

Episode 260

What's the difference between a self build and a development? – with Mark Stevenson

The show notes: www.houseplanninghelp.com/260

Mark: So I'm Managing Director of Potton, but before joining the business I used to work for house builders and developers. I spent most of my career working for them. I spent ten years as a Construction Director, so for my specialist expertise I'm probably more au fait with how to build buildings, how to manage building sites, than anything else. And then seven years ago I joined Potton and now focus on helping people build their own homes.

Ben: What I'm hoping to do is transition from a self builder to do a small development. It'll be quite different from a lot of developments in that I'm hoping to build a low energy scheme and try and demonstrate that there is a need and a want for that out there, and still make some money. So today, I'm looking to bridge those two things. So what is self build to begin with? We'll start with that. I know the answer but how do you define it and your work here at Potton?

Mark: So self build isn't self-building. It's self-commissioning. It's much more about commissioning a house. Very very few people, if any, build their own home themselves. What most people would do that's working with Potton and the majority of the market, would self-commission, they may take the risk of buying the piece of land in the hope of getting permission, and then building a house that they've commissioned to meet their needs. The actual construction work would be done by a series of contractors or a main contractor or a project manager on their behalf. So, very few people self build, so it's probably a misbranded industry in some respects.

Ben: And the label custom build, is that looking to take over what this means, or how does that fit into the picture?

Mark: So the intention when custom build as a term in our industry was created, the government wanted to re-brand self build. And really wanted to move the sofa self builders – the people that were

watching the TV programmes, reading the magazines – that didn't have the confidence to go forth and buy a piece of land and risk getting planning permission or have the fear of building it themselves. They wanted to try and explain to the market that you didn't have to do all those things. The planning permissions could be put in place on plots beforehand, builders are on hand to be able to build houses on your behalf, and therefore all you need to do is customise the house. Just bring your own personality to the individual design that you want and everything else will be done for you, and that's where custom build kind of came from.

Ben: And how is that doing in terms of popularity?

Mark: There's a big demand, but I suppose it's been held back by the lack of industry at this point in time. The house building industry is full of speculators, people and organisations that find land, get a permission, look forward and speculate on what might be saleable and then they build that product out and offer it for sale.

So most of the market recognise that as development activity. Now that we've got custom build coming forward and it's an obligation that local authorities have to help satisfy the demand for custom build, developers are starting to turn their eye and say 'well how can we satisfy that requirement'. And maybe package companies like Potton are starting to turn their businesses to position them to help those individuals and move custom build schemes forward. But that's one step at a time and it's starting to emerge so we've had no real massive traction yet. That's to come in the future. But the opportunity is certainly starting to evolve. And that's been driven by the 40,000 plus people that have signed the self build registers. So at some point in the future that's going to become houses built, you would hope.

Ben: Is there a slight blur in this line between self build, the misnomer, and custom build, and where does one go into the other one?

Mark: There's lots of blurred lines! The whole thing is blurred, that's the trouble! I think we all bring our own perceptions of what each one of those things are. I'm probably as close to a self builder as you might find because I would get my tools out and build my own house, as well as working with trades. But someone else that might say 'I'm going to self build a house' would only have commissioning trades in their mind and wouldn't recognise what I am.

And that's no different when it comes to custom build. I think because it's such a new brand in its infancy, people are making

their own judgements about what it is. And the industry that is emerging have got all their own little versions, their own little business models, and therefore there's a mixed picture out there, so it's very blurred.

From Potton's point of view, we will help landowners move their land forward and say 'here's a plot, what house would you want to build on there?' But maybe another business would do it in a slightly different way. They might say 'here's a plot and here's five houses to choose from – which one do you want?' They're both custom build, but one has a lot more choice than another and that may be welcome or not, depending on what your inclination is as a customer.

Ben: Now, is self build the best way to get the home that you want?

Mark: Not necessarily. I think it really depends on you as an individual. And it depends on how customised you want that house to be. It may be the case that if you're very particular, you want something very unique, very individual and maybe a really high performance that's not ordinarily available in the market, it's the only choice. And therefore someone may choose to go down that route because it's the only way to get that individual house.

