HBF Report

# Permissions to Land:

## Busting the myths about house builders and 'land banking'

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HBF
HOME BUILDERS FEDERATION

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# Introduction

House builders are often accused of hoarding land or ‘land banking’ by obtaining planning permission for new homes and then actively choosing not to develop these sites into homes and neighbourhoods for families to live in.

This short report summarises why the financial incentives for developers are heavily weighted towards actually developing land. It highlights how previous independent investigations have concluded that house builders do not ‘land bank’ and presents both an analysis of existing information published in 2013 by the Local Government Association (regularly cited as evidence that house builders hoard land), and also an extensive survey of the Home Builders Federation’s membership to determine the true extent of the industry’s current land supply.

By looking at the best available evidence, including reports authored by leading economists, the Office of Fair Trading and others, as well as analysis of existing reports and new research, it is clear that land hoarding does not occur in any systematic or concerted way by house builders. Furthermore, by any estimate or analysis, the volume of land being put into the planning system, through construction and into new homes is vastly short of the amount required to solve the housing crisis.

# Part 1

## Financial realities and the importance of permissioned land for house builders

Land, and permissioned land more specifically, is a house builder's most important raw material. Obtaining a planning permission that can actually be implemented, including discharging planning conditions, can be a very protracted process. Then physically building and selling the homes will take time on top of this, with large sites taking many years to develop in their entirety.

Research by the Local Government Association in 2013 found that the average period between obtaining permission to full completion on a site was 28 months.[1] When the time taken to progress through planning is factored in this could easily extend the total period to three years or so as an average. However this average hides the fact that for larger sites, with more units, it can take several years to obtain an implementable planning permission, and then it will take many more years to build and sell all the dwellings on the site. The development time will be influenced not just by the time it takes to build the units, but by the capacity of the local housing market to absorb the flow of new homes for sale.

In order for home building companies to function as viable businesses they require an assured supply of permissioned land to build homes and must therefore hold enough land to sustain their businesses. In reality this is the opposite of 'land hoarding' or 'land banking'; the more homes a company builds per year, and the faster the speed at which they are constructing and selling them, the greater the need the company has to buy and maintain a supply of permissioned land. Delays can be caused by overly prescriptive planning permissions which fail to reflect prevailing market conditions. Where this has occurred, renegotiations will usually take place which can result in lengthy delays.

Securing 'outline planning permission' does not mean that construction can commence. A great many sites of significant size are under option. Following approval of an outline permission, negotiations proceed with landowners to acquire the site under the terms of the option agreement. These negotiations can be protracted and will occasionally end in arbitration.

Planning permissions expire after a period of time. Local authorities have the power to set specific timescales for an individual development, but the default expiry date is three years from the time at which it was granted. If work on site has not begun towards the end of the three-year period, a developer will need to either reapply for planning consent or extend the permission in advance of its expiration. In the case of reapplication, the house builder would be 'back at square one', with no implementable planning permission, a piece of land which, without an implementable consent, would likely have decreased in value and be faced with the uncertainty and considerable expense of negotiating the planning process once again. With the costs associated with a typical planning application for a reasonable sized residential site often running to tens of thousands or even hundreds of thousands of pounds, allowing a planning permission to expire is not something that is usually done lightly.

In financial and accounting terms, too, house builders are motivated to build rather than 'bank' land. Companies are judged by their investors on the basis of their return on capital employed (ROCE), so once they have paid for a site and have achieved implementable consent there is a very strong, immediate commercial driver to earn a return on the asset by building and selling homes. Sitting on paid-for land damages their ROCE. House builders can only take profit from land by developing it (or selling it to another developer). By contrast, the financing costs of sitting on land are around 10-12% per year. If a house builder is not

[1] *An Analysis of unimplemented planning permissions for residential dwellings 2013,* The Local Government Association, October 2013 (p. 11)

building homes the book value of the land will only ever correspond to its original cost regardless of the market’s movements. In a rising market, therefore, the financial incentives to get on and build homes on sites are generally even greater.

