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Advancing Understandings of Housing Supply Constraints: Housing Market Recovery and Institutional Transitions in British Speculative Housebuilding

Abstract

The vicissitudes and volatilities of recent housing market cyclicity have restructured, reconfigured and reorganised housing systems and their supply demand characteristics. Surprisingly little attention has been paid to (re)examining supply side outcomes, much less the influencing effect of supply behaviour in response to demand-side change and their interactions. Indeed, one of the biggest unanswered questions in housing studies today is how supply side characteristics, specifically those of speculative housebuilders, have been affected by the turbulent, transitional context presented by the global financial crisis. Addressing the gap, this paper presents a novel analysis of how Britain's biggest housebuilders respond to significant institutional shock in their operating environment and considers how this enables and constrains housing supply outcomes in the post-recession context.

Keywords: Housebuilding, housing markets, recovery, housing supply, institutional analysis, housebuilder behaviour

Introduction

The deep and widely afflicting global economic crisis of the late 2000s has drawn renewed attention to the role that housing, and real estate more broadly, plays in the economic and social prosperity of societies (Schatz & Sebastian, 2009). It has exposed both the fragility and resilience that underlies diverse and dynamic housing markets and has helped turn attention to the often-underplayed contribution of market-facing actors and their practices as explanations for housing market outcomes (see Aalbers, 2017). Such marks an historic point of significance in rethinking how housing markets operate, how we theoretically conceive of contemporary housing systems and what influencing effects structural forces and actor agency, and their relations, have in housing supply outcomes.

One of the biggest unanswered questions in housing studies today is how supply side characteristics, specifically market-facing actors such as speculative housebuilders, have been affected by the turbulent, transitional context presented by the global financial crisis and what their influencing effects are on housing supply outcomes. Indeed, while Yates & Berry (2011) highlight the challenges for housing policy makers in being faced with the 'wicked problem' of responding to the unexpected, unknowable outcomes of an increasingly volatile global economy (p. 1152), these challenges also confront market-facing actors, yet remain under-explored and elusive in their theoretical significance.

This pervasive theoretical emptiness of housebuilder behaviour in housing studies is troubling. It was the early work of Kaiser (1968), Kaiser & Weiss (1970), Tompkinson (1970), Fromm (1971) and Goldberg (1974) that first recognised the importance of developer behaviour, and the supply side more generally, in understanding residential

growth and urban spatial structures. Goldberg (1974) argued what was known about the supply side was largely macro / microeconomic (see Tompkinson, 1970), with little available on the organisational behaviour of residential developers, while Kaiser and Weiss (1970) argued that ‘...if public policy was to be effective in guiding patterns of new urban growth, it must be based on a realistic understanding of the development process’ (p. 30). While this early body of work recognised the *functional* importance of developers in promoting and understanding supply side factors, it did little to advance our theoretical and empirical understanding of developer *behaviour* or their role in housing supply constraints. Indeed, it seems inconceivable, as Goldberg (1974) himself emphasised over 40 years ago, that, despite the continuing central role played by housebuilders in the expansion of urban areas, little remains known about how they operate.

This paper addresses this gap in knowledge. In it, I develop an analytical framework that positions housing market recovery as a turbulent institutional transition and apply this to an empirical investigation to evaluate whether Britain’s biggest housebuilders have the institutional flexibility to increase housing output as the recovery phase takes hold. Using primary qualitative data from elite market actors, I investigate how Britain’s biggest housebuilders adjusted their roles and organisational behaviours to their changing institutional environment. I employ a heuristic model to present three key phases that characterise the housebuilder transition through early to mid-recovery. The data produced shows how Britain’s biggest housebuilders responded to significant institutional shock in their operating environment and reveals how this constrained housing supply in the post-recession context.

What follows is a review of previous work on housing supply constraints, an overview of the theoretical considerations underpinning the analytical framework, details of the methodology and an overview of the results structured around a heuristic device. The paper is concluded with discussion and overview of the contribution to knowledge and recommendations for a future research agenda.

Understanding housing supply constraints

Understanding housing supply constraints has long been a focus for housing studies, ever since the prominent rise of 'speculative' market-based housebuilders in the 1980s, and the corresponding retreat of the state from housing provider to enabler (Emms, 1990; Priemus, 1995). For over 4 decades, scholarly attention has focused on theorising the structure, characteristics and operation of housing markets, land markets (Barlow, 1993; Knoll et al., 2017), the development process (Gore and Nicholson, 1991; Guy and Henneberry, 2002), the efficacy of planning and public policy interventions and, more broadly, the state-market nexus (Barlow and King, 1992; Healey, 1992). This body of work has contributed to our understanding of what Whitehead and Williams (2011) consider to be a series of commonly agreed 'fundamentals' that now characterise Britain's housing market, which include: a fiscal system favouring owner occupation; a highly deregulated finance market; a continuing problem of an inadequate supply response; and, volatility in house prices and market activity (p. 1158). These fundamentals have, over time, given primacy to economic theorisations and empirical observations that frequently frame the analysis of Britain's housing situation. These tend to be couched within the widely accepted link between housing systems and the macroeconomy (see Adams & Fuss, 2010; Leung, 2004; Nneji *et al.*, 2013) and place

fiscally-oriented demand side measures centre stage in the formulation of policy responses to significant fluctuations in housing market activity (see Galster, 1997).

Indeed, it is well known that short-term housing market volatility arises from macroeconomic volatility or changes in financial conditions, where house price inflation or deflation affects supply outcomes. To tackle this, Stephens (2011) argues for counter-cyclical policies such as mortgage credit controls and reforms to the system of property taxation. However, from this dominant economic framing, the complexity of supply side characteristics and the supply-demand nexus more broadly, is often overlooked. In its place is usually a neoclassical expectation that a supply response is both inherent to demand side interventions and will yield appropriate housing production. This *a priori* supply response from demand-side stimuli hides the complexities of actor agency and organisational behaviour that has been shown in recent research to influence housing supply outcomes (Payne, 2015, 2013).

