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## Home building – reasons for a market study

June 2007

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### Summary

1. On 22 June 2007 the Office of Fair Trading (OFT) announced a market study into home building in the UK. The study will seek to understand constraints on the ability of the market to deliver sufficient quantities of cost-effective high quality new houses.
2. There are two main strands to this study:
  - how competition and the planning system affect the delivery of new homes
  - homebuyers' levels of satisfaction with the new houses they purchase.
3. There are two key issues concerning the delivery of new homes. The first is how land that is suitable for development is brought through the planning process. The second is how land with planning approval is converted into new homes.
4. Given that purchasing a new home is usually a significant, infrequent and complex purchase, the market study will also look at ways to further improve the experience of new homebuyers and the quality of new homes.
5. The study will not look at the overall question of where development should occur or the environmental impact of new homes.

6. This document explains how a study into home building meets the OFT's prioritisation criteria, the focus of the study and the timescale for completion of the work.

### **Why the OFT is conducting a market study**

7. The OFT's market study guidance outlines the factors that the OFT takes into account when selecting markets for review.<sup>1</sup> The reasons the OFT has decided to proceed with a market study into home building are:
  - *The OFT is concerned that the market for home building is not working well and there appears to be significant consumer detriment* in the form of low supply response to sustained rising prices, low levels of quality and a lack of innovation.
  - *The importance of home building to the economy.* This is a significant market. In 2006 the value of the private home building market in Great Britain was estimated at around £20 billion and accounted for around 35 per cent of construction activity. Construction is one of the OFT's priority sectors. Weak housing supply contributes to macroeconomic instability and hinders labour mobility, constraining economic growth.
  - *Customer satisfaction has not increased substantially since the Barker Review of Housing Supply<sup>2</sup>* looked at the reasons for the lack of supply and low responsiveness of housing in the UK. Its final report in March 2004 called on the industry to increase levels of customer satisfaction and develop a code of conduct for new house sales<sup>3</sup>. It called on the OFT to conduct a review of the market if progress was unsatisfactory or if customer satisfaction levels did not rise substantially in the next three years. A code of conduct has not been developed. Although there has been some progress in raising customer satisfaction with the buying process,

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<sup>1</sup> OFT *Market studies: Guidance on the OFT Approach* November 2004

<sup>2</sup> HMT/DCLG *Review of Housing Supply Final Report* March 2004

<sup>3</sup> Recommendation 32, HMT/DCLG *Review of Housing Supply Final Report* March 2004

satisfaction with the quality of new homes has actually decreased since 2003.

- *The home building sector has a significant level of Government involvement and regulation* which is another OFT priority area. Launching a market study at this time would allow the OFT to make a substantial contribution to policy formulation in this area, in conjunction with the 'Planning For a Sustainable Future' White Paper, the Callcutt Review, the DTI review of the wider property market and the recently established National Housing and Planning Advice Unit.
- *Prospect of obtaining evidence.* The OFT proposes to conduct this market study working together with firms, trade associations, central and local government, and independent experts. The OFT envisages that the co-operation of these interested parties will enable us to obtain the information required for the study.
- *Prospect of identifying remedies.* The OFT is well placed to identify and recommend remedies to empower consumers to drive competition. In keeping with OFT's competition advocacy role it would also look to feed directly into policy formulation in this area.
- *The OFT is the most appropriate body to undertake a study.* An OFT market study under the Enterprise Act 2002 facilitates a market-wide consideration of both competition and consumer issues together. As stated above, the OFT is well-placed to obtain evidence and propose remedies with the cooperation of stakeholders. Therefore the OFT does not consider it appropriate to make a market investigation reference to the Competition Commission at this time.

However, the OFT does not rule out the possibility of such a reference as an outcome of the OFT's study, particularly if the OFT finds that the Competition Commission's powers to gather information and impose remedies are required.

## **The scope of the study**

8. The issues the OFT intends to work with the industry to examine will include:
  - The extent to which consumers have power to drive competition. Consumers' purchases of houses are often constrained in timing and location and there may be information asymmetries between homebuyers and housebuilders.
  - The level of consumer protection and redress. This would consider consumer legislation and will include an investigation of building regulation standards and the efficacy with which they are enforced. The OFT will also investigate whether new home warranties adequately insure homebuyers against poor quality housing.
  - The extent of competition in home building and barriers to entry and expansion including whether available land is being effectively brought through the planning process in a timely manner, scarcity of key inputs, and the effects of landbanks and option agreements.

## **Geographic coverage**

9. The OFT proposes to consider consumer issues across the UK, and issues relating to competition and the impact of the planning framework primarily within England. To the extent that Scotland, Wales and Northern Ireland face similar issues to England on these latter aspects, this will be considered and these administrations will be encouraged to take account of the issues raised and recommendations made in framing policy for their respective areas.

## **Issues that are outside OFT's scope**

10. The OFT proposes to consider social housing that is linked to private housing development (for example where planning approval is conditional upon provision of social housing), but not to consider the

social housing sector separately. This is a regulated sector subject to standards and codes of practice. The Cave review, examining how regulation in the sector can be modernised, has recently published its findings and DCLG now plans to consult on its principal recommendations.

11. The OFT does not propose to consider overall policy concerning land use, including issues such as building on the green belt, or the environmental impact of new homes.

### **Timetable and process of the market study**

12. The OFT will publish the findings of the study next summer.

### **Contacting the OFT**

13. The OFT will contact specific industry and consumer bodies, businesses, government departments and independent experts to seek views and necessary evidence to assess the issues outlined above.

14. In addition, the OFT welcomes relevant written submissions on this topic and it would assist the project team if submissions were set out as follows:

- a summary of the main points you would like the OFT to consider
- a more detailed explanation of these points
- evidence to support the views being made:
  - if this includes data or financial figures, precise definitions, the dates and source of the data should be provided. All data or financial figures should be provided in electronic format
  - if this includes detailed calculations, an annex or spreadsheet which allows the OFT to replicate these calculations should be provided
  - if this includes specific examples of events, a chronology and background to the events should be provided

- if this includes comparators, the reasons why you consider the comparator to be appropriate should be provided
  - if you are willing to answer questions further to your submission, a named point of contact whom the case team can contact and contact details including telephone number
  - if the submission is representing a business, please state:
    - the company name and ultimate ownership
    - brief summary of the activities of the company.
15. Please note that the OFT may wish to refer to submissions in any report or other material published as a result of our review, or make permitted disclosure under Enterprise Act 2002. The OFT may also be required to disclose information under Freedom of Information Act 2000. Please indicate clearly if you consider that any information in your submission is confidential and explain briefly why. This will be taken into account when considering whether or not the information should be disclosed but, given legal duties on the OFT, it cannot give an assurance that it would not under any circumstances be released.
16. The OFT recognises that it is not always the case that evidence is available to parties to support their views. Parties may be able to suggest information the OFT should seek out. However, the OFT may not be able to pursue all avenues of study. Where no evidence is provided, the weight the OFT can place on the views is lower than where evidence is provided.

The deadline for written submissions is **17 August 2007**.

Submissions should be sent to:  
Home building market study - Floor 2W  
Office of Fair Trading  
Fleetbank House  
2-6 Salisbury Square  
London EC4Y 8JX

They can also be emailed to [housebuilding.study@oft.gsi.gov.uk](mailto:housebuilding.study@oft.gsi.gov.uk)