



Housing 2024

Macroeconomic influences and policy decision impacts on housing supply

November 2023



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Executive Summary

This report presents the analysis of a new housing output forecasting model developed for this report by Chamberlain Walker Economics in collaboration with the University of Liverpool. Specifically, the model assesses the impacts and influences on housing output both from current macroeconomic factors, such as inflation and forecast GDP growth, plus the impact of policy decisions in key areas such as planning and housebuilding regulation.

Given the potential timing of a general election in 2024, and obvious potential for policy change, we sought to assess the 'baseline' outlook for any new government, in terms of how much new house building there will be in 2024 and beyond, under current policy.

Our analysis shows:

- Overall housing starts across all tenures will fall from 221,000 at the last official count in 2022 to 134,000 forecast for 2024. A drop of 87,000 over two years.
- Housebuilding by the private sector (as opposed to e.g., local authorities) will see housing starts fall from 144,000 in 2022 to 70,400 in 2024. Incidentally, this will be the lowest level since the financial crash (65,000 in 2009).
- Across all tenures, both private and public / housing association sectors, new build will fall from 249,100 in 2022 to 151,000 in 2024, which represents around half the government's target of 300,000 homes a year being delivered.
- In terms of recovering from the above position, and looking specifically at recent changes to the National Planning Policy Framework, plus the introduction of new 'cladding taxes' to fund the replacement of unsafe cladding, the direct impact of these will be that, by 2030 when the full effects are felt, around 83,900 fewer homes will be being built each year.

Introduction

Until recently, housebuilding growth in England was on a trajectory that made getting to 300,000 new homes a year (the present government target) a realistic prospect by the end of the 2020s, if not sooner. England's housebuilding performance had been improving with comfortably above 200,000 new homes being built in each of the last six years, which was above preceding multi-decade averages.

However, we now face significant macroeconomic and policy headwinds to housebuilding that threaten to reverse the significant progress that has been made, with both demand and supply constrictions threatening to send us into a housebuilding slump.

A challenging UK macroeconomic (and associated mortgage interest rate) outlook, as well as the ongoing cost of living crisis is increasingly dampening effective demand in the housing market as we move further to the end of 2023. Looking towards supply, planning and other regulatory and tax policy changes threaten to vastly constrict developers' ability to build homes at the volumes they have during the last few years.

This paper presents new econometric forecasts for housebuilding in England during the next couple of years, based on the latest official macroeconomic and housing market projections. Crucially, these projections are also based on current government policy.

The forecasts make for grim reading and history tells us that when housebuilding falls sharply, it can take many years to recover. It suggests that without a change in course, the ambition of building 300,000 homes a year within this decade will quickly become unachievable. It threatens to unfold this side of the likely next general election, but the consequences could be felt for the next decade.

The structure of this paper is as follows:

It starts by outlining the public policy context of new housing supply and the key targets. It considers England's overall new housing supply performance recently, and how housebuilding from all sectors has contributed to this.

Part 1 then reviews the outlook for new housing supply across the current macroeconomic and housing market context, presenting a forecasting model and forecasts for housebuilding in 2022 (outturn data still not complete), 2023 and 2024. These forecasts are then considered against the levels of new housing supply needed to assess the likely shortfalls.

Part 2 then reviews the policy outlook for new housing supply and new estimates of the impact on housebuilding of the policy measures to pay for the remediation of unsafe mid-rise and high-rise buildings are provided against current housebuilding levels and those forecasted in Part 1.

Public policy context

Housing is a devolved matter and there are differing housing policy approaches and ambitions in each home nation. The focus of this paper is England.

It is broadly accepted across the political spectrum that housing supply in England is much too low to keep pace with demand in a way that would make housing more affordable. It is difficult to put a precise figure on the amount of new housing supply needed in England in this regard, and estimates vary quite widely, but one authoritative report put it as high as 340,000 a year.¹ The previous Labour government had a target to build 240,000 new homes a year in England by 2016.² The Conservative government has recognised the need to address the current and legacy housebuilding shortfalls, as its 2017 housing White Paper notes:

“Since the 1970s, there have been on average 160,000 new homes each year in England. The consensus is that we need from 225,000 to 275,000 or more homes per year to keep up with population growth and start to tackle years of under-supply.”³

Today, the government has an ambitious housing supply target of 300,000 new homes a year by the mid-2020s for England, as set out in the 2019 Conservative manifesto.⁴ That figure is broadly accepted across the political divide as what we need to keep up with growing demand plus make inroads into the existing housing shortfall. When the current government talks about new homes and the 300,000 target, it is generally in the context of overall new housing supply – the ‘net additions’ measure.⁵ This covers all types of new housing supply, not just new build completions (or starts), such as dividing an existing house into flats.

Secretary of State, Michael Gove, has repeatedly stated that the government is still committed to the manifesto pledge of 300,000 new homes every year by the mid-2020s. Prime Minister Rishi Sunak has also affirmed this. The Government has, however, found it difficult to progress towards the 300,000 during the last couple of years. Last December, it made a political choice to retreat from imposing mandatory local authority housebuilding targets that would have achieved it. As a result, local authority housing targets are now ‘advisory’ and many local authorities are rowing back on their previous commitments. We would suggest this is a significant setback for ever achieving the 300,000 target.

