

Homebuilding market study

Annexe R - Alternative development models

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R.1 ALTERNATIVE DEVELOPMENT MODELS

Business models to improve customer satisfaction

R.1.1 Some homebuilders have adopted alternative business models to the traditional speculative development current trader model (see Glossary) used by most new homebuilders in the UK, which they consider may allow them to provide better customer satisfaction. We discuss those models here and consider whether there are any specific impediments to their more widespread adoption in the UK. We focus on two business models in particular: long-term investment and non-speculative homebuilding.

Long-term investment

R.1.2 In the short-term, it may be difficult to encourage residential property valuers to take into account neighbourhood design, architectural innovation or higher build quality (see for example the comments made by the Carvill Group in Annexe F). This partly reflects the fact that the main source of valuation data for a new development is not the development itself but the nearest existing housing stock. Over time, however, homes in the new development will be resold and at this point the true value of the homes will become apparent. Some homebuilders reported to us that this could be significantly above the level at which new homes on the same development were currently valued.

R.1.3 Evidently, if the financial benefits of investment in higher levels of customer satisfaction will only yield themselves over time then it follows that homebuilders wishing to make a profit from investing in neighbourhood design, architectural design and build standards will need to take a long-term interest in their developments. However, to do so requires a different business model to that which most homebuilders typically use.

- R.1.4 There are very few homebuilders who take a long-term financial interest in their developments. This is because traditional homebuilders operate on a current trader model - they build homes and then sell them.¹ Usually the profit from a development is realised only when the last few units are sold. To maintain a long-term financial interest in the project the homebuilder must use an investor business model (see Glossary) similar to that typically used by commercial property businesses.
- R.1.5 A few businesses have, under slightly different versions of the investor model, carved out a niche for themselves. Land Securities plc,² Places for People,³ Grainger Trust plc,⁴ and Young Group⁵ have all to a greater or lesser extent embraced an investor model.⁶ Land Securities and Places for People in particular, have put emphasis on driving up property values through investment in neighbourhood design and amenities. Nevertheless, the overall picture is of an industry that does not take a long-term financial interest in its developments.
- R.1.6 Homebuilders and stakeholders we interviewed presented a mixed picture as to why a greater number of homebuilders had not adopted an investor business model. Some suggested that the issues were purely financial; homebuilders did not have a balance sheet strong enough to consider it. Others thought the problems lay with a lack of institutional investment in residential property which made it difficult to make the investor business model work on a large scale. Another suggested that these were not really obstacles at all and that the real reasons were cultural - homebuilders preferred a current trader model, perhaps because many homebuilders had started out as trading business and that

¹ Housing Associations and RSLs sometimes develop their own sites where they sell some of the homes privately to fund the homes they retain for social renting or shared ownership. For this reason we do not consider them to operate on a current trader model.

² www.landsecurities.com

³ www.placesforpeople.co.uk

⁴ www.graingerplc.co.uk

⁵ www.younggroup.co.uk

⁶ It is not just large companies who retain a long-term interest in the homes they have built. In our case studies Danny Ward retains a small number of properties to rent out.

was what they knew best. One property services company explained that they thought the problem lay with a lack of an appropriate legal instrument for large-scale corporate investment in rental property. Whatever the reason, there are few homebuilders who first construct and then take an ongoing interest in residential property.

- R.1.7 It follows that without an investor business model it is not surprising that many homebuilders find it financially unrewarding to take a long-term view of property values on their developments. Accordingly, many investments that might yield returns in the medium-term are overlooked.

Non-speculative homebuilding

- R.1.8 Most homes in the UK are delivered by speculative homebuilders. Building homes to order allows the homebuyer to specify the specifications and architectural design that they want. This gives homebuilders certainty that, if they adopt those standards and designs they will achieve a sale for the property. In this way, building to order introduces the flexibility necessary to deliver bespoke homes without compromising the homebuilder's ability to make sales.

- R.1.9 There are two main channels through which homes built to order can be delivered. The first is through mass-customisation, the second through self building. We consider below how appropriate each of these options is for the UK.

Mass-customisation

- R.1.10 Mass-customisation is a model of homebuilding that allows homebuyers to choose the layout and design of their home. Unlike speculatively built homes mass-customised homes are almost always built using modern methods of construction (MMC), in particular off-site manufacture (OSM) (see Glossary for a definition of terms). In order to explain the opportunities and challenges associated with adopting a mass-customisation model of housing delivery it is necessary to understand some of the broader issues relating to MMC and OSM.

