Consultation Submission

Housebuilding Market Study: Response to Statement of Scope

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The analysis below represents the personal perspective of Pat McAllister

Introduction

The analysis provided below addresses a small proportion of the questions set out in the Statement of Scope. Specifically, these are questions 7, 12, 20 and 21 relating to the role of development land brokers and land promoters in the housing land market, the challenges in acquiring housing land and the land holdings of the largest listed house builders. The response begins with an overview of some of the typical terminology used, not always consistently, in the UK's housing land market.

Access to suitable development land is a well-documented challenge for SME housebuilders who have experienced a dramatic fall in their market share of housing completions over the last three decades. However, there seems to be little evidence on their land holdings and the extent to which they compete for different segments of housing land compared to larger housebuilders. The response below is largely focussed on the market for housing land acquired by large-scale housebuilders. Unless cited otherwise, data on the land inventories of the larger housebuilders has been extracted from their annual reports. Some of the data cited on the volume housebuilders has also been downloaded from Refinitiv.

Some terminology

It is perhaps worth defining some of the definitions and terms commonly used in the housing land market before going on to address some of the questions in the Statement of Scope. Focussing first on development land brokers, there is no consistent terminology for brokers operating in the development land market. The term 'land agent' is sometimes used to describe managers of rural estates but also sometimes used to describe intermediaries in the land market who can act for buyers and sellers of development land. The term 'development agent' is also commonly used to describe an intermediary in the land market who typically acts for either buyers or sellers of development land. For consistency, the term 'development land broker' is used below to describe these intermediaries.

There are also normally two types of land sales that tend to involve different roles for different types of development land broker. Land being sold 'on-market' is typically sold in a 'best bids', competitive and informal tendering process often brokered by large, multi-service real estate advisory firms who act only on behalf of the sellers (i.e., land owners). In contrast, land being sold 'off-market' often involves individual brokers or small brokerage businesses who specialise in identifying potential development sites and 'introducing' the opportunity for housebuilders (or promoters if the land is strategic) to negotiate exclusively with a land owner in a relatively non-competitive process. In some cases, such brokers – although their initial contact may be with the land owner – can end up acting for the land buyer.

Conventionally, development land is broadly classified in terms of the expected timescale for development. 'Shovel ready'/market/immediate land is typically development land where operational works could start on site within a short timeframe and there are no significant planning, physical or legal constraints on development. It is typically land with development potential that has planning consent.

In contrast, strategic land is typically development land that does not have planning consent for a change of use etc. Strategic land is an asset which has development potential but requires promotion, management and/or investment in order for the potential to be realised. As well as planning promotion, strategic land may also require significant expenditure on off-site and on-site infrastructure in order to release development potential.

Figures 1-3 illustrate how different participants can play different roles in the different types of transactions for strategic and immediate land.

Whilst more detail is provided below on the land promotion sector, owners of strategic land generally have four main routes having concluded that their land could be suitable for development. Assuming that there is a reasonable possibility of a planning consent, they can sell their land to a land promoter or volume housebuilder. Alternatively, they could opt to promote their land themselves through the planning system and sell the land if and when a consent is obtained. Otherwise, they can partner with a housebuilder through an option agreement.

Under an option agreement, the housebuilder will typically pay the land owner an upfront premium, pay for all the costs associated with promoting the land through the planning system and, if and when a planning consent

Figure 1

Strategic land transactions with a promotion agreement: an idealised model.

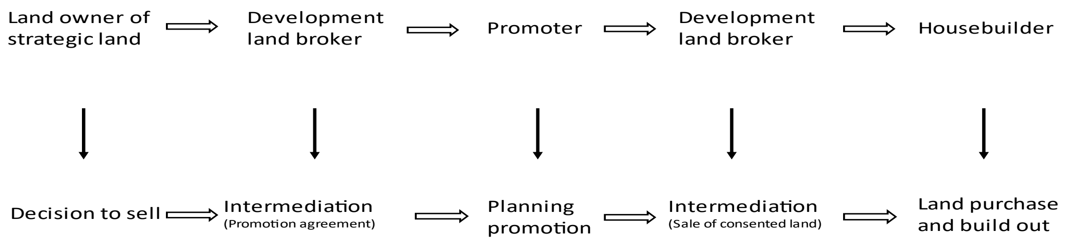


Figure 2

Strategic land transactions with an option agreement: an idealised model.

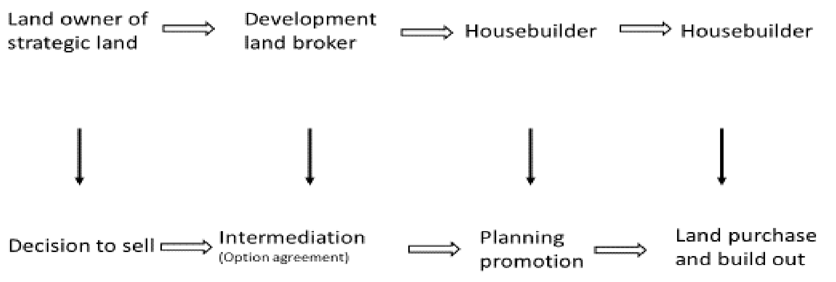
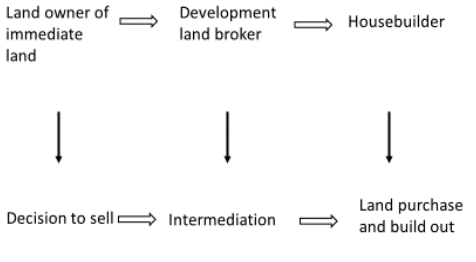


Figure 3

Immediate land transactions: an idealised model.



is obtained, buy the land at a discount to its Market Value. Finally, the land owner could enter into a promotion agreement with a land promoter. The terms of the promotion agreement are similar to an option agreement. The crucial difference is that, in a promotion agreement, the land is sold on the open market (usually to a housebuilder) if and when a planning consent is obtained. At sale, the promoter will receive a proportion of the sale proceeds.

Both promotion and option agreements tend to provide land owners with the ability to avoid potential losses if a planning consent is not granted. Land owners also gain access to the expertise of housebuilders or promoters in negotiating the planning system. The main benefit for housebuilders from option agreements is that they can gain control of potential development land without major capital outlay until a planning consent is secured. For land promoters, the key attraction is a share in potentially large land value uplifts that can be realised when a planning consent is obtained and the land is sold to housebuilders.

7 Have any of the following aspects changed over time? If so, how and why?
a. The role of land promoters and land agents in transactions.
b. The propensity for land promoters and land agents to be used as part of securing planning permission and land transactions.
c. The structure of the market for land promoters and land agents.

