# CALLCUTT REVIEW OF HOUSING SUPPLY

1. ***What published or private sources of information are used by house builders, suppliers, analysts and others to determine current and future demand for housing, in terms of volume, type, price and location, and over the near, medium and longer term?***

   At a local level; Local Authority Development Plan Documents (Local Plans, LDFs etc), the local knowledge of estate agents, customer profiling and local demographic surveys.

   At a regional and sub-regional level; Regional Spatial Strategies.

   At a national and more strategic level; the Government's official household projections provide a useful indication of future demand.

   In addition, HBF publications and Central Government guidance.

   Housing type, price and location is driven more by the availability of land and the balance in the market area, (although planning authorities are beginning to introduce prescriptive policies on housing type and mix that are ill founded and unhelpful – see 8. below).

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?***

   Currently there is not considered to be a single prevailing business model but rather a number of different models all of which contribute towards the delivery of housing within the UK. These include the traditional house builder, Housing Associations, mixed-use developers, regeneration specialists, etc. There are also those companies that assemble land, obtain planning permission and then sell the land on the open market – in some instances this will involve infrastructure delivery, in others it will not. These different models have different strengths and weaknesses and are not easily compared.

   There should be no doubt that the best way to encourage a shift towards greater responsiveness is to ensure that the planning system delivers sufficient land with planning permission for residential development in order to satisfy demand. These permissions should not be overly burdened with 'costs' to a degree that the approved development becomes unviable or results in the dilution of land values to such a degree that a land owner sees no advantage in selling his land. If the correct conditions are in place the house building industry in all its forms will respond appropriately and deliver the increase in housing supply so urgently required.

Central Government needs to provide and enforce the correct policy framework. How quickly we, as house builders, respond is very much in the hands of Local Government and associated bodies. These bodies are usually poorly resourced and demonstrate the perception amongst developers that they are anti-development. Planning permissions take far too long to achieve (often years for major schemes) and local authorities need to show a far more positive and less obstructive approach to development.

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

As stated above, there are a number of different business models in place already and all deliver housing. It is healthy to have a variety of models as this provides for greater flexibility in its delivery. These models will react differently to different market conditions. All, however, have a single need and that is the requirement for housing land.

Central Government convey the requirement and demand for new housing and have accused developers of land banking – Government should focus on the real issue constraining delivery, Local Planning Authorities (LPAs). They need investment, resource and educating to deliver the required service to developers and communities as a whole. A review of the Government awards to LPAs for achieving planning targets should be undertaken as there is too much scope for meeting targets but still providing a poor service to the customer. A decision made within a particular timeframe is not automatically a good decision.

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

All developers are exposed to pressure from within. Land is at a premium and is being driven up in value because of the need to secure what is currently a scarce resource. If more residential land was available in the right market locations there would undoubtedly be an increase in housing delivery and the introduction of new entrants as a result of more opportunities being available.

5. ***To what extent is the volume and responsiveness of housebuilding constrained by limits in 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?***

It is well known that the whole UK population occupies a small percentage of the land area available. There is no shortage of land, but there is a shortage in the supply of land with planning permission for residential development. It is the lack of responsiveness and the negativity of the planning system that has led to this situation. House building is often politically unpopular and local politicians use there powers to prevent and/or delay housing proposals. It is accepted that the planning system has a very important role to play in the protection of the environment and in the delivery of good design and well planned development. However, in terms of maintaining an appropriate level of housing land for development it has unarguably failed. Without an adequate supply of land with planning permission, in the right locations, it will be impossible for house builders to meet the Government's housing target, whatever is done to lower other potential barriers to housing delivery.

Skills are in decline both in quality and number and this will not be helped by the drive to deliver the infrastructure necessary to provide for the 2012 Olympics. The influx of European workers has helped as will a return to apprenticeship schemes and possibly the use of directly-employed labour.

Proposal to achieve carbon neutral/zero and other such initiatives are clearly necessary advancements, although, there is all too often a drive to deliver these initiatives too quickly. Rather than being rushed into a commitment it is important to allow for realistic implementation targets with full industry consultation. It is difficult to assess at this stage whether or not sustainability requirements will pose problems for the industry and its suppliers into the future, although experience suggests that they will. It is essential therefore, that time is given to allow for the proper testing of new products and for the introduction of any new skills and technologies required to deliver sustainability initiatives. It is of great importance that the Government do not reduce the proposed zero-carbon timetable and that LPAs are prevented from introducing their own more stringent policies in respect of sustainability criteria. This, of course, is already happening.

