

Appendix I: Barriers to entry and expansion for SME housebuilders

- I.1 This annex sets out the evidence we have gathered on the barriers to entry and expansion in more detail. The section is structured as follows:
- (a) Literature review on the challenges faced by SME housebuilders.
 - (b) Summary of the RFI responses we received from SME housebuilders and industry stakeholders.

Literature Review on the challenges faced by SME housebuilders

- I.2 As part of our analysis, we have explored the issues faced by small and medium-sized housebuilders (SME housebuilders) over the last decade or so, as described in the literature. The CMA's review has drawn on the following publications:

All Party Parliamentary Group for Small and Micro Business (2018). An inquiry into support for small housebuilders ¹	
All Party Parliamentary Group for SME Housebuilders ²	
i	Report on ways to improve the planning system in the UK (2020)
ii	Inquiry into Access to Finance in the SME Housebuilding Sector (2023)
Ball, M. (2007). <i>Firm Size and Competition: A Comparison of the Housebuilding Industries in Australia, the UK and the USA</i> . Real Estate & Planning Working Papers rep-wp2007-02, Henley Business School, University of Reading ³	
Campaign to Protect Rural England (2014). Increasing Diversity in the House Building Sector: The Need to Re-establish Small and Medium Sized Enterprises in Housing Construction (Foresight Paper No.1) ⁴	
Europe Economics (2014). How to Increase Competition, Diversity and Resilience in the Housebuilding Market? A Report for Shelter ⁵	
Federation of Master Builders, JCB, and JCB Finance Ltd ⁶	
i	FMB House Builders' Survey 2017
ii	FMB House Builders' Survey 2018
iii	FMB House Builders' Survey 2019
iv	FMB House Builders' Survey 2020

¹ All Party Parliamentary Group for Small and Micro Business (2018). [An inquiry into support for small housebuilders](#) research funded and undertaken by the Federation of Small Businesses

² All Party Parliamentary Group for SME Housebuilders (2020). [Report on ways to improve the planning system in the UK](#) research funded by Aldermore Bank and [Inquiry into Access to Finance in the SME Housebuilding Sector](#) research funded and undertaken by Aldermore Bank and Cowgills

³ Ball, M. (2007). [Firm Size and Competition: A Comparison of the Housebuilding Industries in Australia, the UK and the USA](#). Real Estate & Planning Working Papers rep-wp2007-02, Henley Business School, University of Reading

⁴ Campaign to Protect Rural England (2014). [Increasing Diversity in the House Building Sector: The Need to Re-establish Small and Medium Sized Enterprises in Housing Construction](#) (Foresight Paper No.1)

⁵ Europe Economics (2014). [How to Increase Competition, Diversity and Resilience in the Housebuilding Market? A Report for Shelter](#)

⁶ Federation of Master Builders, JCB, and JCB Finance Ltd (2017). [FMB House Builders' Survey 2017](#), [FMB House Builders' Survey 2018](#), [FMB House Builders' Survey 2019](#) and [FMB House Builders' Survey 2020](#)

Federation of Master Builders and Openreach ⁷	
i	FMB House Builders' Survey 2021
ii	FMB House Builders' Survey 2022
Greater London Authority (2014). Encouraging Diversity in London's House Building Industry: Report to Housing Committee ⁸	
Home Builders Federation (2017). Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes ⁹	
Home Builders Federation and Close Brothers Property Finance (2020). State of Play: Challenges and Opportunities Facing SME Home Builders ¹⁰	
Home Builders Federation, Close Brothers Property Finance, and Travis Perkins ¹¹	
i	State of Play: Challenges and Opportunities Facing SME Home Builders, 2021 Edition
ii	State of Play: Challenges and Opportunities Facing SME Home Builders, 2022-2023 Edition
Homes For Scotland (2019). Small Scale Home Builders: Increasing Supply ¹²	
House of Commons Library (2023). Future of small and medium-sized housebuilders (Debate Pack) ¹³	
Institute for Public Policy Research ¹⁴	
i	We Must Fix It: Delivering reform of the building sector to meet the UK's housing and economic challenges (2011)
ii	Think Small, Build Big: Lessons from SME Housebuilding in Germany (2017)
Lichfields ¹⁵	
i.	Small Sites: Unlocking housing delivery (2020)
ii.	Small builders, big burdens: How changes in planning have impacted SME house builders (2023)
Local Government Information Unit (2016). Small is beautiful: delivering more homes through small sites ¹⁶	
Localis (2017). Disrupting The Housing Market. A policy programme to save the home-owning democracy ¹⁷	
London Chamber of Commerce and Industry (2014). Getting our house in order: The impact of housing undersupply on London businesses ¹⁸	
The Lyons Housing Review (2014). Mobilising across the nation to build the homes our children need ¹⁹	

⁷ Federation of Master Builders and Openreach (2021). [FMB Housebuilders Survey 2021](#) and [FMB Housebuilders Survey 2022](#)

⁸ Greater London Authority (2014). [Encouraging Diversity in London's House Building Industry: Report to Housing Committee](#), p77-79

⁹ Home Builders Federation (2017). [Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes](#)

¹⁰ Home Builders Federation and Close Brothers Property Finance (2020). [State of Play: Challenges and Opportunities Facing SME Home Builders](#)

¹¹ Home Builders Federation, Close Brothers Property Finance, and Travis Perkins. State of Play: Challenges and Opportunities Facing SME Home Builders i. [2021 edition](#) ii. [2022-2023 edition](#)

¹² Homes For Scotland (2019). [Small Scale Home Builders: Increasing Supply](#)

¹³ House of Commons Library (2023). [Future of small and medium-sized housebuilders \(Debate Pack\)](#)

¹⁴ Institute for Public Policy Research: [We Must Fix It: Delivering reform of the building sector to meet the UK's housing and economic challenges \(2011\)](#); Institute for Public Policy Research: [Think Small, Build Big: Lessons from SME Housebuilding in Germany \(2017\)](#)

¹⁵ Lichfields: [Small Sites: Unlocking housing delivery \(2020\)](#) and [Small builders, big burdens: How changes in planning have impacted SME house builders \(2023\)](#)

¹⁶ Local Government Information Unit (2016). [Small is beautiful: delivering more homes through small sites](#)

¹⁷ Localis (2017). [Disrupting The Housing Market. A policy programme to save the home-owning democracy](#)

¹⁸ London Chamber of Commerce and Industry (2014). [Getting our house in order: The impact of housing undersupply on London businesses](#)

¹⁹ The Lyons Housing Review (2014). [Mobilising across the nation to build the homes our children need](#)

NHBC Foundation ²⁰	
i	Improving the prospects for small house builders and developers (2014)
ii	Small house builders and developers: Current challenges to growth (2017)
Royal Institute of British Architects ²¹	
i	Improving Housing Quality: Unlocking the Market (2009)
ii	Ten Characteristics of Places where People want to Live (2018)
Savills (2023). Is the planning system delivering the volume and mix of sites to increase delivery in England? ²²	
Thurairajah, N., Rathnasinghe, A., Brough, J. and Jayathilaka, N.G.A.M. (2022). <i>The Toxic Triangle of the Small and Medium-Sized Enterprise Housebuilding: A Review of the UK Housing Industry's Dilemma</i> . In: Tutesigensi, A. and Neilson, C.J. (Eds). Proceedings of the 38th Annual ARCOM Conference: Build Back Wiser (pp. 379-388). Association of Researchers in Construction Management (ARCOM) ²³	

I.3 A number of the publications reviewed have been informed (in part or in whole) by the findings from quantitative research with SME housebuilders. Table I.1 below summarises key technical details about these surveys (to the extent that we have been able to determine the details from information in the public domain about how they were conducted).

