

# Perspective

For professionals in the UK property market

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# Change cladding, change mindsets

The Neo 200 building in Melbourne, Australia suffered a catastrophic fire in February, bringing back disturbing memories of 2017's Grenfell Tower disaster. Mercifully, no-one was killed in the Melbourne fire; nevertheless, it is a timely reminder of how important the ongoing work to remove combustibile cladding from high rise buildings is urgently needed to develop the energy flexibility and technology for residential consumers in the immediate future.

It is almost two years since the tragedy at London's Grenfell Tower which saw 72 people lose their lives. The public outcry at the failure of both the construction industry and Kensington & Chelsea council to make this building safe – especially following multiple complaints and warnings from residents - has prompted much needed action from the government.

In the immediate aftermath of the fire, ministers set up a building safety programme with the aim of identifying and removing combustibile cladding of the type used at Grenfell from all affected buildings in the UK. Meanwhile an independent expert panel was established to advise the Secretary of State for Housing, Communities and Local Government on the immediate measures needed to ensure building safety and to identify buildings of concern.

As part of their work, ministers commissioned a review of building regulations and fire safety, conducted by Dame Judith Hackitt, which was published in May last year. She looked at the regulatory framework around the construction, maintenance and ongoing use of buildings, with a

particular focus on multi-occupied, high-rise residential buildings. The review concluded that the system was not fit for purpose and left far too much room for those who wanted to take short-cuts to do so.

Hackitt set out 53 recommendations to establish a new regulatory framework and achieve the culture change needed to create and maintain safe buildings. She warned: 'This new regulatory regime needs to change the culture and mindset of those people and businesses involved in the design, construction, maintenance and operation of certain buildings so that they take proper ownership of the potential building safety risks and provide intelligent leadership in managing and controlling those risks (rather than being told by government what to do).'

Government accepted her recommendations and identified 470 high rise blocks using aluminium composite cladding, similar to that used at Grenfell. So far, £400 million of public money has been spent replacing the combustibile panels and insulation on social housing in England. Some 289 of the high rise buildings with combustibile cladding are in the private sector and several developers – including Legal &



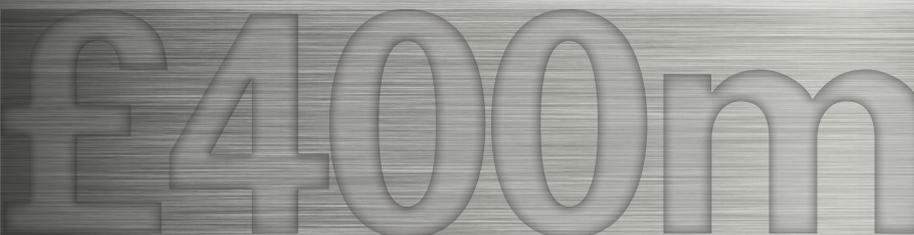
**recommendations to establish a new regulatory framework and achieve cultural change**



**high-rise blocks identified by Government using aluminium composite cladding, similar to that used at Grenfell**



**high rise buildings with combustibile cladding identified in the private sector**



**of public money spent replacing combustibile panels and insulation on social housing in England so far**

# Welcome

General – were swift to step up to the plate, taking responsibility for cladding replacement on private residential buildings.

But despite the horror suffered by those at Grenfell, many freeholders and landlords have been slow to make these buildings safe for those who live in them. After months of warnings and evidence given by multiple housing ministers, the Government lost patience. Regulations were laid in November to ban combustible cladding on the external walls of new buildings over 18 metres containing flats, as well as new hospitals, residential care premises, dormitories in boarding schools and student accommodation over that height. These became law on 21 December, but apply only to new buildings.

In a bid to protect those living in the estimated 160 buildings built since 2013 using combustible cladding, a second rule change in December also gave power to local authorities to enforce action by existing landlords. Essentially, they can now sanction private landlords for failure to strip private buildings of the cladding and enforce remedial works to their properties. Furthermore, the Government has committed additional funding to support councils carrying out work on private buildings. Even so, its estimates suggest the changes will cost developers around £30 million a year to implement. It has been a welcome move, particularly following reports in the media that many landlords were planning to foist the cost of remedial works on leaseholders – often to the tune of tens of thousands of pounds.

