

Small house builders and developers

Current challenges to growth



Primary research

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Foreword

The dramatic reduction over the past 10 years in the number of new homes built by small house builders and developers is sadly all too familiar. Equally familiar is the widespread political support from across the whole spectrum for a revival in this sector. The Government's Housing White Paper* is clear in its commitment to 'help this sector to grow and develop again'.

But this is easier said than done. The White Paper makes clear the scale of the decline in market share accounted for by small builders (defined as those building no more than 100 homes a year) from 28% in 2008 to just 12% in 2015. If this trend is to be reversed, it has to be on the basis of a clear understanding of the obstacles in the way of smaller builders and developers who want to increase output but are currently finding this difficult to achieve.

This is the background to this report, which explores the challenges to growth facing smaller house builders and developers. The report is based on focus groups held in different parts of the country and a survey which generated responses from approaching 500 companies. The findings generally reinforce the conclusions of our previous study, *Improving the prospects for small house builders and developers*, published in 2014. The three principal obstacles identified by house builders remain the time and costs involved in navigating the planning system, the availability and cost of land suitable for small builders, and the availability of finance, though the latter was not seen to be as large an impediment as previously.

The report also demonstrates how it is the very smallest developers (those building 10 homes or less each year) who have been worst affected by the decline of recent years, and who find the obstacles to growth most daunting. This is not an encouraging message as it suggests that capacity to manage the various challenges that inevitably face developers in the modern world is key to recovery and growth. Planning is an interesting example, as respondents recognised the need for some system to regulate development, but were deeply frustrated by the delays and costs associated with current planning procedures. While more undoubtedly can and should be done to streamline unnecessarily slow and complex processes, there is no easy panacea while communities continue to expect detailed scrutiny of development proposals that will impact on their areas.

I hope that this latest report helps all parties – developers, landowners, planners and politicians – understand better the real challenges facing smaller house builders, and contributes to the development of policies and practices that help this sector to grow.

Rt. Hon. Nick Raynsford
Chairman, NHBC Foundation

* *Fixing our broken housing market*, Department for Communities and Local Government, February 2017.



1 Key findings

Small house builders and developers, defined for the purposes of this report as those who build up to 50 homes a year (although most typically build only 1–10 homes per year), are an important part of the house-building industry. However, the output of this sector has been in decline, with the market share of small house builders and developers declining from 28% in 2008 to just 12% in 2015.

This report explores the reasons for this decline and the factors that are limiting business growth in this sector. Based on a survey of 468 companies from across the UK, it provides an update to an earlier report, *Improving the prospects for small house builders and developers*, published by the NHBC Foundation in 2014.

Small house builders and developers typically differentiate themselves from larger builders by building bigger homes on smaller developments. They tend to place considerable emphasis on individuality, with high levels of tailoring to attract those buyers who are seeking homes with distinctive features and a higher specification.

Almost 60% of the companies surveyed for this report develop one site at a time and therefore being able to predict and plan for continuity of projects and workloads is critical to their success. When asked about future market growth, 58% said they are optimistic, but this figure is down from 78% in 2014.

This report identifies the following as being the main factors affecting the growth of small house builders and developers:

- **The planning process and associated costs** – 38% of the companies surveyed ranked this as their most serious business challenge and 31% ranked it as their second main challenge. This presents a more pessimistic view of the situation than in 2014.
- **Availability and cost of viable land** – 37% of the companies ranked this as their first and 34% as their second most serious business challenge. This factor has also become a more serious concern since 2014, and is particularly a challenge for small house builders and developers in England compared with other parts of the UK.
- **Availability of finance** – 20% of the companies regard this as their first and 18% as their second most serious business challenge. This situation has, however, improved since 2014, with reports of better relationships with banks and an increase in the use of private funding sources.

These issues are similar to those highlighted in the 2014 NHBC Foundation report mentioned above.

There are differences by size within this sector. The majority of companies building 1–2 homes per year find their businesses are mainly challenged by the availability and cost of viable land, whereas those building more than 5 homes per year described their most serious business challenge as the planning process. Companies not building any homes in 2016 described planning and land availability/cost as posing equally serious challenges to their businesses.

Other factors identified as business challenges include the poor standard of service received from utilities and telecoms companies, the requirement to pay council tax on completion of build and a shortage of skilled trades.

The key concerns that must be addressed to facilitate growth in the small house builder and developer sector are as follows:

1 Planning

A large number of issues were identified including:

- Length of time to achieve a planning decision
- Unpredictability and inconsistency in the planning process
- Planning fees and tariffs
- Resourcing, quality of expertise and communication with planning departments.

2 Land

Two issues of equal concern were raised by many respondents:

- Availability of viable land
- Cost of viable land.

3 Finance

Although raised by fewer companies, some still experience challenges with:

- Availability of finance
- Cost of finance
- A perceived lack of understanding among the banks regarding the businesses of small house builders and developers.

On the positive side, there is recognition that government initiatives, such as the Help to Buy scheme and the exemption of smaller sites from the obligation to build affordable homes, have had a positive impact.

These findings indicate that many small house builders are experiencing increasing difficulties in predicting, quantifying and controlling the impacts of certain aspects of the development process, resulting in many questioning the value of returns against the risks. Predictability of costs, such as planning tariffs, is important in order to allow the viability of developments to be calculated.

While the planning process is generally accepted as a necessary instrument of control, small house builders and developers taking part in this research expressed considerable frustration with it. The increasing complexity, time taken to achieve an outcome and uncertainty of outcome are believed to be slowing the delivery of new homes and causing companies to leave this market.

Almost two-thirds of small house builders and developers surveyed expect to grow their output over the next 2 years. However, there is a need to address the issues identified in this report if an increase in the delivery of developments, particularly marginal ones, is to be achieved. Creating greater predictability and certainty in the processes will enhance the ability to model viability and lead to increased output from this sector of the house-building industry.

2 Background and introduction

In 2014, amid concern about the decline in housing output from smaller companies, the NHBC Foundation published a report: *Improving the prospects for small house builders and developers*. Based on primary research, it identified the factors impeding growth in output of new homes within this sector of the house-building industry.

This report provides a comprehensive update, identifying the business challenges currently affecting the ability of small house builders and developers to increase output, and how this has changed since 2014.^[1]

The number of small house builders and developers registering with NHBC saw a sharp decline at the onset of the 2008 recession, and registrations have continued to fall despite the ongoing recovery. The 2014 report noted that the number of small house-building companies registered with NHBC had declined from a peak of over 12,000 at the end of the 1980s to 2,710 in 2013 (small house builders and developers were defined in that report as those building 1–100 homes per year).

As reported in the recent Housing White Paper^[2] the market share of small builders has declined from 28% in 2008 to just 12% in 2015.

This research explores the factors that are holding back smaller firms from building more homes. In particular it helps to identify:

- the profile of small house builders and developers, characterising firms working in the sector
- their views on market conditions for selling new homes
- the key business challenges which impact on their ability to increase output
- government initiatives and their effect on the sector
- companies' plans for future growth.

It is hoped that the insights provided in this report will be useful in informing the debate about the best course of action to encourage smaller firms to increase their output of new homes.

For the purposes of this report, 'small house builders and developers' are defined as companies building up to 50 units a year and involved in the acquisition of land.

[1] Note that the scope of the current survey differs from that of the 2014 report, which considered companies building up to 100 homes a year. Of the house builders surveyed for that report, 99% had an output of up to 50 homes a year; therefore, in this research we have examined only those building up to 50 homes a year.

[2] *Fixing our broken housing market*, Department for Communities and Local Government, February 2017.

3 Methodology

To understand the current issues affecting small house builders and developers, and to quantify their effect, the research involved two stages, as detailed below.

3.1 Research stages

Stage 1

This involved qualitative research in September 2016 to identify the key business challenges facing small house builders and developers and whether these have changed since the research for the previous report was carried out. Focus groups were held in Leeds, Birmingham and Reading, with each lasting 2½ hours and attended by a total of 23 people. The attendees represented a range of sizes of house builders, all building within the range of 1–50 homes per year. The results informed the questionnaire used for stage 2.

Stage 2

An online survey was conducted during October and November 2016 to quantify companies' experiences of the issues raised in the focus groups, drawing on a national audience of small house builders and developers.

An explanatory email with a link to the survey was sent to 5,600 NHBC-registered house builders that had registered 0–50 homes within the past year, for which email addresses were also available. To qualify for the survey, and for the focus groups, companies had to be involved in land acquisition, as opposed to simply building homes as a contractor, so that they were able to comment on the development process. Companies not actually building any homes in 2016 were included in order to understand what was preventing them from doing so.

The survey link was also sent to members of the Federation of Master Builders and the National Federation of Builders.

To ensure robustness, additionally, interviews were conducted by phone using the same questionnaire to achieve a minimum of 30 responses in each of the constituent countries of the UK.

In total, 468 companies answered the majority of the survey, including the key questions about business challenges. Up to 60 dropped out before answering the last few questions, hence base numbers for answering some questions vary. This compares with the total of 353 companies answering most of the survey for the previous report published in 2014. The answers given by participants in the online survey have been analysed by the number of homes built and, in some cases, by country of the UK and region of England, to highlight differences.

3.2 Weighting of data

To ensure that the survey responses, when aggregated, are representative of UK country and region of England, the geographic distribution of respondents has been compared with NHBC registrations and, where there is a difference, results have been weighted. This ensures that no country's or region's voice is over- or under-represented in the aggregate figures.

A table listing the weighting factors is given in the Appendix.

4 Small house builders and developers – their characteristics

Key points in this section

- Most of the small house-building businesses surveyed have been established for a long time: 56% have been trading for over 20 years, while only 10% have been in business for 5 years or less.
- Most respondents to the online survey both acquire the land and undertake or manage the building work: 87% described themselves as 'developers and builders'; just 13% identified themselves as 'developers only'.
- While the majority are building speculatively, one-third have also built for private customers who already own the land in the past 2 years.
- Half are also engaged in other building activities, such as renovations and extensions, which helps them to spread the risk attached to building homes speculatively.
- Almost two-thirds expected to build up to 10 homes in 2016, mainly houses rather than flats and typically with three bedrooms or more.
- Most build one site at a time, looking for their next site as they do so; and 41%, mainly the larger companies in this sector, have more than one site with or awaiting planning permission.
- A total of 30% employ apprentices directly, although concerns were expressed about a lack of interest among the young in joining the sector.

4.1 Length of time in business

Over half of the small house builders and developers surveyed are well-established, having been in business for over 20 years (Figure 1). Examples from the focus groups showed that many of these are family enterprises with different generations involved in sustaining the future of the business.

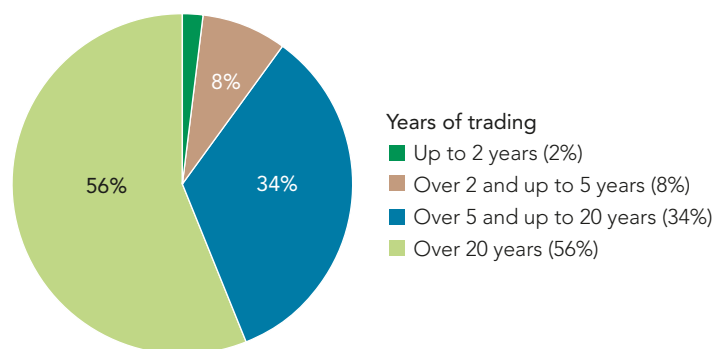


Figure 1 Length of time in business. Responses to question 'For how many years has your company been trading?'
Base: 468 companies

Only 10% are new entrants to the market, having set up their businesses within the past 5 years – in effect starting after the 2008 recession.

My dad started the business about 26 years ago. He's looking to take a back seat now. My brother and I run it. We build new homes and do barn conversions. At the moment we are doing 4 to 6 a year. We've just had a busy spell on 14 homes on one site, and a site of 5 and a smaller one of 2. We have a small number of employees – 12 – and we also employ labour only and sub-contract. We keep the key site managers employed, and people in the office. We are high end, very bespoke. There'll be fewer homes built this year but we are planning to be more profitable.

