

Evidence from Hygrove Homes Group

Introduction

My name is Huw Francis; I am a Director and Chief Executive Officer of Hygrove Homes Group (hereinafter referred to as Hygrove).

Hygrove's operational base is largely the Swansea area with smaller developments at Pontardulais and Penclawdd.

Hygrove has developable land holdings consisting of circa 400 plots, which are in various stages of the development process. It is planned that Hygrove will construct 100 new homes in 2019.

Hygrove's financial model for this year is focused on the provision of Affordable Homes for first time purchasers.

Background

Hygrove welcomes the National Assembly for Wales' recognition that small House Builders (SHBs) face significant barriers to their trade in this sector, forcing many to abandon the sector entirely and preventing new firms from entering.

Detailed research has been carried out on the demise of SHBs and the findings are alarming.

According to the Home Builders Federation (HBF)¹:

- In 1988 SHBs were responsible for 4 in 10 new build homes in the UK compared with just 12 per cent today.
- In the period 2007 - 2009 one third of small companies ceased building homes.

¹ HBF report: "Reversing the Decline of Small Housebuilders" 24.1.2017. Available at <https://www.hbf.co.uk/news/reversing-the-decline-of-small-housebuilders/>

The HBF's research echoed the findings of the Federation of Master Builders' survey of 2017² and the problem was further acknowledged in the UK Government's White paper also of 2017³.

The consequence of this trend is that:

- Fewer houses are built each year adding to the existing house shortage crisis;
- Those houses which are built are constructed largely by 4 national house builders who now dominate the market;
- House prices are kept high as the 4 principal builders can reduce supply in face of increasing demand thereby ensuring continuous growth in house prices;
- Local Planning Authorities are unable to impose acceptable s.106 planning obligations in Wales as the dominant national companies have the leverage of being able to threaten to refuse to build any homes in Wales unless their planning obligation terms are met;
- Less homes in Wales has the added effect of hindering the apprentice programme thereby guaranteeing a more acute future skills shortage in Wales than elsewhere in the UK;
- Any profit derived from the provision of Welsh homes disappears from Wales to shareholders in London and is not retained and spent in local communities which would be the case if more indigenous small house builders were active in local markets.

The importance of Small House Builders to Wales

SHBs play an integral role in development in Wales; specifically:

- As will be explored further below, SHB's traditionally acquire sites that are considered too small or problematic to be developed by larger housebuilders, who prefer greenfield "oven ready" sites. This results in a number of smaller brownfield "infill" sites being brought forward for

² FMB Housebuilders' Survey 2017. September 2017. Available at <https://www.fmb.org.uk/media/35090/fmb-housebuilders-survey-2017.pdf>

³ Ministry of Housing, Communities and Local Government White Paper: "Fixing our broken housing market" 7.2.2017. Available at <https://www.gov.uk/government/collections/housing-white-paper>

development by SHBs and adds to the diversity of Wales' housing landscape as a consequence;

- These sites are invariably contaminated due to historical industrial use and therefore require significant remediation as part of the development process;
- SHBs are usually local to the communities in which they build, resulting in profits made remaining within the locality;
- SHBs attract local sub-contractors and consultants thus increasing local supply chain activity;
- In order to compensate for a lack of awareness in its brand name in comparison with national housebuilders, SHB's usually:
 - i) Sell homes with freehold as opposed to leasehold title (resulting in the homeowner not being obligated to pay a ground rent as part of the running cost of the home);
 - ii) Build the internal site roads to adoptable standards (resulting in the homeowner not being obligated to pay maintenance fees to a management company as part of the running cost of the home);
 - iii) Place greater emphasis on quality during the build process.

The statistics quoted at the beginning of this paper demonstrates the significant fall in SHB activity. In order to attract SHBs back into the sector it is essential that one understands what drove them out (or prevents them from entering) the sector in the first instance.

I set out below those factors which have most affected Hygrove and which I believe are leading to the demise of the SHBs.