- R.1.11 Mass-customisation usually uses some form of OSM to help provide homebuyers with a wider choice of specification for their new home. Mass-customisation is particularly common in Japan.⁷
- R.1.12 Japan's factory-based homebuilders supply customised homes which are assembled off-site from standardised components or modular systems. These non-speculative individually commissioned homes make up about a third of all new dwellings built in Japan every year, and about three-quarters of all detached homes.⁸
- R.1.13 Japanese supply-chain configurations go from 'make-to-stock' to 'make-to-order'. As the name suggests 'make-to-stock' is a fairly standard product which has a limited amount of choice. There are generally short lead times and it is a very efficient method of manufacture because it offers the possibility for large economies of scale. 'Make-to-order' offers the homebuyer far more choice but there can be long lead times and there is less opportunity to take advantage of economies of scale. A combination of the two extremes is 'assemble-to-stock' where the parts are made in advance but assembly of the final home does not occur until the homebuyer's order is received.
- R.1.14 The choice available to homebuyers is restricted by three factors:
- the varieties of exterior cladding choices are controlled to achieve economies of scale, they are also affected by planning regulations and the size and shape of the plot
 - cost, and
 - the size and orientation of the plot.

⁷ We have been unable to find any details about levels of consumer satisfaction with new homes in Japan but the fact that many Japanese homebuyers use the same firm to complete any renovations or build a replacement home suggests that they are reasonably happy with the home and customer service they receive.

⁸ Barlow, J, Childerhouse, P, Gann, Jong-Minh, S, Naim, M, and Ozaki, R, 2003, Choice and delivery in housebuilding: lessons from Japan for UK housebuilders, *Building Research and Information*, Vol. 31, p134 – 145

R.1.15 In addition to these constraints, Japanese homebuilders are effective at managing homebuyers' choices and offering only pre-defined lists of fixtures and fittings. As a result, in practice, homebuyer choice in Japan relates mainly to the floor plan and internal specification.⁹

R.1.16 Typically a Japanese homebuilder will offer up to three hundred standard designs in terms of elevations and floor plans and further options are available. In contrast, large UK homebuilders have about thirty standard floor plans with very few opportunities for customisation.¹⁰

R.1.17 In the UK new home sales are about 10 per cent of total housing sales, in Japan new home sales make up 98.5 per cent⁹ of all housing market sales. Individual dwellings are not built speculatively. This has generated significant demand for mass produced housing using prefabricated concrete systems, which tend to be used for non-speculatively built housing.¹⁰ The Japanese population is about twice the size of the UK population but there are about six times more new homes sold in Japan than in the UK (approximately 1.2 million a year).⁹ Homes are considered as consumer rather than investor goods and it is not uncommon for a piece of land to cost less if it has an existing home on it because any purchaser will almost certainly demolish the existing home and build a new one.

R.1.18 The scale and popularity of replacement homes is a result of two important factors:

- strong cultural attachment to land, and
- the fact that lifetime employment with a single firm was very common from the 1950s – 1980s which means that Japanese households tend to stay in the same location for generations. This is

⁹ Barlow, J and Ozaki, R, 2005, Building mass customised housing through innovation in the production system: lessons from Japan, *Environment and Planning A*, Vol. 37, p9 – 20

¹⁰ Barlow, J, Childerhouse, P, Gann, Jong-Minh, S, Naim, M, and Ozaki, R, 2003, Choice and delivery in housebuilding: lessons from Japan for UK housebuilders, *Building Research and Information*, Vol. 31, p134 – 145

not the situation in the UK where people are far more likely to move because of jobs or for other reasons.

R.1.19 In Japan the plots of land on which individual homes are built are often owned by a family who will commission a new home when they want one. This means that Japanese homebuilders are not involved in the land market at all. Because one family will tend to own a plot of land for an extended period of time, homebuilders provide a very high level of customer service. Previous purchasing experience and word-of-mouth are the most common methods used by a Japanese homebuyer to decide who to commission their new home from. Therefore homebuilders work very hard to provide an excellent service during and after the home is built. The same firm who built the home will often be used to carry out any renovations at a later date.

