HOUSEBUILDER NETWORKS AND RESIDENTIAL LAND MARKETS

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Abstract

The commercial prospects of speculative housebuilders depend crucially on successful land acquisitions. This paper presents new evidence revealing the importance housebuilders attach to networks with other important actors in securing future land supplies. Since networks depend on trust, reputation and voluntary collaboration, they indicate the importance of social relations within the industry. The paper argues that UK speculative housebuilders rely more on networks than markets to source land and that they structure those networks to enhance their own competitive positions. Reflecting Granovetter's (1973) belief in the strength of weak ties, the paper emphasises the breadth not depth of housebuilder networks and contends that social relations within the industry are primarily dependent on pragmatic considerations of mutual self-interest.

1. INTRODUCTION

Success in the land market is crucial to the commercial prospects of any housebuilder. Yet, of all the raw materials required for housebuilding, land is the most problematic to source. It is used extensively, its quality is heterogeneous and its supply is fraught with uncertainty. It cannot simply be ordered 'off the peg' like bricks or other raw materials. Indeed, its sale may never be publicly advertised, let alone take place through open auction. This means that in the UK at least, where the supply of development land is additionally constrained by state regulation, speculative housebuilders have become 'land-focused' rather than 'customer focused' (Barker, 2004) since the fiercest competition takes place over access to land, rather than over the quality of the built product.

This central importance of land may partly explain differences in the structure and organisation of UK housebuilding compared with other countries. In a North American context, Buzzelli and Harris (2006) argue that housebuilding is 'stubbornly local', and point out that this was so in the UK until the post-war period. In recent decades, UK housebuilding has become ever more concentrated. In 1990 there were 32 companies with 500 or more annual housing starts (Nicol and Hooper, 1999). Although this number increased to 43 by 2000, the market share of the top ten housebuilders by unit output rose from 25% to 44% over the same period, while the number of companies with an output of 2,000 or more units increased from 8 to 14 (Wellings, 2001).

There are several reasons for this growing concentration. Ball (1983) argues that acquisition of competitors' land banks was a major driver for takeovers and mergers in the 1970s. He also

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suggests that the dependency of small and medium-sized companies on banks for finance prevented them from acquiring land cheaply during market slumps. Significant takeover and merger activity during the 1980s and 1990s reflected the desire of housebuilders to improve profit margins in relatively poor housing market conditions (Wellings, 2006). Ball (2008) further argues that growing concentration in the 2000s was driven by a general shortage of land, penalising new entrants to the industry and creating more favourable conditions for larger producers.

Success in the competition for land requires both specialist expertise and significant resources. Indeed, it has become common practice for housebuilders to try to secure their land supplies at least two to three years in advance, often through options or conditional contracts with vendors. To achieve this, housebuilders' land buyers hunt out land and develop extensive contacts with potential vendors and agents. Yet, despite widespread evidence that the operation of the residential land market is far removed from the neo-classical model of competitive markets, remarkably little empirical research has been published on how land markets really function as institutional networks comprising rules, conventions and relationships.

This paper presents new evidence revealing the significance that housebuilders attach to networks with other development actors as a means of delivering future land supplies. It seeks to re-cast theoretical conceptions of land markets towards a more institutionally grounded notion of socially embedded networks of relations. The empirical work in the paper is based on in-depth transcribed interviews conducted in 2008 with senior representatives of a stratified sample of 19 UK housebuilders, chosen from the population of 87 companies listed by Wellings (2006) as completing 100 or more new units in 2005. As the empirical analysis is intended to provide insights into the workings of complex phenomena rather than to test the robustness of theoretical propositions, we made no attempt to select a statistically representative sample. Rather we used a purposive sampling approach to identify respondents that were broadly representative of the industry's structure. The sample included four volume builders (each with an annual output of over 2,000 units) seven medium-sized builders (each delivering between 501 and 2,000 units) and eight smaller builders (producing between 101 and 500 units) (see the Appendix). One volume builder agreed to participate but cut the interview off midway. Several others firms of varying types and sizes were unwilling or unable to participate.

The interviews were semi-structured and covered the same broad themes. They were conducted by two of the authors and an experienced qualitative researcher, and each lasted for between 60 and 90 minutes. The interview participants were identified by an internal referral process, after initial contact had been made with land buyers by email. The participants were nominated by colleagues on the basis that they had an intimate knowledge of the strategic priorities and practices of their own firms and in many cases (as a result of the moves between companies) of several key competitors. The questions were designed to encourage interviewees to reflect on their wider experiences and to consider the behaviour of a variety of different types of firms. This broad perspective was complemented by an interview with a representative of the UK's largest land agent who has interacted with many builders of different types and sizes. Although the interviews were completed early in the credit crunch, they were largely backward looking and as a result have much to say about the essence of market relationships which, when confidence returns, are likely to become ever more important.

