

# STATE OF PLAY:

CHALLENGES AND  
OPPORTUNITIES FACING  
SME HOME BUILDERS

## FOREWORD



**STEWART BASELEY**

**EXECUTIVE CHAIRMAN, HOME BUILDERS FEDERATION**

Viewed as a whole, the home building sector had a very successful period between 2014 and 2020, rebuilding a workforce that was rocked by the financial crisis and increasing housing supply to record levels. But this singular view of the last six years fails to tell the full story. Despite a vastly improved planning system and a Help to Buy scheme which has helped almost 300,000 households onto the housing ladder with a new home, the small and medium-sized enterprises that were once responsible for delivering up to half of all new homes, have struggled to expand in an environment that increasingly necessitates scale. This steady decline in the diversity of the industry can be traced back to the early 1990s. While financial shocks have accelerated the trend, it is a deeply entrenched problem and one that works against the interests of all builders, homebuyers and those of us relentlessly focused on tackling decades of housing undersupply.

The coronavirus crisis is the next in a line of economic events that threatens the very existence of many small home building companies. While sites are back up and running, months of activity was lost during the lockdown period. For most small builders, cashflow is critical and in this period of uncertainty, we want to step up our work with central government, local government, lenders and suppliers, to support smaller firms through and get ready to build back better. But to do so will require a planning process that is quicker, more certain and less costly for firms that are most exposed to the vagaries and complexities of a process that has burgeoned out of control since the early 1990s.

Beyond just building new homes and addressing the housing affordability pressures that affect the life chances of families around the country, home building can be a key driver of our post-pandemic economic recovery, and SMEs have a vital role to play in this. As an industry that supports over 772,000 jobs and generates over £42 billion in economic activity each year the benefits may be obvious, but ours is a sector too that sees minimal import leakage. The vast majority of the home building supply chain is UK-based and small firms employ a disproportionately high number of apprentices so for them to survive and thrive would bode well for the depth of the whole industry's talent pool in the years to come.

Home building is a strong industry that can address all of the different and competing challenges that come its way, but if we are to 'build, build, build' our way through the recovery, reversing the decline of SME home builders will be paramount.





**FRANK PENNAL**

**CEO OF CLOSE BROTHERS  
PROPERTY FINANCE**

We began lending to the house building sector over forty years ago and I have been running the division for 15 years now, growing the business to fund over 5,000 homes, with a loan book of over £1.4 billion.

During this time we have consistently supported small and medium sized businesses, the lifeblood of the house building market. This is why we jointly commissioned this report to examine how the challenges and obstacles within this market have changed and what impact coronavirus will have.

At the start of this process it was evident that many of the challenges to growth and entry into this market remain and the large-scale Plc developers have increased their dominance, with SMEs finding it increasingly difficult to compete. What we did not expect was the positive impact coronavirus would have on influencing central and local government to support this sector and remove some barriers.

It is now clear to decision makers just how important the house building sector is to the UK economy and also, how SMEs safeguard the future growth and prosperity of the housebuilding sector. They remain the training ground for the next generation and bring with them a strong appetite for innovation in design, technology, delivery and sustainability.

We will be using the outcomes of this survey, which is one of the most comprehensive of its kind, to speak to Government to ensure that the voices of the SME house building industry are heard. As I write, there are a number of policies and changes in motion which could finally swing the balance in favour of SMEs across the UK, and I hope that this momentum will continue so that the sector will not only survive the current uncertainty, but thrive as a consequence of it.



# INTRODUCTION

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While the home building sector in its entirety has flourished over the past six years, SME developers have continued to face a number of challenges and obstacles which have hindered their ability to grow. Although there has been an unprecedented 93% increase in housing supply since 2012/13, this has mainly been due to the contributions of the largest house builders. However, this has not always been the case. In 1988, small developers were responsible for four in every ten new build homes, compared to around just 10% today.

The number of SMEs in the home building sector has declined consistently since the beginning of the 1990s. Changes to the planning system, an ever-increasing burden of risk and cost involved with securing planning and the resulting impact on access to finance has limited the ability of small and medium-sized home builders to thrive, or even survive. Now with the added economic challenges presented by the coronavirus pandemic, the position of SME developers is increasingly precarious.

To fully understand the range of impacts coronavirus is having on small developers, Close Brothers Property Finance and the Home Builders Federation (HBF) conducted a survey of almost 200 SME home builders across England and Wales in June 2020. A summary of the key findings can be found throughout this report, along with suggested measures that could be introduced to support the future growth of the home building industry.

If the home building industry is to play a key role in the economic recovery, it is vital that SME builders are supported to play their part too.