R.1.20 The Japanese homebuilding industry is significantly larger but less concentrated than the UK homebuilding industry. There are fewer large homebuilders in Japan but the large ones are substantially larger than in the UK or US. Japan's largest homebuilder in 2006 was Sekisui House who built more than 56,000 homes;¹¹ the second largest homebuilder was Daiwa House who built more than 45,000.¹² In contrast, the largest UK homebuilder in 2006¹³ built 21,910 homes¹⁴ and the largest US homebuilder built 41,000 homes.¹⁵ It may be the size of Japanese firms which helps explain why OSM methods of mass-customisation, and MMC in general, are so popular and successful in Japan and not in the UK.

¹¹ www.sekisuihouse.co.jp/company/data/current/document-368-datafile.pdf?bcsi_scan_A2018E0826464712=0&bcsi_scan_filename=document-368-datafile.pdf

¹² www.daiwahouse.com/English/groupbrand/ar/2006annual/pdf/daiwahouseAR2006_main5.pdf?bcsi_scan_A2018E0826464712=0&bcsi_scan_filename=daiwahouseAR2006_main5.pdf

¹³ Taylor Wimpey

¹⁴ Housing Market Intelligence Report 2007

¹⁵ D.R. Horton Inc built more than 41,000 in the fiscal year ending September 2007.
www.drhorton.com/

R.1.21 There is a large difference between the planning regimes in Japan and the UK. In Japan zoning regulates the size and form of a building but development permission is usually granted quite quickly if the proposed scheme is in an 'urbanisation promotion area'. Outside a 'city planning area' no development permission is needed at all, although rural development is quite rare. By contrast some UK homebuilders and contractors that the OFT spoke to suggested that the planning regime in the UK does not encourage the adoption of MMC and OSM which are critical to mass-customisation. In particular they cited the main reasons as:

- an inability to capture the benefits of faster build times through faster sales
- problems with achieving a final design early enough in the construction process to allow for off-site manufacturing techniques to be employed
- reluctance among some homebuyers to buy modern timber frame properties, and
- a UK regulatory regime that reflected traditional construction techniques.

Mass-customisation conclusion

R.1.22 Mass-customisation has the potential to offer homebuyers a greater level of satisfaction with their home. However, mass-customisation tends to require the use of more complex MMC such as OSM. Barriers which deter the use of MMC¹⁶ in the UK have effectively precluded a model of mass-customised housing delivery.

¹⁶ These include: public perceptions of MMC, the planning regime on MMC, financial barriers and issues of co-ordination/forward planning.

Self build

R.1.23 Unlike many product markets if a homebuyer cannot find a home that suits them they have the option of building their own. The term 'self build' covers a range of levels of involvement by the homebuyer. Some self build homebuyers construct the entire dwelling themselves while others engage the services of a package company who find a plot and build the home for the homebuyer.¹⁷ In line with other work looking at self build,¹⁸ in this report we use the term 'self build' to mean any instance where a person is involved in some way in the production of their new home rather than buying a property from a speculative homebuilder.

R.1.24 Unsurprisingly, there is no unified body which promotes the interest of self build homebuyers. During the course of this study we spoke to a range of people involved in some way with self build. The rest of this section is based largely on the information gathered during these interviews. In addition, of all the submissions made to this study about a third were from people who wanted to see more self building take place.

R.1.25 Self build, by offering greater choice to homebuyers, might help increase the competitive pressure on speculative homebuilders to focus more on consumer satisfaction.

Benefits of self build

R.1.26 Rigorous evidence on self build homebuyer satisfaction and self building is hard to come by as the industry is highly fragmented and there is little

¹⁷ For example, see Border Oak www.borderoak.com/pages/faq.shtml

¹⁸ See for example, Barlow, J, Jackson, R and Meikle, J, 2001, *Homes to DIY for the UK's self build housing market in the twenty-first century*, Report commissioned by Joseph Rowntree Foundation.

or no survey work on the issue. Anecdotal evidence suggests that self build homebuyers report a high level of satisfaction.¹⁹

R.1.27 With all self build homes the homebuyer is able to build a home which best suits their requirements. This flexibility may be a significant benefit for some homebuyers.