4.2 Customer type

The majority of respondents (87%) described themselves as both 'developers and builders' (i.e. they identify potential land opportunities, seek planning permission and undertake the building work). The remaining 13% are 'developers only'; involved in land acquisition and securing planning permission, they may sell the sites on to others, who may include housing associations, private customers or other house builders, or they may commission a building company to undertake the construction.

While most are building for speculative sale, in the past 2 years one-third have also built new homes for private customers who already own the land (Figure 2).

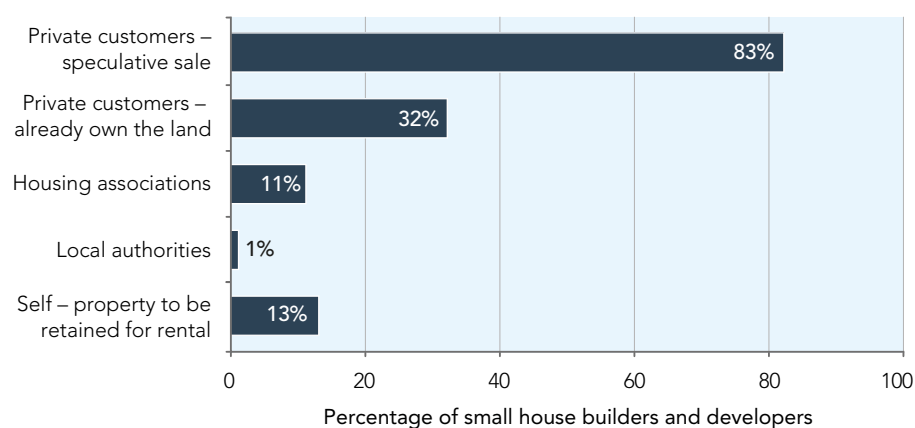


Figure 2 Customer types in past 2 years. Responses to question 'Have you in the past 2 years built homes for these customer types?'

Base: 468 companies

There are some differences in customer type by size of house builder; 31% of the larger builders (11–50 homes registered in 2016) are building for housing associations, compared with just 3% of those who registered fewer than 11 homes.

In Scotland, building for private customers who already own the land and have planning permission in place is more common than in other parts of the UK, with 49% having built for private customers in the past 2 years, compared with 29% in England, 24% in Wales and 37% in Northern Ireland.

I do 1 or 2 houses a year, and I also do a lot of other building work. A lot of the new homes I do are for people who already have the land. I might have done an extension for them and they ask me to build them a house. I am going through planning at the moment for 12 units with my brother in a joint business; he's also a builder. We've thought about selling the land on when we get planning if we can't raise the cash (to buy and develop it).

4.3 Other building activities

Building speculatively for sale on the open market was described by many participants as being a risky business. Furthermore, for those building only 1–2 homes a year, there is likely to be a gap between new build projects while they are waiting for the homes to sell in order to finance their next project. For these reasons, many smaller firms are also involved in other kinds of building work.

In the focus groups, in comparison with the 2014 research more house builders said that they were also involved in other building industry-related activities in order to spread their risks. This appeared to particularly affect the smaller companies in the sector, which tend to develop one site at a time, where the impact of the failure to gain planning permission or to sell a house within a reasonable time frame is more pronounced. Many within this group therefore also provide other building services. Conversely, some of the participants represented diversified construction businesses which had made a decision to move into house building to enhance their continuity of workload and profitability.

Investigating this issue further, results of the online survey show that half of small house builders and developers undertake other types of building work. Some offer more than one service, such as:

- 39% build extensions and provide renovations for the domestic sector
- 20% undertake building services in the commercial and/or industrial sector
- 10% provide sub-contract services to others.

I'm from a building background. I've been building for 20 years now. I started off doing renovations, then moved on to house building. Up to now I've been building 1 or 2 homes a year for the last 5 or 6 years; I've got 10 to build this year. I do other work in between, when I've got stuff for sale and I've got nothing else to do. The workforce isn't employed by me. I've always sub-contracted because of that very reason; once I've got a house for sale there's nothing to do until it's sold.

4.4 Number of homes built per year

Within this small house builder and developer group the majority (64%) were expecting to build 1–10 homes in 2016 (Figure 3). However, 15% did not expect to build any homes during 2016.

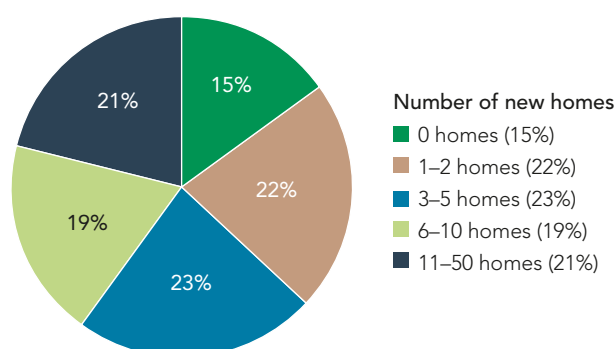


Figure 3 Distribution of small house builders and developers by number of homes anticipated in 2016. Responses to question 'How many new homes will you complete in 2016?'

Base: 468 companies

When asked how their plans for 2016 compared with 2015, 33% expected to build a larger number of homes, and 21% fewer homes.

We are a private company; we're mainly civils – a big company. About 5 years ago we decided to get into private house building to use the men and the machines when we were quiet. We are pretty self-sufficient but get guys like bricklayers in. We did 30 homes last year, 50 this year, with the aim of getting up to 100 pretty quickly.

4.5 Types of homes built and differentiation from the larger builders

Typically, the small house builder and developer sector builds houses with three or more bedrooms, rather than apartments or smaller houses (Figure 4). In the focus groups, the ideal development for many was described as a 'small site for luxury, high-value homes'.

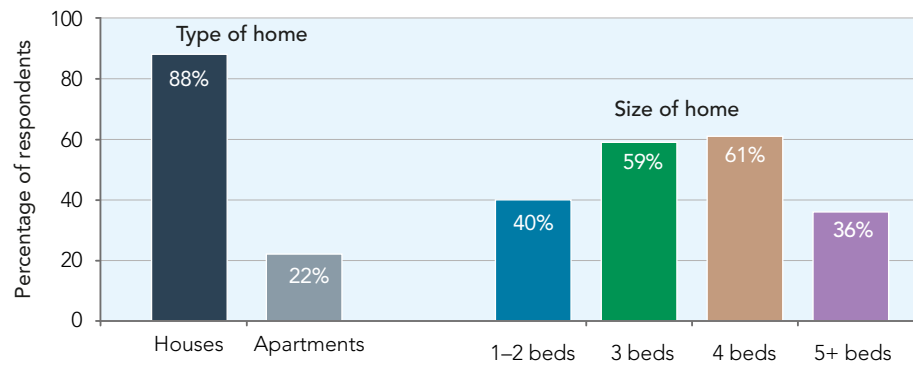


Figure 4 Types and sizes of homes built in 2016 (percentage of companies building each type and size). Responses to question 'What type of homes are you building this year?'
 Note: The results total over 100% as many companies have built more than one size of home and some have built both houses and apartments.
 Base: 468 companies

Small house builders and developers are not generally concerned about competition from the larger, volume house builders. Their interest is in building a local reputation for developing smaller sites, typically those that would not be viable for high-volume operations. They are keen to promote individual, bespoke new home environments and carry this philosophy through into their building, differentiating their homes with individual features and special materials, finishes and appliances. Their target buyer is someone who wants a more distinctive product, is prepared to pay a premium for it and may be less inclined to live on a very large development.

We put granite worktops in on a £250k house, the kitchen is slightly better and I put underfloor heating in as standard. It costs a fortune compared to putting a few radiators around, but I try to put a higher specification in. You get a better price that way.

We've got a big site of 1,200 [homes] down the road to ours and another of 150. We've changed our spec on our site to more bespoke houses because of that, and we've re-designed the site from 17 houses down to 12.

We offer a much more bespoke service than the larger builders, we'll allow anything to be changed on that house by the customer as long as it can be physically changed.

4.6 Project pipeline

Small house builders and developers, particularly those building 1–2 homes a year, find that they struggle to provide the continuity of development operations and employment needed to maintain sub-contractor relationships. Larger companies are likely to be able to offer greater continuity.

A total of 59% in the online survey said that they build one site at a time, while looking for the next site as they are doing so. Failure to have the next site 'shovel ready' increases the risk of construction gaps, lost supplier and partner relationships and erosion of any retained workforce.

Among the respondents, 41% have already identified or purchased land which has, or is awaiting, planning permission for future development (Figure 5). The incidence of holding land directly relates to the scale of operation; 61% of those building 11–50 homes a year have land awaiting development compared with only 22% of those building 1–2 homes a year.

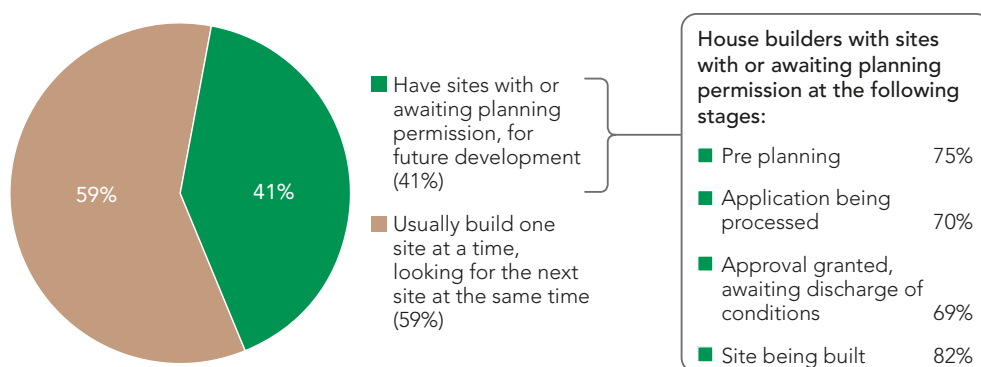


Figure 5 Development pipeline. Responses to questions (pie chart) 'Do you have sites with or awaiting planning permission for future development or do you usually build one site at a time, looking for the next site at the same time?' and (box) 'Do you currently have sites at these stages?'

Base: 413 companies

I can't afford to have three sites all at different stages; that would be the ideal. But for now it's buy a plot, all your eggs then go into one basket. You wait until you get planning, then you get them built and wait until they are sold, and then you start again.

4.7 Employment of apprentices

The focus group discussions confirmed the well-publicised concerns about skills shortages in house building and in the wider construction industry. For this reason, a question was included in the survey to find out more about the employment of apprentices. Responses show that around a third (30%) are employing apprentices and half (48%) believe that their sub-contractors are doing so (Figure 6).

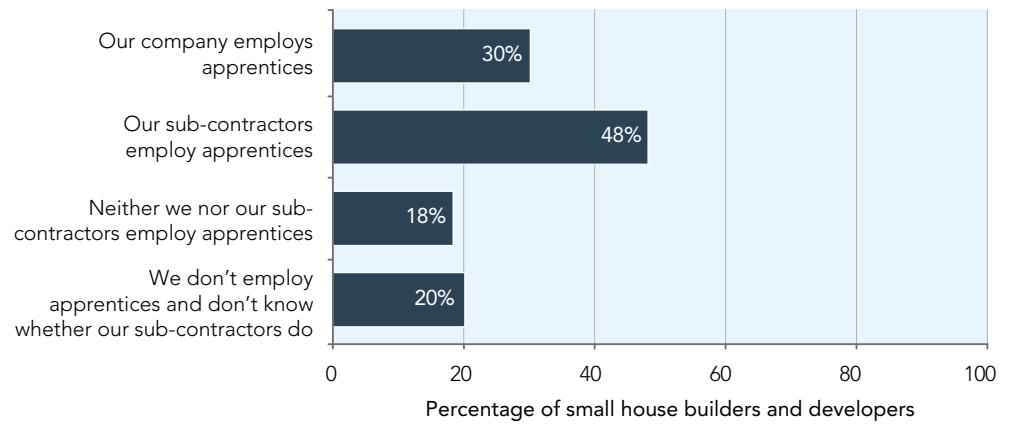


Figure 6 Employment of apprentices in the small house-building sector. Responses to question 'Do you or your sub-contractors employ apprentices?'
Base: 435 companies

When asked for views on why the industry does not tend to employ a larger number of apprentices, the top answers (prompted) were:

- a lack of interest in joining the sector among young people (53%)
- cost to the employer of training provision (40%)
- quality of apprentices available (33%)
- apprentices often leave after training (32%).

