

SURVEY OF MODULAR HOUSING IN THE UK



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Foreword

It is widely acknowledged that construction in general, and housebuilding in particular, is playing a vital role in the UK's post-COVID recovery. The Government's Construction Playbook highlights use of MMC as essential in improving quality in public sector construction and Homes England are encouraging use of MMC through their affordable housing programme. Trowers undertook a survey in August 2021 across the housing sector, including taking the views of registered providers, local authorities, private residential developers and housebuilders, consultants and designers, contractors and manufacturers and funders, insurers and valuers, to understand whether the renewed impetus and focus on use of MMC has driven change in the sector.

The survey covers both private and public housebuilding in England and a snapshot of the public sector results are set out in this document.

For more information on Trowers modular housing expertise, please contact:



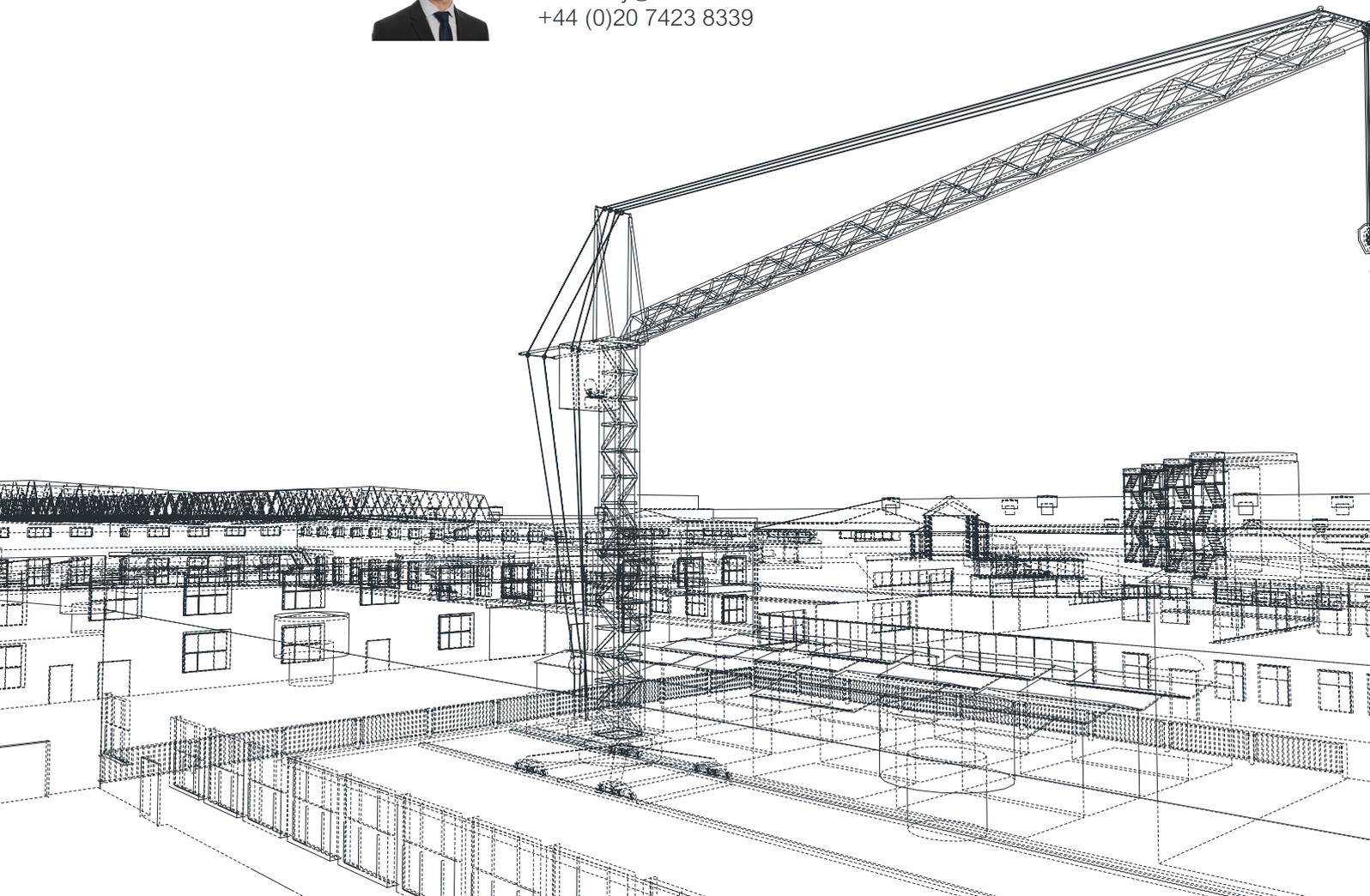
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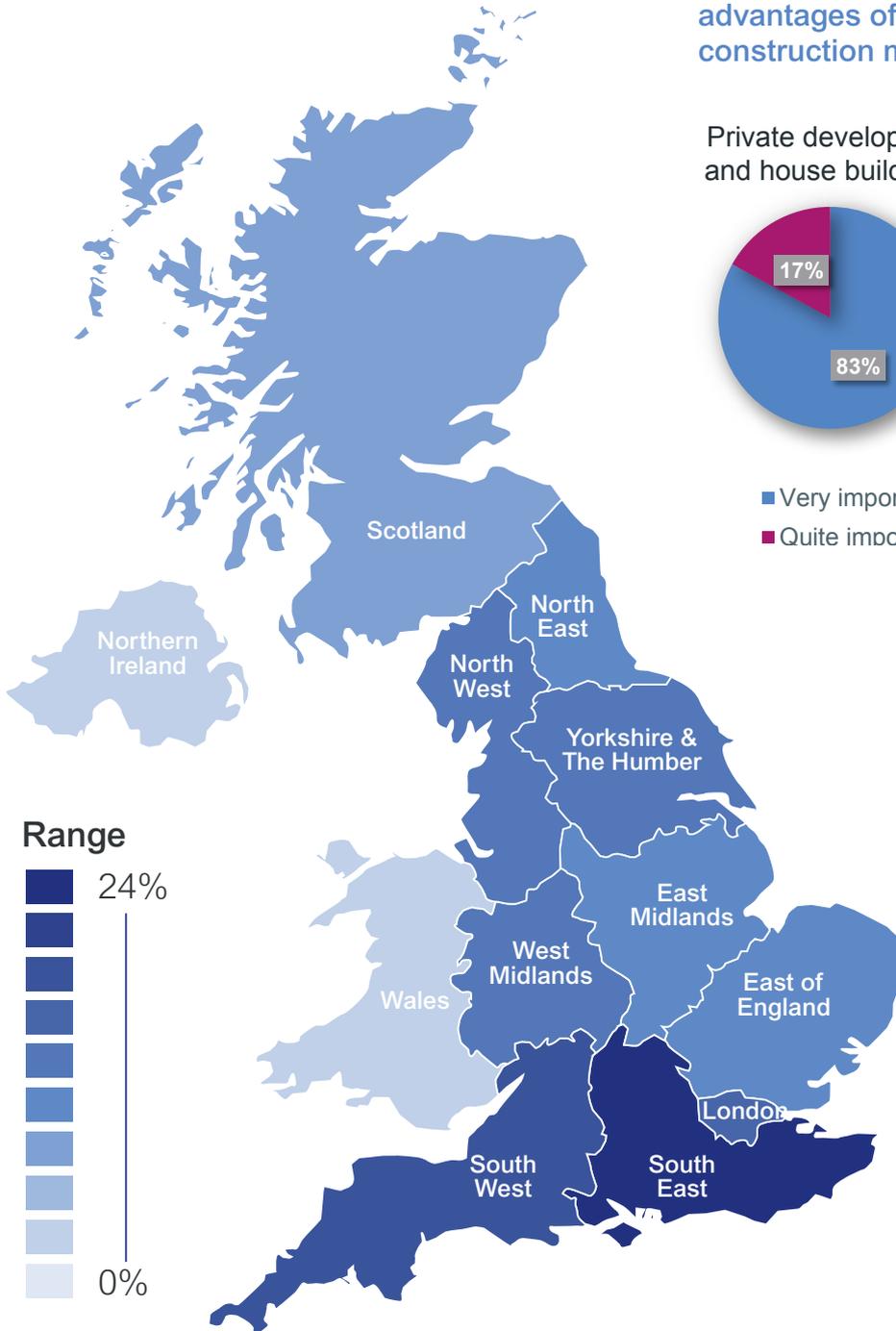


