

**Debate Pack**

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# Future of small and medium-sized housebuilders

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## Summary

There will be a Westminster Hall debate at 2:30pm on Wednesday 10 May on the future of small and medium-sized housebuilders. The debate will be opened by Andrew Lewer MP and will last 90 minutes.

# 1

## Background

Housing is a devolved matter in Scotland, Wales and Northern Ireland. The background and statistics in this debate pack therefore cover England only.

### Library briefing material on housing supply

Further information on housing in England can be found in the Library briefing [Tackling the under-supply of housing in England](#). This includes:

- Assessments of the need for housing in England
- Recent and historical statistical trends
- Discussion of the barriers and solutions to increasing housing supply, such as land supply, planning, and support to the construction industry

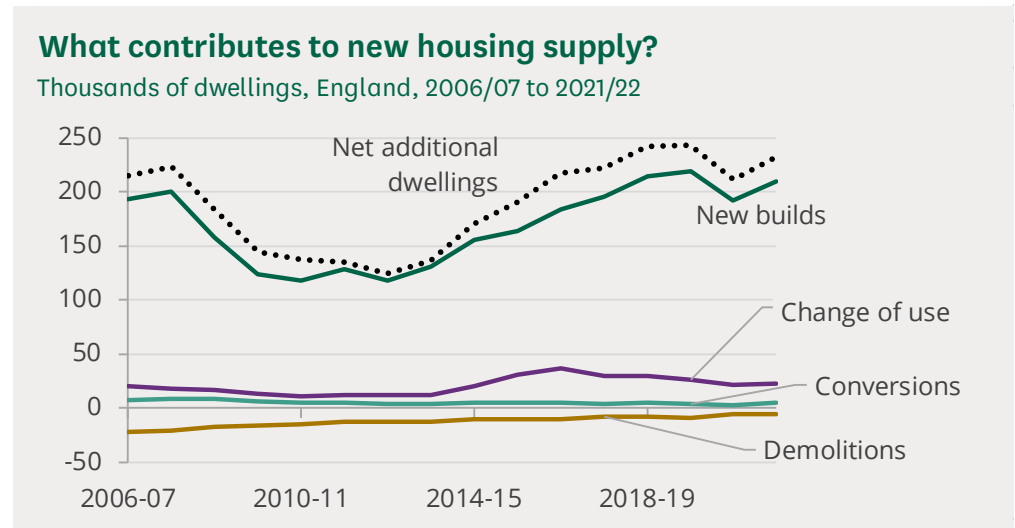
## 1.1

### SME housebuilding statistics

#### Overall housebuilding trends

Official statistics from the Department for Housing, Communities and Local Government (DLUHC) show that overall housebuilding in England decreased during the financial crisis in 2007 and 2008. As the chart below shows, the number of net additional dwellings completed each year reached a low point of 124,720 new homes delivered in 2012/13. Supply began to rise year-on-year after this point, reaching a high point of 242,700 new homes in 2019/20. Supply declined during the Covid-19 pandemic in 2020/21 but rose again in 2021/22.

New building has accounted for less of the net total in recent years, as change of use has become more common as a way of adding to the housing stock. Additions through change of use grew by 65% between 2013/14 and 2014/15 and continued to rise over the next two years. The number of new homes delivered through change of use has declined since then.



Source: DLUHC, [Live Table 120](#)

Note: The net additional dwellings total also includes adjustments based on the 2011 Census, and a small number of gains labelled as 'other'.

## Housebuilding by SMEs

Most of England's new housing is built by a small number of large firms. A report from the House of Lords Built Environment Committee in January 2022, [Meeting housing demand](#), notes that small and medium sized enterprises (SMEs) developed 10% of new homes in 2020, down from 39% in 1988.<sup>1</sup>

This figure is based on research by estate agents Savills, on behalf of LDS (a property development finance organisation). Even as the number of homes built each year has increased following the financial crisis in 2008, the number of companies building these houses has decreased. Savills says that this is mostly because of a lack of available land, greater control by the planning system, and because many smaller housebuilders did not survive the recession or were bought by larger companies because they did not have access to development finance.<sup>2</sup>

