of Lords Built Environment Committee **Meeting Housing Demand** report 2021/22, commented 'In 1988, 39% of new homes were built by SMEs, and in 2020 they built 10%'.

The Federation of Master Builders (FMB) **Q4 2022 State of Trade Survey** says housebuilding activity fell from 1% (in q3) to -18%, and enquiries for new housebuilding projects dropped from -8% (q3) to -19%. While **q1 2023** activity rallied, it only moved up to -4%, and new project enquiries were -14%.

> **We know SME developers and builders are less able to withstand market shocks, but with the right support and planning reforms, plus better access to funding and development finance, build rates can increase.**

A view confirmed by the FMB, which estimates they could deliver 65,000 houses by 2025, compared to 12,000 in 2021.

Justin Gaze, head of residential development land, Knight Frank: *"Local authorities prefer to have one large development so they can site their Section 106 affordable housing in one area. And with them being so under-resourced, this approach saves additional planning costs which would be incurred with separate developments."* ■



In 1988, 39% of new homes were built by SMEs and in 2020 they built 10%.

03 Barriers

Supply chain

The UK housebuilding industry is facing significant challenges due to a combination of rising material and wage costs, as well as ongoing shortages of raw materials and skilled workers.

Supply chain issues stem from global shortages of materials and staff, and transport delays coinciding with spikes in demand for construction materials. Coronavirus closed or reduced capacity in manufacturing and shipping, leading to longer delivery times for some goods, and the conflict with Russia and Ukraine has equally had an impact.

This has led to price rises and higher transport costs; the **Drewry World Container Index**, reports shipping costs were at record highs in September 2021, which coupled with rising energy costs prompted manufacturers to increase the price of energy-intensive products to cover production costs.

Build costs

In the FMB q4 2022 State of Trade Survey, 59% of SME housebuilders said jobs were delayed due to difficulties in obtaining building materials at a reasonable price. In the q1 2023 survey, 87% reported an increase in material costs, 75% said they would charge more for their work, 45% reported business profits were lower than expected and 10% fear their business is at risk of closure.

Cost pressures are also impacting recruitment, with 19% saying it restricts who they hire.

In May 2022, the **Build Cost Information Service (BCIS)** reported annual growth in its Material Cost Index reached a 40-year high (up 20.8%) by the end of 2021. The BCIS also **highlighted** the annual increase in housebuilding cost inflation notched up a first - peaking at 15.3% in q2 2022, the highest since data capture began in 1988. In addition, construction materials' price inflation peaked in June 2022, at **26%**.

The FMB estimated building materials are likely to increase by around 10% in 2023 and materials requiring high levels of energy to manufacture, by 20%. While the rises were apparent at the beginning of the year, falling energy costs are reducing build cost inflation, but the average cost of materials used in all types of work across the construction sector was still **4.7%** higher in April 2023 than at the same time last year.

Material supply

Over the past year, the **Construction Leadership Council** said sourcing supplies of bricks and aircrete blocks, roof tiles, steel lintels, manhole covers, plastic drainage products, certain sealants, coolings, paints and semiconductors (impacting boiler availability) posed a challenge.

While the FMB confirms we domestically produce the majority (75%) of our building products, including aggregates, cement, glass and plasterboard, bricks, blocks and roof tiles, the UK still relies on imported raw materials and components to manufacture certain products, for example, plastic drainage, gas boilers, certain sealants, coatings and paints.

Around 60% of imported materials used in UK construction come from the EU and despite the 2022 UK/EU trade deal, Brexit has lengthened the supply line of many core supplies from Europe.

The Construction Leadership Council's Product Availability Group says even at full production, UK brick supplies will need to be topped up by imports until new UK factories come on stream in 2023/2024.

Justin Gaze, head of residential development land, Knight Frank: *"The supply chain issues will resolve themselves - there are more incentives for sub-contractors now - and the market and people will adapt."*

Gareth Davies, head of business development, Hodge Bank: *"The lack of availability of certain materials in 2021/2022 created massive increases in costs which made many development projects unviable or considerably delayed. Whilst material availability has improved, costs are still rising, due to escalating fuel prices, utilities, wages, transportation etc. With contractors unwilling to take the risk of supply chain cost increases, there are fewer fixed-price construction contracts in the market, putting the onus on developers, who must do their best to manage them. This favours the larger, national and regional housebuilders who have larger balance sheets and are capable of absorbing greater increases in costs.*

> ***"Ultimately, if costs rise too much during the course of a build, any profit can disappear very quickly which is hardly a strong incentive to start in the first place."***
>
> *Gareth Davies, Hodge Bank*

03 Barriers

People and skills

Stretched workforce

According to the Housebuilders Federation (HBF), the pandemic and Brexit have stretched workforces. In 2021, more than half of SME housebuilders said the supply and cost of labour was a major barrier to housing delivery.

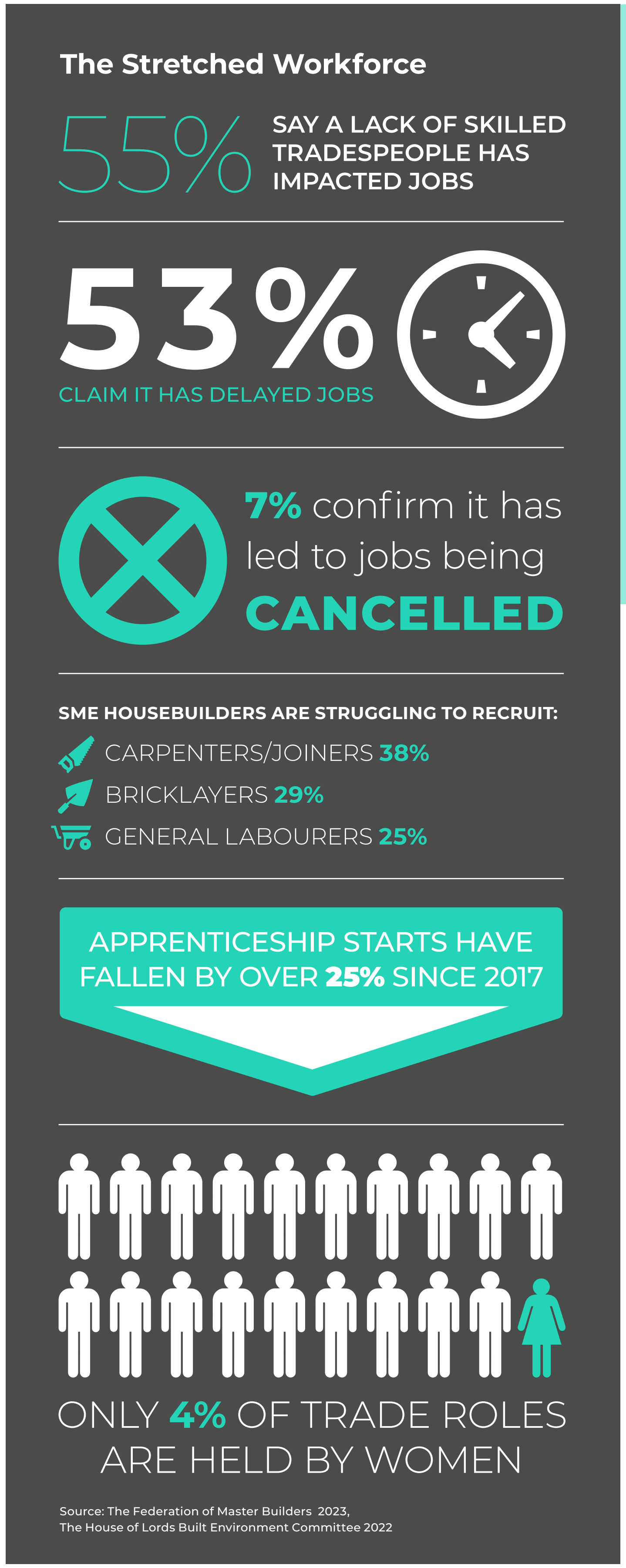
20% of the current homebuilding workforce is from overseas, almost one in four UK-born homebuilding workers is over 50, the gender pay gap is 16.4% and construction workers have suicide rates twice the national population average.

The FMB q2 2023 State of Trade Survey shows 55% of members say a lack of skilled tradespeople has impacted jobs, 53% claim it has delayed jobs and 7% confirm it has led to jobs being cancelled. 38% of SME housebuilders are struggling to recruit carpenters/joiners, 29% bricklayers and 25% general labourers.

Media reports suggest 25% of UK construction businesses in 2022 were experiencing skilled labour shortages with roughly 244,000 fewer workers than three years ago (primarily due to early retirees and people returning to the EU).

In January 2022, the House of Lords Built Environment Committee reported the number of apprenticeship starts had fallen by over 25% since the introduction of the apprenticeship levy in 2017 and confirmed only 4% of trade roles are held by women.

Despite the housing target being scrapped, there's increasing pressure on the wider construction workforce to retrofit homes (to meet the government's zero carbon target), remediate unsafe cladding and meet the demands of other infrastructure projects such as HS2.



How many skilled workers do we need?

The Construction Industry Training Board's annual Construction Skills Network report says an extra 225,000 workers will be needed to meet UK demand between now and 2027 (45,000 a year).

Make UK Modular has a lower figure (due to its estimate going beyond 2027), saying the housebuilding sector needs to recruit 137,000 more workers (including 34,000 to replace retirees) to be in a position to build 300,000 homes a year by 2030.

This equates to 17,000 recruits every year - nearly triple the current recruitment rate, yet with falling apprenticeship numbers and more pressure on the wider construction workforce to support other projects, such as retrofitting homes, removing unsafe cladding and working on HS2, the workforce continues to be squeezed

The theory

In 2013 the coalition government developed a Construction 2025 Strategy with a clear vision around where the construction industry would be by 2025:

- People - known for its talented and diverse workforce (increasing apprenticeships to 25,000 a year by 2020).
- Smart - efficient, technologically advanced and globally competitive.
- Sustainable - leading the world in low-carbon and green construction with better-performing buildings, built more quickly and at lower cost.
- Growth - driving growth across the entire economy.
- Leadership - an industry with a Construction Leadership Council.

