

# Owning the future of the homebuilding industry

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# What future?

- Unprecedented crisis & poor recovery so far
  - Great uncertainty about the future
- What will happen beyond this bad period?
  1. Drivers of change?
  2. Who benefits or loses out?
  3. Knowledge as a business tool
  4. Improving the knowledge base
    - Seeing the opportunities, Winning the arguments
- Analysis, not hunch

# Key features for understanding future of homebuilding

- Demand driven
  - Contains cycles & trends
- Debt driven
  - Both purchasers & builders
  - Expensive long-lasting asset
    - Debt is a good thing!
- The future is now!
  - All major business decisions based on views of future
- Risky business
  - Producing low (but non-zero) risk asset
- Regulation driven
  - High
  - Often driven by non-housing issues
- Technology driven
  - But not in a simple ‘that’s an impressive machine’ kind of way

# Good news!

## Demand is huge over long-term

- Few industries can be so confident
- Less clear-cut on the pattern of demand
  - Can over-emphasise demographics at expense of consumer behaviour and market forces
  - Relatively easy to research but more should be done

## Industry is flexible and reacts to change

- Housebuilding reacts well to changes in technologies and external environments
- Evolutionary process
  - Neither clearly noticed nor well-analysed

# Market crises induce industry change

- Crises bad news to those in the middle of them
  - But longer-term effects are often positive
- Example: early 1990s crisis led to
  - Substantial restructuring of the housing industry
  - Growing market share of volume builders
  - More consumer focused industry
- Most change occurs in post-crisis upswing
  - Wait for it!
  - But anticipate & plan

# Finance is going to help drive change

- Partly a cyclical effect
- But changes in finance have long-run impacts on homebuilding
  - Mix of market forces & regulation
- Biggest changes likely to be via development finance
  - Relationship to consumers
    - E.g. private rented sector
  - Land assembly & development process
  - Firm structures?

# Regulation

- Yes, regulation is necessary but needs to be less oppositional to housing supply
  - Over-regulation
- False assumption that costs always borne by land prices
  - Not a free lunch
- Over-optimism in future benefits & costs by regulation designers
  - They don't bear the costs either
- Evidence base to guide/oppose regulatory changes is often weak
  - So emotion-hunch wins

# Planning

- New planning system profoundly affects
  - Housing supply & structure of the industry
- Great uncertainty over impact of NPPF reforms
  - May work but worry that
    - Could lead to substantial reduction in housing supply
    - Greater delay
- Problem: major change but light on detail
  - Vagueness means dangers of
    - Widely different interpretations & entrenched positions related to them
    - Lengthy disputes
    - Destructive variability in local practices
    - No mechanisms to get action
- Need better understanding of how to avoid & overcome dangers
  - Don't put faith in 'presumption in favour of sustainable development'
    - 'Presumption in favour of development' existed from 1948 to 1991
    - So, did tight planning constraint!

# Losing an argument

- Opposition to change often relies on emotion
  - Save our heritage!
- Some changes driven by the same process
  - E.g. energy reduction agenda – save the planet!
- Binary set up as
  - All or nothing, etc.
- Argument in danger of entrenching such binary beliefs
- Need considered evidence
  - Everything involves a trade-off
  - What are the benefits & costs of particular actions?

# Losing a friend

- ‘Golden decade’ of housing policy research is now past
  - Has strong emphasis on
    - Analysis
    - Costs and benefits
    - Evidence
  - There was not enough research
    - But more in past decade than ever before
  - Was low cost, high value for money
- Now poorly funded
  - So will disappear
- Ideas take a long time to have an impact
  - But they do and they change the world!

# Industry would benefit greatly by funding quality research

- Examples of big policy impact of research
- Can do much more in the future
- Understanding change means owning it
- Setting up Housing Supply Institute at Reading
- Needs funding or will not happen
- Help, please!

# 'Asking your views' questionnaire

- Forward looking
- Web-based asking your views on
  - Changes & barriers to growth
  - Good future research agendas
- Report to be published by NHBC Foundation early in New Year
- Aims to have big impact on current debates
- For details e-mail me
  - Website from 17-31 October
  - <http://www.reading.ac.uk/REP/Research/hsisurvey.aspx>