1. Access to Finance

The economic downturn of 2008 has resulted in access to finance in the housebuilding sector becoming severely restricted; specifically:

- i) Traditional high street banks have all but ceased lending to most SHBs in Wales (as compared to England), despite claims to the contrary by most banks;

- ii) As a result of i) above, this has led to the emergence of a secondary tier of lenders that charge far higher rates and fees; these lenders will not provide funding for the continuously increasing cost of planning applications.
- iii) Further to i) above, lending decisions are no longer taken on a local/regional basis and are instead made centrally by lending committees that have limited knowledge of the Welsh market.

Wales suffers disproportionately from this problem as house prices are far lower in Wales and the lender's risk therefore is perceived as being far greater. This coupled with the fact that the highest percentage of cost in house building is front loaded (thereby adding to the lender's risk) persuades main stream lenders that Wales is not an attractive geographical area for them to operate in.

While the Assembly has assisted the industry greatly through Finance Wales/Development Bank of Wales' ("DBW") lending to the development sector, this is not a problem that can nor should be solved by DBW alone. More therefore needs to be done in order to increase mainstream bank lending in housebuilding in Wales.

Funding is the life blood of all business and failure to access it has resulted in a significant decline in SHB numbers particularly in Wales.

2. The Planning process

Despite the introduction of the Planning (Wales) Act 2015, in practice the complexity, delay, uncertainty, and frustration associated with the planning process remains today. This can largely be attributed to:

- i) the disconnect between the Local Planning Authority (LPA) and its consultees including responses from within the LPA itself;
- ii) delays in responses by external consultees, including Natural Resources Wales;
- iii) under resourced local authority departments (particularly highways departments).

Further to ii) above, we consider it important that our experiences with Natural Resources Wales are highlighted as part of this process. We consider the following anecdotal examples to be relevant:

- a) Officers fail to respond to consultation requests from the LPA in a timely fashion, often objecting on the last day of consultation time limits;
- b) An Officer on one critical time sensitive application was a part timer whose line manager was also a part timer; the application was delayed for over a month, a problem further exacerbated by officer illness on working days. This is a frequent issue with NRW officers;
- c) Increasing demands for investigative reporting in face of professional advice that such additional information is unnecessary. The impression given is that Officers are creating additional work simply to safeguard NRW jobs;
- d) Duplication of roles (and consequently effort by the applicant) between NRW officers and LPA Ecologists (who are also part timers thereby increasing delays);
- e) A blindness to proportionality when weighing up potential ecological issues with the need to progress applications thereby safeguarding jobs and avoiding delays;
- f) A lack of internal performance indicators procedures to ensure that the service provided is timely, reasonable and professional.

The cost of obtaining Planning consent has risen sharply; lenders will not fund these applications and consequently all SHBs must meet this cost from their own resources, which is beyond most SHBs.

The demands of the Planning process has resulted in the growth of satellite businesses such as architectural, engineering, ecological, geotechnical, archaeology and hydrology to name but a few. The cost associated with the reports from these professions demanded by planning officers has resulted in a spiral in planning cost which is now impossible to reverse thereby creating a financial barrier that SHBs simply cannot cross.

We would stress that the risk, cost and time incurred by SHBs in bringing forward brownfield contaminated sites for development are not taken into account when site density figures and s.106 planning obligations are being assessed. These points should be considered in dealing with future applications brought by SHBs.

3. Utility Companies

The cost associated with any dealings with utility companies is a major concern for all SHBs. This cost is always front loaded, is non-negotiable and does not in any way reflect the quality or quantity of service provided.

Consultation with all utility companies is required on any development and all house builders are confronted with utility companies which hold a monopoly in the areas in which they operate with the inevitable consequence that cost is totally at their discretion. Dwr Cymru/Welsh Water (“DCWW”) is a specific example of this.

Each utility company denies they enjoy a monopoly and support this assertion by stating that SHBs can employ the services of out of area utility companies knowing full well that work scheduling is next to impossible if local house builders should attempt to go down that particular route.