The Federation of Master Builders (FMB) carries out quarterly surveys of SMEs working in construction. Its report on the most recent survey, covering January to March 2023, says that although net workloads and enquiries regarding future work are increasing, this follows two quarters of decreases, and employment within the sector has now fallen for the last three quarters. Although there was a boom in construction following the end of lockdown

<sup>1</sup> House of Lords Built Environment Committee, [Meeting Housing Demand](#), 10 January 2022, HL Paper 132 2021-22, para 155

<sup>2</sup> Savills, Size of the SME Market, available from LDS, [Savills SME housebuilders report demonstrates huge potential](#), 29 November 2021

restrictions, it seems likely that this is now over. Workload and enquiries specifically in housebuilding are down.<sup>3</sup>

## 1.2 Factors affecting SME housebuilding

SME housebuilders are currently facing a range of different challenges. The January 2022 report from the House of Lords Built Environment Committee, mentioned above, highlights the shortage of skilled workers as an important issue. In the [debate on the report](#) in the House of Lords, Lord Grocott quoted figures saying that 53% of SME builders were struggling to recruit carpenters, with 47% saying the same about bricklayers.<sup>4</sup>

A report from the House Builders Federation says that in 2021, more than half of SME housebuilders reported that supply and cost of labour was a major barrier to housing delivery, up significantly on the previous year.<sup>5</sup>

The most recent Federation of Master Builders (FMB) survey identifies several factors affecting SMEs in construction (these factors may also be affecting larger housebuilders):<sup>6</sup>

- In January to March 2023, 41% of FMB members had difficulty recruiting carpenters. Bricklayers (36%) and general labourers (31%) were also particularly difficult to recruit. These figures have been decreasing since about 2018, but remain far higher than they were around 2013.

Following previous surveys, the Government has put certain occupations (such as carpenters) on the Shortage Occupation List, making it easier to hire them from abroad.

- Increased costs of materials and of labour have meant that most FMB members have raised the prices that they charge, with further increases expected.

There have been suggestions that SMEs could build more houses, given greater support and reform of planning. Written evidence from the Federation of Master Builders, submitted to the House of Commons Local Government Committee inquiry on [The future of the planning system in England](#) in November 2020, said that SME builders could deliver 65,000 homes by 2025 compared with 12,000 in 2021 given the right conditions.<sup>7</sup>

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<sup>3</sup> Federation of Master Builders, [State of Trade Survey Q1 2023](#), 4 May 2023

<sup>4</sup> [HL Deb 8 November 2022 c607](#)

<sup>5</sup> House Builders Federation, [State of Play, Challenges and Opportunities Facing SME Home Builders](#), 5 January 2022

<sup>6</sup> Federation of Master Builders, [State of Trade Survey Q1 2023](#), 4 May 2023

<sup>7</sup> [Written evidence submitted by the Federation of Master Builders](#) [FPS 125]

Planning was also mentioned as a factor restricting building in [a debate on the Levelling Up and Regeneration Bill](#) in the House of Lords in April 2023. In the debate, Baroness Thornhill quoted research from SME developer Pocket Living, saying that “[l]ess than a quarter of small brownfield sites suitable for housing are coming forward, and half of councils allocated fewer than 15% of their potential small brownfield sites”, because the planning requirements make the process too expensive for small developers.<sup>8</sup>

## 1.3 Government initiatives

Governments have provided support for SME housebuilders in several ways:

- Homes England, the Government’s housing delivery agency, [offers the Levelling Up Home Building Fund](#). This provides development finance to SME housebuilders, as well as infrastructure funding to support developers, master developers and landowners.<sup>9</sup>
- Homes England also provides [Help to Build equity loans](#) to help people build their own homes. This money does not go directly to housebuilders, and is not specifically for SMEs; however, because it is provided for one home at a time, it may be more attractive for customers to use smaller builders.<sup>10</sup>
- On 29 January 2020, then- Secretary of State, Robert Jenrick, confirmed the British Business Bank’s ENABLE Build Programme would shortly begin guaranteeing new loans for local, independent construction businesses to deliver new homes.<sup>11</sup> The Housing Minister, Christopher Pincher, referred to Government support for SMEs during a Westminster Hall debate on Housing and Planning on 3 March 2020:

We are supporting SME housebuilders with a package of measures to help the sector to grow and develop, including the home building fund, the housing growth and housing delivery fund, the ENABLE Build guarantee scheme, and our ongoing reforms to the planning system, more of which he will hear about in due course. We believe that SMEs have a key part to play by increasing their output, as the biggest home builders in our country will not meet the Government’s housing building target alone. SMEs are well placed to help to deliver new homes, welcomed in their communities rather than resisted, and those homes will be built to last.<sup>12</sup>

The Minister provided an update on ENABLE in January 2021:

A number of transactions were, and continue to be, under consideration for the programme but some of these were curtailed by the onset of Covid-19. Activity is resuming and, while there are currently no lenders accredited (and therefore

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<sup>8</sup> [HL Deb 18 April 2023 c610](#)

<sup>9</sup> Homes England, [Funding support for new residential-led development](#), 2 February 2022

<sup>10</sup> Homes England, [Help to Build: Making building your own home more affordable](#), 26 November 2021

<sup>11</sup> [MHCLG Press Release](#), 29 January 2020

<sup>12</sup> [HC Deb 3 March 2020 c248WH](#)

no associated portfolio value) under the new ENABLE Build Programme, it is our expectation that SMEs will have access to ENABLE Build-backed lending shortly.<sup>13</sup>

- In February 2021 the Government announced a £250 million Housing Accelerator Fund to support SME builders with development finance at up to 70% loan to gross development value.<sup>14</sup>

The Government's White Paper [Planning for the Future](#) (published in August 2020) has as one of its aims supporting SME builders and developers. The press release accompanying the launch of the White Paper argued its proposals could provide a "major boost" to SME builders:

The changes will be a major boost to SME builders currently cut off by the planning process. They will be key players in getting the country building on the scale needed to drive our economic recovery, while leading housebuilding that is beautiful and builds on local heritage and character.

(...)

Recent studies show smaller firms feel the complexities of the planning process and its associated risks, delays and costs are the key challenges they face in homebuilding.<sup>15</sup>

Planning for the Future suggests the new Infrastructure Levy would reduce cashflow difficulties for SME developers:

As a value-based charge across all use classes, we believe it would be both more effective at capturing increases in value and would be more sensitive to economic downturns. It would reduce risk for developers, and would reduce cashflow difficulties, particularly for SME developers.<sup>16</sup>

In its March 2022 response to the House of Lords Built Environment Committee inquiry on meeting housing demand, the Government said that it was taking several measures aimed specifically at SMEs:<sup>17</sup>

- The Government's response agreed with the Committee that the main challenges facing SME housebuilders are finance, planning and land. On the finance side, the response mentioned the finance measures listed above, but did not announce any newer ones.
- For planning, the Government said that it aimed to "make the planning process more certain, streamlined, proportionate, and digitally enabled", and said that it was helping SME housebuilders by introducing

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<sup>13</sup> [PQ 130887 \[Housing: Construction\], 11 January 2021](#)

<sup>14</sup> MHCLG, [Homes England and United Trust Bank launch £250m Housing Accelerator Fund](#), 16 February 2021

<sup>15</sup> MHCLG, [Press release: Launch of Planning for the future consultation to reform the planning system](#), 6 August 2020

<sup>16</sup> MHCLG, [White paper: Planning for the Future](#), August 2020, p49

<sup>17</sup> House of Lords Built Environment Committee, [Meeting Housing Demand](#), Government response, 28 March 2022, section 3

permitted development rights to enable the conversion of existing commercial and industrial buildings into housing.

- The Government also agreed with the Committee’s suggestion that the ‘master developer’ model – in which a large site is built out by a number of different housebuilders – could help to support SMEs. The Government also said that Homes England can take the master developer role on certain sites and that it was “exploring further options” relating to speeding up building as part of changing the planning system.

