



FEDERATION OF  
**MASTER  
BUILDERS**

# Supporting SME Housebuilders

## Challenges and Opportunities



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# Executive summary

This report sets out the findings from LSE London research commissioned by the Federation of Master Builders (FMB), with the purpose of exploring the economic value of SME housebuilders. The report starts from a literature review and by an analysis of historical and current primary data from FMB; followed by a survey of SME builders; interviews with a small number of respondents to the questionnaire, together with other relevant organisations such as the HBF. The objective is to understand better how the sector operates; what are the most important constraints faced by small builders; and the potential opportunities for an increased presence of SMEs through the removal of the barriers to their involvement.

Small and medium-sized Enterprises (SMEs) play a vital role in the development sector by providing flexibility, local expertise, and focus on smaller, tailored projects, that volume builders tend to overlook. Small builders

generally have strong community connections where they live and operate and pride themselves on the quality they provide in their projects. Furthermore, SME housebuilders tend to take on projects that larger builders cannot. Their ability to develop trickier development sites, whether these are awkwardly shaped, ex-industrial land or extended and repurposed buildings within and beyond urban cores makes them a valued asset.

Barriers to the expansion of SMEs' role in the housebuilding industry are well-researched and documented. The barriers faced by SME housebuilders, primarily constitute a variety of converging issues stemming from "the planning system, the land market, and insufficient access to finance."<sup>1</sup> Additionally, issues relating to labour availability and the cost of materials have also been found to have important negative impacts on small housebuilders. The objective of this report is to clarify how overcoming these barriers could lead to a much more effective sector.

## Questionnaire results

The majority of respondents (67%) build either 1 unit or 2-3 units per year. None built more than twenty-five units. However, over 90% of respondents wanted to build more. Relatively small numbers of SME firms have entered the market in the last few years. More than half of respondents operated in the South East and London.

The most important barriers identified concerned planning delays, lack of suitable land, the complexity of the planning system and the lack of LA resources, as well as financing and labour market difficulties. Most respondents thought that the barriers interacted with one another.

The main opportunities were primarily defined in terms of overcoming the barriers. Respondents could see the potential for access to more development and business opportunities, increased competitiveness, and partnerships with larger builders. They stressed many potential benefits to local communities – including a wider

1 Wilson, W., & Barton, C., [Tackling the under-supply of housing in England](#), (House of Commons Library, May 2023, p. 82).

variety of house types to meet local needs, more employment boosting the local economy, better use of vacant land and a wider range of innovative building methods.

An open-ended question was included, which asked respondents to identify changes that government and others could make to improve conditions. The list of recommendations was long and reflects a thoughtful approach to innovation. Eight planning-based suggestions looked to speeding up the system and making it more consistent as well as identifying more land suitable for SMEs. Other suggestions included reduced regulation and lower costs with respect to CIL. Six suggestions with respect to finance emphasised several ways by which government could help make funding both more available and cheaper. With respect to skills, they emphasised better training and apprenticeship programmes as well as improved pathways for school leavers. While some of the suggestions made would benefit SMEs at the expense of others builders, many would support greater market stability and help expand development overall.

## Interview Results

The interviews that were conducted with individual SMEs provided more detailed evidence on how SMEs see the current situation. A major concern was the fragmented approval processes which made it difficult to predict, adding layers of complexity, delays, and uncertainty. There is also a perception among interviewees that local governments favour larger developers. Planning policies often seem tailored to those with substantial financial backing. SMEs, by contrast, are often unable to absorb pre-development costs.

While all our interviewees expressed a commitment to sustainable building practises, regulatory burdens, particularly related to environmental and heritage preservation, present an increasing challenge for SMEs. High upfront costs are another limiting factor. These costs relate to land purchase, groundwork, and meeting planning obligations. Furthermore, increased regulatory demands often require specialised knowledge and resources, again placing SMEs at a disadvantage as compared to larger, more resource rich firms. Interviewees



also stressed that SMEs find it hard to compete with larger firms for labour that is in short supply.

The current economic climate poses additional challenges for SMEs. With the decline in consumer confidence, driven by economic uncertainty and rising living costs, demand for renovations and new build is currently significantly reduced.

## **Opportunities**

Interviewees unanimously recognised the potential for SMEs to thrive through a focus on quality and customisation. This capacity to incorporate high-quality, environmentally conscious features sets SMEs apart from larger

developers. SMEs tend to operate within distinct local networks. They cultivate strong relationships with clients, fostering brand loyalty and wider positive reputations, which they strive to uphold. The agility and commitment of SMEs to local communities present an opportunity for LAs and government bodies to collaborate with them on brownfield or small-scale developments, which align with regional housing needs and environmental goals.

An industry spokesperson identified four key areas need improvement: streamlining the planning process, enhancing access to affordable finance, supporting apprenticeships and skilled labour development, and reducing development fees.

Importantly, targeted support for apprenticeships and skill development would build a more resilient workforce, benefiting the sector overall.

To achieve these opportunities may require government involvement either central or local. Market based growth is rarely enough. Removing barriers may make it just as easy or easier for larger builders to take advantage of consequent possibilities. On the other hand, some of the identified barriers affect SMEs more than larger participants. If these can be modified, then SMEs should be enabled to expand as a proportion of the total sector. However, there is only limited evidence that government either central or local have a marked preference for SMEs.



Overall, in terms of opportunities the interviewees stress the quality of what they produce as well as the emphasis on customisation. They see a particular role for SMEs with respect to green buildings and self- build and also a strong market for expensive individual properties. This could grow more easily if planning was more coherent, and access to finance were to become easier.

## Conclusions

All of these points relate to the current system. Changing the system to assist SMEs would ideally include government backed low interest loans, greater support for apprentices and reduced planning fees for smaller builders. These measures could contribute to levelling the playing field, and so enabling SMEs to, expand their capacity and complete more effectively. By addressing these key barriers, the sector as a whole may benefit, resulting in more and more varied housing, enhanced sustainable development and increased innovation in the market.



# 1 Introduction

## 1.1 Purpose

This report sets out the findings from LSE London research commissioned by the Federation of Master Builders (FMB). The purpose of the research was to explore the economic value of SME housebuilders. The barriers that small builders face is well understood and have been featured heavily in FMB and other organisations' reports. The primary objective is to investigate the opportunities that might arise from removing these barriers and increasing the role of small builders in the house delivery sector in England.

## 1.2 Approach and definitions

The report includes a literature review, analysis of historical and current primary data from FMB; a survey of SME builders, followed by interviews with a small number of respondents together with other relevant organisations such as the

HBF. The objective is to understand better how the sector operates, the most important constraints faced by small builders and then to clarify potential opportunities for an increased presence of SMEs through the removal of these barriers.

For the purpose of this report, we define the following terms:

- **SME:** 'Small and Medium-sized Enterprise.' In this report, firms considered SME housebuilders, are those providing 1,000 units or fewer per year as defined by the CMA.<sup>2</sup> These are businesses that typically employ fewer than 250 people and have an annual turnover not exceeding £50 million. The vast majority of small builders produce fewer than 100 units per annum with the majority of this group producing much smaller numbers.
- **FMB:** 'Federation of Master Builders.' A trade association that represents the interests of SME building firms in the UK.

<sup>2</sup> Competition & Markets Authority, [Housebuilding market study](#). (Competition & Markets Authority, 2024).

# 2 Methodology

## 2.1 Literature Review

The first stage of the research involved conducting a comprehensive review of existing literature related to smaller builders in England's housing market. This review included reports, and publications from various sources, including academic research, industry reports, government publications, and studies by professional organisations.

### Problem definition

The housing delivery sector in England faces several critical challenges. Primary among these, is a persistent shortage of affordable housing, exacerbated by a slow rate of new housing development.<sup>3</sup> The uncertainty involved in the UK planning process and the lack of a clear policy direction, only deepens the national housing crisis.<sup>4</sup> At present, it is well understood that large housebuilders cannot

meet these targets alone. The large builders and large plots of land available cannot meet requirements. In meeting growing demand, local providers must play an important part in any discussion of possible solutions, with Local Authorities (LAs) at the epicentre of the debate as 'agents' of economic growth.<sup>5</sup> LAs take on the devolved responsibility of delivering local plans and identifying building targets. To meet these requirements, they are also under pressure to free up public land for development and increase economic growth at the local level.<sup>6</sup> These discussions have helped to bring small housebuilders closer to the forefront of the policy agenda in recent years.