Furthermore, a house building company will be judged by investors on the land that is available to it. If one considers land to be a house builder’s most important raw material, a company seeking investment with little or no viable land in its ownership would be unlikely to attract the investment required to finance construction and generally operate as a well-functioning business. Without this and the investment that it attracts, house building rates would be greatly reduced.

# Part 2

## Previous independent reviews of the market and land

The issue of "land-banking" has been considered by successive independent reviews and investigations of the house building industry.

## The Barker Review of Housing Supply (2004)

Economist, Kate Barker was commissioned by the Chancellor and Deputy Prime Minister in 2003 to examine the operation of the housing market and address land and planning issues that contribute to market volatility and a lack of supply. The immediate background was the failure of housing completions to rise in the 1990s in response to the improved economic and demographic conditions, so that by 2001 completions had fallen to their lowest peace-time level since 1924.

Barker dismissed the view that 'landbanking' was being actively pursued by house builders:

*'The Review has found little evidence, at least across the country as a whole, to substantiate concerns that option contracts and the practice of landbanking allow housebuilders to erect barriers to entry into the market'.*[2]

## The Callcutt Review of Housebuilding Delivery (2007)

The Callcutt Review was commissioned by the Government in 2006 to examine how the supply of new homes is influenced by the nature and structure of the industry, its business models and its supply chain. Careful consideration was given by the review team to the role of land in a house builder's business model:

*'There are no doubt some individual cases where housebuilders hold land for longer than they need. But, in our view, the current evidence does not support the suggestion that this practice is at all widespread'.*[3]

## Office of Fair Trading: *Homebuilding in the UK* report (2008)

In 2007, the Office of Fair Trading (OFT) launched a wide-ranging market study into the home building industry. The study focused on why housing output was not meeting demand and particularly noted that landbanking aroused polarised views with a belief amongst some that developers were 'hoarding land' in order to profit from rising land prices:

[2] *Review of Housing Supply – Delivering Stability: Securing Our Future Housing Needs,* March 2004, (Paragraph 6.20, page 89)
[3] *The Callcutt Review of Housebuilding Delivery* (p.39)

*'We have not found any evidence to support the view that, at the national level, homebuilders are hoarding a large amount of land with implementable planning permission on which they have not started construction. This suggests competition has not been impaired by homebuilders mothballing permissioned land to create a barrier to entry and artificially raise prices even during the long upturn in the market until 2007. Equally, there is little evidence to suggest that homebuilders have been able to systematically obtain market power at a local level by acquiring planning permissions'.*[4]

## Savills report on Strategic Development Sites (2011)

In December 2011, Savills published a research document following a comprehensive survey of sites of 250 units or more. The study found that just 12% of sites (by number of units) were held by house building companies but this involvement is 'concentrated at the construction stage where they control 18% of developments. In the early stages, through planning and even after planning had been secured, Savills found that the majority of sites were owned by social landlords, commercial developers and – until outline planning had been achieved – 'other private sector' organisations. The report explains the division:

*'This reflects housebuilders' expertise in the construction and delivery of the finished product. By contrast, commercial developers and property companies are particularly dominant at the early stages (30%) where they focus on promoting the site and guiding it through the planning process'*[5]

## Molior report on Barriers to Housing Delivery in London (2012)

In an independently commissioned report for the Mayor of London in 2012, consultants, Molior were asked to examine the barriers to housing delivery in the capital. One of the major focuses of the report was on unimplemented planning permissions and why a large proportion of permissions were not being realised. The research found that 45% of permitted homes were in the control of firms that are not house builders. As with other aspects of the market, London is unlikely to be representative of the national picture but the report concluded:

*'Site-by-site interviews suggest the obvious: builders intend to build their sites, non-builders do not! So the fact that non-builders control almost half of the planning pipeline is a constraint on housing development in London. When accusations of land banking are directed at builders, those accusations are misplaced.'*[6]

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[4] *Homebuilding in the UK: A Market Study*, September 2008, OFT1020 (p.6)
[5] *Spotlight on Strategic Development Sites*, Savills Residential Development Research, December 2011 (p.4)
[6] *Barriers to Housing Delivery: What are the market-perceived barriers to residential development in London?*, December 2012, Mayor of London (p.9 and pp.23-24)