Since the Covid-19 Pandemic, there have been several important government policy changes. These include various stamp duty changes, the ending of Help to Buy (which was first introduced in 2013), proposed planning changes through revisions to the National Planning Policy Framework (NPPF), and taxes and levies to pay for the remediation of unsafe cladding on tall buildings following the Grenfell disaster. Taken as a whole, these policy changes are negative for housing supply and move us away from what was a broadly supportive policy environment for housebuilding until 2022.

Recent housing supply performance

The Government's definition of new housing supply, or 'net housing additions', is not just made up of new build completions, but also conversions and changes of use of existing buildings – such as sub-dividing a house to flats or converting commercial property to residential – but does subtract building demolitions. In England, net housing additions peaked at 242,000–243,000 a year in the two pre-pandemic years but fell during the COVID-19 pandemic year to 212,000, before recovering to 233,000 in the latest year. On the net additions measure, new housing supply has averaged 228,000 net additions a year since 2016/17 versus the 300,000 needed. In other words, we've been about three-quarters towards the target during this time.

Again, the overall England picture of house building levels appears to be one of stagnation during the last couple of years, from a previous position of solid progress extending on from the recovery growth phase following the 2008 Financial Crisis. The challenge then was considerable given housebuilding in England had fallen to the lowest level since the 1920s.

Table 1: New housing supply: net housing additions and new build completions, England

	Net housing additions	New build completions
2016–17	217,345	183,571
2017–18	222,281	195,387
2018–19	241,877	214,413
2019–20	242,702	219,120
2020–21	211,865	191,819
2021–22	232,816	210,071
6-year average	228,148	202,397

Source: Department for Levelling Up, Housing and Communities⁵

Naturally, new build completions are by far the biggest contributor to new housing supply.⁷ Of the 228,000 net additions, new build completions have averaged just over 202,000 a year, nearly 90% of net additions.⁸ The contribution of the 'change of use' of buildings (for example, from offices to homes) has also been significant in recent years. This implies that *new build completions of nearly 270,000 are needed to achieve net additions of 300,000.*

Macroeconomy and housing market

Macroeconomic and housing market outlook

Housing supply is heavily determined by macroeconomic and housing market conditions, as well as public policy (considered in Part 2). This section considers the macroeconomic and housing market indicators most important to housing supply, the discussion centred around the Office for Budget Responsibility's latest forecasts.

Table 2: Outturn and forecast macroeconomic and housing market indicators

Indicator	Outturn		Forecast				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
BoE base rate (%)	0.19	2.34	4.15	3.48	3.16	3.06	2.98
Market gilt rates (%)	1.06	3.05	3.28	3.32	3.40	3.51	3.64
Employment (millions)	32.5	32.8	32.8	32.9	33.2	33.5	33.7
Residential property price change (%)	+9.0	+9.8	-4.6	-3.9	+2.2	+3.5	+3.6
Residential property transactions ('000)	1,374	1,232	1,049	1,077	1,100	1,271	1,372

Source: Office for Budget Responsibility⁹

Macroeconomic indicators, such as interest rates, employment levels, or consumer confidence can be viewed as leading indicators: foretelling what will happen in the housing market in the months and years ahead.

First-time buyers are the life blood of the housing market and critical to the volume of housing market transactions vital to support new housing supply. First time buyers' high degree of leverage means they are especially sensitive to mortgage interest rates when it comes to housing affordability – namely, whether they can afford to service the mortgage. With perhaps 40% of new build home purchases being made by first time buyers, they have an important role underpinning demand for new build housing supply.

The BoE official base rate generally impacts almost 1 for 1 on the standard variable rate (SVR) offered by most mortgage lenders. Fixed mortgage interest rates are heavily influenced by government gilt rates that are closely tied to rates for 2-year fixed mortgage deals. BoE base rates and gilt rates don't move exactly in tandem but are correlated.

Having been at historic lows since the Financial Crisis (2008) the BoE base rate began to rise from the end of 2021 increasing from 0.1% then to 5.25% by September 2023, in response to rising inflation and energy prices.¹⁰ Although rates are still low by historical standards, they are high compared to the 'new normal' super low interest rates of the post Financial Crisis era.

Because it can take up to two years for the effect of higher interest rates to filter through to the economy and the housing market, they are a lead indicator of future demand for mortgages.

The impact of higher interest rates manifests mainly through reduced first-time buyer mortgage applications / completions and therefore fewer housing market transactions, and thereby fewer new build homes.

The interest rate outlook is an increasing headwind for housebuilding during the next 2-3 years, especially if we are still to reach the peak of the rate rising cycle.

A state of near-full employment in the economy, such as we have had for the last decade or so, is supportive of robust aggregate demand in the economy and the housing market. The tight labour market currently is a reason why the Government and BoE are concerned about inflation becoming ingrained in the economy through a 'wage push' effect. The BoE's tough interest rate stance is about trying to prevent entrenchment.