But if there is a developer out there that's working in your area that's creating a house that by chance ticks every one of your boxes, and the quality is very good, and some developers have an exceptional quality, maybe not all the developers do, but some do, then that's equally just ticking your boxes so why is that not just as acceptable?

The reality is, as soon as you start to personalise you end up with the problem that what you want isn't available in the market, so you've got that challenge to how do I find what I want and how do I get that house built?

I believe that if customers come talk to builders and developers much earlier, and actually say 'this is what I want, can you provide it?' I think we'd be quite surprised particularly with some of the small builders that they say 'yes, of course I can, I just need to think a bit differently.'

Because actually when you get back to speculative development, it's quite a risky prospect, because the developers, are having to make decisions about what someone might want to buy in the hope that they'll buy it at the end. And therefore that's risk. Now if they

could figure out what someone wants before they've started laying the first brick, and build exactly what someone wants and therefore guarantees a sale, why would they not want to do it?

So I think there's going to be a merging of minds here at some point in time. There is more choice than self build. There is custom build, there is just working a bit differently with developers and looking at how developers work differently to reduce their risk, and that's to give customers what they want.

Ben: Risk is quite an interesting word. We'll come on to speculative in a moment. But what are the risks of self build and custom build?

Mark: Well it depends on what point of the journey that you're on. And that risk changes as time goes on.

The biggest risk by far, which is completely manageable, is the risk of securing a planning consent. So I would never, ever, advocate that someone went out there, found a piece of land, bought it and then tried to get planning, because that's a really, really risky kind of approach to take. What I would say people should do, is go out there and identify a piece of land, secure the rights to buy it with something like an option, then go and get planning permission, and then once planning permission has been secured, complete on the sale. And the difference between the two, the first one is really risky. The second one, you may be only risking three or four thousand pounds in putting an option in place and getting planning permission. Therefore the same problem is nowhere near as risky.

So from a risk point of view in self build, it's all manageable. It's about the choices you make in how to limit your exposure to those risks, and make sure you've got a way to get out of a problem without it becoming too expensive too quickly. So I don't think self building is actually that risky, if managed properly and managed professionally.

Ben: With most self builders, would they buy a plot with planning permission, or I suppose at that point when you've got an option in you've effectively done the same thing haven't you? That you've got planning permission?

Mark: I think most self builders would start with a piece of land that's got residential status attached to it. That might come in the form of maybe an existing house that they've demolished and rebuilt. It might come in the form of gaining the consents by the landowner

and then selling that plot off with a consent for something. But generally speaking they would have a consent with it.

I do come across some people that have gone out there and bought maybe a field, a paddock, and then said I'm going to build a house on it, and luckily they're in the minority because that's only ever going to be a home for a horse. So you shouldn't do those things.

So generally speaking, most people would start with something that's got a residential status attached to the land, even if a house does not exist at this point in time.

Ben: What is a speculative development?

Mark: So a speculative development, this is what developers do, and what they're doing is trying to predict what someone would want to buy at the end of the whole process of acquiring a piece of land, securing a planning consent and building out a house. So the speculative developer is making all the choices about what someone might want, how the house should look, how it should function and form, and how it should perform, and in doing so they're trying to maximise the value of that asset, that property that they've built, in the hope that they can sell it and make a profit. So they're speculating on the value, speculating on the profit, but that's only realisable at the point of sale when everything is finished. So it's got quite a lot of risk involved in that process.

Ben: And this can be someone very small scale, right up to the volume builders?

Mark: Absolutely. You can be a speculative developer and build one. As soon as you say 'I'm going to develop a house in the hope of selling it for a profit,' you are now a speculative developer. You are no different to someone like Barratts. That's exactly what they do, but they do that at scale and therefore have bigger margins and bigger profits to make because they've got the economies of scale to their advantage.

Ben: What is that profit margin then? Where does it start and where does it finish, and why?