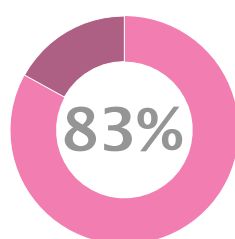


# CHALLENGES FACING THE SECTOR

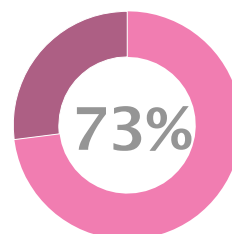
To explore the barriers to housing delivery for SMEs, participants were asked to consider which elements of the business environment were most important in influencing their prospects for the future.

## PLANNING PROCESS

The survey results indicate that one of these challenges, planning, continues to be of particular concern. When respondents were asked about the challenges to increasing housing delivery over the next twelve months, planning issues were cited as the major barrier:



83% of respondents see delays in securing planning permission or discharging of planning conditions by local authorities as a major barrier to delivery



73% of respondents believe a lack of resource in local authority planning departments is a major barrier

While these issues are also inconvenient for larger house builders, they will at least have multiple other sites that they can progress in the interim. SMEs are unable to effectively mitigate these setbacks as they may have their capital tied up in just one or two projects at a time. As a result, lengthy delays can bring their business to a halt.

On 6 August, the Government unveiled its Planning for the Future white paper, containing a range of measures that it intends to streamline the planning process and enable new homes to be built faster. While we are hopeful that the reforms will deliver positive changes for home builders and particularly SME developers, the scale of the proposed changes means that the transition will take time. As such, it is imperative over the coming months that Local Authorities do not use this period of flux to halt the development of Local Plans. This would risk a paralysis that would result in fewer homes being built and cause further disruption for the industry.



Planning and condition discharge is a major issue, Local Planning Authorities (LPAs) take years to consent sites and then put significant conditions on the application to control the minutia of the design without the resource to discharge them in a timely manner, with no seeming penalty for the delay.

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020

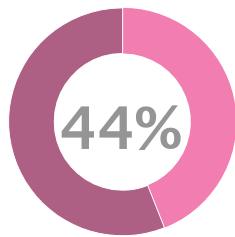


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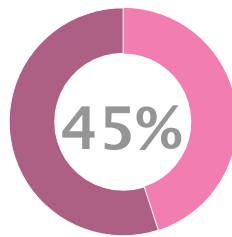
## CORONAVIRUS

While the Government permitted construction activity to continue during the lockdown period, much of the industry downed tools as it needed time to establish new ways of working safely in line with PHE and Government guidelines regarding social distancing. Closure of much of the supply chain and the sales market and concerns around public perception also contributed to the decision.

While developers have since returned to site, the introduction of social distancing measures, while necessary, are inevitably impacting productivity. Unsurprisingly therefore, SME developers cited that the fall out from the coronavirus pandemic would present major barriers to housing delivery over the course of the next 12 months:

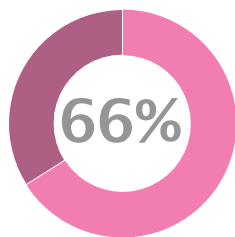


**44% of respondents felt that affects of Covid-19, such as site closures and social distancing, would be a major barrier to delivery**



**45% considered that consumer confidence will be a barrier**

Due to the closure of many businesses in the supply chain during the first few months of the pandemic, some developers have experienced a shortage of materials during the return to site as suppliers need time to ramp up production again. This has been evidenced as a minor barrier by respondents to the survey:



**66% of respondents felt that supply/costs of materials will be a minor barrier to delivery, followed by the supply/cost of labour (64%)**



# EMPLOYMENT

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The home building industry makes a considerable contribution to employment, supporting around 772,000 jobs in 2018/19.

With the Government's ambition to deliver an ever increasing number of new homes and an estimated 30% of the workforce due to retire in the coming years, home builders are investing in the attraction and retention of a diverse range of talent to the industry in order to deliver much needed additions to housing supply.

There are a wide-ranging array of careers available in the industry but a key route into home building is through an apprenticeship. Our survey found that:

- **A third of respondents (33%) employ apprentices and train new employees**
- **Of these companies, apprentices make up 19% of their workforce on average (just under 1 in 5 employees)**

Small and medium-sized home builders employ a disproportionately high number of apprentices and trainees meaning that SMEs are extremely important for maintaining a good pipeline of talent in the home building workforce.

