On behalf of Developers East Sussex, Essex Developers Group and Kent Housing & Developers Group

c/o Locate in Kent
First Floor
International House
Dover Place
Ashford
Kent TN23 1HU

Rt Hon Chris Pincher MP
Minister of State for Housing
Ministry of Housing, Communities & Local Government
2 Marsham Street
Westminster
London
SW1P 4DF

1st June, 2021

By email: PSChristopherPincher@communities.gov.uk

Dear Chris,

Thank you very much again for a really helpful meeting back in February and for speaking at the Garden Communities Conference in March. We have continued to feed back to our members, all of whom remain extremely appreciative of your continuing engagement with us and of the regular, strong and constructive relationship we enjoy with your officials.

In advance of our meeting on 15th June, we promised to send a brief update and an outline agenda of issues that it would be helpful to cover. Each of the items is listed below with a brief commentary to ensure we can make best use of the time when we meet. We have also indicated which of us can kick off each item as needed.

KENT HOUSING & DEVELOPMENT GROUP

1. Market update – Jonathan Buckwell will lead

We are very pleased to report the sales market in Kent, Essex and East Sussex is highly active at the moment, with a definite post-pandemic boom. Linked to this, we are detecting a number of supply and inflationary pressures. The most recent intelligence from the Developer Groups we have shared with MHCLG and Homes England officials includes:

- Timber costs up by up 25%
- Cost price inflation across all materials c.4%
- 'Cracks appearing everywhere' - supply issues with: Roof Tiles, Hanging Tiles, Mortar, Steel, Garage Doors etc.
- Labour supply issues/Sub-Contractors: Shortage Roofers and Brick Layers
- Reports of stockpiling of white goods due to concerns of erratic supply

While a shortage of bricks means that foundations are being laid to begin new homes (which is positive), we know that firing up brick kilns to meet the current demand will take time. We are concerned too that the certification of imported products is causing delays, with a need for compatibility (ie of the CE kitemark) to be accepted for some products to overcome this.

2. Planning and Build-out – Jonathan Buckwell will lead

Recent media coverage has highlighted the continuing discrepancy between planning approvals and build-out rates, with concern, from SME developers in particular, that larger schemes may be given priority due to the need to increase planning numbers in preference to smaller SME sites which can deliver much sooner. We are working closely with planning colleagues to address this, including through planning protocols, and agree a better balance between large and small sites needs to be struck to support all areas of the development process. The Independent review of build out addressing absorption rates and mixed tenure marketing continues to provide invaluable insight into how this issue may be resolved and build-out accelerated.

First Floor,
International House,
Dover Place, Ashford,
Kent TN23 1HU

+44(0) 7921 108 633
nick@fenton.net

locateinkent.com/khdg

KENT HOUSING & DEVELOPMENT GROUP

3. Phosphates & Nitrates – Nick Fenton will lead

We continue to work closely as developers and local authorities with Natural England and others in trying to resolve the Stodmarsh issue which in East Kent is now responsible for the delays to some 30,000-50,000 homes. We are very grateful for your personal interest in the issue and your continuing support to find a solution and would be extremely keen to understand how your discussions have progressed with Environment Minister Rebecca Pow.

4. First Homes – Brian Horton will lead

As promised, to support understanding of the initiative, we held a very well attended Chatham House roundtable with developers, council colleagues, MHCLG and Homes England on 17th May kindly hosted by Jonathan and DHA Planning. This provided an excellent insight into the scheme and generated significant support and interest with a view to identifying opportunities for delivery within the area. We will feedback further on developments when meet.

5. Development Finance – Mark Curle will lead

When we last met, we promised to provide examples of where the time taken to access available public funding has inhibited SME developers who have instead gone to boutique lenders to borrow at greater cost.

While Homes England rates are competitive within the market, unfortunately we believe the majority of SMEs (and the small SMEs in particular) are unable to use Market Banks or Homes England funding because it is geared much more to Tier 1 developers. In particular, the complexity of the Homes England application process means a potential minimum of some 4 months to draw funding down. For SMEs, who are much more reactive to market conditions and opportunity, they simply cannot wait this long for a scheme to be approved, so will go to an alternative funding source where approval can be obtained in less than 4 weeks.

First Floor,
International House,
Dover Place, Ashford,
Kent TN23 1HU

+44(0) 7921 108 633
nick@fenton.net

locateinkent.com/khdg

To access support from such specialised funders, SMEs would typically pay around the following:

- Monthly Interest 0.8% - 1.2% per month
- Fees of 1% in and 1-2% exit
- Default interest once term expires of 3-5% per month

Even if we ignore fees, we are seeing SME paying 12% per year. If we factor in delays on completions due to legal process (i.e. length of searches etc) we are now seeing some SMEs paying default interest in addition to paying 100% over the market rate.

Taking this further, a large developer would be looking for a gross profit of 25%, less say interest costs of 7% before overheads, giving a return of 18%. On the same basis, if we work on 12% interest as above, an SME's return is cut to 13%. This means the SME cannot afford to purchase land at the same rates as larger organisations or cannot show the correct margin to satisfy borrowers' requirements. If the site is then delivered late through either construction or sales delays by two months, once the default interest is charged, they will effectively have only just have broken even on the development.

In reality, this situation is even worse as specialised lenders are look for 25% interest or 50% of profits, with SMEs still queuing to take these deals as there is little alternative. The funders also want the developer to put all their money in first, with the funder themselves taking out their money first, leaving the developer to pick up what is left. For equity, SMEs will only get typically 70-80% of their costs covered and the remaining balance is funded by them with some equity investors then asking as 100% return on their investment.

It is worth adding that Tier 1s are of also able to use High Street Funding at very good rates due to their reputation and order book. In addition, the criteria and level of due diligence required for CBILs loans and funding through Homes England inhibits the smaller developer.

First Floor,
International House,
Dover Place, Ashford,
Kent TN23 1HU

+44(0) 7921 108 633
nick@fenton.net

locateinkent.com/khdg

KENT HOUSING & DEVELOPMENT GROUP

6. Other Business – Wider issues if there is time

There are 3 other issues mentioned previously it would be good to touch on if time:

- Allowing grant on the affordable housing provision required by S106 requirements on all schemes <75 homes - now even more urgent with the withdrawal of the small sites threshold (**Brian Horton**)
- Maximising local employment from local development (**Nick Fenton**)
- Tier 1 developer mailings/updates – would it be possible to add us as Developer Groups to MHCLG mailings please (**Mark Curle**)

I hope this is helpful and look forward to speaking on 15th.

With best wishes.

Yours sincerely,

Nick Fenton   Mark Curle   Jonathan Buckwell

cc Kent & Medway, Essex and East Sussex Leaders, Chairman of the South East Local Enterprise Partnership (SELEP)

First Floor,
International House,
Dover Place, Ashford,
Kent TN23 1HU

+44(0) 7921 108 633
nick@fenton.net

locateinkent.com/khdg