

Breaking Ground

UNITED TRUST BANK
PROPERTY DEVELOPMENT FINANCE

Winter 2023/2024



Small builders, big burdens

Welcome to the Winter 2023/2024 edition of Breaking Ground.

Obtaining planning has become a torturous and expensive process for housebuilders. Earlier in December it became more-so, with planning fees for non-major sites increasing by 25% in exchange for a shorter, 16-week Planning Guarantee. Whilst this may be a positive step, this alone won't solve the planning crisis and we teamed up with planning consultancy Lichfields and the Land, Planning and Development Federation (LPDF) to examine the issues. The outcome was the recently published report - 'Small builders, big burdens'.

In our lead article, Wise Owl Matthew Spry, Senior Director at Lichfields, summarises the findings, discusses the key challenges facing SME housebuilders and what could be done to address the planning problem.

Small builders, big burdens



LICHFIELDS

Matthew Spry – Senior Director

Matthew Spry is well known in the housebuilding industry and is Head of Lichfields' 115-strong London office. He specialises in planning for residential development, advising on sites and projects of all sizes. He is recognised for his work on research and policy advocacy, some of which has informed the Competition and Markets Authority study on housebuilding and his February 2023 analysis for the Home Builders Federation on the impact of the Government's changes to national planning policy featured in debates across the media and in parliament. He is currently leading the Lichfields team advising the Department for Levelling Up, Housing and Communities on multiple strands of its digital planning reform programme.

Increasing the number of homes built by SME housebuilders is a principle that enjoys support from across the political divide. Yet the trends are in the opposite direction. SMEs contributed 40% of all homes built in 1988 but just 10% in 2020.

Why has it become so much more challenging for SMEs to keep building over the last thirty years? Alongside land availability and funding, SME builders consistently point to planning as a major barrier.

In their Housebuilding market study, the CMA found in its November working papers, that the cost per plot of achieving planning permission for a small site (under 50 units) was almost four times higher than that of a large site (>500 units). So how have these costs changed and what do they mean for SMEs?

Our latest research for the LPDF and UTB (Small builders, big burdens) considered the impact of changes to the planning system since 1990 on SME housebuilders with a particular focus on those firms using outline planning permissions, before agreeing the more detailed permission through 'reserved matters'.

Our conclusions found that it now takes much longer to get an outline permission, increasing from around 13-14 weeks in the early 1990s to a year in 2023.

The associated costs have also risen. In the early 1990s, the broad costs estimated for gaining an early-stage outline permission would typically be £28,000 in 2023 prices. Now, seeking an outline permission on a similar site requires evidence from around 10-12 specialists costing around £125,000 alongside a 72% increase in planning fees.

Finally, there is much more uncertainty: the risk has increased. Whereas in the past, the principle of development could be agreed straightforwardly with detailed discussions to follow, 'validation lists' of what is necessary or advised now typically stretch to 30 separate assessments and come with guidance notes that can exceed 100 pages even at this initial stage. Allied with the ever-increasing politicisation of planning, this leaves SMEs that are dependent on smaller operating areas and fewer sites especially vulnerable.

Why is this the case? There have been significant advancements in our understanding and appreciation of the impact of development over this time, which has led in turn to a demand for more evidence to be generated and considered.

Our report also concluded that a lack of resourcing, in local authorities and statutory consultees, meant that service level targets are consistently missed. This is allied with an ever increasing politicisation of the local planning process. This leaves SMEs unable to commit resources to start times and exposed to higher capital costs to balance this risk.

This challenge is intensified as outline permissions are increasingly the principal route for many SMEs to build homes. In a plan-led system, local authorities are required to identify sufficient land that is suitable for housing development to meet their local housing need over a 15-year period. This gives the local authority a degree of control concerning the

location of future development and developers a degree of certainty.

However, we don't have good local plan coverage across the country and it's getting worse; more than two thirds of local plans are out of date (over five years old) and this will likely rise to three quarters by the end of 2025.