The paper addresses three research questions:
1. Why and to what extent do networks matter in UK residential land markets?
2. Which actors are most closely embedded in such networks and which more distant?
3. What role do trust and reputation play in the operation of residential land markets?

The next section sets out the conceptual framework for the research by developing an institutional view of the importance of networks, trust and reputation to the effective operation of residential land markets. In the following three sections, we explore how this works in practice by looking specifically at housebuilders' relations with each other and with landowners, development agents and the local state. The final section draws our findings together and responds to the research questions.

2. THE SOCIAL EMBEDDEDNESS OF ECONOMIC LIFE

2.1 Networks as a form of economic organisation

Networks have long been recognised as central to housing production. Ball's (1983; 1998) concept of a 'structure of building provision' provides a conceptual device for specifying the network of organisations and markets involved in a particular form of development. Each structure of provision is unique because it is associated with historically specific institutional and other social relations. Numerous models of the development process have also sought to depict the linkages between developers and other important actors in the development process (see Healey 1991 for a review). Yet, as Frances *et al.* (1991, p.15) maintain: "The real problem with networks is not to justify them as an object of study but to analyse how they work." Although residential land markets are widely thought to operate as well-connected networks, remarkably little is actually known about the role of developer networks in securing the effective delivery of newly-built homes. As a precursor to our own research findings, we reflect on three important aspects of networks: first, their distinctiveness from markets and hierarchies; secondly, their social embeddedness; and thirdly their inherent dynamism and even instability.

Whereas markets, in the neo-classical sense, are perceived to co-ordinate social and economic life through prices, while hierarchies do so through authority, networks operate primarily through trust and collaboration (Bradach and Eccles, 1989). A network has been defined as "An extended group of people with similar interests or concerns who interact and remain in informal contact for mutual assistance or support"[4]. Indeed, van Bortela and Elsingaa (2007), who looked at Dutch urban renewal identify resource interdependencies as a key feature of policy networks. These interdependencies may well be multilateral, asynchronous or sequential, with some powerful actors exploiting others through 'hit and run strategies'. Significantly, they argue that such strategies can eventually turn against those who use them and so undermine network performance.

Castells (2000) highlights the rise of the network society created by the growth and diffusion of new information technology. He argues that this has produced a more open and decentralised social structure, a more footloose spatial distribution of activity, and a virtualisation of markets. Buzzelli and Harris (2006), recognising that housebuilders are often almost like 'virtual firms', depending primarily on subcontractors, argue that networks are central to understanding the behaviour of firms. From work on Dutch residential land markets, however, Needham and de Kam (2004) suggest that networks have long provided an opportunity to buy land by approaching suppliers or intermediaries directly, rather than relying on the anonymity of markets or the dependent nature of hierarchies.

Since networks depend on trust, reputation and voluntary collaboration, they indicate how deeply economic life is often embedded in social relations. As Granovetter (1985, p. 490) makes clear: "The embeddedness argument stresses instead the role of concrete personal relations and structures (or 'networks') of such relations in generating trust and discouraging malfeasance. The

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[4]   http://www.thefreedictionary.com/network

widespread preference for transacting with individuals of known reputation implies that few are actually content to rely on either generalized morality or institutional arrangements to guard against trouble." Of course, not every form of transaction is as socially embedded as this, for as Powell (1990) suggests, what makes networks preferable to markets and hierarchies as a form of economic co-ordination is the particular importance of relationships, mutual interests and reputation to the transaction. Powell's contribution emphasises how the social embeddedness of networks is evident through their emphasis on reciprocity, collaboration, complementary interdependence, reputation, communication, and an orientation towards mutual gain.

This point highlights the inherent dynamism and at times instability of networks as a basis of social and economic activity. Optimistically, Vogel (2005) contends that network action can be defined as the collective, focused energetic behaviour of social networks. But O'Neill and Whatmore's (2000, p25) study of the growth and development of a landmark hotel, restaurant and winery complex demonstrates just how unstable networks can sometimes be – "arising for specific purposes and generating the conditions for their endurance and redundancy". Doak and Karadimitriou (2007), moreover, see property development as the spatial product of a dynamic network of actors, who operate sometimes individually and sometimes collectively and who may compete as much as co-operate in clusters. This chimes with Ball's (1998) view that 'structures of provision' experience continuous change, as a result of changing market pressures, technologies, tastes, policies and individual business strategies. Indeed, Sexton *et al.* (2006, p. 13) emphasise the importance of "fluctuating inter-organizational networks of varying complexity" to small construction firms to allow the diffusion of technological innovation.

