

Structural timber market research: residential sector

Interim update

June 2023

Introduction

This interim update is in addition to the full Market Research Report published to membership in October 2022.

When that publication was issued there was much uncertainty created by the ambitious fiscal plans proposed by the Prime Minister and the Chancellor at the time.

The fall-out from this has led to increases in interest rates, double-digit inflation, a reduction in confidence and an increase in economic uncertainty, which, combined with the unforeseen conflict in Ukraine, has exacerbated the energy and cost-of-living crises.

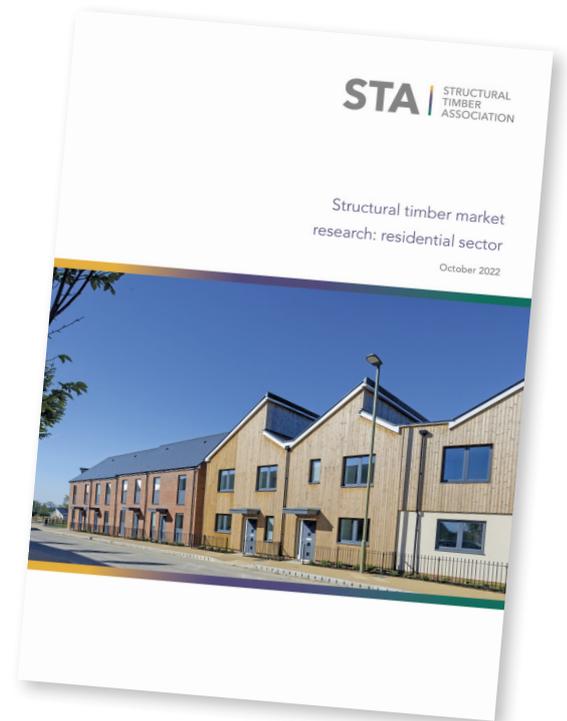
As a consequence, it has become clear that markets and forecasts are dynamic and at best we need to be informed of the range of opinions and market reaction when we are considering actions to be taken across timescales - short, medium and long-term.

The agility of the housebuilder sector has been brought into sharp relief as we have seen how it has responded. As sales rates have declined, housebuilders have reacted by taking a number of measures that include cost reduction across all activities and a slowing of build numbers.

In the wider context, the sector has had to contend with the end of the Help-to-Buy scheme in March 2023 and impending changes to building regulations, as well as the effective removal of local housing targets following a weakening, in recent months, of the UK Government's commitment to its manifesto pledge for 300,000 new homes per year. In addition, planning applications in England have fallen to their lowest level in 16 years. All these factors have an impact on the market and the cost of build to meet more challenging standards as brought forward by revisions to the Building Safety Act, Parts L, F, O and S. The lack of any stimulus in the Spring Budget, such as an extension to Help-to-Buy, add to concerns, as well as the on-going skills shortage, and, in the wider economy, difficulties in the banking sector.

Market overview

Martin Beck (Chief Economic Advisor of the Ernst and Young Independent Treasury Economic Model Club (EY Item Club), noted that 'Construction activity continues to face sizeable headwinds. The housing market is likely to stay soft, given relatively high mortgage rates, a weak economy and the closure of the Help to Buy scheme at the end of March. A watering down of what had been mandatory targets set by the Government for house building presents another potential obstacle. Higher interest rates are also affecting construction businesses' balance sheets'.