# Savills analysis of planning pipeline data on ownership of sites in the planning process (2014)

In February 2014, Savills conducted an analysis of ownership of sites larger than 20 units that were in the planning process. Excluding sites on which Reserved Matters were required, house builders owned just over a third (34%) of sites of more than 20 units on which Outline Plans had been granted permission. Ownership of the remaining two-thirds of sites were split fairly evenly between other developers, promoters and investors, other private sector actors and the public sector which owned 1 in 8. Ownership of sites by house builders rose to 79% on sites with permission for Detailed Plans, leaving a fifth in the hands of non-house builders.

# Part 3

## Local Government Association’s report on unimplemented planning permissions 2013

In October 2013 the Local Government Association (LGA) published ‘An analysis of unimplemented planning permissions for residential dwellings 2013’. The report provided an update on a similar report published a year earlier using data from councils in England. It is unfortunate that the data are sometimes quoted as representing ‘land banks’. In fact the data attempted to measure the stock of outstanding planning permissions, quite a different concept.

## Analysis of LGA data on unimplemented permissions

### Private and social sector planning permissions

At 31st March 2013, the LGA reports, there were **6,500 unimplemented schemes** comprising **381,390 units** that were unimplemented.

Even if these 381,390 units were fully implementable which is not immediately the case (see below), this number represents a strikingly small number in the context of the number of new homes required. Even at current house building rates, the number represents barely three years supply and compared with the 240,000 new homes actually required each year it represents just over 18 months’ worth of supply.

Of these unimplemented units, **323,385 are in the private sector (84.8%)** and 58,005 are in the social sector (15.2%). These proportions are broadly in line with the overall proportion of permissions granted in 2012/13 – 82.6% of permissions were granted to private developers with 17.4% to social sector developers.

There is therefore no considerable difference in the proportions of private and social sector permissions that are unimplemented (as defined by the LGA report).

### Breakdown of private sector unimplemented permissions

The LGA report provides a figure of **323,385 unimplemented planning permissions** owned by private developers.