While such themes have been taken up extensively in transaction cost economics, especially in relation to their impact on the behaviour of firms and organisational structure (see Williamson, 1981 or, for a review of empirical applications, Shelanski and Klein, 1995), this paper contributes to a growing literature in which markets and simple economic constructs are not taken as a given. Indeed, Gabriel and Jacobs (2008) argue for a 'post-social approach' to housing research giving a range of specific examples relating to dwelling and domesticity, the operation of housing markets, housing policy and neighbourhood planning. This, they argue, allows researchers to unpack economic models through scrutiny of actors involved in housing market processes. The work presented here answers this call, rather than following the traditional economics approach as reflected in recent official reports on housebuilding (Barker, 2004; Calcutt, 2007; Office for Fair Trading, 2008).

The relatively rare network-orientated research into speculative housebuilding has concentrated on the construction process rather than the often more demanding task of managing land supply. Two North American studies are especially relevant. Eccles (1981) investigated 'stable and continuous' subcontracting relationships developed over long periods by 26 homebuilders in eastern Massachusetts and coined the term 'quasifirm' to describe the essential qualities of the network he discovered. Buzzelli and Harris (2006), developed the view of Gordon and McCann (2000, p. 520) that industrial clusters "reflect not simply economic responses to the pattern of available opportunities and complementarities, but also an unusual level of embeddedness and social integration", by arguing that the housebuilding industry operates in much the same way as a fluid network of small, interdependent firms. They note the strong interaction between firms, highlighting shared contacts and suppliers, subcontracting, and frequent negotiation and communication regarding sale and shipping of goods. They point to unwritten understanding of 'normal' practice and acknowledgement of mutual or cooperative obligations. The benefits to operating within such a network include adaptability and the ability for firms to respond rapidly to changing market conditions.

So while we can recognise the potential of network theory for helping to understand how residential land markets operate in the UK, at this stage we can merely pose research questions. The above review suggests two specific questions that deserve to be addressed in the context of the UK speculative housebuilding industry. In our own empirical work, we therefore first ask why and to what extent do networks matter in residential land markets, before turning to consider which actors are most closely embedded in such networks and which more distant.

2.2 The importance of trust and reputation to network development

Trust and reputation are said to play crucial roles in binding networks together. According to Putnam (1993), trust is an essential component in building social capital and improving society's efficiency through co-ordinated action. Hardin (2006) identifies three main conceptions of trust. The first - encapsulated interest, is based on the assumption that the potentially trusted person has sufficient interest in the relationship with the trusting to provide the incentive to remain trustworthy. The other two are what Hardin calls moral or dispositional conceptions of trust, which are grounded respectively in the potentially trusted person's moral commitments or psychological or character disposition. He comments that these latter two "have so far led to few if any explanations other than the definitional, virtually tautological explanation that those who are trustworthy out of moral or character commitments will be trustworthy" (Hardin, 2006, p. 26). Hardin's own thesis of trust is thus grounded in the concept of encapsulated interest, which provides a helpful reference point for our own later evaluation of the extent to which housebuilders trust other development actors.

The importance of trust in business relationships reflects the fact that markets function imperfectly. As Gössling (2004, p. 675) comments: "In a perfect market, actors do not have to trust each other. Information is perfect and costless, contracts are complete, and enforcement of contracts is costless in the sense that it is not related to any transaction costs." Trust potentially provides an efficient alternative to reliance on contracts, guarantees, insurances and safeguards as a means to cope with market imperfections. According to Macauley's (1963, p. 58) seminal paper, for example, "businessmen often prefer to rely on 'a man's word' in a brief letter, a handshake, or 'common honesty and decency'- even where the transaction involves exposure to serious risks." Vulnerability thus remains an essential component of trust since irrespective of how far trust "alleviates the fear that one's exchange partner will act opportunistically . . . the risk of opportunism must be present for trust to operate" (Bradach and Eccles, 1989, p. 104).

This explains why, at least at a personal level, trust is seen as dependent on relative proximity to the person to be trusted (Brien, 1998) and knowledge of their likely motivations (Hardin, 2006) and capabilities (Larson, 1992). Indeed Gössling (2004), who argues that trust between actors can reduce transaction costs, suggests this is more likely to occur when actors have the spatial capacity for direct, personal interaction. Reputation and trust are thus intricately connected, for while the former is about whether we believe a particular agent to **be** something, it derives from the latter, which is about whether we expect that agent to **do** something (Cabral, 2005).