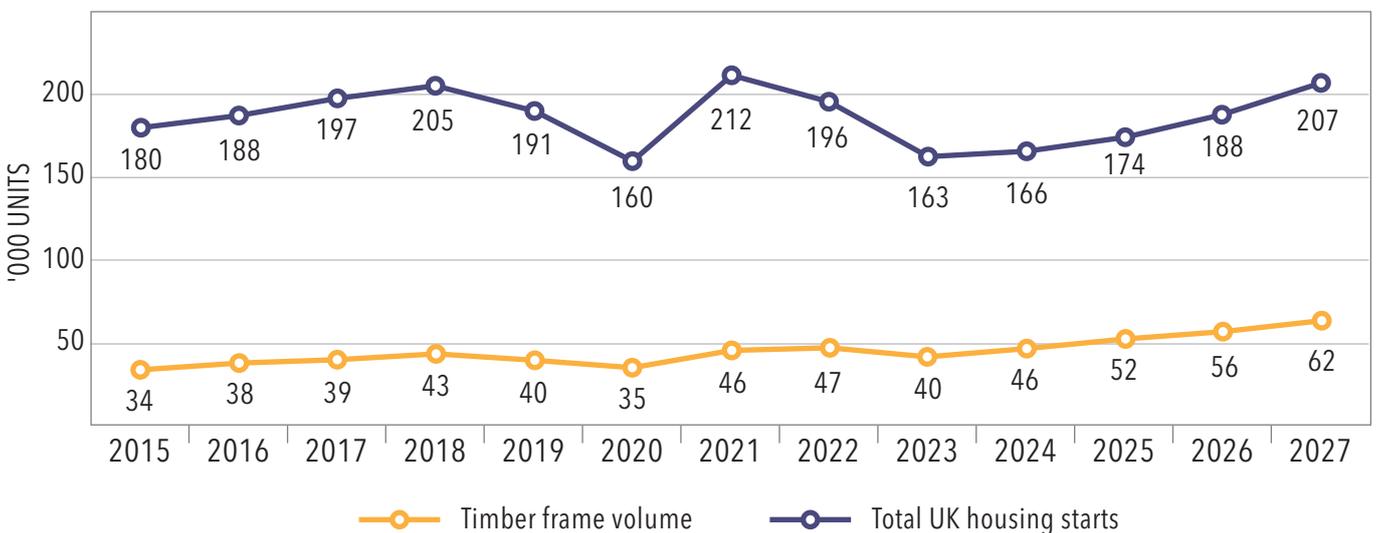
Housing starts forecast 2023

It is understood by all commentators that new-build housing has suffered since Q4/22, with weaker demand leading to a focus on completions, as well as starts being subdued –the following is a result of this.

The ongoing outlook for 2023 is one of reduced volume - the key questions are how low will they go and what does the recovery look like?

Data from the Office of National Statistics (ONS) is not yet complete but suggests that total UK housing starts fell in 2022 by approximately 15,000 units (4%)¹, however the expectation is that they will fall more sharply in 2023. The forecast range of the fall varies but we have assumed that this will be in the region of a 17% reduction in starts (representing 162,824 units), before we see growth in 2024 (+2%) and a measured recovery beyond this time.

Total UK Housing Starts, private/social and timber frame



[Figures from ONS, with forecast data informed by a variety of sources (JLL, CPA, Glenigan)]

For all the reasons outlined above, the CPA's Spring forecast² expects construction output to fall by 6.4% this year with the CPA forecasting a 'shallow' recession followed by a recovery in the second half of the year and a return to growth of 1.1% in 2024.

1 Office for National Statistics (ONS) Dataset: House building, UK: permanent dwellings started and completed by country [online] available [HERE](#)

2 Construction Products Association (CPA) (April 2023) Construction Industry Forecasts 2023-2025, Spring 2023 Edition [online] available [HERE](#)

The opportunity for timber frame is to out-perform the market and to increase market share in the UK. As we will see, investment, mergers and acquisitions activity and changes to building regulations all provide grounds for optimism about the growth of the sector.

The forecast for off-site timber systems (timber frame/SIPS) is still to grow for this reason (National House Builders committing more of their volume to timber frame), increasing market share from 22% in 2021 to approximately 27% by 2025.

The latest Glenigan Construction Review (February 2023)³ points to a 27% reduction in residential starts in the three months to 28/02/23 with the pace of on-site activity being therefore tailored to match sales. It should be noted, however, that at the recent Structural Timber Association Annual General Meeting (27/04/23), Glenigan pointed to an emerging stability and confidence in the market and is of the view that there will be a recovery in 2024.

However, we should take a cautious view as we have seen how forecasts change in line with the dynamics of a market that is subject to external factors outside the control of the industry, such as the ongoing crisis in Ukraine and current problems in the banking sector.

The current Government shows little sign of replicating the support given during Covid though policy changes.



We cannot ignore the potential impact that higher interest rates might have on mortgage availability, affordability, and therefore on house purchases. We have seen the house-price-to-earnings ratio and mortgage-payments-as-a-proportion-of-income level deteriorating, in a market that has been used to low interest rates and lower mortgages for over 15 years.

The current average mortgage interest rate is 4.55%: it peaked in November 2022 at 5.9%. This is a considerable increase on the 2.03% in November 2022 and 1.18% only 18 months ago.

