

CMA Housebuilding Market Study
Taylor Wimpey PLC's Response to Statement of Scope Consultation

1. Introduction

- 1.1 Taylor Wimpey PLC (“TW”) welcomes the Competition and Markets 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 This submission sets out TW’s initial comments on the Statement of Scope, including how we view the Market Study at this early stage. TW is committed to supporting the CMA in its work and looks forward to engaging constructively with the CMA throughout the process.

2. Introduction to TW¹

- 2.1 TW is a national homebuilder headquartered in High Wycombe and operating at a local level from 22 regional offices across England, Scotland and Wales that each build between ~[redacted] and ~[redacted] homes per year.² TW builds and sells a wide range of homes in the UK from apartments to six-bedroom houses.
- 2.2 TW (excluding joint ventures) completed 13,551 new homes in the UK in 2022, at an average selling price (“ASP”) of £313,000.³ Total TW Group completions including joint ventures were 14,154.⁴ Approximately 21% of TW’s UK completions were affordable homes⁵ (2,920 homes with an ASP of £166,000⁶) built by TW and delivered to registered affordable housing providers (in accordance with Section 106 of the Town and Country Planning Act 1990 (in England and Wales) and Section 75 of the Town and Country Planning (Scotland) Act 1997) (in Scotland)).

¹ References to TW’s UK activities in this submission will, generally speaking, refer to an activity carried out by TW’s UK business, Taylor Wimpey UK.

² TW’s geographic spread of operations across the UK is structured into five divisions as follows: (A) Scotland, North East and North Yorkshire Division: East Scotland, West Scotland, North East and North Yorkshire; (B) North West and Yorkshire Division: North West, Yorkshire and Manchester; (C) Midlands and Wales Division: Midlands, North Midlands, West Midlands, East Midlands and South Wales; (D) Central and South West Division: Bristol, Exeter, East Anglia, Southern Counties, and South Midlands; (E) London and South East Division: North Thames, South Thames, West London, South East, and London. TW does not sell houses in Northern Ireland.

³ This figure excludes joint ventures. See Taylor Wimpey plc, Annual Report and Accounts 2022 (“TW ARA 2022”), page 46, available at: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports> (last accessed on 22 March 2023) and Taylor Wimpey plc, “Full Year Results Presentation for the year ended 31 December 2022”, 2 March 2023, page 9, available here: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing,and%20investors%20on%20the%20day> (last accessed on 17 March 2023).

⁴ This includes joint ventures and properties completed in Spain. See TW ARA 2022, page 4.

⁵ See TW ARA 2022, page 5.

⁶ NB: this is the ASP for TW-built affordable homes (excluding the joint ventures TW participated in). See Taylor Wimpey plc, “Full Year Results Presentation for the year ended 31 December 2022”, 2 March 2023, page 45, available here: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing,and%20investors%20on%20the%20day> (last accessed on 17 March 2023).

- 2.3 TW has a clear purpose: to build high-quality homes, deliver excellent customer service (as evidenced by being a five-star builder),⁷ and create thriving communities. As a responsible developer, TW is committed to working with local people and making a positive contribution to the communities in which TW operates. TW has strong and long-standing relationships with charity partnerships, and in 2022 TW donated and fundraised c. £1 million for registered charities (including The Youth Adventure Trust, End Youth Homelessness, Crisis, CRASH, and St Mungo's).⁸
- 2.4 In addition, over the last five years TW has contributed over £2 billion via planning obligations to the local communities which TW builds across the UK,⁹ at an average of over £410 million per year, which funded a range of infrastructure and facilities including affordable housing, green space, community, commercial and leisure facilities, transport infrastructure, heritage buildings and public art, as well as public and community transport, walkways and cycle paths.¹⁰ TW is committed to operating responsibly and delivering value for all its stakeholders.¹¹
- 2.5 As outlined in its Investor and Analyst Update on 25 May 2022¹² and as further explained in TW's ARA 2022, TW's key priorities going forward include:¹³
- (A) Land: TW will continue its focus on progressing land, including strategic land, through the planning system to open new, quality outlets, while closely monitoring conditions in the land market for any opportunities. TW has a strong incentive to develop and sell homes as quickly and efficiently as possible.¹⁴ As at 31 December 2022, TW was building (or was due to start building in H1 2023) on 99% of sites¹⁵ with implementable planning permission (this is the final stage of planning permission prior to the commencement of work and includes the negotiating and satisfying of all pre-commencement planning conditions).
- (B) Operational Excellence: TW will continue to improve efficiency in its business, protect value, and ensure that TW is fit for the future. This will be achieved by maintaining

⁷ TW has received five stars (the maximum) for customer satisfaction. See "HBF Five Star Award", available at: <https://www.taylorwimpey.co.uk/why-choose-us/hbf-five-star-award> (last accessed on 24 March 2023).

⁸ See TW ARA 2022, page 43.

⁹ See published figures in the previous five TW Annual Reports, showing that TW made contributions of £455m (2022), £418m (2021), £287m (2020), £447m (2019) and £455m (2018).

¹⁰ See TW ARA 2022, page 51.

¹¹ See TW ARA 2022, page 5.

¹² See Taylor Wimpey plc, "Building a stronger and more resilient business", 25 May 2022, page 17, available at: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports> (last accessed on 22 March 2023).

¹³ See TW ARA 2022, page 21 *et seq.*

¹⁴ Housebuilding is a capital-intensive business and TW's share price is driven by its return on capital employed ("ROCE"). TW can only recoup its investment and recycle capital by building and selling homes.

¹⁵ See Taylor Wimpey plc, "Full Year Results Presentation for the year ended 31 December 2022", 2 March 2023, page 45, available here: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing.and%20investors%20on%20the%20day> (last accessed on 17 March 2023).

TW's high Construction Quality Review¹⁶ scores and by modernising construction methods and build innovation, including by expanding TW's use of timber frame.

- (C) Sustainability: TW will continue to advance its environment strategy with ambitious targets in climate, nature and waste. In order to achieve its Net Zero Transition Plan and Zero Waste Strategy, TW aims, for example, to reduce the carbon footprint of TW's operations to net zero emissions by 2035.¹⁷
- (D) Capital Allocation: TW will maintain a strong balance sheet and will continue to deliver reliable investor returns with a clear and disciplined framework, balancing investment for future value creation with returning value to shareholders.

3. Structure of this response and headline comments on Statement of Scope

3.1 In the following sections, we provide:

- (A) An overview of the housebuilding sector (see **Section 4**).
- (B) TW's perspective on the four key areas identified in the Statement of Scope:
 - (i) Securing land for future development (see **Section 5**);
 - (ii) Obtaining planning permission (and putting in place various agreements with the appropriate authorities) (see **Section 6**);
 - (iii) Building homes (see **Section 7**); and
 - (iv) Selling homes (see **Section 8**).
- (C) Some specific comments on the proposed scope of the Market Study (see **Section 9**).¹⁸

3.2 Our headline comments, which we explain in further detail in the sections below, are as follows:

- (A) ***We would expect the core findings of the OFT's 2008 Market Study (the "2008 OFT Report")¹⁹ in respect of competition in the housebuilding market to remain true today.*** In particular, there is little evidence of competition problems with the

¹⁶ Construction Quality Reviews are independent site-based reviews of the construction quality of new build homes, carried out by a National Housing Building Council construction quality specialist at 38 different stages of build.

¹⁷ See for example TW ARA 2022, pages 11, 39 and 65.

¹⁸ We have not sought to respond to each question raised by the CMA in section 3 of the Statement of Scope individually; instead, where we have views on particular questions, we have incorporated our views into our commentary below on the relevant focus area.

¹⁹ See the 2008 OFT Report, "*Homebuilding in the UK Report, A market study*", September 2008, available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20140402142426/http://www.of.gov.uk/shared_of/reports/comp_policy/of1020.pdf (last accessed on 17 March 2023).

delivery of new homes in Great Britain (“GB”),²⁰ or that individual homebuilders have persistent or widespread market power or are able to restrict supply or inflate prices.

- (B) ***TW faces strong competition.*** Consumer outcomes on the quantity, quality or cost of new homes in GB are not driven by any lack of competition. In fact, TW faces fierce competition, and its share of all new homes sold in the UK is only [redacted] % (and its share of all homes sold is less than [redacted] %). This competition comes from:
- (i) New build: In the 12 months to March 2022, 15% of housing transactions involved sales of new build properties. In this segment, TW's position is modest. TW competes with a significant number of housebuilders of different sizes active throughout GB and its regions.
 - (ii) Existing housing stock: TW faces huge competition from sales of existing housing stock. In the year to March 2022, existing housing made up the remaining 85% of all housing transactions in GB.
- (C) ***Policy changes, policy stability and better policy implementation can secure better consumer outcomes:*** Improvements in consumer outcomes such as an increased quantity of high-quality, sustainable and efficient homes, as well as reduced costs, can be secured through policy changes, a stable and consistent policy and regulatory environment, and a better implementation of policy by and adequate resourcing for local planning authorities (“LPAs”).

4. Overview of Housebuilding Sector

- 4.1 ***The housebuilding sector is currently operating in challenging economic conditions.*** Housebuilding is heavily influenced by macroeconomic factors such as the general state of the economy, inflation, interest rates, the availability of affordable lending products,²¹ the cost of materials, employment, the cost of labour, population growth, and so on,²² meaning that the industry has historically been cyclical in nature.
- 4.2 For example, housebuilding is currently significantly impacted by the costs and shortages of materials and labour, which have increased acutely in recent years.²³ COVID-19 precipitated a global shortage of commodities critical to housebuilding (such as timber), production issues (for example in China) and worldwide transport constraints. More locally, shortages in the UK

²⁰ The geographic scope of the 2008 OFT Report was UK-wide. However, the CMA's proposed Market Study has a proposed geographic scope of GB only.