Next on the agenda is a full technical review of the guidance given to developers and the construction industry on standards they must adhere; the government is currently taking evidence from the industry and experts as to what this should include. (See our article on Select Committees to see the evidence of Dame Judith Hackitt).

Back in November when the Government initially published its legislation, it said explicitly: 'We want a step change: from a passive system centred around compliance with building regulations to a proactive one where developers and building owners take responsibility for ensuring that residents are safe, with stronger assurance provided by a tougher regulatory framework.'

There are those of us in the industry committed to ensuring that everyone living in the UK is living in conditions that provide for their safety. But clearly, there is still work to be done and culture and attitudes take time to change.

The size of the challenge is as immense as it is urgent. Change in this context is about more than managing or administrating processes, it is about wholesale changes in mindset – the most difficult change to effect.

Welcome to Perspective. The New Year is well underway and as we approach the end of the first quarter, many are bracing themselves for what is widely expected to be a difficult time.

At the time of writing, LSL have already begun a brutal branch network restructure which will see 124 branches disappear. It's tempting to see Brexit as an instrumental force in the consumers' lack of housing market confidence but as our lead article points out, forces from across the other side of the pond should concern us as much as any in Europe. Brexit or not, aging populations and technological innovation, combined with the inevitable turning of the gears through the credit cycle have as much impact on our housing and mortgage industry as any European debate.

Closer to home, Dame Judith Hackitt has been giving evidence to the Ministry of Housing Communities and Local Government Select Committee. We look at where we are with cladding and the revision of Building Regulations and why it's all taking a little longer than anybody would really like. The importance of Select committees should not be understated. We look at this force for good in our modern day politics and witness the impact of these not only in Housing but also the recent evidence given to the Science and Technology.

You would expect us to be on top of developments in Modern Methods of Construction and we look in this edition at a very specific element of policy that promises in time to drive a common platform of standards for off-site build. While policy makers edge towards greater homogeneity of build, we also look at the innovation and impact of Dutch-style retro fitting in the quest to deliver more sustainable housing. The successful pilot in Nottingham last year has resulted in the UK's largest roll out of low energy homes using the Energiesprong refits.

Finally, many thanks to Tracy Simpson, Head of Lending at the Cambridge Building Society, for her thoughts in our View from the Top.

Thank you

**Kevin Webb**  
Managing Director



# The Common's Good

Select committees have become one of the most visible parts of Parliament over the last six or seven years. Though the select committee brand itself is not always reported, they can often become “an influential cross-party body” or “a group of backbench MPs”. The work that MPs do through the committee system is some of the most important scrutiny of public policy.

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They are not without their critics and always bubbling away under the surface is the issue of committee powers—the ability to ensure they get the evidence from the witnesses they want. This issue comes to the surface every few years—Rupert Murdoch and phone hacking, Mike Ashley and Sports Direct—and revives the debate about how the powers can be enforced. There is a simple answer to that question, but not many people accept it: legislation to make refusal to give evidence a punishable offence.

Also, the pre-eminent role of the chair has become all the more important since the position was first directly elected by the whole House in 2010. This was a huge change—and, so far, unmatched in any other parliament. In a few cases, committees became the private fiefdom of idiosyncratic individuals, but that is less true in the current House. More significant is the calibre of the MPs who now chair the committees with many ex shadow and government ministers taking the reins.

On Tuesday 22 January 2019 the Science and Technology Committee heard evidence about the industry's response to the research published in 2016 about Japanese Knotweed. The Science and Technology Committee held a one-off oral evidence session in early 2019 with relevant experts, specifically to explore the science behind the effects of Japanese Knotweed on the built environment.

Witnesses included Dr Daniel Jones, Managing Director, Advanced Invasives, and Honorary Researcher, Swansea University, and Stephen Hodgson, Chief Executive Officer, Property Care Association, both of whom spoke at our last conference.

Barely a week later, a much higher profile event took place when Dame Judith Hackitt, Former Chair Independent Review of Building Regulations, attended a Review of Building Regulations and Fire Safety at the Select Committee for the Ministry of Housing Communities and Local Government. Her evidence highlighted among other issues the conflict of interest prevalent in the industry and in particular the role of private sector approved inspectors.