²⁰ NHBC Foundation: [Improving the prospects for small house builders and developers \(2014\)](#) and [Small house builders and developers: Current challenges to growth \(2017\)](#)

²¹ Royal Institute of British Architects: [Improving Housing Quality: Unlocking the Market \(2009\)](#) and [Ten Characteristics of Places where People want to Live \(2018\)](#)

²² [Savills UK | Is the planning system delivering the volume and mix of sites to increase delivery in England?](#)

²³ Thurairajah, N., Rathnasinghe, A., Brough, J. and Jayathilaka, N.G.A.M. (2022). *The Toxic Triangle of the Small and Medium-Sized Enterprise Housebuilding: A Review of the UK Housing Industry's Dilemma*. In: Tutesigensi, A. and Neilson, C.J. (Eds). Proceedings of the 38th Annual ARCOM Conference: Build Back Wiser (pp. 379-388). Association of Researchers in Construction Management (ARCOM)

Table I.1: Quantitative SME housebuilder surveys

Party <i>Agency (if applicable)</i> [methodology (if given)]	Fieldwork	Achieved sample size/ research audience profile
Federation of Master Builders, JCB, and JCB Finance [online]	2017	n=124 SME house building firms in England
	2018	n=116 SME house building firms in England
	2019	n=154 SME house building firms in England
	2020	n=133 SME house building firms in England
Federation of Master Builders and Openreach [online]	2021	n=123 SME house building firms in England
	2022	n=122 SME house building firms in England
Home Builders Federation	2017	n = not stated members of the HBF Small Developers Group ²⁴
Home Builders Federation and Close Brothers Property Finance [online]	2020	n = 'almost 200' SME home builders in England and Wales
Home Builders Federation, Close Brothers Property Finance, and Travis Perkins [online]	2021	n = 'more than 100' SME companies in England and Scotland
	2022-2023	n = 'almost 220' SME home building companies in England and Wales
Local Government Information Unit [online]	2016	n=108 SME builders ²⁵
NHBC Foundation <i>Lychgate Projects Ltd</i> [online + telephone]	2014	n=460 UK small housebuilder or developer companies ²⁶
	2016	n=468 UK small housebuilder or developer companies that are members of the National House-Building Council, the Federation of Master Builders and/or the National Federation of Builders and engaged in land acquisition and the building of 0-50 homes in the year to October 2016 ²⁷

I.4 In considering the robustness (and hence the evidential weight) of the survey findings reported, the CMA notes that:

- (a) None of the publications provides a response rate for the surveys described. The CMA is generally cautious about giving full evidential weight to surveys that achieve a response rate below 5%.²⁸
- (b) Achieved sample sizes tend to be reasonably low. In many cases, therefore, sub-group comparisons should be treated as indicative or highly indicative

²⁴ Members of the HBF's Small Developers Group and its Metropole Group (comprising predominantly medium-sized companies) also took part in qualitative focus group discussions, and a further n=16 qualitative in-depth interviews were conducted with representatives of start-ups, small firms, and medium-sized enterprises.

²⁵ The LGIU placed bespoke questions on the FMB's 2016 House Builders' Survey. It also undertook a quantitative survey of local authority planning officers and elected members with responsibility for planning and housing in England, Scotland, and Wales (n = not stated), two 'small sites workshops' attended by senior planning officers and SME developers, and qualitative in-depth interviews with local authority planning officers (n = not stated).

²⁶ A further n=39 small housebuilding companies in England took part in three qualitative focus group discussions.

²⁷ A further n=23 small housebuilders and developers in England took part in three qualitative focus group discussions.

²⁸ See: [Good practice in the design and presentation of customer survey evidence in merger cases \(CMA78\)](#)

only (because they are based on responses from <100 or <30 respondents respectively). Similarly, reported year-on-year differences in the findings are, in many cases, unlikely to be statistically significant (real) even when they appear substantial.

- (c) The representativeness of the achieved samples (that is, the extent to which survey respondents are a true cross-section of the wider population of SME housebuilders and, in turn, the extent to which the survey findings can be generalised to the wider population of SME housebuilders) is unclear.
- (d) Differences in research methodology and sample design, how the publication authors define 'SME housebuilders' (in terms of annual build volumes), and in the geographical scope of the surveys, mean that comparisons *across* this body of survey evidence are not like-for-like.

I.5 With these issues in mind, we have interpreted the reported survey findings cautiously and at face value, considering them in the round with a range of other evidence where they appear to be indicatively informative on topics of relevance to the Market Study.

I.6 Cumulatively, the literature indicates that SME housebuilders face a number of challenges, most notably from issues related to the planning system, the land market, and access to finance – factors that have been characterised by some as creating an inter-related and mutually reinforcing 'toxic triangle'.²⁹ Other issues for SME housebuilders also highlighted in the literature include shortages of materials, shortages of labour, delays caused by third-party agencies and utility companies, and the impact of regulations.

Effect of the planning system on SME housebuilders

I.7 The evidence we have reviewed suggests that the planning system is one of the main issues faced by SME housebuilders, in particular the length and uncertainty of the planning process, the complexity, cost and information requirements of the planning system, and concerns that the planning process favours large sites. For example:

- (a) Since it began in 2011, SME housebuilders responding to the Federation of Master Builders' (FMB's) annual House Builders' survey have consistently ranked the planning system as one of the top three constraints to their ability to build more homes, with six in ten (60%) of those surveyed in 2022 reporting it as a main barrier.³⁰

²⁹ IPPR (2017); Thurairajah et al. (2022)

³⁰ See: Figure 1 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

- (b) When the NHBC Foundation asked SME housebuilders to describe (in 2014) ‘the main business challenge that you are currently facing to growing your business over the next 2-3 years’, the issue most frequently identified (without prompting) by those who answered the question was the planning process and conditions (33%; equivalent to around one in four of all respondents surveyed).³¹
- (c) With prompting, the planning process and associated costs was ranked most frequently as the number 1 factor affecting growth by respondents to the NHBC Foundation’s 2016 survey. Nearly four in ten (38%) of those surveyed ranked this as the main or first ‘serious impediment to [their] business in building new homes’, and three in ten (31%) ranked it as the number 2 factor.³²
- (d) In a series of reports since 2020, the Home Builders Federation (HBF) et al. have described challenges in the planning process as ‘the major barrier’ that SME developers face to increasing housing delivery. The latest report in the series notes anecdotal comments from developers that, ‘the current state of the planning process is the worst it’s ever been’.³³