Employment is not directly a lead indicator of future demand, but a good reflection of the current state of the economy and has a bearing on consumer confidence. Employment, currently around 33 million, is expected to grow slightly over the next few years (unemployment remaining very low by historic standards) despite anaemic economic growth this year.

The employment outlook is a moderate and stable tailwind for housebuilding during the next 5 years.

It is understood that many housebuilders pay close attention to consumer confidence in the economy as a forward barometer of demand for new build housing output. It has a bearing therefore on their planned work in progress ('WIP') for the coming year and thus on future completions in 1-2 years' time.

But consumer confidence is fickle. At the worst of the first wave of COVID-19 in Summer 2020, the GfK consumer confidence barometer fell to -30 before recovering back to -9 the following Summer. It then fell on the back of the cost-of-living crisis to -49 at its worst. It is now recovering and stands at -27 and has been steadily improving since last Autumn.

Table 3: Consumer confidence barometer readings

2020 Jun	2020 Sep	2020 Dec	2021 Mar	2021 Jun	2021 Sep	2021 Dec	2022 Mar	2022 Jun	2022 Sep	2022 Dec	2023 Mar	2023 Apr	2023 May
-30	-25	-26	-16	-9	-13	-15	-31	-41	-49	-42	-36	-30	-27

Source: GfK Growth from Knowledge¹¹

Consumer confidence is currently an abating headwind for housebuilding.

Turning to [housing market indicators](#), house prices nationally are currently falling on a month-on-month basis but are still around 4% higher than they were last year. Having fallen 2-3% already, they are on course to fall at least 10% nominally from peak to trough – likely occurring within the next two years – consistent with the OBR view.

House price falls impact the ability of housebuilders to sell their new build homes in the local market and can necessitate price discounting on the sale price they anticipated. But modest price falls can translate into a reduction in profit margins more than a reduction in sales volumes because of the basic business need of builders to be cash generative.

House prices are currently transitioning from a tailwind to a headwind for housebuilding.

In planning their WIP and future completions, the volume housebuilders generally pay more attention to the number of housing market transactions than they do to house prices as a

demand indicator because the latter can also be downwards 'sticky'. In other words, housing transactions tend to be more volatile than house prices over the economic cycle and so more sensitive and reflective of underlying demand changes in the housing market. Again, the number of first-time buyer housing transactions is heavily influenced by the number of mortgage approvals (and, hence, interest rates).

Housing market transactions are currently falling – down 25% on a year ago on a seasonally adjusted basis on the latest HMRC residential transactions data.¹² The OBR forecasts them to be around 24% lower for the coming year than the latest full outturn year.

Falling housing market transactions are a major and increasing headwind for housebuilding for the rest of 2023 and throughout 2024. This is tied closely to the interest rate outlook.

The number of planning permissions reflects the size of pipeline of housing supply over the coming few years and what can be built. New planning approvals – the number of home securing detailed planning approval during the period – indicate whether that pipeline is growing or shrinking.

The number of planning permissions granted in the latest year to date are down over 10% on a year earlier and down nearly 10% on the 6-year average. They are also the lowest in six years. Planning approvals often take around 3 years to move to actual build-out and so potential housebuilding during this time is shrinking. The issue remains that our planning system is a highly-politicised process which can create a lengthy, expensive and unpredictable regime for house builders. Additionally, a planning permission can take many more than 3 years to build out – e.g., if the site is large or where the rate of sale is not strong.

Overall, as shown in the figures below, the macroeconomic and housing market outlook for new housing supply is negative and getting worse:

Table 4: Planning permissions: residential units approved

	Year to 2017Q3	Year to 2018Q3	Year to 2019Q3	Year to 2020Q3	Year to 2021Q3	Year to 2022Q3	Six year average
Residential units approved	333,753	300,171	327,878	296,213	329,603	287,758	315,577

Source: Glenigan, Home Builders Federation (HBF)¹³

Note that these figures exclude 'replans'.

Table 5: indicators of housebuilding over the next 1-2 years

	2020 Jun	2020 Sep	2020 Dec	2021 Mar	2021 Jun
Macro		Interest rates	Negative	Worsening	Negative, stable
		Employment	Positive	Stable	
		Consumer confidence	Negative	Improving	
Housing market		House prices	Negative	Worsening	Negative, worsening
		Number housing transactions	Negative	Worsening	
		Planning permissions	Negative	Worsening	

Housebuilding model and forecasts

Forecasting model overview and approach

We take different approaches between forecasting housebuilding between the commercial ('private enterprise') and not-for-profit ('local authority', 'Housing association') housebuilders.