She expressed regret that crucial time had been lost to implement change because it took the government until December 2018 to respond to her review of building regulations. Hackitt, who published her Independent Review of Building Regulations in May last year, said the delay had caused a “loss of momentum” in overhauling the regulatory framework. Answering questions from the Housing, Communities and Local Government committee Hackitt (pictured) said while the extended wait for a response had delayed sector-wide progress, there were positive signs. Housing minister, Kit Malthouse, said the focus on remediating ACM cladding high-rise towers was partly to blame for the seven month delay in the government's response which was made just before Christmas.

These two examples highlight the importance of these bodies holding public servants, corporations and individuals to account. They are all the more impressive when you remember that the staff is often small in number. An average departmental committee, Education, say, or Health, will have somewhere around six to eight full-time members of staff, plus the share of a media officer and some access to web and publishing expertise. This makes their achievements often all the more remarkable and important.



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# Building homes like phones

That Britain hasn't enough homes is not news, but how it addresses this shortage, is. And recently, there have been some interesting developments on that front. Developing more modern methods of construction has been something the industry is broadly supportive of for several years now. Government fully embraced the role it could play as part of a wider strategy on increasing housing supply when it published its housing white paper almost two years ago.

It followed a government-commissioned review into construction headed up by Mark Farmer, founding director and chief executive of Cast Real Estate & Construction Consultancy. In it, Farmer argued that the property industry and developers in particular should embrace more modern methods of construction, applying many of the principles of manufacturing cars to the manufacturing of homes.

Mark Farmer published a report in 2016 into the UK's construction labour model entitled 'Modernise or Die'. He identified the need for innovation to solve the skills crisis, and claimed that "We have so big a challenge around the declining workforce in construction that we cannot recruit or retain our way out of it. We have to be prepared for a reducing workforce, which means we need to be able to build more with less".

Housing in the UK is largely still built using very traditional methods and materials; the nature of this construction means that delivering a fully completed home can take years. Despite significant contributions to the UK economy, the construction sector's productivity is weak compared to other sectors like manufacturing. But applying modern manufacturing approaches to building projects can boost productivity and reduce waste by as much as 90 per cent, according to government analysis. For example, a school that typically takes a year to build could be completed in just over four months.

The technology is there to deliver this. Now, two years after the Farmer review and as part of its national infrastructure and construction investment plan, the government has opened a consultation on how to improve construction methods in the UK.

Government has committed billions to support investment in upgrading Britain's infrastructure over the next 10 years. Its plan includes schemes announced by Chancellor Philip Hammond in his recent Budget, including the £28 billion national roads fund, as well as other flagship projects such as East West Rail, upgrading the M6 to a smart motorway and Hornsea Project One – the largest offshore wind farm in the world.

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To ensure maximum efficiency in building these projects MPs are encouraging greater use of more modern approaches to construction, including the manufacturing of components in factories using the latest digital technology before being sent for assembly on construction sites. The interesting thing about this consultation is not that it shows a commitment to support newer construction methods, but that it is encouraging a standardised approach across the industry. This is about far more than factory homes: it's about creating a true digital standard that would encourage thousands of companies to invest in research and development in the construction sector.