So, what of this supply side? We know that housing market volatility and underlying inflationary pressures in the housing market are the continuing problem of an inadequate supply response in the British housing system (Stephens, 2011). Stephens (2011) further argues that to address this may require significant changes in the 'structural' aspects of Britain's market-led housing system, namely spatial planning systems and land use controls, which have conventionally been shown to restrict housing supply in spite of earlier protestations that they merely 'organise' the development of land (Grigson, 1986). This position is based on a series of influential studies undertaken by authors such as Cheshire and Shepard, (1989), Adair et al (1991), Evans (1991), Barlow (1993), Bramley (1993a, 1993b), Needham and Lie (1994), Monk & Whitehead (1996). This body of work has collectively emphasised how land use controls and planning systems place

restrictions on the housing land market, producing higher land costs (Evans, 1987) but without commensurate benefits (Monk and Whitehead, 1996) resulting in lowered profitability for speculative developers (Golland, 1996) thus constraining supply outcomes.

Despite its value, this work is fundamentally premised on a series of intellectual leaps that characterise the developer response to these constraining factors, situated often within a mainstream neoclassical framing. What remains unanswered is *how* or *why* developers react to these structural effects on price or supply. Such is evident in the assertion of Monk and Whitehead (1996) in their attempt to understand *why* developers built too many tiny houses for the cheaper end of the housing market when faced with stiff competition in the land market in Fenland (pg. 420). Their conclusive assumption that ‘...this question can only be addressed by models of oligopoly and risk’ (ibid.) underplays what more recent research emphasises as the complex organisational decision-making processes that developers adopt in response to market dynamics and policy change (Payne and Barker, 2018, 2015; Payne, 2015, 2013).

Whilst characterising supply side issues as a series of structural constraints does not necessarily undermine the agency of housing market actors, it does serve to highlight a longstanding tension between where scholarly attention sits in regard to understanding housing supply constraints and of the ontological status of structure and agency in conceiving housing market dynamics and the motivations of their constituent actors. Indeed, Monk and Whitehead (1996) conclude their paper with an argument that planners need to better understand the market, acknowledging that planning and the market interact in a much more complicated way than existing models predict, with a

particular under emphasis on bargaining and negotiation (p. 421). Yet, it remains the case that the influence and contribution of actor behaviour and organisational decision making in explaining housing supply outcomes remains a neglected aspect of research in housing studies.

Some attempts have been made to address this gap, serving to emphasise a more disaggregated view of how housing systems operate and to understand the particularities of supply side activity. Such work is premised on the housing market being theoretically conceived not as a homogenous entity, but rather a social construction, where the heterogeneity of housing and real estate markets gives rise to investigations examining firm-level strategy within its broader institutional setting (Cars *et al.*, 2002). Collectively, this body of work emphasizes the context, process and social relations of market activity and the distinctive routines, cultures, procedures and institutions evident in sub markets (Adams *et al.*, 2005) rather than any theoretical end state (Oxley, 2004). In this sense, how market actors' behaviours and decisions are embedded in and sensitive to, institutions - in particular policy, economic and political change - provides the context for individual land-use decisions (Adams and Watkins, 2002). This is a theoretical and conceptual framing from which *institutions matter*. Notable recent examples include studies into the social and organisational networks of developers (Henneberry & Parris, 2013) and the organisational behaviours and motivations of housebuilders and landowners (Adams and Payne, 2013; Adams *et al.*, 2012; Adams *et al.*, 1992; Payne, 2015, 2013). These recent studies build upon earlier work by notable authors such as Healey (1991), Ball (1986, 1998, 1999), Guy and Henneberry (2000) and Cars *et al.* (2002).

Despite having common theoretical and conceptual traits, there has been limited agreement in this literature over ways to define and apply the theories used to frame these empirical observations. Indeed, whilst the common ontological thread within this body of work is that *institutions matter*, the well-established and troublesome snags of institutionalism discussed below have undermined the efficacy and applicability of this theoretical perspective as a means of conceptualising behaviour and agency in market-led housing systems and in examining housing supply constraints. This debate is unpacked further in the following section, where the value of institutional analysis is discussed and a framework for analysing housebuilder behaviour in a recovering housing market is presented.

Theorising institutional transitions

The intellectual pace of institutionalism as a theory for understanding change has quickened in recent years having suffered previously from conceptual slippage and confusion as to its precise definition and generic meaning (see Cumbers *et al.*, 2003). While the persistent problems with institutional change theory are by no means resolved, the efficacy of institutionalism as a means of examining change across multiple social science disciplines is steadily growing.

Jessop (2001) argues that institutions have been endorsed in the social sciences as an excellent entry point, even as a mediating role, for overcoming some of its well-established and troublesome snags such as ‘...ontological antinomies, epistemological dualisms, and methodological dilemmas’ (p. 1215). Jessop (2001) suggests institutions matter ontologically because they are the primary axis of collective life and social order in that they define the rules and resources of social action, the opportunity structures and

constraints on behaviour and shape the way things are to be done (p. 1217). Methodologically, Jessop (2001) argues institutions provide the best entry point for understanding social life ‘...even if the search for understanding is subsequently moved down towards microfoundations or up to emergent macrostructural phenomena’ (p. 1217).

Despite a scattered body of literature, institutional change theory does coalesce around a core set of theoretical traits. Bathelt and Gluckler (2014) define institutions as ‘...forms of ongoing and relatively stable patterns of social practice based on mutual expectations that owe their existence to either purposeful constitution or unintentional emergence (p. 346). Scott (2010) reminds us that institutional processes and structures operate ‘...from the most micro interpersonal level to the most macro transsocietal level’ (p. 5). In this sense, institutions develop ‘...in relation to rules, in response to them, or even against them’ (Bathelt and Gluckler, 2014, p. 346), where actors act according to certain goals, rationalities and purposes (ibid.) and are embedded in the structures of social relations that influence their actions and decisions (Granovetter, 1985). Institutional analysis thus involves examining the dynamic interaction between how particular organisations and actors operate and the wider relations of which they are a part. Applied spatially, an institutional approach emphasises the qualities of the wider milieu in which activity is performed and enables researchers to examine the differential capacity of organisations or locales in response to change (Cars *et al.*, 2002).

Institutional change theory is critical of the multiple variants of rationalist analysis, emphasising the social embeddedness of action (Willmott, 2015) and delivering ‘...an antidote to analyses based on objectivist ontology that produce often mathematicised

analysis of objectivated outcomes' (Lawson, 2013 cited in Willmott 2015, p. 105). Indeed, mainstream economics' market-orientated analysis of real estate development processes and market-led housing systems more broadly, have in recent years been both challenged and supplanted by institutional perspectives and the complications of the real world emphasised (Oxley, 2004).