### Contextualisation

Historically, SMEs made up the backbone of the building sector, as primary drivers of housing development in England. However,

<sup>3</sup> Walker, A., *Small is beautiful: Delivering more homes through small sites*. (Federation of Master Builders, 2016).

<sup>4</sup> Built Environment Committee, *Meeting Housing Demand*. (House of Lords, January 2022, p. 5).

<sup>5</sup> Walker, A., *Small is beautiful: Delivering more homes through small sites*.

<sup>6</sup> Walker A., *Small is beautiful*.

their role diminished over the decades due to various factors, including the consolidation of the construction industry, increased dominance of large developers and the financial crises that restricted capital access.<sup>7</sup> At present, England's housebuilding sector is dominated by a small number of large firms. A 2022 report published by the House of Lords Built Environment Committee, on [Meeting housing demand](#), noted that SME builders produced 39% of new homes in 1988. By 2022 they are building no more than 10%.<sup>8</sup> These figures are widely published across most relevant sources, and incorporated in policy debates, with the government stating its desire to increase competition within the housebuilding industry.<sup>9</sup>

A package of measures has been introduced by the government over recent years to this end, primarily based on the provision of financial incentives.<sup>10</sup> Despite the well-meaning intentions behind these initiatives, they seemingly have

not had the desired effects. These initiatives include financial schemes such as the [Home Building Fund](#), which aims to provide loans to SME builders, and the [ENABLE Build Guarantee Scheme](#), designed to reduce risks for lenders working with SMEs.<sup>11</sup> However, the challenges facing SMEs—such as access to land, navigating complex planning regulations, and securing adequate finance—remain significant hurdles that these measures have not fully addressed.

Despite these statistics, SME housebuilders play an important role in the delivery of housing in England, evidenced by a multiplicity of sources. According to a 2024 analysis conducted by the CMA, in their [Housebuilding Market Study](#), there are thousands of SME housebuilders across the UK, building in excess of 50,000 units in total annually.<sup>12</sup> Additionally, there is clear evidence of SMEs' potential to deliver more housing. The FMB claims that the sector could "*increase its output*

7 House of Commons, [Parliamentary Debates: Small and Medium-sized House Builders](#), (UK Parliament, May 2023).

8 BEC, [Meeting Housing Demand](#).

9 Goddard, J., [Meeting housing demand: Built Environment Committee report](#), (House of Lords Library, 2022).

10 Goddard, J., [Meeting Housing Demand](#).

11 Ibid.

12 CMA, [Housebuilding market study](#), p. 16.

*fivefold by 2025 given the right conditions.*<sup>13</sup> This highlights the untapped potential within the SME housebuilding sector, which could significantly contribute to addressing housing shortages, particularly if regulatory barriers and financial constraints are alleviated.

### **SMEs' role in the Development Sector**

Small and medium-sized Enterprises (SMEs) play a vital role in the development sector by providing flexibility, local expertise, and focusing on smaller, tailored projects that volume builders tend to overlook. Small builders generally have strong community connections where they live and operate and pride themselves on the quality they provide in their projects.<sup>14</sup> These local connections often translate into reduced community objection,<sup>15</sup> as residents are more likely to support projects undertaken by familiar, locally rooted developers. This community engagement can be particularly beneficial when navigating planning

processes or securing project approval.

Furthermore, SME housebuilders tend to take on projects that larger builders cannot. Their ability to take on trickier development sites, whether these are awkwardly shaped, ex-industrial land or extended and repurposed buildings within and beyond urban cores makes them a valued asset.<sup>16</sup> These types of developments are crucial for optimising land use, especially in densely populated areas where land is scarce or constrained by pre-existing structures. Their agility allows them to maximise the potential of small, underutilised plots that larger developers might deem unprofitable or logistically complex.

The importance of SMEs in meeting housing demand is recognised in the proposed reforms to the [National Planning Policy Framework \(NPPF\), 2024](#). This suggests that SME housebuilders are essential in meeting housing demand, as their operational focus relies primarily on building out small

13 Lichfields, [Small builders, big burdens: How changes in planning have impacted on SME house builders](#), (LPDF, United Trust Bank, September 2023).

14 BEC, [Meeting Housing Demand](#).

15 APPG, [Report on ways to improve the planning system in the UK](#), (All Party Parliamentary Group for SME House Builders, 2020).

16 APPG, [Report on ways to improve the planning system in the UK, 2020](#).

sites. The Government expresses concern over the difficulty that SME housebuilders are facing in accessing these small sites, and the slow rate at which local planning authorities are making small sites available in their plans.<sup>17</sup>

### Drivers of SME Decline

The drivers behind the current context of SME housebuilder decline have been thoroughly investigated. According to the House of Lords Built Environment Committee, the number of small housebuilders halved from 2007 to 2022, many of them having ceased operation or been bought and incorporated by larger developers over the years.<sup>18</sup> Historically, this has not always been the case. Up until the early 1990s, the housebuilding industry exhibited a plurality of building companies. The post war building boom contributed to the significant expansion of the industry, particularly in the 1960s and 1970s, a period that saw large numbers of start-ups, but also the development of a large group of firms, many of

which still operate today as major home builders.<sup>19</sup> Since the 1980s, the role of SMEs within the UK housebuilding sector has seriously declined.

This decline may be traced to a variety of factors. The Town and Country Planning Act 1990 extended the nationalisation of development rights, by introducing a ‘plan-led’ system, which gave more control to planning authorities over land use regulation.<sup>20</sup> Obtaining planning permission effectively became much lengthier and more expensive. There are several significant ways in which the English planning system is hindering the effective functioning of the housebuilding market. These issues disproportionately affect SMEs, which has an increasingly limited capacity to absorb growing fixed costs associated with managing the planning process.<sup>21</sup>

### Barriers

Barriers to the expansion of SMEs’ role in the housebuilding

17 Ministry of Housing, Communities & Local Governance, [‘Proposed Reforms to the National Planning Policy Framework and Other Changes to the Planning System’](#), (Gov.uk, 24 September 2024).

18 BEC, *Meeting Housing Demand*.

19 Home Builders Federation, [‘Reversing the Decline of Small Housebuilders: Reinvigorating entrepreneurialism and building more homes’](#), (Home Builders Federation, 2017).

20 HBF, *Reversing the decline of small housebuilders*.

21 Lichfields, *Small Builder, Big Burdens*, 2023, p.1.

industry are well researched and documented. The barriers faced by SME housebuilders, primarily constitute a variety of converging issues stemming from “the planning system, the land market, and insufficient access to finance.”<sup>22</sup> Additionally, issues relating to availability of labour and the cost of materials have also been found to have important negative impacts on small housebuilders.

The availability and cost of land is a significant challenge faced by SMEs, as they are often priced out of the market by larger firms with more substantial financial resources.<sup>23</sup> Research done for the Land, Planning and Development Federation (LPDF) revealed that the number of allocated sites of under 100 units that gain approval reached the lowest it had been for a decade in 2022, having fallen consistently since 2016.<sup>24</sup> Furthermore, research on European housing markets conducted by the [Centre for Cities](#),

found that England has been consistently under-allocating land for housing, leading to an estimate of four million homes missing as compared to European rates of development.<sup>25</sup> Land allocation and permissions lie within the jurisdictional responsibilities of Local Authorities under their local plans.

The planning system is wrought with inefficiencies that disproportionately affect smaller builders. Getting planning permission has been cited as a major barrier to growth in the House Builders Federation’s most recent survey, reflecting the views of 93% of respondents.<sup>26</sup> Local Planning Authorities face resource shortages that affect skills and capacity in planning departments.<sup>27</sup> Many lack in-house expertise and struggle with legal procedures concerning Section 106 agreements resulting in significant delays.<sup>28</sup> Often, junior, more risk-averse staff are left to handle SME applications,

22 Wilson, W., & Barton, C., [Tackling the under-supply of housing in England](#), (House of Commons Library, May 2023, p. 82).

23 Wilson, W., & Barton, C., [Tackling the under-supply of housing in England](#), p.43.

24 Lichfields, *Small Builder, Big Burdens*, 2023, p.1.; Watling, S., & Breach, A., [‘The Housebuilding Crisis: The UK’s 4 million Missing Homes’](#). (Centre for Cities, 22 February 2023).

25 Lichfields, *Small Builder, Big Burdens*, 2023, p.1.; Watling, S., & Breach, A., *‘The Housebuilding Crisis: The UK’s 4 million Missing Homes’*, 2023.