Issues of cost, quality and return on training of apprentices seem to be preventing more companies in this sector from making this investment.

There's too much written work. Apprentices want to learn how to do the trade.

Very few with the proper skill set are coming through.

5 Views on market conditions

Key points in this section

- Despite some concerns in the weeks following the Brexit vote, the small house builders and developers surveyed were finding the market to be buoyant in 2016.
- Looking ahead, 58% were optimistic about growth in the new homes market over the next 2 years.

The outlook expressed in the focus groups during September 2016 was generally positive, with talk of active construction programmes and buoyant sales. While comments suggested there had been a slowdown in activity over the few weeks immediately following the vote to leave the European Union, activity had quickly regained momentum.

The survey carried out in November 2016 confirmed this; over half of respondents were optimistic about growth in the new homes market over the next 2 years, although most described their view as 'cautiously optimistic' (Figure 7). However, the level of optimism has fallen since 2014, probably due to widely expressed concerns about the uncertainty of how a withdrawal from the EU will affect consumer confidence and therefore new house sales.

The research for the 2014 *Improving the prospects* report had revealed some issues regarding mortgage availability. Similar concerns were not expressed during the research for the current report, suggesting that mortgage availability for prospective purchasers no longer represents a constraint.

The majority of survey participants in all countries of the UK were optimistic about market prospects over the next 2 years, although those in Scotland were the least optimistic. Within England, participants in the Midlands were the most optimistic. By size, those companies expecting to build 11–50 homes in 2016 had the most optimistic view of the future market over the next 2 years.

I've never known it this busy. We're selling off plan. There was a blip around Brexit for a few weeks, but it was back again after that.

We've still got properties for sale, the only thing that's holding it up is the people who have their homes to sell.

Overall response (compared with 2014 response)

Pessimistic	Don't know	Optimistic
21%	21%	58%
(2014: 11%)	(2014: 11%)	(2014: 78%)

How views are distributed

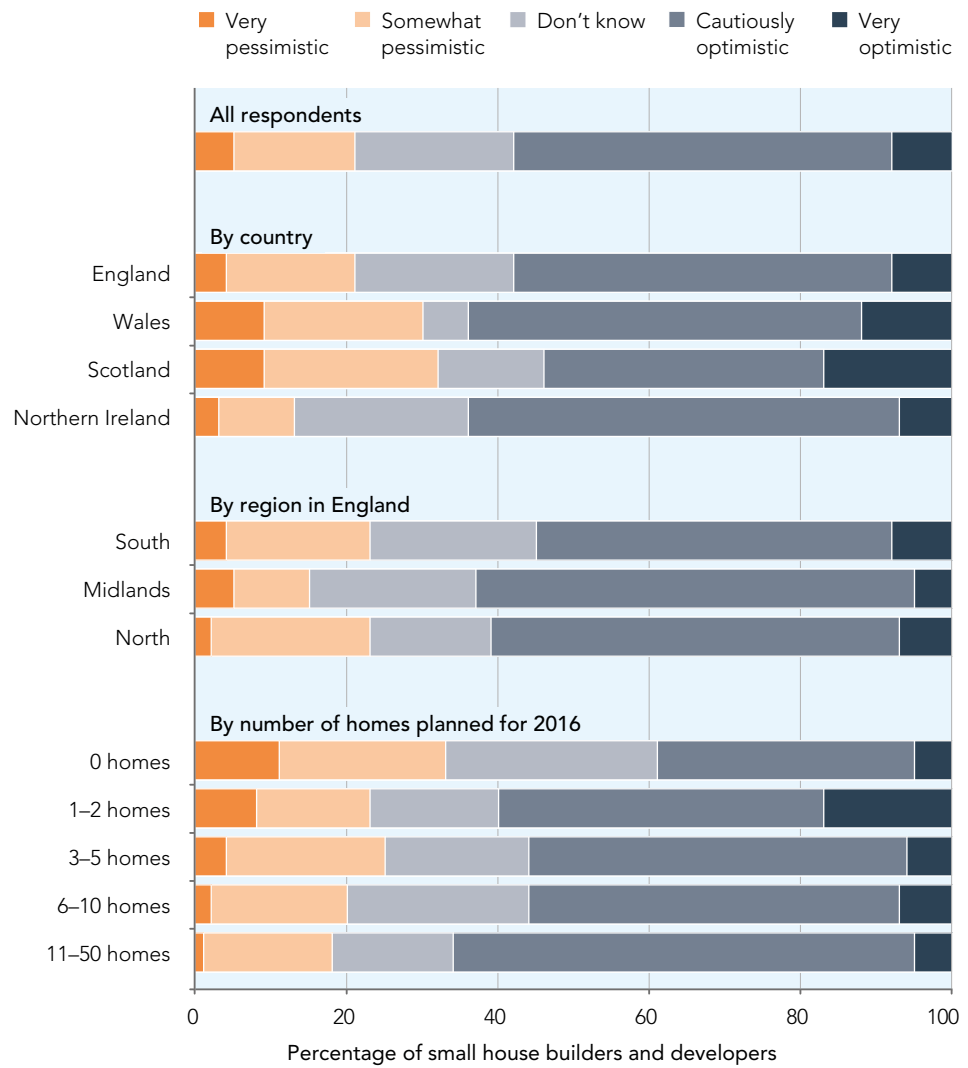


Figure 7 Views on growth in the new homes market over the next 2 years (November 2016). Responses to question 'What is your view about future growth in the new homes market over the next 2 years in terms of its effect on you?'
Base: 468 companies

6 Factors affecting growth

Key points in this section

- The planning process and the availability and cost of land that can viably be developed are the two main constraints on small house builders' and developers' businesses. The impacts of these factors appear to have worsened since 2014.
- Planning is of greatest concern to those in Wales and the South of England, while land availability and cost particularly affect England, especially the South and Midlands.
- Concerns over the availability of finance remain, but have eased since 2014.
- The effects of these business constraints, according to the small house builders and developers experiencing them, are to increase the time taken to bring new homes to the market, restrict the number of new homes built and increase costs.
- Availability of skilled trades and materials are not considered to be major business constraints among small house builders and developers.

6.1 Constraints to building new homes

As in 2014, this research sought to identify the main factors constraining the ability of small house builders and developers from building a greater number of homes.

The main issues in 2016 were identified as follows:

- **The planning process and associated costs:** In terms of main business impediment, 38% ranked this first and 31% ranked it second (Figure 8). This appears to represent a worsening of the situation since the survey undertaken in 2014 (Figure 9). See section 7 for further information.
- **Availability and cost of viable land^[3]:** Of similar significance, this issue was ranked first by 37%, and second by 34% of respondents, suggesting that this was a considerably greater issue in 2016 than in 2014. Section 8 provides further information.
- **Availability of finance:** The significance of this as a constraint appears to be broadly in line with the 2014 survey results. It was ranked as the main concern by 20%, and ranked second by 18% of respondents. This issue is covered in section 9.

[3] Viable land is defined as land which has a positive market value and is capable of being developed, i.e. it has a reasonable likelihood of being adapted or improved or has the potential for a change in its use (in planning terms).

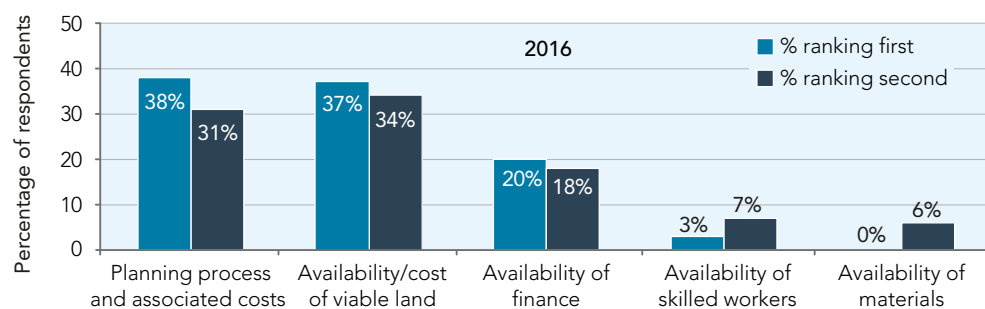


Figure 8 Main factors affecting growth of small house builders and developers in 2016 (prompted). Responses to question ‘Please rank in order the top three of these factors as serious impediments to your business in building new homes; which is the main or first, which second and which third?’

Base 2016: 468 companies

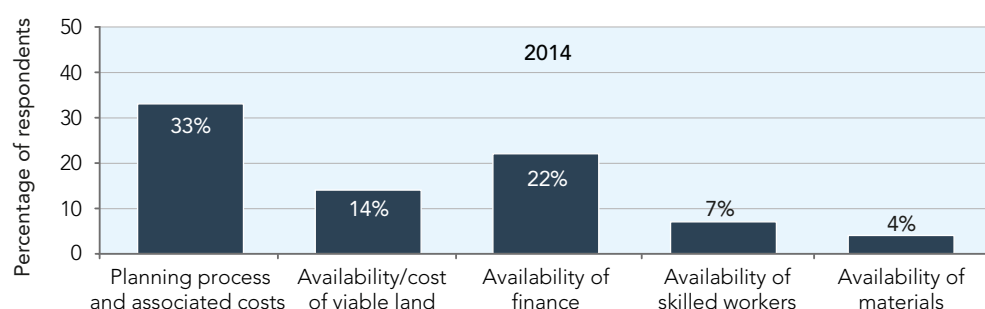


Figure 9 Main factors affecting growth of small house builders and developers in 2014 (unprompted). Responses to question ‘Please describe the main business challenge that you are currently facing to growing your business over the next 2–3 years’

Base 2014: 363 companies

A similar picture was presented in all three of the focus groups – many of the attendees spoke passionately about the challenges they had experienced at the planning stage. While house builders recognise the necessity of planning as a regulatory tool, many frustrations were voiced about the overall experience, in particular the time taken, the difficulties of communicating with planning departments and the challenge of discharging conditions. These issues are explored in more depth in section 7.

Figures 10 and 11 show that planning is a significant issue in all parts of the UK, although this is somewhat more pronounced in Wales and in the South of England. Figure 12 shows that for firms building new homes in 2016, concerns about the planning process and costs rose in line with output; more than half (54%) of builders with an annual output greater than 10 homes cited planning as a main factor affecting growth. For those not building any homes in 2016, the planning process and availability/cost of viable land were given as the key reasons for not doing so.

Figure 10 shows that obtaining finance is more of a concern for builders in Scotland and Northern Ireland than for those in England and Wales (the exception to this finding being companies in the North of England).

Availability and cost of viable land has become a much greater concern since 2014 – small house builders and developers consider it to be on a par with planning as a barrier to their businesses. Land is a particular matter of concern to small house builders and developers in England, especially the South and Midlands, compared with other parts of the UK.

