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Diversifying supply: Reviving the nation's small house builder



The
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charity



Policy Solutions Paper

Introduction

The new government will face challenges in delivering its ambition to build many more new homes that meet need and are environmentally sustainable, unless the housebuilding market diversifies significantly. CPRE, the countryside charity and the Federation of Master Builders (FMB) have come together to set out how to achieve what we both believe is a key part of the solution — support for the diversification of the market.

To diversify the housebuilding market, we urge the government to:

1.

Level the playing field to better support small and medium sized builders

2.

Tackle the affordability crisis

3.

Deliver on its commitment to a brownfield first approach

What's the problem?

1. Small and Medium Enterprises (SMEs) have been squeezed out of the Market

As the Competition and Markets Authority (CMA) has identified, delivery in the housing sector is dominated by a small number of large operators with 'better than expected' profitability.¹ Despite this, large house builders have so far shown themselves unwilling to

deliver what successive governments have wanted. Just eleven companies delivered 40% of homes in 2021-22². SMEs have been squeezed out — from a 40% market share in 1995, to just 12% in 2024³, and recent mergers of the largest companies are compounding the issue.

Top challenges for SME housebuilders

SMEs are smaller and medium sized builders who typically complete fewer than 100 units a year. Micro builders are smaller again with annual completions of fewer than 10 units. Together, these companies contribute to overall supply, and they tend to focus on smaller brownfield sites.

The FMB's annual House Builders' Survey provides a comprehensive breakdown of the barriers faced by small, local house builders in delivering homes. The 2023 results⁴ include the following findings:

- **63%** of small house builders report that the number of small site opportunities is decreasing;
- **60%** report that the process of obtaining planning for small sites seems to be getting worse;
- The cost imposed by **delays in the planning system** is increasing the costs for SMEs overall.
- **59%** do not believe that the National Planning Policy Framework (NPPF) requirements on local authorities to identify small sites is helping;
- **The top three** reported main constraints on SMEs' ability to build more homes are 'the planning system' (**55%**), 'restricted mortgage availability' (**51%**) and 'lack of available land' (**48%**).
- **The top three** reported causes of delay in the planning process in order of importance are 'Inadequate resourcing of planning departments', 'Inadequate communication by planning officers' and 'The signing off of planning conditions'.

What's the problem?

2. Lack of diversity in the housebuilding market

The lack of diversity is very unusual compared to other developed nations which have greater balance across multiple types of delivery. For example, on average, 40% of all homes in Japan or Germany are self-commissioned projects that provide SME house builders with opportunities. The UK is an outlier delivering a mere 5%.⁵ If the UK were to reach 40% self-commissioned homes, it would open up opportunities for SME developers and could deliver 148,000 homes.

Across Europe, homes delivered by Community Land Trusts are particularly popular as they offer design responses for what is needed locally, such as bungalows for older people, or apartments for younger households incorporating clean energy technology. When speculators gamble with land on a crude 'predict and provide' approach it results in bland 'could be anywhere housing' that does not benefit from rooftop solar or other advancements that respond to the cost-of-living crisis and climate emergency. CPRE believes such delivery is removing local distinctiveness and harming rural character.

3. Market failure to meet need

The current market model has not proven itself fit to play an effective role in solving the housing crisis. CMA analysis found "a number of areas where outcomes are falling well short of what we would expect if the market were working well."⁶ The market delivers too few homes, too slowly, especially affordable homes. CPRE has calculated that it would take 89 years to clear the social housing waiting list under the current build rate.⁷ There is clear public support for building more affordable homes. CPRE recently commissioned a Yougov poll that showed that people are half as likely to oppose new housing in their local area if the homes are locally affordable (dropping from 41% to 20%).⁸

⁹ In 2022, one of the top builders achieved an operating profit of £135,080 per house. Meanwhile the housing affordability crisis continued¹⁰ over a million homes with planning permission are waiting to be built in England. This context may be a reason why¹¹ only 2% of the general public trust big developers, according to an independent review into scaling up self-build and custom housebuilding. Unlike big developers who can afford to hold back delivery to wait for maximum returns, small builders must deliver homes regardless of the market circumstances due to their cash flow business models.