Previous research findings on development land brokers

There has been little empirical research focussed on the role and behaviour of development land brokers in the residential land market. Some of the research is now quite old. There have been three qualitative studies based on interview surveys. McNamara (1984) investigated the role of 'intermediate agents' in the residential development process and identified some opportunistic behaviours. The main concern identified was a 'double reward' or 'secondary commission' for land brokers arising from a 'gentleman's agreement' between a house builder and development agent on the sale of the completed dwellings over and above the normal commission obtained from the original land sale. Also drawing upon an interview survey, it was the 'complex networks of agents, developers and land users' in residential land markets identified by McNamara (1984) that was partly the focus of relatively more recent research by Adams et al. (2012). Focussing on relationships, mutual interests and reputation in transactions, they were focussed on the roles of trust, reciprocity, collaboration, complementary interdependence, reputation, communication and an orientation towards mutual gain in professional networks of housebuilders, development land brokers, landowners and local authorities in acquiring land on and off-market.

McAllister (2020) is the most recent study of the role of land brokers in the housing land market and is probably the most relevant to the questions raised in the Statement of Scope. This study found that the sale of housing land was mainly executed by the large multi-service brokerage firms who typically tended to focus on acting for land owners who were selling land 'on-market'. In both commercial real estate asset and land markets, most respondents could not recall a transaction that did not involve a development land broker. The housebuilders generally perceived it as important that they have good relationships with these development land brokers in order to compete effectively for land acquisition opportunities. Unlike investors in commercial real estate assets, most large housebuilders do not use development land brokers to formally act for them when bidding for (and buying) land marketed by large real estate advisory firms.

In line with the findings of Adams et al. (2012), McAllister (2020) also found that housebuilders also sourced sites 'off-market' from their networks of more local and much smaller firms (sometimes sole traders) of specialist introductory agents. However, the study found that the large majority of sites acquired by the volume housebuilders were brokered by 4-5 London-based, multi-national, multi-service, real estate advisory firms (presumably these would include CBRE, JLL, Cushman Wakefield, Savills and Knight Frank).

Exploiting their relationship with the land seller, a number of opportunistic practices by development land brokers were identified in this research. Practices such as securing an instruction to act on sales of completed dwellings as an informal condition of sale seem to have remained firmly embedded in a significant section of the residential land market. It seems unlikely that most landowners are aware that they are sometimes effectively paying for a 'double reward' to their development land broker.

Although it would be only found in off-market sales for relatively small lots, an additional broker effectively providing no service would be brought into some transactions in order to generate an additional fee. This would be engineered by the broker who had originally introduced the land to the buyer but then could not act for both buyer and seller. The 'surplus' broker would share their fee resulting in one of the brokers receiving fees from both the buyer and the seller.

It was also common for buyers to be able to obtain information on other bids after the bid deadline had passed. This would enable buyers getting this information ('the last call') to effectively pre-empt bids from competitors and to identify the minimum bid necessary to win the tender.

It should be noted that it was not possible to robustly assess the prevalence of such practices. Some seem to be uncommon, whereas others appear to be fairly routine. It was concluded in the research that, particularly since the Bribery Act of 2010, the large, listed volume housebuilders had placed increasing importance on compliance and procedures to eliminate unethical practices when acquiring sites. Whilst development land brokers have a degree of market power which they can use to try to secure additional benefits from transactions in addition to their fee, it is doubtful whether such opportunistic behaviours affect the operation of the land market from the perspective of buyers. Brokers' fees are contingent upon transactions taking place and they have strong incentives to maintain good relationships with their clients and to stimulate and support trading activity in the housing land market. When conditions in the housing market are stable, there tend to be very willing buyers, sellers and intermediaries.

Land promoters

Turning to land promoters, in this context land promoters and development land brokers should not necessarily be conflated. Development land brokers are often advising land owners and, similar to volume housebuilders, it is important for land promoters to develop strong relationships with development land brokers in order to compete effectively in the land market. Land promoters rely on development land brokers when acquiring strategic land in similar ways that volume house builders need to. Arguably, one of the reasons for the expansion of land promotion models in the housing land market has been that development land brokers are incentivised to recommend this route to land owners. It is common practice for the land owner's broker to arrange the sale of the land when a consent has been obtained by a promoter in partnership with the land owner– typically for a fee of 1% of the proceeds of the land sale. In contrast, because the land is sold to the option holder, no comparable fee is payable to the land owner's broker when an option agreement is reached with a housebuilder and a consent is obtained.

Previous research findings on land promoters

There is a growing body of research on the expansion and nature of the land promotion model over the last 15 years. Drawing a range of quantitative and qualitative data, the most recent published research in this area summarises existing documented knowledge and presents empirical findings (see McAllister, Shepherd and Wyatt, 2022 and Shepherd, Wyatt and McAllister, 2022). One of the most relevant conclusions from this research is that many participants in the residential land market (increasingly including volume housebuilders) use land promotion agreements as part of their usually wider real estate-focussed businesses. In essence, land promotion can be a subsidiary activity in larger businesses mainly engaged in acquiring and managing real estate investment portfolios, real estate development, construction and/or other non-real estate investment activities. Notably. there does not seem to be any quantitative evidence on the extent of the use of promotion (or option) agreements often central to converting strategic land to market or immediate land.

This means that there are also significant challenges in classifying land promotion businesses. Identifying specialist promoters is not straightforward because many organisations are not 'pure-play' land promoters and are involved in other aspects of the residential land market too, including land acquisition, infrastructure provision, housebuilding and investment. Some companies specialise in specific parts of the development process, for example, builder-developers. Others may be involved in a range of broader real estate investment activities of which development is a relatively minor business stream. For instance, real estate investment trusts manage real estate investment portfolios and may engage in land promotion and development projects as ancillary activities. Some organisations, such as the large, listed housebuilders, tend to engage in the full range of development activities including land promotion (through a combination of option agreements or hybrid option-promotion agreements), infrastructure delivery, house construction, sales and marketing. Thus, whereas nearly all developers engage in land promotion activities, for many it is an ancillary rather than a core business activity.

The extent to which an organisation is, for example, a specialist land promoter, master developer, real estate developer, real estate investor or construction contractor can be a matter of degree. The distinction between master developers and specialist land promoters can be a particularly fine one. Master development, as a standalone activity, has been expanding over the last decade as the enthusiasm of volume housebuilders for undertaking strategic large-site development themselves declined in the aftermath of the GFC (see, CBRE, 2020). Master development tends to be capital-intensive, typically involving the provision of on- and off-site investment in strategic infrastructure for large-scale, long-term, multi-phase development projects. Master developers usually concentrate on large sites which they may own, own part of or control through promotion agreements or joint venture agreements. The output from master development is typically serviced, (partially) de-risked parcels of land with planning permission that are normally sold to housebuilders. Development at scale and the provision of strategic infrastructure are the main differentiators between master developers and specialist land promoters.