Commercial housebuilders

Commercial housebuilding is highly cyclical and therefore inherently more difficult to forecast. In collaboration with academic economists based at Liverpool University, an econometric model of housebuilding in Great Britain has been developed using advanced econometric techniques and the latest housing market outturn data (to 2022Q2). The model uses quarterly data going back over 40 years, to 1975Q1 (190 quarters) to capture the long run statistical relationships between house building and the following variables:

- **house prices**, based on the Office for National Statistics (ONS) house price index
- **housing market transactions**, based on Land Registry sales data
- **construction costs**, based on ONS construction output price indices
- **housing stock**, based on ONS dwelling stock by tenure data
- **interest rates**, based on Bank of England (BoE) historical official base rate data

Because an econometric model can only include data series that are available and that go back sufficiently in time (in this case, decades), it is not always possible to include all the variables that might be considered important to housebuilding, such as all those described in the previous section e.g. consumer confidence. The variables bulleted above are used because the data are of a high quality (generally ONS or BoE), publicly available, and are shown by the modelling to be statistically significant in relating house building levels.¹⁴

The type of econometric regression model used is called a 'Vector Error Correction Model' (VECM) and a technical note detailing the model specification can be provided.

The model uses and forecasts house building:

- in terms of 'starts' (as opposed to completions)
- by the 'private enterprise' sector (as opposed to by councils, social landlords, other public or not-for profit builders)
- for Great Britain (England, Scotland and Wales)

The housebuilding starts data used in the modelling are those published by the ONS¹⁵, in turn sourced from the National House Building Council (NHBC) who issue warranties and provide insurance for new build homes. These data are thought to have around 80% market coverage and are used because they go back many decades, unlike alternative data sources.

Not-for-profit housebuilders

Given that, unlike private enterprise starts, housing association and local authority starts are not mainly driven by the market and not generally cyclical, and are less volatile, we are able to use a simple trend line approach to forecast these.

These trend lines are moderately upwards, with recent multiyear year averages higher than their longer-term averages, and therefore supportive of growing housebuilding levels by these builders. However, the caveat is that many affordable units are started by a private developer before being transferred to a housing association via a s.106 agreement. Affordable units delivered by private developers could, as a proportion of all delivery, fall overall as the number of private planning permissions fall, creating pressure on the s106 cross subsidy.

Table 6: not for profit new build starts, 6, 10 and 20 annual averages, England

Annual average	Housing association	Local Authority	Total
6-year, latest	28,292	1,978	30,270
10-year, latest	26,730	1,909	28,639
20 year, latest	23,787	1,236	25,022

Source: Office for National Statistics and author calculations for multiyear averages¹⁶

Results

The forecasts for housebuilding are presented over 2 years: 2023 and 2024.¹⁷ The housebuilding forecasts produced use the OBR's forecasts for the items bulleted above (house prices, housing transactions, the housing stock, interest rates). The OBR's latest forecasts, from the Budget in March 2023, are used. Construction costs are not forecasted by the OBR and it is assumed these broadly move with inflation as adjudged by the GDP deflator (which is forecasted by the OBR).

Commercial housebuilders (econometric model)

The econometric model tells us that, statistically speaking, housebuilding is especially sensitive to housing transactions and construction costs. Indeed, housebuilding is around twice as sensitive to housing transactions and construction costs as it is to house prices. The model also tells us that housebuilding is not especially sensitive to interest rates (that is, not directly, i.e. that the effect of interest rates manifests through their effect on housing market transactions). The biggest driver of the fall in housebuilding in the next few years appears to be the expected fall in housing transactions – the OBR forecasts housing transactions to fall by 20% from 2022Q2 to quarter of 2024Q2, though they have already fallen more than this.

Private enterprise housebuilding is forecasted to fall sharply in 2023. There is a further fall in 2024 when private enterprise housebuilding is forecasted to be at a level similar to that immediately following the Financial Crisis (2008):