While traditional notions of institutional change have been concerned with how firms reject old rules, learn new routines and develop new capabilities over time (Oliver, 1992), they more often than not focus on incrementalism and path dependency (see North, 1991). The more recent concept of institutional transitions departs from these traditional notions of change and instead focuses on large scale shock and disturbance in the institutional environment and how this affects the strategic choices of firms (Li *et al.*, 2013; Peng, 2004, 2003). The central tenet of the institutional transitions thesis is presented by Peng (2003), whom defines institutional transitions as '...fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organisations as players' (p. 275). In this sense, institutional shocks and transitions induce the need for a response to existing ways of doing things and thus raises questions over how and why institutions and organisations adapt or what may cause a lack of response.

The institutional transitions thesis has primarily been developed and applied to emerging economies as a means of understanding and explaining rapid change relating to large scale shock and disturbance often resulting from political or economic instability (see Peng *et al.*, 2008; Peng, 2004, 2003; Peng and Jiang, 2005). The thesis remains untested in an advanced economy setting and is notably absent from the housing studies literature.

Yet, it is conceivable that conceptualising the global financial crisis as a 'shock' and the prevailing institutional change as a 'transition' offers a significant opportunity to advance our understandings of housing supply constraints in market-led housing systems. Indeed, how housebuilding firms manoeuvre during such shocks and whether this constraints housing supply is a fundamental gap in our knowledge.

Analytical Considerations

'Shocks' in real estate markets are those powerful and pervasive impacts from political or economic events that are beyond simple structural changes to the environment in which development occurs, such as planning policy or building technology (Barras, 1994, p. 195). Such shocks effectively force market actors into a response and lay challenge to conventional notions of incremental change and path dependency (North, 1991; Oliver 1992). Theories of speculative residential development (see Barron, 1983; Barras, 1987, 2009; Gore and Nicholson, 1991; Guthrie, 2010; Healey and Barratt, 1990; Kanemoto, 1985; Markusen and Scheffman, 1978; Payne, 2015, 2013) reveal four 'shocks' in the housing market that can disrupt the business operations of speculative housebuilders:

- Restrictions in mortgage availability, reducing effective demand;
- House price deflation, reducing gross development value of sites under construction or land owned;
- Restrictions in capital availability, limiting funds for speculative housebuilders' day-to-day business operations, including land purchase and existing work in progress;
- Reductions in new house sales, affecting cashflow and lengthening return on capital employed for individual sites under construction.

When taking a market-led housing system ¹ as a specific institutional ensemble, housebuilding companies are *market actors* in pursuit of specific goals, where the impact of significant institutional shocks or turbulence is most obvious. Comparatively, institutions are the stabilisations or correlations of the interactions between individual and collective actors and thus associated with specific economic and social processes, not with specific outcomes or measurable characteristics (Bathelt and Gluckler, 2014). Thus, the analysis of an institutional transition focusing on the level of the actor/firm, rather than the level of the market or individual, enables empirical investigations that more explicitly link actor behaviour and motivations with analyses of housing outcomes.

Drawing on these analytical considerations, the empirical study that follows is framed to examine how strategic choices by speculative housebuilders are made and changed during the institutional transition of housing market recovery to determine how this may be constraining housing supply and establish what influences may be had by housing policy in dealing with these challenges. The specific research questions are outlined in the methodology that follows. This analytical approach is used to yield new conceptual insights into how speculative housebuilders 'play the new game' of early housing market recovery, when the new rules may not be completely known or indeed, whether inertia exists as they wait for new institutional realities to be defined (Peng, 2003). These insights are then used to question whether we can predict the strategic choices made by

¹Market-led housing systems, typically found in advanced economies, are those in which housing is predominantly developed and proffered by market actors as a privatized commodity with relative affordability and is supported by fiscal and other public policies with the purpose of promoting speculative development and home ownership. Under such a system, housing supply is subject to cyclicity in the wider economy and the contribution of state-level provision is typically secondary to that of the market. Owner occupation is often professed as the ideal tenure in market-led housing systems because it generally offers relative stability, security and certainty when compared to alternative tenures such as social rented, private rented or shared ownership.

speculative housebuilders during shock and transition and consider how decision making in one point in time may lead to change that will affect action in subsequent phases (Peng, 2003).

Methodology

The empirical research presented here set out to examine what changes volume and super² speculative housebuilders - Britain's key delivery agents of new homes - made to their business behaviours since the onset of the recovery phase in the British housing market to consider how these institutionally constituted behaviours may be constraining new housing output. The aim of the empirical research was to critically evaluate whether volume and super British housebuilders have the institutional flexibility to increase housing output as the recovery phase matures. Three research questions framed the empirical investigation:

1. What changes have volume and super housebuilders made to their business behaviours since the onset of the recovery phase in the housing market;
2. To what extent are these institutionally-constituted behaviours constraining new housing output; and
3. What policy measures might be necessary to increase development activity as housing market recovery matures to achieve the UK Government's housebuilding ambitions?

The empirical research was undertaken between 2014 - 2015, five years after the British economy left recession and when national annual house price inflation demonstrated a

² Volume builders produce 2,000–5,000 units per annum and super builders produce over 5,000 units per annum (Payne, 2013).

positive upward trend from the previous deflation of 2008, 2009 and 2011. The research consisted of two stages. Stage 1 targeted elite in-depth interviews with Managing Directors and Land Directors of volume and super housebuilders operating in the regions of Central Scotland and Northern England. This enabled the examination of housebuilder recovery behaviour in distinct institutional contexts. Interviews were secured with Managing Directors and Land Directors from 15 housebuilders in total and were conducted between September 2014 and February 2015.

Stage 2 targeted elite in-depth qualitative interviews with CEOs and National Group Directors from the top 15 British housebuilders by turnover - who together produce approximately 50% of all new homes annually - to interrogate the recovery behaviours identified in Stage 1. Interviews were secured with CEOs and National Group Directors from 8 housebuilders and were conducted between April 2015 and June 2015. All interviews focused on examining: the impact of the recession on business strategy and culture; the character and key business phases of recovery; changes in land, construction, planning and marketing practices; policy and the role of government; solutions for increasing housing supply; and, industry resilience to future challenges.