According to Anderson and Shirako (2007, p. 5), reputation is defined as "the set of perceptions a community forms about the personal qualities of one of its members." Their research suggests that the widely-perceived functional link between behaviour and reputation may be valid only to well-known individuals, with less socially visible individuals able to hide in the background. This connects with Granovetter's (1985) emphasis on the importance of personal experience rather than general information about a prospective business partner. Although Granovetter (1992) argues that any actor connected into the widest institutional set of networks has an enormous advantage, distant reputations may prove less reliable than those experienced first hand. Here,

Larson's (1992) study of telephone equipment companies is especially intriguing since the comment made by one interviewee about the industry that "It is a very small community in which certain people have established credibility and a reputation. The key is who you know. You can put them all in our parking lot out there" is, as we shall later see, echoed in our research.

Crucially, then, reputation is not simply a reflection of someone's record of past deeds or even an accurate predictor of future disposition, important as these qualities may be, but rather "its great importance in social life is *the incentive it gives the person who has a good reputation to behave in ways that sustain that reputation*" (Hardin, 2006, p. 24, italics in original). Thus reputations, like trust are socially embedded and operate primarily through social discipline.

While trust and reputation are developed through social relations between individuals, their institutional dimension is equally important, for as Tait (2009) argues, institutions and systems can become equally important objects for trust as people. In this context, Höppner (2009) explores the extent of trust in the institution of regulatory planning by looking at whether participants in the process trust planning committees. This, she found, to be dependent on the extent to which participants believed members of the committee to be competent, honest, open, fair, reliable, reciprocating, respectful and committed. Tait (2009) analyses a particular development dispute between local planners and a housebuilder. He attributes the breakdown of trust in this case to the housebuilder's perception of planners as unreliable and incompetent and to the planners' view of the housebuilder as aggressive, prone to cutting corners and unconcerned for wider values. In both cases, distrust was based not merely on previous, direct experience of the other party, but also on perceptions of what they represented.

Since the literature on trust and reputation highlights their important adhesive role within social and economic networks, their contribution to the effective operation of the residential land markets becomes an essential component of any study of housebuilders' networks. To focus this investigation, we therefore pose a third research question – 'what role do trust and reputation play in the operation of residential land markets?' – which we now take forward with the previous two in presenting our findings.

3.   THE IMPORTANCE OF HOUSEBUILDER NETWORKS

In this section, we explain why networks matter to speculative housebuilders in the UK and thus address our first research question. We focus on the importance of networks in finding and purchasing land and, by drawing on interview transcripts, explore why it is considered more effective to source land through networks, rather than compete on price. Our explanation brings together the distinctive nature of land as a product, the highly imperfect nature of the markets in which it is traded, and the structure and organisation of the UK speculative housebuilding industry.

The starting point for this explanation is the intense competition between companies to acquire suitable land, primarily because of the very shortage in its supply. This means that companies who succeed in the competition for land can move on to construction, marketing and sales, safe in the knowledge that risks in those latter stages of the development process are much reduced by the limited chance for other companies to enter the same market. The representative of one volume housebuilder explained this clearly:

> *"We're more competitive at the land buying stage than we are at the sales stage, that's where we make or don't make our money . . . the competition for land is absolutely intense still, there's no two ways about that . . . Once you've got a site with a planning permission on it, it's like Willy Wonka's Golden Ticket"* (Interviewee N).

The intensity of this competition presents housebuilders with an important strategic choice: whether to try simply to outbid competitors on price (i.e. depend on market co-ordination and resource allocation) or whether to make other arrangements to source land (i.e. to depend on a network of contacts as an essential part of finding and purchasing land). None of the housebuilders interviewed relied primarily on sourcing land through open market competition, and some were openly scornful of this as a strategy: *"We try and stay away from competition as much as we can really because otherwise it just gets like a dog fight"* (Interviewee H).

There are three main reasons why housebuilders rely more on networks than markets to source land. The first is that not all residential development land is openly marketed. Land may be offered to only a limited list of builders: *"it's not on the open market but it's closed, it's basically a closed tender"* (Interviewee J). Sometimes land is exchanged or swapped between builders, which another builder made clear may involve linked transactions: "*they say they'll only sell it if you sell it something else, which is fine because it doesn't actually go on the open market*" (Interviewee J). Housebuilders may also benefit from 'preferred developer' status with, for example, commercial development companies who may have a regular flow of sites on which housing might be seen to contribute to a mixed development. One housebuilder who had sourced land in this way, explained how high-level contact had been crucial:

> *"I mentioned two or three sites there that we bought from (PLC commercial developer) for example, so I mean that's more of an example, that's where we establish a connection at the sort of highest corporate level"* (Interviewee I)

The second reason not to rely wholly on markets for land acquisition is that bullish bidding behaviour by locally or regionally based land buyers would not necessarily be sanctioned at a higher managerial level in the company. While networks between housebuilders and with other important actors play a crucial role in land acquisition, most housebuilders are internally structured as hierarchies, with clear lines of accountability from regional to head office. One company thus reported that *"all land acquisitions have to be signed off by Head Office, simple as that"* (Interviewee M), while others indicated that the more expensive the proposed purchase, then the further up the hierarchy would authorisation be required. What is conceptually interesting here is that the stronger the influence of the **internal** hierarchy, the more local managers must rely on **external** networks for land acquisition, since to do otherwise might risk internal veto of the bullish land bids necessary to outbid all competitors.

