

CMA Housebuilding market study

Statement of Scope

BSA Response

Restricted
20 March 2023

 **Building Societies**
Association

Introduction

The BSA represents all 43 building societies, as well as 7 larger credit unions. Building societies serve almost 26 million consumers across the UK and have total assets of nearly £500 billion. Together with their subsidiaries, they have helped over 3.6 million families and individuals to buy a home with mortgages totalling over £366 billion, representing 23% of total mortgage balances outstanding in the UK. They are also helping over 23 million people build their financial resilience, holding over £342 billion of retail savings, accounting for 18% of all cash savings in the UK. With all of their headquarters outside London, building societies employ more than 51,500 full and part-time staff. In addition to digital services they operate approximately 1,300 branches, holding a rising share of financial services branches in local communities.

The BSA welcomes the opportunity to respond on behalf of its members to the CMA's statement of scope for its housebuilding market study. The UK's documented housing shortage remains a significant issue for the entirety of the housing market. This shortage raises property values for everyone but particularly impacts first time buyers seeking to get on the property ladder and renters who must spend a higher proportion of their income on rent. The BSA supports the CMA's work in this area to correct inefficiencies in the market and increase the housing supply across the UK.

General Questions

2. Do you agree with our areas of focus for the market study, as set out in paragraphs 2.1 to 2.31? If not, what other matters should we focus on and why?

We agree that the areas set out in paragraphs 2.1 to 2.31 are important to understanding the housebuilding market. We are particularly pleased to see the CMA examining the role that estate management fees play in the market when the local authority does not adopt the development's roads and public amenities. This practice has the potential to result in significant consumer detriment.

We would add two main areas to the scope of the inquiry.

First, the self-build and custom homes sector should be included in the market study. Whilst this may be implicitly covered by the scoping statement, it constitutes a significant portion of the overall housebuilding market and warrants inclusion as its own listed topic. The 2021 'Independent review into scaling up self-build and custom housebuilding' (Bacon Review) estimated self- and custom-build completions of roughly 13,000 per year, making the category the equivalent of the fourth or fifth largest national homebuilder.¹ Other estimates place the number above 15,000 completions annually, constituting between 7 and 10% of all new completions across the UK.²

Moreover, there is significant untapped demand within this segment of the market. The BSA's survey data – completed in conjunction with the National Custom and Self Build Association (NaCSBA) – shows that approximately one third (32%) of adults are interested in building their own homes in the future including 12% who said that they are 'very interested.'³ Nearly half (48%) of respondents ages 18-24 reported an interest in building their own homes, suggesting that demand may increase over time with younger generations of homebuyers. These results

¹ [Bacon Review](#) at 11.

² [Places for People and Cambridge Centre for Housing & Planning Research - Self-build and Custom Housebuilding in the UK: An Evidence Review](#) at 12.

³ [BSA and NaCSBA - Self and Custom Build Consumer Survey 2020](#) at 14.

align with other indications of market demand. For instance, NaCSBA projects that, even without additional Government support – the market will grow to 28,000 per year new homes by 2027.⁴ The Bacon Review concludes that current demand for self and custom-build housing in England alone ‘is at least 30,000 a year, as a minimum, and could conceivably be as high as 100,000 homes a year.’⁵ The excess demand in this market suggest that more could be done to increase supply.

Correcting any inefficiencies in this segment would benefit to the broader housebuilding market. For instance, self and custom-builds tend to rely on SMEs for design, building, and other services. Levelling the playing field for the self and custom-build sector would likely bolster industry SMEs, provide added competition to large firms, and diversify new housing. Additionally, these types of properties are often more energy efficient than other new builds, improving sustainability of the housing stock and helping the UK reach its net zero targets.⁶

Second, the CMA should consider the role that modern methods of construction (MMC) play in the housebuilding market. This includes homes that are built off-site and then assembled on the development site. Again, the scoping statement may implicitly cover this type of construction, but we encourage the CMA to consciously explore MMC and its potential to provide benefits to the housing market.⁷ The market share for MMC is relatively low at the moment, with estimates placing it at 6-10% of the existing market.⁸ However, the share has grown from about 2% over the last decade⁹ and is expected to grow to closer to 20% over the next ten years.

Much like self and custom-builds, growth in MMC has the potential to provide significant benefits to the broader market. The MMC provider market is more fragmented than that of traditional homebuilders and consists largely of SMEs. Ensuring those firms are able to compete would strengthen competition in the market. Moreover, construction of MMC homes uses materials more efficiently and requires less labour than conventionally built homes.¹⁰ For example, site labour could be reduced by as much as 75% through the use of offsite construction.¹¹ In the current climate of growing labour and material shortages, meeting demand in this area MMC could ensure a continuing supply of homes.¹² MMC also requires much shorter build times than typical construction with up to 60% reduction in delivery times.¹³ In short, greater emphasis on this sector could bolster homebuilding numbers and help the UK meet its 300,000 per year housing target.