HOWEVER, SME LEADERS REPORT THAT A LACK OF FUNDING FOR APPRENTICESHIP SCHEMES IS LIMITING THEIR ABILITY TO BRING THROUGH THE NEXT GENERATION OF HOME BUILDERS:



Increase apprentice subsidy to encourage more new entrants

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020



Providing more funding for training and apprenticeships

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020

HOME BUILDERS ARE ALSO VITAL SUPPORTERS OF SUPPLY CHAINS THROUGH THEIR USE OF SUBCONTRACTORS:



We use on average 40 subcontractors

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020



# HELP TO BUY

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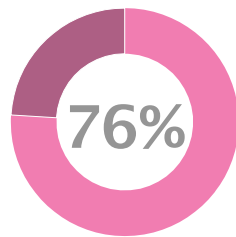
Since its introduction in April 2013, the Help to Buy Scheme has been a fundamental driver of the unprecedented 93% increase in housing supply delivered over the past six years. To date, over 272,000 properties have been sold through the scheme, 82% of which have been to First Time Buyers (FTBs).

The scheme also works well for home builders. While predecessor schemes such as HomeBuy Direct, FirstBuy and NewBuy had only a couple of dozen participating builders, thousands of developers, including many small builders, have signed up to sell homes with Help to Buy support.

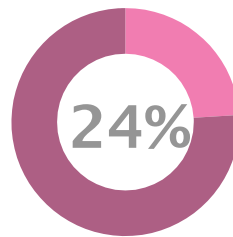
Largely, this is because the Help to Buy scheme is far more accessible to SMEs than previous offerings. Predecessor schemes involved significant developer equity contributions which even for the largest developers meant setting aside capital that could otherwise be spent on land acquisition and building, deterring builders from signing up. For most SMEs this was not even an option.

Help to Buy has proved successful in meeting the objectives set at launch: to increase home ownership; increase housing supply; and generate economic activity.

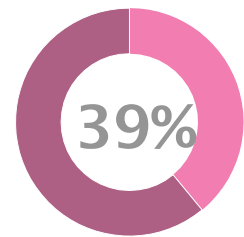
Of the respondents to our survey:



The majority (76%) confirmed that they do use the Help to Buy scheme



24% of respondents do not use Help to Buy – this is not surprising given a third of respondents build less than 10 units per annum



Of the respondents who do use Help to Buy, the scheme accounts for 39% of their sales (mean average)





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The current Help to Buy scheme is set to be replaced with a new programme from April 2021 which will be restricted to FTBs and include regionally based price caps. There are widespread concerns about the challenges posed by the regional price caps under the new scheme:



The HTB scheme needs to be extended and specifically for London the threshold needs to be increased beyond £600k per unit.

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020



We build predominantly in the North East and the new Help to Buy threshold from April 2021 of £186,100 will affect us. This threshold is ridiculously low and won't assist first time buyers purchasing a 2-bedroom semi-detached/terrace house.

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020



# CASE STUDIES

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KEVIN MARREN

MANAGING DIRECTOR AT  
ECCLESTON HOMES

Currently approximately 60-70% of our buyers use Help to Buy, however, under the regional caps the vast majority of our properties (probably over 90%) would fall outside of the new price banding, which is extremely low at £224,400.

“At this price point, first time buyer homes in the North West will inevitably be smaller and there will be much less choice in the market. As first time buyers get older they are increasingly looking for family homes, so it’s unlikely these new regionally capped homes will appeal to buyers.

“While the housing market is currently looking positive, we face having our legs cut out from under us next year, when the stamp duty holiday ends and the regional caps are introduced. We would urge the Government to increase the regional cap to £275,000, as this is in line with the market – not only providing more choice for first time buyers but also enabling the housing market to function properly.

## KEVIN MARREN, MANAGING DIRECTOR AT ECCLESTON HOMES

ECCLESTON HOMES IS A PRIVATE HOUSEBUILDER, FOUNDED BY KEVIN MARREN, WHICH FOCUSES PRIMARILY ON BUILDING SMALL DEVELOPMENTS OF TRADITIONAL HOMES IN DESIRABLE LOCATIONS ACROSS THE NORTH WEST OF ENGLAND.

As a relatively small regional house builder, Help to Buy has been our best tool in driving completions. Without it we would not have grown our business and delivered as many homes as we have over the past few years. Since the reopening of the housing market in May, around 70% of our buyers have made use of Help to Buy

“The 2021-23 Help to Buy price caps for the North West will see a significant reduction in the supply of new family homes in high demand areas of our region. The price caps are set according to average prices across the region but these fail to take into account the massive variations in the types of homes bought and sold which bear little resemblance to our market.

