



60 second Property poll – The results

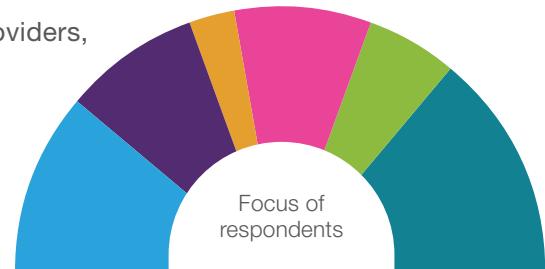
March 2019

Welcome to the results of our latest quarterly property poll. As always, thank you to our clients and contacts who provided responses and comments, it is very much appreciated.

MMC is the general term used to describe a number of construction methods which are different to more 'traditional' construction practices. Other terms that are commonly used as part of MMC include off-site construction, modular homes, factory-built, and pre-fabrication. While government and the media debate the lack of affordable housing and whether MMC could be a potential solution, we polled our clients and contacts to see what they thought.

Responses came from a variety of property businesses, service providers, asset managers and funders.

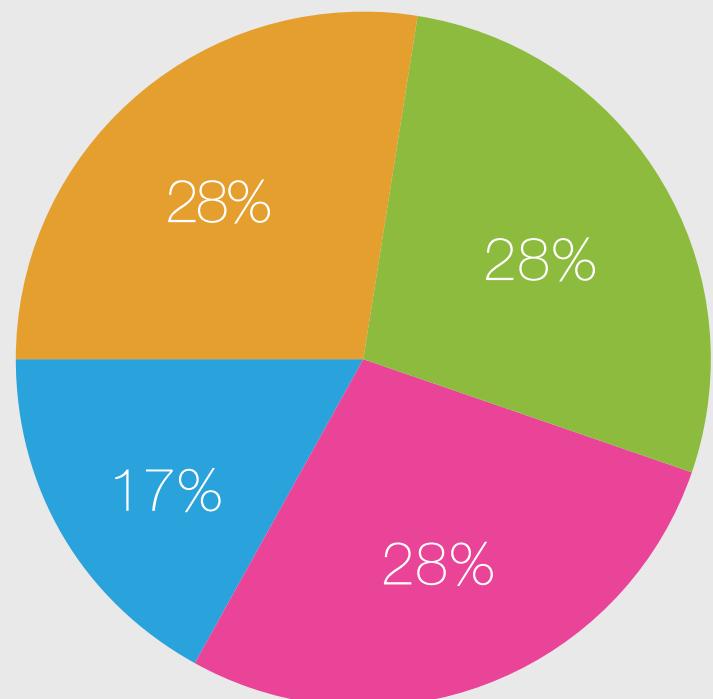
Developer	Investment	Construction
Funder	Service provider	Other



Q1. To what extent is Modern Methods of Construction (MMC) featuring in your business plans over the next 12 months?

MMC was on the agenda for over half of our respondents, with 28% giving it high priority and only a small proportion not giving MMC any consideration at all.

However, the commentary suggests that there is a great deal of uncertainty on how MMC could effectively be used in the SME market, with funding and economies of scale still barriers to entry. This suggests that while there is an increasing interest in MMC at SME level, there has been relatively little progress in 'making it work'.



- Actions planned with high priority
- Actions planned with low priority
- Wait and see approach
- Not considered at all

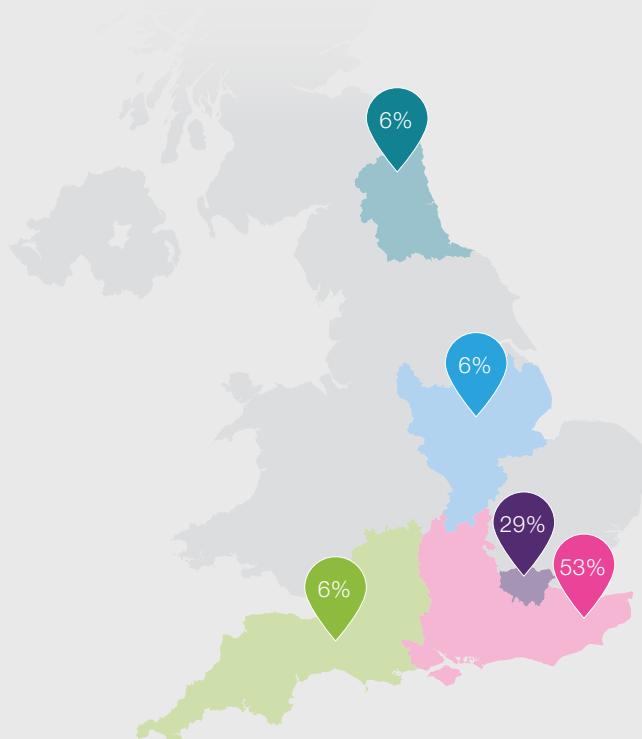
"We have used timber-frame construction, but modular construction only works at present if you have economies of scale - perfectly suited to flatted schemes or hotels and not necessarily housing schemes."