Length and uncertainty of the planning process

1.8 Several publications suggest that the time taken by, and uncertainty in, the planning process create particular challenges for SME housebuilders. Ball (2007) highlights that both delays and uncertainty in the planning system mean costly investments by SME housebuilders have to be made with ‘no prospect of return for some time, by when the housing market may have cooled’ and he argues this ‘may act as a major institutional barrier to [their] entry into housebuilding and rapid expansion within it’. Localis (2017) observes that the financial size and business model of SME housebuilders ‘necessitates a quick construction time and turnover, something that neither the slow and uncertain nature of the planning system, nor the resource required to efficiently navigate it, are particularly conducive to’. In 2020, the All Party Parliamentary Group (APPG) for SME Housebuilders reported that consent delays have a much greater impact on smaller housebuilders than on their larger counterparts because they are less able to mitigate risk over a greater number and geographic spread of sites. A similar point is made by HBF et al. (2023) who note that delays are acutely challenging for SME housebuilders because they are more likely than larger developers to have capital tied up in a small number of projects, and a delay to one or two sites can lead to their business ‘grinding to a halt’. The same argument is made by the Local

³¹ See: Figure 4 in NHBC Foundation (2014). A total of n=460 SMEs responded to the survey, of whom n=363 answered this question.

³² See: Figure 8 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey.

³³ HBF et al. (2023)

Government Information Unit (LGIU) in its 2016 report, which also highlights that delays can make it difficult for SME housebuilders to plan and can impact the viability of a site. All respondents to the 2023 inquiry by the APPG for SME Housebuilders (n=34 submissions) had experience of planning delays that prevented additional planning applications due to financial constraints, and/or led to significant increases in material, plant, or labour costs, and/or resulted in reduced returns on investment.

- I.9 Some studies have discussed the impact of uncertainty in the planning system on SME housebuilders. In 2017, the NHBC Foundation reported that over nine in ten of the SME housebuilders it had surveyed saw the unpredictability and inconsistency of the planning process as an issue for their business to at least some extent, but nearly six in ten described it as ‘a serious impediment’.³⁴ In addition, almost half (47%) of the SME housebuilders surveyed by the FMB in 2022 said they had quite a low or a very low degree of certainty about the outcomes of planning applications, something the FMB noted ‘is concerning given the cost pressures related to not obtaining planning permission’.³⁵
- I.10 Research by the NHBC Foundation casts light on the significant extent of delays. In 2017, it reported that – in the case of respondents’ most recent project – the length of time from pre-application discussions to discharge of conditions and authorisation to start on site had been over 7 months for more than half of the SME housebuilders surveyed, and over a year for nearly a third.³⁶ Meanwhile, secondary analysis of public planning data by Lichfields in 2020 found that the average time taken to achieve planning permission was 60 weeks across a sample of 60 small sites in London.
- I.11 Several causes of delays are suggested in the literature. The LGIU, the HBF and the All Party Parliamentary Group (APPG) for Small and Micro Business have all reported that under-resourced planning departments are a contributory factor.³⁷ Three quarters (76%) of SME housebuilders surveyed most recently by HBF *et al.* describe local authority staff/resource shortages as a major constraint in the planning process,³⁸ while inadequate resourcing of planning departments was scored highest for importance as a cause of delay in the planning process by respondents to the latest FMB annual survey.³⁹

³⁴ See: Figure 15 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=c.440 answered this question.

³⁵ See: Figure 5 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

³⁶ See: Figure 16 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=430 answered this question.

³⁷ LGIU (2016); HBF (2017); APPG (2018)

³⁸ See: Page 12 table in HBF *et al.* (2023). A total of n = ‘almost 220’ SMEs responded to the survey. Local authority staff/resource shortages were also identified most frequently by respondents as a major constraint.

³⁹ See: Table 1 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

- I.12 Lichfields (2020) found that ‘extensive negotiations’ over viability and affordable housing matters was ‘a principal delaying issue’ in three quarters of the cases it analysed. This included ‘protracted debates’ (disagreements between small developer applicants and local authorities) over land value that had caused delays in three in ten cases.

Complexity, information requirements, and cost

- I.13 A number of studies have indicated that the complexity of the planning system is an issue for SME housebuilders. In 2016, the LGIU reported a widespread perception among the SME housebuilders it surveyed that the planning system is too burdensome and complex in relation to small sites, with 79% of respondents selecting ‘The planning process for small sites is too heavy-handed’ as a barrier to development. In addition, 80% of those surveyed agreed with the statement ‘Local authorities in my area do not proactively communicate or engage with SME housebuilders’. For their part, 55% of local authority officers surveyed by the LGIU agreed with the statement ‘The quality of applications brought forward [for small sites] is often poor’, something they tended to attribute to inadequate knowledge of the planning process by some SME housebuilders. (Interestingly, 29% of SME housebuilders surveyed also agreed that poor quality applications act as a barrier to development.)
- I.14 Some evidence suggests that information requirements can lead to increased complexity and costs that disadvantage SME housebuilders. Ball (2007) compares the housebuilding industries of Australia, the USA, and the UK, and argues that the ‘detailed institutional structure’ of the UK planning system can act as a barrier to entry. In 2016, over eight in ten respondents to the NHBC Foundation’s survey of SME housebuilders said that the cost and time of specialist reports were either a serious impediment or a challenge to their business.⁴⁰ In 2022, respondents to the FMB’s annual survey rated excessive information requirements, and the overall complexity of the planning system and the cost of consultants required to deal with it, as the two most important causes of additional cost in the planning process for SME housebuilders.⁴¹ In addition, recent analysis from Lichfields (2023) suggests that since 1990 the volume of evidence that is required to support a planning application has increased dramatically, as has the cost associated with making a planning application. This was attributed largely to the increased policy requirements and evolution of technical and professional practices and also to increasingly risk-averse LPAs who have lost expertise and experience from their planning departments.

⁴⁰ See: Figure 15 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=c.440 answered this question.

⁴¹ See: Table 2 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

- I.15 In 2018, the APPG for Small and Micro Business concluded that costs associated with the planning system are often disproportionate to development size, ‘which can be prohibitive for small builders who are operating under resource, time and knowledge constraints compared to larger builders’. It cited the example of a traffic impact assessment that is not significantly different in terms of cost for a 10-unit site and a 100-unit site.
- I.16 A paper by Thurairajah et al. (2022) links the costs associated with the planning system to issues related to finance. The authors highlight that payments to specialists and the level of information required by the planning system can lead to SME housebuilders ‘living hand-to-mouth’ because financing for developers may not be accessible without planning approval.
- I.17 More generally, a 2014 report by Europe Economics for Shelter describes the barriers to entry and expansion for potential participants in the market or smaller incumbents caused by ‘information asymmetries [in] prerequisite knowledge’ (for example, understanding of local frameworks, training requirements, and regulations, as well as technical expertise in land acquisition and planning) compared with established, larger firms. A Greater London Authority (GLA) report from 2014 also notes that ‘understanding complex building regulations and standards may require legal expertise that smaller developers do not have’.