Three years later, the 2016 Farmer Review of the UK Construction Labour Model listed the industry's shortcomings, including:

- Low productivity.
- Low predictability and planning.
- Structural fragmentation with relatively high levels of self-employment, many small businesses and frequent subcontracting.
- Leadership fragmentation.
- Low margins, adversarial pricing models and financial fragility.
- A dysfunctional training fund and delivery model.
- Workforce size and demographics.
- Lack of collaboration and improvement culture.
- Lack of research, development and investment in innovation.
- Poor industry image.

In March 2021, the government, working with the Construction Leadership Council (CLC), launched its Industry Skills Plan for the Construction Sector. By 2025 it plans to:

- Create an industry that's attractive to talent and brings skills through multiple routes.
- Set standards and qualifications with high-quality, transferable skills and learning pathways.
- Deliver high-quality training that equips the workforce with current and emerging skills.
- Create a 'great place to work' industry that retains talented individuals.

03 Barriers

The Construction Industry Training Board (CITB) - a public body funded by the industry via a statutory levy, was criticised in a **National Federation of Builders Time to Reconstruct** report for failing to address the skills shortage effectively.

In support, the House of Lords Built Environment Committee (January 2022) suggested the government considers 'alternative models for a national construction careers body' and focuses on strategies for the construction, design and planning sectors, including broadening the base of talent, and upskilling and re-skilling, with green skills, to address climate change.

The committee also called for wider and earlier engagement with the built environment sectors across the curriculum, introducing modules before and at GCSE level, and a review of the apprenticeship levy.

In practice

In March 22, the government confirmed the CITB is introducing new governance schemes, putting industry voices at the heart of decision-making, and launching new funding systems to give employers easier access to support and investment.

Focusing on two immediate challenges - recruiting more bricklayers and dry-liners - a pilot bricklaying traineeship is underway in Hartlepool and the CITB is helping develop standards for carpentry, plastering, plant operations, roofing, painting and decorating traineeships.

In his spring 2023 Budget, Chancellor Jeremy Hunt announced UK visa rules are being relaxed for five roles in the construction sector; roofers, plumbers, bricklayers, carpenters and plasterers to plug labour gaps.
The government is increasing funding for apprenticeships to £2.7bn by 2024/25 and will continue to support apprenticeships in non-levy employers, such as SMEs, meeting 95% of their training costs.

Further support includes: skills boot camps, NVQ Level 3 qualifications, T-Levels (technical-based qualifications, similar to A-Levels), traineeships, a national rollout of careers hubs, leader training, digital support, the Enterprise Adviser Network and an Apprenticeship Diversity Champions Network, to ensure greater gender representation in the construction sector.

Ian Humphries, CEO and founder, Brickflow: *"Any solutions to increase housing supply must take into account the capacity of the construction industry and whether it has enough workforce to deliver the new homes wanted. Progress over the past decade suggests the government's recruitment aims in theory, have yet to work in practice."*

Gareth Davies, head of business development, Hodge Bank: *"We place pressure on the next generation to go to university and we've relied heavily on migrant labour historically, so have ignored some of the most important parts of our construction industry – bricklayers, carpenters, joiners, roofers, plumbers and other tradespeople. A greater emphasis on apprenticeships and training programmes can build our pool of skilled labour for the future."*

> ***"Progress over the past decade suggests the government's recruitment aims in theory, have yet to work in practice."***
>
> *Ian Humphreys, Brickflow*

Wage bill

According to **Statista**, in March 2023 the average weekly salary and bonus for construction workers was £725, up from £712 a year earlier. Three years earlier, in May 2020, wages were at 2016 levels, at £577.

> **Demand exceeding supply, inflation and other pressures, such as self-employed workers using their flexibility to secure higher rates, is increasing the wage bill.**

From June 2023, new wage rates came into effect - a one-year 8% wage rise across the board and a 10.1% increase for daily fare and lodging allowance. The figures are in line with the January 2023 Consumer Price Index and set by BAJTIC - the Building and Allied Trades Joint Industrial Council, which negotiates annually agreed voluntary wages and payment schemes between the FMB and Unite Union.

Local authority resourcing

Planning departments are equally stretched when it comes to workforces. Back in 2016, the **House of Lords Economic Affairs Committee** recommended ways to secure extra funding for proper resourcing:

- Allow local authorities to set and vary planning fees in line with local area needs, and put an upper limit or cap on the level of fees (higher than current levels).
- Ring-fence money raised from fees for expenditure on planning and development.

In January 2018, local authorities increased their fees by 20%, yet five years on, the government says spending per person on planning and development is down 60% and there are shortages of specialist skills such as design and ecology.

Planning reforms, such as altering local plans, developing new design codes, overhauling developer contributions, streamlining decision-making and using new technology will change how planning departments operate in the future. As mentioned in our funding section, the government is **consulting** on a 35% fee increase for major applications and 25% for others. ■

03 Barriers

Environmental

Existing homes

In its 2019 UK Housing: Fit For The Future? report, the government's Climate Change Committee said the UK's housing was not fit for the future and progress had stalled on ensuring it could meet the challenges of climate change and people's well-being.

The committee noted greenhouse gas emission reductions from UK housing have stalled.

Efforts to adapt the housing stock for higher temperatures, flooding and water scarcity are falling far behind the increase in risk from climate change.

Their recommendations include:

- Greater levels of inspection and stricter enforcement of building standards, plus better monitoring of the 'as-built' performance (thermal efficiency) of new homes.
- More initiatives to tackle the low-carbon skills gap.
- HM Treasury to support retrofitting of 29 million existing homes with heat pumps, networks, and measures to reduce indoor moisture and property-level flood prevention, plus improve air quality and water efficiency.

In June 2021, the UK Infrastructure Bank was launched to help the government reach its net zero target by 2050. Wholly-owned and backed by HM Treasury, but operationally independent, £22 billion of infrastructure finance is available to help fund green development across the UK.

In October 2021, the government's Heat & Buildings Strategy signalled its intention to achieve net zero targets by 2050, through the gradual decarbonisation of UK buildings, including homes.

To help with funding, the government launched its Green Home Finance Accelerator - up to £20 million in grants to support UK finance providers and other organisations to design, develop and pilot a diverse range of innovative finance propositions which encourage domestic energy efficiency and low carbon heating retrofit.

In March 2023, the government announced a £1.4 billion Social Housing Decarbonisation Fund and Home Upgrade Grant would be available to help homes across England upgrade their energy efficiency. A further £1.1 billion in match funding for social housing, provided by local authorities, social housing and charities will also be available.

The Construction Industry Training Board says by 2030, the UK will need an extra 22,000 skilled construction workers for retrofitting, heat pump, heat network and solar panel installations, surveying and project management. While any measures to help us reduce carbon emissions are welcome, they will put pressure on an already-stretched house-building workforce.

New homes

Included in the Heat & Buildings Strategy was a recommendation that new homes in England produce less CO_2 than previously built homes.

Only 4% of respondents in the Federation of Master Builder's 2022 Housebuilders' Survey, said they were confident with the changes to new homes building regulations covering electric vehicle charging, heating requirements, energy efficiency and ventilation, and 42% would like more guidance from the Future Homes Hub - an independent body set up to help the sector meet the government's climate and environmental goals.

Over half of FMB survey respondents (51%) say they have issues already connecting their developments to the electricity grid and 49% suggest the grid needs reinforcing to meet the Future Homes Standard requirements and increased energy demand, due to more electrical products, car charging and heat pumps etc.

Changes to building regulations in August 2022 required new homes built from 2025 to produce 75-80% fewer carbon emissions than current homes.

Known as the Future Homes Standard, it will become mandatory for housebuilders to introduce a range of energy-efficient measures, including using high-quality structural materials, such as low-carbon concrete, triple glazing and low-carbon heating through heat pumps.

SME builders' views on the Future Homes Standard

4% CONFIDENT WITH THE CHANGES TO NEW HOMES BUILDING REGULATIONS

42% WOULD LIKE MORE GUIDANCE FROM THE FUTURE HOMES HUB

51% ALREADY HAVE ISSUES CONNECTING DEVELOPMENTS TO THE ELECTRICITY GRID

49 PERCENT SUGGEST THE GRID NEEDS REINFORCING TO MEET THE FUTURE HOMES STANDARD REQUIREMENTS

Source: The Federation of Master Builders, 2022

03 Barriers

Also from 2025, the government recommends no new homes be connected to the gas grid; instead, they should be heated through low-carbon sources and where possible, be timber framed (saving seven tonnes of carbon emissions over their lifespan).

The Federation of Master Builders says the 'breadth and speed of regulatory change presents, arguably, the biggest set of challenges in living memory, for the industry'.

Justin Martin LLB FCA AMIIA, partner, Assurance, PwC: *"The complexity of the Future Homes Standard and other environmental regulations necessitates more industry guidance and support, helping housebuilders navigate the swift and vast regulatory changes. The government's push for greener homes should be paralleled with a comprehensive energy infrastructure plan, including harnessing more wind farms and reinforcing the electricity grid, to ensure a seamless transition."*

"A coordinated and holistic approach between housing development and energy planning, with clear communication and guidance, will be vital in balancing immediate construction needs with long-term sustainability goals."

Justin Martin, PwC

Consumer demand

While the regulations may be confusing, there's a clear consumer demand for energy-efficient homes.

In 2022, **Legal & General research** found 62% of respondents viewed them as attractive/very attractive, citing reducing carbon footprint, helping prevent climate change and cheaper energy bills as key reasons.

The research also showed new home buyers and Gen Z purchasers are willing to pay 10.5% and 20% more (respectively), for low-carbon properties, rating energy-efficient sustainable features more important than property size.

This is good news for housebuilders as respondents to the BCIS **Private Housing Construction Price Index Survey** estimate the cost of meeting the new regulations would add 7.2% to the cost of building a house.

Housebuilders

It's not only essential to reduce carbon emissions in the homes we build, but during the construction process too.

According to the Construction Industry Council, the built environment and construction sector accounts for 38% of global carbon emissions - that's equivalent to building a city the size of Paris every week.

In May 2022, the Environmental Audit Committee reported the UK's built environment was responsible for 25% of the UK's greenhouse gas emissions and warned there had been a lack of government impetus or policy levers to reduce this level.

