

Annex 1

Future Housebuilding Strategy [Working Title]

West Midlands - A Leading Region for Future Housebuilding

Summary Paper - For Discussion and Comment

The national picture

At a national level, the Government has set out a clear plan for the construction industry to fully embrace the building of energy efficient, resilient, zero carbon buildings and the plan is to ensure that this happens through planned changes to Building Regulations in 2025 (the '*Future Homes Standard*'). It has also supported the momentum towards new building techniques through explicit requirements which it has imposed on major funding programmes such as the £12bn Affordable Housing Programme. It has also encouraged this further through recent Devolution Deals with Greater Manchester and the West Midlands.

Many of the largest housebuilders and investors in UK real estate are exploring, in detail, radical changes to their models of building to address the climate emergency and to ensure that they are prepared for the legal changes we now know are coming in 2025. More broadly, investors (especially those in build to rent market) are telling us that investing in high energy efficient buildings aligns with their corporate net zero targets is becoming an essential criterion which their boards want to see before investing or developing a scheme. Many schemes securing planning permission in 2023 will not realistically be built until 2025 so they need to start preparing now and we need to help and support the industry to adapt. All of this points to an opportunity for the West Midlands.

Our ambition for the West Midlands

In the West Midlands, we have had a strong ambition since the formation of the Combined Authority to be at the forefront of the net zero and modern methods of construction agenda - exemplified by the AMC and Zero Carbon Homes Roadmaps and our encouragement for schemes through our devolved funds programme which embrace those ambitions e.g. Icknield Port Loop. We don't want to be left behind especially as we can now see the clear benefits and risks of not being ready.

This means that we need to support and encourage research institutions, builders, developers, investors, local authorities, contractors and all parts of the supply chain in the West Midlands real estate sector to adapt and innovate before the national regulations come into force. **Support, certainty and clarity from the region is the continuous feedback we have received and hence this Future Housebuilding Strategy.**

By supporting an accelerated pace and using our devolved funds and strategic partnerships to support that request - **with a clear aim to achieve the Future Homes Standard ahead of 2025 wherever possible and practical** - we can

support the industry in being prepared for the national regulations, take a phased approach and also be better equipped to deliver long-term aspirations. At the same time, we will be helping to create better, more energy efficient homes for our residents and a more sustainable, long-lasting supply chain.

We've always been ambitious in the West Midlands, especially in the Housing and Land Portfolio, and our achievements have been significant. The Deeper Devolution Deal 2023, the 2018 Housing Deal, the new West Midlands Affordable Homes Programme, the £20bn Investment Prospectus, the West Midlands £1bn Brownfield Regeneration Programme, the Public Land Charter, Skills Plan, Plan for Growth and the 2041 Regional Net Zero Target all set out highly ambitious goals for our region which help us to:

- Deliver an ambitious supply of new homes across all tenures to meet local need (continuing to average at least 16,500 homes per annum to 2031)
- Deliver more affordable homes (with WMCA's *minimum* target of 20% and overall average across schemes with our funding now approaching 30%)
- Grow the economy by £3.9bn and creating up to 45,000 new high value jobs by 2030
- Secure new strategic partnerships and maximise the existing ones e.g. the £4bn investment commitment of L&G, the £2bn investment commitment of SEGRO and the 10,000 new homes commitment of Lovell Homes
- Upskill the existing workforce, underpinning productivity growth and net zero attainment
- Secure new capital investment in residential and commercial property, manufacturing and technology capabilities and supply chains
- Regenerate hundreds of acres of contaminated brownfield land
- Drive the circular economy regeneration of land and building assets including measures such as ambitious public land disposal and re-configuration
- Support town centre regeneration and re-purposing
- Decarbonise new homebuilding as well as the wider economy.
- Create build resilience against climate impacts.

Implicit in all of these is the **region's ambition to drive inclusive economic growth** and wider environmental and social outcomes through innovation in the construction industry and, in particular, housebuilding. This ambition is set out in our *Plan for Growth*, the region's medium term growth strategy which identifies the '*manufacture of future housing*' as one of eight key growth cluster opportunities for the region, with the potential to add 3,700 new, high value jobs to the West Midlands economy.

The construction industry has one of the highest economic multipliers of all industrial sectors – nearly £3 value add for every £1 spent – so supporting its potential can

deliver real benefits. It is essential for our regional economic policy that we leverage this opportunity and ensure a 'fit for purpose' housebuilding sector.

The challenges we face

We need to be upfront - the UK's construction industry faces unprecedented challenges and the context and drivers for change, as set out by Cast Consulting, are stark:

- We have lost 11% of the UK construction workforce in the last 3 years through ageing and reduced economically active participation
- 1/3 of the construction workforce is now aged over 50 and the average age is increasing
- Many physically intense trades have a majority of workers planning to retire at 55-60 years old not at state retirement age
- Site and wider industry productivity has actually reduced since the pandemic
- Lower productivity, accompanied by wage inflation due to shortages, is not a long term economically sustainable proposition
- Societal change is leading to a smaller talent pool choosing construction as a career
- Regulatory change relating to both carbon and safety is forcing more difficult technical and quality compliance standards which much of the industry's reducing workforce is unprepared to deliver at scale.

We must also address the huge existing stock retrofit challenges and make it a scalable commercial proposition.

The pivot towards more advanced methods for building homes has been slower to emerge than anticipated. In the last 12-18 months, the combination of a growing realisation of the extent of workforce erosion, investor demands around net zero and the likely implications of the Future Homes Standard is starting to force major national housebuilders to review their construction strategies. Many have publicly embarked on building varying degrees of vertically-integrated factory capability. The drivers in these businesses are resource scarcity and carbon i.e. formally linking Advanced Manufacturing in Construction/Modern Methods of Construction (AMC/MMC) with the ability to deliver higher-performing homes, in bigger numbers.