The planning system favouring large sites

- I.18 Several publications suggest that the planning system may favour large sites. Analysis by Savills (2023) finds that the size of allocated sites increased between 2011 and 2021, whilst the number of small sites gaining planning permission has decreased between 2013 and 2022. In its 2017 report, the HBF states that ‘many [local] authorities have recognised that allocating a handful of very large sites can help focus resources’ in planning departments with substantially reduced budgets. In 2018, the APPG for Small and Micro Business (citing Institute for Public Policy Research (IPPR) analysis that found 86% of ‘major’ and 83% of ‘minor’ applications were approved by local planning authorities)⁴² noted that smaller sites are less likely to be granted planning permission because larger sites are prioritised for reasons of expediency and cost-effectiveness (for example, they attract less local opposition). Similarly, the APPG for SME Housebuilders noted, in 2020, that smaller development sites may not be easier to get through the planning system or require less expertise than larger developments, so it is more cost-effective for local planning authorities to promote a single larger site and get ‘several years’ worth of build ... than to go for several smaller sites, which will still give rise to significant issues [requiring] time and expense to address, yet only provide a year or less build’. The report adds that the ‘standard house types’ built

⁴² The dataset analysed by IPPR, for year ending 31 December 2016, is a [DLUHC Open Data publication](#).

by larger developers make ‘the job of Officers easier [because the applications are quicker to process] and so often become the number one job they focus on’, at the expense of SME housebuilders. The Royal Institute of British Architects (RIBA) (2018) argues, however, that a lack of planning focus on small sites that are unappealing to major developers has created ‘a very narrow market offering ... skewed in favour of increasing housing numbers at the expense of good design and creating sustainable, liveable places’.

- I.19 In 2016, over half (52%) of SME housebuilders surveyed by the LGIU said that administrative costs for planners are disproportionately high for enabling small-scale development. In contrast, though, just 13% of local authority officers surveyed by the LGIU agreed with the statement ‘Administrative costs are disproportionately high’.
- I.20 The LGIU also reported that small sites (fewer than 30 units and/or less than 1.5 hectares) made up the minority of housing delivery identified in local plans at the date of survey, with ‘the bulk of housing allocated in local plans ... on larger sites’. Over half (53%) of local planning authorities surveyed said that less than 40 per cent of housing units would be delivered on small sites; 5% of respondents said that no housing units in their local plan would be delivered on small sites.⁴³ Instead, the LGIU noted that small sites tended to come through the planning system as windfall sites, which, it argued, are ‘inherently more risky from a developer’s point of view [because] unless a council has a well thought-through approach there may be delays and uncertainty associated with them’. The LGIU’s research found that over a quarter of the local planning authorities surveyed had no specific policy for how they would treat non-allocated sites.⁴⁴ Research by Savills (2023) also found that small sites make up a small number of sites in local plans: between 2012 and 2021, 3% of homes in new allocations were on sites of 1 hectare or less.
- I.21 It is worth noting that changes to the National Planning Policy Framework (NPPF) introduced in 2018 require local planning authorities to identify land to accommodate at least 10% of their housing requirement on sites no larger than one hectare, and to ‘support the development of windfall sites through their policies and decisions – giving great weight to the benefits of using suitable sites within existing settlements for homes’. However, only a small proportion of SME housebuilders surveyed most recently by the FMB and Openreach said that changes in the NPPF have yet driven an increase in small site opportunities (4%), while 62% said they have not.⁴⁵ Moreover, the proportion of respondents who agreed with the statement ‘The number of small site opportunities is decreasing’ had grown significantly from around seven in ten (71%) in 2021 to around eight in

⁴³ See: Figure 1 in LGIU (2016).

⁴⁴ See: Figure 3 in LGIU (2016).

⁴⁵ See: Figure 7 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

ten (82%).⁴⁶ Consequently, the FMB and Openreach have argued that these elements of the NPPF ‘are not being implemented or properly monitored’ by local authorities to ensure the targets are met.

Other issues

I.22 A number of other issues related to the planning system have been raised in the literature, including those pertaining to the land market (see Effect of the land market on SME housebuilders section), statutory consultees (see Agencies and utilities companies section), road adoption,⁴⁷ developer contributions,⁴⁸ poor communication by local authorities,⁴⁹ political decision-making,⁵⁰ and conditions sign-off.⁵¹

Effect of the land market on SME housebuilders

I.23 The literature suggests that land-related issues are key for SME housebuilders, especially availability, as well as affordability. A number of explanations have been offered for the challenges that SME housebuilders face in these respects.

I.24 Regarding the availability of land:

- (a) RIBA, in 2009, noted that – given the costs and risks involved – ‘many public and private landowners prefer to deal with established national companies’. RIBA also observed that larger developers can, and do, devote ‘significant resources’ to identifying and acquiring land suitable for housing, such that ‘much of the farmland around Britain’s cities and towns is effectively already “optioned out” to the major housebuilders’.
- (b) In 2017, the NHBC Foundation reported that nearly eight in ten SME housebuilders who answered the question considered the availability of suitable land to be either a serious impediment or a challenge for their business.⁵²
- (c) Respondents to the FMB’s annual survey of SME housebuilders have ranked a lack of available and viable land as the main constraint on their ability to

⁴⁶ See: Figure 6 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey. In 2021, a total of n=123 SMEs responded to the survey.

⁴⁷ HFS (2019)

⁴⁸ APPG (2023)

⁴⁹ LGIU (2016)

⁵⁰ HBF *et al.* (2023)

⁵¹ HBF *et al.* (2023); APPG (2023)

⁵² See: Figure 21 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=446 answered this question.

build new homes in seven of the nine years to 2022, with 62% of those most recently surveyed citing it as an issue.⁵³

- (d) Over half of SME respondents said a lack of land availability was a major barrier to growth when surveyed by the HBF *et al.* (2023).

I.25 Some evidence indicates that the affordability of land is also an issue for SME housebuilders. In 2017, the NHBC Foundation reported that over eight in ten survey respondents who answered the question cited the cost of land as either a serious impediment or challenge for their business.⁵⁴ More recently, the HBF *et al.* (2021) have suggested that issues with the affordability of land vary by location, with areas that are deemed more desirable suffering from land price inflation.