The committee called for the government to introduce (within the planning system/building regulations) a mandatory requirement for a whole-life carbon assessment that calculates emissions from the construction, maintenance and demolition of a building, and the energy used in its daily operation. Once in place, buildings could have carbon targets, aligned to net zero goals.

This would bring the UK in line with other countries like the Netherlands and France, where whole-life carbon assessments are mandatory.

The Department for Business and Trade is also suggesting regulation and policy change to encourage the use of sustainable practices in construction, including the introduction of carbon pricing and green building standards.

Planning

The government says its National Planning Policy Framework (NPPF) already places the environment at the heart of planning and confirms the National Design Guide, National Model Design Code and local design codes all contribute to more holistic placemaking.

Ways to support a more holistic approach include:

- Protecting important natural, landscape and heritage assets.
- Supporting habitat criteria and nature recovery.
- Promoting location/design decisions that reduce exposure to pollution/hazards and respond to climate change.

03 Barriers

- Enabling renewable and low-carbon energy production and distribution.
- Promoting developments that contribute to healthier lifestyles, energy and resource efficiency consumption.
- Bringing together a spatial strategy so it addresses issues holistically, reflects unique characteristics and provides a framework for developers.

Planning reforms will ensure the NPPF contributes to climate change mitigation and reflects the government's **Transport Decarbonisation Plan**, with stronger links between planning and transport.

Proposed changes include introducing a new outcome-based framework of environmental assessment (replacing the EU Environmental Impact Assessment and Strategic Environmental Assessments), embedding a form of carbon assessment at a local plan level and introducing new methods for democratising support for offshore wind development.

The government is keen to have a fully decarbonised power system by 2035, subject to supply security, and is consulting on changes to the NPPF, such as reviewing the barriers to installing energy-efficient measures, so onshore wind can deliver more local supplies.

Planning Practice Guidance requires developments in flood risk areas to meet strict policy criteria and the government is considering amending the Flood & Wastewater Management Act 2010 to introduce standards for new sustainable drainage systems and public sewer connections. This would alleviate pressures on the sewer network, reduce flood risk, and improve water quality, amenity, biodiversity and rainwater harvesting.

The Environment Act

In line with the government's 25-year **Environment Plan**, the **Environment Act**, approved by Parliament in November 2021, is an ambitious programme to halt the decline of species by 2030, clean up air, protect river health, reform how we deal with waste and tackle deforestation.

Requirements include;

- Making it mandatory for most new developments to deliver at least a 10% **biodiversity net gain** on all sites.
- Introducing new **local nature recovery strategies** - mapping important habitats and areas for nature recovery (and including them in the plan-making process).

> **SME housebuilders however are unclear on how to meet biodiversity net gain requirements. The FMB reports that 96% are only averagely or not at all confident in what they have to do.**

The government's **Levelling Up and Regeneration Bill** will strengthen environmental protection policies, including biodiversity net gain, local nature recovery and small-scale interventions (such as banning the use of artificial grass).

Local nature recovery strategies

Established by the Environment Act, local authorities must follow a mandatory system of spatial strategies for nature to support its recovery and provide wider environmental benefits.

Local nature recovery strategies help public, private and voluntary sectors work more effectively together and are designed to encourage a more coordinated, practical and focused action and investment in nature.

Nutrient neutrality

In a bid to address rising levels of phosphates and nitrates in our rivers, estuaries and wetlands, in 2018 Natural England advised that 'no developments should be permitted near protected sites unless they're proved to be nitrate and phosphate neutral'.

Four years later, Natural England used an EU ruling to ban construction in site catchment areas if they cause higher levels of phosphates

What is biodiversity net gain?

Biodiversity net gain contributes to the recovery of nature while developing land, ensuring the habitat for wildlife is in a better state than before work started.

Applicable to land managers, developers and local planning authorities, larger developments are required to deliver net gains from November 2023 and smaller sites from April 2024.

Developers unable to prevent loss of habitat on land they're working on must recreate it on or off-site, or if this isn't an option, buy statutory credits from the government (a last resort). The government will then invest in habitat creation elsewhere in England.

03 Barriers

and nitrates in the waterways, prompting Homes England to put the building of around 120,000 new homes on hold.

In the spring 2023 budget report, the government said high levels of nutrient pollution were holding up housing delivery across 74 local planning authorities and announced a requirement for water companies to upgrade their infrastructure by 2030.

To gain planning permission, developments have to demonstrate nutrient neutrality by:

- Purchasing credits (similar to biodiversity net gain credits) to offset the development and fund mitigation schemes in the area.
- Installing on-site treatment works that neutralise phosphates and nitrates or dispose of them safely when discharging wastewater to the sewage system, for treatment by the water authorities.

In August 2023, the government proposed amendments to the Levelling Up and Regeneration Bill that would 'do away with the red tape of the legacy EU laws,' adding a new section that required local planning authorities to 'assume that nutrients in urban wastewater from the proposed development...will not adversely affect the relevant site'.

However, the amendments were blocked in the House of Lords, defeated by 203 votes to 156. Environmental groups and opposition parties argued that the change to the bill would 'harm our waterways and ecosystems' and fail to protect the environment.

The Home Builders Federation estimates the extra time and costs involved in demonstrating nutrient neutrality will increase house prices by £5,000.

It is widely acknowledged that the main causes of nutrient-related river pollution are run-off from agricultural activities and the failure of water companies to maintain infrastructure. It is estimated that all existing development, including residential, commercial and the rest of the built environment, contributes less than 5% towards the phosphate and nitrate deposits in rivers.

As this issue continues to evolve, the government, local authorities, developers and architects are looking for solutions including introducing new wetlands, retrofitting sustainable urban drainage systems, upgrading water recycling centres and installing water treatment plant solutions.

Ian Humphreys, CEO, Brickflow: *"Addressing environmental issues across the UK requires a collective effort and responsible housebuilding is a significant part of those efforts. However, the nutrient neutrality policy has undoubtedly had a detrimental effect on housebuilding, whilst the farming industry has continued to use high-nutrient fertilisers and the shareholders of water companies have continued to receive sizeable pay-outs whilst infrastructure maintenance is completely deficient."*

"Relaxing the nutrient neutrality rules for housebuilding would have meant one less hurdle to getting developments across the planning line and jump-started the developments that are on hold. Instead, housing policy continues to be a political point-scorer and real solutions are not being delivered."

Ian Humphreys, Brickflow

03 Barriers

Affordability

House prices

According to the Office for National Statistics (ONS), in June 2023 the average UK house price was £288,000; £5,000 higher than 12 months previously, but £5,000 below the peak in November 2022. Ten years earlier, in June 2013, the average house price in the UK was £172,655; equating to a 67% increase over the decade.

Across the regions in England, prices vary considerably; as of June 2023, London and the south east are highest at £527,979 and £391,406. The north east is lowest at £161,034.

In its **2022 Housing Affordability report**, the ONS found full-time employees in England could expect to spend 8.3 times their annual earnings buying a home (based on 12 months to September 2022, where the average home sold for £275,000 and average workplace earnings were £33,200). In Wales, the average home price was £190,000 and earnings £30,600, giving a 6.2 ratio.

Out of 330 local authorities in England and Wales, housing affordability improved in 239 (71%), worsened in 89 (27%) and stayed the same in two.

> **Over the last 25 years, affordability has worsened in every authority, especially in London and the surrounding areas.**

In 1997, 89% of local authorities had an affordability ratio of less than 5 times workers' earnings, whereas only 7% had this level in 2022. In London, the cheapest area is still higher than the most expensive neighbourhoods in the north east.

> **Since 1997, house prices have increased four and a half times, way ahead of earnings that have only doubled.**

So it's no surprise that RICS, in its July 2023 UK **Residential Market Survey**, found new buyer enquiries were down 45% in July and 46% in June; the continuation of a downward spiral that respondents foresee remaining in place over the near term.

Mortgages

> **In the 2022 Federation of Master Builders Housebuilders Survey, 38% of SME housebuilders said restricted mortgage availability was a barrier to building more homes.**

Never before has this issue ranked so highly (behind only land availability, planning and skills shortage).

Respondents also rated current buyer demand at 2.98 out of five, down from 3.86 a year earlier and the third lowest since data was captured in 2015. Looking further into 2023, many feel the market conditions will be even tougher.

In January 2023, the Bank of England **reported** demand for new mortgages had fallen by 75% in q4 2022 (compared to q3) due to rising mortgage rates and the cost of living crisis. Looking back over a year, the number of mortgages approved to finance house purchases was 46% lower than in January 2022.

With the Bank of England increasing interest rates to 5.25% in August 23 (the 14th consecutive rise and the highest level in almost 15 years), and **Money Saving Expert** saying for every one percentage point a mortgage rate increases, it adds around £50 a month to every £100,000 of mortgage debt, it's no surprise people are reluctant to jump on the housing ladder.

Their fears are likely to be further heightened following media **reports** saying the Financial Conduct Authority predicts

> **Over 750,000 households are at risk of mortgage default over the next two years.**

Cost of living

The ONS **GB Public Opinion and Social Trends** bulletin (19 April - 1 May 2023), shows the most important issue facing the UK today is the cost of living, cited by 93% of respondents.

Only 44% felt they would be able to save some money over the next 12 months and 38% said their mortgage or rental payments had gone up in the last six months.

House prices, spiralling mortgage rates (plus higher service fees such as solicitors, removal firms and home running costs) and the cost of living crisis are impacting buyer demand and therefore could impact build decisions.

03 Barriers

Generation rent

Exorbitant rental costs are preventing people from saving for and buying new homes. **ONS private rental market statistics**, April 2022 to March 2023 show the median monthly rent in England was £825 - the highest ever recorded. London, at £1,500 per month, is nearly double the median monthly rent for England, and the north east was the lowest at £550.

Average rents ranged from £460 for single rooms, to £1500 for four (or more) bedroom properties. Private renters on a median household income could expect to spend 26% of their income on an average-priced rented home in England; in Wales it's 23%. Regional variations show London will swallow up 40% of a renter's income, while in the midlands it's around half.

The ONS says a property is affordable if a household spends 30% or less of its income on rent. **English Housing** says it's around 31% for private renters.

