

Barratt Developments PLC's comments on the Competition and Markets Authority's Statement of Scope for its Market Study into Housebuilding

22 March 2023

1. Overview

- 1.1 Barratt Developments PLC ("**Barratt**") welcomes the Competition and Market Authority's (the "**CMA**") market study into housebuilding (the "**Market Study**") and the opportunity to provide comments on its statement of scope (the "**Statement of Scope**").
- 1.2 Efficient housing supply is essential to the wider economy with impacts on the cost of living but also productivity, growth, and how a nation invests in its future. The CMA's interest in certain aspects of the functioning of the housebuilding sector can therefore give important insights for broader policy. And it is important that much-needed government reforms are informed by a solid evidentiary base – which the CMA is well-placed to gather. Barratt looks forward to collaborating with the CMA in this exercise by providing insight into the commercial realities of the housebuilding sector.
- 1.3 The Statement of Scope sets out the CMA's plan for examining all aspects of the construction and sale of new homes to consumers ("**housebuilding**") in England, Scotland, and Wales. In this document, Barratt comments on the proposed scope with suggestions on how the CMA can best target its analysis in the coming months.
- 1.4 Our headline comments on the proposed scope, which we explain in further detail below, are as follows:
 - (i) intense competition to secure planning permissions and develop properties for sale incentivises housebuilders to create a steady flow in and out of the land bank to maximise returns on investment; but a stock of long-term land is inevitable given delays and uncertainties in the planning process (section 4);
 - (ii) the CMA should consider focusing on planning as one of the key elements of the functioning of the housebuilding market: in particular, the costs, delays and risks associated with the planning process are the most significant barriers to entry and expansion in the market for housebuilding by both large and small housebuilders (section 5); and
 - (iii) the CMA should have regard to supply chain constraints such as a lack of skilled labour and limited access to building materials which have acted as a prominent constraint on the growth of the housebuilding industry in recent years (section 6).
- 1.5 We have also provided an overview of Barratt's operations and Barratt's view of the competition in housebuilding (sections 2 and 3).
- 1.6 This submission is not structured to systematically address each of the key focus areas identified in paragraphs 2.1 to 2.31 of the Statement of Scope. In addition, Barratt has not sought to respond to each question raised by the CMA after paragraph 3.2 of the Statement of Scope individually. Instead, where Barratt has views on particular questions, these views are

incorporated into the commentary on the relevant focus area. Barratt is committed to supporting the CMA in its work and looks forward to engaging with detailed evidence in response to the CMA's questions throughout the process.

2. Barratt's operations

2.1 Barratt is a national housebuilder with considerable experience in the construction and supply of new houses. The first Barratt Group company was established in 1958 in Newcastle upon Tyne and Barratt was first listed on the London Stock Exchange in 1968. Today, the Barratt Group employs 7,027 employees across the UK.

2.2 Barratt's core functions include the acquisition and development of land and the planning, design, construction and selling of high-quality homes through extensive marketing campaigns. These core activities are supported by Barratt's commercial development, urban regeneration, procurement, design and land capabilities.

2.3 Barratt's business model consists of five key activities:

- (i) Land buying and planning: Acting through its network of 29 divisions, Barratt seeks out high-quality land across the country and has the requisite capabilities to take on viable sites of any kind, including brownfield and greenfield sites in urban and rural locations. Following the acquisition of Gladman in 2022 (see paragraph 2.4 below), this process is supported by Gladman's land promotion expertise. Opportunities are also considered alongside planning assessments, which are carried out by Barratt's planning team.
- (ii) Design: Barratt designs a variety of homes with the aim that all new developments are designed in accordance with Building for Life 12, government-endorsed industry standards that promote the building of better designed homes and neighbourhoods. Barratt is also committed to maintaining its position as the leading national sustainable housebuilder by working to identify the right technologies and processes to build healthy, sustainable and well-designed homes. In the 2022 financial year, 27% of total home completions used "Modern Methods of Construction", techniques which aim to improve efficiency, quality, customer satisfaction, environmental performance and sustainability. Investment has also been dedicated to developing Barratt's "Zed House", a unique zero carbon concept home that showcases the future of sustainable living in the UK.
- (iii) Construction: Barratt constructs homes using standardised house designs, centralised procurement and technical resources, to ensure that its homes are built to high standards of quality. This is evidenced through its performance in build inspections performed by the National House Building Council. In addition, Barratt has in place the policies and procedures to ensure that high standards of health and safety are achieved at all times.
- (iv) Sales and marketing: Barratt operates via three distinct housebuilding brands: David Wilson, which is targeted at more affluent purchasers, Barratt Homes, which is targeted in particular at first time buyers and families, and Barratt London, which focuses on properties in London. Barratt also has a distinct commercial development business, Wilson Bowden Developments, acquired in 2007 and which focusses on retail, leisure,