²¹ The Help to Buy (“HTB”) scheme, which supported first time buyers since 2014, closed in Scotland in 2021 and ended for reservations in England in 2022, while it will be extended in Wales until 2025. Therefore, HTB will not be available for the majority of TW's 2023 reservations. The UK government and industry have introduced schemes aimed at supporting first time buyers, and there is also the availability of high 95% loan to value mortgages, although in general there are fewer products of this kind available than a year ago. See TW ARA 2022, page 17 and “*The impact of the end of Help to Buy on home ownership*”, 22 March 2023, available at: <https://www.capitaleconomics.com/publications/uk-housing-market-focus/impact-end-help-buy-home-ownership> (last accessed on 22 March 2023)

²² See TW ARA 2022, pages 14-19. See also Savills, “*UK Housing Market Update - March 2023*”, 9 March 2023, available at: https://www.savills.co.uk/research_articles/229130/340637-0 (last accessed on 21 March 2023).

²³ See further at paragraph 4.10(C) below.

of key housebuilding materials have led to delays and caused supply chain costs to increase significantly.

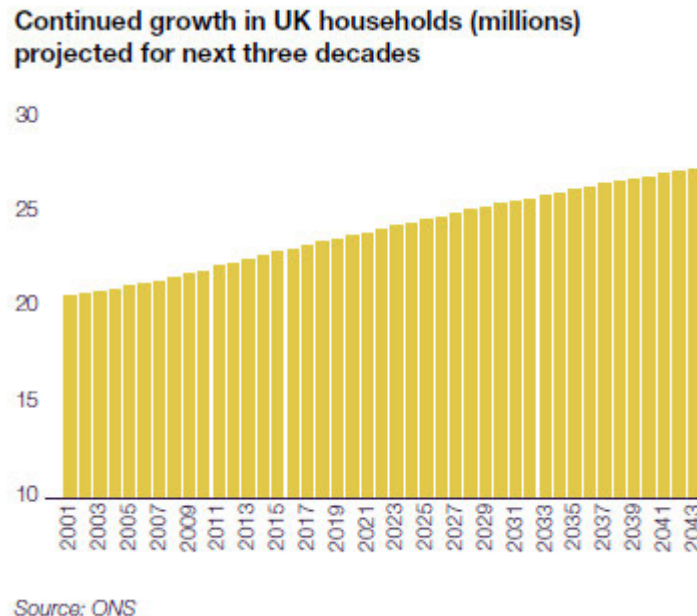
- 4.3 These cost increases have been further exacerbated by the impact of the war in Ukraine, Brexit and restrictions on imports, and the energy crisis (as a number of key building materials are energy-intensive to produce). Shortages of materials also delay the housebuilding process and lead to a further corresponding increase in the cost of labour (and so the cost of building a house).²⁴ While there has been some recovery in the availability of key materials, the impact on developers of these increased costs has been amplified by the high inflationary environment over the last year.
- 4.4 In addition to impacting the supply of new housing, the macroeconomic environment also has a significant effect on consumer demand. Following the UK government's September 2022 'mini-budget', the UK has seen a period of rising interest rates, a corresponding increase in the cost of lending products, and a period of high inflation. These factors lead to a squeeze on the cost of living and a reduction in real income for most consumers, which has resulted in a reduction in the affordability of housing. These factors, along with the accompanying period of economic turbulence, have led to an impact on consumer confidence (not limited to the housing sector) and a corresponding reduction in demand for new housing.
- 4.5 All these macroeconomic factors have put significant pressure on developers and will continue to do so in the future. Within this challenging environment, TW is striving to continue to deliver high-quality new homes for its customers.
- 4.6 ***There is a recognised housing shortage in the GB market.*** The GB market is characterised by a known housing shortage, with new home completions running at significantly below the UK government's desired levels.²⁵ While government planning amendments suggest a move away from a specific top-down target, there remains a suggestion that at least 300k new homes per year are needed to fulfil UK housing need, a level last achieved in 1977.²⁶ This shortage is likely to continue, owing to factors such as the continued growth in the number of UK households (as shown in Figure 4.1 below), a challenging planning environment, and a reduction in activity by public sector housing providers.

²⁴ See "Planning, materials and labour shortages threaten housing delivery over next 12 months", 5 January 2022, available at: <https://www.hbf.co.uk/news/planning-materials-and-labour-shortages-threaten-housing-delivery-over-next-12-months/> (last accessed on 20 March 2023). This notes that "78% of housebuilders also see the supply and cost of materials as major barrier to delivery (up 20% from last year)", with a focus group participant noting that: "In March we were paying £9 a sheet for 9mm Oriented Strand Board, and up until recently we were paying £32 a sheet. Every single product has gone up."

²⁵ See, for example, the House of Commons' Research Briefing, "Tackling the under-supply of housing", 4 February 2022, pages 5 and 8, available here: <https://researchbriefings.files.parliament.uk/documents/CBP-7671/CBP-7671.pdf> (last accessed on 17 March 2023). This Research Briefing notes: "Professor Bramley's figures attempted to account for an existing backlog of housing need, as well as future household growth. The report (published in 2018) estimated there were 4.75 million households in housing need across Great Britain (and 4 million in England)", page 15 (emphasis added).

²⁶ See TW ARA 2022, page 15, and the House of Commons' Research Briefing, "Tackling the under-supply of housing", 4 February 2022, page 5, available here: <https://researchbriefings.files.parliament.uk/documents/CBP-7671/CBP-7671.pdf> (last accessed on 17 March 2023).

Figure 4.1
Increasing projected growth in UK households



Source: TW ARA 2022, page 15.

4.7 **New homes only account for 15% of the market.** According to the Office of National Statistics (the “ONS”), there were 1.4 million UK housing transactions in the 12 months to March 2022.²⁷ During the same period, the ONS estimates that 205k new UK dwellings were completed.²⁸ As illustrated in Figure 4.2 below, this means that:

- (A) New homes accounted for only **15%** of total homes that came to market in 2022; and
- (B) TW’s share of homes sold (**13,551**) in 2022 in the UK is therefore less than [redacted] %.²⁹

²⁷ See TW ARA 2022, page 17.

²⁸ See ONS, “House building data, UK: financial year ending March 2022”, 8 November 2022, available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/ukhousebuildingdata/financialyearendingmarch2022#:~:text=The%20latest%20house%20building%20statistics,5%2C270%20in%20Wales> (last accessed on 17 March 2023).

²⁹ The 13,551 figure is excluding joint ventures. See Taylor Wimpey plc, “Full Year Results Presentation for the year ended 31 December 2022”, 2 March 2023, page 9, available here: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing.and%20investors%20on%20the%20day> (last accessed on 17 March 2023).

Figure 4.2
Share of UK housing market in 2022

[redacted]

Source: ONS, TW ARA 2022 and TW Full Year Results Presentation 2022.

- 4.8 Since existing housing makes up approximately 85% of the market, it is the sale of existing housing, rather than new homes, that predominantly determines pricing and the competitive dynamics for the market as a whole.³⁰ Indeed, the 2008 OFT Report recognised that existing housing stock imposes a strong competitive constraint on new housing, with buyers overwhelmingly considering location (as influenced by jobs, schools, family ties and transport links) to be the most important factor when buying a house, rather than whether the house came from new or existing stock.^{31, 32} TW expects these findings to remain true with respect to the housing market today.
- 4.9 ***Housebuilding is fragmented and highly competitive.*** With respect to only new homes, even as a larger housebuilder TW accounted for less than [redacted] % of new home completions in GB in 2022. TW faces competition from other large housebuilders, and a very large number of small-to-medium sized housebuilders (often referred to as “**SME housebuilders**”). SME housebuilders tend to operate at a smaller scale (with completions in the 10s to 100s of homes each year) and on a smaller geographic basis than the larger housebuilders.³³

³⁰ Homes for sale are valued on a comparative valuation model. The reflection of value relative to the existing homes market is therefore embedded in the valuation for mortgage purposes.

³¹ See the 2008 OFT Report, paragraph 4.29. The 2008 OFT Report also concluded that it is not necessary to segment the housing market by, for example, the size of homes, given the chain of substitution between the smallest properties and the largest properties, and the difficulty of defining, e.g., an ‘average’ two-bedroom home. See the 2008 OFT Report, paragraphs 4.12 to 4.16.

³² See also “*The Callcutt Review of housebuilding delivery*” (the “**Callcutt Review**”), November 2007, page 143, available at: https://housingforum.org.uk/wp-content/uploads/2020/05/callcuttreview_221107.pdf (last accessed on 17 March 2023); “*Independent Review of Build Out Rates, Draft Analysis, Rt Hon Sir Oliver Letwin MP*”, June 2018, paragraph 4.25, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718878/Build_Out_Review_Draft_Analysis.pdf (last accessed on 17 March 2023); “*Independent Review of Build Out, Final Report, Rt Hon Sir Oliver Letwin MP*” (the “**Letwin Review**”), October 2018, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752124/Letwin_review_web_version.pdf (last accessed on 17 March 2023), page 6; and, for example, see Savills, “*Buyer sentiment on the rise after late Summer dip*”, 19 December 2022, available at: <https://www.savills.co.uk/insight-and-opinion/savills-news/336745-0/buyer-sentiment-on-the-rise-after-late-summer-dip> and “*Buyers take their marks for this year's race for space*”, 17 January 2023, available at: <https://www.savills.co.uk/blog/article/338262/residential-property/buyers-take-their-marks-for-this-year-s-race-for-space.aspx>, which evidence all of the different factors buyers look for when buying a property (such as space, the ability to work from home, the proximity of parks and open spaces, family, transport, amenities and schools).

