



STATE OF PLAY ▶

Challenges and opportunities facing
SME home builders

2024 - 25

FIFTH EDITION

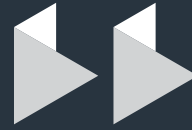


Travis Perkins



Close Brothers
Property Finance





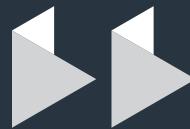
Only when SMEs do well can the housing supply we need be delivered, and I hope that the findings, issues and recommendations outlined in this report will provide some food for thought for the Government as we enter this period of change.

Neil Jefferson



We also need to ensure that we are building the right type of houses, in the right locations and building them in a way that considers the impact on the environment, the local economy and supply chains.

Phil Hooper



The new Government's calls to "back the builders, not the blockers" is promising but needs to be followed up with decisive action if we are to come close to the 1.5 million new homes target.

Ben Todd

FOREWORD



NEIL JEFFERSON

**CHIEF EXECUTIVE OFFICER,
HOME BUILDERS FEDERATION**

This is the fifth report in our State of Play series, exploring the difficulties facing small and medium-sized (SME) home builders. Throughout all five reports, SME builders have been hampered by the same delays while, each year, new challenges get thrown into the mix.

Throughout all the difficulties that the last few years in particular have thrown out – geopolitical issues and subsequent supply chain delays, increasing costs, building regulations, a fall in the availability and affordability of mortgages, and the end of Help to Buy – SME builders have remained determined, but the outlook gets increasingly bleak with each year that passes.

At HBF, we have been urging the Government to take notice of the unique combination of challenges facing SMEs for many years. There is a general consensus among the industry that the change in Government should be a positive move, and the early months have been a strong start. While the new Government has acknowledged many of the issues with planning, there remains much more work to be done if we are to achieve the diverse and thriving housing market that is needed to resolve the housing crisis.

With the Government's long-term housing strategy set to be published in 2025, it is critical that it includes a clear focus on supporting SME home builders. The industry is stronger when it is more diverse, and I hope that the findings, issues and recommendations outlined in this report will provide some food for thought for the Government as we approach the start of a new year.





PHIL HOOPER

CEO, CLOSE BROTHERS
PROPERTY FINANCE

In the five years in which we've produced the State of Play report, we've had a once in a lifetime pandemic, eight housing ministers and 14 consecutive interest rate rises. Mandatory housing targets have been scrapped and subsequently reintroduced and uncertainty about nutrient neutrality laws, which still haven't been resolved, has held up delivery of 160,000 new homes. It's little surprise then that two-thirds of SME housebuilders who were surveyed in this year's report said it is harder to be an SME housebuilder now than it was half a decade ago.

Yet, in spite of the numerous challenges they face, there is some cause for optimism amongst SME housebuilders. The pro-development approach adopted by the new Government and recognition that tackling the housing crisis is a crucial factor in unlocking economic growth, suggests we may finally be closer to delivering the new homes the UK so desperately needs. Reform of the National Planning Policy Framework will help free up 'grey belt' land sites for development, presenting opportunities for SMEs to build on these smaller pockets of land that are typically overlooked by PLC housebuilders.

While there's no doubt that we need to build more houses, we also need to ensure that we are building the right type of houses, in the right locations and building them in a way that considers the impact on the environment, the local economy and supply chains. Responses to previous versions of the State of Play report show SME housebuilders have consistently built homes that exceed environmental regulations. With greater support, including planning reforms and brownfield sites being freed up, they could go even further and play a significant role in the decarbonisation of our built environment.

Labour shortages continue to be a problem within the industry and tapping into a younger, more diverse pool of talent will need to be a key priority. Close Brothers Property Finance is proud to encourage greater diversity through initiatives such as our Tomorrow's Developer network, supporting the next generation of housebuilders and our Women in Property network, which aims to tackle gender stereotypes.

I'm not saying it will be easy and there remain considerable hurdles to overcome but I am hopeful that widescale reform of the planning system will go a long way in getting Britain back building.



BEN TODD

MANAGING DIRECTOR, TRAVIS
PERKINS MANAGED SERVICES

This fifth edition of the State of Play report underscores the extraordinary resilience of SME housebuilders in the face of persistent challenges. Years of bottlenecks in the planning system, combined with under-resourced local planning authorities, have stifled the delivery of desperately-needed homes across the UK. The new Government's call to "back the builders, not the blockers" is an encouraging shift, but real progress toward the ambitious goal of 1.5 million new homes will require decisive action that enables SME housebuilders to fulfil their potential.

Though recent global pressures on supply chains have begun to ease, providing welcome relief in material costs, new geopolitical tensions underscore how fragile these gains can be. A third of SME housebuilders surveyed now cite supply costs as a major barrier, a notable decrease from the eight out of 10 last year. However, supply chains will need ongoing monitoring to maintain stability as new risks emerge.

The need to provide homes goes beyond statistics and targets—it is an obligation we all share, as everyone deserves a safe place to call home.

SME housebuilders provide jobs, boost the local economy, and create homes that offer safety, security, and a sense of community across the UK. This is why at Travis Perkins we're proud to work alongside HBF and Close Brothers Property Finance to advocate for SMEs to be supported further.

Reforms to the planning system, financial incentives, and targeted support for SMEs are essential to support and lay the groundwork for a housing sector that is more resilient, diverse, and capable of meeting the pressing demand for homes.

It is time to turn commitments into concrete action that will empower SME builders to deliver the homes our communities so urgently need, strengthening the UK housing market for generations to come.



Introduction

The 2024 edition of the State of Play report comes at a pivotal point for small and medium-sized (SME) home builders, with almost 70% of respondents reporting that it is harder to be a small developer now than it was five years ago. While the business environment certainly remains challenging in the immediate term, the new Labour Government has given a strong indication that it is determined to tackle some of the challenges that have been shackling SME developers for decades.

This is particularly true in the case of planning. Not only did the Government's announcement of 30 July 2024 confirm that it would reform the National Planning Policy Framework (NPPF) to reinstate mandatory housing targets, introduce the concept of 'grey belt' land and take steps to enable universal coverage of strategic planning, it is also consulting on measures that would specifically benefit SME home builders, including options to strengthen small site policy.

However, reform of the planning system is not enough to reverse the decline in small house builders and ensure this once vibrant section of the market can play its vital part in delivering the Government's target of 1.5 million new homes over the coming Parliament.

As will be addressed in this report, achieving such an ambitious target will require a concerted effort to tackle the other challenges facing the industry including chronic skills shortages, delayed grid connections and certainty over the direction of Future Homes Standard, to name a few.

Delivering meaningful change in these areas will inevitably take time. But the benefits will be reaped not only by SME developers, but by the economy and local communities too.