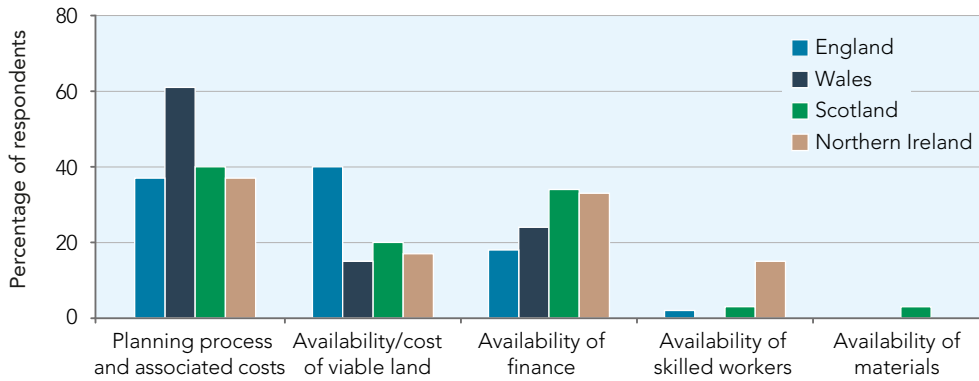


Figure 10 Main factors affecting growth of small house builders and developers, by country in 2016. Responses to question 'Please rank in order the top three of these factors as serious impediments to your business in building new homes; which is the main or first, which second and which third?'
 Base: England: 370 companies, Wales: 33 companies, Scotland: 35 companies, Northern Ireland: 30 companies

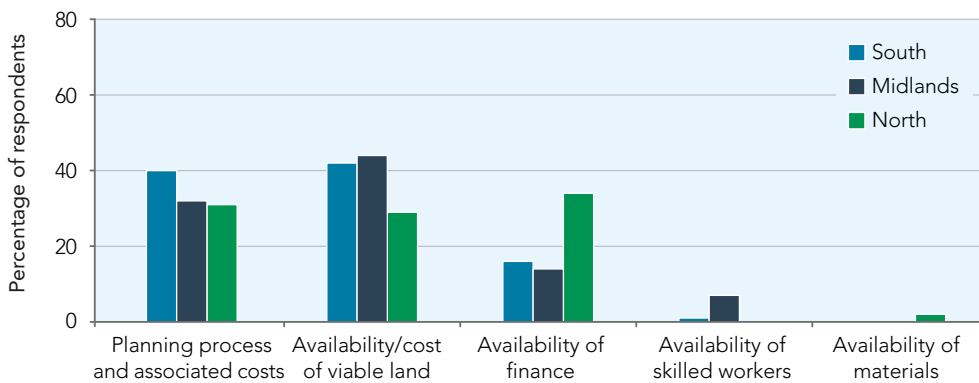


Figure 11 Main factors affecting growth of small house builders and developers, by region of England in 2016. Responses to question 'Please rank in order the top three of these factors as serious impediments to your business in building new homes; which is the main or first, which second and which third?'
 Base: South: 225 companies, Midlands: 59 companies, North: 62 companies. Some respondents did not give their region, hence the regional total is less than the base for England. South combines London and other South-East, East and South-West regions. Midlands combines East Midlands and West Midlands. North combines the North-East, North-West and Yorkshire and Humberside

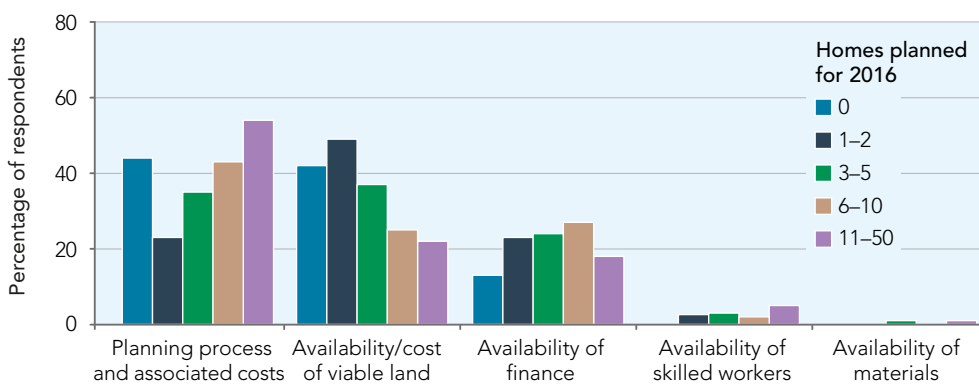


Figure 12 Main factors affecting growth of small house builders and developers, by company size in 2016. Responses to question 'Please rank in order the top three of these factors as serious impediments to your business in building new homes; which is the main or first, which second and which third?'
 Base: 0 homes: 64 companies, 1-2 homes: 99 companies, 3-5 homes: 112 companies, 6-10 homes: 92 companies, 11-50 homes: 101 companies

The length of time in business affects companies' perceptions of business challenges: those companies which have been in business for up to 5 years ranked availability/cost of viable land as their primary concern (63% ranked this as number one), whereas among those trading for over 20 years (the majority) the main concern was the planning process (47%).

6.2 Views on how business constraints have changed in the past 2 years

The operating environment is becoming increasingly challenging, according to those who completed the survey. Figure 13 shows that at least half find that the planning process, its associated costs and the availability and cost of viable land have all worsened compared with the situation in 2014.

The exception to this pattern is finance. More companies find the availability of finance has improved since 2014 than find it has worsened, which again mirrors the views expressed in the focus groups.

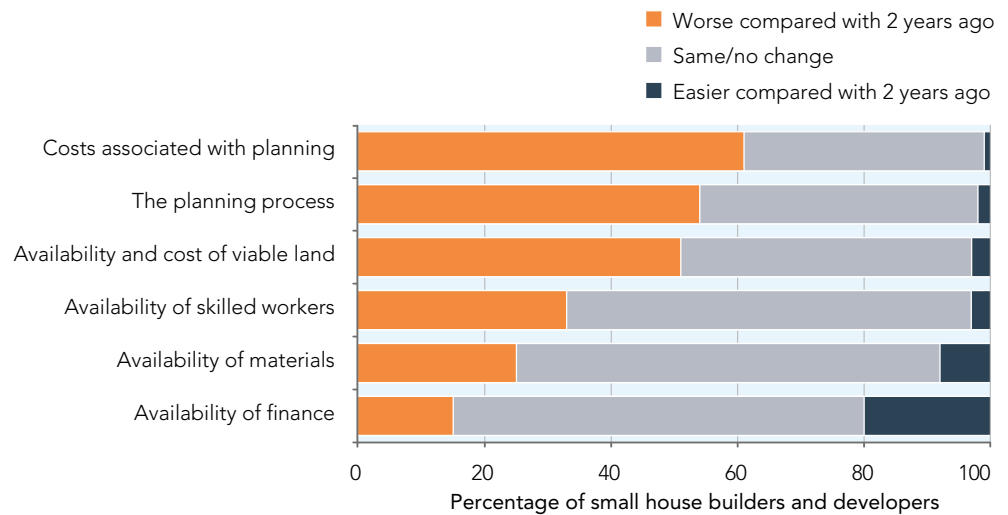


Figure 13 Comparison with 2014 – views of small house builders and developers. Responses to question ‘Are any of these easier, the same or worse compared with 2 years ago?’ Base: 435–443 companies. Some respondents did not provide answers for all factors

The complexity of the factors involved in developing new homes, including the planning process, was considered by many to have increased to the point where skilled trades are being deterred from entering the market or are leaving it.

All this [planning, land and finance issues] is exactly why a lot of people have gone out of it. They just don't want the hassle. It's very over-complicated. Building the house is the easy bit.

Historically, house building has been carried out by practical people, like bricklayers who decided let's get together with this carpenter, let's form a bit of a partnership and build a couple of houses. They are practical people, grafters who've got the practical skills to build a house. Over the last 20 years life's become more complicated; dealing with the planners, dealing with Section 106s, all the bureaucracy that goes with it. It's now 33% of my time whereas it was 10%. It's a real turn-off.

6.3 The effect on output of the identified constraints

The main effects of the key issues identified as business constraints (planning, land and finance) were considered by respondents to the survey to be (Figure 14):

- an increase in time to bring new homes to the market
- an increase in costs
- restrictions on the number of new homes which can be built.

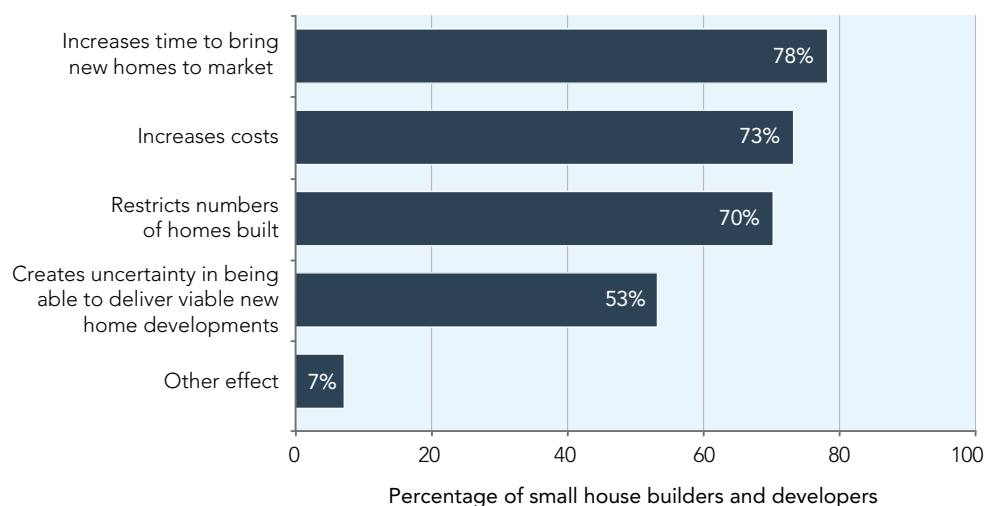


Figure 14 Effect of key issues identified as business constraints on home-building companies (prompted). Responses to question ‘What is the effect of these issues [5 options] on your home-building business?’

Base: 457 companies

There is clearly a relationship between the issues identified as constraints. The number of new homes built is directly related to the availability of land that can be developed viably. Viability is dependent on land costs, the nature and volume of development for which permission can be obtained, the costs associated with planning and the build process itself. The length of time to achieve planning permission is also a factor that affects the number of new homes and can also affect the amount of funding required.

It's not about bricks and mortar, it's more about planning, taxation, finance, all these things. It should be about how fast we can build.

The hardest thing is maintaining cash flow because of the planning system. We've worked it out, going back 7 or 8 years, to build the same site requires double the amount of money due to the time taken to get planning.

7 Planning

Key points in this section

- The main concerns about the planning process include the length of time it takes to achieve a decision, the unpredictability and inconsistency of the process, the fees and tariffs involved, and the internal resourcing of and communication with planning departments. Factors such as these, and the pre-application process, are now greater concerns for small house builders and developers than in 2014.
- The exception to this is Section 106 requirements (Section 75 in Scotland). Most house builders are no longer required to provide affordable housing due to a change in policy since the last survey; however, almost half are instead being asked to make Section 106 payments.
- The length of time from the pre-application discussions to authorisation to start on site was over 7 months for half of the respondents, with a requirement to discharge up to 20 conditions before being able to do so.
- Almost half were asked to agree to an extension of time on their most recent planning application.
- Almost 8 in 10 said that their costs associated with planning have increased compared with the situation in 2014.
- Many respondents expressed a preference for avoiding the planning appeals process due to the time, resources and costs involved.

7.1 Impact of the planning process

As noted in section 6.1, the planning process is the main or second most significant business challenge for more than two-thirds of small house builders and developers, but what are their specific concerns? In the focus groups, participants expressed considerable dissatisfaction about the issues they face in achieving a planning decision, and, as in 2014, the key concerns with elements of the planning process have been examined in detail in the survey.

A four-point scale was used to understand which aspects of planning are affecting businesses. Figure 15 shows the factors in order of severity, from those described as serious impediments to those which were not considered to be a problem. The main issues for over 40% of small house builder and developer respondents are:

- the length of time required to arrive at a planning decision
- the unpredictability and inconsistency of the planning process (between local authorities but also between officers within the same department)
- Community Infrastructure Levy (CIL)^[4] and other fees and tariffs associated with planning

[4] The CIL is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their areas. It came into force on 6 April 2010 through the Community Infrastructure Levy Regulations 2010. Development may be liable for a charge under the CIL if the local planning authority has chosen to set a charge in its area. Most new development which creates net additional floor space of 100 square metres or more, or creates a new dwelling, is potentially liable to incur a charge under the levy. Source: Planning Portal.

- resourcing and quality of expertise within planning departments and difficulty of communicating with planning officers
- the cost and time necessary to provide specialist reports.

