26 April 2007

John Callcutt CBE
Callcutt Review
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By letter and by email to: info@callcuttreview.co.uk

Dear Mr Callcutt,

The Callcutt Review of Housebuilding Delivery

The Construction Industry Council (CIC) is pleased to have this opportunity of contributing to your review of housebuilding delivery in the United Kingdom. The CIC is the representative forum for the professional bodies, professional services sector, research organisations and specialist standards-setting organisations operating across all sectors of planning, designing, constructing, managing and maintaining the built environment. It is the largest pan-industry umbrella body and its 60 member organisations represents over half a million construction professionals and around 40,000 firms.

We are particularly grateful to the LABC, the National Housebuilding Council, the Royal Institution of Chartered Surveyors and to members of the CIC Public Affairs Panel for their input to this response.

The CIC and its member bodies believe that the provision of an adequate supply of housing including affordable and adaptable homes to meet the needs of our society is a key component to building a successful economy and sustainable communities. Housing also accounts for a significant proportion of the total carbon emissions in the UK. It is therefore vital to ensure that housebuilding is at the forefront of policies to reduce carbon emission levels. In this context, CIC welcomes this review into how the supply of new homes is influenced by the nature and structure of the housebuilding industry, its business models and its supply chain, including land, materials and skills. We have responded to the issues included in the terms of reference wherever our members are best placed to provide an expert response.

1. What published or private sources of information are used by housebuilders, suppliers, analysts and others to determine current and future demand for housing, in terms of volume, type, price and location, and over the near, medium and longer term?

In relation to housing, CIC relies largely on technical information sources provided by the NHBC, RICS and the BRE (including information from the recently established National Centre for Excellence in Housing).

The following specific information sources can provide housebuilders with an evidence base to determine the current and future demand for housing; NHBC New Housebuilding Statistics; BCIS Life Time Homes study, BCIS Location study, RIBA Calculator, BCIS Housing Online, BCIS Private Housing Construction Price Index, BCIS Social Housing Tender Price Index, BCIS Rebuild Cost Index, Census Data, RICS Housing Study, Social Trends magazine, Housing Corporation studies, Joseph Rowntree Foundation Reports and GLA reports.

Additionally longer term planning relates to potential demand, and this will incorporate factors such as the general economic climate, employment conditions, wages and interest rates. As most large housebuilders are organised regionally their short term projects will be based on their knowledge of the local economy. Subsequently, what they build will respond directly to market forces.

Current and future demand for housing is not determined solely by the housebuilders' assessment of these sources. Many other professions and processes are involved in determining and influencing the volume, type, price and location of our housing stock including the planning system, landowners, developers, investors (particularly for mixed use projects), housing associations and Registered Social Landlords.

Research and development into technical issues of construction will also impact on the type and price of current and future demand for housing as technology allows the use of new materials and processes but frequently requires the development of new skills.

2. Does the prevailing business model of the housebuilding industry constrain how it responds to demand? Is that model evolving or likely to evolve to meet changing patterns of demand? What would encourage a shift towards greater responsiveness?

Over the past quarter century or more the output of new homes has failed to match the levels of new household formation, and as the first Barker report demonstrated this undersupply has contributed to abnormally high house prices in relation to income which prevail in the UK. While there are other factors which have contributed to this undersupply, it is the case that the prevailing business model of the housebuilding industry has encouraged the maintenance of high margins on relatively low output volumes. The sector has not attracted housebuilders aiming to maximise volume and market share as can be seen in many other market sectors such as retail. Recent consolidation in the housebuilding sector has created businesses with a much larger potential output capacity than has been seen in the past. It remains to be seen whether or not this leads to the evolution of different business models more akin to those applying in other sectors.

Another feature of the 20th century UK housing market was the rigid separation of market from social housing, with serious adverse consequences in terms of social segregation and stigmatisation. Current government policy is strongly supportive of mixed developments in which social and affordable housing is integrated. Delivery of these mixed developments has to date primarily depended on Registered Social Landlords working in partnership with private developers, but the latter are now eligible to apply to the Housing Corporation for social housing grant, so there is no reason why new models should not emerge with housebuilders directly providing the full range of housing tenures. This would have longer term implications as ongoing management of the social and affordable housing components will be necessary. Given that home-ownership has now reached around 70% of the population, the

business opportunities presented by the needs of the remainder of the population should not be overlooked.

It is important to differentiate real demand (i.e. the presence in the market of buyers willing and able to afford homes) and the underlying demand of people who wish to own their own property. Research by the Housing Corporation (*Public Attitudes to Housing 2006*) indicates that approximately 82% of people aspire to own their home but that only approximately 70% can afford to do so, thus leaving 12% of the population aspiring to home ownership that they cannot currently afford.