“Because of our average sales price of around £260,000, only one-third of the homes we build will be eligible for Help to Buy after April 2021. Almost a decade ago, one of the Help to Buy predecessor schemes, FirstBuy, had a maximum sales price of £300,000. We estimate that raising the 2021-23 threshold to this level would open up two-thirds of the homes we build for first-time buyers.

#### CHRIS SAMS, MANAGING DIRECTOR AT ROWLAND HOMES

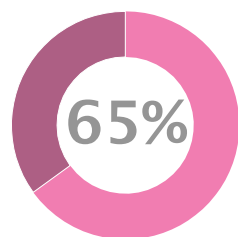
ROWLAND HOMES ARE A FAMILY OWNED PRIVATE HOUSEBUILDER ESTABLISHED IN 1993, OVER THE LAST FEW YEARS THE COMPANY HAS GROWN AND NOW COMPLETES AROUND 300 NEW HOUSES PER YEAR.

## GROWTH PLANS

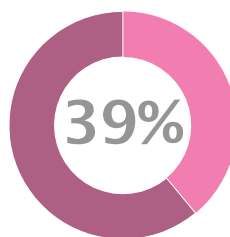
For the home building industry to continue to increase housing supply at pace, a greater plurality of developers is required. For example, returning to the number of home builders operational in 2007 could help boost housing supply by 25,000 homes per year. However, for this to be achieved, it is vital that the barriers and obstacles preventing the growth of SMEs are overcome.

In addition to the concerns raised earlier in this briefing about planning, finance and red tape, coronavirus inevitably presents a further threat to the confidence and abilities of small developers to invest, grow and plan for the future.

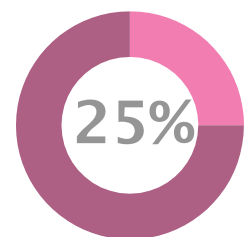
IN RESPONSE TO THE SURVEY QUESTION, "HOW HAVE YOUR GROWTH PROJECTIONS CHANGED POST COVID-19?":



Nearly two-thirds (65%) of respondents said their growth projections are down



For 39% of these respondents, projections were down between 10-50% with over a quarter (26%) saying their growth projections had fallen between 0-10%



More positively, 25% of businesses had not seen any change to their business growth projections and 4% had even seen their growth projections increase (by up to 50%)

More detail on these concerns and worries can be found in individual comments:



Failed to complete on a site as uncertain over pricing for sales in 2021.

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020



Unsure at moment, waiting to see what happens when furlough finishes.

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020



# FINANCE

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Home builders, particularly SME developers, have had varying degrees of success in accessing the Government's financial support measures for businesses introduced in the wake of the coronavirus pandemic.

For those that have succeeded, schemes such as the Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS), Bounce Back Loan Scheme, Bounce Back Loan and Coronavirus Corporate Finance Facility (CCFF) have provided a vital lifeline.

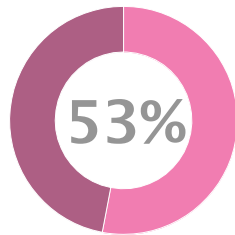
However, there are also a significant number of developers who have faced numerous challenges including delays, inconsistent approaches from lenders and a refusal by some to lend to the real estate sector, in their attempts to access financial support. Other issues include:

- **Very few of the accredited lenders are active or knowledgeable in the specialist area of development finance**
- **Builders with lower turnovers are unlikely to have a Revolving Credit Facility. As many SME builders have site specific finance arrangements, this leaves little by way of an asset base to satisfy overarching loan commitments like those required by lenders through CBILS**
- **Decisions being made based on a determination as to whether the lender would have lent to the developer prior to the coronavirus outbreak: As this would typically have been on a project-by-project basis, lenders are determining that at a group level, they are unwilling to lend to builders**
- **An interpretation of British Business Bank guidance for establishing viability being that ongoing cashflow is required by way of contracted income**
- **Some developers being told loans cannot be used to acquire new sites while others are being told that it can only be used to acquire new sites**

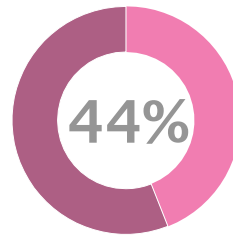


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THESE ISSUES HAVE BEEN REFLECTED IN THE RESPONSES TO THE SURVEY QUESTION, “HAS YOUR COMPANY TRIED TO ACCESS SUPPORT THROUGH THE CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME?”:



Just over half of the respondents (53%) have tried to access support through CBILS



Of these, only 44% of respondents had been successful

Some of the developers who failed to secure a CBILS loans have gone on to secure a Bounce Back Loan although the maximum loan is capped at £50,000 compared with up to £5 million for CBILS and up to £200 million for CLBILS. Given the nature of the product home builders sell, the usefulness of a Bounce Back Loan is inevitably limited.