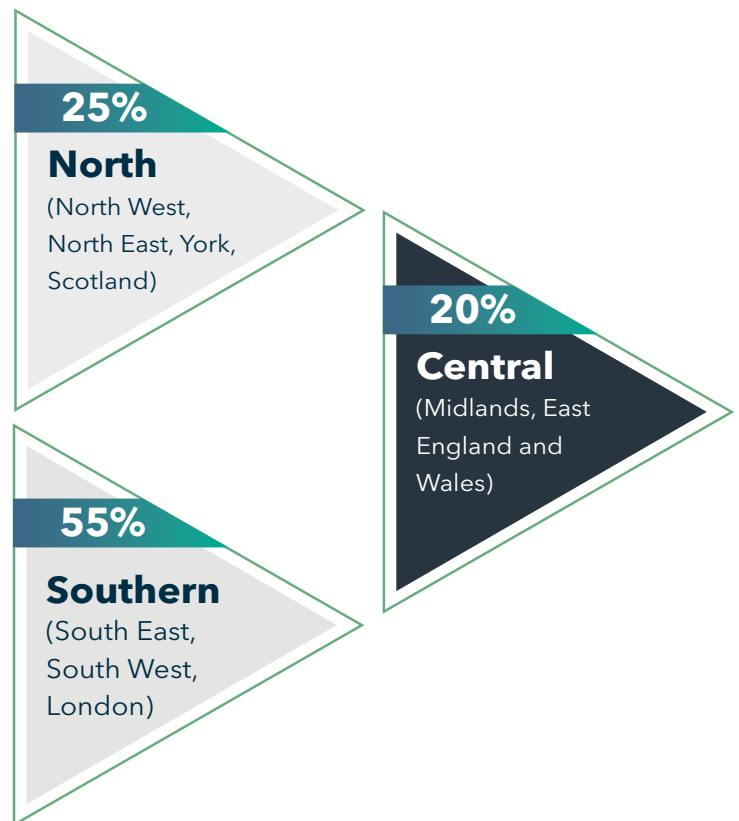
METHODOLOGY

To inform the report, we compiled a comprehensive online questionnaire which was circulated among senior representatives of SME home building companies, all of whom are members of HBF, or clients of Travis Perkins or Close Brothers Property Finance. Combining a mix of quantitative and qualitative questions, the survey received 242 responses and achieved a 75% completion rate.

REGIONAL SPLIT

South East	34%
Midlands	14%
North West	14%
South West	12%
London	9%
Yorkshire and the Humber	7%
East of England	6%
North East	2%
Scotland	1%
Wales	0%
Northern Ireland	0.5%

As in previous years, for the purposes of the report, the aforementioned regions have been grouped into three areas:

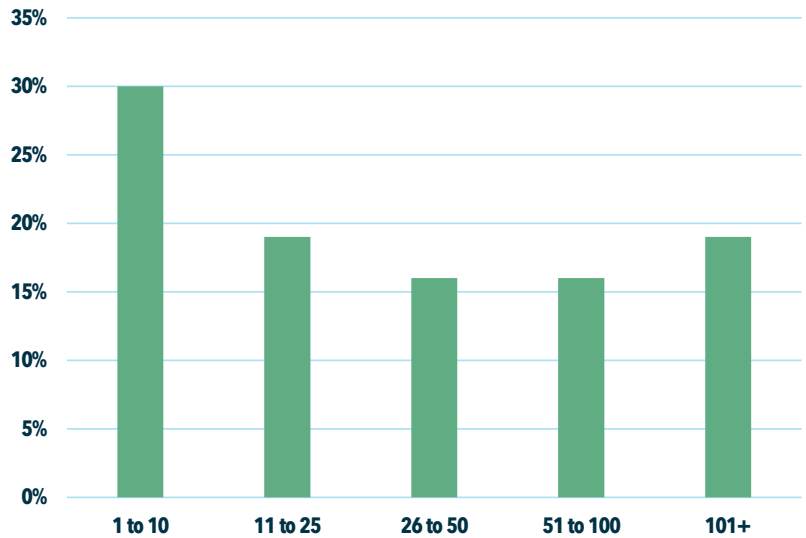


SIZE OF COMPANY

(by units built per annum)

'SME' is a broad category and captures developers who build just a handful of units, as well as those building 100+. Once again, we were pleased that the survey was completed by a wide range of SMEs, with the majority (65%) of respondents building in the region of 1 to 50 units per annum.

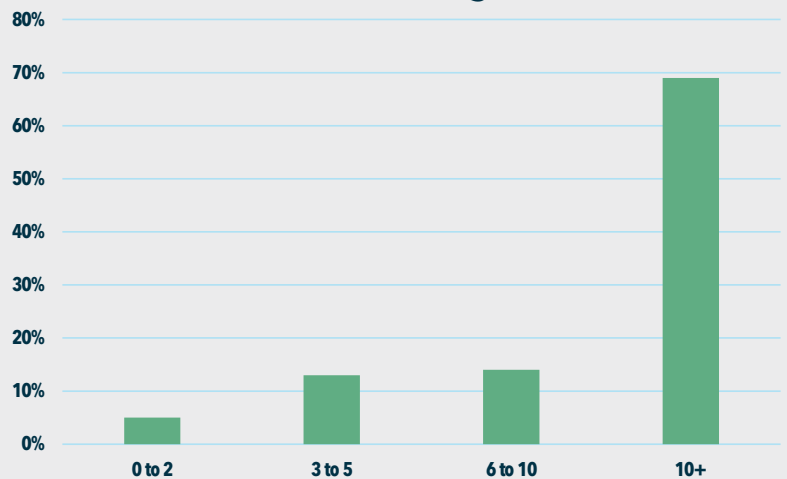
How many units / homes do you build per year?



LENGTH OF TRADING

As demonstrated by the chart, 69% of respondents have been trading for more than 10 years, with 14% trading for between six to ten years. Therefore, respondents were typically very experienced in the industry, and many will have encountered multiple economic cycles.

How many years has your company been trading?



TOP THREE

BARRIERS

FACING RESIDENTIAL SME DEVELOPERS

1.0 Top Barriers

To those familiar with the home building industry, it will come as little surprise to read that this survey found the top three barriers preventing the growth of SME home builders are related to the planning process.

In fact, the top two barriers 'Delays in securing planning permission and discharging conditions' and 'a lack of resources in Local Planning Authorities LPAs' have persisted for five consecutive years.

1.2

DELAYS IN SECURING PLANNING PERMISSION AND DISCHARGING CONDITIONS

Delays relating to the planning process impact all developers, but it is particularly challenging for SME builders whose inherent funding and business models makes them less well equipped to mitigate them. As a result, they can often find their business grinding to a halt.