Table 7: model forecasts for private enterprise housing starts, England*

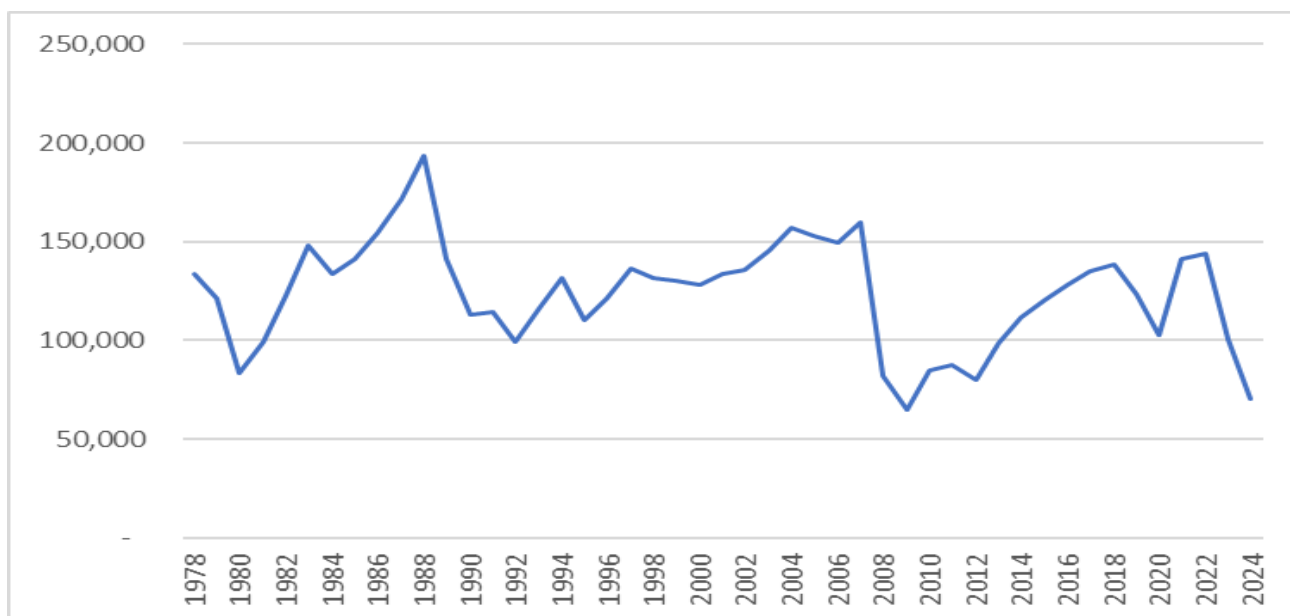
Outturn	Forecast	
2022	2023	2024
144,300	100,600	70,400

* the model outputs in Great Britain (GB) terms, these figures have been pro-rated for the English share of GB

Although the forecasted fall in private enterprise starts by 2024 is stark, it appears broadly consistent with that happened to these during previous downturns (early 1980s, early 1990s, late 2000s) when declines in the order of 50% occurred. The forecast suggests that housebuilding

by private enterprise starts will fall to similar levels seen following the Financial Crash (2008).

Chart 1: annual private enterprise starts, outturns and forecast, England



Not for profit housebuilders

Housebuilding by housing associations and local authorities is forecast to rise moderately during the forecast period on current levels, buffering some of the expected fall in overall housebuilding, the result of falling private enterprise starts (excluding s106).

Table 8: trend forecasts for not-for-profit housing starts, England

Outturn	Forecast	
2022	2023	2024
33,800	36,000	37,600

All housebuilders

The following table combines the private enterprise and not-for profit forecasts, presented above, and converts them into net additions. The main finding is that net additions in 2024 are forecasted to be barely half the 300,000 new homes we need.

Table 9: model & trend forecasts for new housing supply, England

	Outturn	Forecast	
	2022	2023	2024
Starts (ONS / NHBC)	178,100	136,600	108,000
Starts (ALL)	221,000	169,500	134,000
Net additions	249,100*	191,100	151,100

* inferred

Government policy

Policy Impacts

During the last few years, new levies and taxes on housebuilders have been announced to pay for the remediation of unsafe mid-rise and high-rise buildings in the aftermath of the Grenfell disaster. These are in addition to the remediation costs housebuilders had voluntarily agreed to pay. All told, the Government intends to cover an estimated £5 billion cost for the remediation of buildings between 11 and 18 meters high, plus £3 billion similarly for builders above 18 meters. These total £8bn costs have been criticised as unfair and damaging to future housing output by housebuilding industry representatives, such as the Home Builders Federation, but have been enforced by Government nonetheless.

The £8 billion will be covered through three measures: an extension to the Building Safety Levy (BSL), the Residential Property Remediation Tax (RPRT), and a legally-binding agreement superseding the voluntary agreement.

As well as these levies, taxes and obligations on housebuilders, recent proposed changes to the National Planning Policy Framework (NPPF), including changes to plan-making and housing land supply, threaten to curtail housebuilding further.

There have also been other significant changes within the last couple of years such as those to stamp duty (the last change from 22 September 2022) and the phase out of Help to Buy (31 October 2022 for new applications), but the impact of these changes on housebuilding is largely baked into the outturn numbers and so are not considered here.

Although some of the policies described apply UK-wide, only the England housing supply impacts are considered.

Building Safety Levy (BSL) extension

Policy description

The extension of the BSL, recently consulted on, will be a levy on housebuilders and payable on new residential development regardless of building height. It will apply in England only. The money will be used to pay for removing unsafe cladding and other hazards from mid-rise buildings between 11 and 18 meters high.

The basis of the levy calculation will either be on a per home basis or a per square meter basis. The latter seems more favoured by the DLUHC, given this is also the basis on which the Community Infrastructure Levy is calculated. The BSL consultation proposals included an option to alter levy rates depending where in the country the development is, with lower rates in areas where land and house prices are lower. Affordable housing would be exempt. The Secretary of State for the DLUHC will set the levy rate(s).

It is proposed that housebuilders will have to pay the levy as part of the building control process, it is suggested that 60% of the levy will be payable at the notice to commence (pre-start) stage, with the remaining 40% payable prior to final certification (completion) stage.

The Government consultation on the BSL proposals concluded last February and the feedback is still being analysed by DLUHC officials. It is expected to be implemented sometime in 2023 or early 2024, with some transitional provisions and grace periods are likely during the first year.