Since the pandemic, rental issues have deepened. In March 23, the BBC **reported** the number of homes to rent in the UK had fallen by a third over the past 18 months, and a sharp drop in the number of listings has helped drive up rents by 11% for new tenants.

Prior to September 21, letting agents typically had 16 rentals on their books, now it's under 10. Demand for rented accommodation has risen to more than 50% above normal levels, yet landlords are reluctant to invest in rented housing.

> **Higher mortgage rates, tax changes and new regulations, such as the Renters Reform Bill, make it less profitable for landlords to buy and rent houses.**

The Private Rental Market in 2023

THE MEDIAN MONTHLY RENT IN ENGLAND

£825

THE HIGHEST EVER RECORDED

HIGHEST AVERAGE RENT

LONDON

£1,500 P/M

LOWEST AVERAGE RENT

NORTH EAST £550P/M

Average rents ranged from

£460 FOR SINGLE ROOMS

TO

£1,500 FOR 4+ BEDROOMS

On average, private renters spend

26% OF INCOME IN ENGLAND

23% OF INCOME IN WALES, SCOTLAND & NORTHERN IRELAND

40% OF INCOME IN LONDON

Source: ONS, March 2023

By August 2023, the BBC **reported** UK rents had risen to the highest levels since 2016 and property portal Rightmove confirmed that competition is so intense amongst renters, there are 20 requests to view each available property.

Similarly, the social housing sector has shrunk. The government's August 2022 **Social Rented Housing** research briefing reported that 5.5 million homes were provided by local authorities and housing associations in 1979, yet over 40 years (to 2021) this slipped to 4.1 million.

The government accepts England needs at least 90,000 additional socially rented homes per year, but says it will take time to scale up the required level of funding of £12.8 billion per year. Savings in housing benefit and land value reform could reduce the overall cost.

> **"With average house prices increasing by nearly 70% in a decade, astronomical interest rates, a cost of living crisis and a generation of renters who can't afford to step onto the housing ladder, yet are faced with competition from 20 other would-be renters for every property they view, affordable housing has never been so out of reach. Only when the UK's abysmal housing shortage is solved will affordability be a realistic word in our lexicon when it comes to property."**
>
> *Ian Humphreys, Brickflow*

Buyer incentives

Knight Frank believes the challenging sales market has led more housebuilders to consider ways to de-risk sites. In its q4 2022 residential development land index it found that 44% of respondents said sales to build to rent investors will play a significant role in their future marketing and 55% plan to offer more buyer incentives. In addition, 22% think the First Homes Initiative and 31%, the Deposit Unlock Scheme, will help boost sales.

Launched in 2021, First Homes enables qualifying purchasers to buy a new home at 30-50% below market value. After applying the discount, the maximum a first home can be sold for is £250,000 (or £420,000 in Greater London). Not all new builds are part of the scheme, but the government specifies a quarter of all developer-sold affordable housing should fall under this initiative.

Deposit Unlock, also launched in 2021, is a collaboration between lenders and the house-building industry, helping first-time buyers and existing homeowners buy a new home with a 5% deposit. Nearly 60 homebuilders and three lenders currently offer the scheme.

Mortgage Guarantee was first launched in April 2021 and extended this year, enabling people to buy properties up to £600,000 (not limited to new-builds), with a 5% deposit..

Lifetime ISA, launched in 2017, is a way to earn a 25% bonus on first house purchases (up to £450,000). The government tops up £4000 (maximum) savings per year, with up to £1000 per person (not home). There are also Help To Buy ISAs and first-time buyer savings accounts.

Shared Ownership involves purchasing a stake of 25% or more of property from a housing association and paying rent on the remainder.

03 Barriers

It's open to those with household incomes below £80,000 (£90k in London).

Guarantor mortgages allow parents to help children buy their home by using property or savings as collateral.

The Bank of Mum and Dad is also a popular option. Legal & General research found 56% of under 35s receive a financial gift to help them on the housing ladder and 71% of new homeowners say they would not have bought without the financial support of family or friends.
In May 23, Rishi Sunak announced he was considering re-introducing the Help To Buy scheme, but this received a mixed response from homebuyers who want to see it extended to older as well as new homes.

Ian Humphreys, CEO and founder, Brickflow: *"House-buying takes time to plan and save for. People need certainty around incentives and mortgage costs to make buying a reality. Flip-flopping and miscommunication of policy creates buyer inertia."*

Gareth Davies, head of business development, Hodge Bank: *"At present, no replacement to Help to Buy has been introduced and without this, many potential purchasers will struggle to meet affordability metrics or are going to require materially larger deposits."*

"There are other, non-Government options for some purchasers including no/low deposit mortgages, guarantor mortgages and other shared ownership schemes but many are only available to those with the best credit ratings, who are considered lower risk, and can be expensive compared with traditional mortgages."

"Developers are unlikely to start a project if they're uncertain about end sales and if they need to cover increasing development/borrowing costs, a drop in house price or sales is likely to result in a material drop in profit – eroding the incentive to keep developing."

Ivor Watson, Sites Coordinator, Marden Homes: *"Help to Buy was a great scheme, which everyone seemed to understand and we would fully support its return. The process was simple and helped numerous people climb onto the property ladder, which without it, they would have been unable to do.*

> ***Even as a developer, we would fully support extending the scheme to older homes for the greater good of the entire property market.***
>
> *Ivor Watson, Marden Homes*

Quality safeguards

The Home Builders Federation says the answer to the housing crisis is not simply to build more houses, as concerns over the quality of some homes negatively influence the perception of home builders, potentially prompting purchasers to favour older properties.

Tools are however in place to safeguard quality. Building for Life 12 is the industry standard for new housing development design, enabling developers to score the design quality of their schemes during the planning application process, and the New Homes Survey, run by the National Housebuilding Council, is a barometer of customer satisfaction.

It's also mandatory for developers to be a member of the New Homes Ombudsman. The scheme for complaint handling investigates complaints and outlines a form of redress, including paying compensation or other actions. ■

04

Looking ahead

- Modern Methods of Construction
- Technology

04 Looking ahead

Modern Methods of Construction (MMC)

There have long been calls for the UK to improve and innovate its construction methods and materials, so homes can be produced more quickly and cost-effectively, plus be more energy-efficient with less need for major repairs.

In 2016, the Farmer Review suggested using the residential development sector as a pilot programme to drive forward the large-scale use of pre-manufactured construction, using off-site build or modular housing.

In March 2021, the government announced it was investing £10 million in the use of Modern Methods of Construction (MMC) and launching a task force to accelerate the delivery of MMC homes in the UK.

MMC uses multiple offsite and onsite techniques to speed up the creation of new builds; one of the most common methods is volumetric building, where all six sides (one floor, four walls and one ceiling) are completed.

Make UK Modular says with major investors such as Goldman Sachs and Homes England supporting this method of construction, modular housebuilding is on track to deliver 30,000 new homes a year by 2030.

The organisation reports modular housebuilders require 50% fewer workers to deliver the same number of homes, and assembly line efficiency and economies of scale in volumetric manufacturing make this process 40% more productive than traditional building methods, resulting in 90% less wasted materials.

There is also less pressure on the construction workforce as up to 65% of the work is in manufacturing roles and only around 10-20% in sought-after construction trades.

The assembly line process and materials used in modular homes make them more energy efficient, saving occupiers around £800 on their annual energy bill. Low-rise houses and high-rise buildings are also built with up to 80% and 45%, respectively, less embodied carbon.

Barratt Developments says by using MMC in 30% of its homes by 2025, it will increase build speed, use fewer materials with less waste, and create greater efficiencies.

Make UK Modular is calling for the government to dedicate at least 40% of its affordable homes programme to MMC.

RICS in its Latest Trends in Modular Construction report says in Sweden, 45% of homes built every year use offsite construction, in Japan, it's 15-20% and in the Netherlands, 15%. In 2021, RICS says the UK used MMC to build just 8% of homes.

Ian Humphreys, CEO and founder, Brickflow:
"Supply chain issues, including a lack of volumetric suppliers, hampers developers taking this route, and they may be bound by frameworks with preferred contractors, which stops them working with MMC suppliers. There are also issues around funding; mainstream mortgage lenders doubt the level of demand and ultimately their lifespan."

"If end-users cannot mortgage these properties, lenders will not fund the development phase, compromising the ability of the developer to repay the loan through sales. Without supporting data, it will be difficult to get the mortgage market on board, which is key to MMC homes having any impact on the housing crisis. Currently, the most likely inroad for MMC would be council houses and housing associations, where a mortgage isn't necessary."

"Furthermore, development lenders are often reluctant to fund offsite construction, where large capital outlays are needed before materials are delivered. Traditionally, sites are funded in arrears; i.e. builders buy bricks on credit, get them delivered to site, and lay them. Lenders see and fund the cost of work being done. Capital outlays are small percentages of the overall cost and staggered at regular intervals; the key is that every time the lender funds a new tranche, value has been added to the site."