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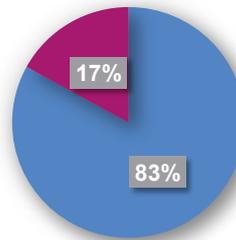
Findings so far

Location of modular homes

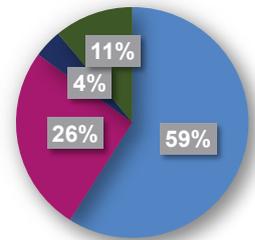


How important to your business are the environmental and sustainability advantages of using MMC over traditional construction methods?

Private developers and house builders



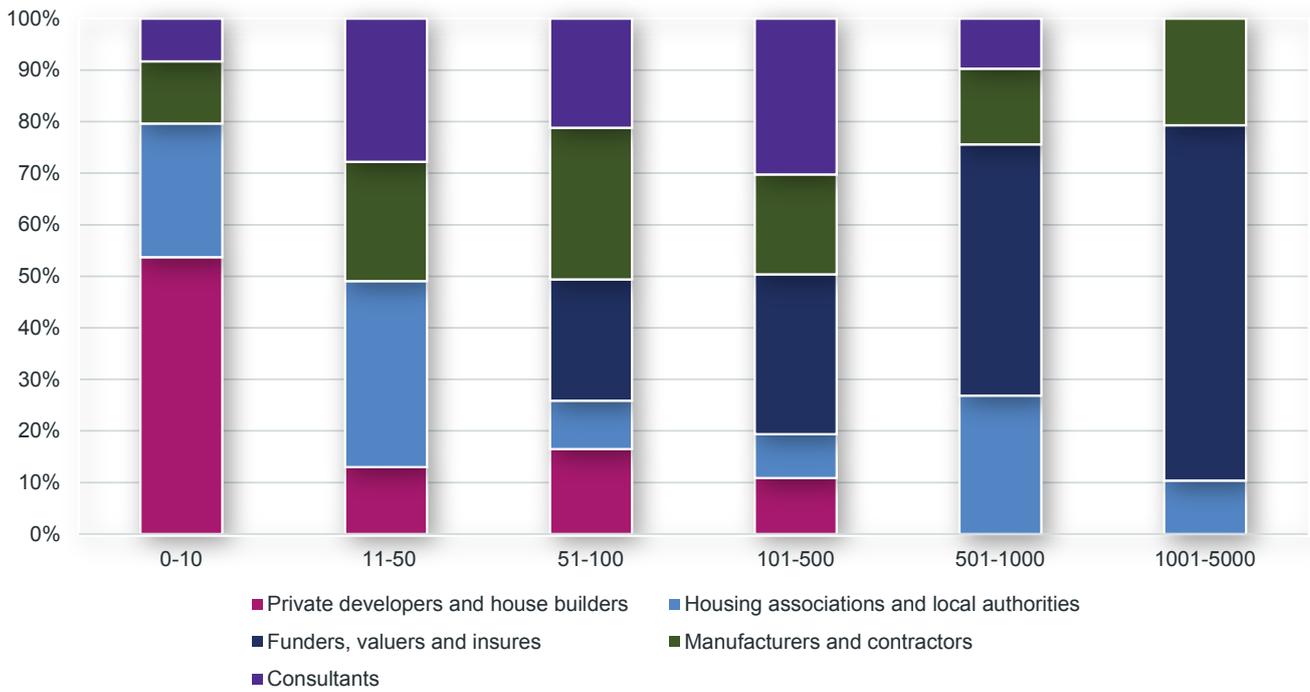
Housing associations and local authorities