Mark: Well, that's a good question. It can be, well anything with a positive in front of it is preferred. It needs to have some return to be a profit. We don't want developments, speculative developments to turn into negatives.

And it's very wide ranging in truth. It could be from, it depends on how you measure profit to start with. I like to think of profit as what I've got left when everything has been paid. Every cost involved in the process. So the bit that I get to keep that no-one else has a draw on. Generally speaking, the local authorities when they're assessing developments, would be anywhere between 15% and 20% as a return that they would happily allow you to make that as a developer, before they start to impose taxation through the delivery of affordable housing. The exact number will depend upon the scheme and the demand, how sensitive the scheme is.

So there's lots of different intangible considerations that go into assessing what the profit should be, but it would be somewhere between 15 and 20%.

Of course, as an individual wanting to make a bit of money, you might say well I've got no overheads so I can make a bit less. But if you're a big developer and you've got a big overhead to pay, you've got all your offices and your staff to pay, then your return needs to be more. So they're going to have to push a bit harder and may take decisions in the development process to maximise that profit to sustain that business. Whereas an individual has a few more choices to play.

Ben: How do you hit that number then? 15%, 10%, whatever it is, how do you make sure that you get that?

Mark: Well the first thing I would say is if you're going to be a developer rather than a self builder, you've got to take emotion out of the whole thing. Development is about a systematic approach to making the fundamental choices that maximise value and reduces your risk. And in doing that and controlling your costs, you make sure the return is as large as possible.

As soon as you start to become quite emotional about that decision making, you might start to incorporate things that you might like, but someone else might not like, might not want, or might not add value to that house. So for example, I might love to have, I don't know, piped music as we used to refer to it in the good old days.

Ben: Great example!

Mark: I'm taking you back now Ben! So lots of high-tech stuff that you might want in a house, but then if it were my mum and dad wanting to buy the house they'd say 'I don't want any of that stuff, I don't

understand it, I don't want it.' So they wouldn't give you any value for it. So what you've got to be really careful about is making sure you've got a keen eye on what the value is that you can get back for that product, and making sure you offer the products, the content, the functionality of that house, that someone will give you that money back for. If you can't get that money back then why are you offering.

Ben: Well I was going to say that this is almost a real life example of what I'm trying to do here, that I want to build a Passivhaus and ideally my starting point would be to use materials, particularly straw bale this time, I've been through a number of different build systems on the projects that we followed. So, I need to assess that there's a demand for that, so how do I do that?

Mark: Well you can only market test. But what I would say is there is always a demand, but there isn't a demand that would give you a better price. Unfortunately the consumers in the mainstream house buying market, and the mainstream being buying from large volume developers, some of the large volume developers build something like 190,000 houses a year, and then we've got the second hand housing market as well, and all those products are fairly basic in their performance. So at best a new build typical house builder house would be compliant with building regulations. It wouldn't be anywhere near passive. So while market is kind of conditioned to accept that the house is not necessarily a great performer, so their decisions to buy are about location and functionality rather than performance in the main.

What we do find, we find exceptions in the market. So people like you Ben. So if you weren't capable of building your own house you might be in the market wanting to buy a Passivhaus. But the reality is there's only a few thousand of those people out there looking for that product, and can you find that person in the area that you've got a plot, with the architectural design that you're wanting to offer? And if you can find the happy medium where all that comes together, great, you've got a fantastic sale, you're going to make lots of money. But it's so many variables that don't play out just as you want them to be, which means that you struggle to find a buyer for exactly what you've created.

Ben: You've mentioned things like location, and I would totally agree with you there that it's what's available where you want it. So theoretically if there's not that much choice in a given area and the price is still good, the people are going to buy it regardless of if they're not looking for that. I don't know. Maybe that's a bad thing

that they're not looking for this, that they might get a bit of a shock when they move in, but I suppose it's all fairly low tech, but do you see what I'm saying?

