

CMA Housebuilding Market Study (the 'Market Study')
Redrow plc's Response to the CMA's Update report and consultation on a market investigation reference (the 'Update Report') – 25 August 2023

1. Overview

1.1 Redrow plc ("Redrow") welcomes the opportunity to comment on the CMA's Update report and consultation on a market investigation reference which was published on 25 August 2023. Redrow remains committed to working with the CMA on this Market Study with a view to ensuring that the CMA has a full and proper understanding of the market and how it operates and can therefore draw appropriate conclusions in its final report. In this response, Redrow wishes to highlight certain key points from its perspective.

1.2 Redrow is a national housebuilder, with a focus on high quality homes designed to complement the style of existing local housing in developments that meet local demand and enhance the community. Redrow has a responsible and sustainable approach to managing its business with a strong track record of being customer focussed. It is rated as a five-star builder by HBF, and this is indicative of the importance that Redrow attaches to customer care and its relationships with its customers.

1.3 This submission is not structured to systematically address each key focus area identified reported in the Update Report. In addition, Redrow has not sought to respond to each area raised by the CMA, instead, where Redrow has views on certain areas, these views are incorporated into the commentary on the relevant focus area.

2. Housebuilders' 'land banks'

2.1 **Para 3.11 (a)** We completely disagree with this assertion. We believe the key barriers to entry for SME's are as set out in para 2.126(a) planning and (c) access to finance.

2.2 There has been an emergence of land promoters, on both a national and regional scale, in the last 5 – 10 years that has taken up a significant proportion of the strategic land market. Many agents now favour promotion agreements rather than traditional options which has placed the balance of power into the promoters' hands.

2.3 These promoters tend to hold land of varying sizes and once planning is achieved, they then sell into the open market, which in theory would be available for SME's as well national housebuilders.

2.4 In the last three years the biggest issue for land supply in the market has been the lack of implementable planning permissions and the continuing regulatory burden being placed on the industry. This lack of supply has pushed land prices upwards and forced many housebuilders to bid for sites they wouldn't ordinarily acquire to sustain a business.

2.5 **Para 3.11 (b)** We also disagree with this assertion. From a Redrow perspective we pride ourselves on placemaking and delivering a quality product on every site. We also build out at a rate commensurate with the market, and where we can sell faster, we build faster as evidenced on our larger multi outlet sites.

2.6 **Para 3.11 (c)** We also disagree with this assertion. There are several digital platforms available now (such as Land Insight, Landstack or Addland) which provide information on land ownership, planning policies, environmental, sales information etc, which are available to developers large and small.

2.7 From a Redrow perspective all our options / agreements are protected on the relevant title by a restriction and unilateral notice which can be seen by anyone who accesses a copy of that title. We do not consider it is relevant to SMEs for them to see the details of those agreements, and by the very nature of the agreements the terms are confidential and often commercially sensitive, in appraising the nature of the competition. They can see that a particular developer / housebuilder has an interest in that land and look for alternative land or make an approach to that entity to see if they are willing or able to sell the site or part of it.

2.8 **Paras 3.12 – 3.14** We consider these paragraphs hit the nub of the issue, namely the planning system. In short it has become so slow, cumbersome, and expensive that it is a significant barrier to entry particularly for SME's.

2.9 The planning system has effectively been in suspended animation since the White Paper in 2020, with a succession of consultations on planning reform which have been shelved or watered-down following opposition from the Government back benches.

2.10 The proposed changes to the NPPF in December 2022 are a case in point which would have the effect of making local housing targets advisory and removing the need for local authorities to continually demonstrate a deliverable 5-year housing land supply. This has led to several LPA's downing tools on their local plans.

2.11 In a system that is supposed to be plan led we currently have 67% of local authorities (c220) with an out-of-date local plan (more than 5 years old), and this will be c75% by November 2024 (the anticipated general election date).

2.12 In addition 103 LPA's (c31%) do not have a 5-year housing land supply as of August 2023.

2.13 The pipeline of planning permissions was at its lowest in 2022 at c300,000, down 10% since 2017 and trending downwards.

2.14 Further, from the date a planning application is submitted, it takes an average of 3.3 years to get a first housing completion on a site of 50-99 homes. For sites of 100+ homes the average is four years and for 1,000+ homes, it is seven years. Some sites see homes completed quickly following permission (e.g. six months) whilst others take longer notably on big sites and where there is up-front infrastructure, with the average across sites being 1.7 years. (Source: *Lichfields (2020) Start to Finish: What factors affect the build out rates of large-scale housing sites 2nd Edition*)

2.15 There has also been a drive in local plans to allocate larger sites, in order to deliver the associated infrastructure, over the last decade. These sites often require significant up-front investment in both time and capital expenditure which would put them out of reach of many SME's.

2.16 There have been some positive changes in policy for SME's including the introduction of requirements on many allocated sites for a percentage of units to be provided for custom or self-build. These policies are still in their infancy, and we are yet to see the full impact, but we consider this will have a positive impact on delivery of plots for smaller builders or individuals if they are allowed to remain. We also believe they could be strengthened by expanding the definition to include SME's.

2.17 There have also been proposals from Government for local plans to identify a percentage of their total housing requirement for small sites i.e. for SME's. This policy initiative is a few years behind the self-build policies and will not have had time to take effect, particularly given the poor performance in local plan delivery noted above. Given time this will improve the supply of such sites.