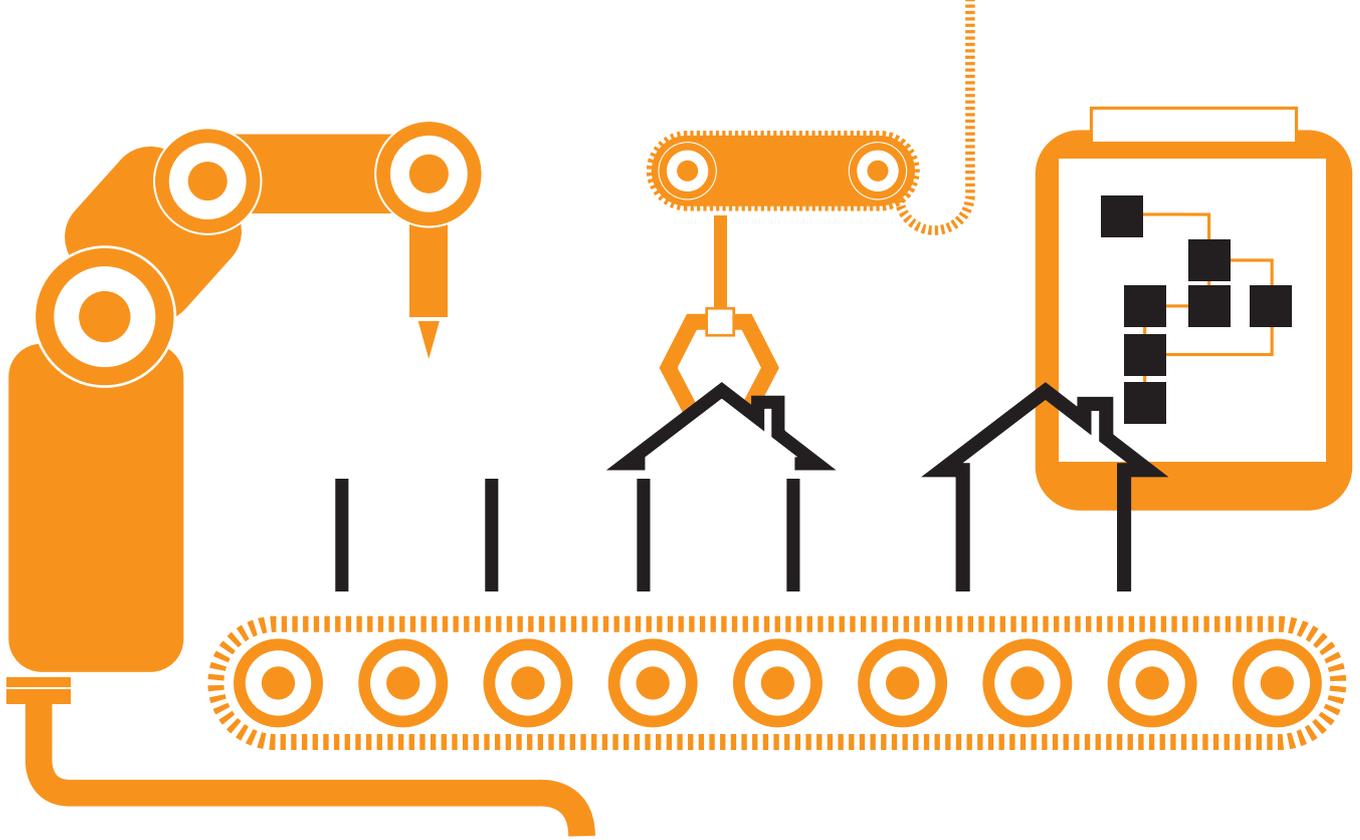
The consultation paper is clear that the industry must focus on developing a 'consistent approach to construction by using standardised and inter-operable components from a wide base of suppliers across a range of different buildings'. This would replicate the way manufacturing is done in the automotive sector where multiple car designs can use the same chassis and the same core parts.

By having a standard platform for construction, designers and engineers can invest in manufacturing different elements, safe in the knowledge that a common design code will allow those parts to be used seamlessly. Farmer has publicly supported the idea, saying: 'Creating a common platform in construction would mean standardising the 'chassis' of a building – so parts of the structure, pipes, wires, panelling and internal spaces can be mass-designed – while cladding, brickwork and elements designed by architects would still get wrapped over the top, on more of a project specific basis to satisfy planners.'

'As well as revolutionising the car industry, a platform-led approach has enabled the smartphone industry to be one of the most innovative on the planet because Google's open source Android operating system lets all manner of firms create standard apps that fit inside hundreds of phones.'

A move towards this approach to construction has the power to completely revolutionise the supply of new homes in this country, surmounting the challenges that exist today where the offsite manufacturing market has no commonality of design. A digitally led standard platform would also create real scalability in a sector that desperately needs it and cut costs in a market where house prices have got so high they are only affordable for the lucky few.