Mark: Yeah, I think the house builders have realised and they've known this for quite a long time, that most of their customers probably live within three to five miles of the development site that they've got. And therefore why should they make that much of an effort when they're the only development site within that catchment. So they're only inclined to build to the lowest cost building regs compliant performance, they don't need to go the extra yard. If someone needs to move house to find a bigger bedroom and a more modern house then they'll buy anyway, so there is no point in investing more. From a developer's point of view you're chucking money away. So in their business model you just would not do that. So they'd just buy anyway and I think that's where we don't capitalise on the value created by the fact that living in a Passivhaus can save you tens and tens of thousands of pounds over many years of living in that house. We don't seem to see, as a house-buying nation, the value that passive houses and high energy homes can deliver.

Ben: This seems to be the challenge isn't it, of marketing out there, unless you're someone who is quite well educated and you've done your research, you're not necessarily going to see the benefits from one person who says eco-homes and probably it's got nothing on it, and something else that people understand.

Mark: Yeah, yeah. So the marketing message is really key. If you're going to go out there and do that Ben, build a Passivhaus, you would not necessarily market it as a Passivhaus. You might market it as an individually designed house with zero energy bills. You try and pull on what a consumer would actually want and would want to give you some value for. So I think all of us would sit there and appreciate that actually having next to no heating bills all year is a fantastic thing to have, so maybe I would want to give you a little bit more for that house. But if you said to me, 'this is a Passivhaus,' maybe most of the house-buying community wouldn't even know what Passivhaus means, and therefore that term just washes straight past them and they don't see the value and the benefits that that could bring.

Ben: But you do something really clever here, and we're actually sitting in the Milchester at the moment recording this interview, you let people walk around some of your products. It's not saying they're going to have the exact same thing, but immediately, and this was

important for me getting the interior design right, it's those things that make you believe it's going to be a great home. So I'm not saying I'd ever be able to, or not straight away get into this sort of position, but that's a really good marketing ploy. Because I would say that if most people went to check out a show home, yes it would have fresh flowers and all the rest of it, and perhaps a glitzy kitchen, but it's not going to show as much the choice, the range.

Mark: Yes. What we really want to achieve here is to start getting people asking themselves the question of how do they want their home to function. This centre should be a marmite thing really. You should walk into one house and absolutely fall in love with some aspect of it. Not necessarily the whole thing, but you might love the kitchen and you might hate the exterior design, that's okay. That's absolutely exactly what we are trying to provoke. Because by having the diversity and the mix of houses, you might walk into another one and say 'I love this lounge and I like how it looks outside,' and you start to mesh the ideas and the concepts together. And in doing so, by doing it kind of real-time, by walking around the physical property you can start to understand how you could commission something that's all about you and your family, and deliver something that functions in the way that you want to behave and live together as a family. And that's just about spaces and how things work.

Ben: I was going to say, I've sent a lot of people your way because one of the things that you do when you get here is you show all the floorplans. Why is that useful? Because it shows you how big every room is, so you can almost pick and choose what spaces you want, and then you think well hold on, this is a bit too big, this is exactly the right size, and I think that's very underrated because you can get carried away looking at architect's plans and not have a clue what it means!

Mark: Yeah, I think being able to sit in a room and absorb the surroundings and then reflect on how it works and how you would work together with the family, I think is absolutely paramount in deciding how to design a home that meets the family's needs.

I don't know how you would design a home without doing that. I suppose you're giving over the creative choice maybe to architects who are making those decisions on your behalf. And I don't know how they could ever get that right. They might have some fantastic ideas.

Ben: Through experience. A good architect hopefully should be able to hone in on the client. That's what makes you good.

Mark: It's all about the brief then.

Ben: Yes, yes.

Mark: Because an architect is only as good as the brief that's given to them. A poor brief, I don't know how the best of architects can respond with the right answer. With an absolutely spot-on brief, most architects can answer with a good answer. And Potton are no different. This centre is about helping you craft the design brief that you want, so you can come out of this centre and say 'I'd love a lounge like this. I'd like some of these features in there. This is a good aspect that...' All those subjective attributes that you might not have thought to write down, you would all of a sudden start to trigger as a result of being in the spaces and reflecting upon those spaces. And I guess what we're trying to do is make sure the brief is as good as possible so we can respond to those individual needs.