³³ TW notes that it will sometimes work with SME housebuilders, for example by selling parcels of land on its larger sites to SME housebuilders.

4.10 **Intense competition exists throughout each stage of the development process.**
Examples of this in the sector include:

- (A) **Land acquisition:** TW faces competition when buying land not only from other housebuilders (such as Barratt, Bellway, Bloor, Persimmon, Redrow, Vistry, amongst many others) but also from developers across the whole spectrum of land uses. Competition for the acquisition of land, which has been significant for many decades, has become even more intense in recent years – with many other land uses, such as data centres, retail, commercial and e-commerce distribution, being capable of paying more for land than housebuilders in many areas of the country.
- (B) **Design:** TW faces significant competition to design high-quality homes from other large and small housebuilders who are also using innovative designs and construction methods. For example, the recent focus in the industry on reducing its carbon footprint has resulted in housebuilders designing new homes in a manner that significantly improves the carbon footprint of the homes, reducing the resultant carbon emissions. This trend has been progressing since at least 2006, when net zero targets first became a priority item for the UK government, and this has become an even greater focus in recent years.³⁴
- (C) **Development:** Shortages of materials, subcontractors and labour mean that housebuilders compete fiercely for the availability of scarce resources required for their developments.³⁵
- (D) **Sales:** The growth of online platforms and social media have added another dimension to how consumers find and buy homes. This has substantially increased the ease with which customers can access information about available new build and second-hand homes, has significantly increased transparency in the market (including with respect to price), and thus has intensified competition.³⁶

5. **Securing Land for Future Development**

5.1 GB has strict planning controls (which have been in place since 1947 and have been modified regularly since then) which place constraints on the use of land and its development. Land that

³⁴ In light of the Future Homes and Building Standard (set to come into force in 2025), TW is aiming to: reduce its carbon emissions by 36% by 2025; ensure all of its operations are net zero by 2035; and be net zero across its whole value chain by 2045. TW also aims to cut waste intensity by 15% by 2025 and use more recycled materials. Moreover, the Biodiversity Net Gain requirements (to be introduced in November 2023) under the Environment Act 2021 require all planning permissions granted in GB (with a few exceptions) to deliver at least 10% biodiversity net gain and to be secured for at least 30 years. Consistent with this, TW is aiming to increase natural habitats by 10% in its new sites from 2023 and include priority wildlife enhancements (which include small scale nature interventions on new build developments, e.g., mandating hedgehog highways, bug hotels, bee bricks, bat boxes and bird boxes). See TW ARA 2022, pages 39 and 53.

³⁵ See the Federation of Master Builders “*State of Trade Survey Q4 2021*”, 28 January 2022, pages 6 and 7, available here: <https://www.fmb.org.uk/resource/state-of-trade-survey-q4-2021.html> and “*State of Trade Survey Q4 2022*”, 2 February 2023, pages 6 to 8, available here: <https://www.fmb.org.uk/resource/state-of-trade-survey-q4-2022.html> (last accessed on 17 March 2023).

³⁶ See, for example: “*Would you buy your home on Instagram? The unstoppable rise of social property selling*”, 24 November 2022, available at: <https://www.standard.co.uk/homesandproperty/buying-mortgages/would-you-buy-your-house-on-instagram-b1033315.html> (last accessed on 17 March 2023).

is suitable for residential development is in short supply.³⁷ There are also numerous buyers of land for non-residential uses, as described above. This means there is intense competition to identify and purchase land which is suitable for residential development. Securing sufficient land to operate a sustainable business is essential for TW.

- 5.2 In order to continue delivering a strong pipeline of homes at competitive prices, TW has a strong incentive to identify land that is suitable for residential development at a suitable price and capital outlay, and to gain all necessary consents to develop land in accordance with those consents as quickly as demand for those homes dictates.
- 5.3 Sellers of land have a strong incentive to secure the best possible deal. Given the nature of land ownership in GB, many sellers will take a very long-term view and will not transact if they foresee better market conditions in future. For example, hereditary owners of smaller estates will likely consider realising the value of their land during their own lifetime, giving an outlook of 50 years or so. On the other end of the scale, for large institutional landowners, 50 years would be a very short-term outlook.
- 5.4 Buying land is expensive and capital-intensive. Land costs accounted for ~[redacted]%³⁸ of the ASP of a TW home in 2022; TW had £2.6bn³⁹ of capital deployed in GB land in 2022. The return that TW achieves on this capital is the key driver of TW's share price. TW's incentive is therefore to minimise land costs and not to own or option any more land than is necessary to sustain its operations.
- 5.5 The uncertainty over which land will ultimately get planning permission and the pace of planning review have a material impact on the amount of land that it is necessary to own and/or option in order to have a sustainable, investable developer business.⁴⁰ Like other housebuilders, TW has a "landbank" made up of two components: short term land which is supported by a pipeline of strategic land.

Strategic land (~144K plots as of 2022):⁴¹

- (A) Strategic land is land which does not have any form of residential planning permission at the time TW takes an interest in it. Progressing land through the unpredictable planning system takes a significant investment of resources (including funding) and a significant amount of time. In addition, failure to achieve a positive outcome within a reasonable timeframe is a common feature of the planning system, meaning that some strategic land (in which TW will have invested significant resources) will not be able to be brought forward at all.

³⁷ See the House of Commons' Research Briefing, "*Tackling the under-supply of housing*", 4 February 2022, page 40, available here: <https://researchbriefings.files.parliament.uk/documents/CBP-7671/CBP-7671.pdf> (last accessed on 17 March 2023).

³⁸ Note: On completion, land cost as % of ASP.

³⁹ Note: £3.3bn land on balance sheet and £0.7bn land creditors.

⁴⁰ The 2008 OFT Report noted the time needed to get planning and the risks of planning are key determinants of the size of land holdings by developers. See the 2008 OFT Report, paragraph 5.13 and 5.16.

⁴¹ See TW ARA 2022, page 47.

[REDACTED]

This means that TW needs sufficient prospects in the pipeline, over a range of timeframes to maturity, to ensure that it can progress sufficient land through the planning process and obtain necessary permissions in locations where there is demand for new homes which can viably be delivered.⁴² TW's strategic pipeline is largely made up of options for the purchase of land TW's priority for this land is progressing it through the various stages of planning promotion, including local plan preparation and opening outlets. This aligns with sellers' priorities; as noted in the 2008 OFT Report, and consistent with the position today, the owners of optioned land have a strong incentive to ensure planning permission is obtained (so the option is exercised and they can realise the value of their land).⁴³ Sellers therefore typically impose strong contractual obligations on developers that require developers to progress planning applications and prevents them from 'going slow'.

TW has other strong incentives to progress strategic land through the planning system. [redacted], so TW is incentivised to have a significant proportion of completions from strategic land.⁴⁴ In 2022, 52% of TW's completions (in the UK) came from strategic land.⁴⁵ TW further notes that, since the 2008 OFT Report was published, more stringent tests have been introduced around the deliverability and viability of sites being allocated for residential development. This has significantly increased the risk, cost and time required to promote an area of land for residential allocation and receive planning permission, and these requirements are often beyond the means of an individual landowner. This has led to a rise in "land promoters" who work to secure strategic planning permission for a parcel of land in return for a share of the sale proceeds once it is onward sold to the market for development.

Short term land (~83k plots as of 2022):⁴⁶

- (B) Short term land is land which has some form of residential planning permission at the time TW takes an interest in it. TW's short term land bank is made up of a mix of small and large sites. The uncertainties and length of time involved in getting land to this stage, and the further obstacles and significant time required to secure implementable planning permission, as discussed in Section 6 below, mean that TW needs sufficient land and future and existing outlets in this category to be able to reliably sustain its operations.⁴⁷

5.6 TW has a strong incentive to bring land forwards to a point where it has implementable planning permission, and then start constructing homes as soon as possible. As

⁴² The 2008 OFT Report noted this risk/reward dynamic. See the 2008 OFT Report, paragraphs 5.19 *et seq.*

⁴³ See the 2008 OFT Report, paragraph 4.126.

⁴⁴ See TW ARA 2022, page 31, which states that TW aims "to source more than 40% of our completions from the strategic pipeline per annum in the medium term".

⁴⁵ See TW ARA 2022, page 31.