It is an issue that was acknowledged by the Competition and Markets Authority (CMA) in their 2024 Housebuilding Market Study report which concluded: *"Delays in the planning process have a disproportionate impact on SME housebuilders as they are required to hold on to a larger quantum*

of land for a longer period of time than they would otherwise and manage a longer period between paying the upfront cost associated with initiating a development and realising the returns from their investment".¹

Indeed, the results of the survey found more than half (51%) of respondents had waited longer than a year to obtain planning permission, on average over the past three years. Several respondents said they had waited over two years, with one saying they had been waiting three years and still hadn't received permission.

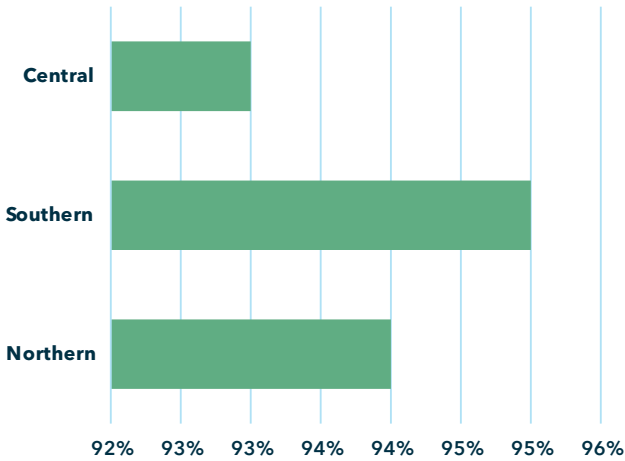
¹ CMA, Housebuilding Market Study Final Report, 2024



Therefore, it is no surprise that 94% of respondents considered delays in securing planning permission and the discharging of conditions to be the most significant barrier to growth (for the fifth consecutive year). This is a 1% increase on last year's results.

There was little variation across the regions with 95% of Southern respondents citing it as a major barrier compared to 94% of Northern and 93% of central-based respondents. This demonstrates that delays relating to the planning process are an issue for developers in all areas.

% of respondents by region who agree delays in securing planning permission or discharging conditions are a major barrier



While there was agreement among respondents that planning delays are having a major impact on home building, it was strongest among those delivering between 76 and 100 units, with 100% of SME developers in this category stating it was a significant barrier.



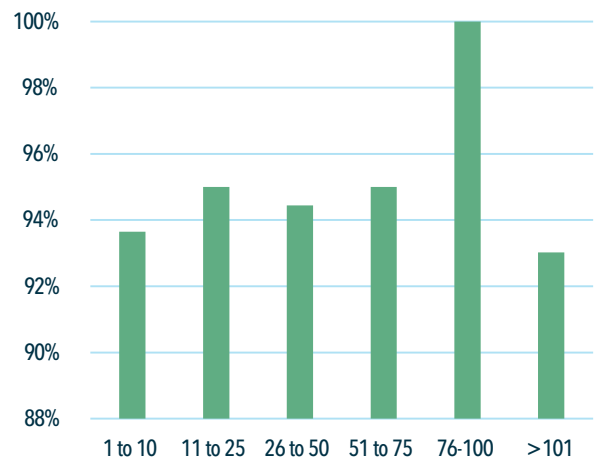
Delays in planning and the cost of getting planning are a real risk and threat to SMEs



% of respondents who agree delays in securing planning permission or discharging conditions are a major barrier



% of respondents by size who agree delays in securing planning permission or discharging conditions are a major barrier



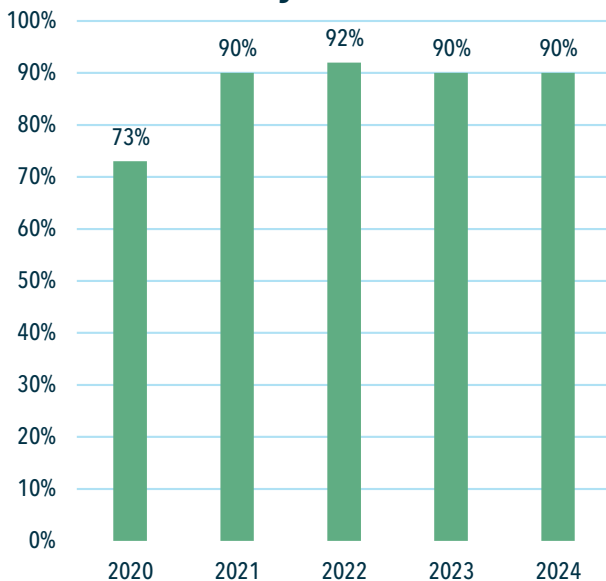
LACK OF RESOURCES IN LOCAL PLANNING AUTHORITIES

There are many reasons for delays in the planning process, one of which is that Local Planning Authorities (LPAs) are considerably under-resourced and understaffed and have been for many years. This is resulting in discrepancies, administrative errors, and additional delays in all aspects of the planning process.

With expenditure on planning falling by around 40% among LPAs over the past decade or so², it was anticipated that the issue would once again appear in the top three barriers to growth for SME home builders.

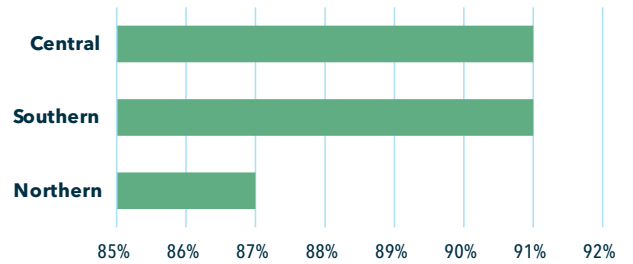
Indeed, the results found that 90% of respondents cited a lack of LPA resources as a major challenge to their business. This is the same percentage as last year and ensured its position as the second biggest barrier to growth for smaller developers for the fifth consecutive year.

% of respondents who agree that a lack of resources in Local Planning Authorities (LPAs) is a major barrier



There was some variation between the regions with 87% of respondents from the North identifying LPA resources as a major barrier compared with 91% in the Southern and Central regions.

% of respondents by region who agree that a lack of resources in Local Planning Authorities (LPAs) is a major barrier

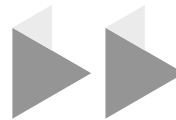


Earlier this year (February 2024), concerns regarding resources in LPAs were acknowledged by the CMA in its final Housebuilding Market Study report. It called on the Government to *“improve LPA capacity and resource by raising planning fees to a cost reflective level and ringfencing those fees”*³.

Since then, a General Election has taken place, and the new Labour Government has taken various actions to tackle planning delays and under resourcing in LPAs. This includes the launch of a Housing Accelerator Taskforce, plans to recruit 300 new planning officers and a consultation on increasing planning fees so that they cover the estimated costs to local planning authorities of determining applications.

2 ibid
3 ibid

It will take time for these measures, particularly the latter two, to make an impact. Regardless, that the Government has recognised the importance of properly-resourced planning departments in meeting its ambition of delivering 1.5 million new homes over the Parliament is to be applauded.



