



HOUSING MARKET INTELLIGENCE REPORT 2024

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HOUSING MARKET INTELLIGENCE 2024

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FOREWORD

Steve Wood, Chief Executive Officer, NHBC

I am pleased to once again be penning the foreword to the Housing Market Intelligence report. It is 21 years since the conference and report were first launched to the industry and I am proud that this has been achieved with support from NHBC throughout.

The conference provides a great opportunity to hear from experts across the breadth of the housing sector and to discuss the issues raised with peers. The report provides detailed insights and perspectives across a wide range of topics relevant to house builders of all shapes and sizes and, of course, to investors and other stakeholders.

Today, we increasingly appreciate the value of knowledge and expertise. However, the sheer amount of information and data available can be overwhelming. I am confident you will find this report insightful, and that Housing Market Intelligence will help you bring some clarity and coherence to bear.

At present the industry is under as much scrutiny as it has ever been, with expectations high on multiple fronts. Certainly, we must all continue to focus on quality and safety, on delivering for our customers and continuing to enhance reputations, individually and collectively. This will require committed leadership, strong operational disciplines and effective collaboration where this is needed, not least in relation to rapid technological advancement, attracting new talent and addressing the skills gap.

Our new government has high ambitions for the sector where building 1.5 million homes in the next five years will require a doubling of today's output. That said, the early signs are encouraging, not least in the government's intent to tackle the challenge of the planning system, which can be so debilitating for development, and in taking a pragmatic approach to nutrient neutrality.

Furthermore, we have some grounds for cautious optimism with the current economic outlook as favourable as it has been in recent times. Downward movement in interest rates and an increase in consumer confidence is also encouraging, serious geopolitical tensions notwithstanding.

In addition, we have a consensus forming around how to tackle the environmental and related technical challenges and how to raise quality, with the organisations in place to support this, notably the Future Homes Hub and the New Homes Quality Board.

If we can build on these positive foundations, and if important issues are addressed, the house-building sector has scope to thrive and prosper.

For our part, NHBC, along with the work of the NHBC Foundation and Housing Market Intelligence, will continue to provide the high-quality data and insights needed to support the sector. It is our firm belief that better informed decisions deliver better outcomes for everyone.



A handwritten signature in blue ink, which appears to read 'Steve Wood'. The signature is fluid and cursive.

Steve Wood

NHBC CEO

EXECUTIVE SUMMARY

If we had to sum up in one word the common theme running through this year's contributions to Housing Market Intelligence it would be a tussle between 'change' and 'transition'. For housebuilders these words may amount to the same thing as regards short-term tactical decisions, but in the longer run the difference has huge implications for how they shape strategy.

Change is reversible, transition suggests a permanent shift. For housebuilders, the crucial question is whether they should be preparing for a potentially disruptive revolution or keeping an eye on a steady evolution of the business environment that they have witnessed over the past half century.

Those who see the shifts in the market today as a passing phase, with a return to business as usual on the near horizon, will adapt for the short term. Those who look ahead and see the market being fundamentally and permanently altered, will reshape their business models to one that better suits their expectations of the future. Obviously, the world is not quite so black and white. Irrespective of how they see the future, some firms will choose to reshape significantly, others will make smaller adjustments, while some will continue pretty much as they always have.

There can be few if any housebuilders that don't recognise the amount of change ahead and how much more is on the way, across the political, economic, social, and technological spectra. But there's a wide range of views about the scale of this wave of change and how deep and permanent its impact will be on the housebuilding sector of the future.

Settling on an answer to this is not something that housebuilders can put off for long. Because, with a long timeframe from finding sites to delivering homes, it helps to have a clear sight today of what the market is likely to look like when the homes planned for today are delivered for sale many years from now. If there is significant structural change ahead, then it would help to be alert to it sooner rather than later.

That said, it's clear that many housebuilders are addressing this question, explicitly or implicitly. This can be seen in strategic decisions made over recent years which have led to increasing diversity in the strategies and operational structures of housebuilders. However, the 'traditional' current trader model of the speculative housebuilder, which has dominated the delivery of homes since the 1970s, remains at the core.

Whichever path a housebuilder chooses to take, their prospects will always rest to a large degree on the state of the economy. Here the term curate's egg seems a fair description of how it looks currently. On the one hand we are being told things are worse than expected, certainly when it comes to the public finances. On the other there are flickering signs of positivity in the numbers, as Noble Francis, of the Construction Products Association, and Brian Green discuss, not least with inflation now close to the 2% target and signs of growth (Page 14). But perhaps most comforting is that some of the wild uncertainty that has unsettled the economy over recent years appears to be in retreat.

The prospect that more order and certainty will return to planning with a new government setting out proposals to transform the system also appears to be evoking cautious optimism among housebuilders. As HBF's Sam Stafford discusses (Page 33), the incoming government looks set to take a different approach to the one taken more than a decade ago. The aim then was to put more control into the hands of local people. This let the 'localism genie' out of the bottle, exacerbating rather than relieving the tensions inevitable in the planning process. The incoming government proposes new mechanisms for cross-boundary strategic planning, including short-term measures to strengthen cross-boundary cooperation ahead of introducing formal strategic planning mechanisms through new legislation, which may help to put the localism genie back in its bottle.