The variety of experiences members have encountered in accessing the financial support schemes are demonstrated in the comments:



We have been told by our lenders that either they don't lend to house builders under the scheme or that they will only lend if there is a contractual commitment that the customer cannot afford to meet. So, from our perspective it does not meet its intended purpose to support businesses that have been adversely affected by Covid-19.

HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020



Useless for SMEs using SPVs [special purpose vehicles] for each project.

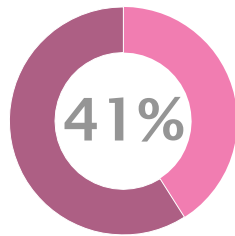
HOUSE BUILDER SURVEY RESPONDENT, JUNE 2020



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In the challenging post-Covid environment, the availability and terms on which development finance is offered to SME developers will continue to be of considerable importance.

When provided with ten suggested barriers to growth, our respondents saw Development Finance as the least significant barrier, with 41% believing it did not present a barrier at all. Of those identifying this as an impediment to their activities, just over a third (39% of all responses) thought it was a minor barrier and 20% considered it a major barrier, demonstrating that there is still a bit of work to be done to support the SME sector.



**41% of participants believe that development finance is not a barrier to housing delivery**



## CONCLUSION

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While the experiences of SMEs are as varied and dynamic as the industry itself, there were some key trends that emerged when respondents were asked how the Government could further support SME house builders.

THE TOP **THREE** SUGGESTIONS WERE:



**RECAST THE 2021-23 HELP TO BUY SCHEME PRICE CAPS TO ENSURE MORE POTENTIAL HOMEBUYERS IN HIGH DEMAND AREAS IN ALL REGIONS HAVE THE SAME SUPPORT ONTO THE HOUSING LADDER**



**REDUCING OR TEMPORARILY REMOVING STAMP DUTY**



**REFORM THE PLANNING SYSTEM**

The Government has since introduced a stamp duty holiday until March 2021 and has launched a consultation to Reform the Planning system. While these are welcome moves in the right direction, it is too early to tell how these changes will impact the industry in the medium term.







# ANNEX: SURVEY DEMOGRAPHICS AND BACKGROUND

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178 respondents took part in the survey which was carried out in June 2020

## REGIONAL DEMOGRAPHIC OF RESPONDENTS

- **South East – 48%**
- **London – 16%**
- **Midlands – 14%**
- **South West – 10%**
- **North West – 5%**
- **North East – 4%**
- **Other – 2%**
- **Wales - 1%**

## SIZE OF COMPANY BY UNITS PER ANNUM

- **41% built between 10-50 units**
- **33% built 10 or less units**
- **15% built between 50-100 units**
- **10% built over 100 units**
- **1% selected 'other'**



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## LENGTH OF TRADING

- **74% of respondents had been trading for over 10 years**
- **25% had been trading for between 2-10 years**
- **1% had been trading for less than two years**

## DIRECT LABOUR

- **50% employed less than 10 people directly**
- **34% employed between 10 and 50 people directly**
- **9% employed more than 50 people directly**
- **7% selected 'other'**



# CONTACT DETAILS

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## FOR FURTHER INFORMATION PLEASE CONTACT:

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## ABOUT HBF

HBF is the representative body of the home building industry in England and Wales. Our members are responsible for providing around 80% of all new private homes built in England and Wales and most of our members are small or medium-sized enterprises.

### Contact

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**Follow us on twitter:** [twitter.com/HomeBuildersFed](https://twitter.com/HomeBuildersFed)



## ABOUT CLOSE BROTHERS PROPERTY FINANCE

At Close Brothers Property Finance we are property specialists who provide personalised, flexible finance to property developers and investors across the property industry. Over the last four decades we have consistently supported small and medium sized businesses and we are currently funding over 5,000 homes with a loan book of £1.4 billion. Our bespoke financial products include development finance, bridging loans and commercial investment and our specialist teams are based in three offices across the UK.

We are part of Close Brothers Group plc, which employs over 3,000 people, is listed on the London Stock Exchange and is a member of the FTSE 250. Close Brothers is a leading UK merchant banking group, providing lending, deposit taking, wealth management services and securities trading.

For further information on Close Brothers Property Finance, visit: [www.closepropertyfinance.com](http://www.closepropertyfinance.com) or for further information Close Brothers Group plc, visit: [www.closebrothers.com](http://www.closebrothers.com)





