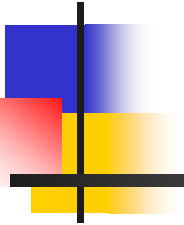


Why not build faster?



Explaining the speed at which British housebuilders develop new homes for owner occupation

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Research context

- In decade to 2007/08, private housebuilders built 88% of all new homes in England
- Domination of large firms – in 2006, 30 largest companies produce 83% of all private homes built
- Maximum one per week produced/sold from each development is 'rule of thumb' or (Calcutt) 'article of faith' in industry. WHY?
- Presentation will point to crucial role limited land supply plays in slowing down production



Specific research questions

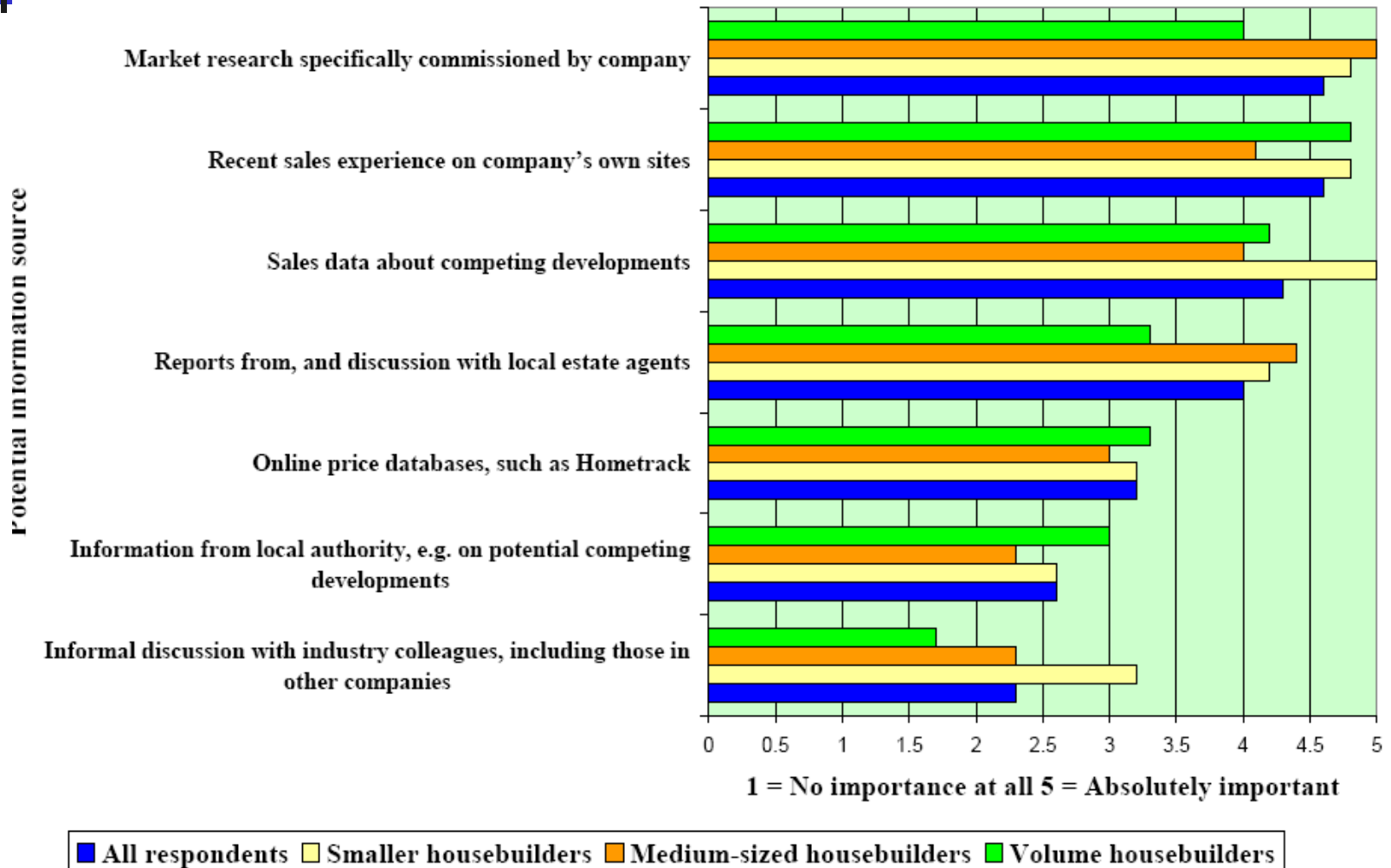
1. When housebuilders estimate gross development value, and hence decide how much to bid for land, how do they determine eventual selling prices for completed units?
2. What is the relationship between predicted sales prices, sales rates, market capacity and construction rates?
3. How do housebuilders react to change in market demand once construction has begun?
4. Do planners have any influence over the speed at which housebuilders develop approved sites?