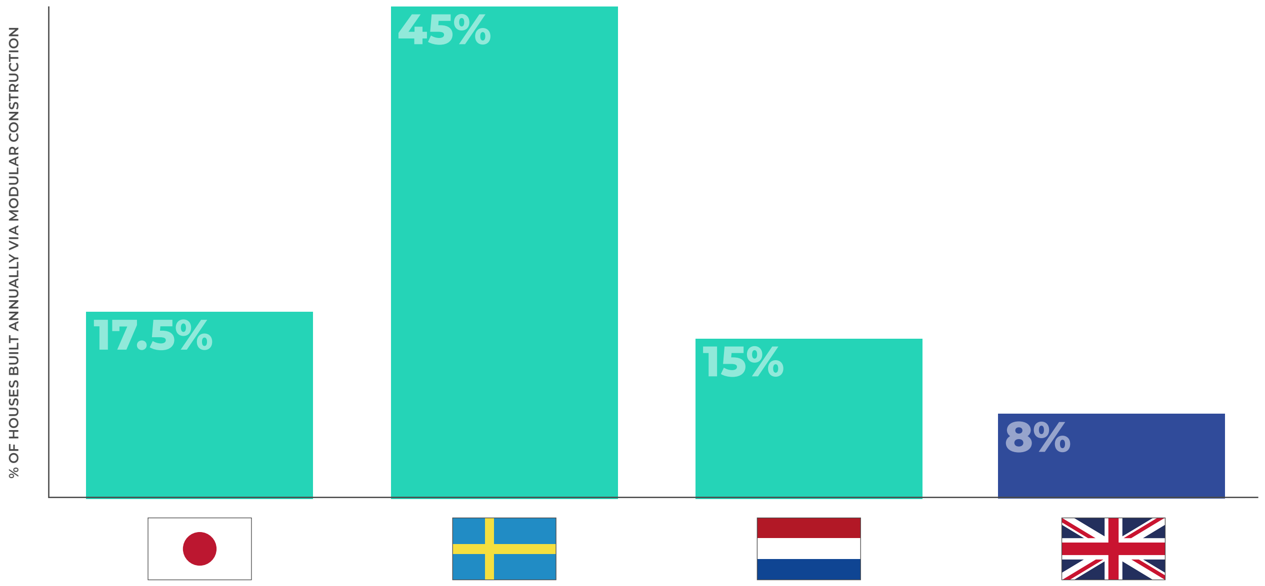
"In contrast, with MMC, a huge percentage of the overall cost to deliver the scheme is needed to manufacture units, months before delivery to site. Unlike a traditional build, lenders could be in a position where they've funded 50% or more of the construction budget, but their security is still a bare field that's worth less than their loan. What happens if the manufacturer goes under after the lender and developer have parted with their money?"

"While in Sweden MMC homes are marketed as premium products, in the UK we're still dogged with memories of flimsy, post-war prefabs. Also, new MMC ventures haven't started well - Urban Splash, a joint venture between Japan's biggest housebuilder Sekisui House, a Manchester-based modular house developer, and Homes England collapsed last year after under-use of its factory compounded with design issues that caused defective homes."

"Legal & General also ceased producing modular homes in its Leeds factory in May, citing Covid and long planning delays as the reason it was not profitable. Cultural shifts and accepting change takes time, but as the longevity and efficiency of this type of construction becomes more tried and tested, with apparent success, the easier the sell will become."

Modular Construction

How does the UK fare versus other countries?



Source: ONS, March 2023

04 Looking ahead

Through its funding and land programmes, the government is working to stimulate MMC demand and address issues such as a lack of component standardisation across the industry and difficulties obtaining product warranties, impacting insurance and mortgages.

The Affordable Homes Programme 2021-2026 and the government's Construction Playbook for public works encourage the use of MMC, and within the Construction Sector Deal, there's an Innovate UK-funded **Advanced Industrialised Methods for the Construction of Homes project**, which aims to identify and develop solutions needed to meet current and future housing demand.

> **While in Sweden MMC homes are marketed as premium products, in the UK we're still dogged with memories of flimsy, post-war prefabs.**
>
> *Ian Humphreys, Brickflow*

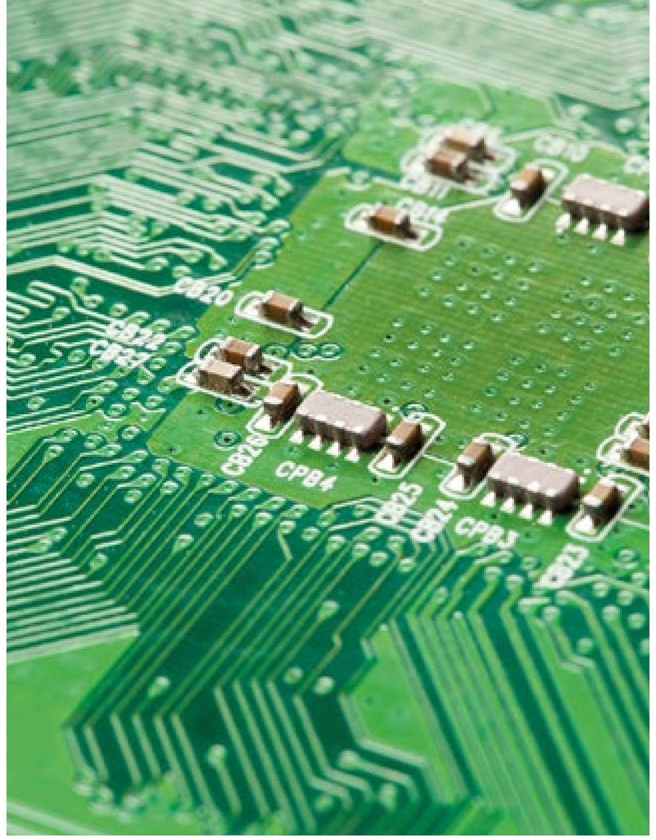
The Lords Built Environment Committee says MMC can alleviate the skills shortage in construction as well as deliver more new homes with reduced defects, but recommends Homes England reassures consumers about the quality and safety benefits of MMC.

Justin Gaze, head of residential development land, Knight Frank: *"Modular is not cheaper from a build cost perspective, it's just quicker. There's also less flexibility; if a housebuilder wants to change the plot tenure, the local authority will want to see the design and may ask for changes to be made, such as roof pitch. You can't do this with a modular design, as everything works in tandem."*

"Some modular elements are already in use, such as roof trusses, but the greatest issue is there's very little margin in it for contractors. We're still building as we did in Victorian times - more research and development into new ways of building is needed."

Justin Martin LLB FCA AMIIA, partner, Assurance, PwC: *"MMC has great potential to address construction challenges, but its adoption is hindered by several barriers, including reliance on traditional methods and recent supply issues that made building slow and costly."*

"Overcoming these requires a comprehensive approach, tackling regulatory, technological, educational, and financial obstacles. With government support, collaboration, and investment in innovation, MMC could become standard in the UK, leading to more efficient, sustainable building and potentially positioning the UK as a global leader in modern construction."



Technology

The housing sector has traditionally been resistant to innovation, resulting in an archaic industry, decades behind the majority of others. The absence of technology and digitisation is frequently cited as central to many of the key barriers to housebuilding, and yet it is a key enabler.

Technology has the potential to transform our industry, improving efficiency, productivity and outcomes. It makes businesses more agile, enabling them to respond and adapt to market conditions faster, and gives companies a clear competitive advantage versus those who are not tech-enabled.

What are the key trends changing the housebuilding industry?

- Big data - using data to analyse past risks, identify corrections and feed into Building Information Modelling to support project management.
- 5G - faster speeds, less network congestion and better traffic handling enable developers and teams to use more MMC and AI-driven volumetric manufacturing, share large-scale drawings and run heavy resource applications. It is also crucial as demand for housing stock connectivity increases.
- Internet of Things - multiple smart devices and sensors, sharing data to facilitate more efficient, intuitive and safer working, such as telematics to monitor the use and performance of vehicles, construction machinery and heavy plant equipment. Emerging smart technology is also enabling machinery to perform repetitive tasks such as bricklaying, pouring concrete and welding, and managing onsite maintenance - for example, a cement mixer that knows how to order raw materials when supplies are low.

Source: UK Connect

04 Looking ahead

Technology has the potential to transform our industry, improving efficiency, productivity and outcomes. It makes businesses more agile and gives companies a clear competitive advantage versus those who are not tech-enabled.

In addition to robots helping on site, they can be used for 3D printing. Building for Humanity, in November 2022, announced the launch of a £6 million project to construct the UK's first 3D-printed housing estate. Comprising 46 eco homes in Lancashire, the not-for-profit housing provider says it will reduce build costs by up to 30%. With affordability a huge issue for buyers, commentators suggest this will inevitably be a solution for the mass homes market.

Drones are increasingly being used in housebuilding, helping with surveying site suitability and pre-construction mapping, accessing hard-to-reach or elevated areas, and monitoring building progress. Machine learning is also important, helping with mechanical, electrical and plumbing system design.

With the Construction Industry Training Board estimating 22,000 construction workers are needed by 2030 to retrofit homes, install heat pumps, heat networks and solar panels, and undertake surveying and project management, current and future workforces must equally be given the right digital tools and skills to support this sector.

Ian Humphreys, CEO and founder, Brickflow:
"While housebuilders may be keen to use technology during the construction phase, elsewhere in the process, the industry appears more reliant on paper and people. The government concedes the planning process remains reliant on documents, not data, reducing the speed and quality of decision-making, confirming the system's dependence on the views of a particular official at the time."

"Its recommendations to digitise planning and equally land supply and market activity will enable developers to more easily secure planning permission and better access Land Registry data. But even if the digital tools are in place to support planning and land supply (the foundations for any development), at the other end of the process - buying and selling properties - technology is woefully lacking, hindering transparency."

"Conveyancing in England and Wales can take months due to its paper-based processes (Scotland fares better). At the start, it can take weeks to prepare a home information pack including information such as energy performance certificates, environmental impact ratings and land registry documents etc."

"Then it's onto instructing a conveyancing solicitor, going through the paperwork, organising a survey and undertaking searches. The process can be bewildering for anyone new to the property market or the elderly; yet the latter are the very people who can release properties and help decrease the housing shortage."

In March this year, Conservative MP Matthew Offord asked for protection for paper-based conveyancing, effectively enshrining in law that solicitors do not have to use digitised data or computer systems, which feels like a step backwards rather than forwards.

If Michael Gove takes on board the recommendations of the Open Property Data Association and digitises property data and all the associated paperwork, people will be more keen to engage with the conveyancing process.