R.1.28 It is likely that self build homes will have some of the faults found in speculative homes, for example there may be problems with some plumbing or plaster cracking. If a self build homebuyer has used sub-contracted labour to do the work (and the majority do)²⁰ they may experience the same incidence of faults and the same problem of delays while waiting for faults to be rectified.

R.1.29 Because self build homebuyers do not need a profit margin the cost of a self build home may be less than an equivalent home bought from a speculative homebuilder.²¹ Alternatively a self build homebuyer may spend as much as they would have done on a speculatively built home but may have a larger or higher specification home. All the self build homebuyers we spoke to, on a variety of budgets, said they felt they had achieved better value for money than they would have done with a speculatively built home. This aspect is likely to be a key factor in explaining why self build homebuyers tend to report higher levels of satisfaction with their new home than those homebuyers who purchased their home from a homebuilder.

¹⁹ Anecdotal reports from the OFT interview programme with owners of self built homes. Notably, even owners that had experienced significant difficulties in the construction of their home reported very high levels of satisfaction.

²⁰ Barlow, J, Jackson, R and Meikle, J, 2001, *Homes to DIY for the UK's self build housing market in the twenty-first century*, Report commissioned by Joseph Rowntree Foundation.

²¹ By self building the individual is bearing the development risk, this would not be the case if they bought a home from a speculative homebuilder. This increase in risk is offset by the lower amount the self build homebuyer spends.

Number of self build homes

- R.1.30 Estimates of the annual number of self build homes built in the UK ranged from 10,000 to 18,000 homes but our analysis suggests the figure is around 16,000,²² this is just over eight per cent of 2007 output.²³ For the purposes of this study we will work on the basis that about 10 per cent of homes are self build spread across the housing cycle.
- R.1.31 The most prominent report on the self build market is *Homes to DIY for: The UK's self build housing market in the twenty-first century* by James Barlow, Robert Jackson and Jim Meikle which was written for the Joseph Rowntree Foundation in 2001. This report estimated that eight per cent²⁴ of all new homes built each year (including those built by RSLs and local authorities) is self built; which equated to about 15,000 homes per annum in 1999. In Northern Ireland this percentage is considerably higher, at about 23 per cent.²⁵
- R.1.32 The Construction Products Association in its report entitled *Long term prospects for the UK new housing market* cites a *Datamonitor* estimate of 17,000 new build homes in 2003 and an estimate of 15-16,000 self built homes in 2006 from AMA Research.²⁶
- R.1.33 The DETR's survey of the number of single dwellings constructed based on local authority approvals was 17,804.²⁷ However, not all single

²² There are very few organisations that have collected any data on the self build market, CLG, Royal Institute of Chartered Surveyors, Royal Institute of British Architects, Building Research Establishment and Association of British Insurers have all said that they do not hold any information on self build homebuyers.

²³ 191,029 private dwellings were built in the UK in 2007. Source: CLG live table 209

²⁴ p9, Barlow, J, Jackson, R and Meikle, J, 2001, *Homes to DIY for the UK's self build housing market in the twenty-first century*, Report commissioned by Joseph Rowntree Foundation.

²⁵ Table 3, p10, *Ibid*.

²⁶ p145, *Long term prospects for the UK new housing market*, prepared for the Construction Products Association by the Wood Holmes Group.

²⁷ Data provided by NHBC.

dwellings will be self build dwellings, some will be small scale commercial development activity. Furthermore, there are a small number of multiple development plots which may also contain self build projects within them (see for example the East Shore village case study at Annexe F). It is our view that these two factors probably indicate that the figure of 17,804 single dwellings is an upper bound on the estimate range for self built homes.

R.1.34 In 2000, HM Customs and Excise - Construction and Utilities department collected data on UK VAT receipts for individual self build homebuyers, which varied between 10,200 and 11,200 over the past five years.²⁸ Whilst some self build homebuyers submit more than one VAT receipt, some never declare VAT or carry over receipts to the following financial year. HMRC consider that these and other factors will roughly offset one another. Despite this, we consider that this estimate is a lower bound on the estimate of self building. In particular some self build homes may have been wholly contracted out to a contractor and the VAT receipts submitted by that contractor and the finished home sold onto the self build homebuyer. The authors Armor and Snell report that 40 per cent of self builds are wholly contracted out in this way. Combining Armor and Snell's estimate with the HMRC data suggests that between 17,000 and 18,700 self build homes are constructed each year.²⁹

R.1.35 Looking at these estimates in the round and making some allowances for inaccuracies in the data we conclude that they indicate that on average about 16,000 self build homes are constructed each year. This is equivalent to nearly 10 per cent of private new homebuilding output across the housing cycle.

