

Competition and Markets Authority – Housing Market

6th December 2023

Dear CMA house-building team (housebuilding@cma.gov.uk)

We urge you, in this final stage of the CMA house-building study, to consider:

- *What the market should deliver*
- *Profits & viability*
- *Uneven playing field: small & medium-sized housebuilders*
- *Not just new builds*
- *Unintended consequences: more power to the larger housebuilders*

1. What should the market deliver?

An all-tenure housing target (currently 300,000 homes per annum) cannot and should not be met by the market. While we agree that your remit does not stretch to setting housing targets, the CMA will have to consider what proportion of any housing target is relevant to the market. Shelter, and others, advise that we need around 100,000 social homes a year, and social homes have only ever been delivered on scale by the state. It is arguable that the market is delivering already what it can sustain profitably, as seen by a slow-down in house-building following increase rate rises.

We agree that it is necessary to have objective targets for housing that meets local need and are reviewed regularly so that they are up-to-date, unlike the current system, which relies on household projections which are over-stated, being nearly ten years old (2014-based).

2. Profits & viability.

Given a profit per unit of c£50-80k, as set out in your report, it is not profitability which is a problem for the major housebuilders.

In fact, the CMA should be investigating why it is that developers have their profit margins protected by planning guidance at around 20%. This 'viability loophole' is resulting in very poor market outcomes. In a spectacular example of how the system fails, in Harlow's 'Gilston New Town', a developer will use this loophole to pocket an extra £130million by not delivering 1700 affordable homes. How does that feel to 1700 young people desperate to find a home of their own? The market is letting them down, and the planning system is encouraging it. This Gilston example is just one of far too many.

3. Uneven playing field: small & medium-sized housebuilders

The CMA must turn the spotlight on the plight of the small builder. Small housebuilders told the inquiry that their numbers are shrinking in part due to the cost, delay, and risk associated with securing planning permission. They cannot afford to go through the process.

It was found that new planning rules in 2012 had led to an increase in the proportion of planning permissions for large greenfield sites. Developers hold an astonishing amount of land – enough for 1.17 million homes. The jury is still out on whether it is good or bad or market distorting. However, what is clear is that the playing field (building site?) is not level. The planning system has made it easier to get approval for speculative planning applications that favour larger and better resourced housebuilders. Not only does that exclude the smaller players, those vast, greenfield sites are full of identikit detached houses that can usually only be reached by car. A recent report by Cache^[1] called, ‘Why have the volume housebuilders been so profitable?’, found that big despite being referred to as ‘volume’ housebuilders, they prefer margins over volume, and that government policy has favoured these housebuilders in their pursuit of profit. Relaxing planning will only serve to entrench this disparity.

4. Not just new builds

We can do a lot with what we have got before we need to destroy green spaces. Supporting smaller housebuilders might help to bring the million homes that sit empty back into use, and to repurpose existing buildings, such as offices. Pepper-potting small groups of new houses in villages would be more popular than the large eyesore estates we see bolted awkwardly onto towns and villages. Likewise, we are pleased to see the investigation into land-banking.

5. Unintended consequences: more power to the larger housebuilders

Arbitrary, all-tenure housing targets cause many problems. In this case, the CMA’s acceptance of targets has led to scope creep in your suggestion to cut non-statutory stakeholders (communities) out of the planning application process and to remove the discretionary planning system in favour of zoning. Neither of these must happen. The housing crisis cannot be fixed by a one-size-fits-all strategy dictated by market forces. Trying to change the planning system to allow housebuilders to deliver higher numbers misses the point of the checks and balances it is supposed to have and will have unintended consequences. There is a real risk with this review that the large housebuilders come out with even greater powers – and higher profits – to the detriment of us all. Please ensure that all the outcomes you recommend are rigorously tested to establish their impact on communities and other stakeholders, small and medium-sized housebuilders and the environment.

[\[1\] Why have the volume housebuilders been so profitable? : CaCHE \(housingevidence.ac.uk\)](https://housingevidence.ac.uk)

Kind regards

Rosie Pearson, on behalf of the Community Planning Alliance team.