Research method

- Survey of 18 of top 45 housebuilders
- 6 volume builders (each with annual output of 2,000+ units)
- 7 medium-sized builders (each with annual output of 501-2,000 units)
- 5 smaller builders (each with annual output of 250-500 units)
- Companies in survey completed 52,290 new dwellings in 2005 - equivalent to almost a third of all new dwellings completed in England that year

RESEARCH FOR UK DEPARTMENT OF COMMUNITIES AND LOCAL GOVERNMENT ON THE DELIVERY OF HOUSEBUILDING		University of Glasgow
CONFIDENTIAL COMPANY SURVEY		
<ul style="list-style-type: none"> • Thank you for agreeing to complete this survey. It should take you about 15 minutes to answer all the questions. All responses should be contained within the white boxes. • If you are unable to answer any particular question, simply move on to the next one. However, if you need clarification about a question, please phone David Adams at the University of Glasgow on 0141 330 6280 or email him at d.adams@lbr.gla.ac.uk • The information from this survey will be aggregated to give a picture for the industry as a whole - no individual or company will be named in person. Your response will thus be used to help the University report an industry-wide picture to the UK Government. • Before answering the questions, please first enter your own details below, so we can contact you if we are in doubt about any of your answers. (Your details will be kept confidential by the University.) • Please return the completed survey by 22 January 2006 at the latest. 		
Name of Company		
Name of Respondent		
Position in Company		
Address		
Email		
Telephone		
Fax		
1	<p>From your experience, what would be an optimal average sales rate for a typical 200 unit greenfield development, comprising mainly 2, 3 and 4 bedroom houses, from the date when sales begin until the date when the last unit is physically completed? Please select and mark ONE of the answers below by placing an X in the chosen box.</p> <p>One unit sold every 2 or 3 days</p> <p>One unit sold every week</p> <p>One unit sold every 10 days</p> <p>One unit sold every fortnight</p> <p>None of the above (please then specify what you consider the optimal sales rate)</p>	1
2	<p>From your experience, what would be an optimal average sales rate for a typical 200 unit brownfield development, comprising mainly 2, 3 and 4 bedroom apartments, from the date when sales begin until the date when the last unit is physically completed? Please select and mark ONE of the answers below by placing an X in the chosen box.</p> <p>One unit sold every 2 or 3 days</p> <p>One unit sold every week</p> <p>One unit sold every 10 days</p> <p>One unit sold every fortnight</p> <p>None of the above (please then specify what you consider the optimal sales rate)</p>	2

Information sources used in setting selling prices



Determining selling prices

- Do housebuilders 'pitch-in' slightly above or below prevailing prices for similar second-hand homes?
- No evidence is our research to support contention that answer related to relative quality
- Instead, depends critically on extent & nature of competition from other housebuilders
- *"Sites without immediate competition have a distinct advantage and compete only with second hand market."*



Relationship between predicted sales prices, sales rates, market capacity and construction rates (1)