The percentage describing these as serious business impediments has, in most cases, remained much the same since 2014 or has worsened by a few percentage points. One factor relates to the pre-application process; 74% in 2016 described this as a serious impediment or challenge compared with 60% in the 2014 survey.

Comparing the results of the 2016 and 2014 surveys, across the board there seems to have been no improvement in the effect of any of these elements of the planning process.

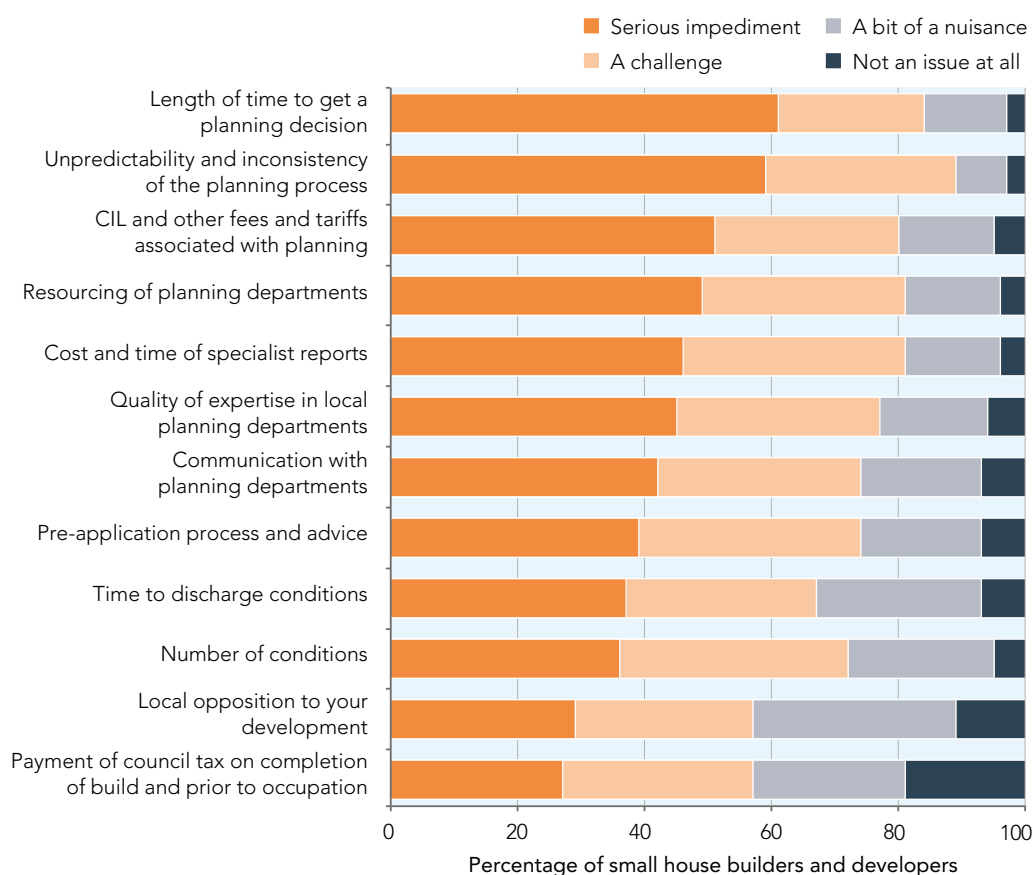


Figure 15 Effect of aspects of the planning process on small house builders’ and developers’ businesses. Responses to question ‘For each of these can you say whether it is not an issue at all, a bit of a nuisance, a challenge or a serious impediment to your business?’ Base: 439–442 companies. Some respondents did not provide answers for all factors

There’s so many homes they [the planners] have to get through in a year. As a planning officer, you can pick up the site which has 1,200 on it, and you can spend 6 months on it. That’s 1,200 of your quota done. Doing our ones and twos takes the same time as that big site. So they are more likely to want to focus on the bigger sites; ours get pushed to the bottom of the pile.

Local authorities are acting as a barrier rather than a facilitator.

In 2014, 44% described the Section 106 (Section 75 in Scotland) requirements to provide affordable homes as a serious impediment. But government policy changes introduced later that year have limited this requirement, meaning that developments of 10 or fewer homes are now exempt. This change was warmly welcomed by the focus group participants. While 63% had not been asked to provide affordable housing under Section 106 in the last year, 47% had been asked to pay a Section 106 financial contribution on over half of their developments (see Figure 20).

There are some differences by country in the elements of the planning process that are regarded as impediments. Table 1 analyses the top seven issues, raised by over 40% overall. This shows that the length of time for a planning application to be determined is a major issue in all countries/regions, but particularly in Northern Ireland and Wales.

The perceptions of these issues are fairly consistent by region of England.

Percentage of companies rating each aspect as a serious impediment, by country				
	England (351)	Wales (33)	Scotland (33)	Northern Ireland (29)
Length of time to get a planning decision	61	76	53	83
Unpredictability and inconsistency of planning process	64	56	41	41
CIL and other fees and tariffs associated with planning	52	67	32	17
Resourcing of planning departments	52	45	41	38
Cost and time of specialist reports	49	70	53	31
Quality of expertise in local planning departments	49	39	28	48
Communication with planning departments	44	21	42	62

Percentage of companies rating each aspect as a serious impediment, by region of England			
	South (215)	Midlands (54)	North (59)
Length of time to get a planning decision	62	65	53
Unpredictability and inconsistency of planning process	68	46	57
CIL and other fees and tariffs associated with planning	54	43	54
Resourcing of planning departments	55	52	43
Cost and time of specialist reports	49	45	45
Quality of expertise in local planning departments	49	48	43
Communication with planning departments	46	33	44

Table 1 Effects of aspects of the planning process on small house builders' and developers' businesses, by country and region

The issue of resourcing of planning departments was raised in the focus group discussions. Examples were given of situations where it was difficult to contact officers who work part time and yet their colleagues were unable to deal with enquiries in their absence. There was also a feeling that many of the best planning officers had made a move into the private sector because of the better pay and conditions on offer. Overall, it was felt that planning departments do not have adequate staff resources to match demand.

The government has done a good job of driving up new planning consents at the grassroots level. But we've got one case officer who works one day a week. If we don't catch the day she's in we've lost another week. This has got to be addressed.

The size of the building company made little difference to respondents' views on the planning process. The length of time to get a planning decision, unpredictability of the process, resourcing, expertise within planning departments and fees and tariffs all emerged as main issues for every size of company.

Details of some of the planning issues, particularly those which impact on the time taken to achieve planning permission, are examined in further detail in the following sections.

7.2 Length of time to start on site

The planning application process typically consists of a pre-application consultation with planning officers, the preparation of a detailed planning application together with supporting information, the submission and validation of the application, its review and consultation with interested parties, prior to determination via delegated powers or committee decision. Thereafter, any conditions imposed must be satisfied and discharged, legal agreements drawn up and signed and tariffs paid, all commonly prior to the start of construction on site.

The length of time from the pre-application discussions to discharge of conditions and authorisation to start on site was over 7 months for more than half of recent developments, and for one-third it was in excess of a year (Figure 16).

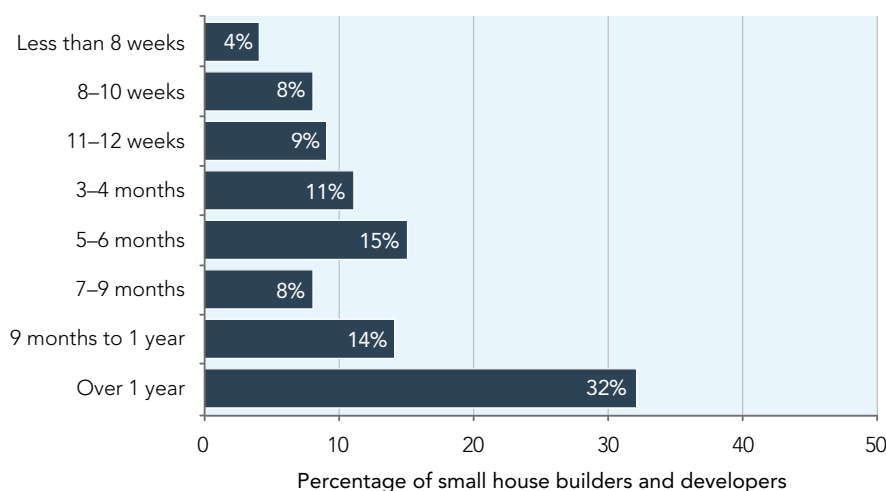


Figure 16 Time from commencement of pre-application discussions to discharge of conditions for start on site, on last project. Responses to question 'On your last project where planning permission was granted, how long did it take from commencement of the pre-application to discharge of conditions for start on site?'
Base: 430 companies

Pre-application consultations are just another way for the planners to park your application, because they are too busy to look at it properly, and stop the clock ticking. If you put the application in, they've got 8 weeks. With a pre-app, they can take 6 months looking at it and coming back to you.

Where planning authorities cannot make a decision within the statutory 8 to 16 weeks (dependent on the nature of the application), they are able to ask for consent to an extension of time. Almost half of the survey respondents were asked to agree to an extension of time by the planning authority on their latest application (Figure 17).

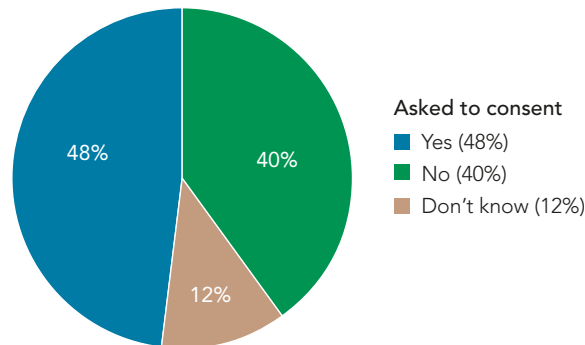


Figure 17 Requests to agree to extension of time by planning department during last planning application. Responses to question ‘During your last planning application, were you asked to consent to an extension of time by the planning department?’
Base: 429 companies

They are supposed to respond in 28 days, but you'll hear nothing in 28 days, you just get a standard response. Getting a bad mark for not dealing with it in a certain period seems to have gone now, it's all extensions of times or they'll refuse it.

7.3 Extent of planning conditions

Typically, a planning approval will have conditions attached covering matters such as the protection of trees, approval of materials and provisions for archaeological investigations, etc. Complying with and discharging conditions has time and cost implications and can significantly delay commencement of the construction works. According to the survey, the typical or median number of conditions being attached to consents which must be discharged prior to start on site is 6–10 (Figure 18). Just over one-third were asked to discharge more than 10 conditions on their last project. This picture is somewhat different from that discussed by focus group participants who talked of commonly having 25–30 conditions to discharge. There may be other conditions imposed by the planning department, requiring actions and compliance during construction, rather than prior to a start on site, which would explain this difference.

The issue with the planning system is that there are far too many stakeholders involved. Bats, conservation officers, tree guys, highways. Just when you think you've got a rational, articulate way forward, you then have a local councillor who gets involved.

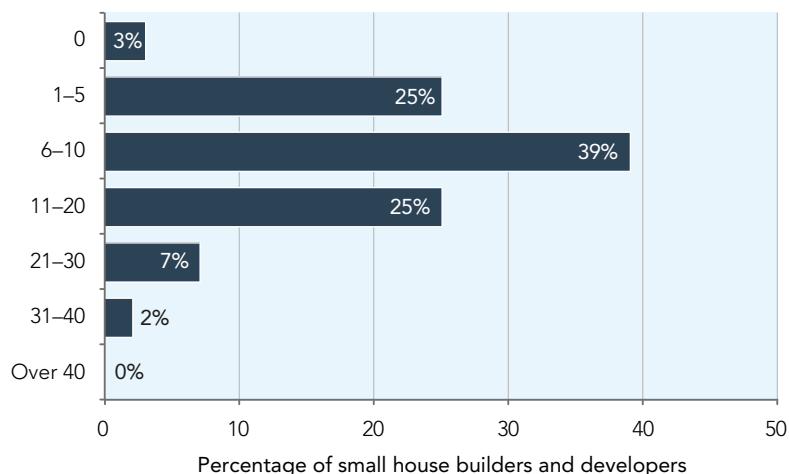


Figure 18 Number of planning conditions for discharge prior to start on site on last project. Responses to question ‘On your last project, how many planning conditions were you asked to discharge prior to start on site?’
Base: 423 companies

You can get 25 or 30 conditions; the problem is when you embark on the journey on your site, you never know which one’s going to wallop you on the way through. You enter into it in good faith, you buy the site and you think you’ve got everything covered. You never know on day one whether you’re going to have an issue, and that’s the difficulty. You can’t plot with any accuracy what the issues are.

