The viability gap

Where is it viable for home builders to build new homes in England?

Autumn 2025

64%	+17%	18%
Proportion of England where viability is a challenge to building new homes	Increase in cost of delivery since 2022 versus a 1% increase in sales prices	New homes sales share of all housing sales at 300,000 homes a year

Summary

- The Government has ambitious plans to build 1.5m homes and has supported this with planning reforms and new funding for affordable homes which has been universally welcomed by industry
- The report explores the viability of delivering homes on housing led developments and how the industry has adapted to current market conditions
- Home building needs to be financially viable to unlock more supply – viability has been hit by a 17% increase in the cost of development since 2022 while sales value have risen just 1%
- This report assesses the viability of home building in England. Just 36% of the country is viable for starter and family housing-led development. Viability is challenged across two thirds of markets.
- The report finds an inverse relationship between viability and affordability for home buyers - in affordable areas it’s harder to build homes; where development is viable it is harder to buy
- Improving viability requires lower costs of delivery or higher sales prices, through price inflation. Costs look set to rise faster than prices in the near term, impacting investment in new supply
- There is no silver bullet to improving viability. The report makes four policy recommendations to continue to the momentum towards obtaining a sustained increase in housing delivery

Richard Donnell – Research Director

1. Executive summary

"This analysis identifies economic viability challenges in almost two-thirds (64%) of England. Rising costs of development (+17% since 2022) have outpaced the growth in sales prices (+1%) impacting where its viable to build new homes"

Planning reforms help but are not enough to boost supply: Government reforms and new funding have laid important foundations for boosting housing supply but are not a silver bullet.

Viability is the critical barrier: Growing new housing supply depends on housing development being financially viable. Since 2022, housing delivery has been hit by higher borrowing costs, rapid cost inflation, increased regulatory burdens, and weaker buyer demand, following the end of Help to Buy.

Two-thirds of England faces viability challenges: This report sets out the results of a viability analysis for typical starter and family home-led development. It finds that viability is constrained in 64% of the country, as overall development costs (+17%) have risen faster than sales values (+1%).

North-South divide and affordability paradox: There is a clear spatial divide in viability: In Southern England it's more viable to build, but homes are least affordable to local buyers. In the Midlands & Northern England it is more affordable to buy homes, but lower sales prices mean it is often unviable to build homes. This creates an inverse relationship between where housing can be supplied and where it is most needed.

Higher sales prices are not the solution: The resale market sets the price for new homes. Higher sales values would improve viability on paper but shrink the pool of demand, working against the ambition to grow supply. Meeting the 300,000 homes a year target requires new build doubling its share of sales, not pricing out more buyers.

Policy and cost pressures remain high: Although land values have softened and builder margins narrowed, regulatory and policy costs are set to keep rising. It is important that policy changes are tested against their practical impact on viability and delivery.

Market headwinds constrain demand: Higher mortgage rates, the impact of mortgage regulations and the withdrawal of Help to Buy continue to impact buyer demand, especially in markets with above average house prices. Added uncertainty around the strength of demand from housing associations and corporate investors limits confidence in expanding supply. Importantly, house price inflation cannot be relied upon to restore viability over the medium term.

No quick fix – targeted action required: There are no easy solutions to improving viability – costs need to be reduced, or prices increased but the trends in both are in the opposite direction. Viability must be given greater policy focus, nationally and locally. Policy responses should be targeted to reflect local market conditions and guided by clear priorities: whether the objective is accelerating overall housing supply or meeting a growing list of policy targets (e.g. sustainability, design, affordability).

1. Proposed actions

"A greater focus on the viability challenges holding back increased investment in housing delivery will mean the Government can ensure that the housing sector becomes a sustainable driver of economic growth and social well-being"

Recommendations for policy action and focus

A greater focus on the viability challenges holding back increased investment in housing delivery will mean policy makers can ensure the housing sector becomes a sustainable driver of economic growth and social well-being.

The recommendations in this report are focused on the near-term policy response needed to build confidence to support a boost to housing delivery. Policy makers need to focus on the overall costs of development as well as the spectrum of demand for new homes.

This report recommends:

1. Maintain momentum in planning and devolution reforms: continued implementation of planning and NPPF reforms is crucial to unlock land and simplify the development process. Reforms to support greater devolution are a particularly important enabler for increased housing delivery in the longer term with a more strategic approach to planning and how development can support economic growth and wider community benefits.

2. Regulatory review: Review the pace of new regulatory burdens and align policy costs with housing market conditions. The costs of housing delivery, both direct and indirect, are increasing as market conditions remain weak. New policy proposals will add further to delivery costs and impact viability. Impact assessments are required to establish the policy impact on future housing delivery.