- Developers trade off price against sales speed.
- To sell new homes faster, prices must be more competitive
- To obtain maximum possible prices, more time must be allowed to attract purchasers
- Usual practice is to aim for maximum possible price when undertaking development appraisal, as this helps win bidding competition for land
- Only possible because planning system limits threat that competitors will enter market & undercut prices

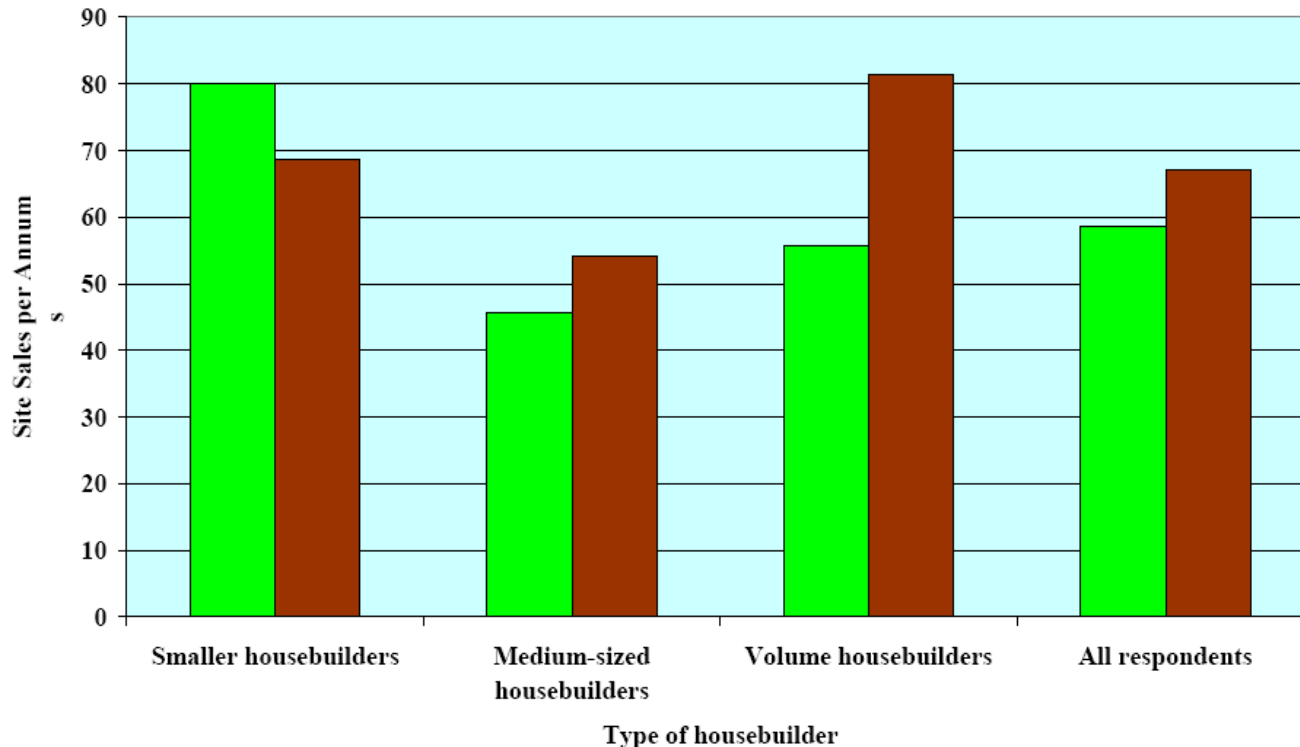


Relationship between predicted sales prices, sales rates, market capacity and construction rates (2)