I.26 A number of explanations for SME housebuilders' land-related issues have been proffered. As discussed above, several publications have contended that the planning system favours large sites. In addition:

- (a) A change to the classification of residential gardens in the planning system (from brownfield to greenfield) has removed a source of land for SME housebuilders that was 'the lifeblood' for some small developers, according to the HBF (2017).
- (b) Developer contributions may limit the number of sites available to SME housebuilders. In 2022, for example, the FMB and Openreach reported that 41% of survey respondents said there were sites in which they would be interested but were not viable due to Section 106, the Community Infrastructure Levy (CIL), or other developer obligations.
- (c) Land is being bought up by larger developers or investors. The Campaign to Protect Rural England (2014) and the IPPR (2017) have both argued that sites are being held in the pipeline of large developers or as investment assets by others, rather than being sold to SME housebuilders. For example, the IPPR cites 2014 research for the Greater London Authority by Molior London that found 32% of permitted sites in London were held by 'those who did not build'.⁵⁵ More recently, the HBF *et al.* (2021) have claimed that larger developers are changing local markets by acquiring smaller sites that previously would have been taken by SME housebuilders.⁵⁶

⁵³ See: Figure 2 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

⁵⁴ See: Figure 21 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=442 answered this question.

⁵⁵ Greater London Authority and Molior London (2014). [Barriers to Housing Delivery – Update. Private Sector Housing Development on Larger Sites in London.](#)

⁵⁶ We discuss the role of land banks and our analysis of the land held by the largest builders in section 8 of the supporting evidence document.

(d) There may be a lack of sites suitable for SME housebuilders. Participants in qualitative focus group discussions for the NHBC Foundation (2017) said that much of the land they are offered is unsuitable for their needs or it has some drawback, such as contamination, while Thurairajah *et al.* (2022) note that not all sites will be suitable for SME housebuilders, such as larger sites with more resource requirements. The Lyons Review (2014) suggested that more could be done to make public sector land suitable for SME housebuilders, by highlighting that conventional government practices like selling land to the highest bidder can disadvantage SME housebuilders. Lyons proposed the use of a master developer approach where large sites are packaged into smaller sites, with basic infrastructure provided upfront, to make more sites available to SMEs.

I.27 A lack of transparency in the land market can also block new entrants or limit opportunities for established SME developers. In its 2011 publication, the IPPR argues that larger developers are better placed to establish and maintain relationships with a range of contacts who provide knowledge of local markets and landowners. This allows them to '[capture land] far upstream of the actual building process' and, in the majority of cases, before it reaches the open market. Consequently, 'new entrants face a series of serious obstacles to acquiring cheap, developable land' and '[f]or smaller UK builders, these land-related barriers mean that developable sites are scarce and, by the time they get to market, very expensive.' Likewise, the London Chamber of Commerce and Industry (LCCI) has claimed (2014) that a lack of transparency in who owns land and which sites are available for purchase can mean that 'market intelligence is a significant barrier in itself' for smaller developers who already struggle to access suitable land for a variety of other reasons.

Effect of finance on SME housebuilders

I.28 The literature suggests that the main finance-related challenges faced by SME housebuilders are the availability of finance, the cost of finance, and the conditions attached to finance.

I.29 Research with SME housebuilders points to them receiving finance from a range of sources. In 2017, the NHBC Foundation reported that self-funding (66%), finance from banks (61%), and finance from private equity (31%) were the most frequently mentioned sources of finance among the SME housebuilders it surveyed.⁵⁷ In 2022, the source of finance mentioned by half (50%) of respondents to the FMB's annual survey were self-build or custom contracts, followed by high street banks and building societies (41%), and private equity including local

⁵⁷ See: Figure 24 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=437 answered this question.

contacts or family/friends (28%, a significant decrease compared with 2021 when private equity was mentioned most often as a source of finance).⁵⁸

- I.30 In 2018, the APPG for Small and Micro Business suggested that there had been some improvement in the availability and cost of finance for SME housebuilders because ‘the Government have taken steps to improve the finance available to small builders through the Home Builders Fund’ and ‘the lending climate in general for small businesses has improved since the financial crash’.
- I.31 Reflecting on its annual survey findings relating to respondents’ experiences of lending conditions over time, the FMB’s most recent publication (2022) concludes, similarly, that ‘A lack of finance for development has been becoming less of an issue over the past few years ... leaving aside its brief resurgence during the height of the Covid-19 pandemic’. However, the report goes on to note that forecasts of a recession may alter this outlook.⁵⁹ Moreover, the literature as a whole consistently indicates that the availability of finance remains a barrier for a substantial minority of SME housebuilders (between two in ten and four in ten of those surveyed, typically). For example:
- (a) In 2014, around two in ten of the SME housebuilders surveyed by the NHBC Foundation said that the availability of finance was the main challenge to growth for their business. Half (50%) of those who answered a question about specific finance-related barriers to business – equivalent to around three in ten of all respondents – described the reluctance of banks to lend to small builders as a ‘serious impediment’, while 19% (a further one in ten (approximately) of all respondents) said it was ‘somewhat of a challenge’.⁶⁰
 - (b) In 2016, 20% of respondents to the NHBC Foundation’s survey ranked the availability of finance as the No.1 (main or first) factor impeding the ability of their business to build new homes,⁶¹ and when questioned in more detail about the effects of finance-related issues on their business, around four in ten respondents described the availability of finance as either a serious impediment or a challenge for their business.⁶²
 - (c) Development finance has been described as a barrier to growth by marked proportions of respondents to surveys by the HBF *et al.* (2020: 20% major, 39% minor; 2021: 42% ‘minor or major’; 2022-2023: 42% ‘minor or major’).

⁵⁸ See: Figure 11 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey. In 2021, a total of n=123 SMEs responded to the survey.

⁵⁹ See: Table 3 in FMB and Openreach (2022).

⁶⁰ See: Figure 7 in NHBC Foundation (2014). A total of n=460 SMEs responded to the survey, of whom n=c.300 answered this question.

⁶¹ See: Figure 8 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey.

⁶² See: Figure 23 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=c.440 answered this question.

(d) In 2022, three in ten of the SME housebuilders surveyed by the FMB said that lack of finance was a constraint on their ability to build more homes, and four in ten predicted that it would be a constraint 'looking ahead over the next three years'.⁶³

- I.32 In its 2014 report for Shelter, Europe Economics (2014) noted that SME housebuilders have greater problems accessing finance than large housebuilders because they are reliant on loans from banks, whereas large housebuilders 'can raise equity finance and access capital markets through corporate bonds and other instruments'. However, because small firms are 'dependent on a few land sites, and face lumpy, volatile cash flows as land is purchased, sites developed, and sales made', a lack of financial transparency may create difficulties for lenders when lending. The report adds that new entrants and occasional developers also struggle for the same reasons to secure finance for new developments.
- I.33 The cost associated with finance may also be a barrier for SME housebuilders. In 2016, around four in ten respondents to the NHBC Foundation's survey described the cost of finance (including interest rate/arrangement fee) as either a serious impediment or a challenge for their business.⁶⁴ The HBF (2017) reported that with SME housebuilders building fewer than 150 homes per year 'now reliant on project finance agreed on a site-by-site basis ... significant additional fees for entry, exit and legal agreements ... [turn] the headline interest rate of perhaps 6% into something more like 7-8% or higher'. In 2022, the FMB reported that the interest rate charged on new loans was the finance-related issue identified as most significant in restricting the ability of respondents to increase their house-building activity.⁶⁵ The FMB suggests this is often because the risk rating is higher for small developments.
- I.34 Some evidence suggests that the conditions attached to finance may also have an impact on SME housebuilders. For example, the HBF (2017) observes that '[s]ome sites are available for purchase only "subject to finance" [but] in many cases finance is only available when a builder has secured a viable planning permission', leaving SME housebuilders 'faced with a decision to either finance all pre-development costs themselves or only purchase land with a detailed consent'. Likewise, Homes for Scotland (2019) notes that banks are reluctant to finance the upfront work necessary to provide local planning officers with the level of information they require before an application is processed. The APPG for Small and Micro Businesses (2018) notes that finance is typically available at low loan-to-cost ratios, typically 60-65%. The HBF (2017) also note that loan-to-cost ratios have reduced since before the 2008 financial crisis, with finance for SME