The interviews were transcribed and manually coded as an analytical, heuristic tactic (Miles and Huberman, 1994). Three cycles of coding were undertaken to develop and reconfigure initial summative codes with longer passages of text into a set of descriptive codes to summarise and condense the data and generate themes. Repetitive patterns of behaviour and consistencies were used to establish the heuristic device that frames the results. Participants from both stages have been anonymised at their request to avoid identification and no quotes are attributable.

Whilst the methodological approach has significant strengths in its recruitment of an otherwise elusive elite market actor, which addresses an empirical gap in the housing studies literature, it does have its limitations. The study presents one perspective of housebuilder behaviour centred on volume and super providers and therefore discounts the contribution of SMEs and other housing providers to an understanding of housing supply constraints. The research also focuses wholly on the market perspective. Whilst it is not the purpose of the paper to investigate the state's perspective on housing supply constraints, the research does initiate an interest set of questions on the complexity of state-market relations in housing supply and opens up avenues for future research. These will be addressed in the discussion.

The results presented in the next section are arranged around a heuristic device that characterises how British housebuilders responded and adapted to the turbulent and transitional nature of housing market recovery. The heuristic device acts as a measure of recovery from the perspective of housebuilder behaviour and does not provide any quantitative indicators nor does it seek to comprehensively offer a view on what drives what happens during the wider institutional transition (i.e. an explanation of institutional change *per se*). The common trajectories evident in the interview data enabled three key phases to be identified, even if some differences in individual developer behaviours were evident or that different firms faced different institutional pressures. There are no specific time scales attached to the transition depicted as it is not a time related process (Peng, 2003) and there were no significant temporal benchmarks or brackets for organisational transformation made obvious during the interviews. However, the phases do have a temporal dimension in order to reduce the generalizability of propositions

across time (Peng, 2003). They depict the common institutional characteristics that demarcate how housebuilders responded to the changing institutional context of speculative residential development in the post-recession environment. Some comment is made as to what housebuilders indicate as factors worthy of mention in driving a shift between the phases. The data from Group Directors and CEOs offers a strategic perspective of business behaviours whilst the divisional interview data elucidates how these strategies played out regionally. Where distinct differences emerged in the Scottish and English approaches, these are acknowledged.

Results - The Three Phases of Recovery

The results below are arranged around the following three transitional phases of recovery - *the investment phase*, *the delivery phase* and *the growth phase*. These three phases depict the common trajectories that housebuilders elucidated in the interviews and act as a measure of recovery from the perspective of housebuilder behaviour. What follows below is the first phase of recovery behaviour - *the investment phase* - offering insights into how housebuilders reconditioned their behaviours as the green shoots of recovery emerged in Britain's housing market. During the interviews, housebuilders noted a range of indicators that signalled the 'start' of recovery in the housing market including volume and rate of house sales, price inflation, forward sales, using less incentives, increasing employment rates, growing land market competition, revenue growth and active land marketing, as one Scottish Divisional Managing Director neatly outlined "*...sales becoming easier and land becoming harder to get, they've just swapped round the other way from what they actually were*".

The Investment Phase - cautionary reconditioning and cash recovery

During the formative stages of housing market recovery, housebuilders revealed a much more cautious and diligent approach to investment than their self-proclaimed fervent boom phase behaviours of pre-recession, where volume output had been their primary driver of business activity (Payne, 2015). Most housebuilders found themselves still highly geared as a result of pre-recession lending, with a lot of bank debt despite significant write downs. Builders were thus concerned at this time with generating cash to reinvest into their businesses. For some, this meant raising cash through rights issues, whilst others focused on operationalising strategic land to develop at current market values and better margins. Each builder's approach in this phase was dependent on the peculiarities of their recessionary experience and financial status coming into recovery.

At the Group level, some housebuilders who had strategically chosen to invest significant sums of cash in the land market during the recession, in place of paying dividends to shareholders, had been able to take advantage of record low land prices and began building these sites out at better margins to generate cash return, as one Group Land Director noted:

"...because we could see that land at that time was at a once in a generation low price...even though we were in terrible shape as an industry, we believed in our long-term future and our shareholders accepted our arguments that you know, the long-term benefits of getting land in now at these prices will pay off".

Elsewhere, other housebuilders managed income streams in different ways to create cash with which to invest. Some induced sales on existing development sites by becoming

second charge lenders and offering deposits to lure purchasers, whilst others built 'on-spec' for forward delivery to the private rented sector.

For day-to-day divisional operations, this 'cash is king' mentality manifested in two key behaviours during the investment phase. First, for existing and planned construction programmes, was the shrewd management of work in progress (WIP), particularly for sites subjected to price deflation and margin squeeze by the recession, as one Scottish Divisional Managing Director noted:

“...unsold WIP on any site is controlled at £750,000 per site... what we’ve done is basically ensured that the Sales Team and the Construction Team are talking all the time. So if the Construction Team are building Plot 17, the Sales Team are selling Plot 17, They’re not selling Plot 21 or Plot 25”

Second, for new land investment opportunities, a more measured and discerning site selection process was enacted, with efficient capital return a primary decision-making factor. This 'de-risking' process meant builders active in the land market during this phase largely avoided sites requiring significant upfront costs or inefficient capital lock up, such as those with large scale infrastructure requirements, complex ground conditions, or planning risk *“...so when we're looking at new sites you know, if there was a million pound's sewer to go in, just not doing that...”*, as one a Group Land Director illustrated.

A degree of variance was evident among housebuilders in their attitude toward risk-taking and their individual ways of de-risking land during the investment phase. In the above case, the developer was unwilling to purchase sites with upfront capital spend, whereas below, another Group Land Director explained how their organisation focused on the better processing of risk to accommodate such challenges:

“...derisking is also about deferred payments... if we have to build a new roundabout, can that be after 500 units rather than after five?... So it’s not getting rid of risk, it’s just making sure it’s processed properly”.

This steely focus on de-risking, efficient return on capital employed and controlling work in progress was enabled by new group wide management and reporting systems, where Group Directors, and in some cases the CEO personally, could keep tighter reigns on divisional activity, as one Group Land Director noted:

“...I can see who is spending what, where, when and what disciplines we’re spending it on, how we are going to forecast against budget and where the kind of red lights are blinking and address it”.