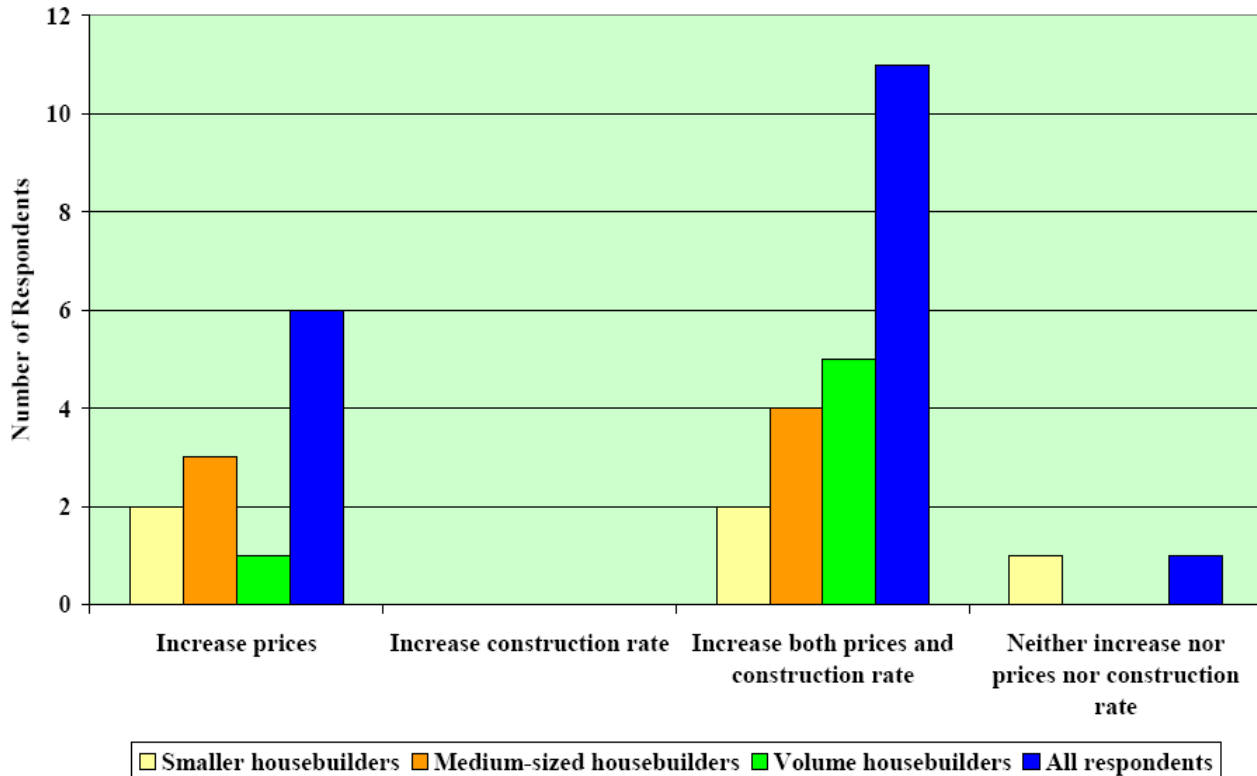
- Where builders know that future supply of new homes limited by restrictive planning policies, they feel both need & confidence to bid up land price
- Planning system thus acts as gatekeeper to success in housebuilding. Those builders who succeed in competitive land market can move on to housing market, knowing that potential competition there much reduced by restricted availability of land
- 'Market capacity' is a context-specific notion that has meaning only in relation to particular set of institutional and economic circumstances

What rates of sales do housebuilders consider best?



