

# Improving the prospects for small house builders and developers



## Overview

- Small house builders and developers have contributed significantly to UK housing output. However in recent years these smaller companies have declined in number and are not showing growth as the recovery gains momentum.
- This study examined the business challenges that small house builders and developers have been facing.
- Planning, finance and land availability issues in particular were highlighted by companies, with many commonly identified as serious barriers to business growth.
- Addressing these barriers is a priority if small builders and developers are to prosper and make a greater contribution to the housing market recovery.

## Primary Research

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## Acknowledgement

The NHBC Foundation is grateful to HBF (Home Builders Federation), HBA (House Builders Association) and the FMB (Federation of Master Builders) for their assistance on this research project.

## Interpretation

The findings reported here are based on research carried out by Lychgate Projects Ltd on behalf of the NHBC Foundation. It is based on qualitative and quantitative data gathered from an overall sample of 499 organisations. It is an overview and in reality there are likely to be differences in the perception of barriers across the spectrum of business models represented. In addition the legislative frameworks and overall business environments existing across the UK constitute a complex mosaic of opportunity and risk for small companies.

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# Background

## How small companies contribute

Historically, the UK's smaller house-building companies and developers have made an important contribution to housing output. The financial crisis in 2008 and subsequent recession coincided with a significant decline in the number of smaller companies active in house building (Figure 1) and, not surprisingly, reduction in housing starts (Figure 2) and a declining proportion of homes built by small house builders (Figure 3). The early stages of the recovery do not appear to have improved prospects for smaller builders and only 2710 were estimated to be building in 2013. Output trends for medium and larger house builders (based on NHBC registrations) show a more resilient trend over time, suggesting that there are particular factors affecting the smaller operators.

## Purpose of this research

This research explored the business environment that smaller builders and developers were experiencing during the first half of 2014, and looked specifically for clues on what might be impacting on their business. Since that time, there may have been some improvement in the business landscape for these companies. However it is believed that the principal observations reported here give useful insights for Government and industry on what was inhibiting growth among smaller companies, and which measures could play a part in raising capacity to former levels.

In this study the term 'small house builder/developer' is defined as a company which builds no more than 100 new homes per year.

# Business challenges

## Investigation approach and presentation of findings

The research started with three focus groups across England in early 2014, in which 39 small house-building companies provided their views on the principal business challenges they faced. This feedback was then used to structure a major quantitative survey, which captured views from 460 small house-builder or developer companies across the UK (405 contributing to an online survey and a further 55 responding to a telephone survey).

In the quantitative survey, unprompted views were gathered on the main business challenges (Figure 4). On some issues (Figures 6 and 7) more detail was requested on the significance of particular barriers and respondents were also asked to select areas that, if improved or eased, would most help their business (Figure 5).

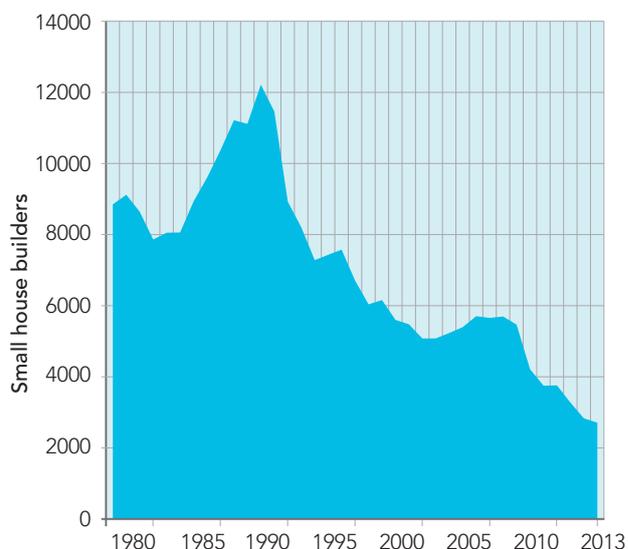


Figure 1 Decline in the number of small house-building companies registered with NHBC in the UK (companies with 1-100 starts per year). Source: HBF