This greater ‘interference’ by Group on the day to day activities of divisional offices shaped their land acquisition strategies by reducing flexibility and, in some cases, driving down land values, as one frustrated English Divisional Managing Director explained:

“It’s all about rate of return as well, that’s why it had to meet the group margins whereas before there was flexibility and you could have a plan to get back in a very competitive market to your standard rates for purchase. We then had to have them [margins] at day one, sometimes with even additional margin there because there was risks to cover. So we had cover built in which just drove land values down...”

When discussing this observation with that Division’s Group Land Director, he quipped:

“Guilty!... I think mostly though they grumble like hell... deep down I think they’re happier that we are a much more disciplined and rigorous company on land acquisitions now”

The perspicuous focus by housebuilders during the investment phase on return on capital employed enabled them to reinvest capital in their businesses in such a way as to generate ‘high reach’, increasing returns, increasing revenue and increasing margins. This paved the way for transition to increasing delivery and growth, as one CEO stated:

“So the land bank’s getting better spread and much bigger to create the capacity for the future growth. And with that comes ever-increasing return on capital employed for the time being because the more capital you put to use efficiently then the higher the returns, the higher the revenue and therefore you become a more efficient business”

For divisions, this perspicuous focus influenced builders' spatial preferences for land acquisition, since targeting more stable housing markets and producing traditional family homes offered the lure of margin stability, relatively better cost and value predictability and more secure return on capital prospects. Those non-market locations exhibiting price volatility or comparatively poor price inflation were largely avoided.

The investment phase was characterised by a housebuilding industry diligently using conventional business strategies to secure cash return and maximise return on capital. Rather than developing new capabilities and restructuring their businesses, housebuilders drew on existing organisational routines and repertoires (Peng, 2000) and refined their approach to deal with the institutional upheaval they faced. They sought to align their conventional business strategies to the transitory institutional environment to achieve strategic fit and keep a level of business performance to secure their survival during the early recovery.

The Delivery Phase - stability and margin recovery

The early recovery behaviours discussed above, with their steely focus on capital return and cost minimisation, enabled housebuilders to achieve margin recovery, yield a strengthening stability to their return on investment and make onward progress towards business expansion. This enabled housebuilders to shift from the investment phase to a period of housing delivery, where post-recession land investment was beginning to deliver better margins and return on capital figures, enabling further land investment and increased output. For divisions, this translated into a clear and growing pressure

from Group to convert this investment into results, as one Scottish Divisional Managing Director noted:

“we’re buying sites now with better margins, so we’re seeing margin growth recovery... you’re probably seeing return on capital figures getting better because you’re churning through the sites faster and your premiums are not growing... now Group are saying well I actually think you should be back up the upwards slope and pushing up the results”

However, most divisions noted a distinct caution in the early part of this delivery phase to pushing results too fast. Most spoke of finding the sweet spot between pushing prices in line with price inflation and demand but achieving the sales rates necessary to secure return on capital and margin, as another Scottish Divisional Managing Director noted:

“So there’s that stability that engenders that sort of recovery... it does still ebb and flow a little bit, so it is a fragile recovery because if we push prices too hard it slows immediately”.

All housebuilders agreed that the delivery phase (and to a certain extent the investment phase preceding it) was stimulated to a significant degree by the Government’s Help to Buy³ policy - a mechanism for stimulating demand - for which they were unanimously

³ Help to Buy (see <https://www.help2obuy.gov.uk>) was introduced by HM Government in 2013 as a programme to help first time buyers and those looking to move home or purchase residential property. The programme has various interventions. The most relevant is the equity loan. This sees the buyer contribute a 5% deposit which is topped up by a Government equity loan of 20% of the property value (40% within London). It is available for only new builds under £600,000 in England and £300,000 in Wales. The loan is interest free for the first 5 years.

positive. Help to Buy enabled builders to more confidently commit to construction programmes, increase sales rates projections, reduce their reliance on inducements such as part exchange, better manage work in progress, predict future cash flows and maximise land values to secure more development sites. The policy provided builders with confidence and opportunity to transition from investment to delivery and increase the amount of housebuilding.

This confidence appeared to reach landowners too, who housebuilders revealed started to add financial pressure to maximise land values. In Scotland, one particular Divisional Managing Director commented on the emergence of contract obligations to maximise land value when appraising development sites:

“...anything that was negotiable was negotiated to the N’t^h degree... landowners would chase every penny. So a lot of contracts you’d have an obligation to maximise value. So landowners would... say well I think you can design the site a different way that’s cheaper; prove you haven’t considered it”.

During the delivery phase and despite emerging house price inflation, builders noted two key recovery constraints that affected their ability to step up housebuilding rates and respond to the relatively increasing demand. Whilst these were differentially felt depending on location (England and Scotland), they did coalesce around two noteworthy points. First was the lack and increasing cost of skilled labour and materials, which reduced the net gain from post-recession house price inflation and frustrated site starts and construction management, as one Scottish Divisional Managing Director noted:

“So where you see all these things saying house prices went up 10%; yeah, but bricklayers actually went up 9% in cost. It doesn’t seem like a big thing but the industry is absolutely dying on its feet for bricklayers and bricks. Now we can’t actually do our job because there’s a lack of materials and there’s a lack of labour and the cost of what you can get is extortionate”.

Second, site start delays appeared as a particularly frustrating constraint noted by all housebuilders during the delivery phase, which impeded their ability to ‘get on’ with increasing housing output. The delays in local planning authorities discharging planning conditions were, housebuilders felt, down to a lack of resources and a symptom of the austerity cuts made by central government during the financial crisis. Housebuilders responded to this by increasing the spread and range of housing sites to maintain production and delivery rates, as one Scottish Divisional Managing Director noted:

“... you cannot predict how long it’s going to take to get on-site, it’s really, really hard. And therefore it’s hard to predict what your profit’s going to be; that’s why you need more sites, so you can ... you can balance them off against each other... if one site slows down we can speed another one up to fill its place”.

Related, housebuilders also noted their general struggles in the time it took to deal with local authority planning departments in terms of pre-application discussions and the processing of planning applications. This again, they felt, was down to the lack of financial

and labour resources in planning departments, with most housebuilders commenting on the loss of experienced planners who had retired during the financial crisis that were either not replaced or replaced by less experienced planners.