R.1.36 Assuming that about 16,000 self build homes are constructed every year this means that this section of the industry is one of the largest providers of new homes in the UK. Research suggests that the number of self build homes has risen substantially in the last twenty years. In 2004 the self build market was estimated to be worth about £3.5bn and

²⁸ Ibid.

²⁹ Ibid.

the total market value is thought to have risen about 45 per cent between 2000 and 2006.³⁰ This increase in value is primarily as a result of rising land and construction prices.

Types of self build

R.1.37 There appears to be a number of different categories of self build homebuyer:

- Those building their ideal home; they are generally prepared to spend well above the average cost of a home to achieve the final product they want. Their finished homes are often of exceptional quality and design.
- Those moving up the housing ladder; by self building they are able to get a higher specification home (larger, or in a more popular location) than they could otherwise afford. These self build homebuyers work to a tight budget and their finished home will often look fairly similar to other new builds. In some cases people in this category self build a number of times in order to move up the housing ladder.
- Those trying to get onto the housing ladder who cannot afford to buy from a speculative homebuilder. As with the previous category these self build homebuyers are working to a very tight budget and the homes they build often look similar to existing homes.
- Those who are retiring and are selling their family home to buy something smaller. These self build homebuyers may be particularly interested in their long-term needs in terms of care and mobility so they will design their home to cope with their changing demands. Because they are usually selling an existing property their budget tends to be more generous than those lower down the housing ladder.

³⁰ p4, SmartLIFE, *Self build comparison between partner countries*,

Accessibility of self build

R.1.38 Self build offers homebuyers the possibility of having a home to the exact specification they want (allowing for the limitations of their budget) and, to that extent, might be expected to be a popular source of home supply. According to a survey by Norwich and Peterborough Building Society 70 per cent of homeowners considered the idea of building their own homes. This figure is the highest on record and has more than doubled since 1997.³¹

R.1.39 In practice the delivery of self build homes falls well below 70 per cent. In the UK self build supplies around 10 per cent of new homes each year but in France 48 per cent of homes were self built in 2001³² and in Germany 55 per cent of homes are built by the owners.³³ Barlow, *et al*, have argued that the UK could increase the number of self build homes built each year if certain barriers to its expansion can be overcome.³⁴ We will now examine some of the possible reasons that UK self build rates are much lower.

Land for self build

R.1.40 Obviously the location of the home is limited by the land available. Self building is generally done on single plot sites and the prevalent view is that self build is more popular in Scotland, Wales and Northern Ireland especially.³⁵ This might partly be due to the fact that more land is likely to be available to self build homebuyers in these areas. Suitable plots may be easier to find away from major conurbations and areas of population growth (where homebuilders are less likely to be interested in

³¹ Figure taken from 'DIY Urbanism: Self build in cities' <http://esp-sim.org/?p=41>

³² Michael Ball, 'Markets and the structure of the housebuilding industry: an international perspective', *Urban Studies*, Vol.40, Nos 5-6, 897-916, 2003

³³ p3, SmartLIFE *Self build comparison between partner countries*.

³⁴ p44, Barlow, J, Jackson, R and Meikle, J, 2001, *Homes to DIY for the UK's self build housing market in the twenty-first century*, Report commissioned by Joseph Rowntree Foundation.

³⁵ Ibid.

the same land).³⁶ On the other hand, it may reflect not land availability but fashion. The vast majority (88 per cent³⁷) of self build homebuyers would like a rural or semi-rural plot, but this may be due to the fact that those who would like to self build in an urban environment find it more difficult to find a suitable plot and so account for a relatively small proportion of all self build homebuyers.

R.1.41 With all types of homebuilding access to land is a crucial requirement. Land suitable for self building can be difficult to find even in rural locations but is usually found through: auctions, local architects or surveyors, local homebuilders who want to dispose of surplus plots or family, friends and local contacts.