26 Lichfields, *Small Builder, Big Burdens*, 2023, p.1.

27 Walker, A., *Small is beautiful*.

28 Ibid.

resulting in a low rate of positive decisions.<sup>29</sup>

Related to the under-resourcing of LPAs, lengthy wait times to achieve a planning decision increases the unpredictability and inconsistency within the planning process. The delays associated with achieving planning permission disproportionately affect SME housebuilders as they raise costs and generate additional risk, as they often rely on a quick turnover to remain in business.<sup>30</sup>

Access to finance is another significant hurdle. Unlike volume builders, SME housebuilders typically have smaller and more limited cash reserves.<sup>31</sup> Smaller housebuilders also often finance development by borrowing against their asset book further increasing risk.<sup>32</sup>

An additional, important barrier is the undersupply of skilled labour and its associated labour costs. Despite the housing industry's role as a major employer in the UK,

employing an estimated 80,000 people (directly or indirectly), it is facing major skill shortages.<sup>33</sup> The cause of this shortage has been attributed to increasing demand for housing; but also to an ageing workforce, alongside the loss of skills during the last recession and the effects of Brexit and the Covid-19 pandemic.<sup>34</sup> Furthermore, according to the [2020-23 State of Play report](#) from the National Builders Federation (NBF) the growing labour deficit coincided with the decrease in the number of apprentices employed by SMEs. Small housebuilders tend to train and employ a disproportionate share of the industry's apprentices, yet they face issues with funding and retaining that fraction of the workforce.<sup>35</sup>

## The Federation of Master Builders

The Federation of Master Builders (FMB) plays an important role in the UK's construction industry, by setting and upholding high

29 Ibid.

30 Ibid.

31 House of Commons, *Parliamentary Debates: Small and Medium-sized House Builders*, 2023.

32 Ibid.

33 Home Builders Federation, [State of Play: Challenges and Opportunities Facing SME Home Builders](#), (Home Builders Federation, 2023).

34 HBF, *State of Play: Challenges and Opportunities Facing SME Home Builders*, 2023.

35 Ibid.



standards, advocating for builders' interests, and providing a comprehensive suite of support services for its members. It was first established in 1941 by a cooperative of fifteen small builders, determined to play a role in rebuilding Britain after the 1940 London Blitz.<sup>36</sup> In the 1940s the FMB 'badge of quality' was introduced and continues to identify small and medium-sized (SME) builders that are committed to quality craftsmanship.<sup>37</sup>

The FMB is also an important knowledge generator, as they collect and produce data related to the construction sector, with a particular focus on SMEs. The organisation conducts regular

surveys and research to gather insights into the challenges and opportunities for SME builders. These include the annual '[House Builders' Survey](#)'<sup>38</sup> and the quarterly '[State of Trade Survey](#)'.<sup>39</sup> With thousands of members, the data collected and the findings produced are used to inform policy recommendations and to advocate for changes that benefit the sector.<sup>40</sup>

## 2.2 Research Methods

To gain greater insight into the experience and perspectives of SME housebuilders, the research undertook a survey amongst FMB members. Those surveyed included members of the Federation who concentrated on housebuilding and who had delivered at least one unit in the past 5 years (since 2019). The survey may be found in Appendix 1.

- Interviews were then undertaken with a number of SME housebuilders who had completed the questionnaire, to develop our understanding of how the removal of identified

36 Federation of Master Builders, [The History of FMB](#), (Federation of Master Builders, 2024).

37 Ibid.

38 The most recent published survey results are from the House Builders' Survey 2023.

39 The most recent published survey results are from the State of Trade Survey Quarter 1 2024.

40 Federation of Master Builders, [About us](#), (Federation of Master Builders, 2024).



barriers would affect the ability of small builders to deliver homes, and how their increased participation might influence the housing sector more broadly. The interviews included:

- Perspectives on the barriers facing small builders and the effectiveness of current support measures.
- Identifying positive measures that could be taken to assist small builders and promote their growth.

Assessment of the Impact of government initiatives, policy interventions, and regulatory changes on the small builder landscape.

## 2.3 Limitations

Collecting data from SME housebuilders presents several challenges. First, small housebuilders often operate with limited administrative resources, making it difficult for them to allocate time for the completion of a survey. Their primary focus is on project execution and day-to-day operations, meaning that immediate business concerns must be prioritised over survey involvement. Additionally, SME

housebuilders may not be as engaged with the digital platforms, where this survey was distributed. Possible participants may also hesitate to talk to strangers about their business, as there is a level of mistrust around how this information might be used, and whether it might adversely affect their firm.

In order to facilitate the highest response rate possible in the given time period, special care was given to limiting the number of questions and to ensure clarity. A designated contact point was provided to assist respondents with any questions or difficulties they encountered while filling in the questionnaire, aiming to foster a sense of support and accessibility. By addressing these potential barriers, the survey design was optimised to encourage meaningful participation and to generate insights that accurately reflect the perspectives of SME housebuilders, despite the challenges inherent in reaching this demographic.

# 3 Findings

## 3.1 Survey Results

The following figures provide insights, based on the survey disseminated to SME housebuilders over the course of summer 2024, through the FMB mailing list and social media platforms. The sample size for the following analysis is 61 respondents. These include 51 full responses and 10 partial, which we have decided to include, as more than 50% of the

survey was completed. However, while this sample offers valuable insights into the current challenges, priorities, and outlook of SME housebuilders, it should not be viewed as fully representative of the entire population. The findings provide a useful snapshot of industry sentiments and experiences during the survey period but may not capture the full diversity of perspectives across the broader SME housebuilding

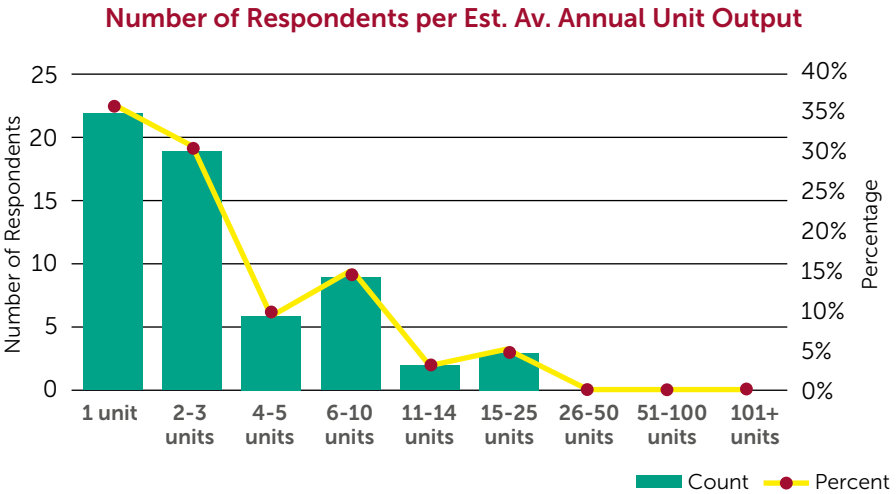


Figure 1. Estimated Average Annual Unit Output for Respondents

sector. Additionally, there is a possibility that survey respondents may belong to a particularly positive group, interested in sharing their experiences in the industry. However, the answers across the survey do not suggest that there is such a distortion.

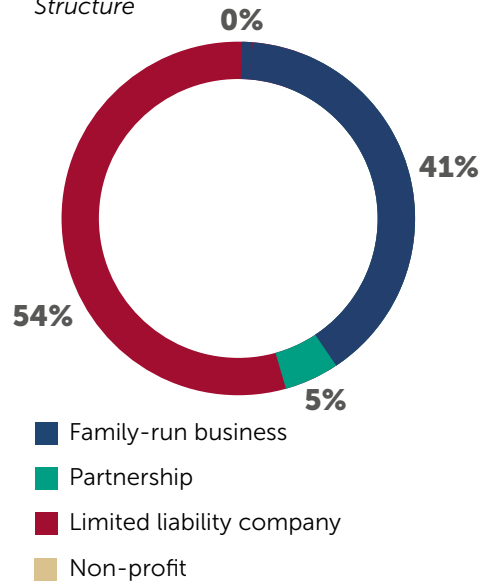
### Respondents' Characteristics

The majority of respondents (67%) build either 1 unit or 2-3 units per year. The largest group (36%) of the present sample build just one unit annually (see Figure 1). Almost none built more than 25. This supports the understanding that a large proportion of SME housebuilders are operating at a very small scale.