Apparently small land promotion businesses can have close relationships with major global investment institutions. For instance, Catesby Estates, one of the largest specialist land promotion companies, is a subsidiary of a large, (previously listed) master development company, Urban & Civic, which is, in turn, now owned by The Wellcome Trust (an independent foundation with a multi-billion-pound endowment fund invested across numerous asset classes). Axis Land is a comparatively small subsidiary company in the McAlpine Group (a large construction and civil engineering company). Hallam Land Management are a significant part of the Henry Boot PLC Group who also have contracting, real estate investment and housebuilding arms. St Congar partner with major pan-European real estate investment organisations such as Europa Capital (themselves owned by Mitsubishi Estates) and Patrizia (themselves owned by the investment bank First Capital Partner). Another land promotion company - Lands Improvement - is part of the Telereal Trillium Group (the largest private property company in the UK).

Possibly one of the most significant transactions for this sector was the acquisition by Barratt Developments PLC of Gladman Developments Limited in 2022. Until then Gladman were comfortably the largest independent land promotion company in the UK. In the three years before March 2019, Gladman sold an annual average of 4,156 plots for their partners (usually land owners). Given that they have been acquired by a volume housebuilder, the question then emerges of whether they should be classified as a land promoter or a volume house builder. Choices in classification of firms are then crucial to estimating the relative importance of the specialist land promotion sector. Similar issues are raised by the purchase of Wallace Land Investments by one of the large private housebuilders (Miller Homes) in 2021 where the main motive for Miller Homes (now owned by Apollo Global Management – an US global private equity firm) seems to have been to acquire the strategic land portfolio.

Turning to the evolution of the sector, Shepherd, McAllister and Wyatt (2022) concluded that, although land promotion as an activity existed in some form for several decades before the Global Financial Crisis (GFC), the GFC has been a significant stimulus to the growth and maturation of the specialist land promotion sector. The temporary withdrawal of housebuilders from the strategic land market as they sought to rebuild their balance sheets following short-term but severe effects of the GFC meant that an opportunity emerged for market entry and/or expansion. This was reinforced by various planning policy changes – particularly an increased emphasis on five year land supply. Redundancies in the housebuilding and planning consultancy sectors also created a pool of land market professionals who identified potential business opportunities based on exploiting specialist knowledge of the planning system to increase the financial value of potential development sites, largely in greenfield locations.

The creation and subsequent expansion of the Land Promoters and Developers Federation as an association since 2018 reflects the maturing of a sector that has felt the need to raise awareness of its role, provide resources to members and offer a collective voice to government on policy matters. As the housebuilding sector has recovered from the GFC and the planning environment has evolved, conditions that fuelled the expansion of the land promotion sector have also changed. However, the land promotion model seems to be now well-established in the strategic housing land market. Planning risk remains high for landowners and very large increases in land value can be realised following a planning consent.

The available evidence on the business models of *specialist* land promotion businesses suggests that there is quite a lot of variation. In the survey conducted by Shepherd, McAllister and Wyatt (2022), most of the promoters interviewed were specialists in that they did not have any significant other areas of business. They were either post-GFC start-ups or, more commonly, established but relatively small real estate development businesses that had decided to focus on land promotion. Several were subsidiaries of larger organisations (in some cases with expertise in engineering and construction) and several were owned or funded by private equity companies. Rather than just focus on the promotion of third parties' land, some acquire land outright, promote it and sometimes provide enabling infrastructure too. Some act as master developers on large sites. However, for many of the firms interviewed, land acquisition and infrastructure provision were incidental rather than core activities.

Turning to its relative importance, McAllister, Shepherd and Wyatt (2022) focussed on the size of the *specialist* land promotion sector in the strategic land market in the UK by classifying them separately to other business where land promotion was an ancillary activity. Using one year of Glenigan data (June 2018 – June 2019), the research found that in this period, of a total of 453,277 units granted outline consent on strategic sites of 100 units or more in the sample, organisations defined as specialist land promoters accounted for a small proportion - just under 2% (8,275 units). Gladman alone would have represented a significant proportion of this total.

The research also found that housebuilders were not dominant players in the strategic land market during the snapshot year, accounting for 35% of plots granted outline consent in sites with over 100 units in this period. Therefore, however one classifies land promoters, it is worth re-iterating that there are a diverse range of organisations active in the strategic land market in England who partner with owners of strategic land or buy strategic land to promote it with the intention of selling consented development land to housebuilders. However, many of these firms would not classify themselves as specialist land promoters and usually land promotion is a relatively minor component of their wider business activities.

Land promoters' expected impacts on competition in the land market

Whilst there have been a range of claims and counterclaims about the impacts of the use of land promotion agreements in the housing land market, there are good reasons to expect that the expansion of the sector has had positive effects in the land market from a competition perspective. Land owners have increased competition and choice when seeking partners to whom they can transfer planning risk, and access capital and specialist knowledge. Land promoters (specialist or otherwise) are generally incentivised to promote sites and secure consent quickly, and then dispose of so-called 'oven-ready' sites to housebuilders in order to recoup their costs. The presence of additional market participants should then reduce the market power of the volume housebuilders in the residential land market and improve the resilience of the housing land market to external shocks that may reduce house builders' investment in promoting potential housing sites. Increasing numbers of market participants should also ensure that more land is brought forward for development as the search process becomes more intensive. Finally, for larger sites, promoters are able to sell several parcels of developable land to several housebuilders and increase the build out rate and variety of product. This would be expected to counteract potential operational capacity and/or market demand constraints that may affect large sites being developed by a single housebuilder.

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?

As discussed above, the key participants in the markets for 'strategic' and 'immediate' housing land mainly consist of owners, specialist and non-specialist land developers, builder developers and development land brokers. Each of these groups seems to be quite diverse in the terms of the scope and scale of their involvement in land markets. However, it is likely that a common issue for all is that land acquisition is a relatively costly and competitive process. Whatever their size, most land buying organisations have to find, evaluate and compete for development sites. Anecdotally, for many residential development organisations, unsuccessful offers can outnumber successful offers for development sites by a factor of 10, 20 or 30.

Possibly the most notable aspect of the operation of the housing land market is the lack of transparency compared to the market for commercial real estate assets or the housing market more generally. Development land brokers are central to the search and matching services for buyers and sellers and they provide advice and information to most land sellers and buyers to support evaluation, price negotiation and transaction management. Transaction times in land acquisition/disposal are protracted owing to the need to market assets to potential buyers, reach price agreement and conduct detailed evaluation of complex, unique assets, as well as to execute the legal formalities for exchange of ownership.

