

28 June 2007

Re: OFT Housebuilding Market Study

This afternoon we had our first meeting with OFT officials to discuss the Market Study.

The OFT is not yet ready to discuss details of the study or what exactly will be required of HBF and house builders. A decision to undertake the study was only approved last week. We have, however, established that a team equating to 8 full-time and additional part-time officials will work on the review and that a detailed OFT internal planning meeting will be held next week to flesh out their programme and timetable. We have requested a follow up meeting in early July to discuss the process and resourcing implications with a view to the study being conducted in the most practical way possible.

I am confident HBF can manage the Study on behalf of the industry. We had extensive experience working with Kate Barker and her team, and we are currently working with the Callcutt Review team. We will assess resources required and plan our work programme and member consultation once we have met the OFT again.

The study will cover the whole industry and companies of all sizes, as well as commercial developers with significant residential land holdings. HBF is clearly expected to play a lead role in co-ordinating the supply of information about the industry.

Expanding on their published material, the OFT outlined the four key work strands:

1. Planning and competition
2. Consumer issues
3. Warranties and building regulations
4. Evaluation: it is a recent requirement of OFT studies that the benefits of a study and its recommendations must have a value of at least five times the cost of the study.

OFT officials have accepted that they will need to understand the complex issues of planning, regulation and land development in order to make sensible recommendations. They suggested in response to our questions that the study will provide an opportunity for the industry to put forward ideas for further reform of the planning system or other changes, so as to reduce the complexity of the business environment and expand land supply and housing output.

The OFT wants to make an early start on two issues, land banks and the use of options. You will recall that Kate Barker examined both issues in depth

using detailed evidence provided by HBF. Land banking is also of course being examined by Callcutt.

We were unable to gain a clear understanding of the immediate trigger for the study, particularly its expansion beyond customer satisfaction (Barker 32) to land and planning. Officials did, however, make frequent reference back to the Barker Review as their starting point. They said that in the three years since Barker had reported, quality and customer satisfaction had not improved in their view. Customer satisfaction was also in their mind connected with supply side issues and they saw both customer satisfaction and supply issues as indications of an imperfectly functioning market. It was for this reason they wished to undertake what they termed a “holistic” study of the market.

We expressed our concern that they were going over much of the same ground as Barker and that there was also considerable overlap with the Callcutt Review. They believed, however, that they can avoid duplication and work collaboratively with the Callcutt team. They also said they will be taking a wider market view (also based on the consumer perspective) than other reviews.

We also explored what the OFT appeared to have omitted from their thinking. Because the OFT study specifically excludes sustainability, I particularly stressed that the work being undertaken on the zero-carbon target has major implications for both housing delivery and for consumer benefit, and that it should therefore be taken fully into account. They took note of this.

The meeting was a useful first run over the ground and enabled us to set out a number of important considerations for the conduct of the study. I will of course continue to keep you informed about developments. As soon as the detail of what the OFT plan to do is clearer and we have met them to discuss this, I will write to you again on our own plans. I am sure also that the study will be a major topic of discussion at our forthcoming member meetings.

Kind regards

Stewart Baseley
Executive Chairman