SURVEY RESPONDENT

Increase and ringfence funding to local authority planning departments so that they can increase and retain staffing levels. Without this, the Government will never achieve 300,000 homes a year as the planning departments are overrun and under resourced which is causing huge delays in planning applications being determined



LOCAL AND/OR POLITICAL OPPOSITION TO NEW DEVELOPMENT

Local and political opposition to home building has become an increasing concern for developers in recent years.

A watershed moment was when the former Housing Secretary, Michael Gove, announced in December 2022 that the Government planned to abolish mandatory housing targets and remove the Five-Year Housing Land Supply following pressure from a group of Conservative backbench Members of Parliament.

This decision, combined with the Government's rhetoric about the need to build but only in the "right places" and that housing targets equated to "concreting over the countryside" was followed by the number of planning permissions granted falling to record lows and the delay or withdrawal of more than 60 Local Plans.

It also appeared to embolden those Local Authorities for whom housing delivery was a contentious issue among residents. For example, there have been an increasing number of anecdotal reports from home builders that numerous stages of the planning process were becoming politicised, with an increasing number of planning applications being decided by planning committees rather than planning officers.

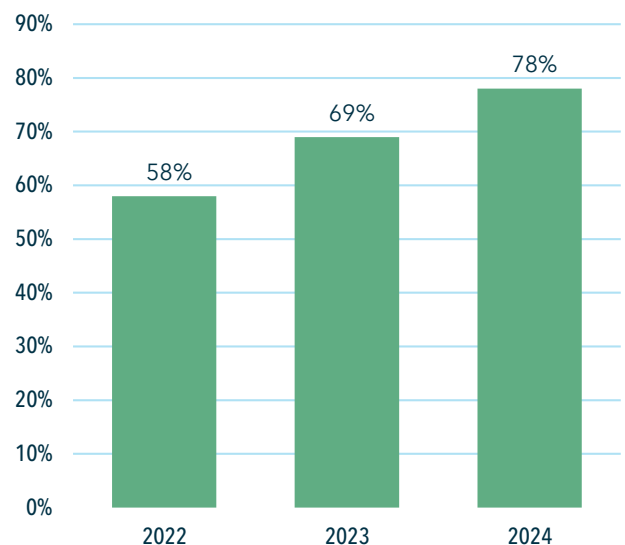
It is clearly appropriate that a plan-led system should have local plans that are produced with Member involvement. However, the increasing level of political involvement in applications on allocated sites, or at the detailed stage of planning post-outline consent, is not and it is proving costly and damaging to the integrity of the planning system.

This is evidenced by the results of the survey which found that the percentage of respondents who cited political and/or local opposition as a major barrier had increased significantly from 58% in 2022 to 78% in 2024, earning it a place in the 'top three' issues most troubling SME home builders.

While local and political opposition featured in the top three barriers across all three regions, the percentage of respondents stating it was a major barrier was, unsurprisingly, far higher in Southern areas (83%) compared to Northern (73%) and Central areas (69%).

The new Labour Government's decision to reverse its predecessor's changes to the National Planning Policy Framework (NPPF) with regards to mandatory housing targets and the Five-Year Housing Land Supply, along with its vocal determination to "back the builders not the blockers" has gone a long way to tackling concerns at a national level.

% of respondents who agree local and/or political opposition to new development is a major barrier



However, the politicisation of planning at a local level remains a concern and thus industry would welcome the introduction of a fixed national scheme of delegation. Essentially, this would introduce a higher threshold for reserved matters submissions to be determined by committee rather than planning officers.

At present, the threshold for when applications go before the planning committee is variable across the country. In some areas, all 'major developments' go before planning committee. In others, the threshold is 25 dwellings and in some, it is 200 dwellings.

Establishing a clear threshold that is consistent across the country would not only help to remove the political element from the system but also provide some much-needed certainty for developers.



SURVEY RESPONDENT

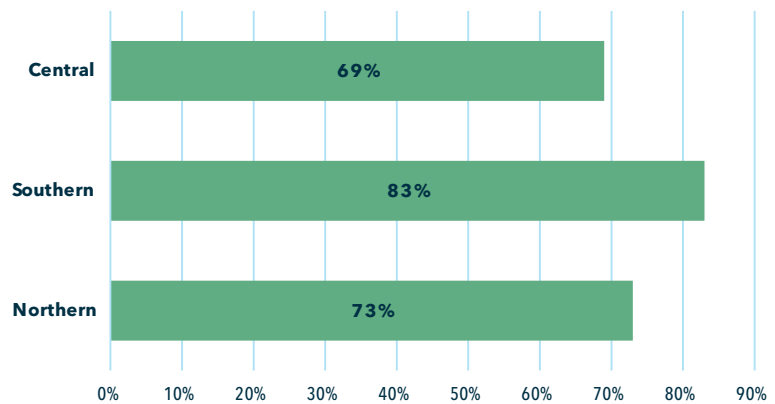
Inconsistent decision making because planning committees are made up of unqualified lay-people



It was also a suggestion put forward by the Competition and Markets Authority which called for the Government to formally review **"the varied LPA schemes of delegation with a view to harmonising the complex set of rules and removing the use of Planning Committees for those applications which are broadly in-line with the local plan and/or which below an agreed threshold"**.

Encouragingly, the Government has signalled its intent to act in this area, announcing during the King's Speech that it would bring forward a Planning and Infrastructure Bill that would, among other things, seek to improve local planning decision making by modernising planning committees.

Local and/or political opposition to new development by region



Home builders need this action to be taken as soon as possible if they are to start making headway on delivering the Government's ambitious housing targets.



2.0 Other issues

2.1

THE ECONOMY - INTEREST RATES, CONSUMER CONFIDENCE, AND MORTGAGE AFFORDABILITY

The housing market has faced significant challenges in recent years, with high interest rates and limited mortgage availability suppressing demand. The withdrawal of the Help to Buy scheme in England in 2023 has also made the market particularly challenging for first-time buyers, further limiting mortgage availability and affordability for this key segment of the market.

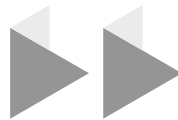
These demand-side challenges will inevitably have an impact on future supply, and this is being most felt by SMEs. Smaller developers, who work to tighter budget sheets and do not have the same luxury of the financial stockpile that the larger builders do, are far more susceptible to shocks in the market. In other words, they simply do not have the funds to ensure they survive a market downturn, as seen at the last financial crash.

In light of the overall state of the market, high interest rates remained a significant barrier to growth this year, with 65% of SME developers saying they will be a major barrier to increasing housing supply in the year ahead. Only 4% said high interest rates were not a barrier at all, the same as last year.