4. A dysfunctional planning system for SMEs

The gradual complexity and cost of the planning system have favoured the biggest housebuilders over the past 30 years, as they have the resources to match the planning requirements. Underfunded and under skilled local planning authorities have increasingly relied on complex planning requirements, as they no longer have the skill set to assess developments properly and find it simpler to process the paperwork that engage with a development.

This has put SMEs in an increasingly tough situation where the costs and complexity of development have forced them out of the market. SMEs having more direct contact with a planning authority could save months of delays which would reduce their costs. The stretch on resources for planning officers means that large developments are much more favourable than several smaller developments.

5. Unsustainable land-use decisions for housing

Despite consecutive governments supporting a brownfield first approach, use of brownfield land for housing has decreased. Between 2006 and 2017, the proportion of brownfield for residential development decreased by 38%, and greenfield land use increased by 148%.¹² There are currently enough suitable brownfield sites for 1.2 million homes, and each year new sites are added to the national Brownfield Registers. Prioritising the recycling of brownfield for housing and converting existing buildings for residential uses is increasingly critical to ensure we can deliver on other priorities. The same

CPRE commissioned Yougov poll found that people's support for more homes being built in their local area increased from 50% to 71% if built on previously developed (brownfield) land.¹³

Our finite amount of land is needed to restore nature, grow food, and create woodlands and wetlands to protect against the impacts of climate change. Routinely, smaller builders focus on reuse of previously developed land and convert existing properties, so supporting them to create a greater share of new homes would also have environmental benefits.”

What's the problem?

6. Acute housing need in rural areas

Since 2018/19, CPRE analysis shows that there has been a 40% increase in rural homelessness and over 300,000 people in rural England are on social rent/local authority waiting lists for a home. One causal factor has been developers renegotiating out of agreed affordable homes citing viability concerns, despite declaring higher than expected annual profits.

It is worth noting that every government has failed to meet government targets for how many homes should be built ever since local authorities stopped building any notable number of new homes.¹⁴ This indicates that it would be beneficial for diversity in the market to include an increase in local authority housebuilding.

Increasing the use of rural exception sites, which are land allocations in local plans for local affordable housing and small village extensions, would help to meet the need in rural areas. These smaller sites are generally more locally acceptable and more suited for SMEs than big developers.



Policy solutions

CPRE and FMB make the following recommendations.

- 1. Increase resource for local planning teams and simplify the planning system for smaller builders** by having dedicated officers to provide advice to developer forums on applications, and process consents more expediently.
 - 2. Unlock small sites — including rural exception sites**, by requiring increased small site provision in the NPPF in the housing land supply.
 - 3. Implement the Letwin recommendations¹⁵** to allow local councils to master plan new developments, offering small parcels of these development sites to SMEs to support quicker housing delivery and diversify the construction sector.
 - 4. Unlock and normalise the custom build market** by incentivising local authorities to fulfil their duty to identify land for allocation to this purpose and by attributing weight to Community Land Trusts.
 - 5. Redefine ‘affordable housing’** in the NPPF from 80% of market value to explicitly link to the lower quarter of average local incomes to ensure housing is ‘genuinely’ affordable.
 - 6. Set new minimum targets for provision of affordable and social housing**, adopting the proposals in the Letwin review to introduce new rules to ensure a mix of tenure within overall housing targets.
 - 7. Review the use of viability assessments** by housebuilders to ensure that commitments to build more affordable and social housing cannot be watered down, including by tightening up Section 106 rules.
 - 8. Introduce a brownfield completion target** and require Brownfield Registers to be updated annually including inclusion of small sites.
 - 9. Have a presumption against demolition of existing buildings** for housing, and instead consider the potential for refurbishment to reduce carbon footprint and resource use.
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FEDERATION OF
**MASTER
BUILDERS**

CPRE is the countryside charity that campaigns to promote, enhance and protect the countryside for everyone's benefit, wherever they live; today and for generations to come. We work with communities, businesses and government to find positive and lasting ways to help the countryside thrive.

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Founded in 1941, the Federation of Master Builders (FMB) is the largest trade association in the UK construction industry representing the interests of micro, small and medium-sized building companies. The FMB is independent and non-profit making, lobbying for members' interests at both national and local level. The FMB is a source of knowledge, professional advice, and support for its members, providing a range of modern and relevant business building services to help them succeed.

Please visit fmb.org.uk or contact publicaffairs@fmb.org.uk

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