It is estimated that the levy will raise £3 billion through the levy over ten years (£300 million a year).

How the impact feeds through to housebuilding

The levy is on new homes built / being built. Whilst the legal incidence (who pays the taxman) will fall on the house builders, the economic incidence (who effectively pays for the tax) may differ. In the short run, the economic incidence will undoubtedly fall on the house builders, as opposed to those buying their new build homes or landowners.

The reason the economic incidence cannot fall on home buyers is because the housebuilders are price takers, with sale prices dictated to them by the prevailing house price in the local area, in turn determined overwhelmingly by the existing housing stock. The builders cannot therefore put up the price of their homes to cover the cost of the levy (i.e. effectively making homebuyers pay it). This is true in the short run and long run.

Nor can the economic incidence fall on landowners in the short run. The reason is that much of the land to be developed within the next 5 years has already been acquired or optioned. Land prices cannot therefore adjust in full. Whilst land prices will adjust (fall) further back in the housing development pipeline – i.e. for land being bought or optioned now, for development in, say, 5 years, this is unlikely to affect houses built and sold before that time.

When the effect does feed through to land prices, it will reduce amount of land being brought forward by landowners and housing supply. This is because land prices are effectively a residual of the house price less development costs: if house prices cannot rise and development costs do rise, then the residual must be diminished. Land prices, like house prices, are likely to be downwards sticky and so land supply is likely to take the hit.

Impact calculation

The six-year average of annual housebuilding completions by private enterprise in England is just over 133,000 homes a year based on the NHBC-based figures published by the ONS.¹⁸ However, the EPC-based figures – which have complete coverage – suggest levels of overall housebuilding completions in England are around 24% higher. This implies housebuilding completions by private enterprise of around 165,000 a year, again based on the six-year average.¹⁹

Raising £300 million a year from building 165,000 homes suggests a levy per home equivalent to just over £1,800. Average development costs for developers are around £235,000 per home, suggesting the levy will add 0.77% to development costs.²⁰

Putting this into the econometric model suggests housebuilding by private enterprise will be reduced by around 2,400 homes a year, including nearly 500 affordable homes funded through Section 106 contributions. These figures are based on current housebuilding levels: if overall housebuilding levels halve, for example because of a housing market downturn, then the absolute impact will also halve.

Residential Property Developer Tax (RPDT)

Policy description

The RPDT is a tax on the residential property development profits of housebuilders. It effectively amounts to a Corporation Tax surcharge. It has applied UK-wide since 1st April 2022. The money raised from RPDT will be used to pay for removing unsafe cladding and other hazards from high-rise buildings above 18 meters high.

There is an annual allowance of £25 million meaning that only the largest housebuilders – those with profits above £25 million – pay the tax. The RPDT is currently charged at 4% of residential development profits above the annual allowance. The levy is not administered by HMRC but paid as part of the building regulatory process, the responsibility of DLUHC.

The Government has estimated that the tax will raise £2 billion over 10 years (£200 million a year), though the HBF and the housebuilders believe the figure may end up being closer to £3 billion.

How the impact feeds through to housebuilding

Housebuilding is a capital-intensive process, each home requiring around £235,000 to develop including land costs. This an average across England, and in practice, costs vary enormously depending on the underlying land value and size of the new home. Nevertheless, building 165,000 homes therefore requires nearly £40 billion of capital over the course of the year. An important source of capital growth needed to support increased levels of housebuilding, as has happened in recent years, comes from retained post-profits.

The economic incidence aspects are similar to those described above. Assuming the tax will raise £2.5 billion over 10 years (£250 million a year) – with £2.25 billion (£225 million a year) coming from England – and given the housebuilders cannot increase their home sale prices, or reduce the price they pay for land within the 5 years, then the housebuilders bear the tax until then, and their post-tax profits will be reduced accordingly.

One of two things can happen with post-tax profits. They can either be retained as capital to support building new homes in the next period, or they can be distributed to shareholders in the form of dividends. A reduction on post-tax profits via RPDT means a reduction in either or, most likely, both. There will inevitably be a reduction therefore in the capital deployable to build homes due to RPDT. In other words, capital is limited and can only be used once: if it is being used to remediate high-rise buildings then it cannot be used to build homes. The impact is even worse in the sense that when used to build homes the capital gets recycled with growth (i.e. a margin), whereas when used to cover a remediation cost liability, it is lost entirely and in perpetuity.

Impact calculation

Assuming half of the RPDT comes from a reduction in dividends to shareholders and half from a reduction in retained capital, the growth in capital for housebuilding activities will be reduced by £112.5 million a year compared to not having RPDT. The reductive effect is cumulative, rising from £112.5 million in year 1 to £562.5 million in year 5, by which time land prices are assumed to have adjusted down.