The CMA draw upon our report in their findings and conclude there are three areas of particular concern in the planning process that contributes to the lack of housebuilding:

- (a) Lack of predictability;
- (b) Cost, length and complexity of the planning process;
- (c) Insufficient clarity, consistency and strength of LPA targets, objectives and incentives to meet housing need.

As we set out, all three of these areas hit SMEs or those operating on fewer, smaller sites, particularly hard.

There are some reasons for optimism. The sector is embracing the Government's digital planning reform which should improve and simplify plan making and increase transparency. The Levelling up and Regeneration Act brings in other elements to improve the effectiveness of the planning system, including consistency through use of national development management policies and improved use of design codes.

In our report, we called for some additional steps to help SMEs build more:

1. Outline permissions need to return to being outline; the expectation is to establish the principle of development not the details;
2. LPAs must look to allocate more small and medium size sites in local plans;
3. Tackling the resourcing crisis in local authority planning teams;
4. Greater clarity for statutory consultees on the nature and requirements for the evidence required for outline permissions.

Taken together, these steps could lead to a more diverse and robust house building industry with a varied set of housebuilders building more homes.

Read and
download
the full
report here



Wise Owl Partners

Rising construction and finance costs, have added to the myriad of other challenges the nation's developers must overcome. Now more than ever it is important that funders across the capital stack collaborate to provide the support housebuilders need.

UTB has a track record of working with various equity and junior debt providers in both the private and public sectors including the Housing Growth Partnership, Homes England, the British Business Bank, several leading mezzanine funders and most recently LDS Sales Guarantees. Together we help housebuilders access the capital they need to fund multiple live projects and retain more of their equity for investment in potential new sites.

Supporting SME housebuilders
in challenging times

Gordon More



Placemaking: if you build it
they will come

Roger Wade

BOXPARK

Looking up for new
opportunities

Mani Khuroya



Unlocking the potential
of BTR

Rishi Passi

oblix living

Managing Risk in a high
inflationary environment

Jonathan Seal



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UTB's Loan Book Exceeds £3billion

United Trust Bank's loan book has exceeded £3billion for the first time, following continued growth across its lending divisions in 2023 and despite the volatile and challenging economic and market conditions.

Earlier this year, the Bank announced that its Development Finance committed loan book had exceeded £1bn for the first time with its funding supporting the construction of in excess of 7000 new homes at any one time.



Adam Bovingdon, Head of Property Development, United Trust Bank, said:

"This is a significant milestone for the Bank and the Property Development team, achieved in the face of challenging market conditions. Our strong relationships with customers and brokers combined with our outstanding staff have helped us to deliver a superb performance and keep housebuilders delivering the homes we so desperately need."

Events **next year**

**JAMES ANDREW
INTERNATIONAL**



Next year's MIPIM will be held from the 12th-15th March and UTB will once again be hosting their annual reception in partnership with James Andrew International and The New West End Company. This is the most oversubscribed fringe event of MIPIM week, so if you would like to join us, please speak to me to ensure your name is on the guest list.



Talking of popular events, UKREiif in Leeds had over 6,000 attendees from across the country and they have just announced that the 2024 event will take place from the 21st-23rd May. If you would like to come to UTB's Developer & Housebuilder networking dinner let me know so I can secure your space.

UTB Wise Owl Developer Networking Lunches

We are delighted that our UTB Wise Owl Developer Networking Lunch programme will continue throughout 2024.

These gatherings are attended by developers, housebuilders, investors and various property professionals and feature interesting and insightful guest speakers from across the industry.

Those confirmed so far include; Steve Norris, Chair of Soho Estates and Property Week columnist, who's views on politics and property always entertain, Lucian Cook, Head of UK Residential Research at Savills to share the latest housing market insights, Mark Farmer, Founder & CEO of Cast to discuss the current successes and failures of MMC and what the future holds for off-site manufacturing, and Richard Auterac, Chairman of Acuitus, to share his views on the latest commercial auction activity and the repurpose agenda.



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