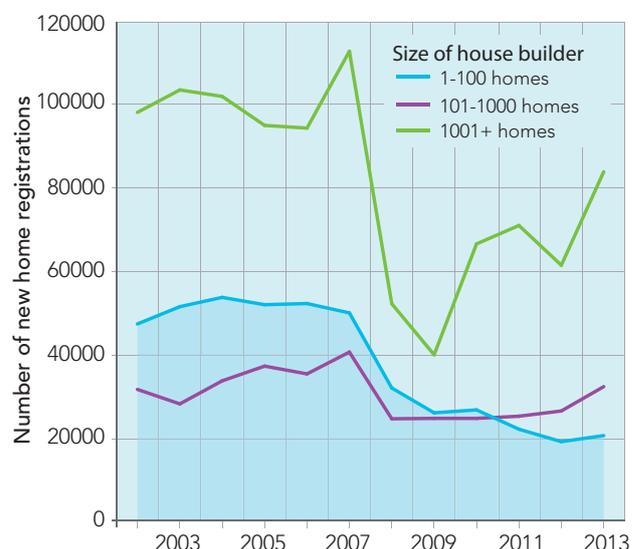


Figure 2 Number of all new home registrations with NHBC for different sizes of house builder, 2002-2013

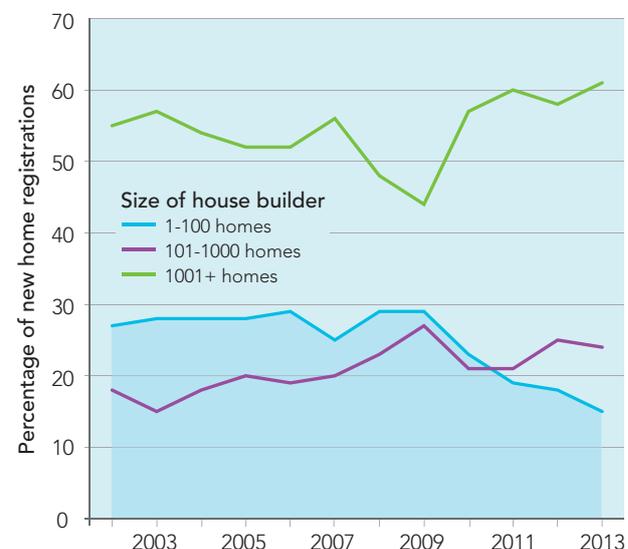
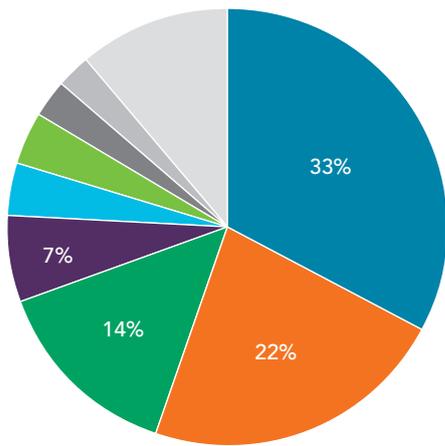


Figure 3 Percentage of all new home registrations with NHBC for different sizes of house builder, 2002-2013