£562.5 million by year 5 is 1.4% of the estimated current £40 billion a year deployed to build homes in the UK. We would therefore expect to see a 1.4% reduction in housebuilding levels by year 5 compared to not having RPDT assuming demand sustained at current levels. Applied to an estimated 165,000 private enterprise homes being built in England, this amounts to a nearly 2,400 fewer homes a year being developed by year 5, including over 500 fewer affordable via Section 106 contributions. The impact remains in perpetuity despite the policy coming to an end after year 10.

Beyond year 5 land prices are likely to have adjusted down, or at least partially. Again, this is likely to mean less land coming forwards from landowners.²¹

As with the BSL extension, the figures presented here assume a baseline at current housebuilding levels, but if that baseline is lower because of a housing market downturn then the absolute impacts will be lower. We are unable to use the econometric model to estimate the impact of the RPDT because it does not contain a profit variable (the RPDT is a tax on profits), hence the assumption-based approach taken.

Voluntary agreement

Policy description

Prior to the announcement of the BSL extension, 49 homebuilders pledged to commit £1.3 billion towards fixing unsafe cladding on mid-rise buildings (11 to 18 meters) in England that they built or refurbished, or had a role in so doing, within the last 30 years. These pledges have since been turned into legally binding commitments under which will cost developers an estimated £2 billion over 10 years (£200 million per annum).

How the impact feeds through

The cost liability for these legally binding commitments has already been incurred. The impact is likely to be similar to that of the RPDT: the cost liability will reduce the amount of capital investment available for housebuilding in the same way. However, given the cost liability is already incurred and is being provisioned for, and not dependent in any way on future on housebuilding (unlike RPDT and BSL), it seems improbable that this cost liability could be passed onto landowners, even indirectly.

Impact calculation

Assuming half of the provision for the cost liability comes from a reduction in dividends to shareholders and half from a reduction in retained capital, the growth in capital for housebuilding activities will be reduced by £100 million a year compared to not having the voluntary agreement. The reductive effect is cumulative, rising from £100 million in year 1 to £500 million in year 5 (and £1 billion by year 10).

£500 million by year 5 is 1.25% of the estimated current £40 billion a year deployed to build homes in England. We would therefore expect to see a 1.25% reduction in housebuilding. Applied to an estimated 165,000 private enterprise homes being built in England, this amounts to 2,100 fewer homes a year being developed by year 5, including around 400 fewer affordable via Section 106 contributions. The impact is doubled by 10 year and then remains in perpetuity despite the policy coming to an end.

Again, the impact depends on macroeconomic and housing market conditions. The impacts of these policies at prevailing housebuilding levels are:

Table 11: estimated policy impacts on current housebuilding levels by private enterprise, England

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
BSL extension	-2,400	-2,400	-2,400	-2,400	-2,400	-12,000
RPDT	-500	-950	-1,450	-1,900	-2,400	-7,200
Voluntary Agreement	-450	-850	-1,300	-1,700	-2,100	-6,400
Total*	-3,300	-4,200	-5,100	-6,000	-6,900	-25,500

*figures may not sum due to rounding

Although the forecasted fall in private enterprise starts by 2024 is stark, it appears broadly consistent with that happened to these during previous downturns (early 198

Proposed NPPF Revisions

The government has been consulting on its proposed approach to updating the National Planning Policy Framework (NPPF) for England. The consultation ran until March 2023 and the responses are being considered by DLUHC officials.²²

Among the proposals include: those on the character of new build developments, which may have implications for higher density developments; no need for Green Belt reviews, particularly affecting land availability in and around our big cities; and reduced 5-year land supply obligations and limitation of sanctions on local planning authorities if new homes are not provided.

New estimates of the impact of the proposed NPPF revisions on housebuilding are perhaps best described in recent analysis by the consultancy, Lichfield, which suggests the revisions could reduce net housing additions by 77,000 per year on current new housing supply levels in England.²³ This is more likely to impact on housebuilding, while other forms of new housing supply (e.g. conversions) may be affected by the NPPF revision proposals.

Again, the impacts of the NPPF revisions on overall housebuilding will be more muted if there is a housing market downturn, because the planning regulations affect the supply-side and a housing market downturn acts on demand. In other words, if demand falls by 10,000 homes and supply also falls by 10,000 homes, the net result is a 10,000 as opposed to a 20,000 reduction. Adding the effects would amount to double counting.

Summary of policy impacts

With the RDT introduced in 2022 and assuming introduction of the BSL extension and 'voluntary agreement' in 2023, with the NPPF revisions coming in 2024, the following table summaries the estimated impacts and what they do to housebuilding levels.

Whilst the impact of the policies is a 81,600 reduction in housing supply in 2024 at current housebuilding levels, there is no impact at forecasted housebuilding levels because demand falls by a greater amount than this. Sadly, if falling demand doesn't cause a housebuilding slump then falling supply due to the government policy changes will (and vice-versa).