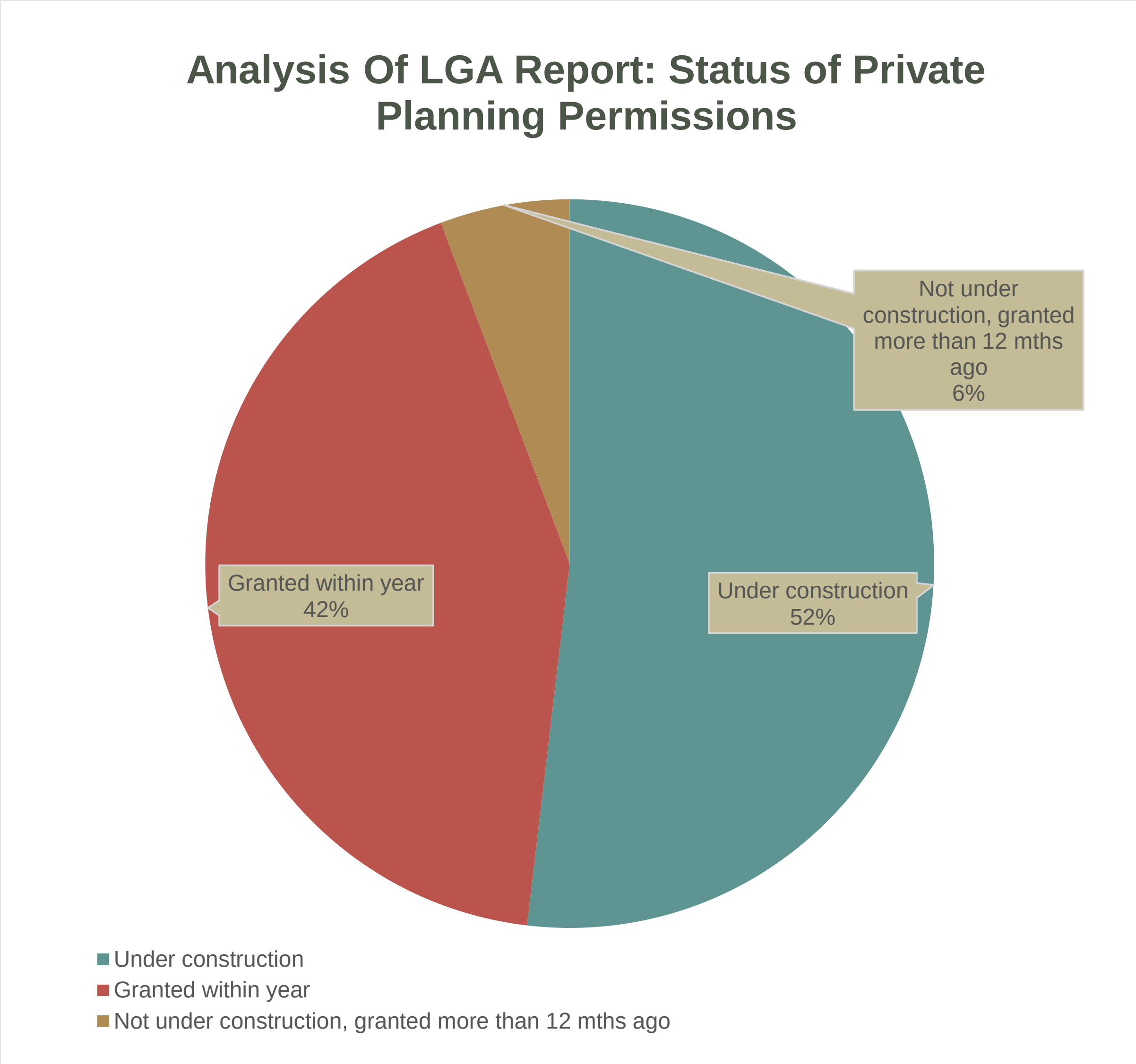
The report states that **167,746 – or 52% - are on sites under construction.**

The report states that in 2012/13 **the average time taken from obtaining planning permission to starting on site was 12 months.**

The LGA data fails to differentiate between and *outline planning permission* with Reserved Matters and Pre-commencement conditions that require discharge prior to building out the site and an *implementable planning permission* when all conditions and outstanding matters relating to the access, appearance, layout etc of the development have been agreed with the Local Planning Authority and the house builder is capable of building. The method of data collection means that even if a consent has numerous Reserved Matters attached to it, it is considered that all have been agreed provided that one Reserved Matter has been dealt with. This means that the total number of permissioned plots will be an overestimate.

Based on the report’s estimate of average time to get on site, the private sector permissions obtained during 2012/13 can be discounted from this analysis. **137,047 permissions were granted during this period – 42% of all private sector unimplemented permissions.**

This leaves **18,592 – or 5.7% - which were not under construction nor had been granted within the last financial year.**




Furthermore, the definition of 'unimplemented' that is used would also capture sites on which extensions to timescales before permissions lapsed have been agreed with the planning authority.