SMEs also showed concern about other elements of the market. For instance, 86% highlighted consumer confidence as a major or minor barrier, while 84% of respondents said that mortgage availability would prevent the growth of their business in the next year.

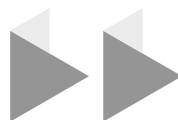
However, there are early signs that industry confidence is turning a corner, with the proportion of SME developers saying that mortgage availability is a major barrier to growth dropping from 48% last year to 35% this year. Fiscal challenges and interest rates were also the third most significant barrier to delivery for SME developers last year, but dropped to fifth this year.

Nevertheless, overall, while the economic outlook has improved somewhat from last year, economic turbulence remains a significant challenge and disproportionately affects SMEs. There is still much uncertainty about how quickly interest rates will fall, which will determine the robustness of the market in the year ahead.



SURVEY RESPONDENT

We need a return to the Help to Buy scheme to kick start the first-time buyers' market, plus a stamp duty freeze



SURVEY RESPONDENT

Material prices are higher and property prices lower



OTHER ISSUES



2.2

LAND AVAILABILITY AND COST

As in previous survey years, the lack of land availability for SMEs continues to be a hindrance with 47% of respondents citing it as a major barrier to growth, up from 44% in 2023.

There were, unsurprisingly, differences in the results when broken down by region. However, what was interesting is that land availability appears to have worsened considerably in the North:

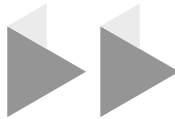
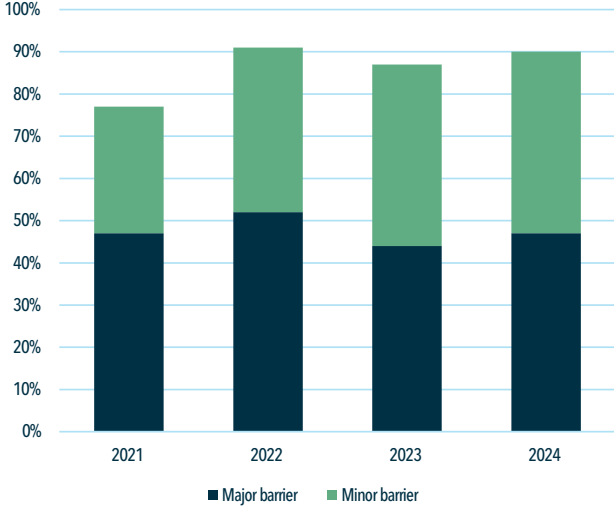
- 50% of northern SMEs cited land availability as a major barrier to growth, up from 30% last year.
- This compares to 47% of central respondents (up from 43% in 2023) and 46% of southern respondents (same as last year).

With demand outstripping supply, the competition for land is also having an impact on costs. This is a challenge for all developers but particularly SME house builders, with 53% of respondents citing the price of land as a major barrier to growth.

In its consultation on the new National Planning Policy Framework (NPPF), the Government recognised the challenges facing SMEs in securing land and has consulted on measures to strengthen the small site policy, including whether the 10% small site allocation should be required in all cases (removing the current caveat that there may be some places where strong reasons exist which mean this cannot be achieved).

With time of the essence, it is vital that once the Government has reached a decision on how best to increase the availability of small sites, this is implemented as quickly as possible.

% of respondents who consider land availability a barrier to their business



SURVEY RESPONDENT

There are limited land opportunities at sensible prices.



2.4

AFFORDABLE HOUSING: SECTION 106

The private home building industry is now responsible for providing almost 50% of all affordable homes. In the past five years alone, almost 140,000 new affordable homes have been delivered as a result of private sector cross-subsidisation with developers contributing around £7bn towards affordable housing provision, infrastructure and amenity enhancements each year.

However, the contribution developers can make to tackling the crisis in affordable housing is under threat. Home builders are finding it increasingly difficult to fulfil their affordable housing Section 106 (S106) requirements due to a lack of bids from Registered Providers (RPs). Currently, there are tens of thousands of uncontracted S106 units due to a wide range of pressures facing RPs including rising costs, increasing cost of debt and rent caps.

While this is an issue shared by many developers, it is proving uniquely challenging for SME house builders. Whereas larger builders on bigger sites may react by slowing down the pace of construction to avoid running into the buffers, for many small builders operating with project-based finance, drawing down their development finance is contingent on having a contract in place to sell S106 homes to RPs or councils. This helps cashflow and gets them on site.

To aid understanding of the extent to which this issue is impacting SME developers, respondents were asked if obtaining suitable offers for S106 Affordable Homes was a barrier to their business, and if so, to what extent.

- 80% of respondents confirmed that it was a barrier, with 41% citing it as a major barrier, and 39% a minor barrier.



SURVEY RESPONDENT

S106 housing is nigh on impossible to contract out on small sites



It is vital that swift action is taken to support the delivery of these much-needed homes. In the short-term, a key part of this solution could include, but not be limited to, encouraging a greater acceptance of cascade agreements by Local Planning Authorities (LPAs) which could be achieved via a Written Ministerial Statement (WMS) from the Government.

A cascade agreement allows for the affordable housing outputs to be changed - for example, if there is no interest from RPs in the proposed affordable dwellings within a certain timeframe then this can be changed to an alternative tenure or to a commuted sum in lieu of affordable housing which can be delivered elsewhere by the local authority. Where possible, developers are working with LAs to negotiate cascade agreements, but at present not all are open to their use.

Longer-term, thought also needs to be given to how such a situation can be prevented from arising again and ensuring RPs have the capacity needed to bring forward much-needed new Affordable Housing.



NUTRIENTS

Since 2019, the construction of new homes in 74 local authorities in England has been delayed owing to a series of interventions by Natural England, the main one being the requirement for home builders to demonstrate nutrient neutrality.

Although the geographical nature of this issue means the impact is not as widespread as, for example, issues with the planning process, the restrictions have served as a complete blockin affected areas for over five years now.

The industry is committed to protecting our waterways, but currently businesses are being disproportionately impacted by the measures. HBF's research finds that occupants of new homes account for less than 1 per cent of the nutrient (nitrogen and phosphorus) emissions flowing into waterways via the sewerage system each year. The agriculture industry, which is the majority contributor, has faced no similar consequences to its operations.