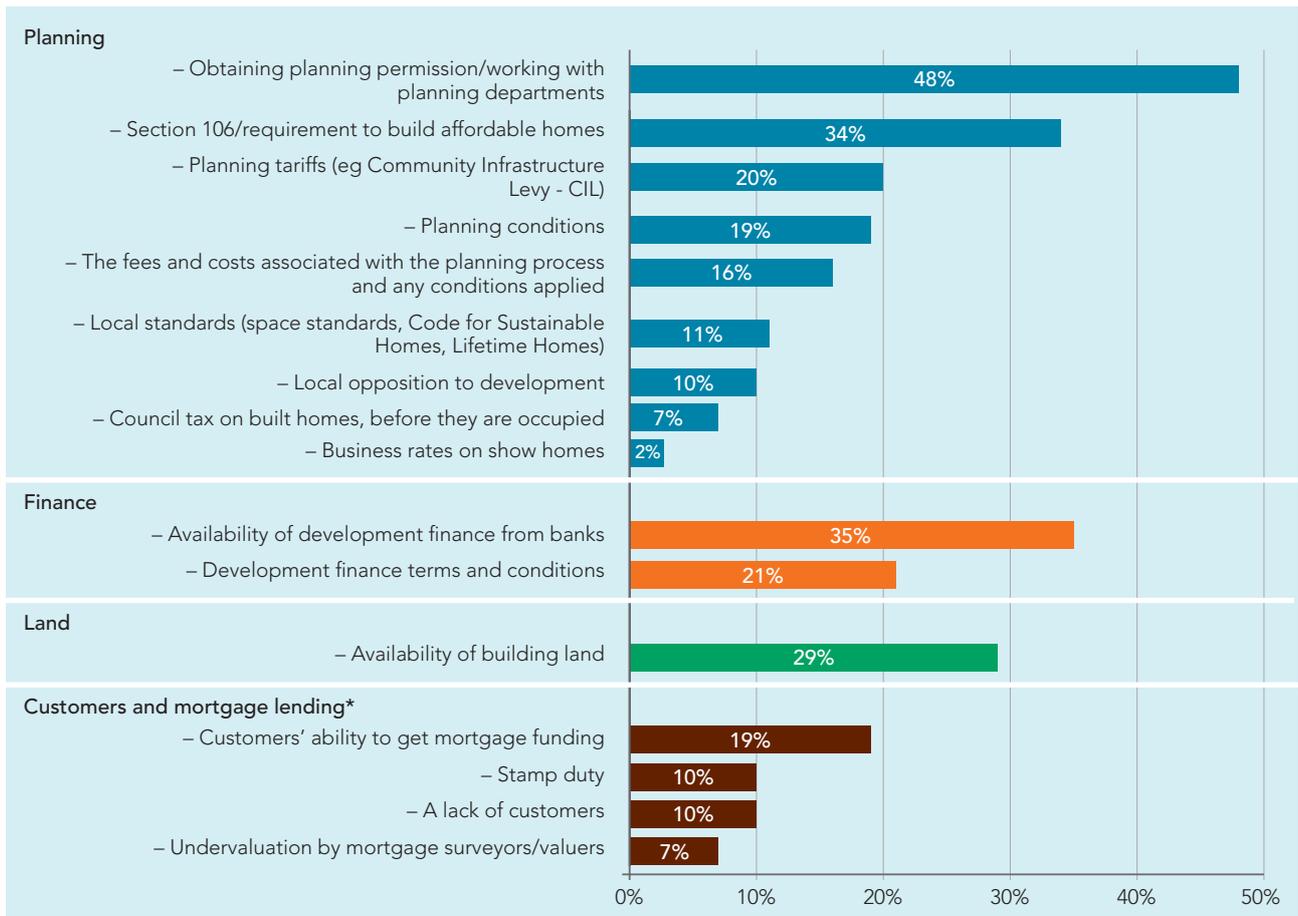


- Planning process and conditions – 33%
- Obtaining finance – 22%
- Availability and cost of land – 14%
- Availability of skilled labour/costs of labour – 7%

- Materials availability and costs – 4%
- Legislation/red tape – 4%
- Customers' ability to secure mortgages – 3%
- Cash flow – 3%
- Other – 11%

**Figure 4** Broad categories of business challenges identified (unprompted) by small house builders and developers at the start of the survey questionnaire. *Sample 363 companies*

Note: the four most commonly recognised categories from this chart are considered in more detail in this report.



**Figure 5** Encouraging growth: Overview of the major business challenges that small builders and developers would like to see eased. Each bar shows the percentage of survey respondents who selected each issue. Each company was invited to identify their top three issues from a prompted list. *Sample 358 companies*

\* These challenges (not considered separately in the report) overlap with concerns expressed on page 6.

# Planning

Of the small house builders and developers consulted in this study, 33% thought that the application process and conditions attached to planning represented a major challenge to their business. When prompted in more detail on a series of planning issues, many were regarded as having a significant impact – those illustrated in Figure 6 were regarded as serious barriers, or impediments, to business by more than a quarter of the survey participants.

Many felt that they were not getting timely responses from planning departments, whether on an overall planning decision or on the time taken to clear planning conditions. Conditions of planning were themselves seen as significant barriers, particularly on Section 106 requirements and Community Infrastructure Levy (CIL). Significant concern was expressed over the quality of communications with planning departments and the availability of appropriate expertise, either within planning committees or among planning officers themselves.