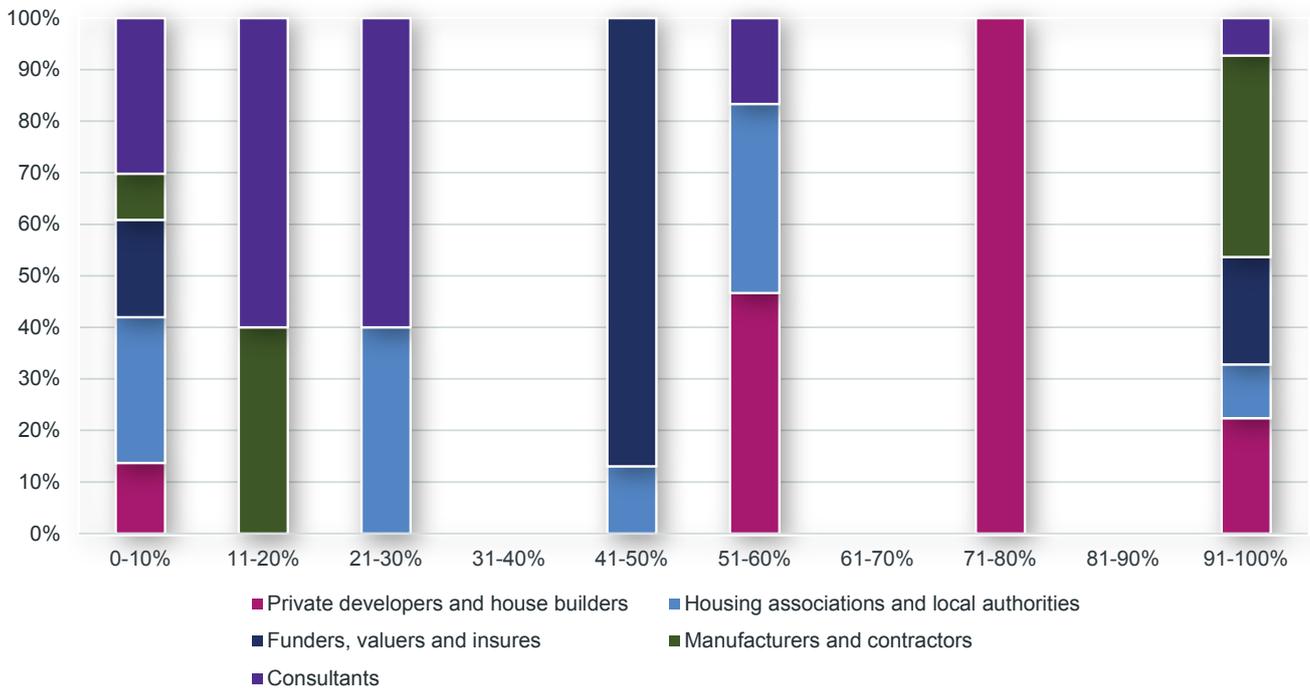
Very important
Quite important

Not important
Don't know

How many homes have you built using Category 1 and/or 2 MMC (volumetric modular)?