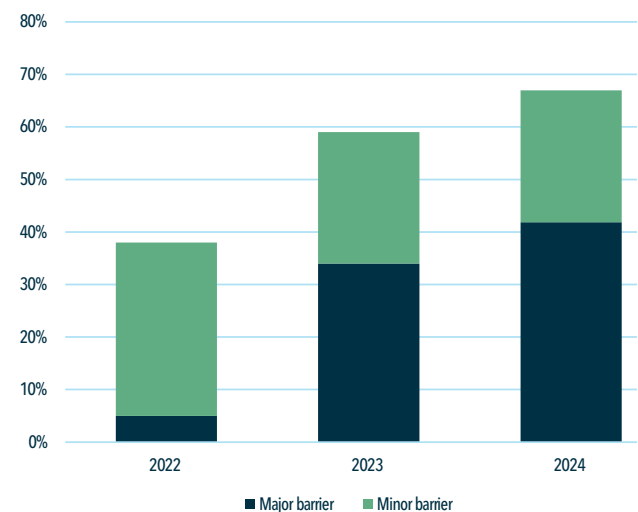
Elsewhere, the failure of water companies to invest in the infrastructure that can adequately treat wastewater has led to frequent discharges of sewage into our rivers. This is despite the fact that they have received billions of pounds from home builders in fees and new assets each year and despite the obvious statutory requirement for them to ensure their infrastructure can cope with existing and future projected demand.

Nutrient neutrality restrictions have a disproportionate impact on SME builders who cannot turn their attention to sites in other areas that are not affected, as large builders can. SME builders also do not have the financial stockpile to withstand long periods of time where their operations are blocked.

- 42% of respondents identified nutrient and/or water neutrality restrictions as a major barrier to home building. This is up from 34% at the last survey.
- A further 25% identified it as a minor barrier, meaning that a cumulative 67% of SME builders are facing difficulties.

Although the Labour Party, when in opposition, voted against the previous government's plan to resolve the nutrient gridlock, now in power they seem keen to find a solution. No official plan has yet been announced, and while the current Nutrient Mitigation Fund has had some impact so far, this is limited and it is clear that a more significant intervention is needed. We encourage the Government to work with the industry to bring forward a proportionate arrangement as soon as possible.

% of respondents that identify nutrient and/or water neutrality as a major or minor barrier to housing delivery



AMENITY ADOPTION AND HIGHWAYS

As in previous years, issues relating to the provision and adoption of utilities and infrastructure have continued to be a significant barrier to delivery:

- Overall, 90% of respondents agreed that the costs and timescales involved in the provision and adoption of utilities and infrastructure were either a major or minor barrier to delivery – up slightly from 89% in 2023.
- 40% of respondents said issues with utilities and infrastructure were a major barrier to delivery.
- This was also consistent across the country with 38% of Northern, 40% of Southern and 40% of Central respondents agreeing this was a major barrier.

These findings are particularly timely given the Competition and Markets Authority's (CMA) recent market study, which explored the issue of 'unadopted' roads and amenities. Their report offers an opportunity to raise the profile of this issue, which is much under-discussed compared to other issues such as planning.

Traditionally, the management, maintenance and upkeep of infrastructure such as roads, drains, street lighting and open spaces have been the responsibility of local authorities, often built by developers as part of new housing schemes but funded in the long run through council tax. However, the CMA's study confirmed that there has been a decrease in levels of adoption of roads and amenities on new estates by relevant authorities in recent years. This leads to unfair costs for residents, who are charged the same amount of council tax in addition to fees for privately maintaining adopted roads and amenities.

The CMA identified several factors behind this trend, including the discretionary nature of much of the legal framework underpinning adoption, as well as cuts to the funding and resources of local authorities.

The adoption of highways is particularly problematic for the industry.

⁶ HBF, Highways FOI, 2024
⁷ HBF, Highways FOI, 2024

For instance, local authorities are often reluctant to adopt highways under Section 278 and Section 38 agreements unless excessive fee demands are paid, with the average cost per 'highway bond' reaching up to £3,606,408 in 2022/23⁶. Furthermore, there is significant geographical variation in the timescales involved in negotiating such agreements - with the time between technical submission and formal adoption of highways under Section 38 agreements ranging from four weeks up to 286 weeks in 2022/23⁷.

In practical terms, these inconsistencies and costs in adopting amenities lead to more delays in the planning process and are further dampening housing supply. Unsurprisingly, the timing and budgetary inconsistencies are also a particular hindrance on the output and productivity of SME home builders.

The CMA has called for mandatory adoption of public amenities on new housing estates, as well as common adoptable standards, to ensure consistent timescales and costs across the country.

The Government's response committed to undertaking further work in this area, and it is important that this comes forward quickly.



DELAYED ELECTRICITY GRID CONNECTIONS

In recent years, the delivery of new homes in some areas of the country has been delayed due to concerns over grid capacity. This issue has not abated over the past year, with 80% of SME developers saying these delays were either a major or minor barrier to delivery (slightly up from 78% last year), and 30% saying they are a major barrier to growth.

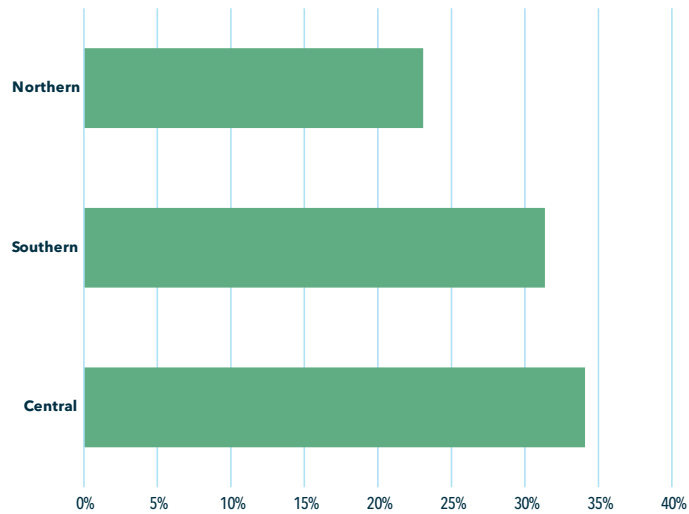
Respondents in the South and Central regions were particularly affected, with 31% and 34% respectively saying delayed grid connections were a major barrier to growth, compared to 23% of respondents in the North.

The issue began in 2022 when residential schemes of 25 or more homes were put on hold in three West London boroughs due to a lack of electrical capacity, caused by requests from data centre operatives for new electricity connections. The issue has since spread more widely across the country.

However, research has found that energy requirements for new homes significantly overestimate how much electricity new homes use. Furthermore, energy companies have found that the growing use of EV charging and heat pumps is not increasing their peak demand as expected, due to new homes being more energy efficient. Therefore, a more realistic assessment estimates that the grid could support the delivery of 2.5 times as much housing as assumed⁸.

It is vital that the Government looks at ways of utilising existing capacity more effectively to provide for ambitious housing targets. It is also important that this capacity expands in the years ahead as we move away from traditional gas boilers and towards low carbon heating systems and electric cars, which will mean that new homes need to use more electricity and the pressure on the grid will grow.