The delivery phase revealed a speculative housebuilding industry stuck to established practices rather than embracing new ways of doing business to overcome the constraints they faced in the post-shock context. Housebuilders' short-term reactions to shock and the resilience of their long-term behaviours to transitions raises questions about whether these constraints may continue to prevail if housebuilders do not restructure or develop new market-based capabilities, unlearn existing organisational routines, or search for new competitive advantage (Peng, 2003). This issue will be returned to in the discussion.

The Growth Phase - resilience and controlled growth

Beyond the delivery phase, a number of housebuilders were beginning to grow their businesses through two means: 1) buying more land and opening more outlets⁴ and 2) enhancing divisional capacity. They noted the key drivers of this growth as being increasing sales rates, price inflation and relatively low interest rates, in addition to Help to Buy and the NPPF⁵, which were cited as two particular policy measures supporting such growth. How housebuilders sought to achieve this growth depended on their regional and spatial ambitions in regard to their target land and housing markets. One

⁴ An outlet is a 'shop front' - a site with an active construction programme and new homes marketed for sale. Bigger housing development sites in multiple ownership with multiple housebuilders constructing homes will have multiple competing outlets.

⁵ The National Planning Policy Framework (NPPF, 2012) for England and Wales introduced a clear requirement for local authorities to keep development plans up to date to ensure a deliverable 5 year land supply, with a 'presumption in favour of sustainable development' to enable development if this clear requirement was not met. Whilst the NPPF was directly beneficial to English divisions of British housebuilders, the benefits were felt at the Group Level.

CEO noted the logic of outlet expansion as a primary driver of business growth, highlighting market absorption rates as a key impediment to divisional output growth:

“The only way you grow a housebuilder though is to have more outlets. You cannot say to these guys ‘Can you squeeze out more from your existing sites?’, you’ve got to create the ability to grow the number of sites. Because there is a sales rate in the industry, depending where you are... on average it’s about 0.65 for the country. So actually that sets your bar...It’s about 30-35 private houses a year per site... And therefore if you want to have a thousand units per division, you’ve got to have 20 sites”.

Most CEO’s and Group Directors spoke of plans to reopen regional divisions closed during the recession. Some had created embryonic divisions in which they were buying land with a view to starting up business in the coming years. Like the investment phase, most housebuilders continued to target stable housing markets, in place of those with low or volatile price inflation because of the lure of margin stability, relatively better cost and value predictability and more secure return on capital prospects. Other builders spoke of splitting up existing divisions to facilitate business expansion and increase development rates, as one Group Director explained:

“...there is a kind of natural limit of how many units an office can deliver without sort of really badly creaking at the seams... The way you build extra capacity is really by having more offices, in areas where you have more confidence. And you’ll be building

there already, it's just about... reducing the operator footprint of each office by appointing another".

These strategies led housebuilders to focus on acquiring a range and spread of land investments across their divisional areas rather than increasing build out rates on existing sites or developing on a few very large sites, as one CEO commented *"If you buy a lot of land on a hundred sites, then you've got a hundred shop fronts"*. From a Divisional perspective, delivering such growth based on adherence to earlier investment and delivery phase behaviours of *"...controlling our work in progress, making sure our capital lock-up is sensible and measured and not exposing our business to too much risk"*, as one English Divisional Managing Director commented, as well as increasing the number of outlets to meet growing delivery aspirations. However, divisions remained cautious about overextending resources in response to Group visions for growth, as one Scottish Divisional Managing Director noted:

"So we're currently trying to increase the number of outlets and our sales rate to meet those aspirations. You know, in a perfect world we'd have 20 outlets doing 30 a year, 600 units with full margin ... And so we're building the business back up, we have the capacity to do 600/650, with no real aspiration to drive it beyond that because I think that's when things start to creak."

Beyond these internal business strategies and plans for growth, housebuilders revealed a significant list of 'recovery constraints' they argued were affecting their prospects to increase housing delivery under current institutional arrangements and were likely to

continue as housing market recovery matured. First, housebuilders were nervous of a 'false spike' in demand created by Help to Buy and were cautious to rely on it as a means of continued growth. Scottish housebuilders in particular faced less certainty over the longer-term Government commitment to the scheme and were more nervous of the market dampening if it were to be cancelled and were keen to get use to life without it. Comparatively, for the English housebuilders, where Help to Buy faced a more certain future, the policy remained a very positive intervention during the growth phase.

Second, housebuilders unanimously cited planning delays as a worsening constraint. The speed at which housebuilders were beginning to 'churn through land', when compared to earlier in the recovery, was compounding this existing constraint. Housebuilders also cited the politics of planning, the poor understanding of development economics by elected members and the short-termism of policy making as additional frustrations impeding housing output. Despite the comparatively more positive policy picture painted by the English builders regarding the NPPF (DCLG, 2012), the Scottish builders noted a growing difficulty in getting quality planning permissions, when compared to two or three years before, a fact they put down to local authority perceptions of recovery and margin growth and a clamour for developer contributions.

Third, housebuilders continued to experience skills and materials shortages as with the growth phase, which now was beginning to compound in impact delivery rates, despite the upward trend in house price inflation and demand. One English Divisional Managing Director spoke candidly about their growing worry over the skills shortage and their plans for "*... modular roof construction, bathroom pods, kitchen pods, which are manufactured and constructed in factory-controlled environments and then delivered to*

site as a finished article” as possible solutions in the future. Finally, most housebuilders noted mortgage lending constraints as impending greater volume delivery, though this was in part eased by Help to Buy and historically low interest rates, both somewhat cushioning the blow.

The growth phase shows how housebuilders continued to take refuge in their conventional strategies to navigate through the recovering housing market and were able to sustain their competitive advantage by investing capital in land and development activity in well-known housing markets, where price stability offered a more secure prospect for margin growth. It also revealed the underlying sources of institutional pressure that constrained their ability to increasing housing supply and their ambitions for further growth.