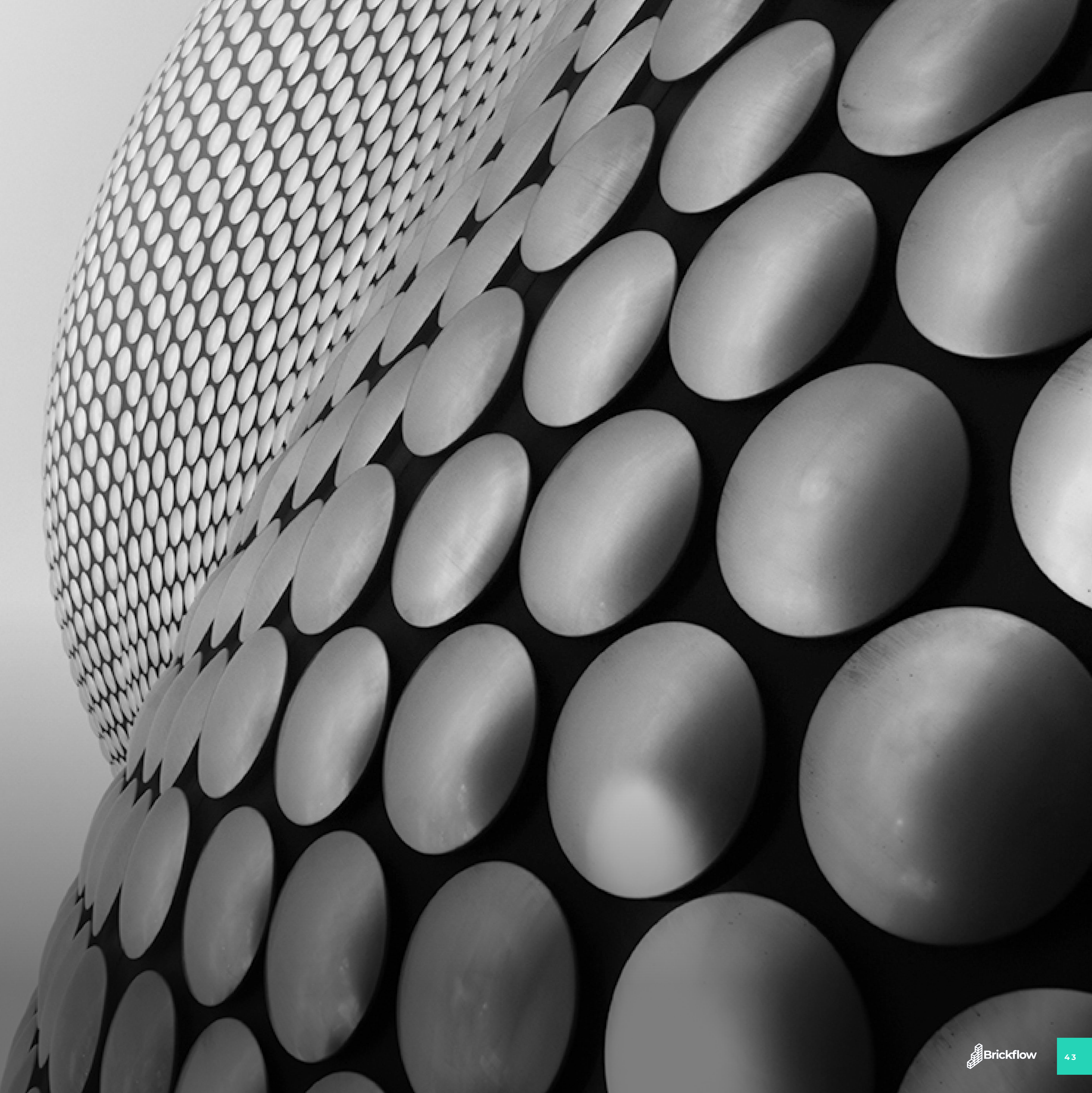
Ian Humphreys, CEO and founder, Brickflow:
"The same applies to digitising the specialist property finance market to make it easier to search and apply for funds. Until recently it has been a manual process and the CRE finance sector is only just catching up. Brickflow now provides the first digital, end-to-end loan sourcing and application platform for development finance and bridging loans, saving brokers and developers time and money. ■

> **"We're also one of the last industries to adopt embedded finance. We use it in every day life, probably multiple times a day when we make a purchase with an E-wallet like PayPal or Klarna and now it's finally available to commercial property finance brokers, agents and auction houses, essentially digitalising the funding process overnight."**
>
> *Ian Humphreys, Brickflow*

05

Where are we now

- Levelling Up & Regeneration Bill
- NPPF Review
- Competition & Markets Authority



05 Where are we now

Levelling up & Regeneration Bill

In May 2022, the Department for Levelling Up, Housing and Communities (DLUHC) introduced planning reforms via the Queen's Speech, in and alongside a new **Levelling Up and Regeneration Bill**.

The Bill includes recommendations made in the 2020 Planning for the Future white paper and is currently at the House of Lords Committee stage. Its reforms (introduced through primary and secondary legislation, and non-legislative measures), seek to improve the planning system and further empower leaders to regenerate their local areas. These include:

NDMPs & design codes

The introduction of National Development Management Policies (NDMP), will save plan makers from having to repeat nationally important policies in their own plans, making them quicker to reproduce with a focus on locally relevant policies.

Separate from the National Policy Planning Framework (NPPF), NDMPs will sit alongside local plans, providing more consistency for SME housebuilders, and cover:

- Existing policies already within the NPPF.
- Nationally important additions such as net zero and carbon reduction policies.

Planning authorities will be required to have a design code, setting minimum standards for development. Codes will be statutory and empower communities, using Neighbourhood Priority Statements, to formally input to the preparation of local plans, alongside 'street votes', allowing residents to bring forward developments they want to see.

Local plans

Local authorities will no longer have to demonstrate a continual five-year housing land supply (providing their local plans are up to date) and the methodology behind new household projection data is to be reviewed.

Authorities that have over-delivered housing in the past, can deduct the surplus from their new plan (which must be prepared within a two-year timeframe).

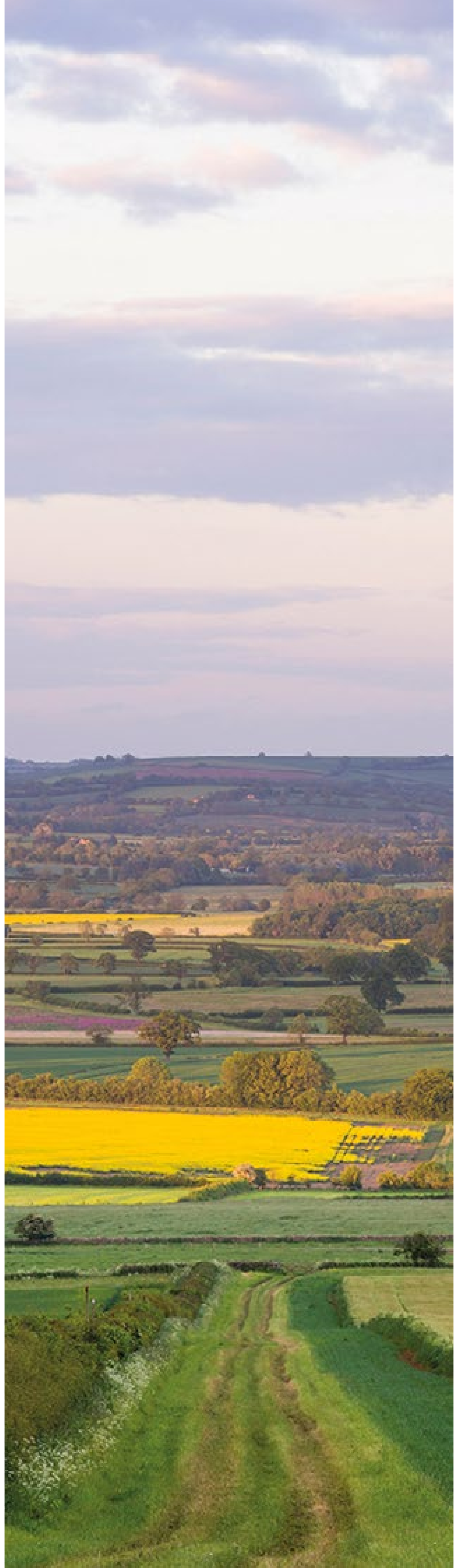
Local authorities can propose a housing requirement below their housing need figure if they show their local plan makes effective use of land and all reasonable options to meet housing needs have been considered.

Changes to the Housing Delivery Test and guidance on housing needs will help local authorities follow a plan-led system that responds to demographic and affordability pressures, such as areas with a high elderly or student population. In addition, an alignment policy will be introduced where planning considerations cut across boundaries.

Land use & value

The Bill will strengthen green belt protections; local authorities will not be required to review green belts to deliver homes. Instead, brownfield sites will be prioritised for development and the government will launch a review into how these sites are used. Authorities will also have the power to pilot land auctions (an alternative way to identify land suitable for planning permission).

A new Infrastructure Levy, replacing the current system of developer contributions, will capture uplifts in land value. Set locally, the receipts would go towards funding local infrastructure.