## 2

## Press articles

[MPs launch inquiry into SME housebuilders' access to finance](#)

Emily Twinch

Inside Housing, 6 March 2023

[UK housebuilders' profitability no less remarkable than BP's returns: A decade-long boom means developers are in far better shape than they were ahead of the financial crisis](#)

Jonathan Eley

Financial Times, 9 February 2023

[Ministers consider planning shake-up to boost affordable housing: Consultation will look at reforms to allow for hundreds of thousands of new homes to be built on brownfield sites](#)

George Hammond and Jim Pickard

Financial Times, 15 December 2022

[Housebuilders need tough love — and fresh thinking: The industry's gripes about £4.5bn in estimated costs are flawed, but so is government policy](#)

Helen Thomas

Financial Times, 22 November 2022

[Homes England and asset manager launch fund targeting 5,000 SME-built homes: A new development finance fund aimed at empowering small and medium-sized house builders has been launched by Homes England in partnership with asset manager Newstead Capital.](#)

Ella Jessel

Inside Housing, 26 September 2022



[Getting Britain building: Small and medium-sized home builders could play a crucial role in tackling the housing crisis](#)

Neil Jefferson

New Statesman, 23 September 2022

[Why Britain cannot build enough of anything](#)

The Economist, 1 September 2022

[Landlords forced into 'rethink' amid soaring number of contractor insolvencies: Housing associations are being forced to rethink their relationships with SME house builders and construction firms to help ward off insolvencies and provide stability to development pipelines.](#)

Stephen Delahunty

Inside Housing, 23 August 2022

[Small developers risk collapse as cost of building materials soar](#)

Tom Howard

The Times, 11 July 2022

[Hundreds of UK construction businesses collapse every month: Companies hit by rising costs and shortage of skilled workers](#)

Gill Plimmer and George Hammond

Financial Times, 17 January 2022

[Sort out housebuilding obstacles or miss target, Lords warn UK government: The 300,000 homes-a-year target is at risk until labour shortages, policy confusion and lack of skilled planning staff are addressed, say peers](#)

Philip Inman

The Guardian, 10 January 2022

[Housebuilder insolvencies threaten new homes supply: Success of large listed developers obscures growing distress among smaller groups](#)

George Hammond

Financial Times, 7 June 2020

## 3 Parliamentary material

### 3.1 Oral questions

#### [Housebuilding](#)

30 March 2023 | House of Lords | 829 cc 345-48

#### [Housing Market](#)

17 November 2022 | House of Lords | 825 cc 1050-79

#### [Housing \(Built Environment Committee Report\)](#)

8 November 2022 | House of Lords | 825 cc 594-624

#### [New Homes: Developers, Housebuilders and Management Companies](#)

5 January 2022 | House of Commons | 706 cc 2WH-26WH

### 3.2 Written questions

#### [Housing Market: Small Businesses](#)

UIN HL2927 | 26 October 2022

Baroness Redfern

To ask His Majesty's Government what plans they have to support more small and medium sized building firms to enter the housing market; and what form any such support will take.

Answered by Baroness Scott of Bybrook | Department for Levelling Up, Housing and Communities

Answered on 9 November 2022

The Government is supporting SME housebuilders through the Levelling Up Home Building Fund. The Fund provides development finance to SMEs to build new homes. This includes loans to SMEs as well as funding partnerships with

banks and other investors to leverage private capital and support more SMEs. The Fund will enable new SMEs to enter the market and grow their businesses, supporting SMEs who can struggle to access commercial lending.

### [Housing: Construction](#)

22 June 2021 | UIN HL1316

Asked by Baroness Jones of Moulsecoomb

To ask Her Majesty's Government what plans they have (1) to put a target on their aim to diversify the housebuilding industry, and (2) to collect statistics to monitor delivery against that target.

Answered by Lord Greenhalgh | Ministry of Housing, Communities and Local Government

Answered on 5 July 2021

The Government is committed to diversifying the housebuilding industry. This means enabling a greater variety of firms to contribute to housing supply, providing for a wider range of housing needs and improving productivity, quality and choice. We are providing financial support to help drive greater diversification. The £3 billion Short Term Home Building Fund is available to SME housebuilders, MMC manufacturers and other innovative forms of housing delivery. We have also announced a National Home Building Fund (NHBF), investing £7.1 billion over 4 years, including £2.2 billion of investment to SME firms and innovative housebuilders.