Q2. If you were an MMC developer, which UK region would you be looking at for the best opportunities?

Unsurprisingly, our respondents who are largely based in London and the South East consider these as the priority areas where they would focus their efforts.

However, this is somewhat contrasting to the current spread of MMC activities, as a good proportion are based outside of these areas, with regions in the North looking particularly active.

But there are some obvious practical issues to MMC, namely transporting large pre-fabricated sections. In locations with a relatively large amount of space this would be manageable, but in crowded areas and/or congested roads, such as most of London and parts of the South East, transport could be a significant challenge to overcome. However, we expect that if these challenges were addressed, then MMC developments could become more widespread than our poll initially suggests.



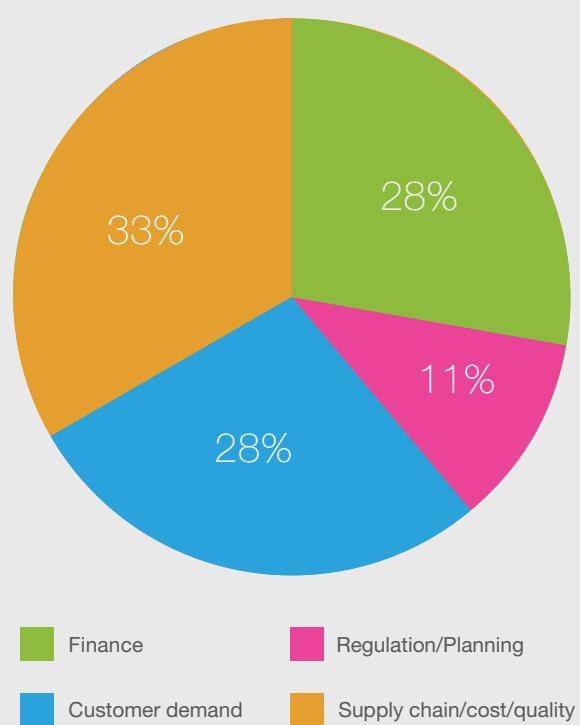
"I could have ticked the lot as the incentive is to keep costs and build times down. London is the most expensive location, so logically that is where the greatest incentive exists. In practical terms, being relatively close to a factory would be a good idea in terms of potentially being able to go along and check out your kit and not having it delivered from too far away."

Q3. What do you believe is the main barrier currently holding developers back from applying MMC solutions?

Respondents were split on the main barriers regarding MMC solutions, but the overarching response was that there is a current issue with supply and demand, which undoubtedly stems from the infancy of the UK market in this area.

With 80% of Sweden's residential stock pre-fabricated, the methodology has a proven track record. However, the key concerns raised in the poll were related to the cost, quality and ability to vary MMC work. Though, it is to be assumed that these concerns would be addressed once the industry reaches maturity within the UK. The main challenge appears to be in ensuring the solution is cost efficient for small and medium developers.

A significant number of respondents also highlighted issues with obtaining/acquiring development finance.



Q4. What government involvement, if any, should there be to overcome these barriers?

To make this really mass market, institutions will blaze the trail as they hope to find, and need to find, further ways to keep the input cost of their PRS schemes down so that the yields have more chance of making overall financial sense.

Government has backed MMC, so it is now up to industry and suppliers to ensure that the technology catches up with government wishes.

The lack of supply means higher resale prices and so there needs to be a review of why house builders do not embrace this process as much in the UK.

Given the UK's need to meet the target of building 300,000 new homes each year, the government's recent Industrial Strategy highlighted MMC as having the potential to reform the residential construction sector. This active promotion of MMC by the government is acknowledged by the poll. In addition to the promotion of the scheme, one tax incentive already available, but which could be applied to MMC (as MMC looks to offer new solutions to the commercial challenges faced by the house building industry) is Research and Development tax reliefs.

Respondents felt more should now be done by the larger players in the market rather than the government, in order to advance the use of MMC in the UK. However, further government pressure on financial institutions to finance MMC development, or even the possible underwriting of such finance would help advance MMC developments in the UK.

How Kingston Smith's Property team can help

We believe that, for any property business, getting the right advice at the start of a project from advisers who understand a business's goals, as well as the issues affecting the sector, can make a significant difference to the financial results of any project.

We provide clients with a dedicated property partner who is accessible and who will co-ordinate a team of property tax, accounting and audit specialists to help them realise their potential.

Kingston Smith's Property team brings a new dimension to their clients: a fresh perspective and suggestions on how to move their businesses forward.

We'd love to hear your thoughts on our poll, please do get in touch on Twitter @kingstonsmith

Contact Us

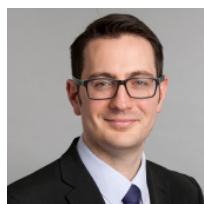


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