A little over half (54%) of the responding firms are structured as Limited Liability Companies (LLCs). This is the most common type of firm among the respondents. The LLC structure is probably favoured because it provides personal liability protection for owners while allowing operational flexibility. Family-run businesses represent 40%, indicating a strong presence of traditional, often smaller-scale operations in the SME housebuilding sector.

### Responding SME Firm Structure

Figure 2. SME Housebuilders' Firm Structure



A relatively small proportion of firms (13%) have been operating for less than 5 years, suggesting that the industry may be challenging to enter and sustain (see Figure 2). This low percentage may also imply that the housebuilding sector is not seen as attractive to new construction firms. A significant portion, 33%, have been operating for 5-10 years, reflecting stability but not as yet long-term establishment. Most responding SMEs (54%) are well established in the industry, having operated for more than 10 years.

### Length of Operation amongst Responding SME Housebuilders

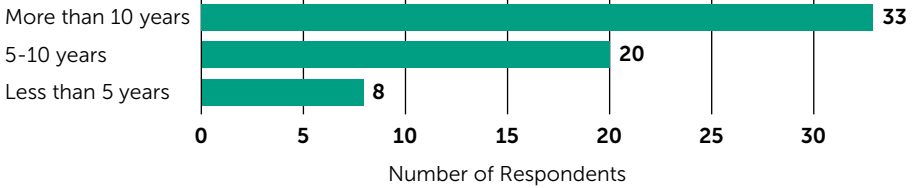


Figure 3. Length of Operation Amongst Responding SME Housebuilders

The majority of responding SMEs have an annual turnover of less than £1 million (approximately 60% of the sample, see Figure 3). However, the most significant proportion of respondents in a single bracket, fall

within £1 million - £2.49 million annual turnover (29.5%), reflecting that many tend to work in the higher end of the market. Another significant proportion (20%) of responding SME housebuilders

### Number of Respondents per Approximate Annual Turnover

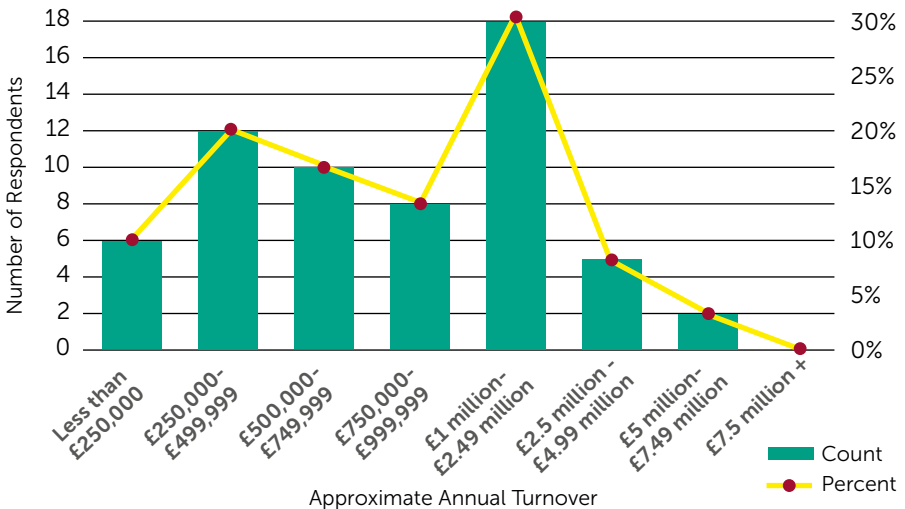


Figure 4. Responding SME Housebuilders' Approximate Average Annual Turnover.

generate between £250,000 - £499,999 annually. No responding firm had a turnover over £7.5 million.

### Regional Distribution

Figure 5 illustrates the regional distribution of responding SMEs. The highest proportion of responding SMEs are located in London (28.3%) and the South East (30%). This concentration is perhaps not surprising as these are heavily populated regions, with higher demand for housing and greater market opportunity. Yorkshire and Humber (15.0%), the North West (13.3%) and the South West (13.3%) have an important presence in the

sample, but much less prominent than London and the South East. The rest of England represents a very small portion of responding SMEs, possibly reflecting an overall smaller concentration of firms, or greater difficulty in recruitment for participation in surveys such as this.

### Perspective on Housebuilding

An overwhelming majority of SME respondents (93.4%) expressed the desire to build more homes than they are able to do at the moment (see Figure 6). There were a limited number of who were uncertain, with 4.9% of respondents indicating potential concerns over various factors such as market conditions,

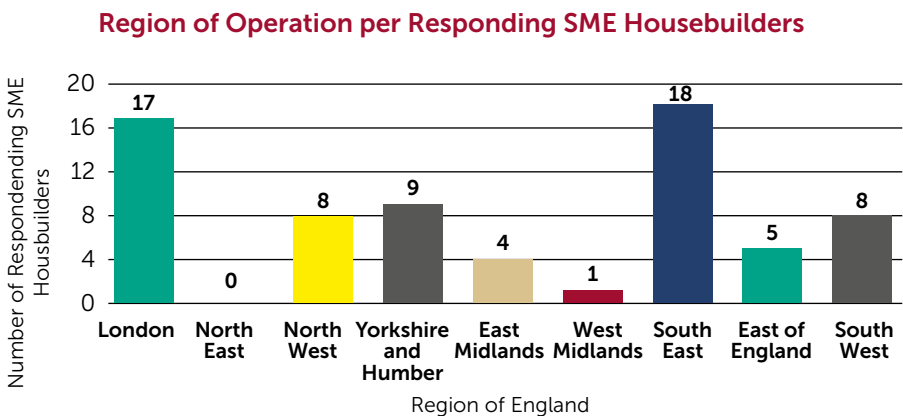
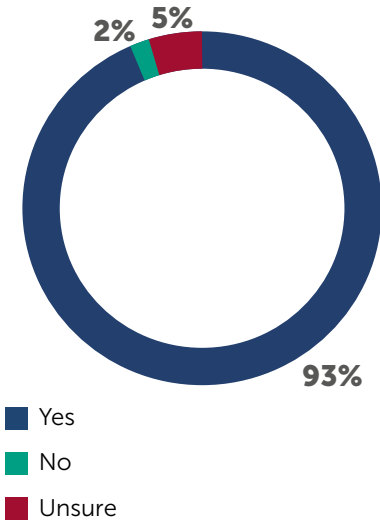


Figure 5. *Region of Operation per Responding SME Housebuilders.*

**Do you want to build more homes?**



**Figure 6.** Responding SME Housebuilders’ desire to build more homes.

resource availability, or potential business risks. Only one responding SME stated that their firm is no longer aiming to build more homes.

**Planning and Financial Barriers**

To assess the relative impact of each barrier, we separated those affecting planning and those that related to finance. Respondents were asked to rank their top

three barriers in each category by importance. Each rank was assigned a weight to reflect its impact: the first-ranked barrier was weighted at 3 points, the second at 2 points, and the third at 1 point. The total weighted scores for each barrier were then calculated by summing these weighted frequencies, producing a ranked list that reflects the collective prioritisation of barriers by impact.

Delays in obtaining planning permission is identified as the top planning barrier, with a score of 69 (see Figure 7). This suggests that the time it takes for projects to be approved is the most critical obstacle for SMEs. These delays can lead to increased costs, uncertainty in project timelines, and potentially missed opportunities. It reflects widespread frustration with the inefficiency of the current planning system, which impedes SMEs’ abilities to operate smoothly and deliver housing in a timely manner.

Lack of available land for development ranks second in impact, potentially reflecting insufficient suitable land for SMEs identified in the local plan for development. The lack of viable land ranks third, indicating that the land that is available is often not

economically suitable for SMEs who cannot out-compete larger builders. Other important barriers relate specifically to the planning process rather than the outcome. Biodiversity net gain and nutrient neutrality issues ranked very low, but this may well be because they did not affect the areas where respondents were located.

The other group of barriers related to financing (see Figure 8). Three major barriers were identified. Lack of finance was the top-ranked barrier with a score of 80. Access to capital is essential for acquiring land,

beginning construction, and scaling up operations, so the inability to secure adequate financing hampers activity and growth. This indicates that improving financial support mechanisms for SMEs could significantly enhance their participation in the housing market.