Information needs in land transactions are diverse. Transaction formation and execution require a large volume of information concerning the physical, legal and regulatory attributes of sites as well as local market conditions. Some of these direct transaction costs are incorporated into standard assumptions about transaction fees. For instance, in the UK typically transaction fees of 1.5%-1.75% of the transaction price represent broker's fees, legal costs of due diligence procedures and additional costs of additional surveys and reports. Gathering and assessing this information in advance of purchase is essentially part of risk management in the development process. Lowering the cost of gathering information and improving its quality should be expected to increase the productivity of the house building sector, reduce risk in the development process and enhance the efficiency of the land market. Albeit, some of the benefits of any marginal gains in productivity in land acquisition are likely to be passed on to land owners in the form of higher land bids.

Exploiting advances in digital technologies and increasing data availability, data intermediaries such as Landtech and REalyse have emerged in the last decade attempting to build businesses that enable developers to identify and evaluate development opportunities at less cost and more quickly compared to previous practices. Whilst there has been movement by central government to 'free' land and other geospatial data, a combination of technical barriers, poor quality data in some situations, dispersed data control and ownership, inertia and vested interests are likely to impede progress. However, it is also clear that the direction of travel in 'freeing data' and creating applications and services is positive. The government policy agenda is to improve data infrastructure, platforms and applications in the land market.

The questions raised in this consultation highlight the relative opacity of the housing land market. In particular, little is currently known about the extent of, albeit often time limited, control of potential housing land by developers or promoters through option and promotion agreements. Whilst information on transactions is available from the Land Registry, it has proved difficult for policy makers and market participants to identify development land transactions – especially where sites are sold and divided into parcels. There is a significant scope for improvements in data concerning trading and pricing of development land and land that is subject to option or promotion agreements. Better data availability should help to improve our understanding of the scale and nature of the housing land market in terms of participants, prices and activity. The outputs would be of particular interest to policymakers, planning authorities, landowners, house builders, land promoters, master developers, professional advisory firms and the wider public.

20. What factors influence the size of land banks held by developers?

21. Have any of the following aspects changed significantly over time? If so, how and why?

a. The concentration of housebuilding at local level, in particular whether concentration is high in specific local areas.
b. The size of land banks held by developers and differences between developers in this respect.
c. The rate at which new properties are built-out.
d. The propensity for land with planning permission not to be built-out.

Background

Acquiring and holding an appropriate inventory of development land are crucial, sometimes complex and often risky processes for residential developers. It is perhaps worth pointing out that, since the advent of the planning system in 1947, there have been numerous investigations of the operations of housebuilders in the land market. Much of this scrutiny has focussed on a longstanding suspicion of market manipulation through land hoarding. In 1947, the Lewis Silkin, then Minister for Town and Country Planning justified a development charge on land value uplifts arising from planning consent in the following terms;

> "…the reputable builder does not normally look for his profits to the sale of land. He expects to make a profit out of his building operations…In so far as he does look to making his profits out of the sale of land, this is a practice which I regard as undesirable,"

White (1988) identified the popular perception during the early 1970s boom/bust period that the volume housebuilders made windfall gains from rising land prices through (alleged) speculative hoarding. In 1974, it was pointed out in the Investors Chronicle that,

> "Despite appearances, housebuilding is only partially the business of putting up houses. The houses are the socially acceptable side of making profits out of land appreciation. In extreme cases...no houses were built at all and the profit was taken in the disposal of land bought at much lower cost". (Investors Chronicle, 8 January 1974).

In this prevailing context, in 1978 the Department of the Environment commissioned and published a research report on unimplemented planning consents that found no evidence to support oligopolistic behaviour by housebuilders in the land market.

The increasing consolidation of the housebuilding sector and growing controversy about the land market stimulated a body of academic research on these issues (see Rydin, 1984; Smyth, 1982; Ball and Cullen, 1980). Rydin (1984) identified the dual role of land banks in meeting the "production interests" of volume housebuilders as well as generating "financial interests in land". However, following the publication of the Barker and Callcutt reviews in 2004 and 2007 respectively, an investigation by the Office of Fair Trading (2008) largely confirmed the broad findings of the Barker's and Callcutt's reviews.

The OFT report in 2008 concluded that there was little evidence of competition problems in the housebuilding sector or persistent or widespread market power. It found that barriers to market entry seemed to be low concluding that so-called 'land banking' reflected the need for firms to have a pipeline of land. Nevertheless, possibly fuelled by the LGA's periodic claims over the last decade about unimplemented planning consents and the HBF's periodic forceful rebuttals, the land banking issue has remained controversial. Whilst the Letwin review in 2018 also found little evidence of market power by the large housebuilders, in November 2022 Michael Gove wrote to the Competition and Markets Authority urging them to consider another study into the housebuilding sector.

Some empirical evidence on the land holdings of the volume housebuilders

Whilst the empirical focus here is on the land banks held by the listed housebuilders, it needs to be borne in mind that focussing on the largest seven *listed* housebuilders may omit some quite significant companies also operating at a national scale who between them complete around 20,000 dwellings per annum. Outside of the seven leading listed housebuilders, there are also several housebuilders producing significant numbers of new dwellings. For instance, although Crest Nicholson seem quite small in comparison to Redrow or the Berkeley Group with a market capitalisation of c£0.53 billion (as of March 2023) and 700 employees, they have consistently built between 2,000 and 3,000 units per annum. Although there has been a decrease in the last few years, in 2019 and 2020 almost 50% of Crest Nicholson's completions were 'bulk sales' to housing associations and PRS investors.

Both Miller Homes and CALA Homes were 'taken private' by Bridgepoint (a private equity company) and Legal and General (an investment management company) in 2017 and 2018, respectively. Miller Homes completed 3,849 units in 2021 with CALA Homes completing 2,904. With 12,057 and 20,673 plots in their respective short-term land banks, both have substantial land holdings. The Hill Group, a family-owned firm, completed 2,318 units in 2021 and, apart from during the pandemic in 2020, another family company, Bloor Homes, have consistently built over 3,500 homes per year for the last five years. Albeit data on completions is not stated in the annual report, Avant Homes, another privately owned company, seems to complete approximately 2,000 units per annum. Including these mainly privately owned housebuilding companies could add another 20,000 dwellings to the c76,000 completed by the leading seven listed housebuilders in 2022.