R.1.42 Self build homebuyers may have to compete with homebuilders for a given plot but the value of the land will be very different to each party. The self build homebuyer may be looking for the plot for their own home whereas the homebuilder will be looking for a business opportunity. In theory, a self build homebuyer should be willing to pay more for a given plot than a speculative homebuilder because they do not need to allow for a profit margin. On the other hand, in a fast moving land market a homebuilder may be able to move faster than an individual especially with respect to arranging the finance necessary to secure a purchase.

R.1.43 The difficulty of locating appropriate land may have been reduced somewhat by the emergence of websites with details of self build land for sale.³⁸ However, some self build homebuyers we spoke to said such websites are only useful to gain a general picture of availability and prices rather than to buy a plot. One respondent said that the main route for finding self build plots was through building up contacts with estate agents and local landowners. In an example given to the study a self build homebuyer bid for a run-down house with a large garden, he lost

³⁶ Jason Orme case study (see Annexe F).

³⁷ p18, Barlow, J, Jackson, R and Meikle, J, 2001, *Homes to DIY for the UK's self build housing market in the twenty first century*, Report commissioned by Joseph Rowntree Foundation

³⁸ See, for example, Benfield ATT www.benfieldatt.co.uk/technical_information/useful_links/land and PlotSearch www.buildstore.co.uk/findingland/

the bid but negotiated with the successful bidder to sell off part of the garden.³⁹ Everyone we spoke to during the course of this study said that access to land was by far the biggest barrier preventing people from self building.

R.1.44 Anecdotally self build homebuyers and co-housing groups (see R.1.57 for more information about co-housing groups) can sometimes find local authorities rigid and unhelpful in their dealings with self build homebuyers. There is a perception among some self build homebuyers that local planning officers are focused on larger sites because they help to meet the local authority's planning target at a lower cost to the local authority. However we were also told that some planners are keen to work with self build homebuyers because they appreciate the increased effort most self build homebuyers take over the design of their home. It is likely that the situation varies depending on the local authority in question.

R.1.45 When self build is undertaken on an individual basis (as opposed to being part of a group self build project) the home is usually constructed on a small site. These small sites are often ignored by volume homebuilders because they are not cost effective for them to use. Self build may mean that a home is built on a site that would otherwise be left unused. This makes it likely that any increase in self building would mean more homes would be built overall because more marginal sites would be used.

Finance for self build

R.1.46 The other barrier preventing people from self building is access to finance. Self building remains a minority area of the mortgage market so few mainstream mortgage companies offer suitable products. In June 2006 there were 36⁴⁰ providers of self build mortgages, about a third of all mortgage lenders in the UK. The main difference between a self build and a normal mortgage is that the money is released in stages for the self build as the project progresses. The money can be released at the

³⁹ Jason Orme case study.

⁴⁰ Datamonitor report *UK Self build Mortgages 2006*

end of each stage (arrears stage payments) or the start of the stage (advance stage payments). The stages are shown in Table 1.

Table 1 Stages of self build

Stage	Brick & Block	Timber Frame	Renovation/Conversion
1	Purchase of land	Purchase of land	Purchase of the property
2	Preliminary costs and foundations	Preliminary costs and foundations	Preliminary costs and structural overhaul
3	Wall plate level	Timber frame kit erected	Wind and watertight
4	Wind and watertight	Wind and watertight	Plastering and services
5	First fix and plastering	First fix and plastering	Second fix
6	Second fix to completion	Second fix to completion	To completion

Source: www.buildstore.co.uk/finance/stagesofbuild.html

R.1.47 With the arrears stage payments the money for each stage is released once the stage has been completed and a residential property valuer has visited the site. This can create cash-flow problems.

R.1.48 Usually an arrears stage mortgage can be up to 75 per cent of the total land value and 75 per cent of the construction costs. This means that self build homebuyers need to have sizeable cash reserves available at the beginning of the project which is often raised by selling their existing home.

- R.1.49 With an advance stage mortgage money is released at the beginning of each stage. This type of mortgage allows for a positive cash flow throughout the build. Up to 95 per cent of the total cost can be borrowed which combined with the advance payments means it can be possible for the self build homebuyer to stay in their current home while building their new one.
- R.1.50 In some cases a short-term bridging loan is used instead or a mortgage, with the level of borrowing based on equity in the existing home and the ability to pay the monthly interest payments (based on income, savings and/or investments). Typically, bridging loans last for about three years.
- R.1.51 For more information about self build mortgages see the Datamonitor report *UK Self build Mortgages 2006*.