⁶³ See: Figure 1 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

⁶⁴ See: Figure 23 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=c.440 answered this question.

⁶⁵ See: Figure 10 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

housebuilders typically available at 60-65% loan-to-cost, compared with 70-80% before 2008. The HBF adds that in practice loan to cost ratios can be as little as 40-45% because the developer will have invested the balance in the form of equity.

- I.35 The APPG for Small and Micro Business (2018) suggests that delayed payments in the supply chain can exacerbate financial issues for SME housebuilders because they can result in delays in money going into new projects.

Other challenges faced by SME housebuilders

- I.36 The literature reveals a number of other challenges for SME housebuilders, including access to labour, access to materials, the impact of additional regulations, and interactions with agencies and utility companies.

Labour shortages

- I.37 Evidence suggests that labour shortages have been a long-term issue for SME housebuilders, but the problem may have worsened in recent years due to Brexit and the Covid-19 pandemic. For example:
- (a) In 2014, the NHBC Foundation reported that the availability of skilled labour/costs of labour was, without prompting, the fourth most-mentioned business challenge identified by the SME housebuilders it had surveyed (and who answered the question).⁶⁶ In 2016, 3% of its survey respondents ranked the availability of skilled workers as the No.1 (main or first) factor impeding the ability of their business to build new homes, and a further 10% ranked it as the No.2 factor – considerably fewer than identified planning, land, or finance issues as factors affecting growth.⁶⁷ However, when questioned in more detail about the factors affecting their business, around four in ten respondents described the shortage of skilled trades as either a serious impediment or a challenge.⁶⁸ In focus group discussions, SME participants said that local trades were less available to work for them because they could not provide the same continuity of employment offered by larger developers, disproportionately exacerbating more general labour supply challenges in the sector.
 - (b) Since 2015, at least a quarter (and, in several years, up to half) of respondents to the FMB's annual survey have cited a shortage of skilled workers as a main constraint on their ability to build more houses. In 2022,

⁶⁶ See: Figure 7 in NHBC Foundation (2014). A total of n=460 SMEs responded to the survey, of whom n=363 answered this question.

⁶⁷ See: Figure 8 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey.

⁶⁸ See: Figure 25 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=c.440 answered this question.

47% of SME housebuilders surveyed described it as a main constraint 'currently', and the same proportion said it would continue to be a main constraint 'looking ahead over the next three years'.⁶⁹

- (c) Publications by the HBF *et al.* appear to indicate that, over time, the supply and cost of labour has become a barrier to housing delivery for a growing proportion of the SME housebuilders taking part in their research. In 2020, around one in five respondents described the supply and cost of labour as a major barrier for their business. In both 2021 and 2022-2023, the proportion saying this stood at approximately three in five respondents. The authors attribute skills shortages to 'increased demand for housing, an ageing workforce and a severe loss of skills during the last recession', adding that 'the effects of Brexit and the pandemic have only exacerbated these problems further.'
- (d) In their most recent publication, HBF *et al.* (2023) report that certain site-based roles (management/professional workers, brick workers, general labourers, carpenters/joiners, and plasterers) are roles that survey respondents found 'particularly difficult' to recruit. They also state that '[r]ecruitment for plumbing and finishing trades was significantly more difficult for smaller SMEs than larger [businesses]'

Materials shortages

I.38 The literature indicates that materials shortages have been a long-term issue for marked proportions of SME housebuilders. For example:

- (a) Since 2014, the proportion of respondents to the FMB's annual survey who cite materials shortages as a main constraint on their ability to build more houses has varied considerably: from around one in ten in 2014 to six in ten in 2021 (at the height of the Covid-19 pandemic), before dropping back significantly to three in ten (30%) in 2022.⁷⁰
- (b) In 2016, none of the respondents to the NHBC Foundation's survey ranked the availability of materials as the No.1 (main or first) factor impeding the ability of their business to build new homes, and only 6% of respondents ranked it as the No.2 factor.⁷¹ However, when questioned in more detail about the factors affecting their business, around one in five respondents described the shortage of materials as at least a challenge (and, for some, a serious impediment) for their business.⁷² In focus group discussions, the

⁶⁹ See: Figure 2 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

⁷⁰ See: Figure 2 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

⁷¹ See: Figure 8 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey.

⁷² See: Figure 23 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=c.440 answered this question.

NHBC Foundation also heard ‘the general view [that] due to their greater buying power, the larger builders take priority with merchants and product suppliers [over SME housebuilders]’.

- (c) HBF *et al.* reported, in 2020, that 66% of survey respondents regarded supply/costs of materials to be a *minor* barrier, and 20% a *major* barrier, to housing delivery post-lockdown. Subsequently, however, nearly eight in ten respondents identified the supply and cost of materials as a *major* barrier to increasing housing delivery in both 2021 and 2022-2023. The authors comment that ‘[a]lthough SMEs are always vulnerable to price shocks in the supply chain ... the current combination of [Brexit, the pandemic, Ukraine, and financial market turbulence] has created a unique situation’ due to their inability to buy in bulk and stockpile, and the fact that they work on much tighter budgets than larger housebuilders. Again, therefore, SME housebuilders are disproportionately affected by price inflation compared with the wider sector.