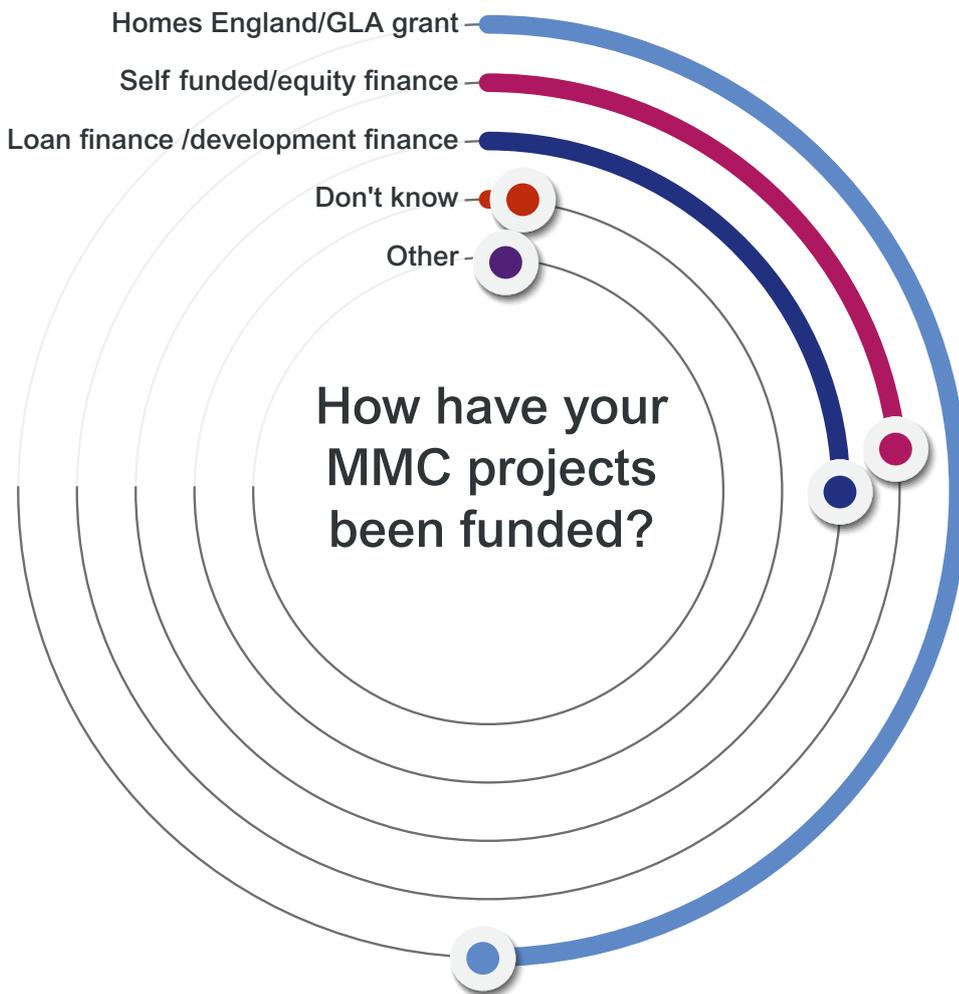


On a typical scheme for you, what is the percentage of homes built using Category 1 and/or 2 MMC (volumetric modular)?



Funding public sector homes

With the strong lead taken by GLA and Homes England to encourage use of MMC it is not surprising to see that the biggest take up in the public sector has been funded by government grant. However, there has been a shift since our previous research on funding of modular homes in 2019 to greater use of equity and development finance which reflects the findings that barriers are being broken down revealing greater confidence in the longevity and viability of modular housing.



How much harder was it to obtain funding for the project compared to obtaining funding for a traditional scheme?