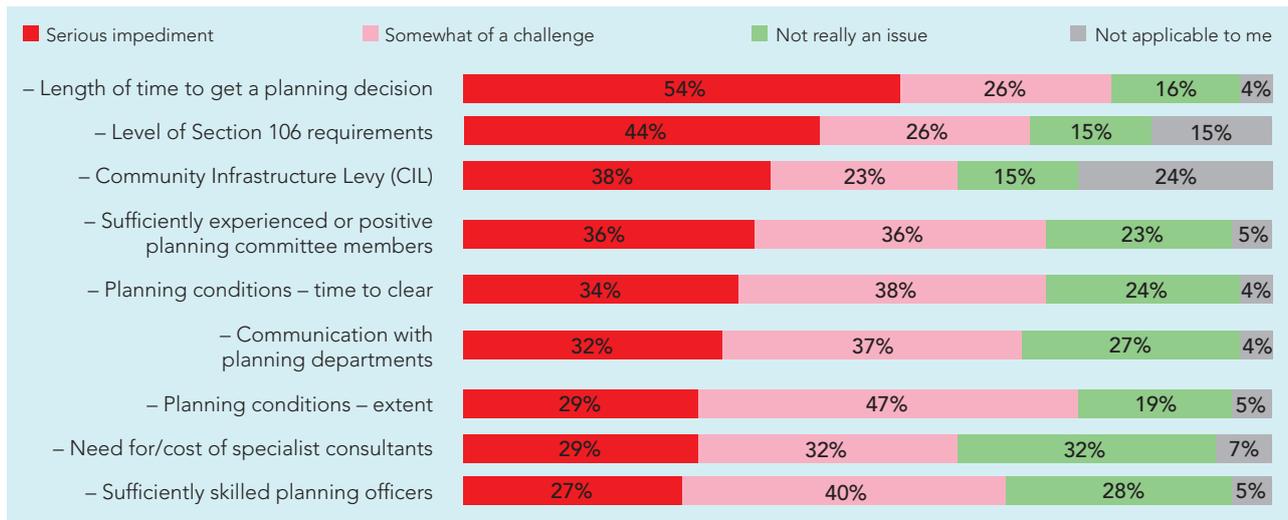
## Planning challenges - What small firms said

*'Schemes for housing that used to get approved in 12 weeks 20 years ago now take between two and three years.'*

*'The fact that Planning Authorities do not have a target date or strict time limit to adequately deal with pre-planning applications and advice is a serious delay factor.'*

*'LPAs almost always prefer to deal with one or two large builders. It's relatively much harder for them to deal with individual self-builders one application at a time.'*

*'Onerous affordable housing policies being introduced by councils are putting pressure on already tight margins, coupled with ever-increasing demands for specialist reports and ever-changing standards and policies.'*



**Figure 6** Planning-related barriers to business highlighted by the small companies in this study. The chart shows all planning issues which were seen as serious barriers/impediments to business by more than 25% of survey respondents (from a prompted list of issues). *Sample varied between 305 and 314 companies*

## Observations

For many of the small companies in this survey, all the issues listed in Figure 6 were both serious and frequent. Of those who identified an issue as a 'serious impediment/barrier' or 'a challenge', over 65% felt that this was a problem they encountered frequently.

Section 106 requirements and CIL were seen by many as serious barriers. However very few, 88% and 90% respectively, were aware of the planned exemptions for Section 106 and CIL that would be available for small companies.

## Planning - how to help small companies

- Speed up decision making on planning decisions and planning conditions.
- Improve communication (from more experienced and positive planning teams).
- Provide better pre-application advice to house builders and within an agreed timeframe.
- Publicise straightforward guidance for small builders on the exemptions from Section 106 requirements and CIL which are available.

# Finance

Securing suitable finance for projects emerged as a major challenge for 22% of smaller companies. Most (64%) rely on banks for funding both the purchase of land and building, and for many companies the unwillingness of banks to lend, together with the conditions imposed appeared to be serious barriers to their business.

A summary of significant concerns relating to finance is shown in Figure 7, which includes all issues that were recognised as serious barriers to business by at least 25% of the survey respondents. Many referred to specific concerns such as the poor loan-to-value ratios and inconsistent or onerous terms and conditions.

As well as concerns over financing their own operations, small companies were concerned over financial issues that were impacting on their clients, particularly on affordable mortgages (Figure 7) but also other issues such as Stamp duty and undervaluation (Figure 5).

