

PREVIOUS WORK ON HOUSEBUILDING UNDERTAKEN BY DAVID ADAMS

I would like to draw your attention to two previous pieces of research in which I was involved, both of which were commissioned by the UK Government in the light of the Callcutt Review.

BUILD-OUT RATES

The first project investigated Build-Out Rates. The project report can be downloaded from <https://thinkhouse.org.uk/site/assets/files/1587/glasgow.pdf> (Reference: Adams, D. and Leishman, C. (2008) *Factors Affecting Build Out Rates*, Report to Department for Communities and Local Government.)

The report was followed up by a more discursive academic publication: Adams, D., Leishman, C. and Moore, C. (2009) Why not build faster? Explaining the reluctance of UK housebuilders to speed up the supply of new homes for owner occupation, *Town Planning Review*, **80**, 291-314.

This can be accessed via <https://www.liverpooluniversitypress.co.uk/doi/10.3828/tpr.80.3.4>

The key arguments of this work are set out in the abstract, introduction and conclusion to the TPR paper, which are summarised below:

Abstract

This paper investigates how speculative housebuilders determine the speed at which approved housing sites are developed. It finds that where competition for land is intense, housebuilders must assume the highest possible sale prices to make winning bids for sites. Such bids are viable only because the release of land is restricted by the planning system, while the release of homes is managed on a site-by-site basis by builders to achieve the target sales rates underpinning earlier land bids. These factors have combined to encourage caution about the capacity of local housing markets to 'absorb' new-build supply. Even if the planning system released substantially more land, it may take some time before housebuilders responded by building out faster. While the research predates the recent collapse in speculative housebuilding, it is argued that these findings are likely still to be valid once the development of homes for owner-occupation recovers from the current recession.

Introduction

What determines the speed at which approved housing sites are developed? In a market economy, the temptation to see this as an issue of construction efficiency must be avoided. Instead, it is essentially an economic issue since housebuilders will not wish to produce new homes faster than they can be sold. Conventional wisdom among housebuilders emphasises that the finite annual capacity of local housing markets to absorb newly built homes determines the speed of construction. As a rule of thumb, a common target within the industry is to aim to sell an average of roughly one unit a week from each sales outlet and thus to programme construction to deliver the necessary flow of newly built homes.

Such conventional wisdom can become embedded in the culture of an industry and transmitted into the decision-making processes of the planning system. It demands critical challenge on two grounds. First, by drawing attention primarily to the quantity of new build supply, it masks important questions around the price of that supply. Since quantity and price are interrelated,

it is important to ask whether local housing markets could achieve higher new-build sales rates and thus faster construction, if new-build prices were lower than those of second hand property. Secondly, 'market capacity' needs to be viewed as essentially a 'commercial construct' contingent on the particular set of relationships between the state and the market that currently delineate speculative housebuilding provision. This raises the issue of how far the concept of market capacity is open to influence from the planning system.

Conclusions

This paper has taken a critical view of the concept of market capacity through connecting the normal speed of speculative residential development to the strategies housebuilders adopt to win the essential competition for land. The typical strategy of most companies who participated in the research was to aim for a build and sales rate of about one unit per week on greenfield sites and slightly higher than this on brownfield sites. This pace of development should be seen as a commercial construct that reflects the particular institutional structure of the British housebuilding industry and not be taken as a 'natural build-out rate'. Indeed, to achieve the ambitious development values necessary to capture land in the first place, it is essential for housebuilders to manage the pace of development and so limit the number of new homes available to be sold at any one time. Increased demand thus tends to lead to higher prices rather than increased output, while, in normal circumstances, decreased demand is addressed through incentives and increased marketing, rather than by cutting production. The more recent action of housebuilders to mothball development sites already in production demonstrates just how extreme is the current crisis for the industry.

We thus answer our first research question by highlighting how the presence or absence of local competitive pressures between housebuilders determines selling prices in relation to the second hand stock and thus the bids that can be made for land. Put simply, where builders know that the future supply of newly-built homes will be limited by restrictive planning policies, they feel both the need and the confidence to bid up the price of land. Our second research question can then be answered by pointing to the essential role that land supply plays in linking sales prices, sales rates, market capacity and construction rates. We have already suggested in answer to our third research question that the normal response of housebuilders to market changes is to use the price mechanism to manage demand or as one interviewee put it: *"Housebuilding a bit like a machine that has been set to work at a certain agreed pace – once it's in operation, you don't want to interfere with the machine."* Finally, in answer to the fourth research question, although it is clear that the concept of market capacity reflects the particular structure of British housebuilding provision (in which the planning system plays a major part), it should not be presumed that rate of production would rapidly increase if significantly more land were to be allocated for development, since the complex institutional relations involved in the development of new homes would take some time to adjust to such altered circumstances.

LAND TRANSACTIONS BETWEEN HOUSEBUILDERS

The second project investigated builder-to-builder land transactions. The full report can be downloaded from

<https://webarchive.nationalarchives.gov.uk/ukgwa/20090506023612/http://www.communities.gov.uk/documents/planningandbuilding/pdf/understandingbuilder.pdf> (Reference: Adams, D., Cartlidge, L. Leishman, C. and Watkins, C. (2008) *Understanding Builder to Builder Residential Land Transactions*, Report to Department for Communities and Local Government.)