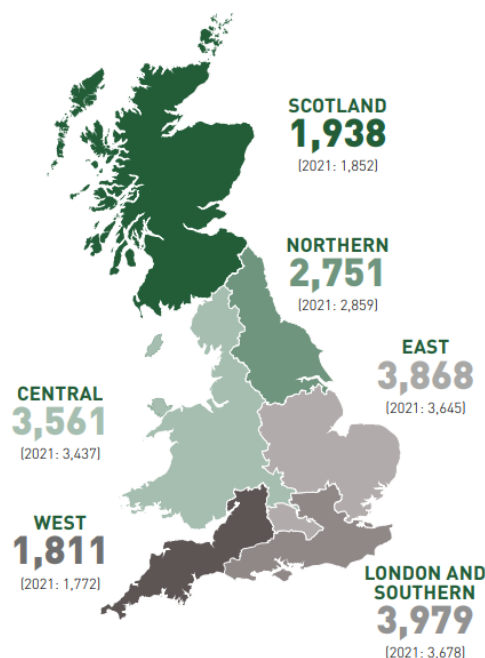
office, industrial and mixed-use schemes. These brands allow Barratt to market the right types of houses to the right segment of the market.

- (v) Customer experience: In carrying out its activities, Barratt aims to provide a first-class experience for its customers by providing high-quality homes supported by after-sales care. Its success in this area is illustrated by its 5 Star customer rating from the HBF, which it has received 12 years in a row, indicating that over 90% of its customers would recommend it to their friends or family.

2.4 In 2019, Barratt acquired Oregon Timber Frame Ltd, which manufactures timber frames for homes and is based in Selkirk, Scotland. In 2022, Barratt acquired the land promoter Gladman Developments Limited ("**Gladman**") with the aim of providing greater flexibility for landowners and enhancing Barratt's land credentials. Following the acquisition, Gladman operates as a stand-alone business within the Barratt Group and continues to supply land to third parties alongside providing an additional route for Barratt to source land and helping to promote Barratt's existing portfolio.

2.5 Barratt is active throughout the UK through 29 divisions in six regions: (i) London and Southern, (ii) West, (iii) Central, (iv) East, (v) Northern; and (vi) Scotland. In its 2022 financial year, it had total UK completions of 17,908, split relatively evenly between these regions, as shown in Figure 1 below. Wales is included in the Central region and had 615 completions in 2022.

Figure 1:
Barratt completions by region (2022)



2.6 Barratt's products range from homes for first time buyers, large family homes and high-rise apartments to social housing, private rental sector housing and commercial developments.