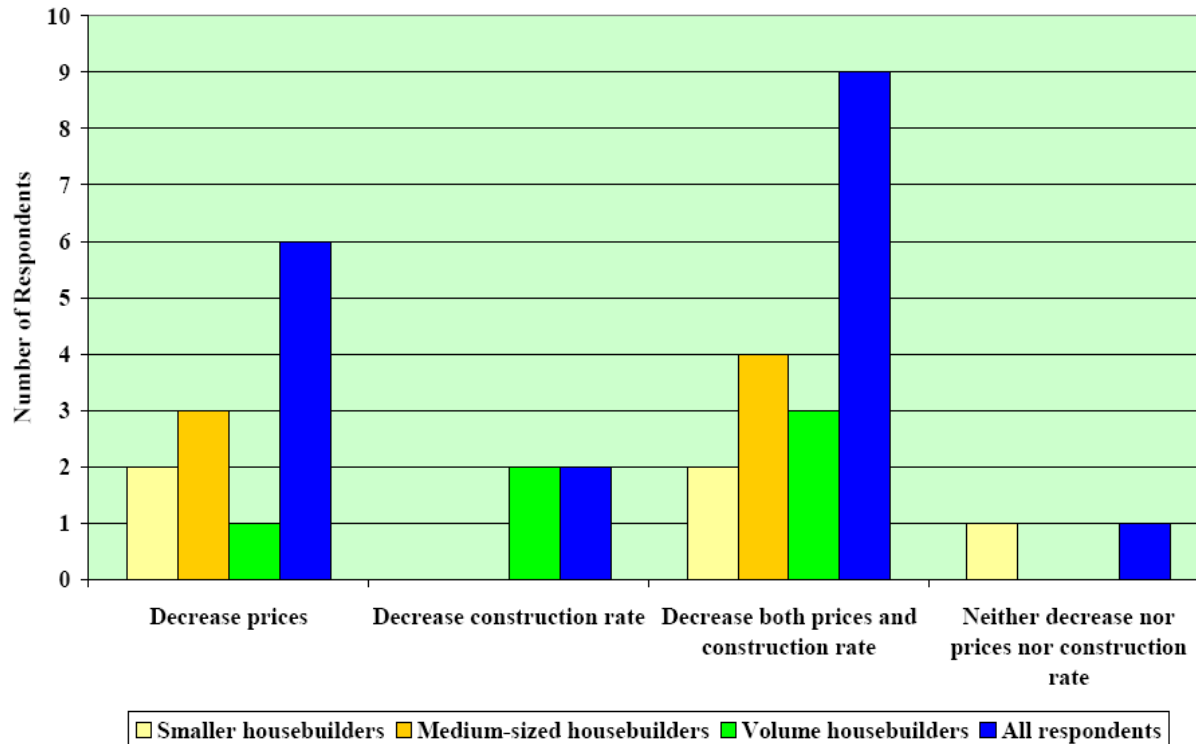
Average optimal sales rate of about 59 units per annum for greenfield houses and 67 for brownfield apartments

How do builders react if market improves?