7.4 Costs and tariffs associated with planning

Almost 8 in 10 survey respondents said that their costs associated with planning had increased compared with 2014, by up to 50%.

Figure 19 shows that builders of all sizes and in all areas have been affected.

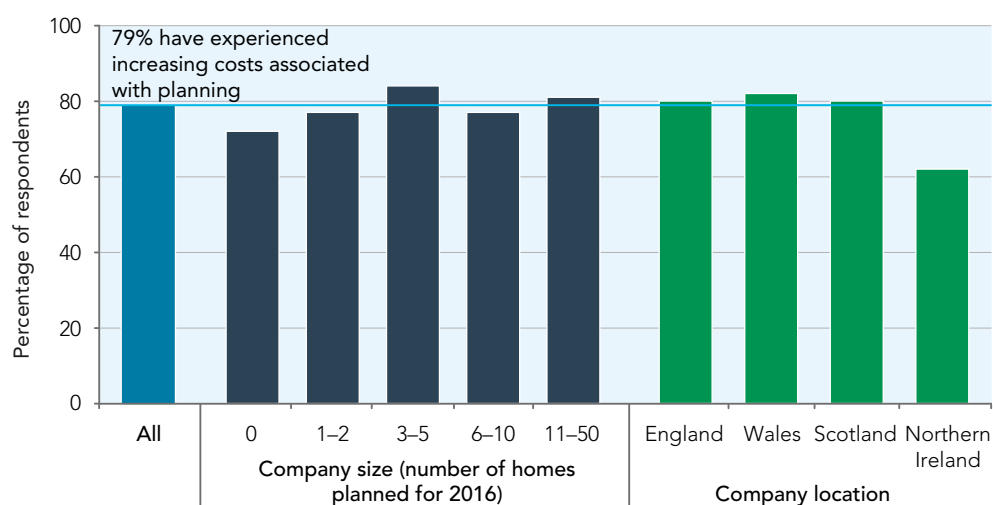


Figure 19 Small house builders and developers experiencing increasing costs associated with planning. Responses to question ‘How have your costs associated with planning including the tariffs and fees changed compared with 2 years ago?’
Base: 427 companies

These costs include fees, charges for reports prepared by specialist consultants and tariffs, such as contributions and obligations under Section 106 and the CIL.

Figure 20 shows that 79% were asked to make a Section 106 contribution (Section 75 contribution in Scotland) and 75% paid the CIL contribution on at least some of their developments.

Evidence from the focus groups suggests that small house builders and developers are experiencing variations in requirements to meet Section 106 obligations and levels of contributions, and that the levels of CIL are being calculated differently by local authorities within their areas of operation. This uncertainty makes determining development viability difficult, with landowners resisting corresponding reductions in land values.

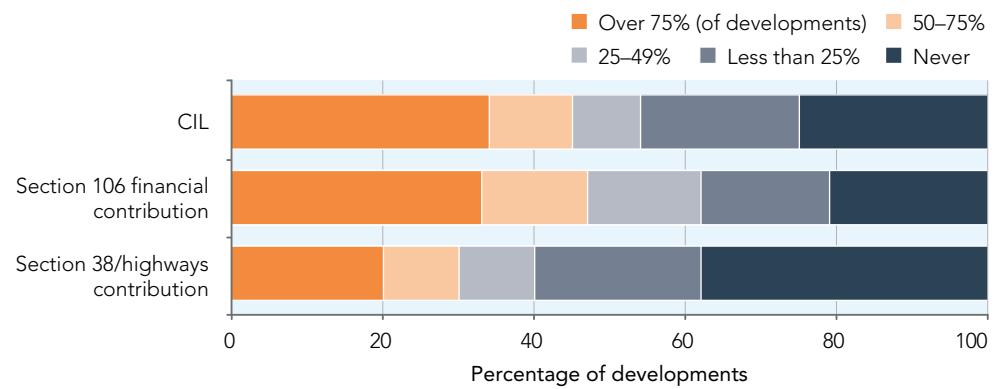


Figure 20 Frequency of requests to pay tariffs. Response to question ‘How often are you asked to pay these contributions?’
Base: 410 companies

Our local authority [in the South-East] calculates internal area for their CIL to include the roof void although it’s not floored, plus the garage and the roof space over the garage. And with CIL they put in a clause to say there is no commitment to actually spend the money on the specific items. This means they can come back for a contribution for education. This particular case floored us – they wanted a £1.8m additional contribution.

The focus group conversations demonstrated participants’ awareness of the planning appeals process and its use in cases of non-determination, refusals of permission and outcomes that were considered unacceptable due to the imposition of conditions. However, the length of time, potential costs and uncertainty of the appeal process drew negative responses, largely being described as a route that was not viable for most small developments and businesses with limited resources.

8 Land – availability and cost

Key points in this section

- Land availability and cost are both causes for concern, particularly among the very small builders in this group, and among businesses in the South and Midlands. One-third described each as a serious impediment, with at least a further 40% describing them as a challenge.

As noted in section 6.1, 71% of survey respondents, when asked to rank their main business challenges, ranked land availability/cost as either first or second. Finding good quality, well-located sites of the right size was described as a challenge by many of the focus group participants, who said that much of the land they are offered is unsuitable for their needs or has some drawback, such as contamination.

The cost of land and the availability of land are of equal concern (Figure 21), with more than three-quarters of small house builders and developers reporting these issues as challenges or serious impediments. When taken together, around half of firms building no homes in 2016 said that land availability and cost was a serious impediment.

Figure 22 shows that businesses in England are affected worse than those in Wales, Scotland or Northern Ireland by issues of viable land availability and cost, with house builders in the Midlands and South more severely affected than those in the North.

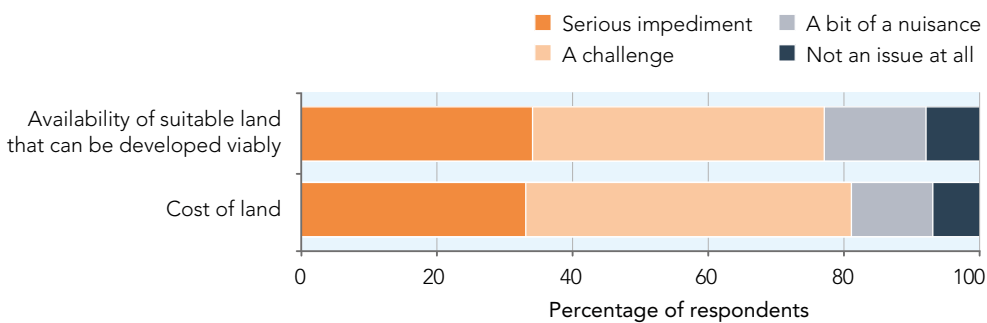


Figure 21 Views on the effect of land availability on small house builders' and developers' businesses. Responses to question 'For each of availability and cost can you say whether it is not an issue at all, a bit of a nuisance, a challenge or a serious impediment to your business?'

Base: 446 and 442 companies. Some respondents did not provide answers for both factors

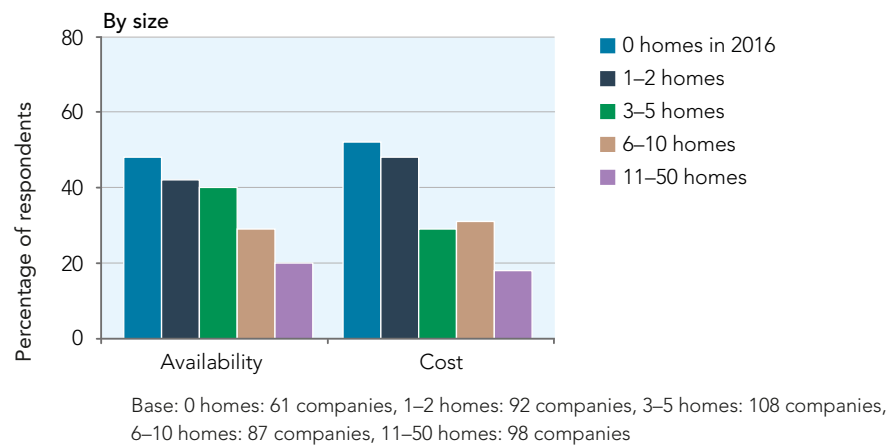
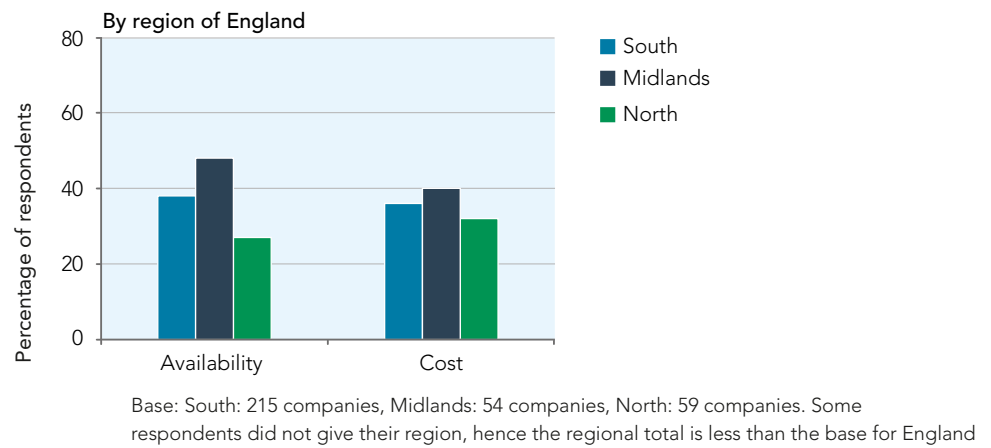
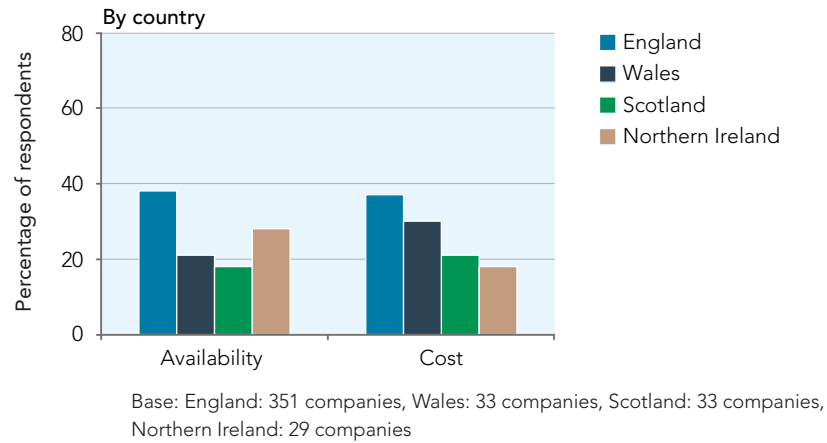


Figure 22 Land availability and cost; percentage rating these issues as a serious impediment to business. Responses to question ‘For each factor of availability and cost can you say whether it is not an issue at all, a bit of a nuisance, a challenge or a serious impediment to your business?’

The industry is pretty opportunity led. If a good site comes along we can finance it and buy it, but there aren't enough good sites coming along.

9 Finance

Key points in this section

- While for many small house builders and developers the availability and cost of finance continue to be challenges, the situation has improved since 2014, particularly with respect to their relationships with the banks.
- Although banks and self-funding continue to be the main sources of development finance, there has been an increase in the proportion of companies using private funding sources.