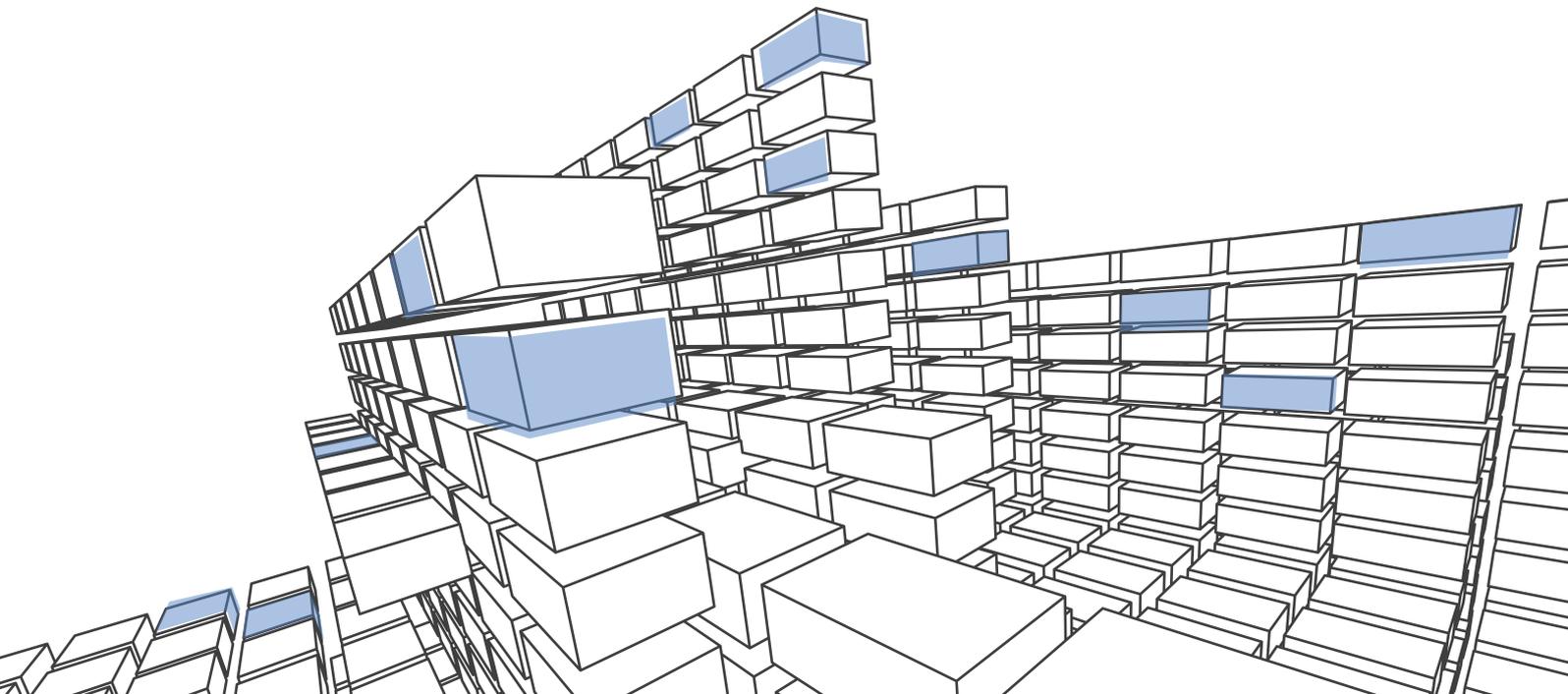
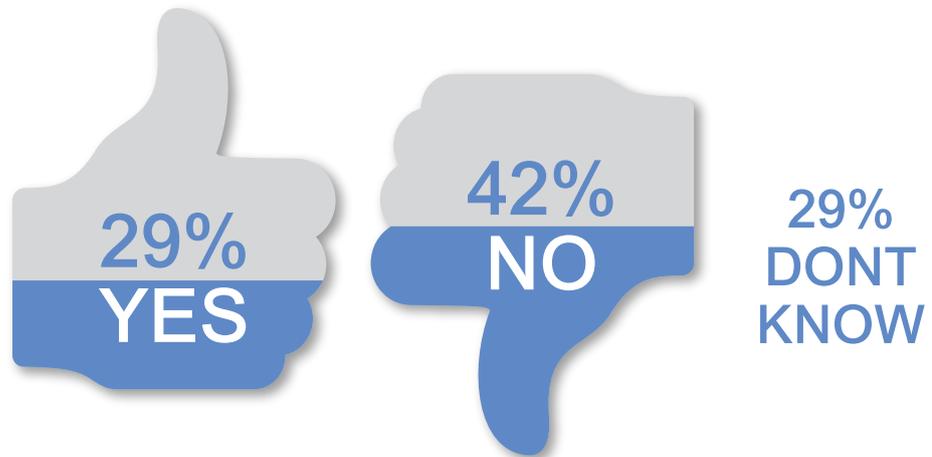
If easier, why was that?

- Homes England are now requiring a min of 25% of future homes delivered under MMC
- No difference as at the moment we have funding in place. The challenge will be when we come to charge these units and what lenders will be looking for.

If harder, why was that?

- Banks will not lend on the product
- Some lenders don't recognise MMC
- Funding secured through Homes England SP Programme so funding already confirmed. Difficulty is always around viability of MMC thus justification of using finances.

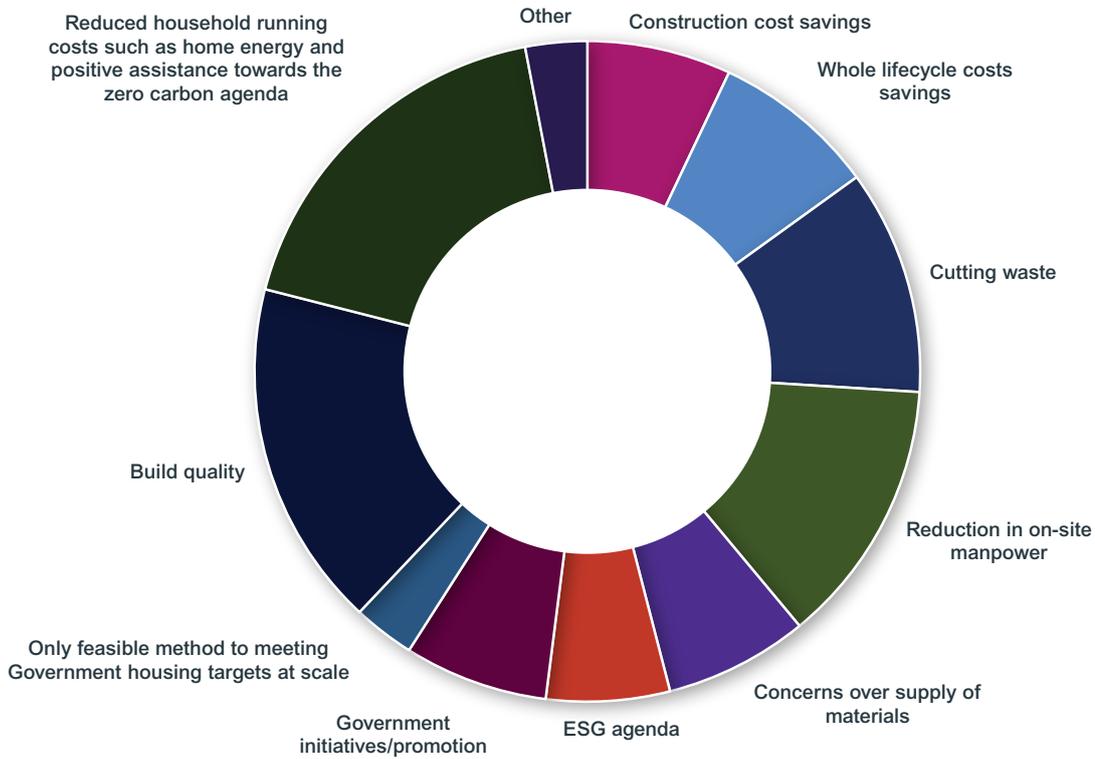
Were the completed MMC homes used as security for loan facilities?