Table 1: Summary - The Three Phases of Recovery	
Phase	Key Characteristics
<i>Investment</i>	<ul style="list-style-type: none"> • Focus on return on capital employed (ROCE) • Generating cash to reinvest in the business through inducing sales, rights issues and operationalising strategic land • Managing work in progress (WIP) to avoid significant capital lock up • De-risking new land investments by avoiding significant upfront costs, inefficient capital lock up, challenging ground conditions or planning risk • Spatial preference for stable housing markets and avoidance of price volatile non-market locations • Product preference for traditional family homes instead of flats to more efficiently manage WIP
<i>Delivery</i>	<ul style="list-style-type: none"> • Focus on margin growth and continuing focus on ROCE • Increasing spread and range of housing sites to maintain production • Increasing construction programmes to match increasing sales rates

	<ul style="list-style-type: none"> • Lack of skilled labour and materials with associated cost increases • Site start delays caused by lack of resource in local planning departments
<i>Growth</i>	<ul style="list-style-type: none"> • Increasing the range and spread of land investments • Opening more outlets to drive sales rates • Opening up divisional / regional offices to facilitate business expansion • Continuing focus on stable housing markets exhibiting steady price inflation. Avoidance of volatile housing markets • Worsening planning delays and perceived obstruction by elected members with poor understanding of development economics • Worsening skills and materials shortages • Mortgage lending constraints

Discussion

This paper has presented an analysis of how Britain's biggest housebuilders responded to significant institutional shock in their operating environment caused by the vicissitudes and volatilities of housing market cyclicity. Using an analytical framework informed by an institutional transitions thesis, it has been shown how British housebuilding firms were, ultimately, able to survive the recession and grow their businesses, albeit at different rates and through different means, by adopting strategies focused on the three phases of *investment*, *growth* and *delivery*. The research has revealed a series of recovery constraints that housebuilders argued impeded growth, yet has also presented a picture of a speculative housebuilding industry stuck to established practices (see North, 1991) rather than embracing new ways of doing business to overcome these constraints in the post-shock context.

In doing so, the paper provides an empirical advancement to the housing studies literature by capturing the otherwise elusive behaviours, motivations and attitudes of

speculative housebuilders. It also provides new data on how housing supply is constrained in the post-recession context and offers a conceptual advancement to existing understandings of both housebuilder behaviour and housing supply. This addresses two significant knowledge gaps in the housing studies literature and has international relevance to market-led housing systems around the globe where private provision forms a dominant feature of housing supply. The research also draws attention to the efficacy of taking an institutional perspective to conceptualise market-led housing systems and their supply characteristics. Indeed, the use of an institutional transitions thesis to frame the empirical investigation elucidates the complexity and nuance of the supply side response by market actor that is otherwise missing from conceptualisations of housing supply constraints.

Research Reflections

Despite a fundamental change in the housing and finance markets caused by the global financial crisis, British housebuilding firms were, ultimately, able to survive the recession and grow their businesses, albeit at different rates and through different means, by adopting strategies focused on the three phases of *investment*, *growth* and *delivery*. In some ways, it could be argued that housebuilding firms did not need to develop significantly new or fundamentally different capabilities to deal with such perverse and powerful shock, since policy measures aimed at stimulating demand such as Help to Buy removed some of the heat of the recession. Indeed, much of the criticism levied at Help to Buy centres on its artificial inflation of house prices, the corresponding increase in revenue and profits of speculative housebuilders and the overall reduction in housing affordability with little guarantee of overall increases in supply. Arguably, this policy approach enabled housebuilders to largely carry on as normal with their conventional

land acquisition and construction efficiency strategies (Payne, 2013, 2015) by making some adjustments to the spread and range of housing sites acquired and focusing new development in 'safer' housing markets. In this sense, it could be argued that recovery was policy-induced and not market-led, with supply being underwritten to some extent by the Government. The unintended consequences of this style of policy intervention and its suitability during the early recovery phase as a means of easing supply constraints are worthy of critical reflection in future episodes of market turbulence.

Housebuilders' strategies could be interpreted as a rational choice given the bewildering and turbulent institutional environment they faced. Indeed, when the rules of the game are highly uncertain, many organisations will be unable to develop new capabilities and so will virtually by default continue to carry out much the same activities in similar ways as before (Peng, 2000, p. 145). In this sense, housebuilders successfully aligned their conventional business strategies to the transitory institutional environment, achieving strategic fit and keeping a level of business performance that secured their survival during recession and their growth during recovery. Whereas Payne (2015) presented some evidence of housebuilders 'unlearning' their fervent, pre-recessionary behaviours in early recession, this research shows evidence of an industry diligently using conventional business strategies to maximise return on capital. In this sense, rather than developing new capabilities and restructuring their businesses, housebuilders drew on existing organisational routines and repertoires (Peng, 2000) and refined their approach to deal with the institutional upheaval they faced. Some may argue housebuilders strengthened and leveraged existing ties with Government to secure a more comfortable economic and policy environment in which to respond to such upheaval. Whether

housebuilders have a better 'fit' with the pre-transition institutional context is open to question.

The extent and permanency of the recovery constraints identified by housebuilders during the research is unknown, but it is likely to require continuous effort by housebuilders and other incumbent actors to address multiple divergent demands and achieve longer term success (Smith and Lewis, 2011). This raises questions over whether policy makers and the housebuilders themselves have failed to appreciate that institutional change may make their previous fit with the institutional environment obsolete under the new circumstances. In this sense, the 'recovery constraints' faced by housebuilders may prevail unless they restructure and develop new market-based capabilities, unlearn existing organisational routines, or search for new competitive advantage (Peng, 2003). Indeed, a housebuilding industry where 'recovery' business strategies focus on efficient capital return and not volume output will have significant consequences for housing supply in the short to medium term.

Yet, housebuilders may simply be waiting for new institutional realities to emerge and, in doing so, exhibiting a level of institutional inertia that reflects this 'business as usual' approach. Despite the research showing housebuilders transitioning from a period of investment and delivery to business growth, housebuilders remained cautious and targeted such growth in areas exhibiting stability in price inflation and demand. For those markets where recovery was less pronounced or which took longer to play out, a level of inertia is arguably present.