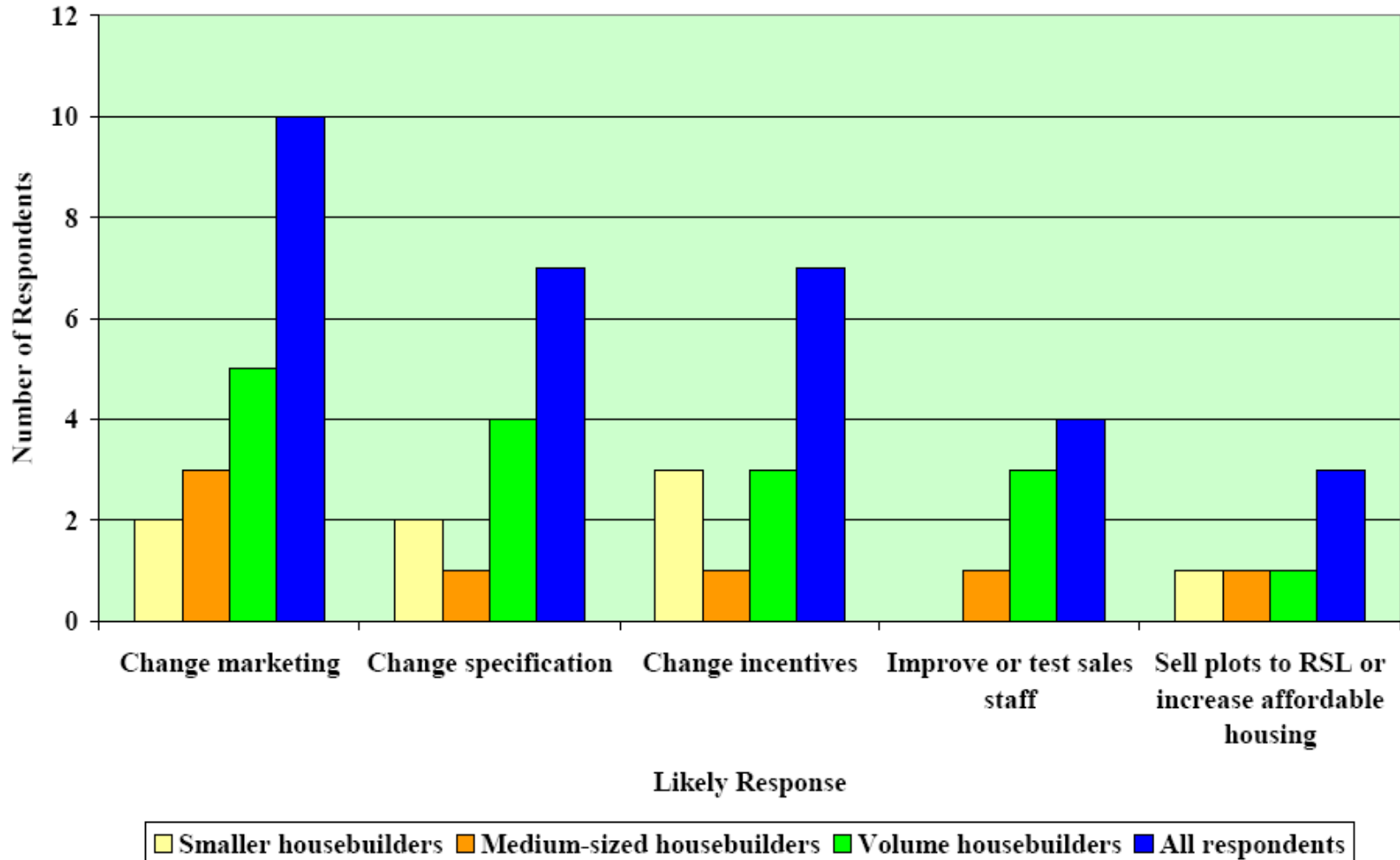
"If sales are going well, we will look to increase the sales prices"

How do builders react if market deteriorates?



Cutting production rate seen as last resort - recent action to 'mothball' developments crisis response to most extreme of market circumstances

Other strategies if market deteriorates





Answer to first question

When housebuilders estimate gross development value, and hence decide how much to bid for land, how do they determine eventual selling prices for completed units?

We "pitch at maximum price at the start and then use incentives (carpets, white goods etc) if prices need to be reduced."

Presence or absence of local competitive pressures crucial to price-setting



Answer to second question

What is the relationship between predicted sales prices, sales rates, market capacity and construction rates?

- Ambitious bids viable only because release of land restricted by planning system, while release of homes managed on site-by-site basis by builders to achieve target sales rates underpinning land bids
- 'Market capacity' needs to be viewed as essentially 'commercial construct' contingent on particular set of relationships between state and market that currently delineate speculative housebuilding provision



Answer to third question

How do housebuilders react to change in market demand once construction has begun?

- *“If our pricing is wrong we will adjust prices NOT reduce the rate of construction.”*
- *“Housebuilding a bit like a machine that has been set to work at a certain agreed pace – once it’s in operation, you don’t want to interfere with the machine”*
- Do not presume that quite different structure of provision will emerge out of recession

Reference

Adams, D., Leishman, C and Moore, C. (2009) Why not build faster? Explaining the speed at which British housebuilders develop new homes for owner occupation, *Town Planning Review*, **80.3**, 291-314