This report was again followed up by a more discursive academic publication: Adams, D., Leishman, C. and Watkins, C. (2012) Housebuilder networks and residential land markets, *Urban Studies*, **49**, 705-720.

This can be accessed via <https://journals.sagepub.com/doi/abs/10.1177/0042098011405687>

The key arguments of this work are set out in the abstract and conclusions to the Urban Studies paper, which are summarised below:

Abstract

The commercial prospects of speculative housebuilders depend crucially on successful land acquisitions. This paper presents new evidence revealing the importance housebuilders attach to networks with other important actors in securing future land supplies. Since networks depend on trust, reputation and voluntary collaboration, they indicate the importance of social relations within the industry. The paper argues that UK speculative housebuilders rely more on networks than markets to source land and that they structure those networks to enhance their own competitive positions. Reflecting Granovetter's (1973) belief in the strength of weak ties, the paper emphasises the breadth not depth of housebuilder networks and contends that social relations within the industry are primarily dependent on pragmatic considerations of mutual self-interest

Conclusions

This paper has drawn on qualitative data to address three questions around the importance housebuilders attach to networks in securing future land supplies. The first research question sought to explain why and to what extent networks matter in UK residential land markets. The evidence suggests that housebuilders are deeply suspicious of reliance on open market competition, believing that supply shortages exacerbate perceived market inefficiencies, making open market prices highly unpredictable. Networks provide the opportunity, through extensive personal contacts, to enable housebuilders to source land before it reaches the open market, so achieving greater certainty in the development process. This may not on average produce land any cheaper than current market values, but it protects developers from what they consider outrageously high bidding behaviour from competitors whose particular circumstances necessitate bullish strategies.

The second research question concerned which actors are most closely embedded in housebuilder networks. Here, we revealed how the camaraderie shared between those who have built their careers moving from one developer to another reinforces strong personal contacts across the industry and between particular firms within it. However, successful land acquisition depends as much on effective contacts with development agents, and to a lesser extent directly with landowners. Although the public sector is regarded as a potentially important development partner, its culture is often considered unfamiliar and threatening to the development industry. Planners, in particular, are seen to stand at the most distant point from housebuilder networks, owing to the inability to articulate shared interests on both sides.

The third research question investigated the role of trust and reputation in the operation of residential land markets. Trust was seen as essential to enable housebuilder networks to function effectively and so avoid resort to contractual documentation. Reputations, at both individual and corporate level, were considered to be an important mechanism to generate and

reinforce trust. But trust was also perceived as fragile, partially because it reflected Hardin's concept of encapsulated self-interest but also because the recurring turbulence of corporate takeovers, mergers and reorganisations endowed personal relations with a sense of enduring instability. To protect against this, and to enhance opportunities to source land, housebuilder networks display an emphasis on breadth rather than depth, reflecting Granovetter's (1973) belief in the strength of weak ties.

The research thus helps re-cast theoretical conceptions of residential land markets towards a more institutionally grounded notion of socially embedded networks of relations (see also Needham *et al.*, in press). It reinforces Ball's (1983; 1998) earlier work on 'structures of building provision' and connects with institutional models of the development process produced by Healey (1992) and others. It sets researchers the challenges of discovering much more about how the residential land markets work in practice as networks of rules, conventions and relationships and of exploring further how the development industry seeks to evade open market competition by substantial investment in network development.

CaCHE study

More recently, I also have been involved in producing a literature review on the housebuilding industry for the UK Collaborative Centre for Housing Evidence (CaCHE). This can be accessed at <https://housingevidence.ac.uk/publications/190228-how-does-the-land-supply-system-affect-the-business-of-uk-speculative-housebuilding/> The full reference is Payne, S., Serin, B., James, G. and Adams, D. (2019) *How Does the Land Supply System Affect the Business of UK Speculative Housebuilding? An Evidence Review*, UK Collaborative Centre for Housing Evidence (CaCHE), Glasgow.

Scottish Land Commission

You may also be aware that the Scottish Land Commission (of which I am a Board Member) has recently published a number of reports on housebuilding in Scotland.

These can be accessed at <https://www.landcommission.gov.scot/our-work/housing-development>

You might be especially interested in the reports on

Land Banking in Scotland

https://www.landcommission.gov.scot/downloads/5ee1f7dedb17c_20200611%20SLC%20REPORT%20Investigation%20into%20Land%20Banking.pdf

Housing Land Allocation, Assembly & Delivery: Lessons from Europe

https://www.landcommission.gov.scot/downloads/5fbcd40ea1aee_HOUSING%20LAND%20ALLOCATION,%20ASSEMBLY%20AND%20DELIVERY%20-%20LESSONS%20FROM%20EUROPE.pdf

Land for Housing: Towards a Public Interest Led Approach to Development

https://www.landcommission.gov.scot/downloads/611ba5365de67_Land%20for%20Housing%20Review%20FINAL.pdf

Professor David Adams (20 March 2023)