Developer incentives

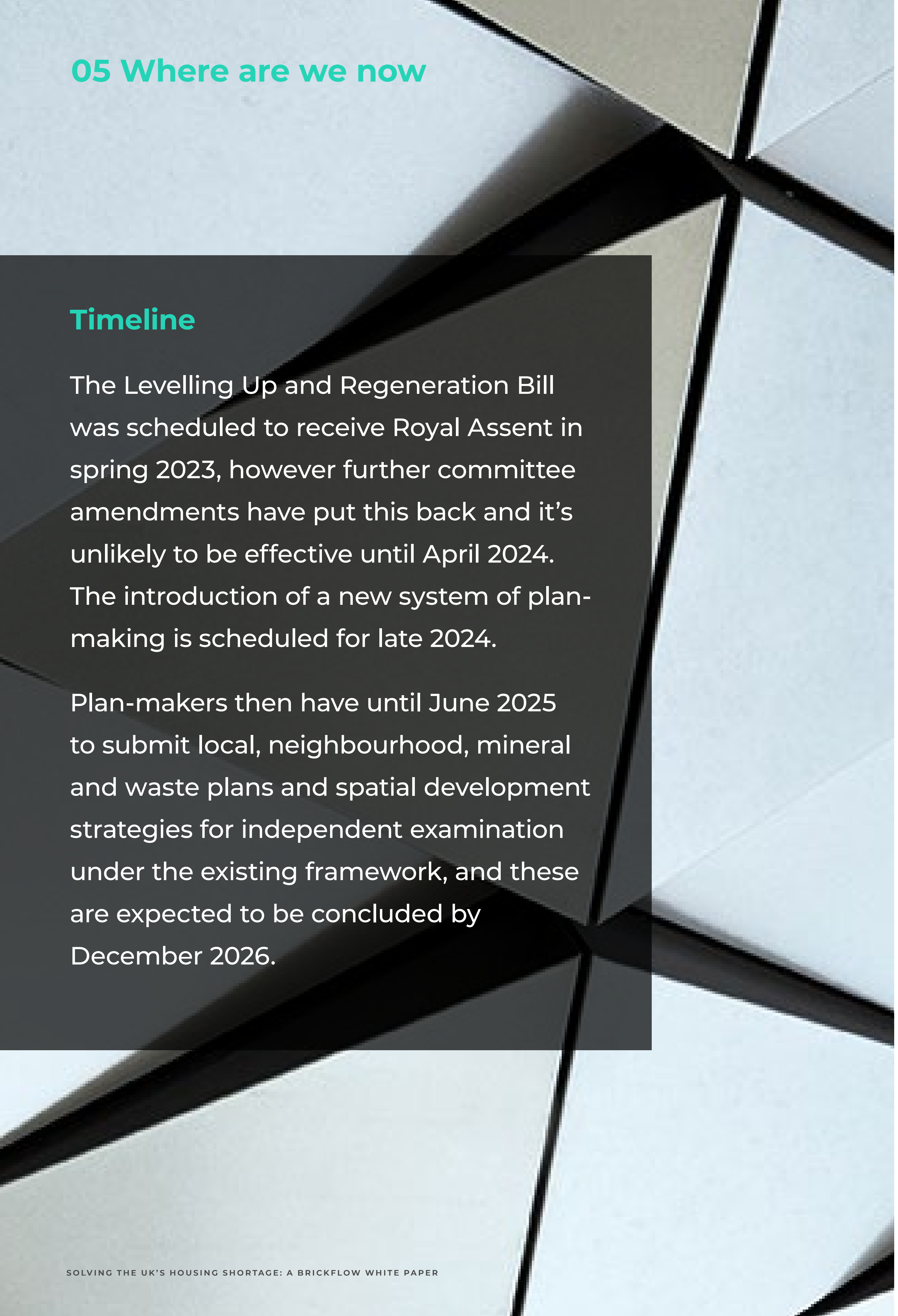
The NPPF says local planning authorities should identify land to accommodate at least 10% of their housing requirement on sites no larger than one hectare. It also encourages the use of area-wide design assessment tools and local development orders to help bring small/medium sites forward and to support the development of windfall sites through their policies and decisions.

To support funding, developers have access to the Home Building Fund and Homes England Dynamic Purchasing system, and to speed up the delivery of homes, local authorities are encouraged to subdivide large sites for different developers.

Keen to increase build-out rates, new incentives include:

- Housebuilders are required to formally notify local authorities (via a development commencement notice) when they start their development. Local authorities can serve a completion notice, and if not completed within a specified period, planning permission for the unfinished development lapses.
- Developers are required to report annually to local authorities on actual delivery versus proposed trajectory submitted after gaining planning permission, and penalties for slow progress can be issued.
- Local planning authorities can decide whether to progress planning applications from developers who failed to build out earlier permissions granted on land and they'll publish data on site developments over a certain size, where build-out commitments were not met.
- Developers asked to explain how they'll increase housing tenure diversity.

05 Where are we now



Timeline

The Levelling Up and Regeneration Bill was scheduled to receive Royal Assent in spring 2023, however further committee amendments have put this back and it's unlikely to be effective until April 2024. The introduction of a new system of plan-making is scheduled for late 2024.

Plan-makers then have until June 2025 to submit local, neighbourhood, mineral and waste plans and spatial development strategies for independent examination under the existing framework, and these are expected to be concluded by December 2026.

Gareth Davies, head of business development, Hodge Bank: *"Planning is probably the single largest issue that we hear about from our developers. It's outdated, takes too long, is protracted, very expensive and underfunded which ultimately results in staff shortages. If developers are to be given the opportunity to develop, the planning process must be quicker and easier and this requires investment - not just financial but a review and restructuring of how the planning process works."*

> **"The proposals included in the Levelling up and Regeneration Bill are useful on paper, but they'll be nothing but window dressing if the process isn't properly funded with experienced people in place."**
>
> *Gareth Davies, Hodge Bank*

Alan Fletcher, partnership director, Invest & Fund: *"We see a future where the government invests in clearing brownfield sites to give SME developers better access to opportunities currently out of their cost reach, offers levies through tax incentives, reintroduces a variant on the Help to Build scheme (targeted directly at small business development) and reforms land banking practices without planning in place. This will then allow businesses working with residential developers to access more clients, and the more clients they can access, the more houses will be built."*

Natasha Rakova, director, Consulting, PwC: *"The UK government's Levelling Up and Regeneration Bill, as described, reflects an ambitious and comprehensive approach to reforming the planning and housing landscape. The emphasis on National Development Management Policies (NDMP) and local design codes shows a commitment to streamlining processes and empowering local communities.*

"However, the delay in implementation until 2024, coupled with potential complexities tied to regulatory changes and developer incentives, may limit immediate impact. It may also be beneficial for the government to further address the collaboration between public and private sectors, as a more synergised approach could accelerate the realisation of these reforms and truly drive the innovation needed in the housing sector."

NPPF review

A wider NPPF review will take place in 2024 and includes:

- Making it clear how an uplift of 35% more housing in the 20 largest towns and cities will be applied (a move opposed by the Construction Industry Council).
- Attaching more weight to social renting (currently 10% of homes in major developments should be affordable housing) and retirement housing in planning guidelines.
- Changing the definition of affordable housing so it's easier for organisations not registered as providers (community-led developers and almshouses) to develop new affordable homes.
- Highlighting how build-out delivery can be a material consideration in planning applications.
- Emphasising the role of beauty and placemaking and asking for greater clarity on the design of the development as part of the planning application process.
- Introducing a duty to consult with the secretary of state DLUHC before granting permission for developments affecting ancient woodland.

05 Where are we now

The government is currently consulting on introducing **Environmental Outcome Reports** to assess development proposals, taking it closer to achieving its sustainable development goal of beautiful places and better environmental outcomes.

DLUHC secretary of state, Michael Gove, is also looking into:

- Overhauling leasehold laws, giving owners greater powers to buy the freehold (preventing spiralling ground rent, maintenance and service charges).
- Increasing planning fees (including doubling fees for retrospective applications where planning breaches have occurred).
- Introducing financial penalties for local authorities (to speed up granting of planning permissions).
- Giving local authorities the power to stop historically slow developers being granted planning permission.

Gareth Davies, head of business development, Hodge Bank: *"One of the key problems is the short-term nature of the position of housing minister. As with so many key positions in government, the issues are unlikely to be resolved in a single five-year parliament, and possibly not over two parliament terms. The challenge with the position of housing minister is that it's often seen as a stepping stone to a more senior role and so the position is not held for very long."*

Competition and Markets Authority

In February 2023, the Competition and Markets Authority (CMA) launched a **Housebuilding Market Study**, in response to concerns housebuilders are not delivering the homes people need at a sufficient scale or speed.

It stated that 'If there are competition issues holding back housebuilders in Britain, then we need to find them. But we also need to be realistic that more competition alone won't unlock a housing boom'.

In August 2023, the CMA released a **report update** stating that more investigation would be needed to determine if they will consult on a proposal to make a market investigation reference. The report also outlined the main barriers it sees facing SME housebuilders and further action to be taken:

1. **Issues relating to the planning system:**
   Specific issues include inconsistency in decision-making, the length of time the planning process takes, the complexity and levels of information required, and concerns that the planning system favours large sites. These issues disproportionately affect SME housebuilders as they typically work on fewer sites and have fewer resources than large developers.

2. **Issues relating to access to land:**
   The availability of land (particularly land with planning permission), and to a lesser extent the affordability of land, is an issue. Land agents may limit SME housebuilders' access to land by holding closed bidding processes, which they are continuing to assess. They are also assessing whether and to what extent issues relating to access to land are exacerbated by the size of land banks held by large housebuilders.

3. **Access to finance:**
   The main challenges SME housebuilders face with finance relate to its availability and cost, as well as its conditionality, for example, the need to secure planning consent before being able to obtain finance. ■

"Until there's a sensible cross-party agreement to try and resolve this imbalance between housing supply and demand, we'll continue to see housing used as a political football, with very little material change as a result."

Gareth Davies, Hodge Bank

06

Conclusion & Recommendations

06 Conclusion & Recommendations

The health of the housing market is in a catastrophic state because we're simply not building enough houses.

The planning system is broken

Earlier this year the number of major residential planning decisions granted fell to the lowest quarterly figure for 10 years. DLUHC says the slump is not just due to fewer developer applications, but councils approving a lower proportion of applications.

The planning system, political pressures, resourcing, local authority planning department budget cuts and uncertainty over national planning policy guidelines are all contributing factors to the failure of the UK planning system.

Ian Humphreys, CEO and founder, Brickflow:
"Throughout history, any period of real economic growth has been underpinned by construction. The government could significantly increase the UK's economic prospects simply through strategic investment in the planning system."

"All the ingredients are there; chronic undersupply of housing, an army of property developers wanting to build and strong property finance lending markets, but the planning system is categorically broken and is the most detrimental barrier to housebuilding."

"Every property developer we speak to says the same thing; if the government could get the planning system right, the short and medium term prospects of UK plc would be infinitely brighter."

Barriers to housebuilding are extensive and interwoven

With planning as the undisputable leading barrier to housebuilding in the UK, the other main barriers that must urgently be addressed include: land supply, government investment, access to development funding, developer incentives, a lack of digitisation and transparency across the housebuilding process, from securing land and funding to the conveyancing process, to a lack of clear direction around the ever-changing environmental regulations.

While supply chain issues may be starting to level out, the skills gap and labour shortage in both planning and construction widen further. And if crippling interest rates continue to mean people cannot afford to secure mortgages or buy property, developers and housebuilders will simply stop building.

The sector urgently needs stability

In February this year, Rachel Maclean became the 15th new housing minister since the Conservative party came to power and the sixth to hold the post in the 12 months prior to her taking up the position. Dithering and indecision over housing targets have led to numerous councils having no local plans, the very foundations developers and housebuilders need to progress their projects.

The key barriers to housebuilding are interwoven and interdependent and must be addressed as such. Yet the government rhetoric on what it will do to address the issues currently appears to be just that - rhetoric. There is no joined-up thinking, which is why this document is so vital. There is no single silver bullet to address the housing crisis, and solutions cannot focus on one area.

