CALCUTT REVIEW

This is a response from a ‘small’ housebuilder, constructing around 50 units per year mainly in the East Midlands area.

1. *What published or private sources of information are used by housebuilders, suppliers, analysts and others to determine current and future demand for housing, in terms of volume, type, price and location.*

Operating in a localised area we mainly utilise our own local market knowledge to determine what is appropriate for a particular location, and in fact if that location is suitable for our preferred product.

2. *Does the prevailing business model of the housebuilding industry constrain how it responds to demand? Is that model evolving or likely to evolve to meet changing patterns of demand? What would encourage a shift towards greater responsiveness?*

I do not believe that it is so much the industry, but the ‘system’ that constrains demand. The last few years of PPG3 have resulted in the wrong properties built in the wrong place. The major housebuilders in their constant demand for unit sales have had no alternative but to build what they were told they could. The current result is developments with cars parked on every pavement, 3 storey town houses not being bought in the main by families and resulting in lack of demand and lower prices per sqft than comparable detached houses. This could be a regional case more than national, but shows that what suits the south east does not suit the rest of the country.

There has been some evolvement, but with what now looks like the ‘big 3’ there will be the need to churn out volume whether it’s the right product or not. This of course leaves marvellous opportunities for the smaller developer so long as the system allows us to build what we know our customers want.

There seems to be an assumption that individual companies in our industry will provide across the complete market, and that this should feature in completely mixed developments. No other industry that I am aware of has these constraints put upon them. Does Ford sell Jaguars in the same showroom as Fiestas? Does BMW have to produce an ‘affordable car’ at a loss so that it is allowed to produce more expensive cars?

I believe our industry gives in far too much to political pressure, again because the large companies have no alternative in their quest for planning consents.

The smaller companies then suffer because they cannot sell a development of say 6 detached houses if there is a requirement for 30% affordable in the same location – <u>it just doesn’t work.</u>

3. *What are the alternatives to the existing business model? What are the constraints on the development of those alternative models, and what advantages might accrue from the development of other models?*

Our whole system is based on market value for a particular house in a particular location. The ability to increase value and therefore specification is very limited. The 'nationals' are paying some ludicrous prices for land with planning because they must satisfy their shareholders with unit sales. This drives up house prices without an equivalent value increase. It is therefore the case that without regulation, there would have been limited gains in the standards of housebuilding.

We are therefore currently in a catch 22 situation, created by Central and Local Government, of insufficient land supply pushing up prices and hindering the ability to spend more on improved specification, resulting in more proposed legislation.

Politicians need to realise that in a market situation the industry will balance supply with demand in the medium term and should be allowed to do so with an adequate supply of land. Only then will land prices level out and there be the need for developers to improve specification as a means of separating their product from the rest.

With some constraints so that we don't 'concrete over all the green belt' <u>we should be allowed to build what our customers want, where our customers want to live.</u>

4. *To what extent is the housebuilding industry exposed to competitive pressures? Are there barriers to competition, including new entrants? If so, what might be done to remove these barriers?*

I believe that the greatest competition is in the purchase of land and not specifically in the sales of houses. Having said that the smaller developer is in no position to compete head on with the nationals if selling like for like in adjacent locations. In that instance we have to sell service, specification and quality.

We commenced business 13 years ago and at that time, I believe, it was much easier and less costly to enter the industry. There seems to be an adequate supply of funding, but mostly that doesn't come into place until a site is ready to purchase with planning. Just the costs now of getting to the point of submitting a planning application must be quite daunting for new entrants.

To remove the barriers it's all down to regulation again.

5. *To what extent is the volume and responsiveness of housebuilding constrained by the supply of capital (including land), labour, skills or materials? Is this likely to change as a result of sustainability or other constraints? What steps might be taken to mitigate any effects?*

At our level land is a much greater constraint than labour or materials, however labour and materials become a greater problem once we try to deliver new methods of construction. Even moving to thin joint blockwork, which from a management point of view would seem simple, is a major change for labour and very difficult to introduce. New materials which are shown at exhibitions are often not initially available in small quantities and where the smaller developer my want to lead they often have to follow.

Once again improve land supply by reducing regulations, create consumer demand for sustainability, rather than supply led regulation.

6. *What constitutes good quality in housebuilding? To what extent is the housebuilding industry as currently structured well adapted to deliver well designed good quality homes? What steps might be taken to improve quality?*

There is often a general misinterpretation between specification and quality. High specification is just about what has been installed in the house, high quality goes much, much deeper. The very cheapest house can be high quality, the most expensive house with high specification fittings can be poor quality.