But HBF's David O'Leary, while applauding the government's ambitions and actions aimed at reconfiguring the planning system, makes it clear that there is much more on the policy front that needs to be addressed (Page 18). As he says: 'Today's government has effectively targeted annual housing supply at a level 25% to 50% higher even than what was achieved in 2019. A more progressive planning system won't deliver this on its own. There are more supply-side barriers to tackle and, eventually, the realities of the market will need to be considered.'

Clearly, the government will need to be a powerful agent of change. But improving the functioning and performance of the industry is not all about government regulation and legislation or, for that matter, market forces. It is important that, perhaps more than ever before, the industry collectively is seeking to alter itself for the better. Notably it has played and continues to play a role in raising quality standards, not least in helping to establish the New Homes Quality Board (NHQB) and the New Homes Ombudsman Service, which have now been in place for two years. Furthermore, it has been keenly engaged in the progress towards meeting net zero, with its strong support for the Future Homes Hub.

Quality and reputation count. They will be increasingly important for housebuilders' as they seek to gain an edge to sell more new homes against the main competitor, existing homes. As NHQB CEO Emma Toms reveals (Page 48) there are lessons that housebuilders can learn from the first two years of the newly established system. From the data

collected by the Ombudsman it becomes clear where housebuilders fall short. This knowledge of failings and weak spots can be flipped to form the basis for improvement.

In line with this engagement with the quality agenda, housebuilders are also embracing the need to raise energy efficiency standards. There is a growing belief within the industry that by raising quality while lowering energy bills new homes will gain a big advantage over their primary competitor, the second-hand home. In a low-transaction market, that is essential to maintain sales rates.

Although legislation tends to enforce tougher standards and raise costs, the industry is embracing the step change to the Future Homes Standard. It is fully engaged in a collective effort to support and encourage the delivery of homes that are highly energy efficient and gentler on the planet's natural resources. The focal point for this effort is the Future Homes Hub, and its chief executive Ed Lockhart, describes how the Hub is shifting the dial on progress that will not only improve the sustainability of homes, but also support the business sustainability of housebuilders (Page 57).

Embracing change in the way homes are built is part and parcel of the evolution of housebuilding. But it is the scale and the pressure to adopt change that tends to define how welcome and how successful it is. Over recent years, the pressure to adopt modern methods of construction (MMC) within housebuilding has intensified, mainly to address the twin issues of low productivity and lack of trade skills. The push was greeted with enthusiasm by some, often outside the industry, and with caution by others. The sector has a rather chequered history with high-level innovation.

It was little surprise to many that failure rates, particularly of firms focused on modular construction systems, have been high. However, this does not mean progress is not being made. Housebuilders are embracing MMC. Most major firms have quietly, some less so, introduced significant innovation, as Sarah Payne, of Sheffield University, and Brian Green observe (Page 40). The problem, as they see it, is the tendency to over emphasis technology and the physical elements with insufficient account taken of the overall development process and market context. This suggests, they say, the need for a shift in thinking from MMC to modern methods of development (MMD).

Ultimately the most important element of any business is its customer base. Clearly, this evolves over time, but as Zoopla's Richard Donnell and Brian Green discuss, there are fundamental shifts in the customer landscape that point to a need for housebuilders to adapt to new ways of thinking and acting (Page 26). As they say, there is plenty of potential demand for new homes in the UK. It's more a question of what type, tenure, and price points are required to underpin sales rates that can drive a sustained increase in housing output, in the context of exceptional market and demographic trends.

Emily Williams and Lydia McLaren at Savills also pick up on the theme of housebuilding being in the throes of a significant transition (Page 36). They argue that the delivery of homes through a wider variety of business models, the refreshed planning regulation, and the political urgency to ramp up delivery, will inevitably be reflected in the land market. For housebuilders, developers, and landowners, they say: "This is likely to mean looking much more closely at a wider range of variables when assessing what land to buy and where."

Inevitably investors and City analysts keep a very keen eye on how current trends in the housing market are likely to play out. As Anthony Codling of RBC Capital Markets, puts it: "Deep down the City is looking for the housebuilders whose strategic choices lead to sector-leading levels of sustainable profit growth. The City doesn't mind how the cake is made as long as it looks good, tastes good and provides them a big slice of profits." (Page 52) And he adds: "From the City's perspective, those that read the runes best and deliver the strongest profits will get its votes."

And then there is the elephant emergent in many boardrooms, Artificial Intelligence (AI). Nobody really knows what it will eventually alter, by how much, and how quickly. But to dismiss its potency would be as sensible as dismissing the likely impact of the internet in the 1990s or the motor car in the early 20th Century, which many did. Given the potency of AI, it seems inconceivable that it will not influence how people shape their lives and how the built environment is forced to respond to keep up with its expanding influence. As Brian Green suggests (Page 60) this will have implications for both the housing and land markets that are key to the success of housebuilders.

If there is one clear message that emerges from this year's report, it is to keep both your eyes and your mind open. Change is afoot. It might prove to be a transition to a new and different housing market. It might just be another passing phase with a return to business as usual. Either way it means there are likely to be opportunities and threats aplenty.

Brian Green

October 2024

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