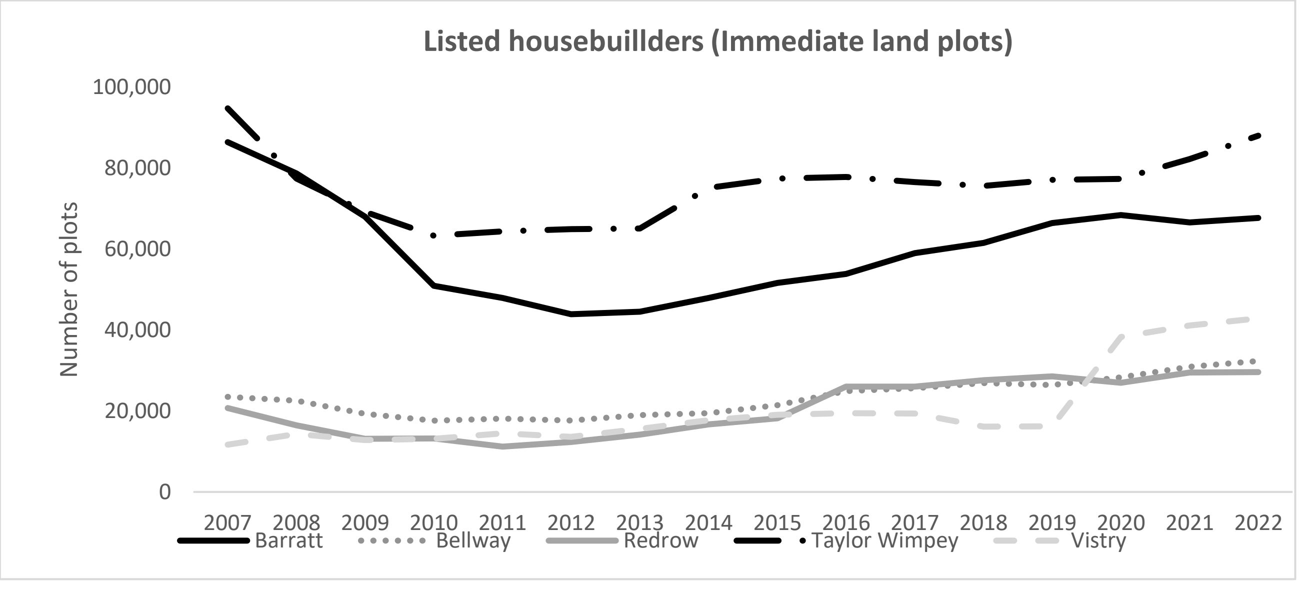
Anecdotally, the commercialisation of the housing association sector seems to have increased competition in the housing land market as registered providers shift towards the development of market housing for sale. Whilst the focus here is not on affordable housing, as they have become increasingly commercialised, the large housing associations have also emerged as suppliers of private housing. For instance, the L&Q Group completed 4,157 units in 2021 of which 1,625 were for market sale. They also had 15,904 residential land plots with either full planning permission or resolution to grant as of end of March 2022. *Inside Housing* report that, for the top 50 largest housing associations, nearly half of completions in 2020/1 were Low Cost Home Ownership (30.8%), market sale (16.7%) and PRS (2.5%). Whilst 34,753 homes were completed in 2020/21, compared to 40,681 in 2019/20, it needs to be borne in mind that around 40% of the 'completions' were actually purchases from private housebuilders as part of s106 agreements (s75 agreements in Scotland).

The unlisted residential developers discussed above will have land banks that are comparable in relative terms to the listed housebuilders. For instance, following its acquisition of Wallace Land Investments in 2021, CALA had 20,673 plots in their short-term land bank and 12,109 plots classified as strategic land. However, the reporting of these landbanks by the private housebuilders has been less consistent than the listed sector. The listed housebuilders normally provide data on their landbanks in their annual reports. This is usually expressed in terms of number of plots, number of years' supply at the current completions rate and estimated value of the land holdings (reported at the lower of net realisable value or cost).

However, it is notable that Persimmon and the Berkeley Group do not distinguish between 'immediate' and 'strategic land. In addition, definitions about the short-term landbank and strategic landbank are not always consistent with a range of categories used by different housebuilders – with detailed planning permission, outline consent, resolution to grant, owned, controlled, under conditional contract etc. In addition to the issue of Persimmon and Berkeley Group's lack of clear distinction between immediate and strategic land, the data on *strategic* land holdings for all companies tends to have been reported much less consistently over time.

Turning to the data on inventories of immediate land for the various listed housebuilders, Figure 4 presents the number of immediate land plots excluding Persimmon and the Berkeley Group.

Figure 4



There is little evidence here to suggest that the volume house builders have been significantly increasing the size of their land holdings in the last fifteen years. Broadly, in terms of holdings of plots of immediate land, in absolute terms four of the five listed housebuilders decreased their land inventory in the period following the GFC. Barratt, in particular, almost halved their immediate land holdings between 2007 and 2012. As the housebuilders themselves and the housing market recovered from the GFC, both their completions and landbanks have expanded. However, both Barratt and Taylor Wimpey have not reached the levels of land inventory reached in 2007. Vistry had a sharp increase in the size of their land bank quite recently as the merger of Bovis, Linden Homes and Countryside Partnerships increased their total capacity sharply after 2019.

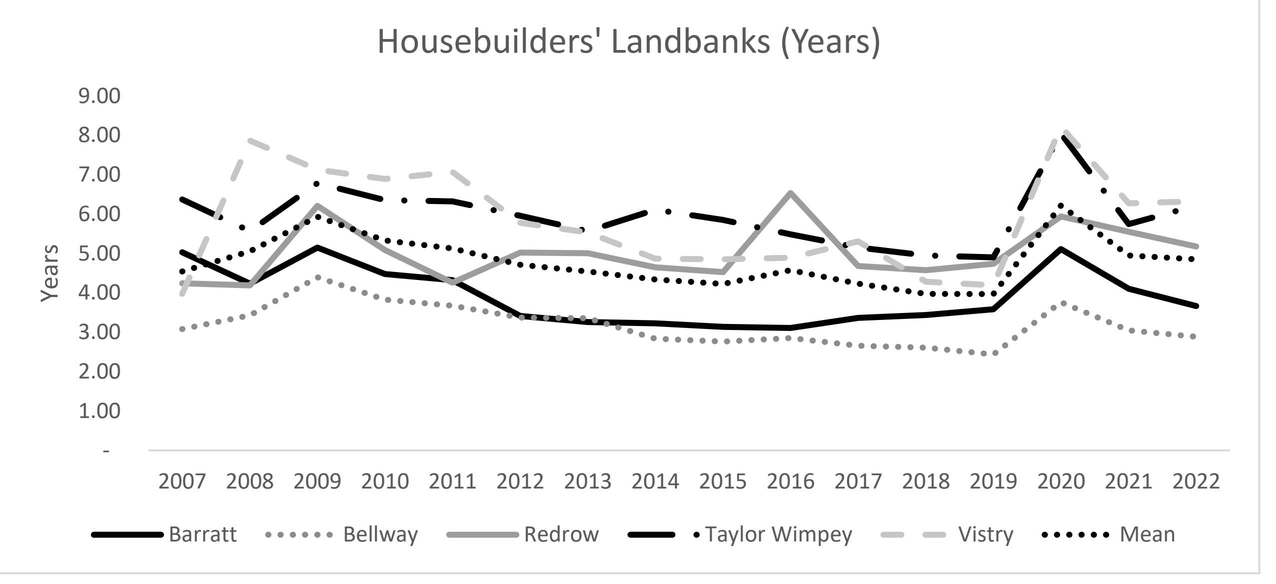
Persimmon followed a broadly similar pattern to Barratt and Taylor Wimpey. Persimmon's land holdings fell from c82,000 plots in 2007 to c62,000 plots in 2011. They then climbed steadily to over 100,000 in 2018 declining to c89,000 in 2022. A notable outlier here is the Berkeley Group. Whilst their land holdings decreased from c30,000 units in 2007 to c24,000 units by 2014, there has been a dramatic expansion since then to over 66,000 units in 2022. This has not been accompanied by any comparable increase in completions. The Berkeley Group reported 3,742 completions in 2014 compared to 4,632 in 2022. This shift seems to have been caused by the acquisition of National Grid's 50% share of the St William joint venture.