A West Midlands regional agenda which does exactly this - in other words, formally links advanced methods of construction and the decarbonisation of housebuilding - can therefore increasingly be seen in the context of mainstream acceptance by industry.

Our strategy will **help 'non-traditional' forms of construction become mainstream, accepted approaches** supported by capable regional supply chains and skills. It will also **help to reduce the cost of compliance as scale, familiarity and productivity reduce any interim short-term premium** over business as usual.

We have seen this happen in other sectors over time, not least renewable energy technologies. Industry experts, Cast Consultancy, are reporting that the true net extra over cost of implementing advanced methods and higher carbon performance targets is reducing as the cost of delivering '*business as usual*' construction is still inflationary and defects and errors in traditional build are increasingly commonplace.

Also, we ought not to forget that downstream performance benefits of higher build standards, such as **lower energy bills for occupiers**, is also starting to have a positive impact on market values, rentability and saleability. This will increase as investment funding, mortgage finance and other sources of funding start to demand better performance as part of their environmental, social and corporate governance mandates, albeit it is difficult to quantify. With the current headwinds in the mortgage market, creating safer, warmer, better constructed homes will give mortgage lenders greater confidence in their investment.

The need for strong leadership

Although the Government has recognised the need for the sector to reform, it is also clear that this needs strong and clear regional and local leadership. The industry remains traditionally cost conscious and focused on the near term in its thinking. The emerging uptake of new advanced building techniques and low carbon building delivery in the West Midlands can only be accelerated and scaled up if we use all the tools and powers secured by the region through its devolution and funding deals with HMG, most notably the recent Deeper Devolution Deal of 2023.

Public land supply, affordable housing funding, brownfield funding, levelling up and investment zones, strategic partnerships and the use of best value procurement tools all help to level the playing field, help offset the short-term additional costs of innovation and think strategically about the longer-term benefits to the region of going ahead of national technical standards. A strong partnership between regional/local government, industry and academia, with regional government setting the pace will help the industry to achieve its full potential.

We are also building on previous achievements. The West Midlands already has a national leadership position in brownfield remediation through its National Brownfield Institute and multi-million-pound brownfield regeneration programme. It has the ability, now, to augment this position in the areas of advanced manufacturing in construction and net zero housebuilding.

And the West Midlands can't stand still. London is already setting carbon standards ahead of national standards, including embodied carbon requirements, as are the administrations of Scotland and Wales. It is expected that Greater Manchester will do the same as part of its '*Truly Affordable Net Zero Homes*' commitments, and Liverpool City Region is also developing plans to decarbonise housing and promote housing manufacturing delivery and skills.

The specifics of our strategy

The first point to make is that our strategy deals only with building fabric. It does not deal with wider sustainability considerations, all of which we recognise and support,

and which are addressed in other WMCA and/or local authority strategies, local plans and policy documents. Our Future Housebuilding Strategy has been developed from our previous work on advanced manufacturing in construction and zero carbon homes. As such, the strategy deals specifically with the physical fabric of new homes and does not address the many other matters that help us to create a truly sustainable environment – so we acknowledge that we need other tools in the box to help us deliver our other ambitions holistically.

The specifics of our strategy aim to achieve ‘first mover’ advantage and go slightly ahead of national Building Regulatory changes as an economic, social and environmental imperative for the West Midlands. It does so in a **phased** approach to ensure that we do not create any negative impact on viability or deliverability of schemes already in the pipeline and those moving through the planning and delivery system. We are acutely aware of the need to avoid unintended consequences and we will aim to flex the strategy to suit the different challenges and opportunities of both large delivery partners and SMEs.

We are also **planning a performance-based approach**, not a method or material prescriptive approach, so that we are as inclusive as possible to all supply chains. A **phased incremental approach** is at the heart of the strategy and is rightly advocated to provide **certainty and clarity** to industry partners on the end point whilst allowing a planned transition over time.

Whilst there will be higher upfront investment to negate short term sensitivity around capital expenditure, the clear evidence from Cast Consultancy and leading industry players, however, is that **application of the new standards will more than pay back** as local supply chains transition and emerge, workforce capability is developed and as housing value better links to higher performance standards.

Our leadership in advanced future housebuilding will help us to achieve our bold economic, social and environmental ambitions. The net short term capital investment at this stage, according to Cast Consultancy, is expected to be some £10-£15k per dwelling. However, as capability builds, economies of scale in the use of new technologies emerge, and the systemic labour and skills shortfalls drive increases in traditional construction costs, the analysis shows that gap falling, potentially to zero, by 2030.

There are clear and current examples showing prices falling as capability builds (as has been seen with Passivhaus roll out in Exeter) and economies of scale through industrialisation (exemplified by the recent Top Hat/Persimmon partnership).

The West Midlands strategy therefore places the region at the vanguard of a wave of change in housebuilding over the coming decade, and in doing so it will give our local supply chain a significant first mover advantage in growing capacity, capability and to scale the technical solutions that will be required nationally in the coming years.

Conclusions

WMCA's bold steps will pave the way for others, creating the realisation that change is not just possible, but necessary to deliver a better, brighter future. It will also allow local authorities to justify their own asks in relation to future housebuilding, empower developers and investors who are already on this journey with us to have more confidence to invest in the region, protect those who are slower to adopt change, tackle the inevitable shifts in the supply chain to ensure their longevity, and embolden residents to demand more from their housebuilders. WMCA is embracing its role as a facilitator to shift the needle on this agenda and best support the region, its local authorities, businesses, developers, and residents.

Put simply, this is an investment in safeguarding our future prosperity and industrial capability that we cannot afford to ignore.