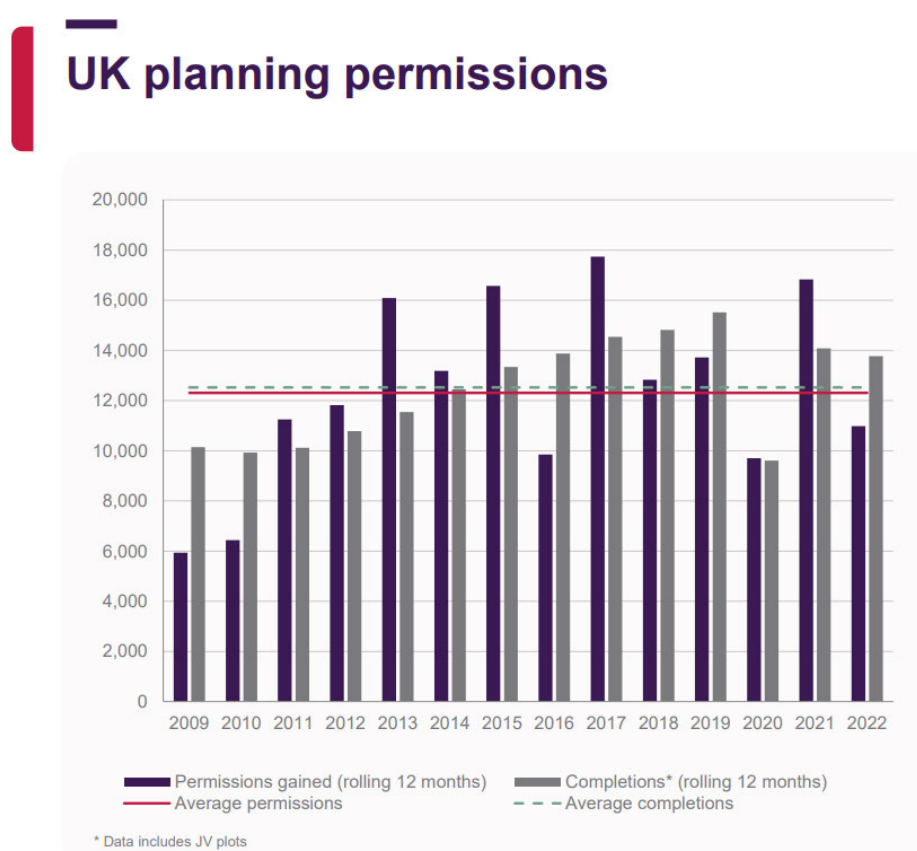
⁴⁶ See TW ARA 2022, page 47.

⁴⁷ Like other developers, TW may buy some sites from land promoters with some form of planning permission already in place for its short term landbank.

explained above, TW makes significant capital investments in land. Building out this land allows TW to recoup this capital, generate returns for its investors and recycle that capital to generate further growth and future returns. As at 31 December 2022, TW was therefore building (or was due to start building in H1 2023) on 99% of sites with implementable planning permission.⁴⁸

- 5.7 Indeed, it is telling that, as shown by Figure 5.1 below, TW's completions outstripped its permissions granted in several recent years (2016, 2018, 2019, almost in 2020 and 2022), showing that TW often effectively completes faster than the rate of planning permissions granted in these years. This would only be possible if TW had a pipeline of land.⁴⁹

Figure 5.1
TW completions and planning permissions obtained (2009-2022)



Source: TW Full Year Results Presentation for the year ended 31 December 2022.

⁴⁸ See Taylor Wimpey plc, "Full Year Results Presentation for the year ended 31 December 2022", 2 March 2023, page 45, available here: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing.and%20investors%20on%20the%20day> (last accessed on 17 March 2023).

⁴⁹ See Taylor Wimpey plc, "Full Year Results Presentation for the year ended 31 December 2022", 2 March 2023, page 45, available here: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing.and%20investors%20on%20the%20day> (last accessed on 17 March 2023).

5.8 It is therefore unsurprising that the 2008 OFT Report;⁵⁰ the Callcut Review;⁵¹ the Letwin Review's draft analysis of build out rates;⁵² and recent reports by Lichfields⁵³ and Savills⁵⁴ all found that there is no evidence of "land hoarding" negatively affecting the rate of delivery of new homes. TW expects these key findings to remain valid today.

6. Obtaining Planning Permission

6.1 ***The length and uncertainty of GB's planning system limits TW's ability to deliver new homes as quickly and efficiently as possible so that it can recoup its capital-intensive investments in land.***

6.2 Securing planning permission in GB is a lengthy, increasingly unpredictable, resource-intensive and expensive process. The planning system is one of the most significant influences on the ability of housebuilders to bring new homes to market. The increasing delays and lack of urgency within GB's plan-led planning system means that obtaining planning permission can take a long time, and options for the purchase of land can be lengthy to reflect this. TW believes that the core challenges within the planning system affect all parties operating in the housebuilding sector, including SMEs (who will feel the effects more acutely).

6.3 Figure 6.1 below illustrates the key steps involved in this process, from obtaining planning permission to completing a scheme.

⁵⁰ See the 2008 OFT Report, paragraphs 1.8, 5.89 and 5.91.

⁵¹ See "The Callcut Review of housebuilding delivery", November 2007, page 39, available at: https://housingforum.org.uk/wp-content/uploads/2020/05/callcutreview_221107.pdf (last accessed on 17 March 2023).

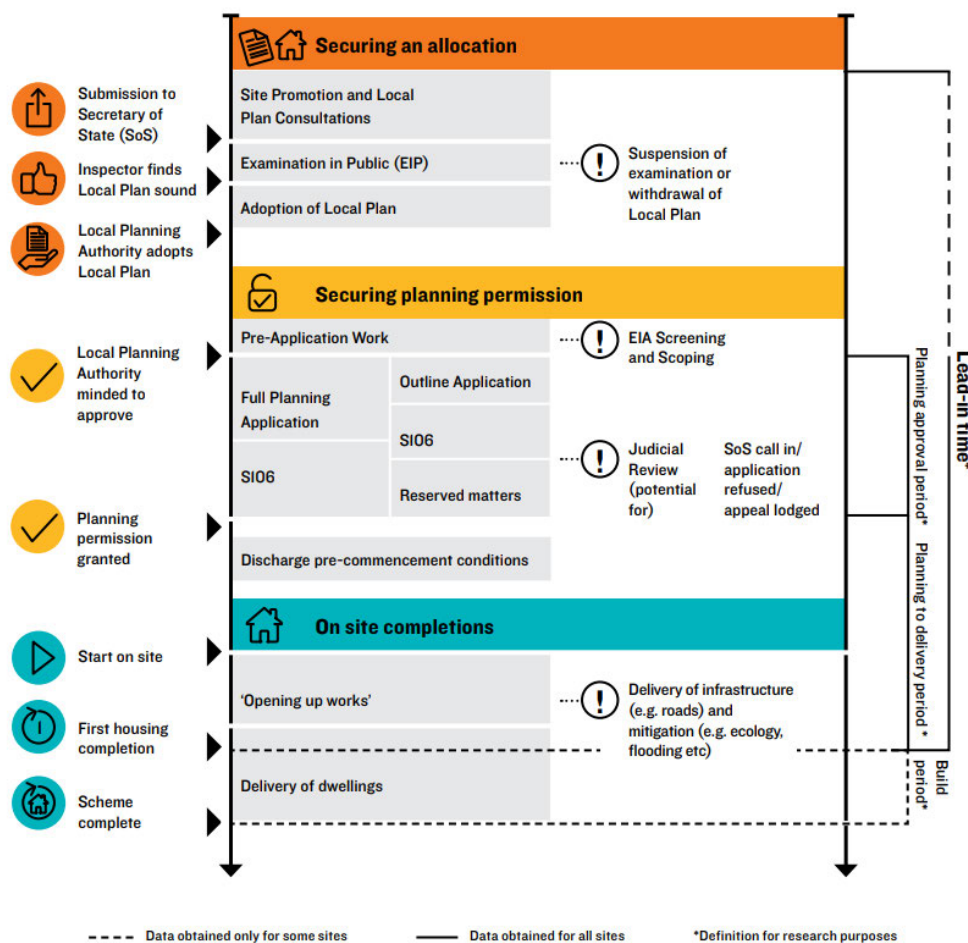
⁵² See "Independent Review of Build Out Rates, Draft Analysis, Rt Hon Sir Oliver Letwin MP", June 2018, paragraph 5.39, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718878/Build_Out_Review_Draft_Analysis.pdf (last accessed on 17 March 2023).

⁵³ See "Tracking Progress, Monitoring the build-out of housing planning permissions in five local planning authority areas", September 2021, page 19, available at: [tracking-progress-monitoring-the-build-out-of-housing-planning-permissions-in-five-local-planning-authority-areas-sep-21.pdf](https://www.lichfields.co.uk/media/2021/09/tracking-progress-monitoring-the-build-out-of-housing-planning-permissions-in-five-local-planning-authority-areas-sep-21.pdf) (lichfields.uk) (last accessed on 17 March 2023). In particular, this report noted that there was no analysis to suggest "any systemic failure in converting planning permissions to development by the industry". Rather, the report goes on to note: "the planning and development process is complicated and with risk, the mismatch between planning permissions granted and housing output on a yearly basis is readily explained by the simple matter of the time it takes to progress development through the regulatory stages, the risks associated with small site delivery (and by smaller builders), the overall phasing of build-out on larger sites, and the role of the planning system (via new planning permissions) in facilitating changes to planned development schemes to reflect practical requirements."

⁵⁴ See "Residential Research: Land shortages or land banking?", June 2021, page 2, available at: [Briefing+note+Land+shortages+or+land+banking.pdf](https://www.savills.com/insights/land-shortages-or-land-banking.pdf) (savills.com) (last accessed on 17 March 2023).