For some semblance of 'normality' to return to the market it is important that the Bank of England is able to meet its target to get inflation down to around 6.5% by the end of the year and 2.3% in 2024. However, the main tool it has at its disposal is in the setting of interest rates and economists at the BNP Paribas are

forecasting that the current interest rate of 4.25% will rise to 4.5%. However, they think this will be the peak of the current cycle and the interest rate will then fall in-line with inflation, being brought more under control as we move through the year.

A key factor is the ending of the Help to Buy Scheme in March 2023, despite members of the housebuilding industry hoping for an extension. An alternative scheme, the new Deposit Unlock Scheme⁴, is a collaboration between lenders and the home building industry. It allows buyers to purchase a new-build home with a 5% deposit (up to a maximum mortgage limit of £750K) with 50 housebuilders (including some of the leading companies) having signed up for this with three lenders.

³ Glenigan (April 2023) The Glenigan Construction Review: Reflecting activity to the end of March 2023 [online] available [HERE](#)

⁴ UK Government (19 April 2021) New 95% mortgage scheme launches [online] available [HERE](#)

Housing shortfall

The supply-demand imbalance is still a concern for government and for those looking for quality homes across all sectors: private, rental and affordable. This is not confined to the major cities such as London, and with soft market conditions it is unlikely that this will be solved anytime soon without a more meaningful strategy to tackle the problems head on. The key concerns of UK housebuilders are issues around planning and the power granted to local authorities to veto schemes, as well as the removal of house building targets at local level.

The CPA highlights concerns that planning issues may exacerbate issues over demand especially for smaller housebuilders that do not have a solid pipeline of sites with planning permission already granted.

Planning

An important factor, therefore, is the role of planning, with figures released in April 2023 by the Department for Levelling Up and Housing and Communities (DLUHC) showing that planning applications in England fell to their lowest level in 16 years – with local authorities receiving 409,459 planning applications in 2022, down circa 14% on the previous year.

The Home Builders Federation (HBF) has issued a report that states that housebuilding in England is due to fall to its lowest level in more than 70 years, with Stewart Baseley, Executive Chairman of the HBF, stating that, ‘The increasingly anti-development policy environment poses a real threat to housebuilding’⁵.

Whilst the Government, through the DLUHC, appears to remain committed to delivering 300,000 homes each year by the mid-2020s, analysis from the HBF has forecast less than 120,000 housing starts per year in England. Furthermore, in December 2022 Michael Gove watered down the DLUHC’s local housing targets, granting more flexibility to local councils⁶, and on 13 April 2023, in an interview with Conservative Home, Rishi Sunak admitted ‘effectively ditching housing targets’ due to pressure from Conservative Party members⁷ - backing away from nationally imposed top-down targets and proposing a new planning policy that will give more control locally. That said, there is a good deal of evidence emerging that suggests this may well be the reverse.

5 Home Builders Federation (HBF) Planning permissions for new home sites fall to record low - and will plunge further [online] available [HERE](#)

6 Housing Today (6 December 2022) Gove to water down local housing targets following backbench pressure [online] available [HERE](#)

7 Housing Today (13 April 2023) Sunak says he ditched housing targets due to concern from ‘thousands’ of Tory members [online] available [HERE](#)

Role of UK Government

With a new UK Government likely after the next general election (January 2025 latest) housing is going to be at the centre of all parties' thinking and manifestos with the recognition that the housing crisis has to be resolved.

Both the Conservative and Labour parties are looking at housing supply with great interest - an alternative to Help-to-Buy is thought likely to be tabled by the Conservative party in its Autumn statement and Labour has stated that it wants to be the 'party of home ownership'⁸.

Getting back to the 300,000 homes per year target will be a challenge for the Conservative party as it runs the risk of going against the NIMBY (not in my back yard) contingent in its party, that has acted so effectively. It will equally be a challenge for Labour.

Putting political rhetoric to one side, we need to see positive action from whichever government is elected and the development of an effective housing strategy.

Housebuilder reaction

The UK's leading housebuilders have all looked to manage shareholder/stakeholder/supply-chain expectations and reported that they are forecasting reductions in completions in the current year.

From the most recent trading updates of five of the UK's leading housebuilders we can build a picture of expectations for the market through 2023.