The final reason to rely more on networks in land acquisition is simply because as one volume housebuilder explained: *"the best way to buy current land is through contacts"* (Interviewee O), while another claimed *"the success of builders and their activities in the land market are determined by how strong their network is and how well they play that network"* (Interviewee N).

In summary then, networks play a crucial role in residential land markets precisely because reliance simply on land that is openly marketed or known to be available to all would be a highly ineffective way to secure essential land supplies. Having thus established the importance of housebuilder networks, we now turn our attention to their structure.

4. THE STRUCTURE OF HOUSEBUILDER NETWORKS

This section addresses our second research question by exploring which actors are most closely embedded in housebuilder networks and which are more distant. We look first at relations between developers and then consider their relations with landowners, development agents and the local

state. We show that individual housebuilders structure their networks to enhance their competitive position in land markets. Our argument is that what crucially matters to housebuilders is the breadth not the depth of their networks, reflecting Granovetter's (1973) belief in the strength of weak ties.

Developer-developer relations

Housebuilders appear to construct networks with each other for three main reasons – information, partnership and land exchange. Taking the first of these, informal conversations with fellow developers provide an early and rich source of information on what is happening and what is expected to happen within the industry: *"I was out with some other land guys from other organisations last night just to sort of catch up on what everybody's doing really and how the market is. So yeah the sort of inter-relationships are quite strong really"* (Interviewee M).

What is particularly fascinating about such insights is the extent to which those working for different housebuilders trade off their allegiance to their company with the belief that they all share something in common. The tension here is almost that experienced by professional boxers in the sense that when the fight is on, nothing gets in the way of competition, but when it is over, the shared experience draws the fighters together as fellow professionals and marks them out from the onlooking audience. One housebuilder we spoke to expressed this tension between enmity and fellowship in the following terms:

> *". . . you know people would think that they're all out there to slit each other's throats but the likelihood is most of them have worked for other people and they talk to each other and they have a reasonably healthy relationship … OK you compete for a bit of land and the gloves come off …but most of the time they talk to each other because they have to"* (Interviewee B).

Potential partnership is the second reason why housebuilders invest time in developing networks, especially where firms with different expertise choose to work together on a particular scheme. Such partnerships are not instantaneous, but may be the result of a lengthy courtship enabling trust to be built. One smaller developer we interviewed, with specialist expertise in listed building conversion, had developed a strong network of contacts that allowed the company to bid for sites often too large for it to develop alone. Its partnerships with larger developers allowed it to concentrate on the small historic elements of these sites, confident that it could rely on its partners to complete the remainder.

Land exchange is the third, and perhaps most important, reason for developer-developer networks and is predicated on the practice within the industry of splitting large development sites among different companies to reduce risk and ensure sales representation at a larger number of small sites (Calcutt, 2007). Well-established networks provide an effective means of sub-division since arrangements between companies must be kept informal to avoid breaching competition law.

So networks provide a better method than formal contract to embed commitment between companies. As one volume builder commented:

> *"If you were selling to a particular builder and there wasn't anything available at the time that suited your needs from that builder you would probably have an agreement that they will bring something to you later on. Builder's agreement… Gentleman's agreement! Whatever you want to call it… Yeah, I know, but it's a factor, because there are issues of trust and networking and things like that"* (Interviewee N).

In such cases, networks between companies operate at two levels in the sense that the deal may initially be struck between land buyers operating locally but is then confirmed by higher-level contacts:

> *"OK you're not giving them the site, they're paying you for it, but the next time they want to off-load some of their land, they come to you. . . There's an expectation. And that expectation is usually sealed at a very high level in the company, you might be talking chief execs or owners if it's private. So there are sort of network contacts up there as well as down at this level"*
> (Interviewee K)

This suggests that even the agreed and negotiated market price is not seen as full compensation for releasing a site. Instead, housebuilders appear to share an awareness that a 'favour is owed' when a site is supplied, even when full market value is paid.