The Community Infrastructure Levy (CIL), a charge on new developments used to support local infrastructure, ranks second among financial barriers with a score of 56. SMEs clearly find CIL to be a substantial financial burden, particularly for smaller

### Planning Barriers Ranked by Impact on SME Operations

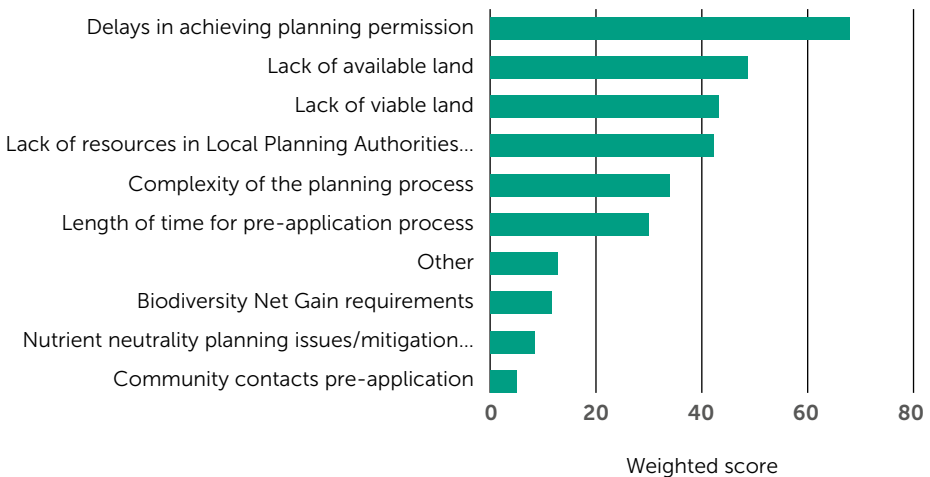


Figure 7. Planning Barriers Ranked by Impact of SME Operations.

projects where these costs may be disproportionately high. Shortage of skilled workers ranked third among financial barriers, scoring 39. This barrier highlights the struggle SMEs face in finding qualified labour to complete projects on time and to a high standard. The skills gap in the construction industry can lead to higher labour costs and delays, reducing the efficiency and quality of housing delivery. Other financial barriers relate to a variety of cost, access to funding and to a lesser extent regulatory issues.

We asked respondents how they viewed the relationship between different barriers in order to gauge

their overall perception (see Figure 9). A substantial majority of SMEs (66%) believe that the barriers they face are interconnected and often combine to create more significant challenges. A smaller proportion (22%) views the barriers as mostly separate issues. This perspective indicates that these SMEs see challenges like financing and land availability as distinct and not necessarily influencing one another.

Respondents were asked whether they have benefited from government support specific to SMEs, and if they had, did they use Homes England’s Levelling Up Home Building Fund (see Figure

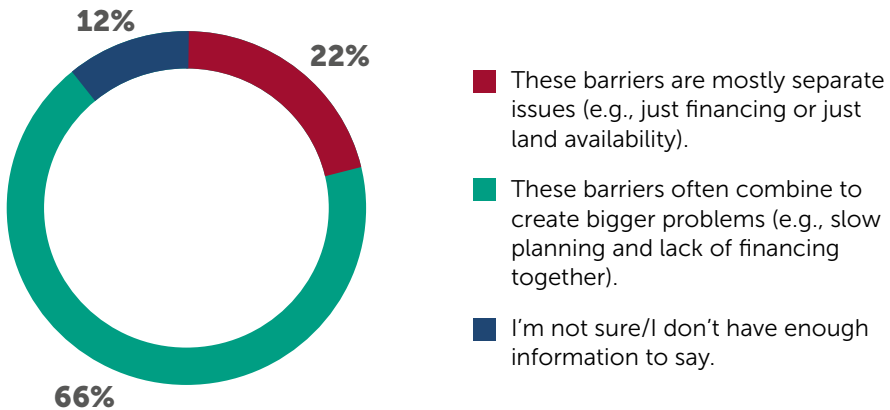
### Financial Barriers Ranked by Impact on SME Operations



Figure 8. Financial Barriers Ranked by Impact of SME Operations.



### Perception of Interconnectedness of Barriers



**Figure 9.** Perception of Interconnectedness of Barriers amongst Responding SME Housebuilders.

10). An overwhelming majority (98%) of SMEs report that they have not used any form of government support. This suggests either that government programmes designed to assist the housebuilding sector are not reaching SMEs effectively. Alternatively, SMEs may not be aware of or able to access these programmes. It could also indicate that the application process is too complicated or that the benefits offered are not seen as valuable or relevant to their needs, leading to low participation. None of responding SME housebuilders surveyed indicated that they have used the Homes England Levelling up Home Building Fund. It is also

not clear whether they would have been eligible.

The data reveals a complex landscape of how SMEs navigate local authorities (LAs), with notable differences in experiences (see Figure 11). A significant proportion of SMEs (32.1%) report that when they deal with multiple LAs, there is clear variability in how easy or difficult different authorities are to work with. Conversely, a smaller but relevant group (17.9%) finds that the process remains mostly consistent across the LAs they interact with.

A substantial number of SMEs (26.8%) only work with one or a few LAs because they like to work

## SME Housebuilders' Use of Government Support

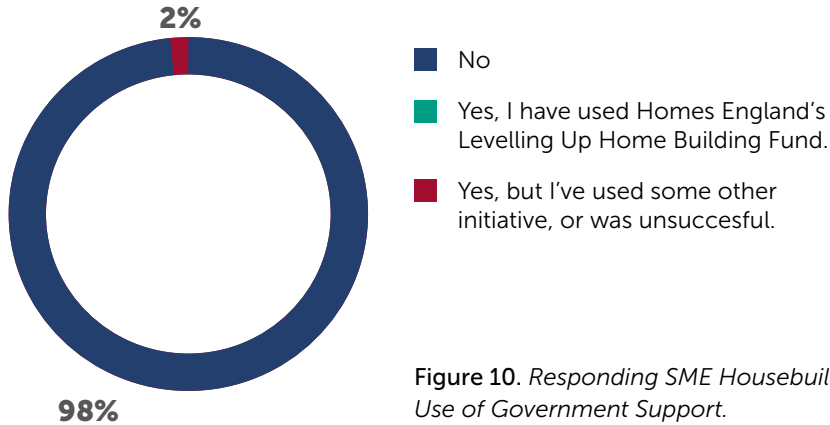


Figure 10. Responding SME Housebuilders' Use of Government Support.

near their own location, which limits their exposure to the broader variability across authorities. These businesses are likely to be more focused on specific areas, allowing them to build stronger, more localised relationships with LAs. Finally, a significant portion (23.2%) were unsure or found the issue non-applicable. This could have a variety of explanations.

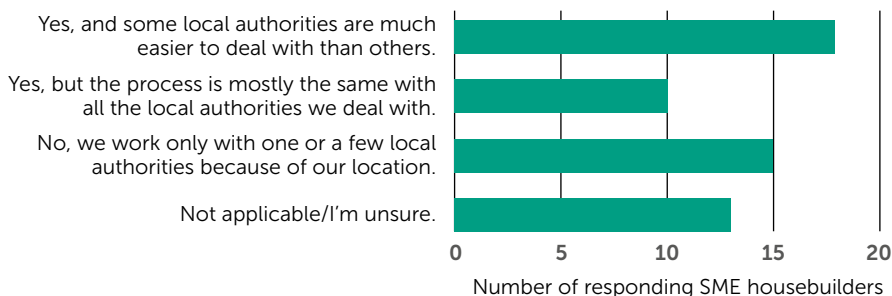
### Opportunities and Impact

The majority of responding SMEs see greater involvement in the market as unlocking more development opportunities (91%), and business growth (93%) (see Figure 12). This reflects the

potential for SMEs to expand their operations, identifying new areas for construction, redevelopment, or investment. It also suggests that the reduction/removal of barriers would allow SMEs to scale up, take on larger or more frequent projects, and potentially increase their market share.

Further noteworthy opportunities lie in increased longer-term sustainability (65%), allowing firms to develop long-term viability for their businesses. Skills development and training is also seen as a key opportunity by 57% of responding SMEs. This suggests that with fewer barriers, SMEs would be able to invest more into workforce

## Does your organisation work with one or a few closely related local authorities, or with many different ones? If you work with many, are some easier to deal with than others?



**Figure 11.** *Variability in Dealing with Different Local Authorities.*

development and enhancing their teams' skills thus improving overall industry expertise.

Increased capacity for innovation is identified by 43% of responding SMEs as a potential benefit. The removal of barriers could foster an environment where SMEs are able to experiment with new construction methods, materials, and technologies. This would lead to improvements in efficiency, sustainability, and cost-effectiveness in housing development.