3. Barratt's view of competition in the housebuilding market

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- 3.1 The housebuilding sector is concerned with the building and supply of private homes (for sale or rental), whether houses or apartments, and encompasses the whole supply chain from buying land and obtaining planning permission through to building and selling finished units to consumers.
- 3.2 Housebuilding in the UK is a highly fragmented sector with thousands of active housebuilders. These range from housebuilders active on a national basis through to those focused on smaller geographic areas – UK regions or more localised areas. Barratt competes closely with a diverse range of other housebuilders, including large players as well as smaller firms with a specialised focus. In the coming months, Barratt hopes to demonstrate the relative strengths of its competitors – whether large or small. Indeed, as evidenced by the CMA's estimate that the largest five housebuilders accounted for just over 30% of new houses built in 2021,¹ the housebuilding market is by no means concentrated.
- 3.3 The degree and diversity of competition is evident from Barratt's internal documents, which we will share with the CMA in due course. [REDACTED].
- 3.4 The CMA should also consider the competitive constraint posed by existing housing stock – which acts as a material constraint on pricing of new builds. Housebuilders face strong competition in local housing markets, with second-hand homes significantly constraining housebuilders from increasing prices or otherwise worsening conditions of competition. Customers can and will switch to second-hand homes if new build homes become significantly/substantially more expensive than equivalent supply of second-hand homes. This is reflected in the attention paid to old build pricing in industry reports and Barratt's assessment of opportunities:
- (i) [REDACTED].
 - (ii) [REDACTED].
- 3.5 Consistent with these commercial realities, the OFT found in its 2008 market study (the "**OFT Market Study**") that "*significant price competition is exerted by existing homes over new homes*".² This remains true today: in 2023 Barratt commissioned two surveys which, among [REDACTED] participants respectively, both found that only [REDACTED] of homebuyers consider new builds only. As part of its consideration of the scope, the CMA could conduct a consumer survey, similar to the survey conducted by the OFT, to ascertain the extent to which consumers continue to consider new builds an immediate alternative to old builds.
- 3.6 Another relevant factor affecting pricing in the housebuilding market is the fundamental role played by mortgage providers. The policies of mortgage lenders with respect to property valuation and maximum loan to value and loan to income ratios remain a major determinant of individual house prices as well as house price levels in general. Due to the unique nature of this constraint, Barratt considers it to be a relevant point for the CMA to be aware of when conducting the Market Study.

¹ Statement of Scope, paragraph 1.20.

² See paragraph 4.23 of the [OFT Market Study \(2008\)](#).

4. Intense competition to secure planning permissions and develop properties for sale incentivises housebuilders to create a steady flow in and out of the land bank to maximise returns on investment but a stock of long-term land is inevitable given delays and uncertainties in the planning process

- 4.1 The Statement of Scope explains that the CMA intends to explore whether a putative lack of effective competition between housebuilders may be leading to a worsening of outcomes for consumers. To do so, it intends to consider whether established housebuilders' control of large land banks enables them to strengthen their position in local housing markets (i.e., excluding other possible builders).
- 4.2 We welcome the continued analysis of land supply and alleged land banking. The suggestion that developers manipulate the supply of land is incorrect but has persisted as a distraction to the more serious issues of planning and broader government policy. We look forward to working with the CMA to increase our shared understanding of any concerns.
- 4.3 Land that housebuilders control or otherwise have an interest in and that does not have any planning permission (whether outline or detailed) ("**long-term land**") is an essential element of a housebuilder's business as it allows them to develop and supply on a continuous basis its annual targets of property sales. This stock of long-term land is necessary given the time it takes to build new homes from the date a suitable plot of land has been identified. As recognised by the OFT Market Study, it is not possible to manage land stocks using a 'just in time' approach due to a lack of development-ready property, as well as delays and uncertainties in the planning process (see section 5 below). To guarantee having enough land available for construction at any one time, homebuilders must maintain a pipeline of property at various phases of the planning and development process.³
- 4.4 However, fifteen years on, land banks of significant durations remain a feature of the market. In due course, we hope to present evidence to the CMA that – in our view – the persistent accumulation of long-term land is a reaction to a costly and lengthy planning process and a lack of ready-to-use land. In the following paragraphs, Barratt explains the reasons for this at a high-level and welcomes CMA inquiry to validate it.
- 4.5 In its normal course of business, Barratt continuously identifies land, acquires land, requests planning and constructs houses across its sites in different areas. The practise of Barratt and other housebuilders of acquiring land early in this process solely serves to ensure continuity of these operations, guaranteeing an efficient use of raw materials and labour at any single point in time. In a steady state, it should not matter whether land banks are small or large (as it is the rate of flow of land into the land bank, as opposed to the size of the land bank, which determines the rate of flow of land out of the land bank).⁴

³ This is consistent with the findings of the [OFT](#) and [Callcutt Review](#), which respectively found that "*homebuilders have sound commercial reasons for acquiring and managing land as they do*" and "*it is not reasonable to criticise housebuilders for acquiring land banks, sufficient to secure their future business*".