9.1 Finance issues

This section examines the effect of finance-related issues in more detail.

In 2014, as the industry was emerging from the 2008 recession and the attitude of banks towards lending had become very cautious, 42% of small house builders and developers described the limited availability of finance as a serious impediment to their business.

This situation appears to have improved. In the focus groups, finance was not raised as a major concern by many of the participants, and in the survey only 20% identified availability of finance as their number one business challenge, around half the number who mentioned planning and land availability.

When questioned in more detail, between 26% and 45% of participants described at least one aspect of financing their business as a challenge or a serious impediment (Figure 23). Availability of finance, the cost of finance, and loan-to-asset value ratios were raised as concerns and 36% said that banks' lack of understanding of their business had a negative effect.

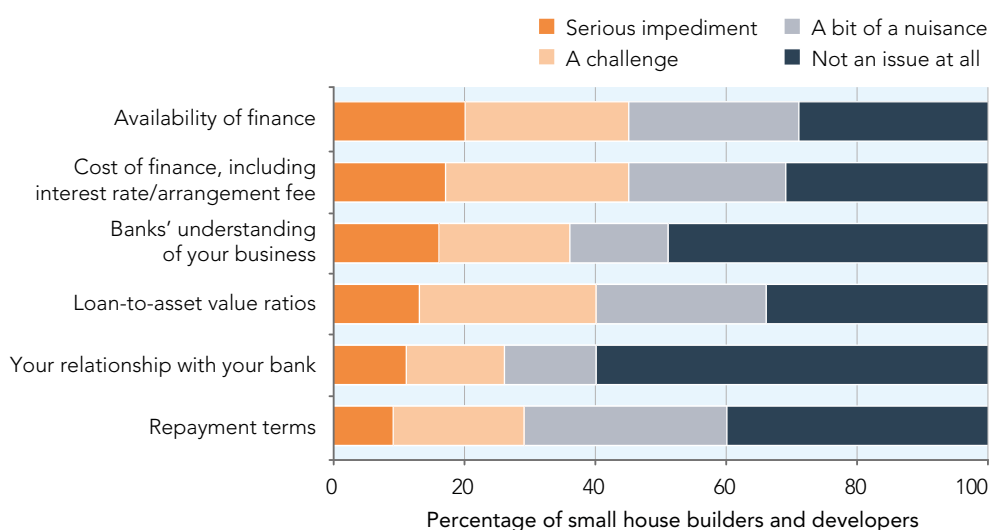


Figure 23 Effect of finance-related issues on small house builders' and developers' businesses. Responses to question 'For each of these factors can you say whether it is not an issue at all, a bit of a nuisance, a challenge or a serious impediment to your business?' Base: 436–444 companies. Some respondents did not provide answers for all factors

However, an improving picture is emerging. In 2014, the fees imposed by the banks were described as a challenge or serious impediment by 69% compared with 45% in the survey for this report. The relationship with their bank was an issue in 2014 for 64% of respondents, whereas in this latest survey it was described as a challenge or serious impediment by only 26%. Also considered to have improved are loan-to-asset value ratios. The focus group discussions did, however, paint a varied picture of experiences with some of the high street banks.

They [the banks] are willing to lend, but the set up fees and interest rates are much higher than they should be.

I have had no problems with my bank. We have a good relationship.

The results reveal differences by country; more small builders in Scotland and Northern Ireland described poor finance availability as a serious impediment to their business than in England and Wales. And, by region, more companies in the North of England expressed the same concern.

9.2 Sources of finance

The survey asked about sources of development finance: 61% of respondents said that they use the banks and 31% private investors, and 66% described themselves as self-funding, although this is likely to be in conjunction with other sources.

While the majority continue to use banks for finance, the availability of private sources has increased since the last report, with several of the focus group participants describing how they had been approached by private investors, ranging from friends and family to business acquaintances, looking for a better return than they have been able to achieve elsewhere, from other investments. The survey confirms an increase in the use of private sources, from 21% of small house builders and developers in 2014 to 31% in 2016 (Figure 24).

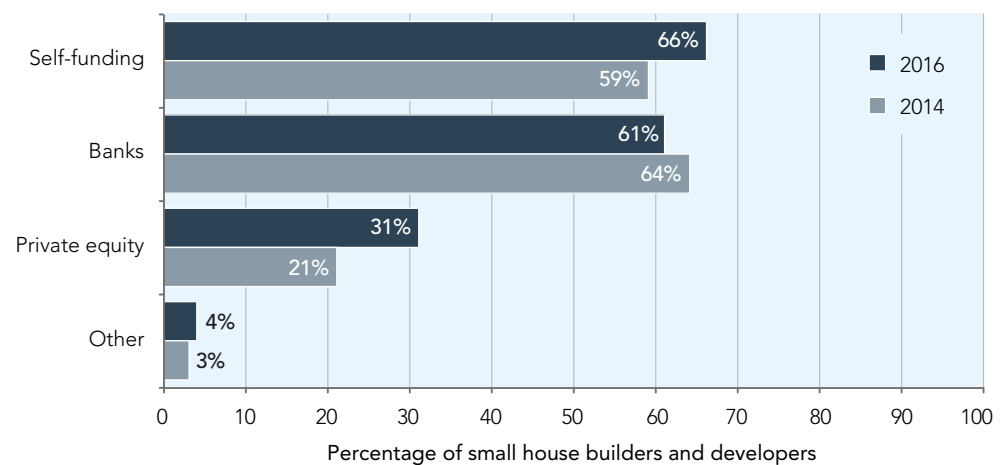


Figure 24 Sources of finance for house building and development. Responses to question 'Where do you typically source finance for house building and development?'
 Base: 2014: 327 companies, 2016: 437 companies

We were introduced to someone through our accountant. We've done five schemes with him. A wealthy individual who was only picking up 0.3% in his account. It's more expensive than bank finance, but it's a lot easier if you've got that personal relationship.

Private finance is out there. There are millions and millions I know we could draw on.

In spite of the majority having few issues with the service provided by banks, the 39% who do not use banks for development finance were asked to describe the key factors that prevent them from doing so. The top three reasons given were:

- a perceived or experienced reluctance to lend to small house builders and developers
- unacceptably low loan-to-asset value ratios required
- the terms of finance offered.

10 Other factors impacting on small house builders and developers

Key points in this section

- A further issue which is impacting small house builders' and developers' businesses is the poor service provided by utilities and telecoms companies.
- The requirement to pay council tax on completion of the build is an additional factor affecting house builders and developers.
- To a lesser extent, a shortage of skilled trades is also presenting a challenge to the industry.

The focus group participants raised a number of other issues which were explored further in the online survey. Results are given in Figure 25.

Several respondents complained about the service received from utilities and telecoms companies, including difficulties with communication and the length of time taken to install connections, which can delay home sales. Some 30% of survey respondents described the poor service as a serious impediment to business and a further 39% as a challenge.

The requirement to pay council tax in full on completion of the home but prior to occupation is another concern, with 27% describing this as a serious impediment and 30% as a challenge to their business.

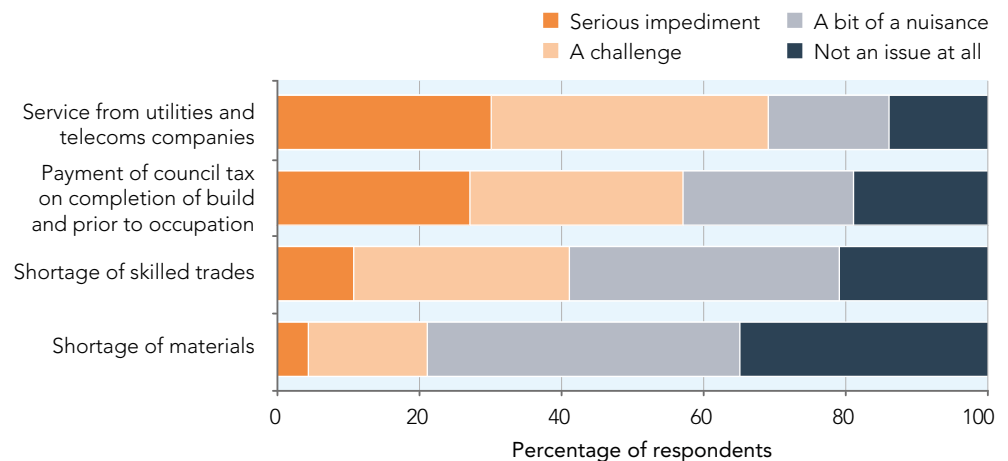


Figure 25 Other factors affecting small house builders' and developers' businesses. Responses to question 'For each of these can you say whether it is not an issue at all, a bit of a nuisance, a challenge or a serious impediment to your business?' Base: 439-443 companies. Some respondents did not provide answers for all factors

Although results in section 6.1 show that only 3% ranked a shortage of skilled labour as the main constraint to their business, 41% consider the availability of

skilled trades as a serious impediment or a challenge. Those attending the focus groups indicated that the main issue affecting their relationship with trade sub-contractors is the larger house builders' ability to provide greater continuity of work, with local trades therefore being less available for smaller companies.

Material shortages do not appear to be affecting the majority of this group; however, the general view was that, due to their greater buying power, the larger builders take priority with merchants and product suppliers.

I was quoted a price of £1,100 for moving a telecoms pole. When we asked for it to be moved it had gone up to £2,800.

It takes up so much time trying to find the right person to talk to in the utility companies.



11 Impact of government initiatives

Key points in this section

- The exemption from the requirement to build affordable homes and the Help to Buy scheme have had the most profound positive effects on the small house builder and developer sector.

Since 2009, successive UK governments have implemented a number of initiatives to promote home ownership in the UK housing market. Early success of the Home Buy and shared ownership initiatives led to the First Buy and, subsequently, the Help to Buy schemes. In 2014, planning policy was changed to reduce the requirement to build affordable homes within smaller developments. Despite legal challenges, the policy was confirmed in May 2016. As these initiatives were aimed at impacting those market segments targeted by small house builders, the survey asked which of the most recent initiatives had proved most effective (Figure 26). The two main initiatives which have had a positive effect on this small house builder sector are:

- the exemption from building affordable homes on developments of under 10 units, and
- the Help to Buy scheme.

The exemption from building affordable homes for developments of under 10 units has been particularly positive for small house builders and developers in England, where 44% said this has had a positive effect, but less so in Wales (27%), Scotland (23%) and Northern Ireland (10%).

By size of business, the Help to Buy scheme has mainly benefitted those building 6 or more homes, while the exemption from building affordable homes has benefitted all sizes of business within the scope of this report.

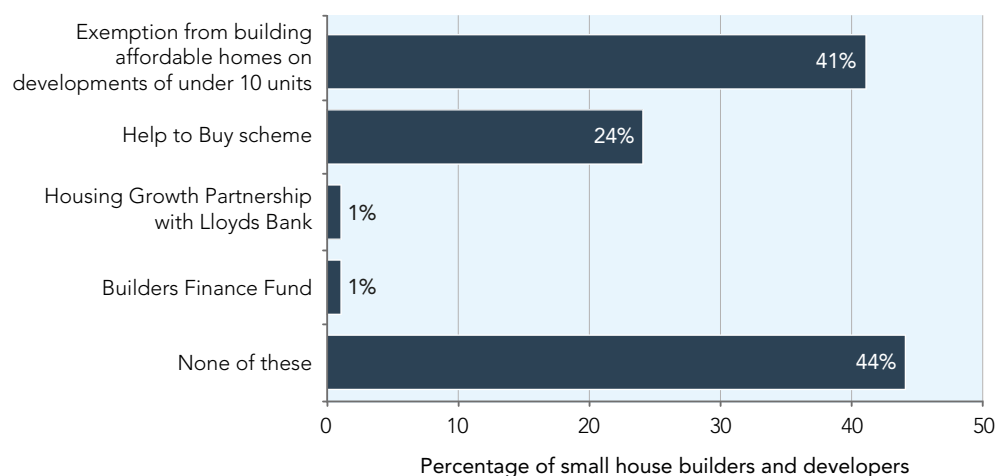


Figure 26 Government initiatives which have had a positive effect on small house builders’ and developers’ businesses. Responses to the question ‘Which of these initiatives has had a positive effect on your business?’