What might the state's perception or expectations of the transition be? It is clear housebuilders benefited greatly from demand-side stimulus and a more development-friendly policy framework, more so in the English than the Scottish context. Some may argue these interventions to be reflective of neoliberal political arrangements designed to enable market driven change more freely. The expectation then, that housebuilders will reciprocate with increasing production rates, is a tempting proposition. However, as this research has shown, the driving forces behind speculative development activity in the early recovery phase was not the result solely of demand stimulus or policies in presumption of development, but rather, of a complex set of business strategies, shaped by the transitory institutional environment.

Whether there is common understanding and congruence between state expectation and market behaviour remains to be seen and should be the topic of future research. Indeed, where this research revealed under resourced planning departments and skills and materials shortages as 'recovery constraints' impeding growth, it also revealed a speculative housebuilding industry stuck to established practices rather than embracing new ways of doing business to overcome these constraints in the post-shock context. This may go some way to explaining why post-recession housebuilding numbers remained low in spite of demand-side interventions and recovering prices. Such offers some insight into housebuilders' short-term reactions to shock and the resilience of their long-term behaviours to transitions. It also elucidates the complex interplay between structural recovery constraints and actor behaviour in explaining housing supply constraints in the post-recession context.

Barras (1994) argues the complexity of building cycles illustrates the conundrum facing developers and points to why it is facile to simply ask them to learn from past mistakes - the most difficult problem they face is not to anticipate future demand (which research and policy interventions can help with) but to anticipate the reaction of their competitors to the same demand signals (which research and policy interventions cannot help) (p, 196). In this sense, the development of longer-term resilience through short term transitions points not to a focus on demand stimulus, but rather, to a more detailed understanding of how housebuilders compete. Previous research tells us that housebuilders compete not in the housing market, but rather, in the land market (Payne 2015, 2013), through the control and acquisition of their raw material and the minimisation of cost and risk thereafter through construction efficiency. As such, the sharing of capabilities between the state and the market in the post-recession context to speed up housing supply, if based on demand stimulus rather than increasing the flow of development land, is likely to yield *investment* and *delivery* but not sustained *growth*.

Looking Ahead

What is the legacy of recovery and how might housebuilders better prepare for future institutional shocks in their operating environment? To some extent, housebuilders' recovery behaviours imply industry stability to future economic shocks - the research has revealed a diligent and cautious housebuilding industry focused on efficient return on capital employed rather than pushing volume output. This was arguably enabled by Help to Buy. Housebuilders might be tempted to stay in this recovery way of behaving for longer, as a way of shielding themselves from ongoing recovery constraints in their operating environment and better deal with a future collapse in demand. Such an instance would likely require policy change to further stimulate development or build

capacity in the market. Whether the private sector is willing and able to step back into the role of risk taking remains unknown. Some may argue the industry to be institutionally 'stuck', locked into old ways of generating revenue and profit but without the corresponding volume output. Others may criticise the Government for artificially underwriting the housing market through Help to Buy. Nonetheless, the effect on housing supply under this scenario could be detrimental and points to the policy limitations of an over reliance on speculative housebuilding as a key delivery vehicle of housing policy.

How might policy makers better facilitate housing growth in the early recovery phase? The British example has shown how the complex institutional arrangements emerging out of recession-induced shock to Britain's housing market presented housebuilders with a turbulent business environment and a series of recovery constraints impeding growth. While policy makers sought to stimulate demand as a means of encouraging supply, they overlooked the deeply entrenched and pervasive business practices of housebuilders, focused on assimilating risk through outlet expansion in stable housing markets and efficient return on capital. Whilst demand stimulus undoubtedly helped housebuilders generate revenue to reinvest and increase supply, this spike in development activity placed significant pressure on planning departments and skills and materials suppliers. Housebuilders' propensity for growth through outlet expansion will likely mean that planning authorities have to process applications on a greater spread of housing sites and that land markets will become more competitive, with a potential for land price inflation, particularly where housing land is restricted in areas of high demand. Policy measures that increase funding to local planning authorities, require elected officials to have a better understanding of development economics and require local planning authorities to allocate a greater spread of housing land, discouraging the use of only very large sites,

will go some way to addressing these constraints. Other policies that inject competition into the land market, through use it or lose it powers, and encourage landowners to release land for housing development, through vacant land levy, will also ease these recovery constraints. Wider industry programmes to address skilled labour and material shortages would be equally beneficial.

Concluding Comments

The research has revealed how Britain's biggest housebuilding companies managed to assimilate the pervasive aspects of a turbulent development context by devoting considerable resources to de-risking land purchases, controlling work in progress, minimising upfront capital expenditure and maximising efficient return on capital employed. Housebuilders took refuge in these strategies to navigate through the recovering housing market and were able to sustain their competitive advantage by investing capital in land and development activity in well-known housing markets, where price stability offered a more secure prospect for margin growth. Housebuilders did face some underlying sources of institutional pressure during the delivery and growth phases that constrained their ability to increasing housing supply and their ambitions for further growth.

Drawing on this contribution to knowledge, how may we open up space for housebuilder behaviour to be different or take a transformative approach to achieve change in market-led housing systems in the 21st century? The fundamental question remains, if policy makers don't initiate change, will housebuilders go it alone, especially if the environment is risky and disruptive? This research shows in the British context how housebuilders were institutionally stuck into old ways of doing things, which ultimately, was enabled by

significant government intervention stimulating market demand. This indicates that, in future episodes of extreme market cyclicity, this 'rigid' system may not be able to correct itself and will be dependent on public action to ensure private sector housing output. In this sense, transformation may fall into the remit public policy intervention before market behaviour, to secure housing supply outcomes. Such points to the tense and somewhat problematic relationship between the state and the market in housing supply. State theorists should look to (re)examine the regulatory logic of state actors in housing supply and develop a future research agenda encompassing the dynamic relations between the state and the market in market-led housing systems to critically evaluate how current regulatory logics may impede market provision.

Finally, what can the findings of the particularities of this institutional transition, with its dominant economic and financial framing, tell us about how housebuilders may respond to other institutional shocks or in different international settings? In the British case, housebuilders demonstrated a doubling down of their conventional business strategies around land acquisition, construction efficiency and return on capital. Such elucidates the fundamental role of risk management in the model of speculative housing provision, and market-led housing systems more broadly. Housing scholars should therefore consider the risk appetite and risk profiles of speculative housebuilders when undertaking comparative research to account for how housebuilders may better insulate themselves to future institutional shock and how policy makers may better secure their housing supply fortunes.

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