Persimmon

Its most recent trading update⁹ (April 2023) has advised build rates are down 30% (Q1/23) due to slowed demand in Q4/22; this resulted in Q1 completions of 1,136 units versus 1,950 Q1/22 (-42%). It is forecasting that annual completions will be at the level of 8-9,000 units, compared to the 14,868 completed in 2022. As a consequence, its response has been to control costs and manage build programmes to conserve cash.

Bellway

It has reported that reservation rates have reduced by 31.7% (138/week versus 202/week in 2022), but with visitor numbers and reservation rates in January showing improvement then it would look to see full-year completions of around 11,000 units (compared with 11,198 at 31/07/22). The accelerated programme of social housing is off-setting the weaker private sales¹⁰.

Barratt

Chief Executive, David Thomas, commented in its trading update (01/23) that, 'Political and economic uncertainty impacted the first quarter; this was then compounded by rapid and significant changes in mortgage rates which reduced affordability, homebuyer confidence and reservation activity through the second quarter'¹¹. To the end of their financial year (30/06/23) the expectation is to deliver between 16-16,500 units and it has instigated a freeze on recruitment.

8 The Guardian (29 April 2023) Keir Starmer: 'I want Labour to be the party of home ownership' [online] available [HERE](#)

9 Persimmon (26 April 2023) trading statement [online] available [HERE](#)

10 Bellway (9 February 2023) trading update [online] available [HERE](#)

11 Barratt (11 January 2023) trading update [online] available [HERE](#)

Taylor Wimpey

Due to reduced reservations, it is also revising down its expectation of the volume to be delivered, this is in the range 9,000-10,500 units. This is on the basis of an assumed annual net sales rate of 0.5-0.7, with more completions in the second half of the year. There has been a noted improvement in demand in 2023, with this being on the back of very much weaker demand at the end of 2022. It instigated a £20m cost cutting programme that is now complete and it, 'remain[s] cautious of continued macroeconomic uncertainty', Jennie Daly, Chief Executive¹².

Redrow

Commented that, "As the political and economic picture has stabilized, and mortgage rates continue to reduce from their elevated levels, consumer confidence has begun to show early signs of returning." It has had a positive second half of its trading year despite posting lower sales and profits on the back of house reservations falling and cancellations increasing. Reservation rates fell to 0.38 per outlet per week in the first half of the year from 0.64 year-on-year basis¹³.

Affordable/social housing

The UK Government has announced that its priorities for the first part of 2023 are to improve the quality of social housing, setting out actions regarding damp and mould in the existing social housing stock¹⁴. This follows the scandal of mould in a social housing flat that led to the death of a child in Rochdale in 2022.

New build: the £12bn Affordable Homes Plan is very much in play and the role of Homes England, which is changing fast in this, is significant. Homes England (£7.5bn funding available) is a strong promotor of Modern Methods of Construction (MMC), with the carbon agenda also very much a priority.

That said there is much disquiet in the sector as a number of housing associations are taking action against what is described as a broken financial model. Failed mergers and the Housing Ombudsman's wave of maladministration judgements showing no sign of abating, all of which could signal no marked improvement in the volume of homes delivered.

¹² Taylor Wimpey (27 April 2023) trading update [online] available [HERE](#)

¹³ Redrow (9 February 2023) half year results [online] available [HERE](#)

¹⁴ UK Government (22 December 2022) December 2022 – update on government's work to improve the quality of social housing [online] available [HERE](#)

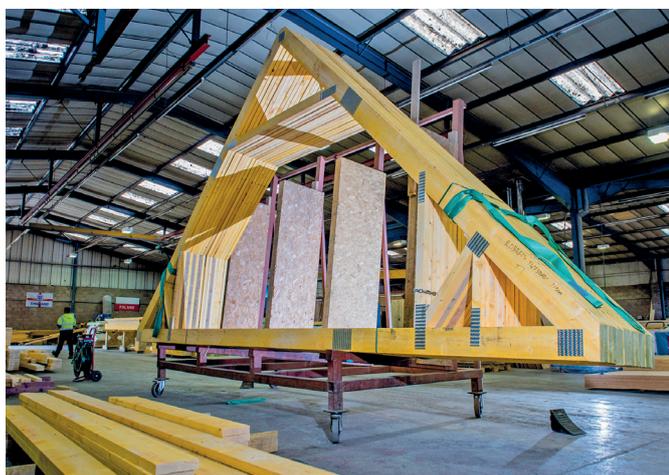
Timber frame development

Whilst there is a downward trend in housebuilding, we can see positives for the timber frame sector.