⁴ In this context, a steady state refers to a land bank which remains at constant size. Whether the system is in steady state depends on whether the rate of flow of land into the land bank matches the rate of flow of land out of the land bank.

- 4.6 Assuming an average duration of five years between obtaining planning consent and housing completion, housebuilders would have to maintain a short-term land bank equivalent to a minimum of five years of completions in order to maintain a steady flow of land out of the land bank.⁵ Any land held in excess of these five years is likely to be reflective of the risk relating to short-term land (e.g., material and labour shortages).
- 4.7 Similarly, maintaining a supply of long-term land ensures a steady flow of land into the short-term land bank. The size of this long-term land bank is similarly determined by the duration and the probability of obtaining planning consent on the land. The long-term land bank will experience fallout and delays when going through the planning process, which can be site-specific or can be caused by events such as the current issues being experienced on nutrient neutrality.
- 4.8 However, under the current planning regime and market context, housebuilders face an ever-changing and unpredictable steady state (i.e., for any given plot of land, it is unclear whether it will ultimately materialise into housing, and within which time this is likely to occur). Maintaining long as opposed to short land banks therefore serves to minimise the risk that resources at any point of the supply chain are underutilised.
- 4.9 It should be noted in this regard that any increase in duration or complexity of planning procedures, lack of predictability of planning timelines and uncertainty surrounding the probability of land to receive planning approval is naturally met with an increased need to hold greater amounts of short-term and long-term land for continuity of supply to be maintained.
- 4.10 Barratt also considers it important to note that, contrary to the suggestion in paragraph 1.5 of the Statement of Scope, it is Barratt's view that there is in fact no scarcity of land suitable for development. Only 8.7% of land in England is currently of developed use.⁶ The supply of land is determined by a significant extent by the public sector, due to reasons relating to (i) the ownership of land by the government as well as (ii) the willingness of local authorities to authorise the use of land for development. Rather, there is a scarcity of land that has been granted planning permission, due to issues currently affecting the efficiency of the planning process, as explained in the following section.

5. The costs, delays and risks associated with the planning process

- 5.1 Housebuilders are typically vertically integrated businesses. They procure land themselves, obtain relevant planning permissions for that land, and then construct new homes for sale. This business model reflects the fact that the process of obtaining planning permission can be complex, time-consuming and risky (since there is no guarantee that the requisite permissions will be obtained). Thus, rather than rely on third parties to bring forward land with relevant planning permissions, housebuilders typically carry out land acquisition themselves, before developing and building. Vertical integration has previously been recognised by the OFT as

⁵ In the 2022 financial year, Barratt recorded a short-term land bank equivalent to 4.7 years (one of the shortest in the industry).

⁶ [Land Use Statistics, Department for Levelling Up, Housing & Communities, April 2022.](#)

*“an efficient market response to the challenges of dealing with the complexities of the UK’s planning regimes”.*⁷

- 5.2 The acquisition of land is therefore an intrinsic and interrelated part of the construction and supply of new homes (the OFT recognised in the OFT Market Study that there is a *“powerful synergy between the land development function and the construction function”* of housebuilding).⁸ There is no ‘bright-line’ distinction between their upstream activities in procuring land and their downstream activities in constructing and supplying new houses – these are activities that housebuilders undertake in a housebuilding continuum, rather than separable and wholly distinct functions.
- 5.3 We note that the CMA has excluded certain elements of the planning regime and broader policy constraints on the supply of new housing from the Statement of Scope. However, Barratt stresses that the costs, delays, and risks associated with the planning process is the most significant supply side obstacle to more housing development by both large and small housebuilders and should be a focal point for the Market Study. Indeed, the Secretary of State for Levelling Up, Housing and Communities has himself recognised that the planning system is one of the major barriers to entry in the market. These issues are discussed below.