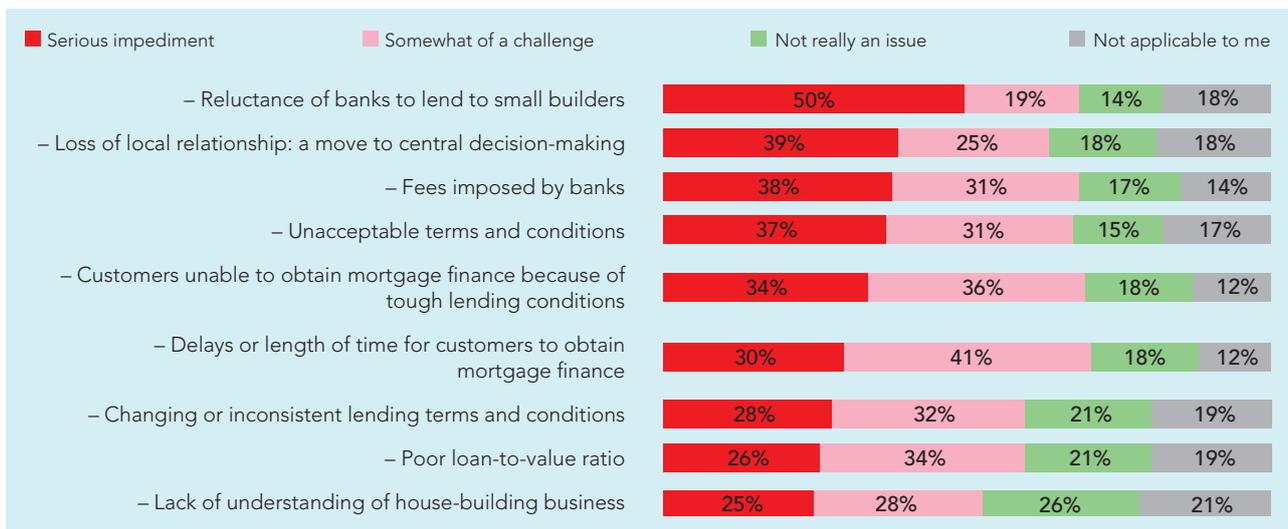
## Finance challenges - What small firms said

*'The large banks impose impossible conditions on small builders. They continually change their staff and don't understand the business.'*

*'Banks are still not lending. I have been with my bank for over 30 years; I have less chance of getting a build loan than a new customer.'*

*'Bank lending terms have been revised to prevent cash-flow based lending – terms now require full borrowing arrangement for entire site.'*

*'Lack of competition in the market place to provide development finance to small builders.'*



**Figure 7** Finance-related barriers to business highlighted by the small companies in this study. The chart shows all finance issues which were seen as serious barriers/impediments to business by more than 25% of survey respondents. Sample varied between 300 and 309 companies

## Observations

At the time of this study the financial recovery was underway, however small house builders were not seeing any significant easing in the availability of funding. There is some indication that the funding from banks has improved in recent months, however structural changes (particularly centralisation) amongst banks has resulted in the loss of a local relationship and a mutual understanding of the small house-building business. This was a major concern among the companies who took part in this study.

## Finance - how to help small companies

- Government should do more to promote the Builders Finance Fund which has recently reopened its bidding process.
- Banks need to offer more flexible funding arrangements and conditions, to reflect the cash flow challenges of developing a site.
- Improve advice from banks on how house builders can present business propositions and build confidence with lenders.
- Ensure experienced bankers are available, specialising in the business challenges faced by small builders, and sensitive to risks faced by both sides.

# Land availability

The availability of land at a suitable price was seen as a major challenge by 14% of the small companies included in this study. The focus groups indicated that small companies rely on local knowledge and an ability to identify and redevelop small sites or assembling small parcels of land into larger opportunities. Smaller firms were concerned that the availability of suitable small sites, which they prefer, was declining.

The quantitative survey indicated that just over half used Local Development plans to identify land purchase opportunities, welcoming the opportunity to redevelop disused facilities. A large proportion (94%) were interested in tendering for Government/Local Authority land, though most (74%) small builders and developers prefer to build on small stand-alone plots.

## Observations

A change in the pattern of land use availability may not be favouring the traditional small-firm land-acquisition model with a preference for smaller stand-alone plots. However, a good proportion of small builders and developers (32%) will consider opportunities for building alongside volume builders on larger sites, and some were recognising benefits of working in this way.

While 68% of the small companies in this study were building speculatively, 42% were also building for 'self-build' customers who had their own land with planning permission. 54% of small firms included in this study would prefer to do more business for this category of customer.

# Skills

In the survey questionnaire, companies were asked for their views on skills needs in the forthcoming 2-3 years to secure growth.

On specific questions, many (74%) felt that there would be insufficient good quality subcontractors and tradespeople to meet the needs of a growth market. Two thirds were concerned about the availability of good site managers.

In response to a multi-choice question on skills needs many survey participants (Figure 8) recognised the importance of encouraging young people into the industry and significantly over 50% felt that planning resources in local authorities needed to be strengthened.