Figure 6.1
Overview of the process of bringing new homes to the market

Figure I: Timeline for the delivery of strategic housing sites



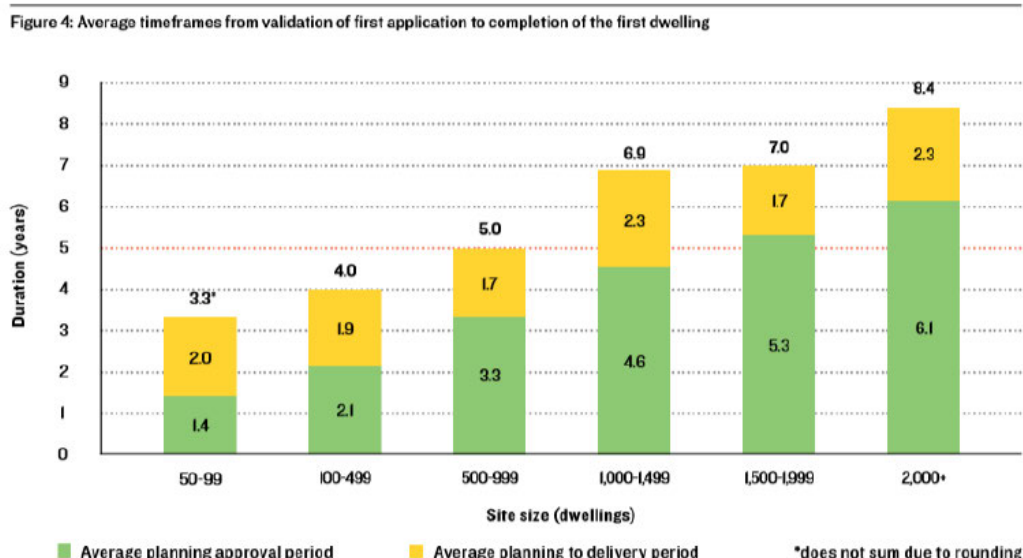
Source: Lichfields analysis

Source: Lichfields "Start to Finish" report, February 2020, page 3.⁵⁵

6.4 This process involves very lengthy time periods to obtain implementable planning permission. As shown in Figure 6.2 below, the average timeframes for planning approval vary depending on site size, but typically range from 1.4 years for sites with 50-99 dwellings and can be up to 6.1 years for sites with over 2,000 dwellings. For sites of larger than 100 units in size, it takes longer (sometimes significantly longer) to obtain planning permission than it takes to complete the first home on the site. In fact, as noted in respect of Figure 6.2 below, the average planning approval period runs from the validation of an outline application until the approval of the first detailed application to permit development; it does not even account for the period involved in trying to get the land adopted in the LPA's local plan (i.e., the strategic planning phase).

⁵⁵ See "Start to Finish", 26 February 2020, available at: <https://lichfields.uk/content/insights/start-to-finish> (last accessed on 17 March 2023).

Figure 6.2
Average timeframes for planning approval and delivery of new homes⁵⁶



Source: Lichfields analysis

Source: Lichfields "Start to Finish" report, February 2020, page 6.⁵⁷

6.5 **Policy uncertainty over recent years has caused further delays to and a decline in the number of planning permissions granted.** Whilst challenges with the planning system are not new, policy uncertainty, which has accelerated in recent years, has further slowed plan-making and reduced the number of permissions being granted. The number of planning permissions being granted has decreased markedly in recent years, falling to below pre-2016 levels.⁵⁸ Research by Savills confirms that consented homes have fallen by nearly a third – i.e., 31% – in a single quarter (Q4 2022).⁵⁹ The Home Builders Federation's ("HBF") housing pipeline report, published in December 2022, finds that quarterly planning approvals are 25% below the levels seen in 2019, when housing supply was at its peak, with a general downwards

⁵⁶ Notes: 1. The average planning approval period runs from the validation of an outline application until the approval of the first detailed application to permit development. "Start to Finish", 26 February 2020, available at: <https://lichfields.uk/content/insights/start-to-finish> (last accessed on 17 March 2023) notes at page 6 that: "The planning approval period could also include a hybrid or full application, but on the basis of our examples this only impacts a small number of sites". 2. The planning to delivery period runs from the approval of the first detailed application to permit development to the completion of the first dwelling.

⁵⁷ See "Start to Finish", 26 February 2020, page 6, available at: <https://lichfields.uk/content/insights/start-to-finish> (last accessed on 17 March 2023).

⁵⁸ See Taylor Wimpey plc, "Full Year 2022 Results" (Transcript), Thursday, 2 March 2023, page 11, available at: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing,and%20investors%20on%20the%20day> (last accessed on 21 March 2023).

⁵⁹ See Savills, "English Housing Supply Update Q4 2022", 15 February 2023, available at: https://www.savills.co.uk/research_articles/229130/339701-0 (last accessed on 21 March 2023).

[REDACTED]

trend beginning to crystallise.⁶⁰ Analysis by Lichfields confirms that there is an acute shortage of permissions in the UK, and that additional sites would need to be granted permission (specifically an extra 4 to 5 medium-sized sites in each district in England each year, or 4 to 5 larger sites which deliver each year over a longer period) in order to deliver the government target of producing 300k new homes per year.⁶¹

6.6 These issues have real impacts on developers. In its annual results, TW recently stated that: *“as of 31 December 2022, [TW] had 25,500 plots in the planning system for first principal determination, an increase of over 50% over a five-year run rate. Whilst this number reflects, for sure, the increased land activity that you saw at Taylor Wimpey in 2020 and 2021 ...it is also a compelling illustration of the level of opportunity both for Taylor Wimpey and investment into the wider economy that has been frustrated by the difficulties in our national planning system.”*⁶²

6.7 **Recent policy changes have negatively impacted LPA local plan-making and adoption.** LPA local plans help LPAs decide on planning applications and set out how development including housing, business construction and infrastructure (roads, facilities, and others) can best benefit the area for which the LPA is responsible. Though the system has been beset with recurring delays in the last decade, a significant number of LPA development plans have been delayed since autumn 2021, with many LPAs citing the UK government's pending planning reforms as justification.⁶³

6.8 For example:

(A) Recent analysis from Lichfields identifies 38 LPAs which have (since April 2022) either stalled, delayed, or withdrawn their local plans – LPAs which would have had a combined housing need of 38,200 homes.⁶⁴

(B) Analysis by Savills confirms that *“Over a third of local planning authorities lack a proven five-year land supply [...] Without a demonstrable supply, LPAs risk having planning*


⁶⁰ See “Housing pipeline report - Q3 2022 report”, 1 December 2022, available at: <https://www.hbf.co.uk/news/housing-pipeline-report-q3-2022-report-published-december-2022/> (last accessed on 17 March 2023).

⁶¹ See “Feeding the Pipeline”, 30 November 2021, available at: <https://lichfields.uk/content/insights/feeding-the-pipeline> (last accessed on 22 March 2023).

⁶² Emphasis added. See Taylor Wimpey plc, “Full Year 2022 Results” (Transcript), Thursday, 2 March 2023, pages 11 and 12, available at: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing.and%20investors%20on%20the%20day> (last accessed on 21 March 2023).

⁶³ See “Ten years of the NPPF: What do we have to show for a decade of plan making?”, 4 May 2022, which cites a number of policy changes which result in LPA delays, including: “The uncertainty arising from the prospect of reforms in the 2017 Housing White Paper, The consultation on (and then requirements of) the new NPPF 2019, The introduction of the standard method, Changes (mutant and otherwise) to the standard method, Waiting for the White Paper changes to local plan making (no longer expected), Amendments to the NPPF (including para 22 on a long-term vision), and Nitrates and water neutrality issues.” Available at: <https://lichfields.uk/blog/2022/may/4/ten-years-of-the-nppf-what-do-we-have-to-show-for-a-decade-of-plan-making/> (last accessed on 22 March 2023).

⁶⁴ See “Counting the cost of delay: The economic impact of Local Plan delay to housing delivery”, 26 April 2022, available at: <https://lichfields.uk/blog/2022/april/26/counting-the-cost-of-delay-the-economic-impact-of-local-plan-delay-to-housing-delivery/> and more recently “Start me up – but then you stopped: the continuing cost of local plan delays”, 30 January 2023, available at: <https://lichfields.uk/blog/2023/january/30/start-me-up-but-then-you-stopped-the-continuing-cost-of-local-plan-delays/> (last accessed on 21 March 2023).



decisions made for them at appeal.” It then goes on to note that even the LPAs that do have a plan (i.e., that are able to allocate the five years’ worth of land currently required by the National Planning Policy Framework (the “NPPF”)) are unable to meet the relevant level of demand.⁶⁵

- (C) This is set against the backdrop of an already challenging landscape of low levels of local plan adoption. Lichfields analysis notes that, in a decade since the introduction of the NPPF, *“just over three quarters (76%) of LPAs outside of London adopted a local plan at all. [...] As of the 27th March 2022, and in the context that local plans have to be reviewed, and if necessary, updated every five years to remain up to date, only 42% of LPAs had a fully up-to-date local plan”*.⁶⁶

6.9 This problem has deepened since the Government announced its NPPF consultation in December 2022, with analysis from Lichfields finding that the proposed changes, particularly those that relate to plan-making and housing land supply, have the potential to suppress annual housing delivery, with a 77k drop in supply as compared to the most recent statistics on net additions to the housing stock.⁶⁷

6.10 ***The challenges within the planning system are exacerbated by a lack of adequate resourcing for LPAs.*** According to analysis carried out by the Royal Town Planning Institute (the “RTPI”),⁶⁸ as shown by Figure 6.3 below:

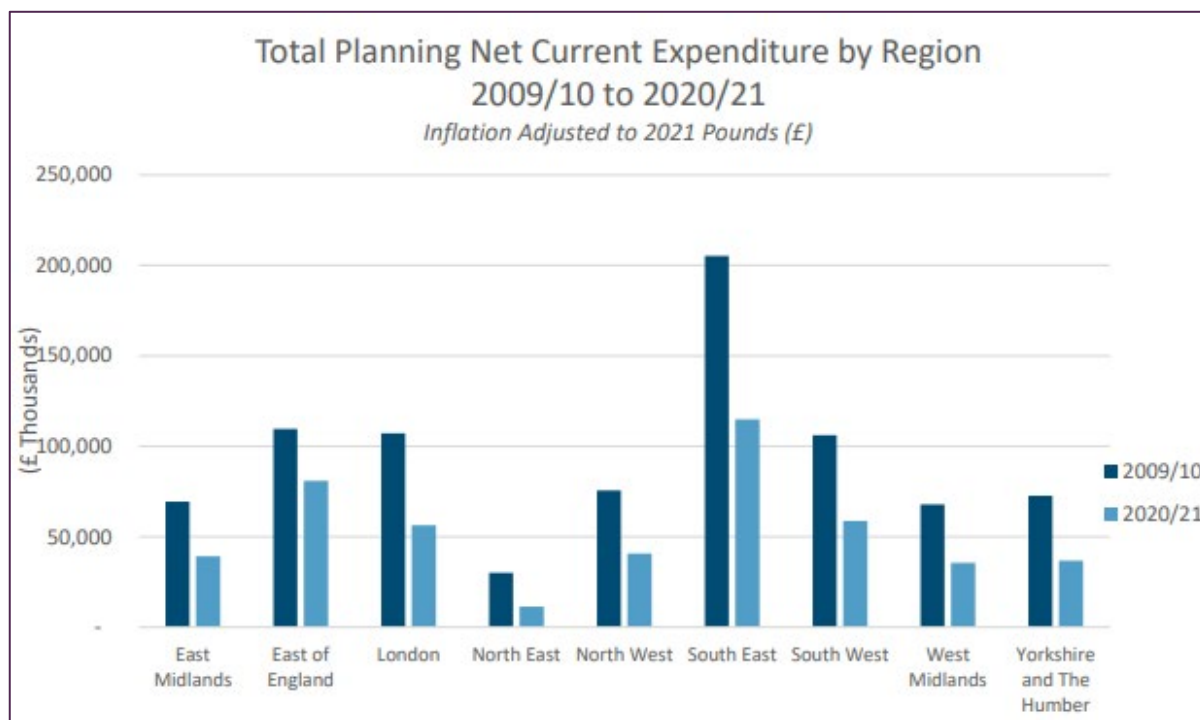
⁶⁵ See “Planning Data Update 2023”, 11 January 2023, available at: https://www.savills.co.uk/research_articles/229130/338073-0 (last accessed on 22 March 2023).

⁶⁶ See “Ten years of the NPPF: What do we have to show for a decade of plan making?”, 4 May 2022, available at: <https://lichfields.uk/blog/2022/may/4/ten-years-of-the-nppf-what-do-we-have-to-show-for-a-decade-of-plan-making/> (last accessed on 22 March 2023).

⁶⁷ See “Making a bad situation worse? How a fall in housing supply due to NPPF changes will cause social harm and undermine levelling up”, 27 February 2023, available at: <https://lichfields.uk/blog/2023/february/27/making-a-bad-situation-worse-how-a-fall-in-housing-supply-due-to-nppf-changes-will-cause-social-harm-and-undermine-levelling-up/> (last accessed on 17 March 2023).

⁶⁸ See RTPI Research Paper, “Planning Agencies, Empowering Public Sector Planning”, September 2022, available at: <https://www.rtpi.org.uk/media/12613/planning-agencies-rtpi-2022.pdf> (last accessed on 17 March 2023).

Figure 6.3
Decrease in LPA net expenditure across UK regions between 2009-2021



Source: RTPI Research Paper, "Planning Agencies, Empowering Public Sector Planning", September 2022.

6.11 Figure 6.3 (above) shows that:

- (A) LPA net expenditure on planning has *"fallen by 43%, from £844m in 2009/10 to £480m in 2020/21"*.⁶⁹
- (B) In real terms, this represents a c.55% reduction in LPA funding.
- (C) This decline affects all regions but has fallen the most – by 62% – in the North East of the England.⁷⁰

6.12 The result is that LPA planning performance is suffering: *"Less than half (49%) of planning applications were decided within statutory time limits in 2021 – continuing a downwards trend since 2010"*.⁷¹

6.13 ***This policy backdrop sits alongside an already challenging planning regime.*** Securing planning permission is a lengthy, unpredictable, resource-intensive process, which acts as one of the most significant influences on the structure of the housebuilding sector and end-

⁶⁹ *Ibid*, page 5.

⁷⁰ *Ibid*, page 5.

⁷¹ *Ibid*, page 5.

consumer outcomes. More specifically, the planning regime is characterised by the following important elements which contribute to these outcomes:

- (A) Uncertainty over whether land will be allocated for residential development (and ancillary uses) in the development plan and the time required to secure an allocation (i.e., whether the local authority's "call for sites" public consultation and Strategic Housing Land Availability Assessment will conclude that the land should be allocated for residential development and ancillary uses). The requirement for land to be included in an LPA's local plan to secure the best chances of obtaining planning permission means that the financial and time commitments necessary to secure an allocation are significant, even before considering the expense associated with obtaining planning permission.
- (B) Uncertainty over whether land will obtain outline planning permission (i.e., whether conditions requiring the subsequent approval of one or more 'reserved matters' will be met) and the time required to obtain that permission. Indeed, it is accepted that when a planning authority is unable to decide on a planning application within the statutory timescales, developers are encouraged to withdraw the application and resubmit or, worse still, have the application rejected and be forced to pursue an appeal on the grounds of non-determination (entailing additional costs and delay).
- (C) The significant time required to obtain detailed planning permission and the uncertainty over the terms of that permission, and the significant time and uncertainty associated with converting that planning permission into implementable planning permission, in particular in relation to negotiating and satisfying all pre-commencement planning conditions.
- (D) Costs and delays associated with planning conditions and their discharge. These include both: (i) mitigations to the direct impact of development (upfront infrastructure costs being a particular challenge for SME housebuilders); and (ii) other required contributions (e.g., social housing, education, or health contributions). This impacts the viability of schemes and the provision of affordable housing.
- (E) The burdens imposed on LPAs and statutory bodies who often lack resources to deal with the increasingly complex obligations placed upon them. On the one hand, as explained earlier in this Section, LPA resourcing has fallen c.55% in real terms since 2009. At the same time, for example, examining and processing applications for "Prior Approval" of certain permitted developments is very time-intensive for LPAs, whilst not generating substantial fee income that can be re-invested in increased resourcing.
- (F) Overarching uncertainty and delays caused by complex and changing regulatory requirements and changes to government policy, and whether such changes will arise during the planning process (which may cause an application to be rejected or an amendment to be required). For example:
 - (i) Recently introduced requirements on nutrient neutrality currently impact 74 LPAs, which have been told that that development in 'catchments' around some waterways cannot proceed unless developers are able to ensure their schemes

are nutrient neutral.⁷² The requirements to achieve nutrient neutrality are exceptionally difficult for home builders to achieve. As a result, home building has been essentially halted in these areas and it is estimated that around 120k homes are currently held up in the planning system as a result. The 74 affected LPAs had historically delivered an average of 51k new homes every year prior to these restrictions being imposed.⁷³

- (ii) Between June 2021 and February 2023 alone, a series of changes to Building Regulations⁷⁴ have taken effect: a revised Part L (Conservation of Fuel and Power, increasing the fabric energy efficiency of new homes by 31% compared with existing standards); the creation of a new Part S (a new Building Regulation requiring new homes to be equipped with Electric Vehicle charging points); an updated Part F (on ventilation); and a new Part O (on overheating).⁷⁵ The Building Safety Act (due to be fully implemented in October 2023) will also impact sites at both planning and building regulation stages, as also recognised by the government.⁷⁶
- (iii) The Chief Planner has also acknowledged that it is expected that the changes to Part O and Part L will *"cause an increase in the number of planning applications that need amending. The transitional arrangements for the regulations (the means by which older regulations can be applied) apply on a building-by-building basis, not site wide. Therefore, any building that has not been started by June 2023 will need to comply with the new regulations and may need to get re-approved."*⁷⁷

6.14 The above elements, taken together, have a significant impact on the structure of the market. Whilst barriers to entry and expansion in the housebuilding industry have historically been low, the factors above have likely caused them to have increased in recent years (as predicted by

⁷² See "NUTRIENT POLLUTION: NEUTRALITY, SUPPORT AND FUNDING", Letter from Joanna Averley, Chief Planner, Department for Levelling Up, Housing and Communities, to the Chief Planning Officer, 16 March 2022, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1061531/Chief_Planner_Letter_about_nutrient_pollution_March_2022.pdf (last accessed on 17 March 2023).

⁷³ See HBF's "Planning for economic and social failure: Estimating the impact of Government planning interventions", March 2023, page 5, available at: <https://thinkhouse.org.uk/site/assets/files/2783/hbf0323.pdf> (last accessed on 17 March 2023).

⁷⁴ The Building etc. (Amendment) (England) (No. 2) Regulations 2022, available at: <https://www.legislation.gov.uk/uksi/2022/603/contents/made> (last accessed on 22 March 2023).

⁷⁵ Further changes to an enhanced Part M (on accessibility) are also due, pending the outcome of the Government's consultation.

⁷⁶ See "Guidance The Building Safety Act", in particular "What the Act means for building owners", 25 July 2022, available at: <https://www.gov.uk/guidance/the-building-safety-act> (last accessed on 24 March 2023). A further example is the government's proposal to introduce second staircases in new residential buildings over 30 metres which may render existing schemes currently in the planning process not compliant, creating further uncertainty for developers on how these should be progressed. See "Government proposes second staircases to make buildings safer", 23 December 2022, available at: <https://www.gov.uk/government/news/government-proposes-second-staircases-to-make-buildings-safer> (last accessed on 23 March 2023).