Motivation

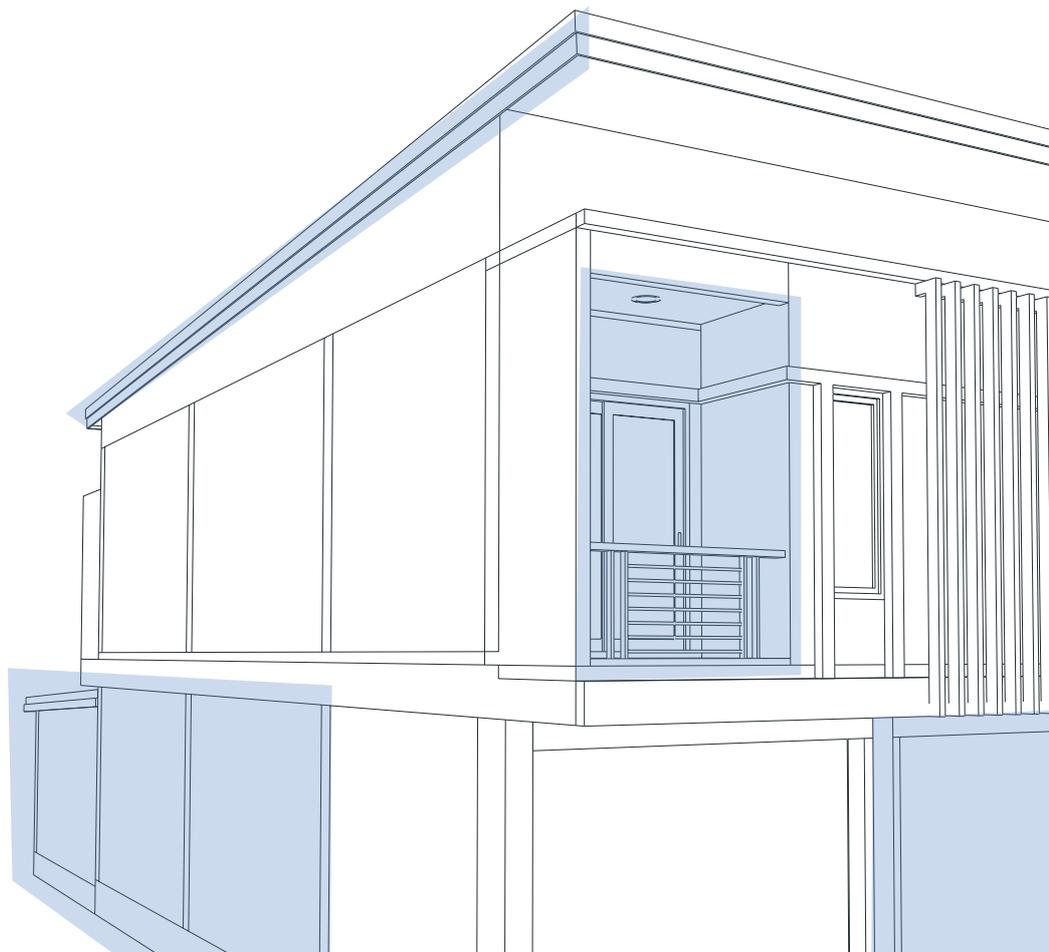
Responses from housing associations and local authorities

What were your main motivations for using MMC?



Other

- Testing of new systems
- Speed of construction
- Standardisation
- Programme efficiencies