Table 12: policy impacts at current and forecasted housebuilding levels, England

	@ current housebuilding levels		@ forecasted housebuilding levels	
	2023	2024	2023	2024
Pre-policy measures, starts	221,500	221,500	169,500	134,000
BSL extension*	-2,400	-2,400	-	-
RPDT	-950	-1,450	-	-
Voluntary Agreement*	-450	-850	-	-
NPPF revisions	-	-77,000	-	-
Post-policy measures, starts	217,700	139,800	169,500	134,000
(Net additions equivalent)	(245,400)	(157,500)	(191,100)	(151,100)



Conclusion and policy implications

This report has presented a new overview of forecast housing output using an econometric model which incorporates the impacts on housing output of both macroeconomic factors and recent housing policy decisions. The picture it paints is one of very restricted housing output in relation to demand.

We are seeing a fall in overall housing starts across all tenures to 2024, a likely general election year, which presents a major challenge to any incoming government, whether a continuation of the present one or a new administration. By that election, only around half the present government's target of 300,000 homes a year will be being delivered.

What underlies this is a highly challenging outlook for the private sector. For this, we have forecast a sharp fall in output to the lowest levels since the financial crash of the mid-2000's. This itself is driven partly by macroeconomic factors, but it is the policy environment for private market builders that is really of concern.

Recent changes to the National Planning Policy Framework, whereby the Government chose to row back on the local delivery of targets for new housing, is the biggest area of concern, alongside ongoing issues with the planning system, which is widely criticised as slow-moving and highly politicised, thus risky for investors in development.

Improving fire safety on buildings with historic cladding which is now deemed unsafe is a laudable measure, though doing this via the introduction of universal taxes on developers has come on top of the above planning changes and difficult economic headwinds, so their impact on the private sector should be considered.

For these reasons, we caution that a recovery from the low output we forecast here needs to be tackled by whichever government appears from the next general election. Planning in our view may be the biggest issue to address.

Overall, failure to drive up housing output will have obvious knock-on effects, including exacerbating supply-linked problems, such as overcrowding and homelessness; as well as driving market prices higher still, including at the all-important first-time buyer end of the market. Housing has to be made a greater policy priority.

Endnotes

- 1 [Housing supply requirements across Great Britain for low-income households and homeless people: Research for Crisis and the National Housing Federation; Main Technical Report – Heriot-Watt Research Portal \(\[hw.ac.uk\]\(http://hw.ac.uk\)\)](#)
- 2 [Brown pledges 3m new homes | Politics | The Guardian](#)
- 3 [Housing White Paper: Fixing our broken housing market, 2017 Fixing our broken housing market \(\[publishing.service.gov.uk\]\(http://publishing.service.gov.uk\)\)](#)
- 4 [Conservative Party Manifesto 2019 \(\[conservatives.com\]\(http://conservatives.com\)\)](#)
- 5 As opposed to net additions, which are new housing supply minus demolitions
- 6 [Housing Supply: net additional dwellings, England 2021 to 2022 Housing supply: net additional dwellings, England: 2021 to 2022 – GOV.UK \(\[www.gov.uk\]\(http://www.gov.uk\)\)](#)
- 7 'Net additions' are new housing supply less demolitions; equivalent to the growth in the housing stock
- 8 The corresponding new build completions figure on the narrower NHBC measure is 163,000
- 9 [Economic and fiscal outlook – March 2023 – Office for Budget Responsibility \(\[obr.uk\]\(http://obr.uk\)\)](#)
- 10 [Bank Rate history and data | Bank of England Database](#)
- 11 [Press Releases & Latest News – Data Analytics & Business Intelligence \(\[gfk.com\]\(http://gfk.com\)\)](#)
- 12 [UK monthly property transactions commentary – GOV.UK \(\[www.gov.uk\]\(http://www.gov.uk\)\)](#)
- 13 [Housing Pipeline Report \(\[hbf.co.uk\]\(http://hbf.co.uk\)\)](#)
- 14 All are statistically significant at the 5% level, the generally accepted standard. Broadly, this means a 95% chance that they do not equal zero (i.e. that there is a relationship with housebuilding levels)
- 15 [House building, UK: permanent dwellings started and completed by country – Office for National Statistics \(\[ons.gov.uk\]\(http://ons.gov.uk\)\)](#)
- 16 Ibid
- 17 2023 is treated as a forecast year because we are only part way through it and housebuilding outturns are not yet available
- 18 Six years to 2021/22 inclusive
- 19 Unlike the NHBC based ONS figures, the EPC figures do not break down into homes built by private enterprise and so the 165,000 a year figure is approximate
- 20 For land already acquired or assuming that in the short-term land prices cannot adjust
- 21 Implicitly we are assuming that landowners bear half the economic incidence of the RDPT after year 5, the housebuilders the other half until year 5, and that the resulting reduction in land supply is commensurate with the reduced capacity of homebuilders to build homes because they have less capital. This is a simplifying assumption to avoid worrying about 'binding constraints'
- 22 [Levelling-up and Regeneration Bill: reforms to national planning policy – GOV.UK \(\[www.gov.uk\]\(http://www.gov.uk\)\)](#)
- 23 [Making a bad situation worse? The impact of the proposed NPPF changes on housing supply \(\[lichfields.uk\]\(http://lichfields.uk\)\)](#)



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