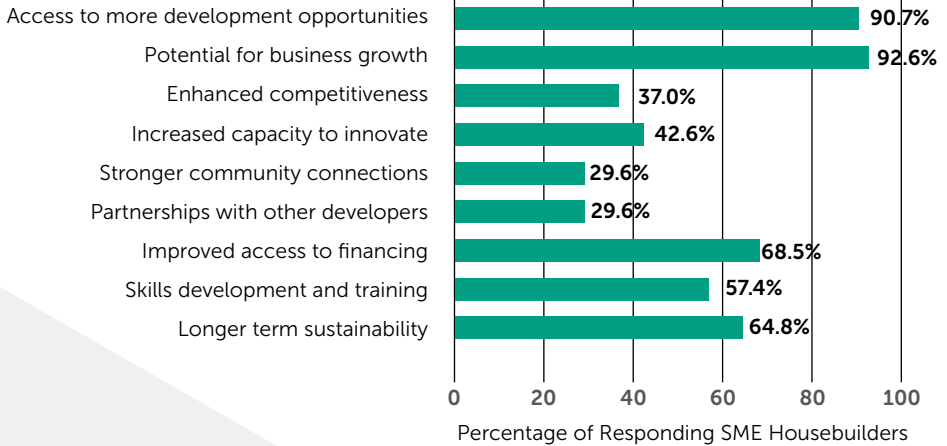
A little over a third of respondents (37%) see enhanced competitiveness as a potential benefit. Reducing barriers could level the playing

field, allowing SMEs to compete better with larger developers.

While increased opportunities with other developers (30%) and the development of strong community connections (30%) are also seen as opportunities, they are less prominent, potentially indicating that SMEs are more focused on internal development.

We asked SME housebuilders, how removing the barriers to their increased involvement in the housing delivery industry, might have positive outcomes for their local area, community, and the housing market overall (see Figure 13). The most significant outcome, identified by nearly 80% of SMEs,

## Opportunities from Higher Involvement in Housing Delivery Market

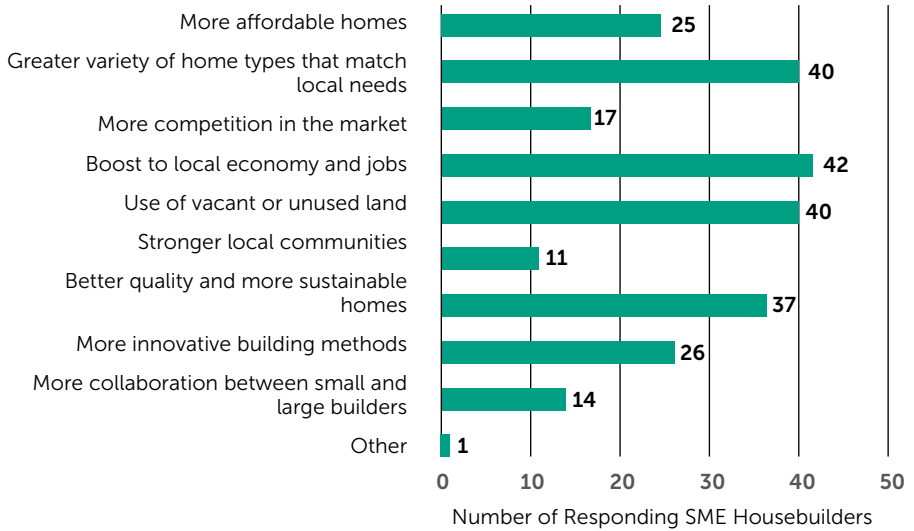


**Figure 12.** *Opportunities for SMEs from Higher Involvement in the Housing Delivery Market.*

was seen to be a positive impact on the local economy through job creation and economic activity. This highlights the strong belief that SME housebuilders play a critical role in local economic growth and the scale of housebuilding. A significant majority (75.5%) emphasised the importance of providing a wider variety of home types that cater to specific local needs. This suggests that addressing diverse housing demands is a top priority for SME housebuilders.

Similarly, 75.5% of responding SMEs saw the use of vacant and unused land as a major benefit, indicating that they have the ability and expertise to improve and repurpose underutilised areas, adding value to the community. Improving the quality and sustainability of homes is also viewed as a significant outcome by 70% of respondents. Further important possible outcomes include “more affordable homes” (47%) and “more innovative building methods” (49%).

### Positive Outcomes for Local Areas, Communities and the Market



**Figure 13.** *Potential Positive Outcomes for Local Areas, Communities, and the Market.*

The most significant outcomes identified by SMEs are therefore the boost to the local economy, the creation of diverse housing types, and the use of vacant land. Improving housing quality, sustainability, and affordability are also key priorities, alongside fostering innovation in construction methods.



## Recommendations from respondents

We included one open-ended question in the survey, inviting respondents to share their views on what the government should do to support SME housebuilders' ability to deliver housing. On short online surveys open text questions are rarely answered, yet out of the total of 61 respondents, 47 offered some views. While many of these suggestions are inherently self-serving, they do point to ways in which smaller builders can be enabled to realise potential opportunities.

- 1 Planning System reform
  - 1.1 Standardise and streamline the planning process to eliminate delays caused by inconsistent decisions from local planning authorities.
  - 1.2 Enforce strict timelines for planning approvals, ensuring planning councils adhere to fixed timeframes to avoid long delays for smaller developments.
  - 1.3 Reform Biodiversity Net Gain (BNG) legislation, making it more practical for SMEs by shortening the required 30-year

involvement and adjusting requirements based on project size.

- 1.4 Reduce Community Infrastructure Levy (CIL) requirements for small builders.
- 1.5 Reduce the 5-unit minimum for government support funding.
- 1.6 Ensure consistent planning guidelines across all Local Authorities (LAs), so SMEs are not burdened by varying interpretations of planning laws.
- 1.7 Create a fast-track approval process for smaller developments (3-15 dwellings) to encourage quicker decision-making and reduce red tape.
- 1.8 Implement a one-stop-shop planning service where SME builders can get all planning, funding, and development approvals under one roof, reducing complexity.
- 2 Improve Access to Finance
  - 2.1 Provide affordable government-backed loans specifically for SME builders, with reduced interest rates and flexible repayment terms.



- 2.2 Reduce the minimum requirement for government funding from 5 units to allow smaller developments to qualify for financial support.
- 2.3 Extend loan guarantees to smaller loans for 1–2-unit developments, covering up to 80% of loan-to-value (LTV) to make it easier for SMEs to access finance.
- 2.4 Offer grants specifically targeted for small builders, which could cover early-stage costs like land acquisition and planning fees.
- 2.5 Simplify lending criteria for small developers by reducing bureaucratic hurdles and ensuring banks offer lower interest rates to SMEs.

- 2.6 Allow SME housebuilders to use their corporate taxes (CT) as credit toward building capital, helping improve cash flow for smaller projects.
- 3 Skill Shortages in the Construction Industry
  - 3.1 Invest in training programmes for construction workers and offer apprenticeships to address the skills shortage in the building industry.
  - 3.2 Create new pathways for school leavers to enter the construction industry.
- 4 Land Availability
  - 4.1 Release more brownfield land and smaller plots specifically for SME housebuilders, focusing on land parcels that are unattractive to volume builders.

- 4.2 Set aside portions of large development sites that must be sold or made available to SME developers, ensuring they have access to competitively priced land.
- 4.3 Allow SME developers to build outside settlement boundaries under the same rules as large housebuilders, granting equal flexibility.
- 4.4 Ensure fair and transparent land tendering processes, allowing SME builders to compete for land that larger developers typically dominate.

The list of recommendations is long and reflects a thoughtful approach to innovation. While some of the suggestions would benefit SMEs at the expense of others, many would support greater stability and would help expand development overall.



## 3.2 Interview Findings

The qualitative insights gathered from interviews with Small and Medium Enterprise (SME) housebuilders expanded upon the multifaceted groups of challenges and opportunities within the housing delivery sector in England. They also made it clear that realising many of the identified opportunities depends on reducing barriers. Five interviews to discuss these issues were conducted with SMEs across the country. Further interviews were held with an industry specialist, who focussed on broader trends in the housebuilding sector, and with a Homes England spokesperson, relating to the Agency's role with respect to the SME subsector.

### Key Barriers for SMEs

#### Planning System Inefficiencies and Regulatory Challenges

The complexity and variability of the planning system emerged as a significant barrier for SMEs across all interviews conducted. Interviewees expressed frustration with the lengthy approval processes, often exacerbated by high staff turnover in local authorities. One interviewee articulated the benefits which would come



from improved communication between developers and planners, pointing to the considerable lack of consistency in LA decision-making that can derail projects.