Figure 5 illustrates the ratio of completions to plots of immediate land in a specific year. It is worth noting that spikes in the ratios can be caused by relatively short-term drops in completions as well as short-term increases in the land bank. This is illustrated in 2020 when the fall in completions due to the pandemic led to an increase in the ratio of plots in the land inventory to completions. A similar fall in completions relative to the fall in land holdings to increases in the ratio of land plot holdings to completions led following the GFC in 2008-9.

The pattern is broadly consistent with the data on number of plots. On average, for this metric there has been little change in the size of the immediate land holdings over the last 15 years. In 2007, the average land inventory was 4.54 years of completions. This had increased marginally to 4.86 years in 2023.

There is significant variation between the housebuilders. For instance, Bellway have tended to have the smallest land holdings on this metric. Although their land bank has been increasing significantly, their completions have also been increasing significantly. In 2007, Bellway held 3.08 plots of immediate land for every completion. In 2022, the comparable figure was 2.89. In contrast, in the last decade Taylor Wimpey have maintained a much larger inventory of immediate land. With the exception of 2022, their land holdings tended to hover around five years supply between 2012 and 2022. Barratt Developments, arguably a good comparator for Taylor Wimpey,

Figure 5



had an immediate land bank that rarely exceeded 3.5 years of supply in the last decade and was 3.67 years in 2022. There is significant variation between the housebuilders. For instance, Bellway have tended to have the smallest land holdings on this metric. Although their land bank has been increasing significantly, their completions have also been increasing significantly. In 2007, Bellway held 3.08 plots of immediate land for every completion. In 2022, the comparable figure was 2.89.

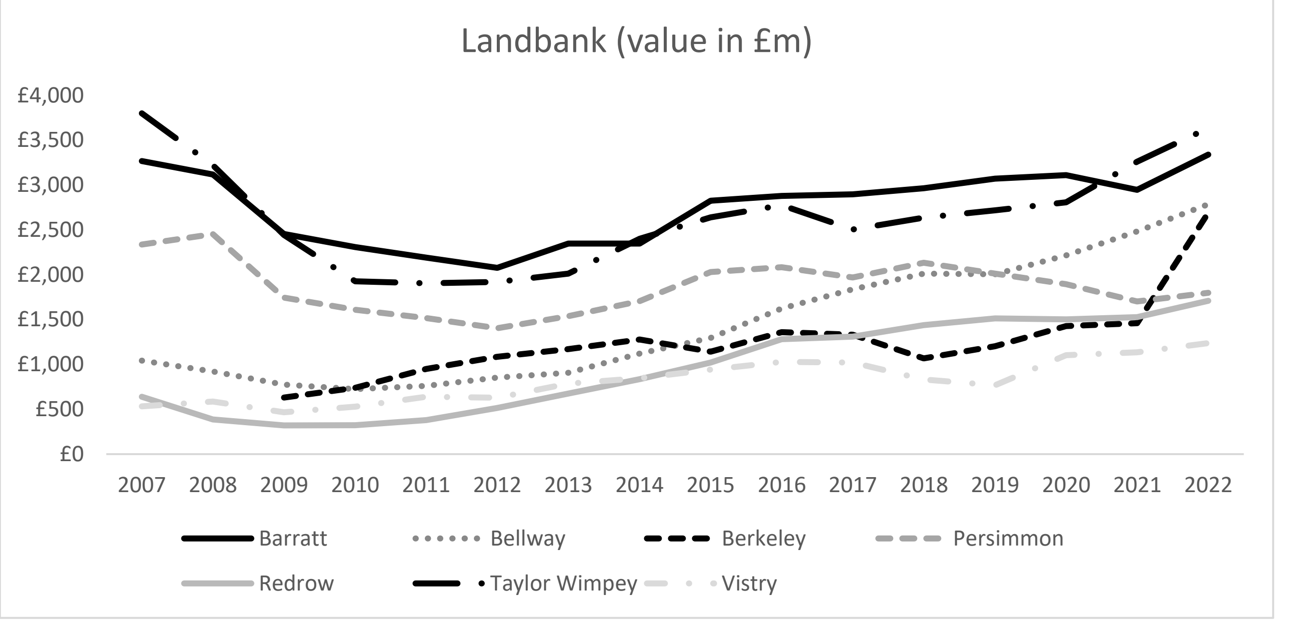
Given their bundling of both immediate and strategic land, the data for Persimmon and the Berkeley Group are not really comparable with the other five large listed housebuilders. Persimmon's reported plot holdings have stayed fairly stable in the last decade with the ratio of plot holdings rarely deviating far from around six years' of completions. Again, the Berkeley Group seem to be an outlier holding total units representing over 14 years' supply in 2022 increasing from 6.42 years in 2014. There are also notable differences in the values of their land portfolios over the last fifteen years.

Figure 6 illustrates the value of the total land inventories of the largest seven listed housebuilders. Both owned strategic and immediate land holdings are included. It is also worth noting that a substantial proportion of the land inventory will be the land component of dwellings which are under construction. As noted earlier, the value of the land holdings is reported at the lower of cost or net realisable value. This will mean that there may be a downward bias in the figures. However, it is notable that the Knight Frank Residential Development Land Price index reports around 12% growth in English Greenfield land values from 2012 until 2022. This is broadly consistent with Savills' Residential Development Land Index. If these indexes are reliable, it has almost certainly not been the case that, outside of central London, housebuilders holding large land banks would have benefitted from growth in land values in the last decade.