3. What are the alternatives to the prevailing business model? What are the constraints on the development of those alternative models, and what advantages might accrue from the development of other models?

One obvious alternative business model would be the pursuit of higher volume output levels albeit with the consequence of lower margins per unit sold. Another would include longer term involvement in the management of mixed tenure and mixed use developments.

There is scope to investigate self-build and co-operative models as alternatives to the prevailing business model in some situations. Local authorities have a responsibility to provide sufficient social housing, and – in this context – CIC supports the view espoused by the RICS that local authorities should only promote Right to Buy opportunities when they have the capacity to replace that stock. This would remove some of the planning constraints on social housing and encourage partnerships between local authorities and developers.

4. To what extent is the housebuilding industry exposed to competitive pressures? Are there barriers to competition, including to new entrants? If so, what might be done to reduce or remove these barriers?

The traditional housebuilding sector is changing: the property agent Savills' landbank database earlier this year showed that 21% of large strategic sites are now owned by commercial developers compared to only 8% owned by housebuilders. With land being the key component for housebuilding any market shift should perhaps be viewed in relation to who is now building and developing rather than what is simply being built (e.g. the increased volume of mixed use and mixed tenure developments in recent years). This demonstrates that in theory there are no barriers to competition, and, given the availability of affordable land, people can (and do) build homes for personal or investment use. Where barriers do exist they tend to exist in relation to entry into the ownership of land which requires significant capital as does the development itself.

Increasingly, land owners, particularly in the public sector, are acting as developers or in partnership with builders who can take on building, development and selling costs without having to find the capital to pay for the land.

5. To what extent is the volume and responsiveness of housebuilding constrained by limits in the supply of capital (including land), labour, skills or materials? Is this likely to change as a result of sustainability or other constraints? What steps might be taken to mitigate any effects?

The labour/skills issues have been addressed in Professor Michael Ball's investigation and report for the HBF: *'The Labour Needs of Extra Housing Output: Can the House Building Industry Cope?'* One of the report's conclusions was that

while training issues are important in the expansion of housebuilding, it concludes that skills shortages are unlikely to represent a barrier to expansion of the housebuilding industry.

CIC is a partner in the Sector Skills Council for the construction industry (ConstructionSkills) and in our 2004 report *'Skills Needs Analysis for Construction'* it is estimated that the construction industry needs to recruit and train 88,000 entrants per year for the next five years (based on the *'most likely'* growth figure of 2.3% per year). In response to this target, Labour Force Surveys show that there was a net increase of 164,500 people recruited into the industry between spring 2002 and winter 2005.

Although land is the scarcest resource, the shortages of any resource to build will affect the developer's equation when bidding for land and may affect the decision on when to build on land that the developer owns. Excluding the cost of the land, the price or cost of housebuilding is predominately comprised of labour, plant and materials, with labour and materials accounting for more than 90% of the total. In the last ten years the cost of labour and materials have risen 53%, significantly faster than retail price inflation which rose by 13% over the same period.

The high cost of labour is attributed to the scarcity of human resource, particularly skilled labour. Hence the BCIS Labour Cost Index has risen in the order of 83% in the last ten years against a background of a 48% increase in earnings in the economy as a whole. There has recently been a slight decline in the difficulty of securing skilled labour and this could be in part due to the influx of labour from Eastern Europe.

Material prices have risen approximately 31% in the last ten years, particularly in the second half of this period. Strong global demand for materials, especially from emerging economies, has put strong upward pressure on material prices, in particular steel and copper. Crude oil has risen from $30 per barrel in January 2001 to a peak of $70 in August 2006 falling back to approximately $50-55 a barrel currently.

It is therefore important to differentiate between labour and skills that are available and those that are available at a realistic price.

Incorporating sustainability initiatives into the build process and buildings themselves may push up the final cost, although in some cases it may reduce them. Social sustainability (i.e. access to local work, services and entertainment) will continue to put pressure on buildings in existing centres of population but greater inclusion in regulations and standards will ensure that they are the norm and should help erode any higher building costs.

6. What constitutes good quality in housebuilding? To what extent is the housebuilding industry, as currently structured, well adapted to deliver well designed, good quality homes? What steps might be taken to improve quality?

The principles of good quality housebuilding are encapsulated in sources such as the Building Regulations, NHBC Standards, Lifetime Homes, ECO Homes and the DDA guide. Essentially standards, regulations and legislation are the most effective instruments to mandate quality. If quality is reflected in standards and regulations, it becomes the norm in properties and often makes their inclusion more affordable. However, CIC believes that the housebuilding industry should regard standards,

regulation and legislation as the barest minimum benchmark and should always be seeking to improve upon what the law requires.