3. Target new funding for affordable housing supply: Funding for affordable housing should be targeted where it unlocks delivery quickest. Take action to ensure recently announced funding for affordable housing is swiftly deployed to enable housing associations to contribute to delivery targets through acquisition of homes delivered via section 106 agreed agreements.

4.Targeted demand support: Actively consider targeted demand-side support, particularly for first-time buyers, especially in regions with the greatest affordability constraints. Help to Buy had it's challenges but there are options to improve how any new scheme to support demand could be targeted. It will simply take longer to boost supply if no demand support comes forward. The new National Housing Bank also has an important role to play encouraging increased corporate demand to buy new homes through guarantees and other funding solutions.

2. Introduction and contents

> **"... a combination of policy and economic factors present serious challenges growing housing supply.**
>
> **The viability of home building has been hit by the costs of delivering new homes growing much faster than sales values. "**

Assessing viability challenges in housebuilding across England

The UK government has set an ambitious target to build 1.5 million new homes in England. This has been supported by a range of new and proposed policy reforms alongside increased spending to support growth in new housing delivery. These changes have been welcomed across industry as they deliver the foundations from which to increase investment in new housing supply.

While policy reforms and funding are very welcome, there still needs to be an incentive for builders to increase investment in new housing. The industry doesn't have a strong incentive to expand output at present. Recent data highlighted in section 3 shows investment in new sites continues to be low.

One key factor is that is the viability of home building has been hit by a rapid increase in the costs of delivering new homes which have grown faster than sales values. The greatest risk to increased delivery is that costs continue to rise faster than sales values.

Report aims and contents

Zoopla has written this report to support policymakers in the pursuit of a sustained increase in housing supply. The report highlights critical insights into the economic and operational realities of housing delivery for housing-led schemes across England and the affordability challenge facing buyers. The report does not explore viability of high density, apartment-led residential schemes that face additional challenges to viability.

Zoopla is an essential marketing partner for home builders and is trusted by consumers as a place to make better home buying decisions. The business understands the current headwinds faced by home builders and the challenges faced by home buyers and those looking to buy new homes.

This report has been produced with the support of home building industry experts and provides a comprehensive analysis of the viability challenge for housing-led development across England.

The report is organised into the following sections:

3. What's holding back housing delivery?

> **"annual private housing starts in England are 40% lower than at the start of 2022. Planning approvals for new housing schemes are a quarter lower over the same period"**

Unpacking the numbers: What's holding back housing delivery?

The Government has an ambitious plan to build 1.5m new homes in England. National planning rules have been rewritten, and further wide-reaching reforms and new funding have been announced to support an acceleration in housing delivery from 221,000 net housing additions in 2023/24 to a target of 300,000 a year.

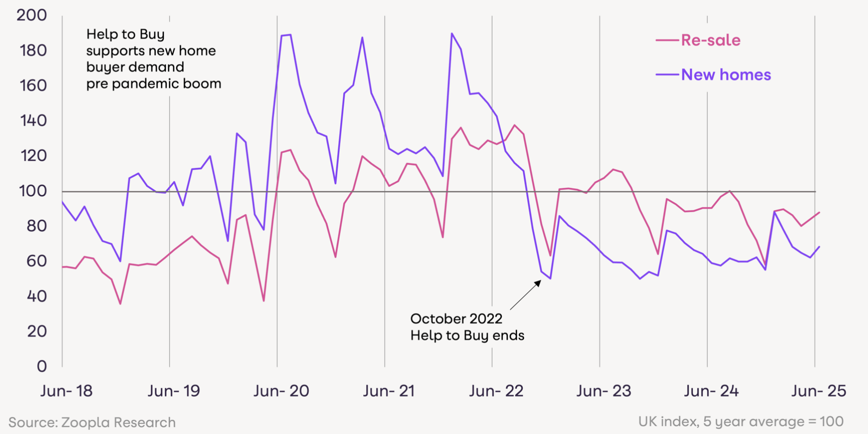
However, the latest data shows annual private housing starts in England are 40% lower than at the start of 2022[1]. Planning approvals for new housing schemes are a quarter lower over the same period with a sharper decline in the number of sites obtaining planning permission for housing[2]. This highlights a cautious approach to investment in land for housing development and challenges in speeding up the planning process.

It is positive that private housing starts have increased off a low base in Q1 2025[1] but there is a long way to go to rebuild a sustained upward momentum in new housing supply to the levels required.

Home building has been held back by a mix of macro-economic and policy factors which are impacting the viability of housing development across England which we explore in this report.

Higher borrowing costs since 2022 have increased the cost of development and weakened buyer demand. The Help to Buy equity loan scheme also ended in 2022. Zoopla data shows demand for new homes has tracked below the resale market since late 2022.