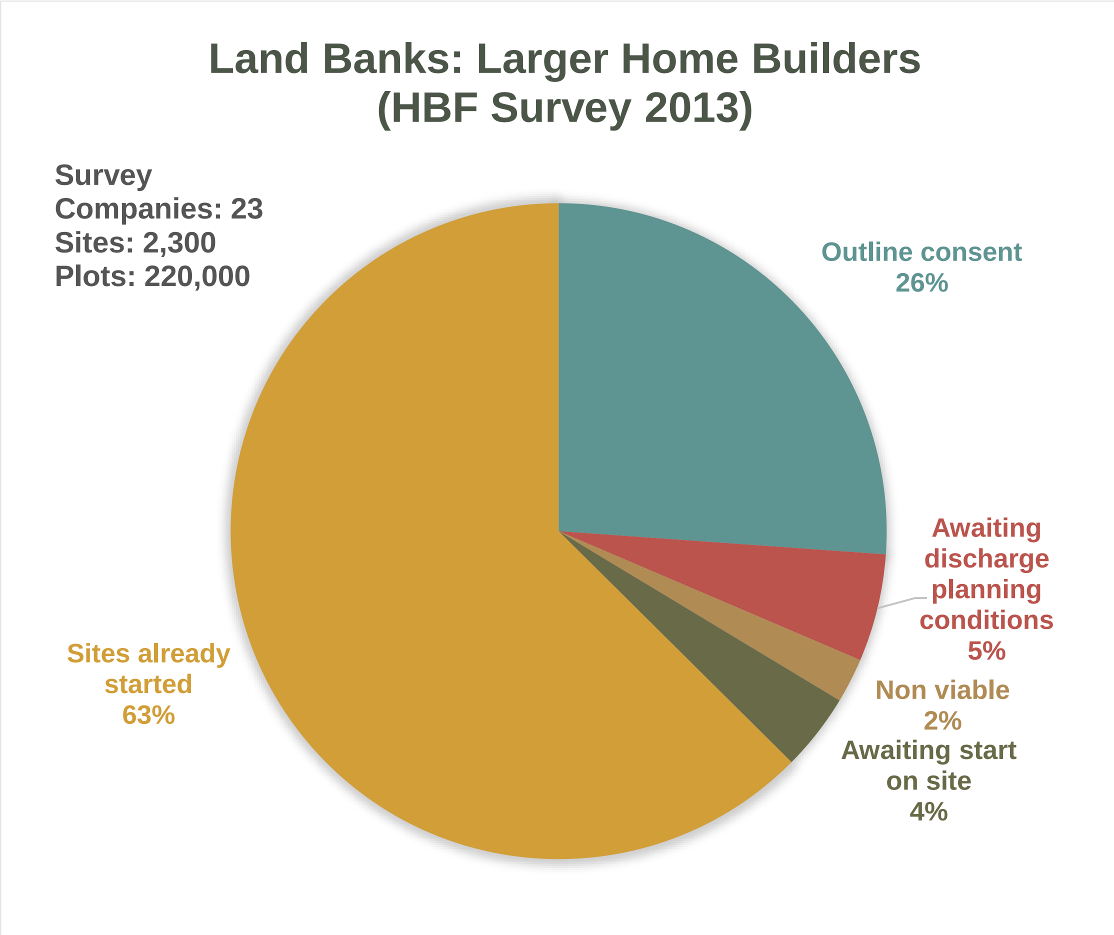
| **Unimplemented** | **323,385** |
|---|---|
| ***Of which:*** | |
| **Under construction** | 167,746 |
| **Granted within last 12 months** | 137,047 |
| **Remainder** | 18,592 |

# Part 4

## HBF's survey of members' development pipelines

In early 2014 HBF undertook a survey of its larger members in respect of their land banks in Great Britain (a house builder will define its land bank as sites with some form of planning status). The results – **based on some 2,800 sites with around 220,000 units** – show that:

- **63% of plots were on sites where work on site had already started**
- Just **over a quarter of plots were on sites with only an outline consent**, and so production could not legally commence
- **5% of plots** were on sites that had planning permission but were **awaiting the discharge of planning conditions** before work on site could legally start;
- **4%** of plots were on sites that had an implementable planning permission but were **awaiting start on site** (e.g. as contractors were appointed, etc);
- **2%** of plots were on sites that had an implementable planning permission but were not started because they **were not viable** (2.5% of sites);



In summary, HBF's survey found that house builders hold very few sites which are viable and have an implementable planning permission, but where work on site has not yet started. And in almost all of these cases the house builder will be going through the necessary final steps before work can start on site – work on site usually cannot start the day after a full planning permission is obtained. These results are in line with a similar survey carried out by HBF in 2008, and they accord with the findings of the OFT (see above).

# About HBF

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. The HBF’s members account for around 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from multi-national, household names through regionally based businesses to small local companies.

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HOME BUILDERS FEDERATION

*"The voice of the home building industry"*