Developer-landowner relations

Options and conditional contracts have long been used within the industry to embed landowner relationships over a five or ten year period, during which the developer seeks to obtain planning permission. One company explained its own approach in negotiations with landowners as follows:

> *"We offer them a percentage of open market value and the risk, you know, the higher the risk the lower we'll pay them at the end of the day, so we may pay them 75 or 85% . . . We do not spend very much money up front because we put our energy and our cash resources into trying to unlock the site"* (Interviewee D)

Others were more forthright, with one admitting *"we like to pay as little as possible"* (Interviewee L) and another suggesting that the various ways to structure options and conditional contracts were *"variations on a theme, they're all essentially basically trying to keep your initial costs down, you are prepared to put in your time and effort and planning and then you seek to secure the land value at a later stage"* (Interviewee I). It is evident, however, that the increasing demands of planning authority for wider community benefits to be extracted from speculative development have made negotiations between developers and landowners more problematic. As one smaller housebuilder explained:

> *"Policy makers believe 'well all it does is you pay less for your land' but the message doesn't seem to get through to the people who are selling the land. . . people that dream these policies up shouldn't actually talk to us, they should go and talk to the people that sell the land"* (Interviewee G)

This is perhaps why developers prefer to deal with experienced landowners, rather than those who encounter development only occasionally. This preference was explained by one housebuilder in the following terms:

> *"It's nice to have a vendor who you know is sensible and you can talk to, … historically we've done better in dealing with major landowners who understand the planning process themselves, understand the skills that we bring to it"* (Interviewee I).

Nevertheless, landowners themselves are becoming more aware of the potential development value of their holdings and less open to striking deals in response to approaches from housebuilders. One developer explained that he did not *"buy any more from agricultural agents/farmers. If I say that ten years ago we spent a lot of our time talking to agricultural agents and farmers and... I don't think I have spoken to an agricultural agent for about five years now"*(Interviewee N). In one sense, this reflects the much reduced importance of greenfield land to housebuilders as production has switched to

brownfield sites but, in another, it reflects the increased importance of development (not agricultural) agents in housebuilder networks and the reduced importance of landowners themselves.

Developer-development agent relations

Development or property agents play a crucial intermediary role, usually acting on behalf on landowners to value and market potential development land, sometimes also obtaining outline planning permission before doing so. The largest development agents are London-based but operate nationally and are seen by institutional landowners as adding credibility to the disposal process:

> *"if you're dealing with the NHS they're always represented by . . . the West End Agency, you can have a sensible discussion, they're hard to negotiate with - they don't give it away - but there's a certain amount of common sense applied as to what's going to get through planning and what isn't."* (Interviewee I)

This interviewee stressed the importance of developing close contact with key London-based development agents, suggesting that:

> *"you won't get too much of a steer but at least you'll be on the shortlist or they might tell you that something's coming out"* (Interviewee N).

Another developer reiterated this but with the proviso that: *"[You] don't always get the best service with the big boys but they usually get the contacts"* (Interviewee J), while a third explicitly claimed to *"get more opportunities from smaller one-man-band kind of people."* (Interviewee A). What was most interesting in the various comments was the perception of a 'growing audit culture' that reinforced the network position of nationally-based development agents. One developer commented that if a plc or local authority were selling a major development site, it would *"use an agent with a big name, Jones Lang, Savilles, whoever it might be, KnightFrank, because ultimately . . . whatever monies they get for that site they're going to have to justify to their shareholders or the Audit Commission"* (Interviewee J).

Housebuilders thus know they must strike a balance between reliance on the large London-based agents who provide a well-established network that can be tapped into at a price, and the development of their own independent networks of local contacts from which sites with less well developed potential can be sourced, usually at lower cost.

Developer-local state relations

Housebuilders saw three benefits in cultivating relations with local authorities and quangos operating locally. The first was the prospect of development partnership with the public sector which, if concluded on suitable terms, potentially reduced development risks. One volume housebuilder explained the strategic importance of building stronger networks with influential regeneration agencies:

> *"We are a mixed-use development company, so we do take on projects of a more diverse nature to many of the volume players. In terms of a strategic proposition for the group . . . we desire to be a partner of choice of the public sector so that we have been quite successful over the years at becoming the lead development partner for regional development agencies or English Partnerships on major development sites"* (Interviewee P).

Secondly, in the last few years, the public sector has been an important source of development land, especially at brownfield locations. However, some developers complained about the *"very, very time consuming and . . . very, very expensive"* (Interviewee Q) public sector disposal process, which seemed to place almost all the risk on the private sector purchaser. This was reiterated by another interviewee, who claimed that English Partnerships:

> *"have a lot of land and … it's unbelievable the amount of time and money and resources wasted on some of their sites, it really is. . . And again they will have got a consent on there that doesn't work, and probably spent quarter of a million to half a million pounds on it"* (Interviewee F).

This clash of cultures with the public sector was most evident over the planning system, which was the third reason why housebuilders sought to build better relations with the local state. Here, we heard well-rehearsed complaints from housebuilders about the regulation of development through the planning system, emphasising planning delay, perceived inconsistent decision-making and political interference.