Further to the above, we consider it important that our experiences with DCWW are highlighted as part of this process. We consider the following anecdotal examples to be relevant:

- i) The cost of service provided exceed industry norm;
- ii) All costs are payable “up front”;
- iii) No timely appeal mechanism is available to challenge cost;
- iv) No practical alternative pricing can be sought; DCWW in essence enjoys a monopoly on all aspect of its industry sector;
- v) DCWW insists on carrying out work through its own contractors (and charging excessively for it) which could easily be carried out more economically by the SHB;
- vi) DCWW’s refusal to accept cash Bonds to safeguard payment for smaller tasks;
- vii) The delays in providing all services in particular those involved with the connection of new homes to services.

We feel that the power of the industry regulator to control costs associated with DCWW are extremely limited and must be reviewed.

4. Land availability

SHBs find it increasingly difficult to target development sites which they can afford.

In each Local Plan there is a preponderance of larger sites driven by the need by LPAs to allocate the volume of land necessary to meet local housing requirements over a five year period.

These sites are beyond the reach of SHBs. More therefore needs to be done to encourage Local Authorities to release land they own much of which consists of smaller in fill sites which would be attractive to the SHB.

5. Access to skills

With the decline in number of SHBs there will be an inevitable corresponding decline in the number of Apprentice placements thereby guaranteeing that the existing shortage of construction skills in Wales will accelerate in future years.

Currently all sites struggle to find experienced ground workers, who are fundamental to the development process. When added to this the fact that the numbers of trade apprentices are in free fall, it does not bode well for the future of the industry.

There is also a concern that this problem will be further exacerbated by Brexit given the number of EU migrant workers that have worked in key trades within the industry in recent years.

6. Introduction of new legislation

While we commend the Assembly on its numerous forward-thinking pieces of legislation, we think it is important that the impact on SHBs of certain recent legislation is highlighted and considered as part of this process.

The compulsory introduction of Automatic Fire Suppression Systems ("Sprinklers") adds a cost of circa £4,000.00 per home. Furthermore, additional costs are incurred in instances where insufficient water pressure exists at sites to enable the sprinkler systems to work.

The introduction of sprinklers has added to the cost of affordable homes without a corresponding increase in value, which has made it even more difficult for SHBs in Wales where margins are particularly difficult.

The revised regulations for Sustainable Drainage Systems (“SuDs”) for new property developments in Wales (which came into effect on 7 January 2019 and will now see surface water stored above ground in ponds on new development sites) has seen a chaotic introduction leaving LPAs, Engineers and SHB’s unclear as to how to deal with them. We consider that the following points should be highlighted:

- The new regulations will result in density on housing estates reducing by circa twenty per cent;
- The reduction in house numbers (particularly on Affordable and First time Buyers sites) will cause challenging problems with all LPAs having to increase the areas of their Adopted Plans;
- It is unclear at this stage as to how commuted sums for the future maintenance of the SuDS are to be calculated. As a consequence, SHB’s are unable to assess the viability of potential future developments at the outset;
- Already under resourced local authority departments are struggling to staff new departments to deal with the new regulations;
- Questions remain unanswered as to the potential health and safety problems that could be caused to residents by having surface water stored above ground on new home developments.

Finally, developers are frequently accused of “landbanking”, however the points set out in this paper highlight the difficulties experienced by SHBs in preparing a site for development. We would therefore urge that these points be considered given the proposed future introduction of Vacant Land Tax.

Conclusion

The house building Industry is facing a crisis the likes of which has not previously been experienced.

The factors contributing to the decline in SHB numbers set out above are a brief summary only; each heading could result in a full paper providing detailed examples supporting the assertion made in the heading.

Government needs to engage with all stakeholders in this sector to try and find a way to arrest the decline in SHBs as the decline in numbers has a consequence far beyond the industry itself which will not only be felt today but also in future years.

With the loss of each SHB the industry loses experience that it will find almost impossible to replace and it is already clear that restricting home building to a few national companies is not the answer.