Quality as about the whole process from design through to the customer walking through the door and living trouble free. Were the drawings accurate so the bricklayer could get it right first time? Was the first fix plumbing carried out and tested so that after plaster there wasn't the need to cut holes and redo work? Was the customer given accurate information about the house itself and the buying process? Did the customer have a need to call the builder out to problems after occupation and if so how was he dealt with and how quickly were the problems remedied?

In general if customers don't have a lot of choice then quality will not improve.

<u>We're back to land supply.</u>

7. *To what extent is sustainability, in any sense, a factor in the choices made either by housebuilders, suppliers and other providers, or by housebuyers? What impact is being achieved by the Code for Sustainable Homes and the agenda set out in the Government's consultation document "Building a Greener Future: Towards Zero Carbon Development"?*

Firstly, and we have specifically asked this question, our buyers have stated that they are not prepared to pay more for a 'greener' home. But to put that in context the question was asked of 1st/2nd time buyers where affordability and what is included in the way of perceived essentials, (carpets/curtains/appliances) is more important to them in the short term.

In terms of industry and suppliers attitudes I believe there is actually a considerable will to embrace new technologies, but there is a limit to what can be done in a market that does not apply added value to such items.

At a time when bids for land in the East Midlands are escalating, and house prices are not rising correspondingly I wonder where the extra cost can be recovered.

I do believe however that in the short term there is an opportunity for the 'smaller' developer on a smaller site of generally more upmarket homes, to move well ahead on sustainability and perhaps recoup the additional costs or even indeed make additional profits. In fact this has already been done in our area. But that is a drop in the ocean in terms of tackling global warming.

There seems to be a government attitude to forcing these massive improvements on the industry, but the costs just outweigh the advantages in the short term, as the developer sells in the short term, he maybe providing his buyers with a property that will have enhanced value in the future but he will not benefit from that himself.

There seems to be a complete ignoring of the fact that the industry adds no more than 1% to the housing stock each year, but is a soft target for government.

If however the existing housing stock's insulation were to be improved by say 5% the results would be dramatic, but the average man in the street doesn't generally spend money on 'can't see items'.
We see no specific impact of the Code for Sustainable Homes yet, but surely it will start to gain pace.

8. *There is a clear public interest in the operation of a free market, in securing an adequate supply of new homes, and in sustainability. How, and how far does the housebuilding industry respond to considerations of public interest? What public policy instruments are available to influence the performance of the industry, and how effective are they?*

This is a harder question to answer from the smaller developer's perspective, however, I will try.

The major housebuilders are clearly interested in unit sales, to the extent that at their year ends quality falls and production and legal completions are at the expense of everything else, perhaps they over budget or underperform through the year, but we see it every June and December and in the lead up to those dates, to the extent that when we use Subcontractors who also work for the majors we loose them in those periods.

It is quite clear that improvements in quality and customer service have only come from various forms of regulation, whether it be governmental in the form of Building Regulations outside sources such as CML.

As a smaller developer we have always striven to produce a better product but it is very difficult to compete with the packaging & buyers (particularly 1st time) are swayed with initial wow and ease of purchase. They rarely consider future maintenance or running costs.

The industry in general is very slow to respond to public interest, builds for as little as it can and sells for as much as it can.

Building Regulations have clearly been effective in increasing standards, but have been thrown at the industry year on year without even the regulators knowing what the requirements are.

The HBF is quite right to place a positive message on 76% customer satisfaction rate for those major companies measured, but that means that a quarter of all purchasers are not happy (some 40,000 buyers last year). Why were the smaller developers not included, or measured separately?

The majors may control a large part of the market, but do they really care about customers? They are starting to more, but until there is more choice for customers WHICH MEANS MORE LAND AVAILABILITY I can't see anything changing quickly without regulation.

In simple summary we do not operate in a free market by any means at all. The excessive regulation and shortage of land availability mean that other than in specific local areas competition for customers is not high. It was even said at last years Housing conference that 'you guys compete for land but rarely for sales'.

Why is the government frightened of opening up the market and making land available? – do they really think that developers will build massively more houses than are needed? In the current rush to build anything for which planning can be achieved the wrong product has been built in the wrong place. Why is there no trust in developers to build what the public wants? Historically our towns and villages developed in this way.

There can be guidelines as to design location etc and there must be restrictions on Local Authorities from blocking development, but cut the red tape and let the industry deliver.

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