These comments suggest great frustration amongst housebuilders that planners stand beyond their normal networks and cannot easily be incorporated into them. For example, one interviewee highlighted the reluctance of planners to exchange information in the same way that developers do: *"One bone of contention with me is that planning authorities do not like disseminating information or talking to developers about planning potential or existing outline planning permissions and they ought to do that a lot more"* (Interviewee A). Another complained that planners were *"all watching their back all the time, it's just a problem"* (Interviewee L) while another emphasised the inexperience of many development control officers, suggesting that *"they just haven't been there long enough and they end up just . . . sort of quoting policy without really thinking about it in practice"* (Interviewee I). What comes through is the lack of what Larson (1992) summarised as collaboration, complementary interdependence, communication, and an orientation towards mutual gain. This resonates with Tait's (2009) work by suggesting that much as housebuilders might find it advantageous to build closer relations with planners, the inability to articulate shared interests on both sides means that planners stand at the most distant point from housebuilder networks.

The strength of weak ties

In an important early paper, Granovetter (1973) claimed that the overlap of two people's network of friends is in direct relationship to the strength of their ties to each other, and thus those with weaker ties to one another will have more widely dispersed networks. In this context, housebuilders networks appear to have more breadth than depth. One interviewee summarised this very well with the comment that: *"We're all very, very pally and we'll all have a drink together at the HBF (Home Builders Federation) but we don't really share that much. We don't"* (Interviewee J).

What appears to matter most to individual land buyers is the number of contacts they are able to build up across the industry, rather than the depth of any particular contacts. Two factors make broad, rather than deep, ties an important characteristic of the structure of housebuilder networks. First, as one interviewee highlighted, housebuilding is a *"small industry, we do all know one another"* (Interviewee E). What is meant here is that the industry is dominated by a relatively small number of companies, enabling individuals in key positions to build effective networks across the industry without excessive time investment. In 2000, for example, 71% of all newly-completed private homes across the UK were built by only 43 'major builders', each with an annual output of 500 or more units (Wellings 2001). This makes it possible for the managing-directors of most speculative housebuilders to be on first name terms with their counterparts across the industry.

However, what really glues housebuilder networks together is the transient nature of employment and especially the tendency of employees involved in land purchase to move from company to company regularly. As one developer mentioned, *"this industry is quite small and most people generally are not at a company for more than about 2 or 3 years, there's a bit of a merry-go-round really."* (Interviewee M). So, housebuilders' networks, while structured around particular key actors, are built through loyalty to the industry as a whole, rather to any particular company. Weak ties, in Granovetter's terms, have a further strategic advantage – they are more readily transported from one employer to the next, which becomes advantageous to any individual employee in an industry characterised by dynamic and transient networks.

5.   THE CULTURE OF HOUSEBUILDER NETWORKS

We now move on to address our final research question by exploring the importance of trust and reputation in housebuilder networks. The picture that emerges is one of disdain for contractual arrangements as a means of securing network commitment and reliance instead on parties who have proved themselves capable of trust. We first explore how the notion of trust in housebuilder networks accords with Hardin's concept of encapsulated interest and then consider some of the ways in which housebuilders create positive, and avoid, negative reputations for themselves.

One interviewee expressed how trust amongst housebuilders is developed through mutual recognition of self-interest: *"The industry is built a lot on relationships, but because you've got to be business led as well, you can't go round selling cheaply or dealing cheaply, or even trying to double cross people. It doesn't work"* (Interviewee F. Another, reflecting Macauley's (1963) earlier findings, commented more colourfully : *"All this crap, all this "oh my word is my bond" carries a lot of meaning because it is that sort of industry where … they do stick to their word and people will work with them"* (Interviewee B.) Indeed, one interviewee had taken exception to another housebuilder asking for a 'letter of obligation' to formalise an intended reciprocation for a land purchase, claiming that this was not simply evidence of a lack of trust but also unnecessary as it would be counter-productive to renege on informal undertakings. In Hardin's (2006) terms, the party seeking the letter of obligation mistakenly held a moral or dispositional conception of trust, while the party from which it was sought saw trust as grounded in encapsulated interest.

Hardin's view of trust as grounded in encapsulated interest is confirmed by the evident preference within the industry for always dealing with what one developer described as *"somebody that you know and get along with"* (Interviewee M) as *"the first port of call"* (Interviewee F). Another explained the hard-headed nature of this kind of trust, as follows:

> *". . . there's no favours in this business, because if you started doing people favours and other people won't, you wouldn't last five minutes, you've got to be totally self-supporting. However, you are more likely to deal with someone you've dealt with before and you've had a positive relationship because they've done what they've said"* (Interviewee N).