Home buyer demand index - new homes versus resale housing



Source: Zoopla Research

UK index, 5 year average = 100

In addition to higher borrowing costs, the cost of delivering homes also increased sharply through higher labour and material costs. Analysis of large, listed home builder published report and accounts[3] shows the cost of building homes has jumped by an average of 17% between 2022 and 2024, while average selling prices have risen by just 1%, held back by higher mortgage rates.

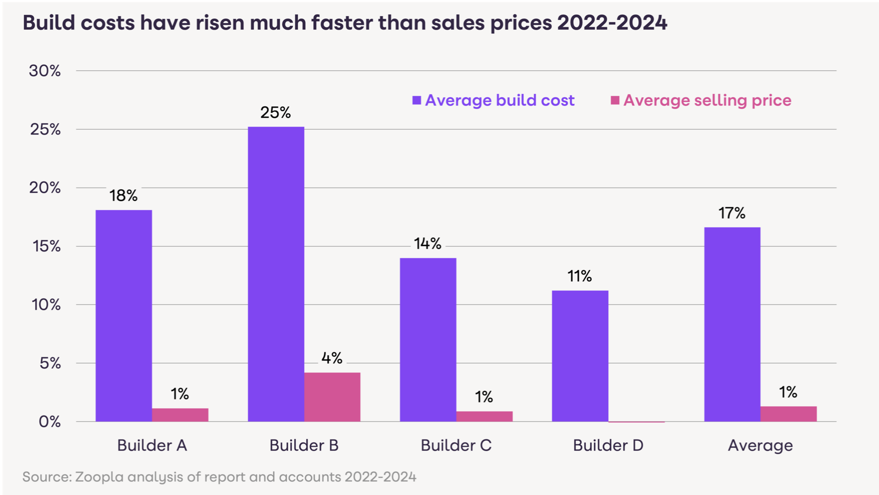
[1] MHCLG, table 213: Housing supply - indicators of new supply, England, 1978 Q1 to 2025 Q1

[2] Housing Pipeline Report - Quarter 1, 2025, Home Builders Federation

[3] Zoopla Research analysis of Barratt, Bellway, Persimmon and Taylor Wimpey published reports and accounts for build costs and private sales values covering 2022 - 2024

3. What's holding back housing delivery?

> **"large listed builder accounts show the cost of building homes has jumped by an average of 17% since 2022, while average selling prices have risen by just 1%"**



Smaller sized home builders are likely to have experienced higher levels of cost inflation than the large listed builders. Higher labour and material costs are one factor, but increased policy and regulatory costs, on top of an already high underlying build cost, have added to development costs, impacting viability.

The increasing costs of regulation e.g. Biodiversity Net Gain (BNG), and nutrient mitigation, together with additional future costs from the Building Safety Levy and the proposed Future Homes Standard, are unlikely to be recovered though general house price inflation.

Demand side pressures on home building are not limited to the affordability challenges faced by private home buyers. Larger home builders typically deliver around 20-25% of their homes as affordable homes through section 106 planning agreements[4].

Demand from housing associations to buy these homes has weakened in the face of well documented challenges related to building safety, cladding and decent homes maintenance programs, in addition to higher borrowing costs.

Uncertainty regarding affordable housing sales has complicated builders' ability to accurately evaluate land value, leading to delays in finalising section 106 agreements which impacts project cash flows. Analysis by the Home Builders Federation shows that more than 100,000 private homes and at least 17,000 affordable homes are currently stalled due to a lack of bids for s.106 homes[5].

The recent spending review has delivered certainty of funding for social and affordable housing provision. This starts to address many of the funding challenges alongside further changes, such as rent convergence. This increased funding agreement is a medium-term change to support increased delivery with specific delivery mechanisms being developed. Focusing new grant funding towards section 106 affordable homes that are deliverable today would help boost delivery more quickly in the near term.

[4] *Housing Market Intelligence report 2024 – Article - A changing consumer landscape points to new ways of thinking, October 2024*

[5] *Home Builders Federation press release 17 December 2024*

4. Viability of housing development

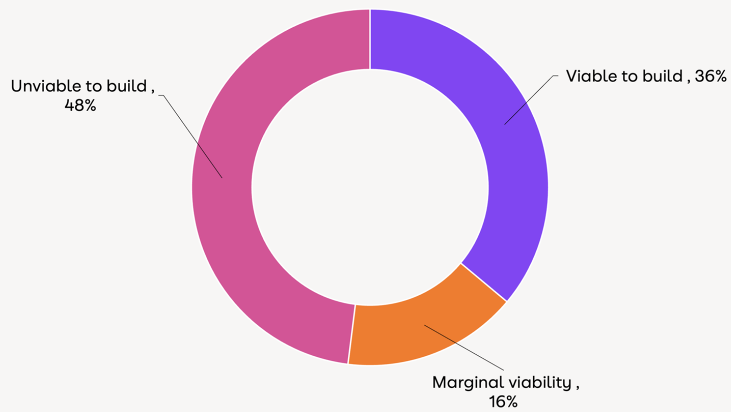
> **"it is viable to build housing led schemes in just 36% of England. There are viability challenges to housebuilding in almost two-thirds (64%) of England with half of the country unviable for housing development (48%)."**

Home building viable across less than 40% of England

The analysis set out in this report reveals that it is viable to build a typical housing led schemes across just 36% of England[6]. We find that there are economic viability challenges to housebuilding in almost two-thirds (64%) of England with half of the country unviable for typical housing led development (48%).