⁷⁷ See Planning Newsletter, Joanna Averley, Chief Planner, 31 May 2022, page 3, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1080291/Chief_Planners_Newsletter_May_2022_2.pdf (last accessed on 17 March 2023).

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the 2008 OFT Report),⁷⁸ in particular for SMEs.⁷⁹ This policy and regulatory backdrop has a knock-on effect in terms of access to finance, in particular for smaller players. As a result of the perceived risks with the planning process (in terms of uncertainty, changing policy and the scope for delays in particular), access to finance for SMEs is more difficult, with finance providers typically being unwilling to lend until planning permission has been secured.⁸⁰

- 6.15 TW believes that these fundamental challenges affect all housebuilders – both larger builders and SMEs. The challenges are likely only to increase as regulatory requirements continue to change, for example as part of the Future Homes Standard. Mitigating these challenges would enhance the ability of all housebuilders to deliver houses for consumers in an efficient and timely manner.
- 6.16 TW recognises that the issues described above are driven to some extent by a large number of competing policy factors, and that the CMA is not in a position to opine on government policy choices. Nonetheless, we believe that any accurate study into how the housebuilding sector operates in terms of outcomes for consumers will need to state accurately the consequential impacts on market structure and housing delivery of planning regulation and planning policy decisions.

7. Building the properties

- 7.1 Having obtained planning permission, ***TW's incentive is to build homes quickly and safely to recoup its investment, taking account of both (i) operational constraints; and (ii) demand for homes.*** As mentioned in Section 4, housebuilding is highly influenced by macroeconomic factors. When the economic environment is less favourable, this results in increased pressures on developers' ability to deliver new houses and/or results, in the face of a general reduction in consumer demand for housing. These pressures force developers to compete with one another for the limited resources and customers available.
- 7.2 TW relies almost entirely on subcontractors and third-party suppliers to build and fit-out its homes. Therefore, build-out rates are heavily influenced both by the availability of skilled labour and materials. These constraints come from within the housebuilding industry as well from the wider economy. For example, the HS2 project has recently caused a shortage of cement

⁷⁸ The 2008 OFT Report found that there was a high level of entry and expansion within the homebuilding industry but recognised that: (i) looking forward (from 2008), regulatory barriers were likely to present the highest barriers to new entrants and incumbent homebuilders looking to expand, and (ii) access to finance was a limiting factor to entry and an even more significant limiting factor to expansion in the sector.

⁷⁹ See, for example, HBF, "Planning, materials and labour shortages threaten housing delivery over next 12 months", 5 January 2022, which notes that: "*Planning remains a significant barrier to increasing housing delivery over the next 12 months, with 94% of SME housebuilders seeing delays in securing planning permission or discharging conditions stifling housing supply.*" Available at: <https://www.hbf.co.uk/news/planning-materials-and-labour-shortages-threaten-housing-delivery-over-next-12-months/> (last accessed on 22 March 2023).

⁸⁰ Some notable examples of companies that have entered the housebuilding market for new homes in after the last 15 years include: London Square (founded in 2010); L&Q Homes (their in-house housebuilding subsidiary was founded in 2010, see "*London & Quadrant 2023 graduate opportunities*", available at: <https://www.graduate-jobs.com/scheme/london-quadrant>); and Hollins Home (established in 2015, being a small developer, see: "*HGP AND HOLLINS HOMES ANNOUNCE NEW £15M PARTNERSHIP UNDER THE REGIONAL GROWTH INITIATIVE*", 7 February 2022, available at: <https://www.housinggrowth.com/hgp-regional-growth-initiative-case-study-hollins-homes/#:~:text=Hollins%20Homes%20was%20established%20in,operating%20across%20the%20North%20West!>).

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nationwide. Similarly, the Letwin Review concluded that the availability of skilled labour (in particular bricklayers) would be a binding constraint on the government's aim of increasing production of new homes to 300k per year.⁸¹ Absent a substantial move away from brick-built construction techniques, a significant import of bricklayers from abroad or a nationwide "flash" training programme, the Letwin Review found that the government's goal was not achievable.⁸² The Chancellor has announced an additional supporting measure in the March 2023 budget, with certain construction occupations being added to the Shortage Occupation List (in theory allowing for easier migration of construction workers to the UK).

- 7.3 Operational factors also determine how an individual site is built out. It is not feasible to start and finish all plots on a site at the same time. Instead, it is necessary to stage development so that the necessary infrastructure can be delivered, and trade contractors (such as bricklayers, fitters, plumbers and decorators) can rotate between plots and work on different plots simultaneously. This is not only the most efficient way of working but is also the safest for on-site personnel.
- 7.4 Finally, effective demand is also relevant to build-out rates. The vast majority of housebuilding undertaken by TW for private sale is speculative; that is, there are no known purchasers at the time building on either the development or the individual plot is commenced. A completed house represents the point of maximum capital outlay and risk for TW. TW will therefore seek to manage the timing of bringing plots to the market to ensure that there will be buyers available for the properties.⁸³
- 7.5 TW does not have the ability to influence national or local markets to achieve supra-competitive prices by slowing the rate of build-out and does not seek to do so. Indeed, this would have the opposite effect. ROCE is a key metric for TW,⁸⁴ in particular its shareholders. Artificial delay of the build out rate would simply delay TW's ability to recoup its investment, as this would maintain the capital deployed by TW (the denominator of ROCE) without increasing the return on that land (the numerator of ROCE). In general terms, a strategy of materially delaying build-out would reduce TW's RONO (and profits). [redacted]
- 7.6 Similarly, TW has no ability to materially impact market prices [redacted] and the intense competition from other developers and existing properties. The OFT examined this issue in detail in the 2008 OFT Report, noting in its findings that: (i) there is generally significant competition in the supply of new homes even at local level; (ii) even if one supplier accounted for a higher proportion of new homes in an area, the ability of the supplier to influence prices will be limited given competition from sales of existing stock; and (iii) local areas with a single supplier holding a high share of new homes are rare (less than 10% of local markets) and any

⁸¹ See the Letwin Review.

⁸² *Ibid*, paragraph 1.11.

⁸³ TW will often aim to have found a purchaser before fully completing a house, in order to allow the purchaser to personalise certain aspects of the house (for example the final finishes in the kitchen and bathrooms).

⁸⁴ TW reports a similar metric to ROCE called "return on net operating assets" to its shareholders. See for example TW ARA 2022, page 4 and "Taylor Wimpey plc Investor and analyst update", 25 May 2022, available at: <https://www.taylorwimpey.co.uk/corporate/investors/results-and-reports#:~:text=Taylor%20Wimpey%20will%20be%20releasing.and%20investors%20on%20the%20day> (last accessed on 23 March 2023).

strong local position will be typically be transient in any event.⁸⁵ TW expects these findings to remain valid today.

7.7 In particular, key market features highlighted by (amongst others) the 2008 OFT Report, Letwin, Callcut, Savills, and others, which TW would expect to remain true today, include findings that:

- (A) There is strong price competition from existing homes over new homes;⁸⁶
- (B) Cutting prices to achieve faster sales is usually not a profitable strategy for housebuilders, because this would not only impact their margin, but also existing mortgage approvals, reservations and other buyers' willingness to transact;⁸⁷
- (C) Homes are heterogenous, and it takes time to match a home with the buyer who values it the most;⁸⁸
- (D) To expand output, the housebuilders would need planning permission, but this has "*long lead times and is unpredictable*";⁸⁹ and

⁸⁵ See the 2008 OFT Report, paragraphs 4.7, 4.26 and 4.57; "*Independent Review of Build Out Rates, Draft Analysis, Rt Hon Sir Oliver Letwin MP*", June 2018, paragraph 4.9 to 4.16 and 4.25, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718878/Build_Out_Review_Draft_Analysis.pdf (last accessed on 17 March 2023); and the Callcut Review, page 143, available at: https://housingforum.org.uk/wp-content/uploads/2020/05/callcutreview_221107.pdf (last accessed on 17 March 2023).

⁸⁶ See the 2008 OFT Report, paragraphs 4.37, 4.43; "*Independent Review of Build Out Rates, Draft Analysis, Rt Hon Sir Oliver Letwin MP*", June 2018, paragraph 4.9 to 4.16 and 4.25, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718878/Build_Out_Review_Draft_Analysis.pdf (last accessed on 17 March 2023); the Callcut Review, page 143, available at: https://housingforum.org.uk/wp-content/uploads/2020/05/callcutreview_221107.pdf (last accessed on 17 March 2023).

⁸⁷ See Cast, "*The Farmer Review of the UK Construction Labour Model*", February 2016, page 23, available at: <https://www.cast-consultancy.com/wp-content/uploads/2021/03/Farmer-Review-1-1.pdf>; and paragraph 2.21 of the KPMG report in annex E to the 2008 OFT Report, "*Homebuilding market study, Annexe E - Study investigating financing for homebuilders*", September 2008, available at: https://protect-eu.mimecast.com/s/eChdCivj8F2QLV8Tq_GBq?domain=webarchive.nationalarchives.gov.uk (last accessed on 17 March 2023).