You've got to remember as well that in having an individual house, there is no right or wrongs at any point through the process. If a lounge should be square, rectangular, long and thin, double vaulted, none of that is right or wrong. It's all about you and how you want that lounge to function. And the same with the kitchens and the bedrooms etc etc. It's not as though we're trying to pre-empt and say 'this is how it should be.' We don't want to do that. We want to provoke your mind into making the choices that you say 'this is how I want it to be,' and that's a big difference.

Ben: Just going back to self build and spec developments then. So what are the key differences between the two. We've probably mentioned a bit but put side by side.

Mark: Well, self builds are driven from a personal point of view aren't they? They're about you, they're about individuality. They're about making sure that you deliver on what you're trying to achieve for your family, first and foremost.

Speculative developments, yes it's a home, yes it's a house that's going to be built, but actually you're not going to live there, so it's a business proposition. So you're trying to second guess what someone who might buy it might want. And in doing that, what you're trying to do is appeal to certain types of individuals that might offer you a bit more money to arrange profit margins.

So it becomes about a set of business decisions, based upon the same kind of criteria that you might consider as a self build, but actually, the reason the decisions you make in a self build is about you and your family. You'll invest, you'll spend whatever you feel appropriate to spend and that's the right answer. Whereas in a speculative development you will say, well actually will I get my money back, is there a profit margin in there and why would I want to offer that. We're all individuals and maybe not everyone would want to live in a house that I would ideally want for me and my family. And therefore can I sell it if I built another one of the houses that I'm just about to build and I'm building at the moment? Possibly not. I'd have to think about the market, the demand and making sure I satisfy that because a development is only successful once you've sold it and sold it at a profit.

Ben: That was going to be one of my questions is, what makes a successful spec development?

Mark: For me, the fact that someone's come and bought it, and given me the price that I would need to then go forward and do another one. It needs to reflect the effort, and the reward needs to reflect the effort. It certainly needs to cover the risk, but it certainly needs to be saleable.

And I think sometimes in the need to be probably a bit different, some of the new developers, small developers, forget about the saleability. They might go a little bit too individual. Maybe building a glass box or a rocket ship or something that the market is probably not generally ready for. That's not to say you won't find a buyer, but you'll just take a lot longer to find a buyer that's prepared to live in the rocket ship dream that you had as a spec developer.

I think it's great to be individual, it's great to push boundaries, but I think as a developer you need to also have a little bit of safety, appeal to the mass of the market a little bit more. And that's all about economics. It's about raising the value, because the more people that want the product you've built, the more you'll get for that product. It's as simple as that.

Ben: So does that mean that more houses will tend to take on traditional aesthetics, appeal to whatever the nuclear family is these days, or do spec developers really cover the whole length and breadth of people that are in the country?

Mark: I think it's exactly why we've ended up with a sterile development environment. Because the four bed executive house with a central front door and four windows, someone's worked out somewhere that that can be built at the least cost and the maximum return. And therefore we end up with the same thing built on every site, on every street etc etc, because it's run by the business model.

And I think this is the middle ground where custom build is going to succeed. It will succeed and it'll succeed because it's meshing the two together. It's meshing the individuality of self build and it's enabling developers to think differently, and rather than I suppose taking the risk of trying to speculate what someone might want whilst trying to maximise profit, they don't have to build the four bed detached executive house. They can maybe wait and ask the customer that bought the plot exactly what they want. So then if they want a double storey lounge in there that's circular, they can have it.

And it removes the speculation, and therefore the developer can name the price and the customer can say what they're prepared to pay, will have a negotiation and they'll build out what each of them are quite happy to do. So I think that middle ground is going to certainly change our dynamics of the development industry I think.