Project management

- R.1.52 Self building is usually a fairly complicated process. Even when a self build homebuyer employs a project manager to manage the project there will always be stages when decisions have to be made or delays arise. There will also be the added complication of having to manage the budget for the project. For the inexperienced this can be stressful and, in rare circumstances, lead to calamitous failure with unfinished homes.⁴¹
- R.1.53 The most common problem experienced by self build homebuyers, however, is that they run over-budget. In particular, inexperienced self build homebuyers may base their budget on the amount of money they can borrow rather than the amount needed to complete the build. An experienced project manager can address these problems by helping to properly cost and schedule works before they commence.
- R.1.54 The vast majority (92 per cent) of self build homebuyers planned to do some of the work on the project, with about a third planning to do all or

⁴¹ Self build projects can fail for a number of reasons, including overspend, changes in personal circumstances or just a lack of momentum.

most of the construction work.⁴² Clearly, depending on experience and skill, different self build homebuyers need different levels of support from project managers and tradesmen. The self build industry has evolved to provide a variety of self build options that involve greater or lesser degrees of involvement by the self build homebuyer. These include:

- DIY building - with all or most of the work project managed and undertaken by the self build homebuyer
- self-managed build; tradesmen undertake most of the work but the overall project is managed by the self build homebuyer
- professionally managed self build - the self build homebuyer hires a professional project manager who in turn manages the tradesmen.

R.1.55 Most self build is undertaken by individuals and families but there are some cases of group, or community⁴³, self build (see Box R.2 on Swindon).⁴⁴ This is sometimes known as 'enabled self build'. In some cases group, or community, self build involves a group of individuals coming together and forming themselves into either a self build housing association or a housing co-operative. Sometimes the aim is to provide training opportunities for people.

R.1.56 As with individual self building there are a myriad of options available to a group of self build homebuyers with regards to how closely they are involved with the build. In some cases the members of the group will

⁴² Figures taken from p4, Barlow, J, Jackson, R and Meikle, J, 2001, *Homes to DIY for the UK's self build housing market in the twenty first century*, Report commissioned by Joseph Rowntree Foundation

⁴³ For more information about community self build see the Community Self Build Agency website www.communityselfbuildagency.org.uk/

⁴⁴ Another example of community self build is Gwynfryn, Rhodfa Frank, Ammanford in Carmarthenshire. This new-build scheme of over a hundred houses and apartments was submitted for planning in November 2007. The plans will include a community self build scheme of 12 homes. To view the planning application visit: www.carmarthenshire.gov.uk/index.asp?locID=7980&docID=-1

pool their resources and build the homes. Each individual agrees to contribute the same fixed number of hours per week, for no payment. In other cases there will be an 'enabler' who will be responsible for installing the infrastructure onto the site before selling the individual plots to self build homebuyers. It is possible that this enabler will also provide project management, of varying levels, to the people who buy the plots. In the example in Box 1 BuildStore⁴⁵ is acting as the enabler.

Box 1 Example of enabled self build in Swindon

An enabled group self build project in Swindon is being developed to try and provide affordable housing. As a joint venture, BuildStore⁴⁶ (a commercial company working in the self build, conversion and renovation market) and Swindon Borough Council⁴⁷ are planning to create a large site entirely for self build homes. Once the site has been identified it will be divided up into individual plots and the infrastructure will be installed before self build homebuyers start work.

Councillor Peter Greenhalgh, Swindon Borough Council's Cabinet Member for Highways, Transport & Strategic Planning, summarised the project thus: *'This is an exciting concept and reflects our commitment to providing affordable houses. Those commissioning their own home build often specify modern constructional techniques such as off-site construction, which can provide superior, more environmentally-friendly solutions. These practices can apply to all sizes of property, so that self build homebuyers from every age range and demographic can take advantage of this unique opportunity.'*⁴⁸

R.1.57 There are also co-housing groups which are a combination of self-contained residential units with some communal facilities and the community is run along co-operative lines. Co-housing started in Denmark and about five per cent of all households in Denmark now live