% of respondents that identify electricity grid connections as a major barrier to housing delivery



⁸ Inside Housing, <https://www.insidehousing.co.uk/news/housebuilding-being-held-back-by-electricity-grid-miscalculations-research-finds-85401>



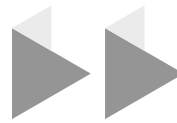
Improving the running performance and carbon output of new homes is a top priority for the industry, and over the years the industry has made significant progress in the construction of energy efficient and innovative new properties. Currently, a new build property uses just 40% of the amount of energy that the average older property does and emits just 35% of the carbon.

On top of the numerous changes to building regulations that have been implemented over the past few years, the industry is now also working towards the Future Homes Standard (FHS) that will come into force next year. The FHS will see homes produce 75-80% less carbon emissions than those built under current building regulations.

However, a range of barriers are currently holding up the progress of delivering increasingly sustainable homes:

- 72% of respondents identified preparation for the Future Homes Standard as a barrier to increasing housing supply over the next 12 months.
- 23% identified it as a major barrier and 49% identified it as a minor barrier.

The scale of the change is a challenge for all developers but, as with many of the issues outlined in this report, it is SMEs that face the most severe difficulties.



SURVEY RESPONDENT

We have a desire to deliver more sustainable new housing but we can only do so when the profit margins on each site allows this. We would happily sacrifice margin to deliver sustainability/ environmental gains but the lack of consented land is forcing up the cost of land and eroding margins to such a degree that some sites are barely financially viable at present



Respondents were asked what action could be taken by the Government to support SME developers to build more sustainable new homes. In order of popularity, the answers were as follows:

- **Home buyer incentives e.g. the introduction of a new Help to Buy scheme limited exclusively for green properties - 57%**
- **More generous government subsidies/ grants available to developers - 54%**
- **More generous development finance terms e.g. interest margin rate discounts - 49%**
- **Greater clarity on environmental regulations - 37%**
- **Expansion of green mortgages - 16%**



BIODIVERSITY NET GAIN

The Government's Biodiversity Net Gain (BNG) mandate came into force earlier this year, requiring a minimum of 10% BNG on new developments in England, and its introduction has already begun to impact the operations of some SME home builders:

- 47% of respondents identified BNG as a major barrier, with a further 43% identifying it as a minor barrier.

The percentage of respondents citing the implementation of BNG as a major barrier, by region can be found below:

- North - 54%
- Central - 50%
- South - 42%

Home builders have embraced the principle of BNG and are committed to creating places that protect and enhance the natural environment. However, while larger builders can include BNG on their sites, smaller sites are more reliant on off-site credits, the availability of which is a challenge in some areas, with the market still in its infancy.

The issue of planning department resourcing also plays a role here, as BNG has added extra complexity and further delays to the process:

- 78% of respondents answered that the local authorities that they work with do not have sufficient resources or capacity to support the delivery of BNG requirements.

To alleviate any further delays to home building while also protecting the natural environment, the Government must:

- Ensure the 10% BNG system is fully functioning, nationally, before looking to go any further.
- Require local plans to include a baseline BNG assessment as part of the site allocation process.
- Ensure Local Nature Recovery Strategies and local plans work together to support off-site delivery and provide confidence about its locations, and when moving down the BNG delivery hierarchy from on-site to off-site is acceptable, especially where this will deliver more and/or better ecological outcomes.
- Ensure there is clarity in local plans that BNG sites (site delivering off-site BNG) are acceptable in principle in Green Wedges and Green Belt.
- Stop LPAs from producing Supplementary Planning Documents (SPDs) on this matter and instead get them all to refer to the national guidance which is already very extensive.
- Develop a Quality Mark for off-site BNG credits, so builders can have confidence in what they are buying.
- Ensure the statutory credits systems can deliver BNG benefits, so schemes that rely on them can have confidence that they will deliver the required BNG.



Consultant costs on matters such as archaeology and ecology just escalate costs and risk



SKILLS AND AVAILABILITY OF LABOUR

The home building industry is a major source of training, apprenticeships and employment. However, the supply and cost of labour has continued to be a barrier to the building of homes, particularly for SME builders, in recent years. This year's survey shows that 89% of respondents believe the supply and cost of labour is a barrier to growth, consistent with previous years.

The skills gap is an issue that has been many years in the making. Around 25% of the existing home building workforce is over 50, meaning the sector is facing an impending retirement cliff edge. At the same time, not enough new recruits are entering roles through the education sector to replace them.

Furthermore, despite great efforts from the industry to improve recruitment and retention among our domestic workforce, historic labour supply issues mean that over the years, home building companies have become increasingly reliant on migrant workers. As such, the impacts of Brexit and the pandemic have only exacerbated the issues with availability of skills.

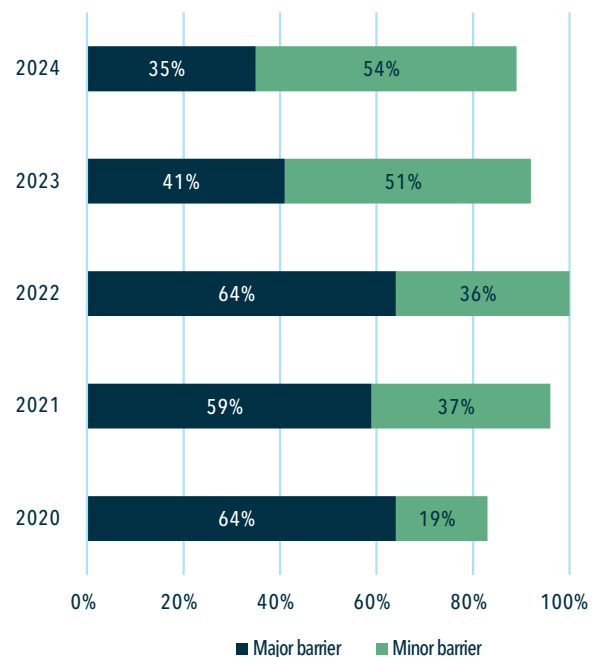
The skills shortage also presents particular challenges for SMEs. This is because, to recruit for roles not on the Shortage Occupation List – which is the majority of construction-based roles – organisations have to become a “licensed sponsor”, a process which is expensive, time-consuming and bureaucratic. With so much of the subcontractor workforce made up of small and medium-sized businesses, this presents a huge administrative burden for SMEs in particular.

Nevertheless, it is worth noting that the number of respondents identifying labour supply and cost as a major barrier to housing supply has continued to drop year-on-year – at 35% this year, compared to 41% last year and 64% in 2022. This decline may be due to a reduction in demand for labour as new site activity slows. It may also reflect the fact that other issues, such as the economy and planning changes by the Conservative Government, have taken

precedence as major barriers in recent years.