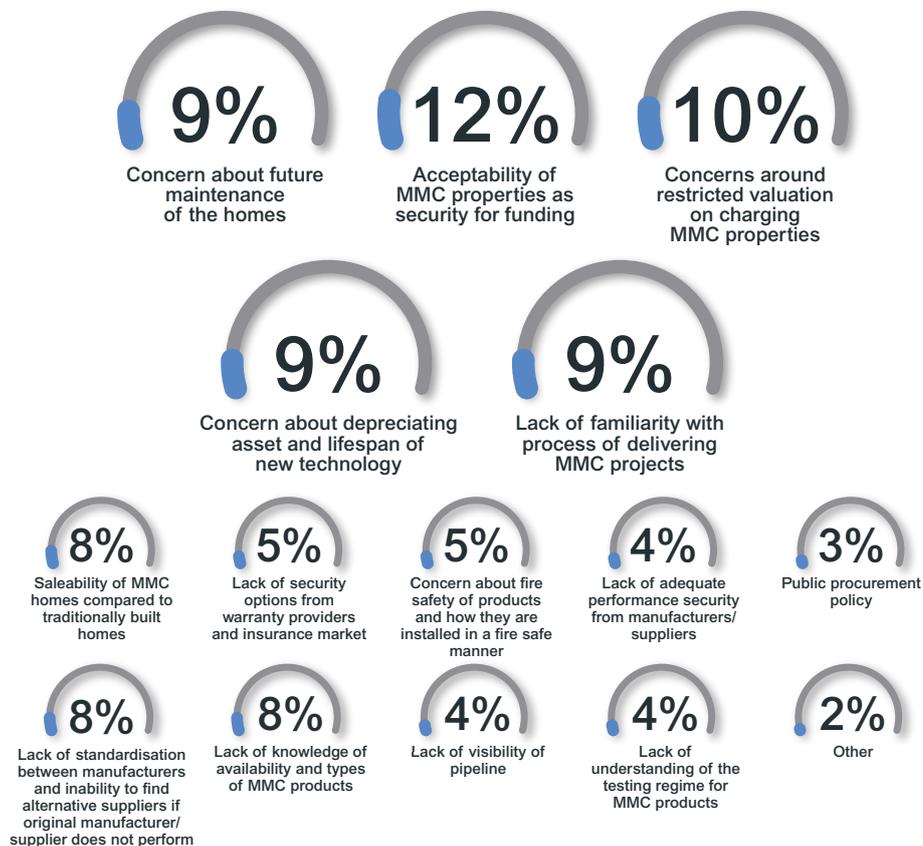


Barriers

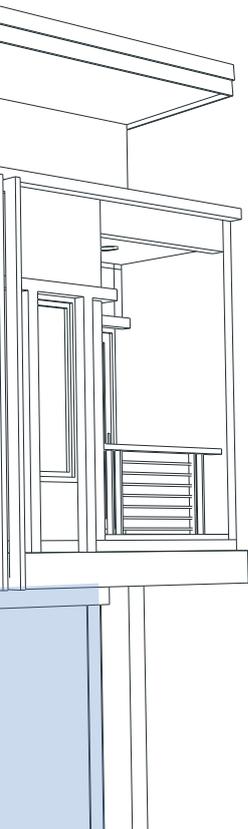
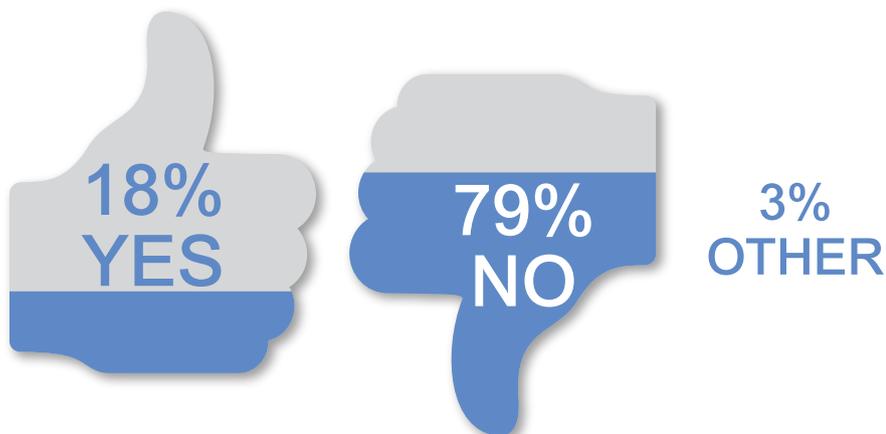
Responses from housing associations and local authorities

In our research into Funding Barriers to Offsite Housing in 2019, concerns were raised by funders around design quality, lack of standardisation in the sector and inadequate insurance. Our 2021 findings reveal that these barriers are being overcome, for example with only 5% of respondents stating that lack of security options were still a barrier. However, it is clear that some funders and public and private sector developers are still waiting for the test of time and further evidence to demonstrate the longevity of modular housing.

What in your opinion is the biggest barrier to the wide spread adoption of MMC?



Is Government providing enough support for MMC housing?



Conclusion

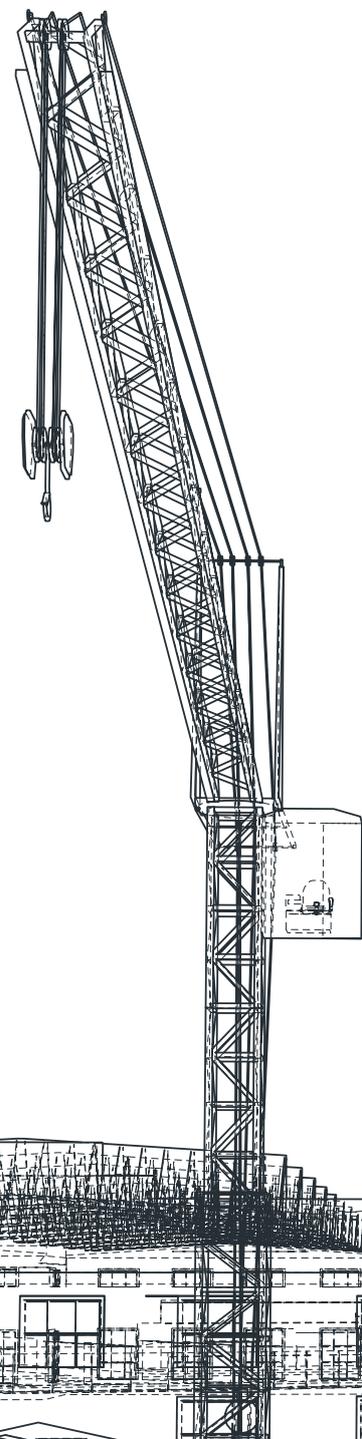
This snapshot of the use of MMC in the public housing sector reveals that modular housing is starting to be developed at scale but mainly with use of government grants. The West Midlands, South East and South West and Greater London are ahead of the Northern regions which may reflect the commercial viability of housing schemes across England. Our research in 2019 revealed that there were funding barriers to use of MMC but in 2021 those barriers appear to be disappearing with 67% of respondents stating that it was no harder to raise finance for an MMC development compared with a traditional scheme. MMC is being selected for the right reasons with reduced household running costs such as home energy and positive assistance towards the zero carbon agenda and improved build quality cited by respondents. However, there are still concerns about acceptability of MMC properties as security for funding.