The three largest listed housebuilders in terms of annual completions have seen little change or falls in the values of their land inventory over the whole period. Following the sharp falls in values and holdings after the GFC, excluding Persimmon, there has been a steady increase since 2012. In 2022, the value of the land inventory of Barratt Developments had marginally exceeded its level in 2007. The value of Taylor Wimpey's land inventory in 2022 is slightly below the comparable figure for 2007. In contrast, the value of Persimmon's land inventory is 23% lower than it was in 2007 and has declined since 2018.

The main growth in the value of land inventories has occurred in the smaller listed housebuilders. As Bellway have nearly doubled their completions since 2012, the value of the land inventory has grown from £0.85 billion in 2012 to £2.8 billion in 2022 and was significantly higher than Persimmon's (£1.8 billion in 2022) land inventory. Similarly, at £2.7 billion in 2022, with substantially fewer completions, the value of Berkeley Group's land inventory also comfortably exceeds the value of Persimmon's.

Figure 6



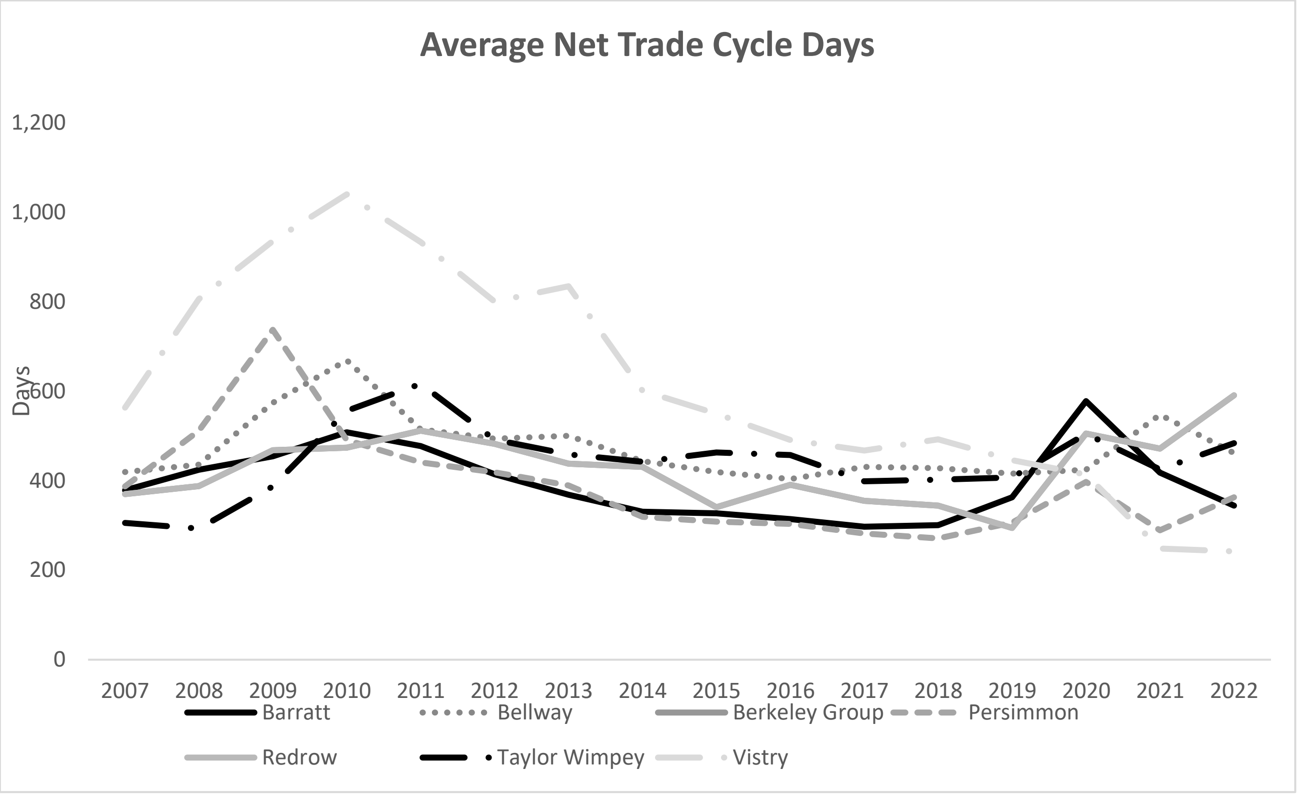
Another potentially useful piece of evidence on the rate at which capital invested in land is deployed by the housebuilders is the Average Net Trade Cycle Days. Closely related to the cash conversion cycle, the net trade cycle measures the number of days that it takes for cash to go through the trade cycle before it is returned as cash again. In order to improve the net trade cycle and thereby the working capital, a company should maximise payment periods and minimise days that assets are held as inventory. Optimising the net trade cycle generally means that the number of the days within the cycle should be decreased. In this context, given that the main inventory of the housebuilders is land, this metric provides an indicator of the extent to which capital is tied up in undeveloped or partially developed land.

Figure 7 illustrates the trends in Average Net Trade Cycle Days (ANTCD) over the last 15 years. Vistry exhibits an odd pattern, given the various mergers and the absence of better information, it is probably best viewed as an anomaly or abnormality. The period of time taken to recover invested capital increased following the GFC. In 2007, the mean ANTCD for the seven listed housebuilders was 372 and peaked at 529 in 2010. It did not get close to the levels achieved relatively soon after the GFC until 2020 when it was 486 days as the effect of the pandemic on the housebuilders was to reduce their completion rates and, consequently, their ability to recover invested cash.

Apart from Vistry, differences between the companies can be observed. Over the whole period, Barratt and Persimmon have had the shortest ANTCD with means of 394 and 388 days respectively. For Barratt, this is consistent with the relatively small size of their land banks when measures in terms of years' supply of plots of immediate land. It is also consistent with the small size of Persimmon's land holdings in terms of their value. In contrast, Taylor Wimpey tended to have the largest land banks as measured in relative terms (years' supply of plots of immediate land, value of their land holdings and number of plots). After Vistry, the mean of ANTCD is higher at 443 days.

Apart from Vistry, Bellway have had the highest ANTCD with a mean of 474. In the period 2007 to 2019, their ANTCD was consistently above the average for the sector. At the same time, their land holdings as measured in years' supply of plots in immediate land has been much lower than the other listed housebuilders.

Figure 7



This suggests that a relatively small land inventory in a company experiencing comparatively high growth in completions may not necessarily experience quick return of capital invested.