The Government recognises the need for adequate infrastructure to support future housing development but it remains unclear precisely how this will be delivered (PGS being the current proposal). Whatever mechanism is used it is fundamental that major infrastructure schemes are delivered in parallel with, or in advance of, the housing schemes to which they relate. Failure to do so will result in a delay in housing delivery.

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?***

Good quality in housebuilding encompasses:

- Well designed layouts
- Good quality materials
- Good quality labour/skills
- Good quality management

The industry is well placed to deliver quality through good design and management and all of the above points can be judged by the end user via specific survey. However, it is not always possible to provide the types of homes that customers want due to LPAs dictating mix and type. It is important to build homes that people want to live in, to meet ever changing life styles and to offer greater and more flexible choice through cost effective off-site manufacturing.

7. ***To what extent is sustainability, in any sense, a factor in the choices made either by house builders, suppliers and other providers, or by house buyers? 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"?***

It is the case that housebuilders actively search out sustainable solutions as these provide tools with which to negotiate with LPAs, whether it be in relation to a strategic or subject to planning opportunities.

Suppliers and other stakeholders are aware of sustainability requirements and like house builders are moving towards sustainable sources for product materials along with the development of new products to assist with their sustainability credentials.

House buyers generally are aware of sustainability issues as they are not specific to the housebuilding industry. However, it is unclear as to whether a house purchaser is more attracted to a sustainably constructed home as opposed to a home of standard construction. At this moment in time it is likely that it is the cost of the home that is most important to the majority of purchasers and not whether the home is constructed to Eco Homes "excellent".

Developers accept that building regulations are going to become more stringent as we approach the zero carbon target. Difficulties arise however, where LPAs require housebuilders to exceed the Building Regulations (and this is now happening on a regular basis). Unless the additional costs are matched by a corresponding increase in sales revenues, a company incurring these costs will either suffer an erosion of its profit margins, or it will be unable to compete effectively for land against companies which have not incurred such costs and will therefore generate a higher residual land value. The most effective way to achieve higher sustainability standards is to create a consistent approach between LPAs by ensuring that any new sustainability requirements are dealt with through the Building Regulations.

The Code for Sustainable Homes and the agenda set out in Building a Greener Future have not yet had time to have any direct impact on housing production. It is clear, however, that the 2016 target is an ambitious one and it will not be achieved without difficulty. Indeed, it would be of no surprise if the implementation of more stringent building regulations resulted in a slow down of housing delivery as housebuilders come to terms with new ways of working and new technologies. It remains critical that the Government sticks to its timetable for the introduction of zero carbon homes, and that regional and local planning authorities are prevented from introducing a whole range of individual policies which place undue pressures and costs on house builders.

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?***

As stated above, there is growing concern that LPAs are seeing it as their right to introduce policies that specify the type and mix of dwellings required on housing developments. House builders with significant experience in determining mix find predicting it accurately a difficult task. It is therefore difficult to see how a LPA with limited (or no) experience in determining housing mix can produce an appropriate and effective policy. The lack of commercial understanding in this respect often has a detrimental effect on the viability of the scheme and can affect its delivery.

As with most markets, the housebuilding industry responds to customer requirements and changes in legislation; however, it is legislative change that is likely to drive sustainability forward, as this means that changes must be implemented by all house builders, thus providing a level playing field for all.

Of course, it should not be forgotten that the housebuilding industry plays a significant role in the delivery of a wide range of community benefits that are clearly in the public interest, ie affordable housing, new schools, public transport improvements, new roads, community buildings, etc. These are facilities that, were it not for the development industry, would have to be provided through other means of funding or in some cases not at all. Where the industry has universally failed is in promoting any level of recognition to the public for the delivery of these facilities. This is something that needs rectifying in order to enhance the profile of an industry that is generally viewed as being profiteering with no interest in the wider community.

MOF/jmd/misc/822
23 April 2007