Regulations

- I.39 Some evidence suggests that new regulations, such as the upcoming Future Homes Standard (FHS) and those relating to biodiversity net gain (BNG) and nutrient neutrality, can lead to particular challenges for SME housebuilders.⁷³
- I.40 In their publication setting out the findings from research with smaller housebuilders in 2022-2023, the HBF *et al.* (2023) argue that the work and preparation involved in adapting to new regulations like the FHS (which comes into effect in 2025 but was first announced in 2019) can be particularly challenging for SME housebuilders. Around half of businesses surveyed said they were ‘in the process of adapting’ to FHS requirements, and one in twenty said they would struggle to build to them. In addition, nearly seven in ten respondents said that nutrient and/or water neutrality would be a barrier to increasing housing delivery over the following 12 months.
- I.41 Similarly, the FMB’s 2021 publication notes that ‘SME builders will face particular challenges in achieving biodiversity net gain’ given the limited space for green infrastructure on small sites. Respondents to the FMB’s 2021 survey envisaged a number of problems for their business arising from BNG policy, including additional cost, complexity, and delay in the planning process, and an impact on the viability of some brownfield sites.⁷⁴ When the FMB surveyed SME housebuilders in 2022, over three in five said they were not confident they knew and understood the requirements for BNG, and over four in ten wanted more BNG

⁷³ See: [Biodiversity net gain - GOV.UK \(www.gov.uk\)](https://www.gov.uk); [The Future Homes Standard: changes to Part L and Part F of the Building Regulations for new dwellings - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

⁷⁴ See: Table 7 in FMB and Openreach (2021). A total of n=123 SMEs responded to the survey.

guidance.⁷⁵ Meanwhile, the APPG for SME Housebuilders reported in 2023 that 14 out of 34 submissions to its inquiry had raised concerns about BNG and the impact it was having on SME housebuilders, particularly the financial viability of schemes. '[M]ultiple respondents' also raised 'significant concerns' about nutrient neutrality that were focussed on its apparent unfairness.

Agencies and utility companies

- I.42 The literature also suggests that interactions with statutory consultees, third-party agencies, and utility companies can negatively impact SME housebuilders. For example:
- (a) Both the HBF (2017) and Homes for Scotland (2019) have noted that differences in road design standards between highways authorities across the country make it challenging for SME housebuilders to navigate the planning system. The HBF adds that highways authorities, as statutory consultees, often communicate poorly and engage too late in the planning process (i.e., after consent is in place and an application for highway adoption technical approval has been made by the developer), with required changes sometimes necessitating a return to the planning process and, in turn, increased costs and time delays.
 - (b) More recently, respondents to a survey conducted by the HBF *et al.* were five times more likely to describe *services associated with planning such as highways approvals* as a major constraint (38%) than to say it was no constraint (7%).⁷⁶
- I.43 The HBF (2017) and the APPG for SME Housebuilders (2023) have both drawn attention to the impact on SME housebuilders of Land Registry delays. For example, the HBF comments that a lack of clarity provided at an early stage in the process of establishing the title of land is a 'common source of delay'. The APPG for SME Housebuilders gives an example of a site that fell through because delays by the Land Registry in updating ownership led to the collapse of a funding offer.
- I.44 A number of publications also explore issues for SME housebuilders relating to utility companies. Participants in focus group discussions for the NHBC Foundation in 2017 'complained about the service received from utilities and telecoms companies, including difficulties with communication and the length of time taken to install connections, which can delay home sales'; in the same year, nearly seven in ten respondents to its survey described the service they received

⁷⁵ See: Figures 15 and 16 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

⁷⁶ See: Page 12 table in HBF *et al.* (2023). A total of n = 'almost 220' SMEs responded to the survey.

from these service providers as either a serious impediment or a challenge to their business.⁷⁷

- I.45 In its 2019 report, Homes for Scotland also highlighted issues related to communication, reporting that one of the most-cited problems for SME housebuilders was identifying the correct person to speak to in utility companies. In 2020, the APPG for SME Housebuilders remarked on the problems for SME housebuilders caused by ‘statutory bodies, such as water companies, who are unable to provide support [with pre-commencement condition sign-off] in appropriate timeframes’. In 2022, half (51%) of respondents to the FMB’s annual survey reported delays when connecting to the electrical grid which added ‘stress and time to a development’.⁷⁸ In addition, the Homes for Scotland report (2019) notes that the costs associated with utilities can be significant for SME housebuilders in terms of the initial capital cost of installation and ongoing bills throughout the construction process. They give a specific example whereby fibre connection is free for sites above 30 units and inversely priced for smaller-scale sites (i.e., the smaller the site, the higher the cost per home), a financial barrier that ‘directly penalise[s]’ the builders of the smallest developments.

Summary of information requests

- I.46 To explore barriers to entry and expansion, we also gathered information directly from SME housebuilders to get an understanding of the key challenges they face. The housebuilders we approached use different types of land and construct different types of housing, and our sample included housebuilders present in different parts of Great Britain. However, in order to ensure respondents had sufficient experience in navigating the housebuilding process, we largely approached medium-sized housebuilders (ie those building over 100 units per year). We contacted 47 housebuilders and have received written information from 19 SME housebuilders. We have also had calls with an additional three housebuilders and heard directly from industry stakeholders including the Federation of Master Builders, Home Builders Federation, and Homes for Scotland.
- I.47 A summary of the responses we received is provided below. The section is structured around the following themes:
- (a) Planning system
 - (b) Land market

⁷⁷ See: Figure 25 in NHBC Foundation (2017). A total of n=468 SMEs responded to the survey, of whom n=c.440 answered this question.

⁷⁸ See: Figure 12 in FMB and Openreach (2022). A total of n=122 SMEs responded to the survey.

- (c) Finance
- (d) Labour and materials constraints
- (e) Other challenges

Planning system

I.48 The planning system emerged as the top barrier amongst the SME housebuilders we heard from. Over half of the SME housebuilders we received responses from ranked planning as their top issue, with almost all ranking it as one of their top three barriers.

Uncertainty

I.49 The uncertainty of the planning system was one of the main themes amongst respondents, with delays, inconsistency, and changes in policy all emerging as issues related to uncertainty.

I.50 Many of the SME housebuilders we heard from told us that delays in the planning process were an issue for their business. The HBF explained that SME housebuilders are also more susceptible to planning delays because of their smaller geographical scope:

‘smaller builders with a more concentrated geographical footprint, will be more susceptible to local shocks or local examples of under-resourcing at local authority level [causing planning delays]. Shocks could include moratoria on development, the like of which has been imposed since 2019 across much of the country where water quality levels are perceived by Natural England to be inadequate.’

I.51 Many of the SME housebuilders we heard from told us that inconsistency and unpredictability in the planning system is also an issue, with some respondents complaining specifically about differences between local planning authorities. The SME housebuilders we spoke to suggested several causes of inconsistency, including differences in the opinions of local planning officers, and differences in the political makeup of local councils.

I.52 Several of the SME housebuilders we heard from complained about changes in government regulations and policy related to the planning system. The HBF also commented on the issue, highlighting that there have been 38 amendments to the guidance on building regulations since 2008 as well as several ‘one-off policy shocks’ that have affected SME housebuilders. We have also heard some specific examples of recent regulation changes impacting SME housebuilders, with one SME housebuilder having to unexpectedly spend £80,000 on consultants and legal fees due to water neutrality.