The announcement by Taylor Wimpey that it is investing in its own timber frame manufacturing facility in Peterborough¹⁵ means that the UK's three largest housebuilders now all have their own in-house manufacturing capability.

Meanwhile Barratt has invested in expanding capacity at the Oregon Timber Frame facility in Selkirk and is opening a new manufacturing site in England¹⁶.

The latest development is that CALA Homes has acquired Taylor Lane Timber Frame, seeing it as a means to, 'progress towards their sustainability targets and support delivery of the group's ambitious growth plans in the South of England'¹⁷.



This is a real signal of the benefits that timber frame brings to the UK housebuilding industry in delivering volume and meeting the carbon reduction targets set by Government. Whilst we recognise this volume is a shift from some members to 'in house', it also represents an underlying trend to use this capacity to increase the share of homes built in timber frame and supports the growth of the timber frame market share.

Building Regulations

The housebuilding community is getting to grips with the reality of what changes to Building Regulations mean for them, their current working practices, build methodology and supply-chain implications.

The updated regulations include amendments to Approved Documents listed below, with the timescale for changes shown in the table following:

- Part L, Conservation of heat and power
- Part F, Ventilation
- Part O, Overheating
- Part S, Infrastructure of EV charging

15 Taylor Wimpey (2 March 2023) new timber frame facility [online] available [HERE](#)

16 Scottish Construction Now (28 October 2022) Barratt outlines major investment and 40 new jobs for Selkirk timber frame site [online] available [HERE](#)

17 CALA (4 May 2023) Cala acquires Taylor Lane Timber Frame [online] available [HERE](#)

THE ROAD TO NET ZERO: CHANGES TO BUILDING REGULATIONS

15 June 2022	Amendments come into force in England	Part L, Conservation of fuel and power; 31% reduction in carbon emissions) Part F, Ventilation Part O, Overheating Part S, Infrastructure for charging electric vehicles
15 June 2022	Amendments announced in Scotland	Section 6, Energy; 32% reduction in carbon emissions
23 November 2022	Amendments come into force in Wales	Part L, Conservation of fuel and power; 37% reduction in carbon emissions Part F, Ventilation
1 December 2022	Amendments come into force in England	Part B, Fire Safety
1 February 2023	Transitional period ends in Scotland. Amendments come into force for all projects	Section 6, Energy; 32% reduction in carbon emissions
15 June 2023	Transitional period ends in England. Amendments come into force for all projects	Part L, Conservation of fuel and power; 31% reduction in carbon emissions) Part F, Ventilation Part O, Overheating Part S, Infrastructure for charging electric vehicles
23 November 2023	Transitional period ends in Wales. Amendments come into force for all projects	Part L, Conservation of fuel and power; 37% reduction in carbon emissions Part F, Ventilation
1 April 2024	New Build Heat Standard (Scotland)	75-80% reduction in CO2 Electrification of homes Zero carbon ready homes
2025	Future Homes Standard (England and Wales)	75-80% reduction in CO2 Electrification of homes Smart infrastructure Zero carbon ready homes

DLUHC has stated that the changes ‘mark an important step on our journey towards a cleaner, greener built environment’¹⁸ and the bulk of the changes are interim measures to the UK Government’s Future Homes Standard (FHS) and Future Buildings Standard (FBS) (2025).

The end game is that all new builds are capable of being net zero in terms of operational carbon when the grid decarbonises.

With the changes to Part L (energy efficiency) coming into operation (16/06/23) and the Future Homes Standard planned for 2025, there is a growing recognition that the use of timber frame/SIPs can play a key part in solutions for meeting the new requirements and regulations.

¹⁸ UK Government (15 December 2021) New homes to produce nearly a third less carbon [online] available [HERE](#)

With its fabric-first approach, timber frame/SIPs has an important role to play for UK housebuilders in providing solutions to reducing energy consumption of new build homes to meet the target of 31% (Part L) and 75% (FHS) versus current regulations (2013).

Part F (ventilation), with its reliance on mechanical systems, needs to be designed-in and the air-tightness potential and flexibility around timber frame design reinforces the role that timber frame has to play in meeting the new regulations as air tightness standards are more easily achieved when compared with other technologies.

This isn't to say that the masonry sector is going to roll over. We can expect to see strong competition as they lobby for the benefits that their method of construction brings to the housebuilder, with solutions around the use of 'traditional' (or familiar) materials.