### [Housing: Construction](#)

UIN 20553 | 22 June 2021

Asked by Fleur Anderson

To ask the Secretary of State for Housing, Communities and Local Government, with reference to the national shortage of building supplies reported by the Construction Leadership Council in May 2021, what assessment he has made of the potential effect of that shortage on the Government's plans to support more (a) small to medium-sized house builders and (b) self-builders into the housing sector.

Answered by Christopher Pincher | Ministry of Housing, Communities and Local Government

Answered on 28 June 2021

MHCLG is aware of reports of shortages for some materials and is monitoring the situation. We are examining the barriers that SME housebuilders face as part of our ongoing work to improve productivity and competition in the housing market and open the market up to smaller builders.

The Government is supporting the sector through our existing £3 billion Home Building Fund (Short Term Fund). The Fund provides development loans to help those building homes for sale or rent and is available to borrowers that can demonstrate an inability to access finance via the private market. The Fund is a flexible source of funding administered by Homes England on behalf of the Government and is currently open to applications

Additionally, the Bacon Review, commissioned by the Prime Minister, is undertaking a report to establish a plan to scale up self and custom build homes and provide recommendations to Government. If material shortages become an ongoing and material obstacle to growth it will be factored into our plans to support the sectors.

### [Housing: Construction](#)

UIN 130887 | 16 December 2020

Rachel Hopkins

To ask the Secretary of State for Housing, Communities and Local Government, how many lenders are registered to provide finance as part of the ENABLE Build programme.

Answered by Christopher Pincher | Ministry of Housing, Communities and Local Government

Answered on 11 January 2021

ENABLE Build is a £1 billion extension of a the pre-existing BEIS-led ENABLE Guarantee programme. It was launched in April 2019 with the primary objective of increasing the availability of debt finance for SME housebuilders, following the initial success of the ENABLE Guarantee programme - which is currently supporting three SME housebuilder transactions.

A number of transactions were, and continue to be, under consideration for the programme but some of these were curtailed by the onset of Covid-19. Activity is resuming and, while there are currently no lenders accredited (and therefore no associated portfolio value) under the new ENABLE Build Programme, it is our expectation that SMEs will have access to ENABLE Build-backed lending shortly.

### 3.3 Select Committee reports

#### [Meeting Housing Demand](#)

House of Lords Built Environment Committee, 10 January 2022, HL Paper 132.

[The Government response](#) was published on 28 March 2022

### 3.4 Library briefings

#### [What is affordable housing?](#)

House of Commons Library, 26 March 2022

#### [Planning for the Future: planning policy changes in England in 2020 and future reforms](#)

House of Commons Library, 11 February 2022

#### [Tackling the under-supply of housing in England](#)

House of Commons Library, 4 February 2022

### 3.5 APPG reports

#### [Improving skill levels and delivering more apprentices for the UK's SME housebuilders](#)

All Party Parliamentary Group for SME House Builders, Spring/Summer 2022

#### [Homes England and SME Housebuilders: how can the agency work with SMEs to build more homes](#)

All Party Parliamentary Group for SME House Builders, Spring/Summer 2021

## 4 Further reading

[State of Play report 2022-23 edition: challenges and opportunities facing SME home builders](#)

Home Builders Federation, 28 March 2023

[State of Play report 2021 edition: challenges and opportunities facing SME home builders](#)

Home Builders Federation, 5 January 2022

[Size of the SME market: residential research report for LDS](#)

LDS Sales Guarantees/Savills, 29 November 2021

[Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes](#)

Home Builders Federation, 24 January 2017

[Think Small Build Big: lessons from SME housebuilding in Germany](#)

IPPR, 20 December 2017

[The future role of the SME sector in housing supply: a study of the housing market in England](#)

Laing O'Rourke Centre for Construction Engineering and Technology, University of Cambridge, undated

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