The turbulent nature of the industry, in which company mergers and takeovers are common, puts limits on trust, suggesting again that networks are transient. As one company commented; *". . . because of all the mergers that have been going on, you know, there's no certainty that that business will be around frankly, or those people will be around, so we've had to start from scratch basically, occasionally"* (Interviewee D). Such frustration again finds expression in the emphasis on avoiding over-reliance on any particular contact.

Reputation, in its general sense, thus creates the basis for trust. But interviewees also claimed they had particular reputations. In one case, this was for the "local distinctiveness" of their product

evident in *"good quality traditional local vernacular style housing"* (Interviewee D) and in another for their *"expertise in planning"* (Interviewee Q). While it can be argued that such comments represent mere self-promotion, it was evident that particular housebuilders look for certain specific qualities in potential partners, especially when both end up developing neighbouring sites. For one volume housebuilder, what mattered was *"they've got a similar ethos in terms of sales, they've got a similar ethos in terms of quality, they've got a similar ethos in terms of customer. . . they're good bed companions so to speak and that we can work alongside each other"* (Interviewee O). Another, when looking to exchange land, concentrated on whether *"the developer will perform within the timescales. So it's not always the highest bidder who is going to get the ... it's more the certainty of delivery and performance"* (Interviewee C). To a third, awareness of the *"sustainability and design quality side of planning"* (Interviewee P) was important.

As these points illustrate, reputation in housebuilding operates at both a general and specific level and both are important in generating the necessary trust to enable networks to function. However, while trust and reputation thus play a crucial role in the operation of residential land markets, relations within the industry remain dependent on pragmatic considerations of continued mutual self-interest. As a result, although housebuilder networks are central to the delivery of new homes in the UK, their breadth ensures they have a dynamic and even fragile character, which requires regular recommitment and reconstruction.

6.   CONCLUSIONS

This paper has drawn on qualitative data to address three questions around the importance housebuilders attach to networks in securing future land supplies. The first research question sought to explain why and to what extent networks matter in UK residential land markets. The evidence suggests that housebuilders are deeply suspicious of reliance on open market competition, believing that supply shortages exacerbate perceived market inefficiencies, making open market prices highly unpredictable. Networks provide the opportunity, through extensive personal contacts, to enable housebuilders to source land before it reaches the open market, so achieving greater certainty in the development process. This may not on average produce land any cheaper than current market values, but it protects developers from what they consider outrageously high bidding behaviour from competitors whose particular circumstances necessitate bullish strategies.

The second research question concerned which actors are most closely embedded in housebuilder networks. Here, we revealed how the camaraderie shared between those who have built their careers moving from one developer to another reinforces strong personal contacts across the industry and between particular firms within it. However, successful land acquisition depends as much on effective contacts with development agents, and to a lesser extent directly with landowners. Although the public sector is regarded as a potentially important development partner, its culture is often considered unfamiliar and threatening to the development industry. Planners, in particular, are seen to stand at the most distant point from housebuilder networks, owing to the inability to articulate shared interests on both sides.

The third research question investigated the role of trust and reputation in the operation of residential land markets. Trust was seen as essential to enable housebuilder networks to function effectively and so avoid resort to contractual documentation. Reputations, at both individual and corporate level, were considered to be an important mechanism to generate and reinforce trust. But trust was also perceived as fragile, partially because it reflected Hardin's concept of encapsulated self-interest but also because the recurring turbulence of corporate takeovers, mergers and reorganisations endowed personal relations with a sense of enduring instability. To protect against this, and to enhance opportunities to source land, housebuilder networks display

an emphasis on breadth rather than depth, reflecting Granovetter's (1973) belief in the strength of weak ties.

The research thus helps re-cast theoretical conceptions of residential land markets towards a more institutionally grounded notion of socially embedded networks of relations (see also Needham *et al.*, in press). It reinforces Ball's (1983; 1998) earlier work on 'structures of building provision' and connects with institutional models of the development process produced by Healey (1992) and others. It sets researchers the challenges of discovering much more about how the residential land markets work in practice as networks of rules, conventions and relationships and of exploring further how the development industry seeks to evade open market competition by substantial investment in network development.

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APPENDIX – QUALITATIVE DATA REFERENCES

Reference	Firm size	Regional representative interviewed
A	Small	Yorkshire
B	Small	East Midlands
C	Small	London
D	Small	South East
E	Small	South East
F	Small	North West
G	Small	North West
H	Medium	West Midlands
I	Medium	South East
J	Medium	Yorkshire
K	Medium	North West
L	Medium	South East
M	Medium	South East
N	Volume	Yorkshire
O	Volume	South East
P	Volume	South East
Q	Volume	South East