2.18 In addition the introduction of Permitted Development rights for conversion of offices, agricultural building and now the proposed high street buildings have improved the supply of sites for SMEs in particular. As a rule, the major housebuilders will not compete in this market.

2.19 Of course most local plans also have a windfall allowance which is generally made up of smaller sites within urban areas e.g. garden land assembly, former employment or other uses etc and these are generally acquired by smaller builders, developers or regional housebuilders. It is not clear from the papers whether this has been looked at as a source of land for SMEs in this investigation.

2.20 Finally on this point Homes England are also able to include SMEs on any of the sites they sell onto the open market. They also can provide all the technical reports, planning permissions, remediation, and infrastructure necessary to service those sites for the SME reducing their investment upfront and making it more accessible for them.

2.21 We consider these areas will yield much better and quicker outcomes than trying to find ways to disaggregate housebuilder land banks.

2.22 We also consider that alternative forms of funding for SME's will be vital to sustain those entities, particular in the current economic turmoil. The Levelling Up Home Building Fund appears to have been quite successful but will need to go further if the SME sector is to survive and thrive. If the country is ever going to build 300,000 homes per year, we need a thriving SME sector as well as efficient national housebuilding and housing association / public sectors.

3. Private management of public amenities on housing estates

3.1 Our initial observations in respect of the following paragraphs are as follows:

Para 3.15 *“representations from over 250 individuals”* and *“two estate management companies”* is a very small proportion of the total number of individuals and estate management companies involved in this process (whilst noting that the Welsh Government's call for information on EMC produced more representations) the point should also be made (as it was in relation to the Welsh Government's call) that it is recognised that residents motivated by dissatisfaction were likely to have responded in greater numbers than other residents.

Para 3.16

it is accepted that there is reason to believe that the financial incentives of housebuilders and local authorities, combined with an inadequate legal framework governing the adoption of public amenities by relevant authorities are causing the increase in the reliance on private management companies for the upkeep of public amenities (roads, open spaces, sustainable drainage systems) in newly built estates. However, it is not accepted that where the private management company is an RMC that the residents are left with “*little bargaining power*” or with “*a significant impact on their ability to switch to a new supplier if they receive poor services or prices charged appear unreasonable*”. Refer to the response to para 3.17 below.

Para 3.17

(a) It is agreed that there should always be full transparency for consumers to all material aspects of the way in which a newly built estate will be managed, including costs, the obligations of house buyers and consequences of the involvement of an estate management company. However, it should be recognised that it may well be unrealistic to expect “*the actual costs*” to be provided given the services may not be provided for several years particularly when the development is first begun, so the details in respect of costs should always be actual where known or a best estimate. The New Homes Quality Code deals with this aspect providing that the developer (if participating in the Code) “*should give customers fair and complete information about the property*” and part 1.2 of the Code specifically requires the developer to “*properly inform and not mislead customers*” about, inter alia, management services and service charges.

(b) It is correct that customers rights are more restrictive with embedded MCs, but this should not be the case with RMCs. Redrow has a policy of utilising RMCs and will only (reluctantly) use an embedded MC if buying into an existing site already set up on that basis where there is no opportunity to change it.

(c) With an RMC arrangement once the management of the amenity areas has been handed over to the RMC and control of the RMC handed over to the residents there should not be any high barriers for consumers to switch estate managing agents. For example, Redrow’s standard form of appointment of managing agent allows an RMC to terminate the appointment and appoint another managing agent on 3 months’ notice.

(d) It is agreed that the statutory rights available to freeholders relating to service charges and rights to manage etc are less favourable than those available to leaseholders. Which is an anomaly which ought to be addressed. The disproportionate sanctions under the Law of Property Act 1925, s121, have largely been addressed by the UK Finance Lenders Handbook so we would not expect any new Estate Rent charges created by developers to include these disproportionate sanctions. Redrow stopped creating new Estate Rent charges many years ago and will only (reluctantly) use rent charges if buying into an existing site already set up on that basis where there is no opportunity to change it and provided the disproportionate sanctions have been carved out.

3.2 General Comments

We recognise that there are some issues in this area, but matters were much simpler when a local authority adopted the areas in question and developers paid commuted sums. Since most local authorities simply refuse to adopt these public amenities, the developer has been left to find a legal framework to ensure the future maintenance of these public amenity areas and has no control of whether a local authority will adopt or not. The preference would be for local authorities to be required to adopt such areas but in any event as a developer we do not foresee a problem of equivalent statutory rights between freeholders and leaseholders to be able to challenge management companies and they're being a limit on costs so long as this limit is realistic, and a mechanism is built in to allow for cost escalation.

With the changes in the recent Consumer Code for Homebuilders and the introduction of the New Homes Quality Board and its code, following all developers becoming members, the issue around the provision of information on these matters to customers should dissipate, as outlined in our comments above.

Road adoption is similar in many ways to the issue of adoption of public amenities, some local authorities simply do not want to take roads through the adoption process or are so under resourced in this area that a developer is left for many years with the burden of maintaining estate roads. This again leads to frustration of both customers and developers in having infrastructure adopted in a timely fashion, leading in some cases on second sales for unnecessary expensive indemnity insurance policies to be purchased to protect the theoretical risk of the roads not ever being adopted.