- A major concern is the fragmented approval processes. Decisions are often based on each local authority's interpretation of planning legislation. This adds layers of complexity, often causing delays and increasing the uncertainty for SMEs. One interviewee mentioned that planning delays and inconsistent application of rules make it difficult to advise clients or to proceed with projects with confidence.

**/// You never know where you are, and you can never advise a client. This is the thing because there's no one planning officer - no one local authority seems to play by the same rules. ///**

Respondent 3, East Midlands

- There is a perception among interviewees that local governments favour larger developers, further alienating SMEs. Planning policies often seem tailored to those with substantial financial

backing. These firms have the financial means to endure long planning cycles and higher upfront costs. SMEs, by contrast, are often unable to absorb these costs. One interviewee explained how the requirement to finance project groundwork independently for extended periods effectively limits smaller firms' capacity. The lack of predictability affects client trust and adds considerable strain to SMEs' limited resources.

**/// The policy being followed by government, I think only helps the large contractors because you have to be able to bankroll a project for three months. And the initial outlay of work, especially groundwork, is 25% of the whole project. That is a big kick. [...] we [smaller SMEs] can't afford to do that. ///**

Respondent 2, London

- Regulatory burdens, particularly related to environmental and heritage preservation, present a dual challenge for SMEs. While all our interviewees expressed a commitment to sustainable building practise, the costs

that are associated with compliance can be prohibitive. Particular concerns over the financial implications of heritage regulations were raised, revealing a tension between preserving local character and enabling viable development. This is a tension that is further complicated by evolving standards of environmental sustainability and energy efficiency, which require upgrades and modernisation that are often not consistent with heritage laws.

**/// ... you can't have a green policy, but then again, you stopped me from putting a double-glazed window, because it's a listed building. ///**

Respondent 2, London

- Several interviewees noted that Community Infrastructure Levy (CIL) fees and self-build land designations impose significant costs and restrict development potential. CIL fees deter SMEs from taking on certain projects or building on particular plots, as these fees often render projects unviable for smaller builders. It was

also noted that, despite the self-build land designations streamlining approval for individual owners, this actually excludes small builders, adding another layer of restriction. Further regulations, such as the new Building Safety Act and Biodiversity Net Gain requirements, while important, have increased the complexity and cost of meeting these requirements, delaying projects for months or resulting in rejection. The increased regulatory demands often need access to specialised knowledge and resources (e.g., consultants, ecologists, etc.), placing SMEs at a disadvantage as compared to larger, more resource rich firms.

**/// ...there are an awful lot of the things surrounding the new Building Safety Act that's put a lot of delay in as well. ///**

Respondent 5, South East

### **Funding Constraints and Market Conditions**

- Most of the interviewees were concerned about whether SMEs could access funding at reasonable cost. Many SMEs

depend on traditional banking relationships to varying extents. In this context one interviewee noted that despite long-standing relationships with banks, financing terms have remained unchanged for years, failing to adapt to the current economic landscape. Many SMEs report significant problems in maintaining cash flow and difficulty in obtaining affordable credit.

**/// ... we've banked with NatWest and their terms haven't changed over the last 15 years. ///**

**Respondent 3, East Midlands**

- High upfront costs have been cited by multiple interviewees as another limiting factor. These costs relate to land purchase, groundwork, and meeting planning obligations. Cash flow issues are compounded by delayed planning approvals, which prevent capital from being reinvested in new projects. One interviewee noted that this cash flow squeeze restricts SMEs from working on multiple projects at the same time, thereby stalling company growth. Additionally,

the reliance on property assets to secure funding means that SMEs with limited real estate holdings face important barriers to growth.

**/// We have to, more or less, purchase the land. That's a barrier to growth for us because we've got no other assets to borrow against. It's not like we can gear that up. We're stuck at whatever the land cost is providing. ///**

**Respondent 3, East Midlands**

- The broader economic climate poses additional challenges for SMEs. With the decline in consumer confidence, driven by economic uncertainty and rising living costs, demand for renovations and new builds seems to have reduced. One interviewee noted a worrying trend towards household wealth decline, which has dampened investment in self-build projects. This can create a challenge where reduced market activity leads to fewer leads for SMEs. As households increasingly prioritise addressing cost of living problems, SMEs are experiencing a drop in project inquiries. Variability has also been observed between



rural settings and large urban conurbations, where SMEs operating in locations such as London, seem to be facing more restricted demand.

**“ Everybody wants to save money because they can’t afford to pay the mortgage, even if they want to do something with their money. ”**

Respondent 2, London

- Labour shortages were also identified, especially within skilled trades. Apprenticeship dropout rates are high, with some young people struggling to meet stringent academic requirements. One interviewee

highlights that SMEs often play a key role in training new tradespeople. High dropout rates directly affect the availability of skilled labour and impact SMEs’ ability to complete projects efficiently.

**“ ... everyone is aware that the SME sector does, I would say nearly all of the training and apprenticeships. The volume housebuilders don’t take apprentices on below a site manager. ”**

Respondent 4, Yorkshire and Humber

Furthermore, smaller firms struggle to retain talent due to competition from larger firms offering higher

wages. This disparity, alongside the declining number of workers entering the industry, makes it challenging for SMEs to recruit and retain skilled tradespeople, which can slow down projects, reduce quality, and ultimately impact on their ability to scale up operations effectively.

### Opportunities and Advantages of SME Housebuilders

- Interviewees unanimously recognised the potential for SMEs to thrive through a focus on quality and customisation. The ability to deliver personalised, bespoke, high-quality homes, positions SMEs as attractive alternatives to volume builders. This is a market segment that is particularly relevant to individual consumers, as self-builds are generally not taken up by larger builders. One interviewee noted that his firm's focus on green-build aligns with consumer demand for ecofriendly homes. This adaptability in being able to incorporate high-quality, environmentally conscious features sets SMEs apart from larger developers, who may prioritise volume and speed over craftsmanship.

**/// But the market is strong in this area for expensive houses. People are, it seems, prepared to pay a premium for being much greener. ///**

**Respondent 5, South East**

SMEs tend to operate within distinct local networks and have developed relationships with their communities. By emphasizing craftsmanship and attention to detail, SMEs cultivate strong relationships with clients, fostering brand loyalty and wider positive reputations, which they strive to uphold, something that larger developers often struggle to achieve.

Interviewees noted that SMEs could contribute significantly to sustainable development through smaller, community-focused housing. One mentioned that his company already implements sustainable design choices, such as bungalows for downsizing individuals. The agility and commitment of SMEs to local communities present an opportunity for LAs and government bodies to collaborate with them on brownfield or small-scale developments, which align with regional housing needs and environmental goals.

The insights gathered from SME housebuilders illustrate their critical role in the housing delivery sector. While significant barriers persist, the inherent strengths of SMEs – such as their ability to deliver quality and personalised service – present numerous opportunities for continued operation and growth.

An industry expert highlighted the significant challenges SMEs face in the housing development sector. He saw these as primarily due to procedural delays and restrictive financing conditions. While the planning system is often viewed as the main hurdle, the expert suggested that issues arise more from specific regulatory processes—such as costly appeals, drainage condition delays, and complex local agreements—which collectively hinder project timelines and viability. Financial constraints add further strain, as banks now require SMEs to assume higher risks, demanding returns before developers can access equity. Additionally, while government initiatives through Homes England exist, these programmes are often out of reach for smaller developers because of restrictive eligibility and lengthy processing times, with some SMEs reporting delays of up to ten months compared to

commercial lenders. Addressing these nuanced barriers, the expert suggested, could enable more growth opportunities for SMEs in the housing sector even within the current framework.

A Homes England interviewee suggested it is not viable for bodies such as Homes England to fund small projects. While the Home Building Fund and the House Growth Partnership exist, providing essential support, including construction finance and business assistance, the issue of scale remains a barrier. The interviewee suggested that builders must grow past 1 or 2 units a year in order to access better financing terms and improve their efficiency. Collaborative efforts between small developers (perhaps in the form of consortia), could help overcome this challenge by pooling resources and tackling larger sites. However, maintaining strong business relationships within these groups may be a challenge. A conclusion was therefore that scaling is thus the key for accessing sustainable funding and achieving long-term success.