Base: 435 companies

12 Plans for the future

Key points in this section

- Almost two-thirds of small house builders and developers expect to increase the number of homes they build over the next 2 years.
- The ideal size of site for many is one slightly larger than the number of homes they expected to build in 2016, demonstrating a wish to grow.

12.1 Development plans over the next 2 years

It is encouraging that, despite the impediments identified and some uncertainty in the UK economy, the majority of respondents, 63%, expect to increase the number of new homes they build over the next 2 years (Figures 27 and 28). The larger builders in particular (those building 11–50 homes in 2016) wish to grow, but over half in all size groups expressed an expectation that their output would increase.

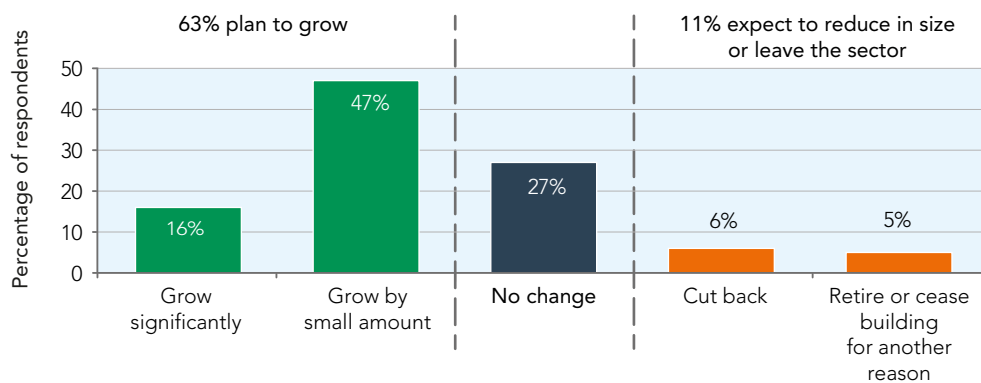


Figure 27 Plans for number of new homes over next 2 years. Response to question 'What are your plans or expectations for the number of new homes you will build over the next 2 years?'

Base: 468 companies

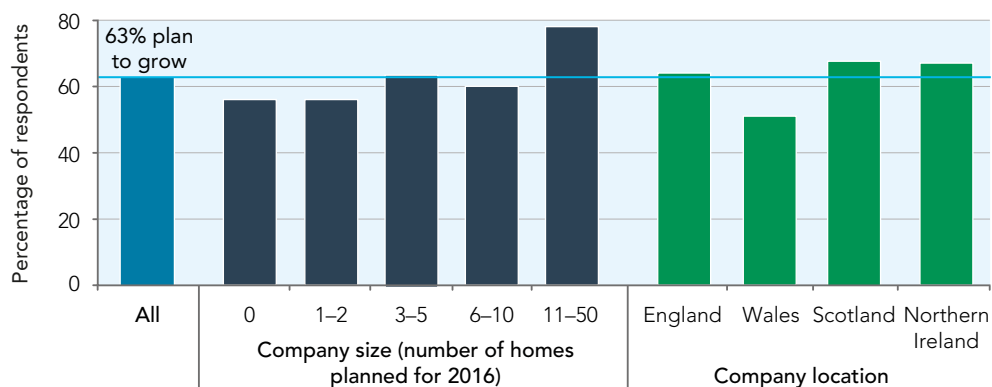


Figure 28 Proportions of small builders that plan to grow, by size of business and country. Responses to question 'What are your plans or expectations for the number of new homes you will build over the next 2 years?'

Base: 468 companies

Half of those who expect to remain at the same level of output or to cut back, or 16% overall, said they would like to grow but find that the impediments identified in this report are preventing them from doing so.

12.2 Development site preferences

The focus groups and survey examined what small house builders and developers regard as the ideal development site size and type. Most prefer sites that are in keeping with their current size of operations, but a good proportion would ideally like a development site that can accommodate more homes than the total number of units they built in 2016. This may be due in part to the fact that it can take longer than a year to build all the homes, particularly on larger sites, but it also demonstrates a wish to grow their businesses. Figure 29 shows, for example, that 40% of those building 1–2 homes in 2016 would ideally like a site that has the potential for 3–5 homes.

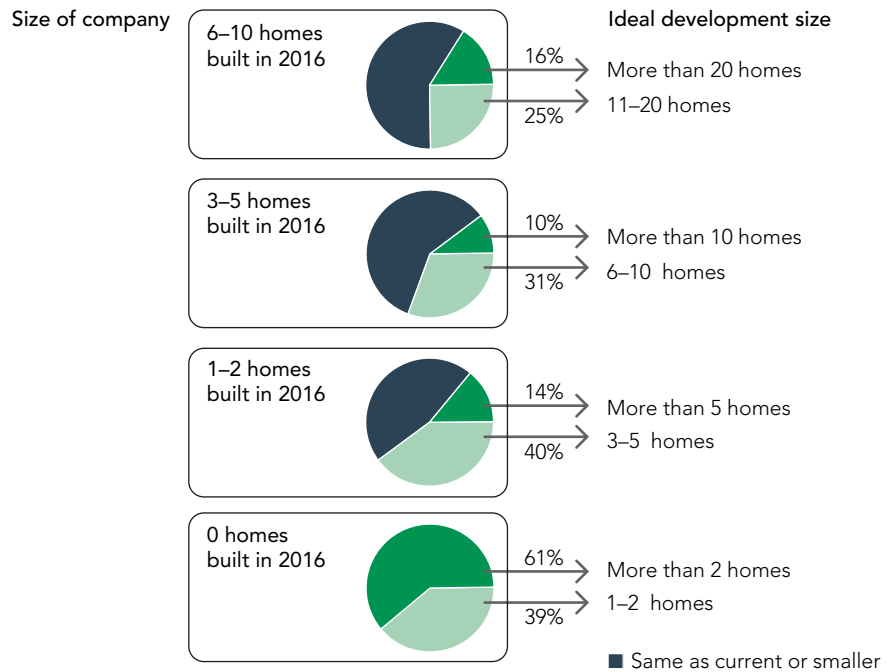


Figure 29 Ideal development size by size of small house builder. Responses to question ‘What is your ideal development size?’

Note: The figure does not show those building 11–50 homes in 2016 (91 companies), of which 48% would prefer a development suitable for 21–50 homes, and 37% a development suitable for 11–20 homes. In each size category, the majority of the balance of respondents would prefer a development similar in size to the number of homes they built in 2016. A small proportion, 10–15%, would prefer a smaller site.

Base: 338 companies

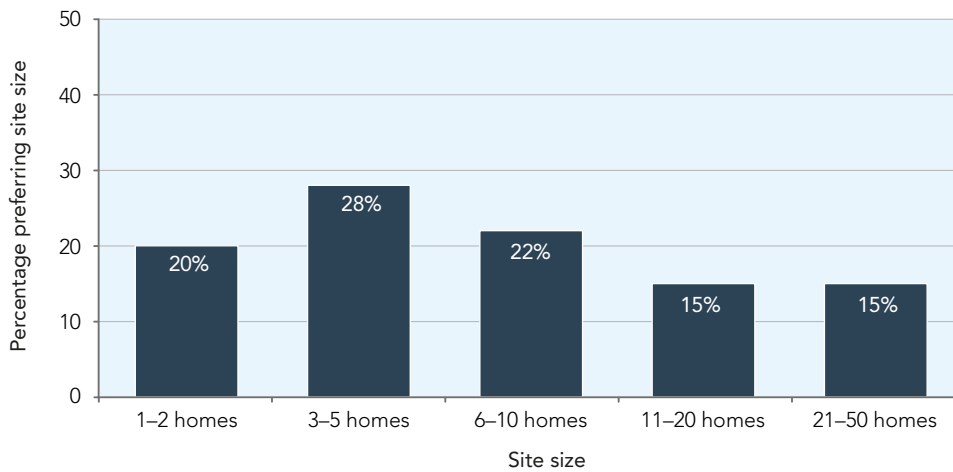


Figure 30 Ideal development size across small house builders and developers. Responses to question 'What is your ideal development size?'
Base: 338 companies

Overall, 48% of the participants say they would prefer a site suitable for fewer than 6 homes (Figure 30).

Several participants in the focus groups described their preference for a 'clean' site without contamination to deal with, although brownfield sites are also welcomed by some, particularly those with relevant experience and expertise. However, there was a negative reaction to the suggestion that serviced plots, with the services and roads already provided, could be made available for smaller firms. Participants considered that these could restrict their own plans for the development site. Such sites were felt to be more suited to private customers wishing to commission the construction of their own home.

13 Conclusion

Small house builders and developers – those building up to 50 homes a year – make an important contribution to the new homes industry, differentiating themselves from the larger volume builders through their smaller sites and tailored homes with a choice of bespoke options. It is therefore a matter of concern that their levels of activity are reducing. Their market share has declined from 28% in 2008 to just 12% in 2015.

This report shows that in the 2 years since the 2014 NHBC Foundation report *Improving the prospects for small house builders and developers* there has been little change in the factors that are significantly affecting these businesses. The availability and cost of viable land and the challenges presented by the planning process, in particular the time required to achieve a planning decision, the uncertainty and inconsistency in the process and the associated fees and tariffs, are now the key issues constraining small house builders' and developers' ability to build more homes. The effect of these issues has worsened, with more reporting planning issues and land availability as the main factors affecting their businesses than in 2014. The actual construction of homes is often described as 'the easy part' – while the complexity of the process required to reach the construction stage is thought to have contributed to the loss of companies from this sector.

On a more positive note, constraints on the availability of development finance have eased since the previous survey, with many finding the banks easier to deal with, coupled with an increase in the use of private funding sources. There is also evidence that government initiatives have made a positive contribution, particularly the exemption for smaller developments from the Section 106 requirements for affordable homes. However, local authorities are now often seeking financial contributions for affordable housing instead.

Despite these issues, the majority of respondents would like to increase the volume of new homes they build over the next 2 years.

To facilitate an increase in output within this sector of the market, key constraints need to be addressed – in particular, the challenges imposed by the planning process. Greater certainty and more standardised approaches, clarity concerning the fees and tariffs, coupled with a more responsive service from planning departments would increase predictability and significantly help to speed up the process, thereby reducing the timescale and increasing the number of homes built. These measures ideally need to be coupled with an increase in availability of smaller sites (accommodating up to 10 homes) if they are to make a significant difference.

Appendix: weighting factors

To ensure that no region is over- or under-represented in the research, a weighting factor has been applied, based on NHBC registrations. For example, 61% of NHBC's registrations for small house builders building fewer than 50 homes in the last year for which data was available at the time of the analysis (2015) were in the South of England, including London. In the survey, 51% of responses were from this region. A weighting factor of 1.2 has therefore been applied to answers given by builders in this region in calculating the total answers.

Regional analysis				
Survey response compared with NHBC registrations and weighting factors				
	Number of responses in survey	Percentage of responses in survey	Percentage of NHBC registrations	Weighting factor
England: South	225	51	61	1.20
England: Midlands	59	13	13	1.00
England: North	62	14	13	0.93
Wales	33	7	3	0.43
Scotland	35	8	5	0.63
Northern Ireland	30	7	5	0.71

Base: 444 companies which advised of their location.

Small house builders and developers

Current challenges to growth

The UK's small house builders – those building up to 50 homes a year – play a vital role in meeting the increasing demand for new homes. However, this important sector of the house-building industry is in decline and facing a number of significant challenges.

This report provides an update to the NHBC Foundation's 2014 report *Improving the prospects for small house builders and developers*, allowing comparisons to be drawn with the current state of the sector. It explores the reasons for the decline and examines the factors that are currently limiting business growth, pinpointing those areas of the planning process that require improvement and highlighting the need for improved access to smaller, viable sites.



The NHBC Foundation, established in 2006, provides high quality research and practical guidance to support the house-building industry as it addresses the challenges of delivering 21st century new homes. Visit www.nhbcfoundation.org to find out more about the NHBC Foundation research programme.