⁸⁸ See the 2008 OFT Report, paragraph 4.42; the Letwin Review, page 6; "*Independent Review of Build Out Rates, Draft Analysis, Rt Hon Sir Oliver Letwin MP*", June 2018, paragraph 4.25, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718878/Build_Out_Review_Draft_Analysis.pdf (last accessed on 17 March 2023); the Callcut Review, page 143, available at: https://housingforum.org.uk/wp-content/uploads/2020/05/callcutreview_221107.pdf (last accessed on 17 March 2023); and, for example, see Savills, "*Buyer sentiment on the rise after late Summer dip*", 19 December 2022, available at: <https://www.savills.co.uk/insight-and-opinion/savills-news/336745-0/buyer-sentiment-on-the-rise-after-late-summer-dip> and "*Buyers take their marks for this year's race for space*", 17 January 2023, available at: <https://www.savills.co.uk/blog/article/338262/residential-property/buyers-take-their-marks-for-this-year-s-race-for-space.aspx>. These evidence all of the different factors buyers look for when buying a property (such as space, the ability to work from home, the proximity of parks and open spaces, family, transport, amenities and schools).

⁸⁹ See the 2008 OFT Report, paragraph 4.42. See also Section 6 above and the evidence referred to therein, for example, RTPI Research Paper, "*Planning Agencies, Empowering Public Sector Planning*", September 2022, available at: <https://www.rtpi.org.uk/media/12613/planning-agencies-rtpi-2022.pdf>; "*Almost 90% of Local Authorities surveyed struggling with backlog of planning enforcement cases*", 28 November 2022, available at: <https://www.rtpi.org.uk/news/2022/november/almost-90-of-local-authorities-surveyed-struggling-with-backlog-of-planning-enforcement-cases/>; Lichfields, "*Start to Finish*" report, 26 February 2020, page 6, available at: <https://lichfields.uk/content/insights/start-to-finish>; Savills, "*English Housing Supply Update Q4 2022*", 15 February 2023,

- (E) There is “*fierce competition for land*” which discourages housebuilders from cutting their selling prices, since lower selling prices translate into lower bids for land or lower margins.⁹⁰

7.8 Citing similar reasons, the 2008 OFT Report found that the build-out rates (or absorption rates) are: “*dictated by local market conditions and not by the maximum technical speed at which homes can be built. Homebuilders deliver new homes as fast as they can sell them, not as fast as they can build them*”.⁹¹ TW would expect these findings to remain valid today.

7.9 In summary, clear findings have been made in previous independent reports that there is no lack of competition that reduces the supply or increases the price of new homes. TW would expect these conclusions to remain true today.

8. Selling the properties

8.1 ***In order to sell the properties that it builds, TW is incentivised to build and market high-quality homes to consumers.***

8.2 An important aspect of this is ensuring that any homes that are built are maintained in a way that is sustainable. This includes avoiding high ongoing maintenance costs for purchasers of TW homes, whilst also ensuring that homes sold by TW do not end up in poor condition in improperly managed estates. Indeed, competition in the supply of homes means that TW is incentivised to facilitate estate management services (provided by third parties) on a cost-effective basis – otherwise TW homes will be unattractive to consumers.

8.3 This is often complicated by the important resource and financial constraints that local authorities face, which often mean that local authorities are unwilling to adopt public amenities such as roads, areas of public open space, ecology management areas, flood prevention measures, and so on. For example, TW estimates that in [redacted]% of recently completed TW developments, the relevant local authority has not wanted to adopt public amenities, meaning that TW has had to resort to using estate management companies or residents’ associations to manage these aspects of the development on a long-term basis.

available at: https://www.savills.co.uk/research_articles/229130/339701-0; HBF, “*Housing pipeline report - Q3 2022 report*”, 1 December 2022, available at: <https://www.hbf.co.uk/news/housing-pipeline-report-q3-2022-report-published-december-2022/>; Lichfields, “*Feeding the Pipeline*”, 30 November 2021, available at: <https://lichfields.uk/content/insights/feeding-the-pipeline/>; “*Ten years of the NPPF: What do we have to show for a decade of plan making?*”, 4 May 2022, available at: <https://lichfields.uk/blog/2022/may/4/ten-years-of-the-nppf-what-do-we-have-to-show-for-a-decade-of-plan-making/> (last accessed on 22 March 2023); Lichfields, “*Counting the cost of delay: The economic impact of Local Plan delay to housing delivery*”, 26 April 2022, available at: <https://lichfields.uk/blog/2022/april/26/counting-the-cost-of-delay-the-economic-impact-of-local-plan-delay-to-housing-delivery/>; and Lichfields, “*Start me up – but then you stopped: the continuing cost of local plan delays*”, 30 January 2023, available at: <https://lichfields.uk/blog/2023/january/30/start-me-up-but-then-you-stopped-the-continuing-cost-of-local-plan-delays/> (last accessed on 21 March 2023).

⁹⁰ See the 2008 OFT Report, paragraph 4.39; “*Independent Review of Build Out Rates, Draft Analysis, Rt Hon Sir Oliver Letwin MP*”, June 2018, paragraph 4.9 to 4.16 and 4.25, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718878/Build_Out_Review_Draft_Analysis.pdf (last accessed on 17 March 2023); and the Callcutt Review, page 143, available at: https://housingforum.org.uk/wp-content/uploads/2020/05/callcuttreview_221107.pdf (last accessed on 17 March 2023).

⁹¹ See the 2008 OFT Report, paragraph 4.40.

8.4 For developments where the local authority is unable or unwilling to adopt the public amenities, TW will often use a Resident Management Company (“RMC”). An RMC allows residents to have control over the management of their properties whilst also ensuring transparency (as the RMC is operated by them). The residents can appoint the management agent and can keep track of estate management fees.

8.5 TW agrees that any estate management arrangements should be fully transparent to residents. The New Homes Quality Code is a very recent innovation whose impact should be assessed before assessing whether further action is needed in this area.

9. Scope of the CMA Market Study – Advancing Good Outcomes for Consumers

9.1 In this section, TW provides some additional comments on the proposed scope of the CMA’s Market Study, as requested in the CMA’s Statement of Scope.

9.2 TW believes that a comprehensive and accurate CMA Market Study could be the first step towards improving outcomes for consumers. We believe that the Market Study should, *inter alia*:

(A) Provide an authoritative independent view on the real challenges that affect consumer outcomes in the housebuilding sector (in particular, in relation to the planning system), thus providing a useful and trusted resource for policy makers when considering policy improvements in this space.⁹²

(B) Contain a full and comprehensive assessment of competition in the housing sector, including between new build homes and existing homes. As part of this, the CMA should take into full account the positive consumer outcomes that exist in respect of new build homes (such as 10-year warranty periods, enhanced energy efficiency/thermal comfort, etc.) as compared to existing houses; and

(C) Provide a clear narrative on the beneficial levels of competition and innovation – thus avoiding misdiagnosis of the challenges facing the sector.

9.3 Linked to the above, whilst we note that the Market Study focusses on the supply of new houses, we consider that ***it is critical that (like the 2008 OFT Report) the scope of the CMA’s review takes account of the competitive constraint on new house sales from existing housing stock***, especially in light of the following key facts:

(A) Existing stock sales make up ~85% of total sales in a given year;

⁹² As noted by Rt Hon Michael Gove MP, “the Government would welcome recommendations for measures we, industry and the regulators could take to make sure the housing market is operating effectively”. See “A Competition and Markets Authority Study of the Housebuilding Sector”, 9 November 2022, page 1, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1121939/Nov - Letter to CMA CEO from SoS DLUHC.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1121939/Nov_-_Letter_to_CMA_CEO_from_SoS_DLUHC.pdf) (last accessed on 17 March 2023).

- (B) Competition from existing stock constrains all aspects of price and promotes quality – because of consumer choice and mortgage providers and surveyors, who will benchmark against the overall market in valuing new houses for lending;⁹³ and
- (C) Competition from existing stock is a further reason why it would be self-defeating for TW to build-out sites with artificial delay.

- 9.4 We also recognise that the CMA is not in a position to opine on government policy choices. That said, we welcome the CMA's commitment to assess structural barriers to the market working well, and the implications of these for customers. As part of this, and in order to ensure the Market Study provides a useful resource for policy makers, we believe it will be important for the Market Study to **provide an accurate account of the impact that policy choices have on the structure and operation of the market, and overall outcomes for end consumers**.⁹⁴ We expect that the Market Study will ultimately recognise that **the quantity, quality and cost of new homes in GB is primarily affected by policy and regulation**, most notably planning policy and implementation of planning policy.
- 9.5 Finally, we note that the Market Study will review a market characterised by a wide range of complex, varied and inter-related factors. The market features under review can and do have divergent effects on different market participants and stakeholders (housebuilders, local communities and consumers, to name a few). **The risk of unintended consequences from any intervention is therefore very high**.⁹⁵ We expect the CMA is aware of these risks and will therefore give very careful consideration before it recommends any changes in the sector, and only do so where there is clear evidence to support such action.
- 9.6 TW looks forward to engaging constructively with the CMA on these issues during the course of the Market Study.

27 March 2023

⁹³ TW's ability to sell homes is dependent in large part on customers being able to secure mortgages for those homes. Generally speaking, mortgage lenders will require a valuation survey to be carried out on the property as a condition to lending the required funds. This survey involves a report being prepared for the lender's benefit, confirming the home is worth the price which the consumer is offering to pay. These valuation surveys will nearly always look at local market conditions and selling prices for existing houses in determining the valuation for the property in question.

⁹⁴ One way of doing that will be for the CMA to consider whether any lessons can be learnt from the policy choices that have been made in Northern Ireland, and TW agrees with the CMA's proposal to include this in its analysis.

⁹⁵ For example, (a) any measures that increase the cost, risk or difficulty of development would likely contribute to a reduction in the number of homes being built despite growing need; and (b) any measures that increase complexity or impose additional burdens on local authorities are likely to slow the rate at which new private and affordable homes can be supplied to consumers.