The strongest messages across the interviews suggest that in order to support the growth and

effectiveness of SMEs in housing delivery, four key areas need improvement: streamlining the planning process, enhancing access to affordable finance, supporting apprenticeships and skilled labour development, and reducing development fees. Simplifying and accelerating planning processes, along with creating consistent guidelines across and within LAs, would provide SMEs (and others) with the certainty needed to initiate projects more effectively.

Affordable financing options, like government-backed loans, could help address the high upfront costs that hinder large-scale SME projects. Additionally, targeted support for apprenticeships and skill development would build a more resilient workforce, benefiting the sector overall. Lastly, reducing development fees and improving land access would make more land viable for SME development, fostering diverse and localized housing options.



## 4 Discussion & Conclusions

The primary objective of this report is to investigate the opportunities that might arise from removing identified barriers and increasing the role of small builders in the house delivery sector in England. Of necessity, this means clarifying what is seen as the major barriers before identifying how reducing/removing them would benefit SMEs and the sector overall.

Since at least the 1980s, the role of SMEs within the UK housebuilding sector has seriously declined – from some 12,500 to as few as 2,500 today. This reflects the policy emphasis on large-scale building sites with standardised dwellings. SME's strength on the other hand is in individuality with respect to new build as well as the modification and improvement of existing homes.

Some important trends have been observed. First, the vast majority of SME builders have been in operation for some time – in a small number of cases over a century. However, there is relatively little sign of significant entry although currently some evidence of increased activity. Net decline appears to be continuing. Furthermore, SMEs tend

to do better in rural areas where land acquisition may be easier. Equally, older associations often have larger land banks and more capacity to self-finance. SMEs in urban areas tend to lean more towards renovations as that is the work that is more readily available.

Most SMEs build 3 units or fewer per annum. Where necessary they employ sub-contractors to provide particular skills at the appropriate time in the development. Uncertainties about when a project can start can make this problematic. With the right conditions they could often build more, but they will not sacrifice quality for quantity. Consequently, in terms of output there is considerable emphasis on quality and therefore the upper end of the market. Most new build activity is in the form of individual or small groups of dwellings. Renovation also plays a significant role. Most activity is customised, and the small builder usually has very considerable knowledge of the area and therefore opportunities.

Those who responded were generally very consistent in their





views. Most are not particularly interested in thinking about the overall system and the role of SMEs in general. Rather they want to get on with doing what they do. The rate of return to the survey was relatively limited as was the number prepared to be interviewed, perhaps reflecting their concentration on their own priorities. To the extent that this picture reflects how SMEs want to work there is a limit to the numbers that can effectively operate in the current environment. However, demands do change and do therefore provide opportunities. Equally if barriers can be reduced SME activities should be able to grow. There is a strong desire to grow among active SMEs if the economic environment is positive. However, most feel that constraints must be reduced before significant and consistent growth can occur.

## 4.1 The Barriers

There is general agreement that there are two main areas of concern: planning (both the regulatory framework and the processes by which these regulations are implemented) and financial issues, broadly defined.

The planning system is seen by most respondents as THE major barrier to growth. Starting from the local plan which often seems to limit development and opportunities. One example: The number of identified sites of less than 100 units has been falling consistently since 2016 and overall allocations are the lowest in Europe. SMEs are therefore at a considerable disadvantage in obtaining suitable land. Many of the problems are, however, seen to be more about

process than principle – in the form of delays, inconsistencies, and the lack of resources within authorities to provide rapid and consistent planning permissions.

The other major barrier is undoubtedly financial and a function of size. Many SMEs depend on the own assets and use sub-contractors rather than employees. Several interviewees mentioned that access to finance is a major issue, particularly for larger projects. High upfront costs, combined with limited borrowing options, together with delays and uncertainties mean that many SMEs are unable to scale up operations. Many tend to depend on their own assets limiting their capacity to grow.

## 4.2 The Opportunities

To achieve the identified opportunities may require government involvement either central or local. Market based growth is rarely enough. Thus, the opportunities mainly depend on the identified barriers being modified or removed. Importantly the removal of many of the barriers may make it just as easy or easier for larger builders to take advantage of consequent possibilities. SMEs

should be able to benefit but only in proportion. A concern might be that even this will not be possible because overall resources become more limited, and SMEs are not able to compete with the larger providers.

Some of the identified barriers affect SMEs more than larger participants. If these can be modified, then SMEs should be enabled to expand as a proportion of the total sector. However, there is only limited evidence that government either central or local have a marked preference for SMEs.

An unusually large proportion of those who answered the survey were also prepared to respond to the open-ended question as to what needs to change. Their proposals range from ones that would give SMEs more even treatment to other types of builders, to others that would allow SMEs special positive treatment, enabling them to grow more effectively. Interviewees were also enthusiastic, providing a wide range of suggestions as to how the SME subsector could flourish into the future.

The interviews provided considerably additional detail on how respondents saw constraints

and opportunities. As with most respondents, their immediate concerns were with respect to the planning regime - notably the complexity and the resultant variability of decisions within a fragmented approval process. The interviewees thought that local authorities favoured larger builders. They also noted that SMEs struggled with environmental and heritage regulations which are particularly relevant to their activities. CIL is expensive and SMEs get few of the benefits. They are adversely affected by self-build regulations which hardly affect larger builders. Rejections after 16 weeks, often done to help the LAs meet their own requirements have significant negative impacts.

Some of the barriers are general and if they are modified it will help the whole market. SMEs will therefore be competing with larger builders. Some of the barriers, especially related to finance are specific to SMEs. In order to operate effectively they often need to purchase the land and undertake preparatory work before building takes place. Available cash therefore limits how many sites they can work on at one time while borrowing capacity is limited and expensive.

Labour shortages were stressed by interviewees. SMEs are major providers of apprenticeships in part to alleviate these shortages. However, there are significant costs in providing training as many drop out before completion. In this context SMEs are subsidising larger providers. Another issue that SMEs cannot resolve is the need for apprentices to have academic requirements which many do not wish to do.

In terms of opportunities the interviewees stressed the quality of what they produce as well as the emphasis on customisation. They see a particular role for SMEs with respect to green buildings and self-build and see a strong market for expensive individual properties. This could grow more easily if planning was more coherent.

All of these points relate to the current system. Changing the system would ideally include government backed low interest loans, greater support for apprentices and reduced planning fees for smaller builders.

# 5 Recommendations

There are clearly significant numbers of SME builders who would like to build more – especially if planning and finance barriers can be overcome. Equally there is clearly a shortage of skilled labour and limited capacity to take on apprentices and other trainees. The question is what needs to change to enable expansion. The following recommendations aim to address the challenges identified in this report. Ultimately, the development of opportunities for SME housebuilders, alongside an increased ability to leverage their unique skills, local expertise, and flexibility within the sector, directly follow from the reduction of current barriers.

## 1 Budget Initiatives

The government's first budget included some limited special treatment for very small SMEs as well as an increase in apprenticeship wages. These could be seen as a starting point for further discussion with the Ministry - even though the overall impact of the budget was negative.

## 2 Planning Reforms

The planning reforms expected next year should help make decisions more consistent and streamline permissions. Even though the consultation has closed the FMB will have opportunities to effect change by clarifying the issues that SMEs find most difficult and how they can be addressed.

## 3 Targeted Support from Homes England

Homes England has made a number of attempts to provide support to SMEs but have generally failed because the minimum scale for assistance is above that relevant to most SME builders. They have however suggested that with good will on both sides it would be worth the FMB making direct contact with relevant policy makers at Homes England to discuss how to reduce the transactions costs involved in helping small businesses.

### 3.1 *Collaboration and*

*Resources:* They stress that encouraging collaboration among smaller developers through consortia to scale projects and access larger funding is potentially valuable. Equally that HE should explore providing more tailored advice for small builders and examine providing resources from gov.uk, including Land Hub, to help developers to identify available and viable land for new projects.

### 3.2 *Pre-development Costs:*

Pre-development costs are a major problem for SME builders. Homes England has tried to develop some means of support which may be worth revisiting. More generally, the usual approach to this type of issue is some form of insurance. Perhaps subsidised by government there could be the possibility of developing a mechanism for insurance for Banks.

## **4 Support for Apprenticeships**

One very positive role that SME builders play is in the support that they give to apprentices. The government has raised the wage for apprentices, making this role more costly – yet the whole industry pays. There needs to be some means of cross subsidy which could help increase the numbers of apprentices into the future.

## **5 Review of Academic Requirements for Entrants**

A particular issue that the government might wish to address is whether the academic requirements for school leavers are too onerous and whether they could be more directed at what is relevant to housebuilding.

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