In its evidence, LABC has argued that quality in housebuilding would be improved, and duplicate inspections avoided, if building control professionals had a wider role than just ensuring compliance with the Building Regulations. The CIC agrees that this is something which the Review Team might recommend studying in further detail.

Good build quality, good design of interior space, good exterior design, and good landscaping are all important to housebuilders because they are important to their customers. The inclusion of such features increases customer satisfaction and therefore the housebuilder's ability to sell properties thus completing the business model.

The NHBC makes a considerable investment in the NHBC Standards: these are updated continually and republished annually as they reflect changing trends in housing construction and the NHBC's experience of problems, arising both during and in the ten years following construction.

The current structure of the industry, with largely sub-contracted labour, places much responsibility for quality control on the site management team. For this reason training provision is aimed at assistant site managers, site managers, project managers and contracts/construction managers. Competence requirements for site management staff can be divided into two broad areas – technical and managerial.

Historically technical competence was less demanding with construction methods for low-rise housing changing only slowly over time. More recently, and for the foreseeable future, there is a real need for managers to keep abreast of the greater use of Modern Methods of Construction (MMC), technical issues surrounding the sustainability agenda, and the move to more high rise apartment and mixed-use developments employing more complex and/or 'commercial' methods of construction.

Equally important to site management staff are managerial competencies. The site or project manager role is becoming increasingly complex with more apartments, more mixed-use developments and higher densities.

Under the current Construction Skills Certification Scheme (CSCS), the drive for a qualified workforce will encourage site management qualifications through the NVQ process. However, management NVQs do not assess technical competence, although many managers have craft qualifications from a previous trade. Despite this, structured training programmes are still required to ensure managers are competent in the methods of construction they are overseeing. Work done by the HBF, concerning the increased use of MMC, as part of its response to the Barker Report also identified this need.

Additionally, the RICS has identified a number of steps that may help improve housebuilding quality. Housebuilders already have a post occupancy survey and if more prominence were given to these results they may help improve build quality. We acknowledge that off-site construction can improve build quality but firmly believe this will only happen if the manufacturers take control of the build process.

Information is often the key to good design, particularly on the environmental and energy efficient front. For this reason we see merit in the proposal that all advertisements and sales of premises should be accompanied by statements of associated vital statistics: property plot size and the gross floor areas of buildings.

Information on thermal efficiency and other quality criteria could also be required. This would help focus attention on, and assist, value for money comparisons not only for the housebuilding industry but also customers. Some of these measures will be incorporated in Energy Performance Certificates to be introduced as a statutory requirement for the sale of all homes from 1 June 2007.

Over the past decade CIC has been developing the **Design Quality Indicator (DQI)** a toolkit which provides a rigorous structure for the measurement of stakeholders' perceptions of the design quality of their building. The approach is been successfully applied in many types of user focused buildings, including schools and other civic buildings and, to a small degree, housing.

We believe there is a considerable advantage in developing the DQI approach to the specific needs of housing, and that this would:

- create a vital tool for developers, housebuilders, Registered Social Landlords and designers to check that their units and developments are really meeting the needs of users and communities; and
- develop a resource about stakeholders' perceptions of design to better inform the housebuilding industry and relevant design standards.

7. To what extent is sustainability, in any sense, a factor in the choices made either by housebuilders, suppliers and other providers, or by housebuyers? What impact is being achieved by the *Code for Sustainable Homes* and the agenda set out in the Government's consultation document *"Building a Greener Future: Towards Zero Carbon Development"*?

CIC and its members are fully supportive of the Government's objective to reduce carbon emissions in homes as set out in the recent consultation, *Building a Greener Future: Towards Zero Carbon Development*.

Building Regulations have already been shown to lead to an improved energy/ carbon performance of buildings. Energy efficiency standards for new homes are 40% better than those before 2002 and 70% better than those in 1990. Admittedly there is still someway to go until the UK meets the standards of the best in Europe, and before we can start to move towards zero-carbon buildings.

At all times, consumer protection must be placed at the forefront of technological advances and it is important to ensure that house-buyers are not exposed to unnecessary risks and used to trial zero-carbon technologies and systems that have not undergone thorough testing and accreditation.

There is currently a dearth of tested and certificated microgeneration technologies and systems. Asking consumers to pay for and maintain products and systems that are not reliable or fail to deliver the claimed benefits is inappropriate and could have damaging repercussions. There are also important lessons for us to learn from the past and from around the world.