Additionally, MMC homes have many advantages for consumers and communities as compared to conventionally built homes. They are typically more energy efficient than traditional homes. This efficiency includes energy consumption on completion but also throughout the build process, realised through more efficient use of materials and fewer site deliveries and movements. This latter feature benefits the community as well with less noise, disruption, and pollution to the surrounding area.¹⁴ Finally, MMC homes are often built to a higher quality than traditional homes and can provide greater diversity of choice to consumers. Recognising all of these benefits from MMC, the House of Commons Housing,

⁴ [NaCSBA - Longer Term Forecasts for Custom and Self Build](#)

⁵ Bacon Review at 71.

⁶ Bacon Review at 99-100.

⁷ There is also significant overlap between MMC and self and custom-build homes. [Explosion of self-build demand shows appetite for efficient homes and MMC](#)

⁸ [Savills - Spotlight: Modern Methods of Construction](#)

⁹ [Offsite Production in the UK Construction Industry](#) at 5.

¹⁰ [House of Commons Housing, Communities and Local Government Committee - Modern methods of construction inquiry](#) (MMC Inquiry)

¹¹ [BSA - Laying the foundations for MMC](#) at 13.

¹² [Gov.uk - Latest figures show increase in new energy efficient homes](#)

¹³ MMC Inquiry.

¹⁴ MMC Inquiry.

Communities and Local Government Committee recommended that ‘Government should take steps to exploit these benefits and help the MMC market grow.’¹⁵ We similarly urge the CMA to examine MMC’s role within the wider homebuilding market and determine how best to support its growth.

Constraints on buyers’ choices

12. As regards land:

- a. What issues (if any) do developers face in identifying and securing land for development and how do they navigate these? Do these issues differ depending on the size of the developer?
- b. What issues (if any) do landowners face in finding purchasers of land for development and how do they navigate these?
- c. Have any issues described above changed over time? If so, how and why?

There are unique issues specific to the self and custom-build market that may prevent interested individuals from pursuing projects. The Self-build and Custom Housebuilding Act 2015 required relevant local authorities to maintain a register of people seeking to acquire a serviced plot in the area on which to build their own home and have regard to that expressed demand when making planning decisions. The Housing and Planning Act 2016 went further and required those local authorities to give sufficient development permission to meet the demand evidenced on the local register. Whilst local registers were intended to gauge demand for self and custom build homes in a given area, some local authorities have implemented measures to depress this demand and make it easier to meet their statutory obligations of providing planning and development permissions. Many local authorities now impose significant requirements for joining a self-build register, including charging prospective homebuilders high fees, enforcing a ‘local connection test’ to the area of interest, and – in some extreme cases – requiring a mortgage offer or Agreement in Principle from a lender.

These obstacles likely depress the demand for new homes. Self-build registers already represent a significant undercounting of demand for these types of homes as only 13% of the population are aware them.¹⁶ The restrictions imposed by local authorities further reduce this figure below actual demand. Correcting these issues could increase the demand expressed through self-build registers and compel local authorities to approve more projects.

Market interactions

16. Are there differences in the bargaining power between LPAs and developers when negotiating with each other? If so, what are the key differences and why do they arise?

We would again note the unique position of self and custom-builders. The bargaining power may be reversed with the individual who is seeking a serviced plot to build on. Local authorities may not have the resources to focus on individual builders and may prioritise larger developments, leaving individual homebuilders to struggle to obtain permissions. We would encourage the CMA to explore this dynamic and opportunities to correct any imbalance in bargaining power.

¹⁵ MMC Inquiry.

¹⁶ Bacon Review at 31.

Barriers to entry and expansion

24. What are the key challenges for small and medium developers in:

- a. Securing sites for development?**
- b. Securing planning permission?**
- c. Building-out sites?**

Similar to our response to Question 16, we also urge the CMA to investigate the challenges for self and custom builders with respect to securing sites for development, securing planning permission, and building-out sites. The challenges faced by small and medium developers are likely compounded for self and custom builders.

25. What differences (if any) exist between the developments built by large, medium and small builders, eg in terms of quality of housing built, speed of build, diversity of housing built?

As noted in response to Question 2, self and custom-builders and MMC builders are more likely to be small and medium sized firms as compared to traditional builders. There is evidence that both of these segments of the market deliver higher quality, more diverse, and more sustainable housing than other segments of builders. Additionally, MMC has the capability to deliver homes much faster than traditional builds. Both segments are growing in prominence in the housing market and warrant consideration by the CMA during the market study.

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £481 billion, and account for 23% of the UK mortgage market and 18% of the UK savings market.