Looking to the years ahead, the skills shortage can be expected to resurface as a major barrier if demand picks up and the Government's planning reforms begin to have a positive effect on housing supply. Research undertaken by HBF's Home Building Skills Partnership has found that for every 10,000 new homes the industry builds, 30,000 new recruits are needed, including but not limited to 2,500 bricklayers, 2,500 groundwork/plant operatives and 1,000 carpenters.

Proportion of respondents identifying labour costs and supply as a barrier to housing delivery



DEVELOPMENT FINANCE

To ensure that SMEs can continue to grow and deliver the housing that the country needs, it is important that they can access the necessary development finance, and that lenders and investors are incentivised to operate in this space.

In the current challenging economic environment, the availability and terms on which development finance is offered to SME developers are of particular importance. Therefore, it is encouraging that 40% of respondents did not consider it to be a barrier at all.

However, the survey results suggest that access to finance is still more difficult than it was prior to 2022, no doubt due to higher interest rates. For instance, 60% of SME developers in 2024 and 61% in 2023 said that they considered development finance to be either a major or minor barrier to housing delivery - compared to 42% in 2022 and 2021.

Furthermore, access to development finance is a particular barrier for developers with the smallest output volume. 32% of SMEs that build 1-10 homes a year said access to development finance was a major barrier to growth, compared to 14% of those that build over 100 homes a year.

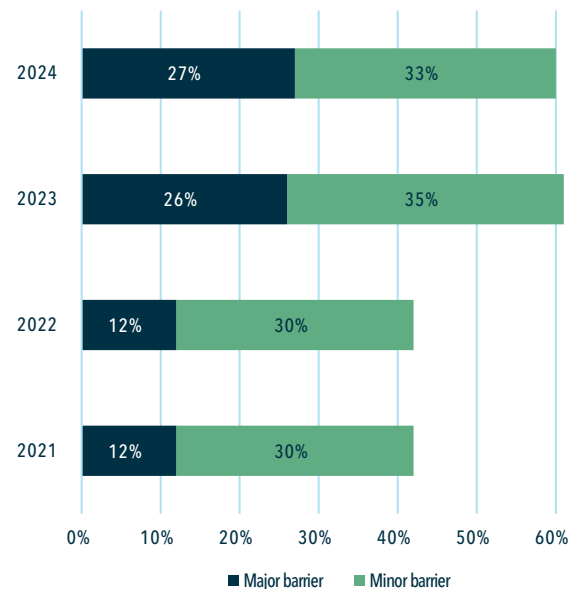
Therefore, while access to development finance may not pose the same difficulties as some of the other issues mentioned in this report, the survey results suggest there is still work to be done.

Around half of respondents agreed that more generous development finance terms, including interest margin rate discounts, would be effective in helping their business to deliver more sustainable new housing in the future.

Percentage of respondents citing development finance as a major barrier, by region:

- North - 31% (down from 32% in 2023)
- South - 25% (up from 24% in 2023)
- Central - 31% (up from 24% in 2023)

Proportion of respondents identifying development finance as a major or minor barrier to delivery

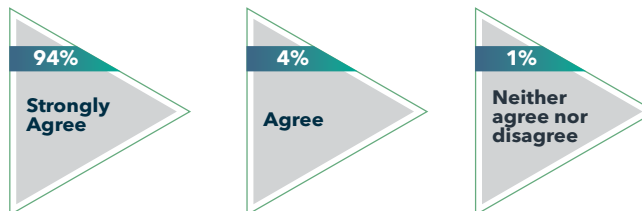


CONCLUSIONS & RECOMENDATIONS

The decline of SMEs has been many years in the making, and for five years now this report has tracked the many continuing and emerging barriers that are hampering these organisations.

The change in government provides the opportune moment for a change of approach that smaller home builders are desperately in need of. While the announcements made on planning so far are welcome, there are many other areas of action that we need to see to support businesses, increase housing supply and work towards resolving the housing crisis.

In response to the statement
"The Government should do more to support SME home builders"



WITHIN THESE BROADER CATEGORIES, RESPONDENTS PUT FORWARD SOME SPECIFIC RECOMMENDATIONS, INCLUDING:

- **PLANNING** - Reduce the cost and complexity of the planning process
- **LPA RESOURCES** - Invest greater resources in Local Planning Authorities
- **DEPOLITICISE THE PLANNING PROCESS** - Introduce a fixed national scheme of delegation
- **SMALL SITES** - Ensure LPAs allocate a greater supply of small sites in Local Plans and increase the threshold for small sites to 25 units
- **SUPPORT FOR FTBS** - Introduce a new form of Government support for FTBs to get on the property ladder
- **S106** - Encourage a greater acceptance of cascade agreements by LPAs
- **NUTRIENT NEUTRALITY** - Introduce new legislation to release the 160,000 new homes currently being held by nutrient neutrality mitigation measures implemented by Natural England
- **ESTATE MANAGEMENT** - Introduce common adoptable standards and mandatory adoption of public amenities on private estates, as recommended by the CMA
- **SUSTAINABILITY** - Ensure the details of the Future Homes Standard and other changing Building Regulations are brought forward as soon as possible to allow businesses sufficient time to prepare



About us

FOR FURTHER INFORMATION PLEASE CONTACT:

- Emma Ramell, Director of External Affairs at HBF: emma.ramell@hbf.co.uk, 07732 682 112
- Anna Geffert, Hera Communication Strategies, anna.geffert@heracomms.com, 07773 046 337
- Laura Markus, Policy & External Affairs Manager at HBF: laura.markus@hbf.co.uk, 07802 849 386
- Daniel Joyce, Deputy Managing Director at Close Brothers Property Finance: Daniel.Joyce@closebrothers.com, 020 385 76284
- Laurence Thompson, Policy and Campaigns Officer at HBF: laurence.thompson@hbf.co.uk, 0207 960 1611



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

Home Builders Federation Ltd
HBF House, 27 Broadwall, London,
SE1 9PL

Tel: 020 7960 1600

Email: info@hbf.co.uk

Website: www.hbf.co.uk

Follow us

X: [@HomeBuildersFed](https://twitter.com/HomeBuildersFed)

Linkedin: [@the-home-builders-federation](https://www.linkedin.com/company/the-home-builders-federation)



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 7,250 homes with a loan book of £1.9 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 approximately 4,000 people, principally in the United

Kingdom and Ireland. The Group is listed on the London Stock Exchange and is a constituent 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 or for further information Close Brothers Group plc, visit: www.closebrothers.com.





Travis Perkins

ABOUT TRAVIS PERKINS

Travis Perkins is part of Travis Perkins plc and the UK's largest supplier of building materials to the building and construction industry. The company has a network of 560 branches and 300 tool-hire outlets and supplies thousands of product lines to trade professionals and self-builders across the nation. Customers will find a wide and varied range of quality timber, building materials, and tools along with plumbing and heating, landscaping, painting and decorating essentials in our branches. For more information, see <https://www.travisperkins.co.uk>