The consultation closes in February. We will follow its conclusions.



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# Voordeel door technologie (as they say in the Netherlands)

The UK has the least energy efficient housing stock in Europe yet technology offers the means to turn this around.

Amidst the noise of our current national political debate, it might be tempting to think that little else in the world can command any attention.

The truth is, of course, that while the big issues of our age may have influenced the Brexit debate, they are not contained by it. Technology, our changing demographic, climate change and the globalization of capital preceded and will persist beyond Brexit.

Sustainability remains a key consideration in policy circles. The government has faced fierce criticism in recent years for axing zero carbon home standards for new builds and cutting funding for energy efficiency schemes in a bid to reduce 'green levies' on energy bills. The move has led to a slowdown in the rate at which insulation and other measures are fitted and has prompted warnings from the Committee on Climate Change (CCC) and others that without a revamped approach to improving domestic energy efficiency the UK will struggle to meet its long term carbon targets. Many commentators believe the UK's approach to incentivising energy efficient home retrofitting has proven "incremental and expensive", highlighting the previous coalition government's Green Deal scheme, which closed in 2015 after just two years, before being sold to the private sector.

There is a real need for action. The UK has the least energy efficient housing stock in Europe. This often results in high energy bills and in the worst cases, for the poorest in our society, a stark choice between heating or eating. It is estimated that more than 3,000 people die every year due to the cold, unable to afford warm homes. Heating our homes is also a major source of carbon emissions. To meet its climate targets, the UK has an ambition to retrofit all homes to EPC band C standard by 2035. But only 29 per cent of homes today meet this standard, and the UK's current policy approach is nowhere near ambitious enough to tackle the remaining 71 per cent. In fact, energy efficiency improvements have stalled, measures are expensive, industry is under investing and householders still find retrofits a major hassle. The energy sector by contrast, where the UK has rapidly de-carbonised, has introduced new technology, which has been readily supported by policy and has made carbon reductions cheap and technically more straight-forward. Wind power, for example, is now the cheapest form of electricity generation, and provides one sixth of UK power, up from two per cent in less than a decade. The domestic buildings sector requires a similar if not greater transformation.

Research by the Institution of Engineering and Technology and Nottingham Trent University found

that meeting government targets of 80 per cent cuts in greenhouse gas emissions by mid-century would require sweeping policy change. The report's authors suggest starting with social housing, which makes up about 4.5m homes and point out that the benefits go beyond emissions savings, also including lower energy bills, warmer homes and a much-decreased burden on the NHS, which currently spends about £1.4bn a year treating conditions that arise from poor housing.

Another study by the Green Alliance estimates that more than 11 million UK homes could be suitable for a highly energy efficient, Dutch-style approach to retrofitting that could drastically slash carbon emissions, gas demand, and consumer bills. The Dutch government's pioneering Energiesprong approach to retrofitting a one step method where ultra-efficient insulation, heat pumps and home batteries are all installed at the same time - could provide a solution for millions of fuel poor homes and make a major dent in UK emissions.

The method has been widely used to create net zero emission houses in the Netherlands, and sees rapid retrofits carried out which are then paid for through long term energy savings. Green Alliance estimates it has the potential in the UK to reduce emissions by 37 million tonnes overall, the equivalent to removing 17 million cars from the roads.

The approach has been used in the Netherlands for several years now where over 1,300 net zero energy refurbishments have been carried out. Another 14,000 or more are in the pipeline, according to the Green Alliance report. The approach has also been piloted in the UK, where 10 homes in Sneinton in Nottingham were given Energiesprong refits late last year, subsequently helping to cut householders' energy bills by up to 60 per cent in addition to boosting estimated property values by up to a quarter. Nottingham is gearing up for the UK's biggest roll-out of ultra-low energy homes to date. The roll-out will help transform 155 hard to heat homes into desirable, comfortable and affordable homes for life. The new Nottingham Energiesprong pilot will radically improve 17 homes, comprising of 10 bungalows and 7 two-bedroom, three-storey houses. The properties, owned by Nottingham City Homes, are on West Walk, adjacent to the first multi award-winning pilot.