5.3.1 Delays in the planning system

- (i) Barratt is in a good position to provide the UK with high-quality, energy-efficient, and sustainable developments. However, the market for housing construction depends on planning approval and planning delays are becoming more frequent because of limited planning resources, the COVID-19 pandemic’s delayed effects, and new land use problems.
- (ii) In addition, the requirements under the planning system have significantly increased over the last 20 to 30 years. This kind of drastic shift is expected as the market (and society as a whole) develops. However, resourcing at the local authority level has not increased to match these additional requirements resulting in a significant delay in obtaining planning permission and accordingly requires housebuilders to have a longer land bank to allow continuity. This is an issue that is recognised across the industry, as illustrated by the survey conducted amongst housebuilders and LPAs by the University of Cambridge in 2014; almost all housebuilders in the sample said they experience long delays in achieving consents and all illustrated how the process had become “substantially elongated” over the last two decades. Both housebuilders and LPAs recognised that delays are being compounded by staff reductions and council funding cuts.⁹
- (iii) By way of example, the time taken to receive planning approval from the date of the planning application in the 1990s was approximately 12 weeks. Today, this planning

⁷ See further paragraphs 4.122 – 4.129 of the OFT Market Study.

⁸ Ibid, paragraph 4.126.

⁹ [The nature of planning constraints, Report to the House of Commons Communities and Local Government Committee \(March 2014\)](#), p.11 and p.27.

approval process takes approximately 12 months for outline applications relating to large sites. On top of the resourcing issue identified above, this slowdown is seen as being partly attributable to the extensive time spent on the pre- and post-application stages, and the excessive documentation involved.¹⁰ In the University of Cambridge survey, one LPA stated that the pre-application phase alone could take 12 months for complex schemes.¹¹ In Barratt's own experience, approximately 10 additional reports are now required to support a planning application compared to 20 to 30 years ago.

- (iv) In April 2022, it was reported that the pipeline of planning approvals for major residential sites across England had fallen to the lowest level since 2013.¹² The repeal of temporary regulations that had permitted local governments to hold online meetings of their planning committees had an impact at this time and many local authorities experienced delays as a result in the second half of 2021. Significant budget cuts and staff turnover have also been experienced by local authority planning departments, stressing already scarce resources.
- (v) Housebuilders are also constrained by delays in approving new road designs and failure to install utilities and services in time. In addition, planning departments have also been constrained by changes in advice from external non-elected bodies, most notably Natural England in respect of excess nutrient levels. Even though excess nutrient levels are a result of the wastewater treatment, industry's shortcomings and intensive agricultural use of fertilisers, Natural England advised 74 local authorities that developments should not move forward if they increased the level of nutrients and failed to deliver nutrient neutrality. This problem might significantly affect the speed at which planning applications are approved and the ability of the housing industry to deliver housing expansion if it is not quickly addressed at the source.¹³
- (vi) Unfortunately, resourcing at the LPA level has not increased to deal effectively with the additional documentation and complexity that is now required to obtain planning approval. Indeed, Lichfield research shows that the average time for a successful approval for sites of 100-499 units is now 2.1 years.¹⁴

5.3.2 Risk involved in the planning process

- (i) The complexity of planning (and the factors contributing to slowing the process down), present a significant risk for housebuilders and necessitate a sufficient land bank. This results in housebuilders being incentivised to develop as quickly as possible. This is discussed in detail above.

¹⁰ Ibid, p.12.

¹¹ Ibid, p.25.

¹² [Zoopla "New Homes Pipeline Report"](#), Spring 2022, p.3.

¹³ The [HBF](#) estimated in 2022 that 120,000 new homes were delayed as a result of having to demonstrate nutrient neutrality.

¹⁴ OFT Market Study, p. 108. [Lichfield "Start to Finish" report](#), p.6.