Overall, for the three largest housebuilders (in terms of completions), there is little evidence of any significant changes in their land inventories since the OFT report in 2008 that would suggest a major change in their market power in the housing land market. In relative terms, both Persimmon and Barratt have less capital tied up in their land holdings compared to Taylor Wimpey. The differences between the strategies towards land inventories among the large, listed housebuilders are indeed notable. In contrast to the three largest housebuilders (as measured by completions), the most significant changes have been in the smaller listed housebuilders (Redrow, Bellway and Vistry). As their numbers of completions have grown since 2007, their land inventories have also expanded. For Vistry, this has occurred through acquisition of smaller housebuilders. For Bellway, the growth in its land inventory is in line with the growth in its completions. It is difficult to explain why Taylor Wimpey tend to have nearly twice as many plots of immediate land per completion compared to Bellway. The Berkeley Group, the largest listed housebuilder in terms of market capitalisation, stated in their annual report that there operating model is "land-led". However, their relatively high focus on large, long-term regeneration sites in brownfield sites also differentiates them from the other volume house builders.

Recent trends in the land inventories of US volume housebuilders

Finally, there is evidence from the US that housebuilders increasingly perceive the inventory risks associated with tying up capital in their land holdings as a drag on their financial performance. In the US, there seems to be a shift by the largest volume housebuilders towards, what are termed, 'land light' or 'asset light' strategies. Having sold 81,965 dwellings in 2021 accounting for c10% of total completions in the US, DR Horton owned 127,800 land lots representing 1.6 years of land required at current sales rates. In 2013, the equivalent figure was 5.2 years of land required at current sales rates plots. In contrast, in 2021 DR Horton *controlled* 402,400 plots. DR Horton set out the risks of their land inventory which is worth quoting at length in this context.

> "Inventory risks are substantial for our…businesses. There are risks inherent in controlling, owning and developing land. If housing demand declines, we may not be able to build, sell and rent homes profitably in some of our communities, and we may not be able to fully recover the costs of some of the land and lots

> we own. Also, the values of our owned undeveloped land, lots and inventories may fluctuate significantly due to changes in market conditions. As a result, our deposits for lots controlled through purchase contracts may be put at risk, we may have to sell or rent homes or land for a lower profit margin or record inventory impairment charges on our land and lots. A significant deterioration in economic or homebuilding industry conditions may result in substantial inventory impairment charges."

Echoing Barratt's acquisition of Gladman Land and Miller Homes' acquisition of Wallace Land Investments, in 2018 DR Horton acquired Forestar, a publicly traded master development company with operations in 56 markets across 23 states. The rationale seems clear given that, of the 15,915 lots that Forestar sold in 2021, 14,839 were sold to DR Horton.

This pivot towards 'land light' operating models by the US leading volume housebuilders (e.g., DR Horton and Lennar) has been facilitated by and, in turn, stimulated the growth of new intermediaries in the housing land market known as lot bankers. This relatively new kind of participant in the housing land market has emerged to supply the demand from US volume housebuilders for, what could be characterised as, 'just-in-time' delivery of serviced development lots or parcels to major housebuilders. Following payment of an option premium, housebuilders receive options to purchase serviced plots from lot bankers at fixed prices and fixed dates.

Concluding remarks

The analysis presented above is quite narrow reflecting to some extent the questions proposed in the Statement of Scope as well as the limitations of the author. The discussion has identified a number of significant changes that have occurred in the last fifteen years in the operation of the housing land market. The large real estate advisory firms seem to have significantly increased their market share and now dominate the brokerage of land sales on behalf of land owners. However, it is difficult to identify any significant impacts upon prices and liquidity. Digitalisation generally, the emergence of new development land-focussed data intermediaries and much improved availability of government data have lowered search costs and increased the transparency of the housing land market to some degree. The growth of specialist and non-specialist land promotion firms has provided an alternative route for land owners to reduce the costs and risks of negotiating a relatively complex planning system. At the same time, there is little evidence to suggest that the large, volume housebuilders have significantly changed their approach to land holdings. There seems to be significant variation in their land portfolios/inventories and it is challenging to disentangle a clear signal from so much noise in the land strategies of the listed house builders.

However, there may be a number of important questions that have remained unasked in the Statement of Scope – and unanswered. The ability of the large housebuilders to obtain high profits margins has been fairly widely commented upon. The apparent absence of significant growth in housing land prices on greenfield sites in the context of average UK new houses prices growing from £198,148 on 1/1/2012 to £356,165 on 1/1/2022 (+78%) suggests that the consequent revenue growth from housing development is being captured by either increased build costs, more planning obligations or increased housebuilder profits. At the beginning of 2012, the cash holdings of the largest seven listed housebuilders were £365 million. The previous peak was £929 million in 2005. Having reduced their debt ratios over the same period, by the beginning of 2022, the cash holdings of the seven large, listed housebuilders had increased to nearly almost sixfold to nearly £6 billion.

Taking a broader perspective, the last decade has seen a number of significant trends in the residential development sector that are consistent with changing composition and significant institutional change. The structure of the listed volume house building sector seems to have remained fairly stable over the last fifteen years with quite limited merger activity. However, at the same time, the ongoing decline in the contribution of the SME sector shows that there has been some market transformation. As the culture of registered providers have become more commercial, it is possible that they will continue to increasingly compete as well as collaborate with volume housebuilders. The rapid expansion of the Build to Rent sector in the last decade, with UK housebuilders accounting for a relatively small proportion (29%) of actual deliveries in the BTR sector, suggests that there will be more diversity of developers and possibly increased institutionalisation in the development of and investment in residential property (see Savills, 2021 for an overview of recent trends in the Build to Rent sector). Such institutionalisation is certainly observable in the land promotion sector.

Institutionalisation has also been occurring in the affordable housing sector as private capital has shifted to alternative asset classes (see Colley and Fear, 2021). The private ownership of Miller Homes and CALA by Apollo Funds and Legal and General Capital illustrates the potential for major change in the ownership of the volume housebuilders and for them to be taken private by global investing institutions.

Finally, a potentially important signal of perceptions about the market power of the volume housebuilders is their share price performance. It is perhaps worth noting that the recent performance of the share prices of the listed housebuilders has been relatively poor. Since 1 April 2021, on average their shares prices have fallen by 38% (as of 20 March 2023). In contrast, the comparative figures for the FTSE 100 and FTSE 250 indices are +9% and -15% respectively. Whilst explaining the relatively poor performance of volume house builders certainly has its challenges, it seems that the voting and weighing machines of the stock market are not confident in the abilities of the volume housebuilders to complete and sell at current cost and price levels over which, implicitly, they have quite limited control.

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