In British Columbia a massive failure of new homes due to water penetration, subsequent rotting and eventual failure of inadequately designed and constructed timber frame housing systems affected up to 10,000 homes, in a market roughly the size of Scotland. The total cost to the British Columbia economy was between two and five billion Canadian dollars; the British Colombian warranty programme failed; many home buyers faced considerable hardship and the housebuilding industry was seriously affected for a number of years.

Similar failures experienced in New Zealand and the USA illustrate that change must be well considered, well managed, and the risks identified and eliminated to avoid causing great distress and cost to home buyers.

CIC shares the NHBC's concerns about the role of planning in raising environmental standards. Evidence suggests that there is growing competition between planning authorities setting increasingly tougher targets in their planning guidance, which may not have been subject to sufficiently robust thinking and development. Given that climate change is a global issue, we would question the logic of setting competing local targets: it must make more sense to have one national target.

The fact that planning authorities have different targets causes problems for architects and designers (often SMEs), designing homes in more than one planning authority area. Differing targets are also a challenge for housebuilders and are likely to reduce their efficiency, reduce economies of scale and increase the potential for defects to occur, as well as having implications for achieving the output of new housing proposed in the Barker review.

Based on the evidence we have seen, we would question the ability of planning authorities, especially smaller authorities, to deal with the technical aspects of sustainability. There is no doubt that building control professionals *are* able to deal with these complex issues and CIC believes that most of these matters (with the exception of spatial issues) should be dealt with through consolidated building regulations

Taking a national view, it would appear that each extra pound spent on further improving new housing may be better spent elsewhere, e.g. improving the existing stock. Instruments that allow offsetting in this way should be explored fully.

As outlined above, the practicalities of meeting the zero-carbon target must be underpinned by rigorous independent research. This will guarantee quality and allow innovative construction solutions to be developed which the industry, and consumers, can have confidence in.

In 2005 two of CIC's memebrs, the NHBC and BRE jointly established the ***NHBC Foundation*** – an independent research institution. The Foundation is already delivering a series of research findings of particular relevance to sustainability and the zero carbon agenda.

The Foundation is currently carrying out detailed research into consumer attitudes and perceptions of new technologies with a view to defining potential barriers and informing the approach of Government and industry. This will secure consumer confidence and buy-in, and determine current consumer views, expectations and concerns around microgeneration.

Following on from the success of the Foundation, in December 2006, the same parent bodies founded the ***National Centre for Excellence in Housing***. The Centre, also independent, arose from considerable interest and support for a body with a wider function and a significantly wider remit. The Centre is focusing on enabling and inspiring excellence and improved standards in new ***and*** existing housing to help the Government achieve its policy objectives and to rise to the challenge of the zero carbon agenda.

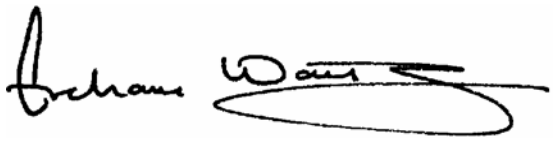
8. There is a clear public interest in the operation of a free market, in securing an adequate supply of new homes, and in sustainability. How, and how far, does the housebuilding industry respond to considerations of public interest? What public policy instruments are available to influence the performance of the industry, and how effective are they?

In the main, private sector housebuilding firms do not respond to considerations of public interest unless those considerations are aligned with realising increased profiles or are imposed by regulation. They do however respond to the Building Regulations, Planning requirements and environment law. The social housebuilding sector does give more credence to public interest but even here there is often a discord between supplying houses for the consideration of public interest and the public's interest in the supply of more housing, particularly of the Right to Buy variety.

Some housebuilders see the marketing advantage in being 'green', but in a free market both the 'numbers' and the 'what' will be driven by market forces. Currently there is relatively little demand from customers for 'green' or environmentally friendly homes. To reverse this situation the RICS has been promoting the instigation of fiscal incentives such as a 5% discount on Council Tax for a year when certain, prescribed energy efficient measures are undertaken, thus encouraging customers to take up appropriate energy efficient measures and subsequently placing a secondary demand on the housebuilding industry. Ultimately it will be enhanced regulation, or grants to buyers buying sustainable houses that will influence the market. The CIC has campaigned for such fiscal incentivisation for many years and strongly supports this proposal.

We hope that these comments are of value to your Review and we stand ready and prepared to contribute further views, if required.

Yours Sincerely,



Graham Watts
Chief Executive

cc The Rt Hon Nick Raynsford MP, Chairman

Stuart Henderson, Deputy Chairman