Complexity and cost

- I.53 Some of the SME housebuilders we heard from said that the complexity of the planning system was a challenge for their business. A few respondents complained specifically about the increasing number of reports required for planning consent, and one respondent commented on the growing need for third-party consultants. The HBF told us that policy divergence between England and Wales has increased the complexity of the planning system for firms that operate in both nations. They also said that the regulatory burden in England has 'potentially surpassed' that of Wales, suggesting there may be greater barriers for SME housebuilders in England.
- I.54 Several SME housebuilders cited the costs associated with the planning system as a challenge. One respondent explained how costs can fall disproportionately on SME housebuilders:
- 'The complexity, and indeed cost, of the consents process falls disproportionately on the SME sector as we tend to build on smaller sites which still have the same consent related hurdles to overcome almost irrelevant of the number of units. The cost of solving these issues is therefore at a greater cost per unit.'

Other issues

- I.55 Other challenges to the planning system were also raised, including issues related to developer contributions, and statutory consultees. However, these issues were generally identified less frequently, or as less severe constraints, than the challenges discussed above.

Land market

How do SME housebuilders acquire land?

- I.56 The SMEs that responded to our questionnaire found land in several ways, including through intermediaries, contacts, and local knowledge. We found 16 of 19 SME respondents said they often or always purchased directly from a landowner or through an intermediary, and none said they often or always purchased from a developer. Where they purchased from intermediaries, 16 said they had purchased via land agents and five SMEs said they had purchased via land promoters.

The role of Homes England

- I.57 Homes England also play a role in facilitating access to land for housebuilders. Homes England currently hold around 9000 hectares of land and sold 116

residential sites between 2020-21 and 2022-23, accounting for almost 16,000 houses. Over 100 individual organisations are signed up to Homes England's Dynamic Purchasing System (the platform on which they sell land), including 40 SME housebuilders.

Challenges in the land market

- I.58 Challenges in the land market emerged as a common theme amongst the respondents we heard from, although issues related to acquiring land were more prevalent than issues related to finding land.
- I.59 In our research, acquiring land ranked as the second highest issue amongst respondents. One SME housebuilder commented that the risk they face when purchasing land would be lessened if they were able to hold a landbank, like large housebuilders. Another SME housebuilder we heard from explained how an inability to acquire sufficient land had impacted their business:
- 'For three out of the past four years it has proved impossible to acquire sufficient sites to maintain target volumes of business. Consequently, financial projections for the next three years show significant reductions in turnover and profitability.'
- I.60 In particular, respondents mentioned that there are shortages in low-risk sites to take through the planning system (e.g. allocated land) and/or land with planning permission. One developer also said that there are a lack of deliverable brownfield sites and another said that large sites with infrastructure requirements can stop SME housebuilders from bidding on sites.
- I.61 The cost and level of competition for sites was also raised as an issue. Six of the SME housebuilders we spoke to referred to the cost of land as a barrier and four said the competition for land created difficulties. One SME housebuilder suggested non-residential developers bidding on land increases competition, whilst two suggested that competition has increased recently due to larger developers bidding on smaller sites.
- I.62 We have also heard that the practices of land agents can sometimes act as a barrier to acquiring land. One SME housebuilder told us that land agents sometimes favour certain developers, who are often those paying fees to other parts of their business. They said that agents sometimes allow favourable terms to these developers when bidding for land, such as being given an opportunity to improve their bid at the last moment.
- I.63 In our research, issues related to finding land were less prevalent than issues with acquiring land. Some respondents commented that they do not have issues finding land, with one commenting that they have 'excellent visibility over land'. Nevertheless, a few respondents raised concerns about land agents only offering

sites to companies on a shortlist, meaning opportunities can be missed. However, there were mixed views on the significance of this issue.

Finance

How do SME housebuilders access finance?

I.64 Most of the SME housebuilders we heard from had long-term finance arrangements, including revolving credit facilities, and working capital facilities. Some respondents financed on a project-by-project basis. A few respondents self-financed and a few respondents received finance from a parent company or as part of a wider group. In addition, a few respondents also used finance from Homes England. It is important to note that the SME housebuilders we gathered information from were predominantly larger SME housebuilders, which the HBF told us are less likely to finance on a project-by-project basis.

The role of Homes England

I.65 As part of Homes England's role in supporting the delivery of housing in England, they provide finance to housebuilders through the Levelling Up Home Building Fund (LUHBF), which was introduced in 2022. Prior to 2022, they provided finance through the Home Builders Fund. The majority of housebuilders receiving finance from Homes England are SME housebuilders. As of 2021, almost 90% of the 275 businesses supported by the fund were SME housebuilders. In addition, around 60% of businesses that received finance from the fund reported that it had enabled them to grow their business, highlighting the impact of the finance provided by Homes England.

Challenges related to finance

I.66 Finance was not one of the main challenges amongst the SME housebuilders we heard from (although we note this may be related to the fact we mainly have information from larger SME housebuilders who may have better access to finance). However, Homes England told us that finance could become more of a challenge for SMEs in the coming years because of the economic outlook, indicating that the barriers related to finance may increase in the future.

I.67 A few respondents mentioned that the cost of finance is an issue and one complained about the 'limited access to development capital' for SME housebuilders. The FMB also told us that finance can be harder to secure for new entrants because they do not have the 'necessary credentials'.

I.68 Another SME housebuilder said that funding is only available on a project-by-project basis, which does not match medium-term funding requirements of their business. The HBF told us that the fact that smaller housebuilders generally

finance on a project-by-project basis can create barriers. The HBF said that project-by-project financing reduces the ability of SME housebuilders to expand because equity is usually only returned once the lender has received all its return, which limits the ability of firms to reinvest equity into new projects. The HBF also said that lower loan to cost values over the past two decades have limited the value of loans SME housebuilders can access. They also explained how project-by-project financing can be more expensive than using cash or longer-term credit facilities:

‘Not only does [project-by-project financing] lead to the incurrence of higher transaction costs, it also leads to higher debt financing costs and, critically, allows for much greater scrutiny by lenders of the risk dynamics of individual sites rather than assessing an entire development portfolio.’

- I.69 Planning delays can also impact the cost or availability of finance for a project. Some SME housebuilders we heard from said that the time taken to achieve planning permission affects the time debt is carried for, which can increase the cost of financing a project. In addition, the FMB told us that many lenders will not provide finance until planning permission has been achieved.

Labour and materials constraints

- I.70 Labour and materials constraints emerged as an issue amongst the SME housebuilders we heard from, although some suggested constraints are now easing. Those we heard from ranked labour shortages as a greater challenge than materials constraints.
- I.71 One respondent said that labour shortages had been a long-term issue ‘due to the age profile of tradesmen’, but a few respondents said that labour shortages have increased in recent years due to Brexit. In addition, Homes for Scotland said that skills and resourcing shortages can be more acute in rural areas. However, a few respondents suggested that labour shortages are now easing.
- I.72 We also heard that materials shortages have worsened in recent years due to the Covid-19 pandemic. However, a few SME housebuilders said that shortages are now easing.

Other challenges

- I.73 The SME housebuilders we heard from raised other concerns, including mortgage availability and the level of demand for housing. However, such barriers were generally identified less frequently, or as less severe constraints, than the challenges discussed above.