## Land availability challenges - What small firms said

*'The real problem is that many rural authorities have stopped 'infill and rounding off' and most housing allocations are large and only suitable for the regional/national developers.'*

*'Affordable homes will not be built at the required rate without a significant increase in land availability.'*

*'If the Local Government are releasing land they could split it into smaller plots, so small and medium size developers can get a chance against the big boys.'*

## Land availability - how to help small companies

- Make information on land availability more accessible, particularly for underused/surplus public assets and 'brown-field' opportunities.
- Increase, where possible, the availability of small or stand-alone plots.
- Offer some parcels of land, typically for 1 to 10 homes on larger development sites.
- Provide outline planning permission (for public sector land) at the time of sale.



Figure 8 What should be strengthened to ensure the skills are available for growth? Percentage of survey participants selecting from a multi-choice question. Sample 318 companies

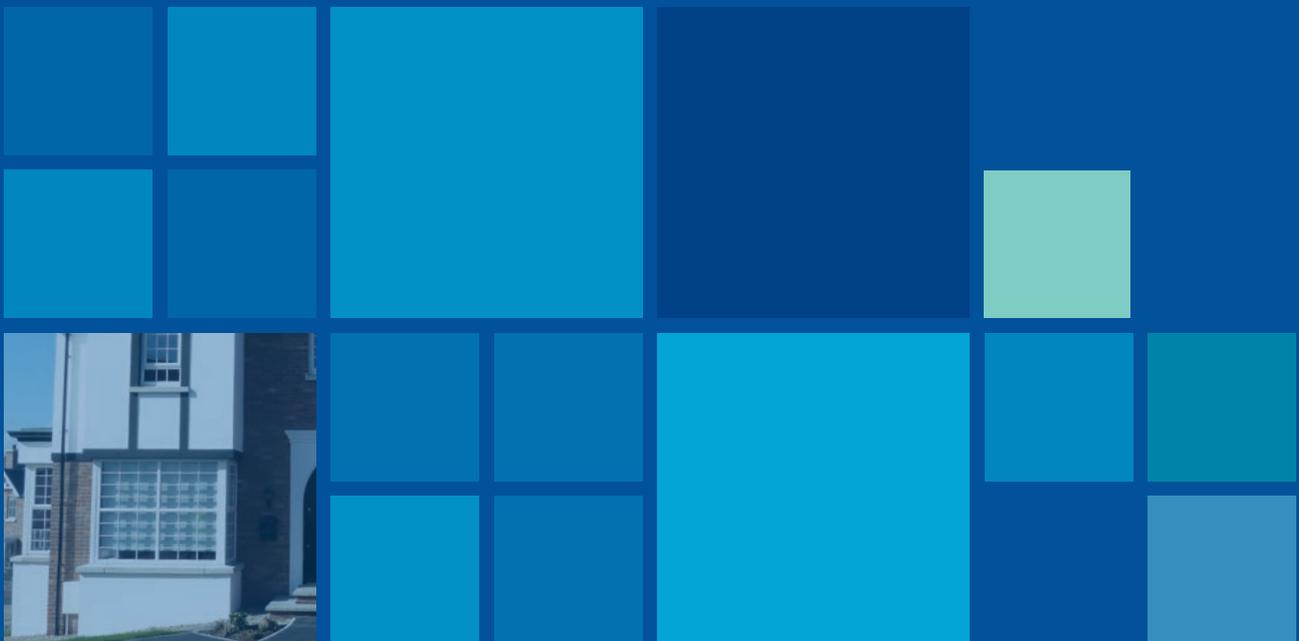
# Conclusion

For those involved in the small-scale development and construction of new homes, the recent business environment appears not to be conducive to growth. This study shows that a number of factors are at play, related in particular to the planning system, access to finance, land availability and a shortage of skills.

For small companies, who often have limited financial resources or reserves, small differences in the way lending is structured and delays related to planning applications (among other factors) can be critical and could potentially force them out of business. This report suggests a number of rebalancing measures that could ease the position for the smaller operators.

Overall this study highlights a number of changes to resources, policies and attitudes that have not worked in favour of small local builders and developers.

For example, the loss of constructive partnerships between small house builders and those who approve and finance development is clearly having an impact and re-establishing these is a central consideration. Changing attitudes within planning and lending communities alone could play a useful initial role in stimulating growth, supporting the medium-term desire expressed by many of the small companies in this study to build more homes.



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. To date the NHBC Foundation has published over 50 reports on a wide variety of topics, including the sustainability agenda, homeowner issues and risk management. Visit [www.nhbcfoundation.org](http://www.nhbcfoundation.org) to find out more about the NHBC Foundation research programme.