The Levelling up Housing & Communities Committee Reforms to National Planning Policy report, in July this year, said 'the housing sector is hungry for clarity, consistency and certainty over the government's national planning policy'.

Clarity, consistency and certainty are needed across ALL the areas we've highlighted in this paper, and this will only be achieved when we end this merry-go-round of housing ministers and Michael Gove engages with all of this sector's stakeholders so we can have cohesive thinking, backed up by meaningful action in addressing the challenges we face.

Housing ministers since 2010

- **Grant Shapps** (2 years and 4 months)
- **Mark Prisk** (1 year and 1 month)
- **Kris Hopkins** (9 months)
- **Brandon Lewis** (2 years)
- **Gavin Barwell** (11 months)
- **Alok Sharma** (7 months)
- **Dominic Raab** (6 months)
- **Kit Malthouse** (1 year)
- **Esther McVey** (7 months)
- **Chris Pincher** (2 years)
- **Stuart Andrew** (5 months)
- **Marcus Jones** (2 months)
- **Lee Rowley** (7 weeks)
- **Lucy Frazer** (3 months)
- **Rachel Maclean**

> **"Every property developer we speak to says the same thing; if the government could get the planning system right, the short and medium term prospects of UK plc would be infinitely brighter."**
>
> *Ian Humphreys, Brickflow*

06 Conclusion & Recommendations

Recommendations

While the government believes providing more homes is the most efficient way to level up the country and reduce inequality, it has no clear strategy on how to do it.

The Levelling Up & Regeneration Bill is instilling some positive change but this alone is insufficient to address the chronic housing shortage we face throughout the UK.

Having read many pages of government 'visions, goals and objectives' that too infrequently result in action, and considered commentary from our contributors from across the industry, we propose the following recommendations as a framework for moving forward.

1. Increase funding for planning departments with immediate effect
Resource and fund local planning authority departments now, so they can more easily implement the introduction of National Development Management Policies and local design codes.

There is no time to wait for a future consultation on sourcing funds from a proposed increase in planning application fees. Increasing the fee may initially cost developers more, but better-resourced planning means a faster process, saving money in the long-term.

2. Provide clarity around household projection data
Provide greater clarity on the methodology to calculate household projection data. The government says it will review the methodology, yet having scrapped the continual five-year housing supply requirement, we are left with zero guidance or framework.

Instead, we have a statutory local plan timetable, with local area authorities unable to specify their housing requirement, making the timetable arbitrary. A timetable without supporting household projection data is akin to a train timetable with no running trains.

3. Introduce a database for public sector land & audit green belt land
Improve the data held on land supply and market activity and introduce a database of all public sector land (local authority and national government-owned). Identify what can be used for brownfield housing and develop a register of land available locally.

In addition, audit green belt land across the UK and reclassify the low-quality areas close to the likes of train stations, scrap yards and old industrial estates, so they may be developed for housing.

4. Focus use of the Infrastructure Levy on supporting local communities & infrastructure
The new Infrastructure Levy should not be used to fund infrastructure/initiatives away from the intended development. Having more flexibility on how and where to use developer contributions is a positive step but the money should support the local community and infrastructure, and should not be used to plug financial gaps elsewhere.

5. Improve government & private sector funding for developers
Deliver more government-funded support and simplify the application process. Many schemes are short-lived and lack the scale and longevity developers need. SME developers are often ineligible for government-backed schemes or find it challenging to navigate the application process.

Affordability must also be addressed. For every 1% base rate increase, a developer needs £10,000 more in equity per £1m borrowed. Less available equity means less finance on offer, creating a liquidity crunch, rather than a credit crunch, reducing developers' borrowing capabilities.

The private sector must improve access to development finance through investment in further digitisation of the specialist property finance market. Lenders, brokers and developers have a vital role to play in adopting the technology already available, thereby attracting more investment into digitising the sector.

06 Conclusion & Recommendations

6. Implement a robust energy & water infrastructure strategy
Develop and roll out a comprehensive energy infrastructure strategy, which enables more wind farms and reinforces the electricity grid. This should be prioritised over unrealistic demands for developers to produce 80% fewer carbon emissions and not connect to the gas grid from 2025.

In addition, prioritise energy and water infrastructure improvements over berating housebuilders for impacting nutrient neutrality. Put more pressure on the key contributors to nutrient-related river pollution, including agricultural run-off and the failure of water companies to maintain infrastructure.

7. Increase buyer affordability
Address buyer affordability issues and bring back Help to Buy or a similar scheme that improves affordability metrics. Changing the National Planning Policy Framework to improve build-out rates will only work if buyers can afford the homes being built.

While it's good to see local authorities will bring forward more small and medium-sized sites for development and subdivide larger sites for different developers, no matter what the incentives, housebuilders will be reluctant to begin a project if sales cannot be secured.

8. Build market confidence in Modern Methods of Construction
Increase confidence and acceptance of MMC by using it to build council and housing association properties, where a mortgage isn't necessary. It is only when the longevity and efficiency of this type of construction increases, as it has successfully in many other countries, that it will become more mainstream.

9. Invest in technology to facilitate more building, buying & selling
Provide housebuilders with adequate training and the tools to retrofit homes with the likes of heat pumps, heat networks and solar panels to meet the Future Homes Standard.

In addition to digitising planning and land supply, digitise the other end of the process; the buying and selling of homes. In turn, remove the archaic paper-based conveyancing process to speed up the buying and selling process, helping to release more properties to the market.

10. Adopt a culture of collaboration & action
Greater collaboration and communication across the sector is fundamental to positive change. Government ministers or representatives from all parties must meet with housing sector stakeholders to address the issues identified in this white paper and move forward with practical rather than theoretical solutions.

There is a revolving door when it comes to the housing minister position, yet with a unified and consistent approach, coupled with the right support and reforms in the areas we have identified, we are confident more houses can be delivered and we can begin to reduce the UK's chronic housing shortage before the shortfall becomes irreversible.

07

Acknowledgements

07 Acknowledgements

Executive Editor

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Ian Humphreys is the founder and CEO of Brickflow. As a former property developer and commercial property finance broker, he understands the issues and complexities of housebuilding from all perspectives - in particular the challenges of securing good value funding.

Ian created Brickflow to digitalise and therefore democratise the specialist property finance market, making funding more accessible for everyone. Brickflow has already helped to facilitate more borrowing with less equity deployment, cheaper finance and ultimately more construction.

However, without solving the other fundamental barriers to building, innovating the CRE finance market can only go so far in addressing the housing shortage. Ian therefore commissioned this in-depth examination of the wider factors hampering housebuilding in the UK, assuming the role of an industry champion for change, with the aim of providing a solid framework of recommendations for moving forward.

About Brickflow

Brickflow is the digital marketplace for specialist property finance and the industry's first end-to-end loan sourcing and application platform. Borrowers and brokers can search 80+ lenders in minutes and secure a Decision in Principle in hours. Brickflow Enterprise is Brickflow's embedded finance solution, which enables brokers to digitally connect with introducers and scale their business faster.

About our contributors:

Formerly Cass, and part of City, University of London, Bayes Business School has three faculties, including finance, providing world-class business education and research relevant to academia, industry and society.

Brightstar Financial is an award-winning specialist property finance broker, sourcing specialist lending solutions for borrowers spanning development, bridging and commercial finance, as well as residential, commercial, second-charge and buy-to-let mortgages. They also support introducers from across the mortgage market to expand their client offering into the specialist property finance market.

The Financial Intermediary & Broker Association is the industry voice for professional financial intermediaries across the UK, supporting them with training, guidance and assistance, plus access to a comprehensive network of specialist property finance lenders, product information, compliance resources and other member benefits.

Cardiff-based Hodge is a long-term funding partner across multiple asset classes, and has been supporting commercial clients for over 30 years. Its team works with professional property developers and investors across England, Wales, and Scotland, offering residential, commercial, and mixed-use (semi-commercial) development and investment finance, plus acquisition and refurbishment bridging facilities.

Invest & Fund is an established peer-to-peer marketplace helping individuals, high-net-worth lenders, private banks, family offices and institutions achieve attractive risk-adjusted returns from residential development projects. Its team, experienced in senior banking, wealth management, property lending, peer-to-peer finance, property development and credit risk assessment, to date, has lent £257 million to SME property developers across the UK, with over £150 million successfully repaid to lenders.

In the UK, Knight Frank is a recognised leader in the premium residential and commercial property market. The firm also continues to expand all aspects of its property business, including commercial and mixed-use development consultancy, urban regeneration and key market sectors such as healthcare. Knight Frank has 487 offices across 53 territories and employs over 20,000 people. Its local knowledge and resources throughout its global network, make it one of a few firms able to provide a highly specialised service portfolio worldwide.

Marden Homes, established in 1989 is one of the southeast's most recognised housebuilders, designing and building high-quality new homes across the South East and London. They create new neighbourhoods in sought-after locations from modern, town-centre apartments to detached family houses in countryside locations.

Cheshire-based Mint is an award-winning specialist lender recognised for its relationship-driven and flexible approach. Since its inception in 2011, Mint has enjoyed year-on-year growth and recently reported its highest quarterly volume of enquiries.

Launched in 1992, The National Association of Commercial Finance Brokers (NACFB) is the UK's largest independent trade body for commercial finance brokers. The Association comprises more than 2,000 commercial finance brokers covering the whole of the UK, and more than 160 commercial lenders. In 2022 alone, the trade body's Members originated more than £45 billion of SME lending.

Nimbus® helps property professionals find and close successful property deals by aggregating data from over 1000 trusted sources and turning it into intelligent insights for clients. Created by brothers, Paul & Simon Davis, the company's blend of technology, a passion for excellence and almost 30 years of knowledge and expertise helps save 80% of the time spent researching.

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 152 countries with nearly 328,000 people who are committed to delivering quality in assurance, advisory and tax services. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity.

Searchland is an off-market land sourcing platform, providing property professionals with new data-driven automated tools to help them source sites faster and acquire land/property to build and develop upon.

Thank you for reading.

If you have any feedback or would like to join the conversation, we would love to hear from you.

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