It's perhaps rather comforting to know that despite the current national obsession with our relationship with Europe, we can still get on with the business of delivering better housing and addressing some of the rather longer-term issues facing our nation.





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# *Energie Sprong uk*



# Contagion and the credit cycle

**Our Brexit dominated news agenda has meant we have become accustomed to looking eastward for clues to our future economic performance but, when it comes to our housing market, we should never forget that more often than not our own experience of the credit cycle is tied to that of the United States.**

In the last couple of months, two lenders have ceased originating in the UK mortgage market and there are rumours that as many as four others lined up to come to market in Quarter 1 of this year have been put on ice. Clearly not all is well everywhere but this news prompts a perfectly reasonable question. Are we heading into a correction in the credit markets and a storm in mortgage funding?

Wholesale mortgage funding is important for not just for the lenders, brokers and consumers who rely on it but also for retail funders as it relieves the competition for deposits. Removing it from the equation serves no-one well.

But credit cycles are exactly that. They tend to follow a ten year pattern and the direction of the broad economy and are generally considered to have four distinct phases: expansion, downturn, repair and recovery. If we turn our attention to US housing then we can see storm clouds gathering. To paraphrase Prussian diplomat Klemens Wenzel Furst von Metternich, 'when America sneezes, the world catches a cold'.

The bell weather of the global economy, the US, is experiencing a bleak housing market. The US housing market took a dark turn in 2018 as home-buying fell off a cliff and mortgage lenders saw a steep decline in applications, originations, and profits. But while many suggest interest rates are partly to blame for the slide in housing, it's only half of the equation, according to analysts. There are other fundamental forces at play. What concerns everyone is that significant housing declines have foreshadowed nine of the 11 post-World War II recessions in the US, according to UBS.

Calling the end of a credit cycle is fraught with danger. However if we remember the words of veteran investor Howard Marks that, 'most things prove to be cyclical' (the second is the greatest opportunities for gain and loss come when everyone else forgets the first rule!), then we quickly discover there have been three credit cycle downturns in the past 30 years: 1989-1990, 1999-2002 and 2007-2008.

US banks are renowned for their short memories - they are incentivised, after all, by deals. But if we cast our minds back to the credit crisis what happened in America affected everyone. That crisis unhelpfully tarred all mortgage backed securities with the same brush meaning solid performing AAA UK assets were disdained by investors as if they were US sub prime securities. Liquidity dried up because no one would trust the securities nor the Credit Default Swaps or Collateral Debt Obligations constructed from them.

Roll forward ten years and while the nervousness may have different origins, the results are feeling similar. At the time of writing the capital markets are almost dormant. It's tempting to point the finger at Brexit, but Brexit is not yet a structural change. Our aging population, over supply of lenders and diminishing transactions point to nervousness that is already in place. Some analysts have upgraded their expectation of a US recession next year by 30%.

The difficulty is that the conjoining of our funding amplifies good and bad. The herd instinct of markets is notoriously difficult to defeat. The societal response called Chicken Little syndrome, which references the story of the sky falling in, describes the instinct to infer catastrophic conclusions possibly resulting in paralysis. In a similar manner, a number of fixed-income strategists, columnists and commentators have sounded the alarm about an imminent downturn in the credit cycle.

The US is moving at a snail's pace into an era of higher interest rates but the structural realities are that, despite some promising signs of vitality during much of last year, issues that have dogged the world economy for the last decade — an aging work force in many of the biggest economies, weak growth in productivity, excessive global savings and industrial capacity, and a shortage of worldwide demand — haven't disappeared. That helps explain why US and UK workers' wages have been rising relatively slowly despite a low unemployment rate. It also explains the dissatisfaction of voters in these countries and the political decisions many have made. Low growth rates mean the economy could slip into recession more easily, and low interest rates mean central bankers would find themselves with less powerful tools to lessen the pain of a future downturn. Meagre growth sustained mostly with the life support of economic stimulus is a problem everywhere. Even in the European Union negative rates are sustaining faltering growth.

What we are seeing is that the forces that are restraining many economies are a lot harder to contend with and more pervasive than many people were hoping or believing.