Next steps

Trowers are organising a roundtable to release the full results of the survey across the public and private residential sector and if you would like further information and take part in the roundtable then please contact Emily Adlington.



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A view from the private sector

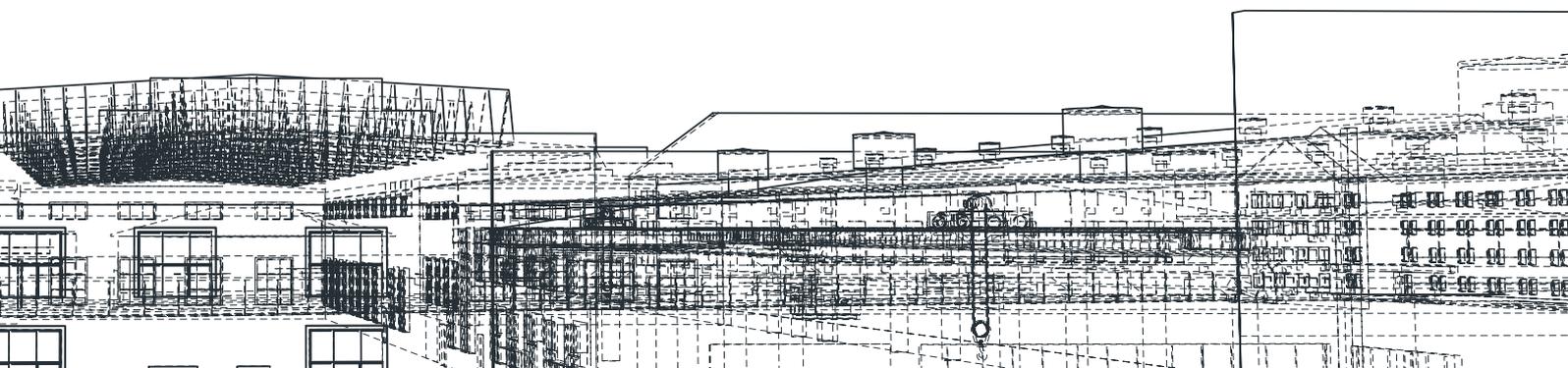
Whilst understandably public sector housebuilders are looking to MMC as a potential solution to delivering the numbers of affordable housing units they are required to deliver under ambitious Government targets, the focus in the private sector is mainly on viability, performance and efficiency.

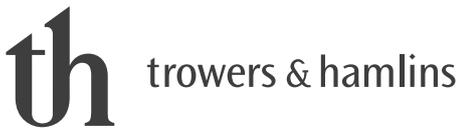
Indeed, the social value that is possible with adopting modern methods of construction is reflected in the answers we received from our respondents; with 83% saying that environmental and sustainability considerations were a very important factor in their decision to use MMC in preference to traditional building methods. This reflects a growing trend in businesses looking to fully integrate sustainable methods within their development activities and is all the more important given the Environmental, Social and Governance (ESG) metrics and disclosures that are ever more closely scrutinised by investors, customers and the public. All of our private sector respondents said that they check the sustainability credentials of the modular products that they use.

It also seems from our survey that there is a good uptake of MMC in all the different MHCLG categories – from Category 7 (on-site labour reduction and productivity improvements) all the way through to “fully volumetric” Category 1 and 2 pre-manufactured structures; with those delivering at scale (100+ units) using a mixture of several categories to achieve their aims.

As for the barriers to wider adoption of MMC, it is clear that our respondents feel that funders and regulators are still playing catch-up when it comes to MMC. Most noted a lack of knowledge and familiarity with the new products and processes. This lack of understanding makes it difficult to secure funding; and those that have been successful have often faced an uphill struggle to get the market comfortable with delivering projects in this way. Key for funders is the ability to rescue an MMC project in scenarios where the manufacturer runs into difficulties. A number of our private sector respondents stressed the need to establish a consortium of manufacturers to standardise products that can fit any project, as well as a clearer framework of regulation specific to this area; in order to head off concerns such as minimum performance standards and fire safety.

This reflects the general view in the private sector that development funding for MMC projects is harder to secure than a traditional build; with banks asking for traditional forms of construction security, such as collateral warranties with step-in, for elements of the build where their usefulness is questionable. For example, is it practical for a bank to step in to operate an insolvent or non-performing modular manufacturer's contract? One private developer respondent pointed to a “computer says no” attitude to lending which stunts the potential for more inventive funding models to match the innovation engendered by MMC. There is still an overwhelming feeling in the private sector that more education and familiarity around MMC is the only way to open up the construction sector to its more widespread use.





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