Ben: Do you think the general public are changing at all in how they look at new homes? Because I keep track of quite a few housebuilders and there are a lot of complaints and things, and you just assume that eventually people would get the message don't buy those sorts of houses. Do a bit more research, but it never seems to happen.

Mark: Yeah, I think the reality is for a lot of people is what's the alternative? So they'll probably sit there, another child on the way, they need the fourth bedroom or the third bedroom and they need to move house. Busy people, busy lives, haven't got time to buy a second hand house and spend the next six months doing it up, and the only alternative out there is the development estate down the road which has been made very very nice and convenient. It's got the extra bedroom, it's a good price and they'll do a part exchange and they'll pay all the legal costs and it's very very convenient to go down that route. And that's why that continues. It's about convenience. We're busy people and for a lot of people it's about the convenience of moving your life on.

I think for some of us the convenience is not always the big issue. I actually like building houses using my own tools, and therefore I'll put myself through some degree of inconvenience to get what I

want. I actually enjoy the process which is really good, but I think a lot of people suffer the self build process in some ways to get that individual house at the end of it because it's the only way to get the individuality. Because at the moment in the market place most of our new houses are built by developers offering a very convenient, safe product that doesn't quite offer what everybody wants but actually it is what it is.

Ben: Is quality always going to come second to profit when it comes to speculative developments, or can you give examples of where quality works?

Mark: No, it's not. It doesn't take long by doing a bit of market research and going out there to look at what all the different developers are doing. Some developers at the bottom of the market actually quality is a secondary thing, and there are those people out there now. I won't name them, who they are. But at the top end of the market, people like Barratts and Crest Nicholson pride themselves on producing quality.

I used to work for a developer called William Davis in the Midlands, and quality was everything about what we did every day. We would absolutely be doing everything to get it right. But because we were building volume we didn't always get everything right all the time. So there is a reality for Barratts in building 18,000 houses, that there will be some things that don't go according to plan. But the intent of that business from my experience working with them as a supplier to that organisation, and Crest Nicholson, they want to get it right and they're striving to get it right. And they go through the HBF five star house builder programmes and they engage with NHBC, but they are building a lot of houses all the time.

But you do get developers that don't have those same virtues, those same principles, and therefore would compromise on quality. I think some of the quality issues we have are probably more about some of the decision makers in the development process, aren't necessarily the right ones.

So for example, maybe a quantity surveyor employing a sub-contractor to do a job at work is more concerned with price than the quality that is being out-turned. And maybe some of the developers would be well advised to think about well who's making the decisions, and how are those decisions being made and who is being employed, and how are we specifying what materials want to be used and how they're being completed.

And I think some of what they do might change slightly if they did that, and that's just probably my specialist expertise looking from outside in, because I used to spend a lot of years working for them and can probably appreciate some of the challenges they have as big organisations.

Ben: And finally, is there any advice that you can give me in this quite early stage of just learning more about spec developments and with a goal to tackle a small-scale development? Anything else that could be added to this conversation?

Mark: I think if you're going to go and do it, then you need passion. Passion is key, because passion carries you through the weight of the work that needs to be done. You need to really want to do this I think to do it well. Anything you do well usually is driven by passion. So keep the passion, but don't make it personal.

To be a developer you need to be almost impersonal. But you need to have an eye on what the market wants. So the more market research you can do, understanding what kind of things people want and how you can incorporate them into a house.

Some advice I gave to a client recently, they were thinking about doing a development and I advised them to go and get all the estate agents in. They were a fair sized development for this client, and talk to them and say well what houses do people want to buy that they can't buy because they're not supplied at the moment. And the answers were amazing, because they don't usually get asked those questions. So the kind of open plan living and storage and things like this. Those kind of features were starting to come out much more.

So the more market research you can do about what the local market wants, and then build those features in and then make it clear that those things are available in the house the better, but just don't go off on a leap of faith that your beliefs are the ones that everybody else should have, because it's not necessarily the dream that everybody shares that you might have.

Ben: Mark, thank you for all your information today. I enjoyed that.

Mark: Thank you.