It's unfortunate that Britain's housing market, because it is often financed by large US investment banks, is deemed to behave similarly to the US when UK housing is not the same residential asset class. UK land is finite (US land is abundant), property undersupplied and ownership more culturally embedded. Nevertheless, we are inextricably linked to US funding which has been instrumental in opening up our ability as a nation to own our own homes. For better and worse their sentiment regarding credit markets and asset classes matter.

**“When America sneezes, the world catches a cold.”**

Klemens Wenzel Furst von Metternich



# View from the top

Tracy Simpson, Head of Lending at The Cambridge Building Society has worked in the financial sector for over 30 years. Originally working for Barclays supporting local business in relationship roles, Tracy now works at The Cambridge overseeing Direct Mortgage Business, Intermediary relationships, Mortgage Processing and Service. Her work at The Cambridge has seen the Society expand from offering regional only lending options to providing Buy to Let lending across England and Wales whilst growing to being the 13th largest Building Society in the UK.



## What are your Society's aspirations for the next couple of years?

Here at The Cambridge we are always looking for the best way to support borrowers and savers in an ever changing environment. In the next couple of years we want to maintain our focus on achieving managed growth for The Cambridge alongside building a business that makes the most of our great people and technology and is well placed to thrive into the long term.

For us it's absolutely vital we continue to remain an expert voice that supports real people with making robust financial decisions. This means we continually listen to what our customers are saying and closely follow the changing mortgage landscape. By staying true to our values, we believe we'll remain best placed to help deliver our objectives which include helping people buy a home.

## How are you helping the various parts of the home buying market (FTB to Last Time Buyer)?

We make an effort to understand the challenges first time buyers and current home owners have. Through frequently reviewing and revising propositions and initiatives we want to ensure that we are in the best possible position to support intergenerational housing aspirations.

Through our support of First Time Buyer initiatives such as Help to Buy, Shared Ownership and relaunching our 95% LTV mortgage range, we aim to ensure we can provide options to First Time Buyers who are unable to rely on the 'Bank of Mum and Dad'. We have also gone one step further and introduced a 98% LTV mortgage, currently unique in the market, which allows us to fulfil our purpose to make a difference and actively find ways to help people have a home.

A lack of housing supply calls for innovation from all stakeholders and in March 2018 we contributed by hosting industry colleagues at an event to increase knowledge and awareness of modern methods of construction. We'll continue to look for opportunities like this to facilitate discussion and debate.

We've recently invested in research which has allowed us to gain a deeper insight into the savings habits of the nation. With headlines such as, "34% of Brits prioritise saving for a holiday over paying off a mortgage or buying their dream home", research such as this continues to help us understand what people's priorities are.

We recognise the later life borrower segment continues to grow and like all other parts of the mortgage market, it is vital that we continue to consider product innovation and lending criteria to support. There are many reasons for the need to continuing to borrow well into later life such divorce/separation, more appropriate housing, adapting current property and gifting. We made the decision to remove our upper age in 2016 and are currently exploring introducing a RIO product to widen our proposition.

## What are the markets that really interest you going forward?

New build developments are of great interest to us. In 2017/2018 we worked on multiple initiatives and improvements to our proposition to enable us to support more buyers purchase newly built homes. Our lending area, like a lot of other parts of the country, has numerous development projects such as Northstowe to the north of Cambridge. We believe it's important that we are able to support buyers and, quite frankly we're excited to be a part of it!

## What challenges do we foresee in the future for the sector?

There is a constant challenge to keep up to date with technology advancements in the industry. With larger banks now offering DIP to offer in 80 seconds, there is a greater expectation for instant decisions and action from lenders.

That said, we're continually reviewing, prioritising and investing in new technology to improve the customer and intermediary experience. These include mobile apps, assisted AVMs to speed up re-mortgage process and an intermediary portal. However, for us, technology should be a way of complementing the service we offer not at the expense of it.

I think it would be difficult to talk about challenges without addressing Brexit and the noticeable impact it is having on the public's decisions when it comes to their finances. People are unsure of where the housing market will land post-Brexit and this does pose a challenge for the industry. No one can predict how 2019 will evolve, but we aim to remain true to the guiding principles that have served The Cambridge's members well over the last 168 years.