- (ii) Land can be purchased with and without planning permission. Where housebuilders purchase land without planning permission (so-called 'strategic' or long-term land), then the housebuilder assumes a degree of planning risk since there is no guarantee that appropriate permissions will be obtained and, in any event, the process for obtaining planning permission can take many years. By way of illustration, the OFT Market Study found that approximately one third of English planning applications are rejected, and the average time for a successful approval is 22 months.¹⁵ More recently, government data indicates that approximately 12% of English planning applications were rejected in 2019/20.¹⁶
- (iii) However, the long-term land of housebuilders (notably Barratt) is often not owned but rather subject to option. Such options do not transfer planning risk over owned land to housebuilders, but allow them to purchase the relevant land (i.e. exercise the option) subject to obtaining planning permission within a given period, typically in Barratt's case five years (with the purchase price then reflecting an uplift in value from the grant of planning permission). In turn, these option arrangements mean that housebuilders will often not own significant quantities of unpermitted land, since to do so necessarily means assuming a higher degree of planning and commercial risk.

5.3.3 Costs involved in the planning process

- (i) The process of obtaining planning permission is costly. As recognised in the OFT Market Study, housebuilders incur "significant costs" while taking land through the planning system. In its report, the OFT drew on an example of a housebuilder incurring costs of £220,000 to £230,000 during the period between the site being identified and constructing beginning.¹⁷ Clearly, planning costs could have the potential to be much higher now, compared to in 2008, and more recently Lichfield has confirmed that "*securing a planning permission remains a risk for most sites, and carries significant cost*".¹⁸
- (ii) Barratt estimates that, depending on the type of application, planning permission can cost between £100,000 to £400,000 (or more) to obtain. Where a planning application is rejected and appealed, the cost of the planning application is likely to double.
- (iii) The costs involved in planning have also increased significantly over the past few decades. Barratt views this to be a result of the delays now involved in getting a planning application through, as well as the added complexity and additional documentation required in recent years. These factors are detailed further in paragraph 5.3.1 above. As noted by the University of Cambridge, some LPAs also now charge for

¹⁵ OFT Market Study, p. 108.

¹⁶ [Live tables on planning application statistics](#), Department for Levelling Up, Housing and Communities and Ministry of Housing, Communities & Local Government.

¹⁷ OFT Market Study, paragraph 5.73.

¹⁸ [Lichfield "Stock and Flow" report](#), p.4.

pre-application discussions, and refuse to have a conversation with housebuilders about prospective applications unless a fee is paid.¹⁹

- (iii) Barratt is accordingly of the view that the costs, delays, and risks associated with the planning process is the most significant obstacle to more housing development by both large and small housebuilders and should be explored by the CMA in the Market Study. In doing so, it is important for the CMA to examine the causes of friction in the planning system which raise barriers to entry and significantly slow the process of developing land.

6. Supply side constraints

- 6.1 Inflationary pressures across the economy reflecting energy, commodities and food costs, much of which derived from factors beyond the UK's influence, are being compounded by limited labour availability and supply chain challenges. Barratt considers it important to note that these supply chain challenges have acted as a prominent constraint on the growth of the housebuilding industry in recent years.
- 6.2 Throughout the 2022 financial year, Barratt experienced an increasing rate in build cost inflation, which was recorded as being between 9% and 10% in July 2022. This remains a risk going forwards, particularly as supply chain partners roll off hedged energy supply terms in the coming months.
- 6.3 Factors contributing to this figure include the continued inflationary pressure on the supply of skilled labour as the UK struggles with shortages in the labour market following Brexit and the COVID-19 pandemic. This issue is particularly acute in the construction sector, with 20.7% of construction businesses surveyed by the ONS experiencing worker shortages last year, the second worst affected industry behind accommodation and food services.²⁰
- 6.4 A global shortage of materials has also added to the increased costs experienced by the industry. Government data shows that the average annual building materials prices in January 2023 were 10.4% higher than the previous year and almost 60% higher than in 2015.²¹
- 6.5 Together, these factors have restricted the growth potential of housebuilders across the industry, including Barratt, and are therefore an important consideration for the CMA to take into account when examining the operation of the market.

¹⁹ The nature of planning constraints, Report to the House of Commons Communities and Local Government Committee (March 2014), p.27.

²⁰ [Commons Library Debate Pack 10 January 2023, skills and labour shortages](#), p.4.

²¹ [Monthly Statistics of Building Materials and Components, based on the "All Construction Work" indices](#).