⁴⁵ www.buildstore.co.uk

⁴⁶ www.buildstore.co.uk

⁴⁷ www.swindon.gov.uk

⁴⁸ Quote taken from www.mykindofhome.co.uk/

in co-housing projects. In contrast, there are approximately 40 co-housing groups in the UK.⁴⁹

Technology

- R.1.58 Anecdotal evidence from architects, project managers and warranty providers suggests that self build homebuyers adopt new technology earlier than speculative homebuilders. For example, under-floor heating has been popular with self build homebuyers for more than a decade and is now being used more frequently by volume homebuilders. Self build homebuyers also tend to pay particular attention to the sustainability of their homes.
- R.1.59 This willingness to use alternative technology extends to construction methods. MMC is more prevalent among self build homebuyers than speculative homebuilders and it has been suggested that MMC appeals to self build because faster construction can cause less disruption to neighbours and allows earlier occupancy. Homebuilders only build homes as fast as they can sell them. Self build homebuyers generally want to move into their new home as soon as possible so they will do everything to try and build as quickly as possible. Another suggestion is that the increased use of MMC by self build homebuyers stems from its simplicity combined with the fact that it is possible to order MMC homes 'off the shelf' and manufacturers will also construct the property for the self build homebuyer on site, thereby reducing the project management requirement.

Self build conclusion

- R.1.60 Currently self build is the largest single supplier of new homes to the UK market but as a topic has received surprisingly little attention either in studies of the homebuilding market as a whole or in Government sponsored research. Self building is not suitable for everyone but we think there are some significant benefits to it. It is a possible source of

⁴⁹ Figures taken from UK Cohousing Network submission to the study.

better value and consumer satisfaction tends to be high with the finished product.

R.1.61 It is difficult to know what effect the slowdown in the market is having on the number of self build homes because of the lack of comprehensive information. As outlined above the biggest problem facing potential self build homebuyers is usually finding suitable land. In the recent climate land prices have fallen significantly so it may be that more self build homebuyers are able to afford land. However, it may also be the case that some landowners have to wait until land prices start to rise again before they sell their land. Recently there has been a sharp reduction in the number and size of mortgages that are available⁵⁰ so it would seem reasonable to expect that self build homebuyers might also have problems getting a mortgage at the moment.

R.1.62 Most self build projects are undertaken on small or individual sites and hence can help bring forward small marginal sites that are unappealing to larger homebuilders. By utilising these small sites overall land supply and housing delivery can be increased and the delivery of affordable homes enhanced.

R.1.63 Some people will only be involved in the process by working with architects, project managers and tradesmen while others will choose to construct the home themselves. This variety of options means that homebuyers can end up with a product that they have been closely involved with designing and is likely to be closer to their ideal home than one bought from a speculative homebuilder. This level of involvement is likely to result in higher levels of homebuyer satisfaction, especially for those on more restricted budgets.

⁵⁰ Farrell, S, 2008, Slump in number of mortgage approvals, *Independent online* [internet], 12 March 2008. Available at: www.independent.co.uk/news/business/news/slump-in-number-of-mortgage-approvals-794534.html

Conclusion on alternatives to the speculative current trader model

R.1.64 Although over recent years many homebuilders have increased their focus on homebuyer satisfaction they have found it easier to invest in customer service than in other features which might be expected to improve homebuyers' satisfaction. Many of the investments that might be obvious to a homebuyer, such as better architectural or urban design, are often not taken into account by residential property valuers. This is aggravated by the fact that many homebuilders operate a trading rather than investing business model which prevents them from taking a longer term approach to developments.

R.1.65 Two theoretical solutions to this problem are mass-customisation and self building both of which avoid the need for speculative development and allow the homebuyer to pay directly for any investments in build quality or design that they want. Mass-customisation, though a successful model elsewhere, has not gained ground in the UK and is limited.

R.1.66 Self building, however, offers the inherent flexibilities necessary to flourish in a market where land is scarce and planning restrictions can be strict. The main challenge to expanding self build is making it accessible to large numbers of people.⁵¹ The use of professional project managers and the emergence of new 'enabled self building' models are likely to offer opportunities to address these problems.

⁵¹ We know of two examples of Local Authorities promoting self build. One is in Swindon (see Box 1) and the other in Carmarthenshire. (see www.carmarthenshire.gov.uk/index.asp?locID=7980&docID=-1)