These findings are based on a localised model that compares sales values for new homes to the 'all in cost' of delivering a new home. Where sales values are higher than delivery costs, it is viable to develop. Conversely, where the overall cost of delivery is greater than sales values then it is not viable to build new homes.

Building homes viable in under two fifths of England



Source: Zoopla Research calculations

Excludes London and core cities, housing stock weighted

The model and analysis focuses on the viability of lower density, housing led developments of starter and family homes - most new homes are delivered in the form of houses – apartment-led, urban development is more complex.

Builders are price-takers with the market for second-hand homes setting new home prices in local areas with some variations. This analysis assumes new homes sales values are set at the 75th percentile £ per square foot (£psf) for 2-4 bed houses in the local area. This is in line with new homes sales values at a national level.

The 'all in cost' of delivering a new home covers the build cost, land value and builders' margin. This has been estimated using data from published reports and accounts at a national level and adjusted to regional level. We estimate the all in cost of delivery is currently £307 per sq ft for a typical 1,100 sq ft new home.

The model framework is flexible and allows sensitivity analysis by changing assumptions on sales values and the cost of delivery and the impact on viability at a national and local level.

The methodology and data sources are detailed in the appendix.

[6] These proportions are weighted to the stock of homes that exist today at a local level rather than land area. The headline results are broadly the same when weighting to the latest local authority housing targets - 45% unviable, 18% marginal and 37% viable.

4. Viability of housing development

> **"… of the 38 local authorities with the largest housing targets, over half (58%) are unviable or marginal for housing-led development. Many viable areas have limited room for development costs to increase."**

[7] NOTE: Viability status is calculated at a postcode district level and aggregated to local authority level – the localised data drives the status rather than the local authority level average values.

Housing targets are local housing needs sourced from https://assets.publishing.service.gov.uk/media/675aaeca9f669f2e28ce2b91/lhn-outcome-of-the-new-method.ods

Viability across local authority areas with largest housing targets

The table below shows the aggregated results for local authorities with the largest housing targets (>1500 a year). These account for a third (32%) of annual housing targets in England, outside of London.

Viability status[7] for local authorities with largest housing targets (excludes high density areas/city centres within local authorities)

Local authority	Annual housing target	Sales price relative to cost of development		Viability typology
		%	Relative	
Birmingham	4,448	-6%		Unviable
Cornwall	4,421	5%		Marginal
Buckinghamshire	4,319	30%		Viable
North Yorkshire	4,077	-2%		Marginal
Leeds	3,811	-4%		Marginal
Somerset	3,769	-4%		Marginal
Wiltshire	3,525	8%		Viable
Dorset	3,219	11%		Viable
Bristol, City of	2,986	18%		Viable
Bouremouth, C'church & Poole	2,958	26%		Viable
West Northants	2,515	7%		Viable
Brighton and Hove	2,498	30%		Viable
Cheshire East	2,461	0%		Marginal
Manchester	2,430	-7%		Unviable
Sheffield	2,390	-22%		Unviable
Central Bedfordshire	2,150	14%		Viable
County Durham	2,011	-72%		Unviable
Shropshire	1,994	-4%		Marginal
North Northants	1,978	-9%		Unviable
East Riding of Yorkshire	1,924	-24%		Unviable
Cheshire W. and Chester	1,914	-5%		Unviable
Liverpool	1,847	-24%		Unviable
Kirklees	1,840	-26%		Unviable
Bradford	1,828	-45%		Unviable
Stockport	1,815	9%		Viable
Milton Keynes	1,724	5%		Viable
South Gloucs	1,702	15%		Viable
St Albans	1,660	50%		Viable
Northumberland	1,649	-17%		Unviable
East Suffolk	1,644	1%		Marginal
Wirral	1,602	-20%		Unviable
Trafford	1,599	17%		Viable
Medway	1,594	0%		Marginal
North Somerset	1,593	10%		Viable
Elmbridge	1,562	49%		Viable
Leicester	1,557	-3%		Marginal
Wakefield	1,541	-25%		Unviable
New Forest	1,501	25%		Viable

4. Viability of housing development

> **"… development is viable in markets where sales values are generally higher, while development becomes marginal where sales values are in line with or slightly below average delivery costs."**

Viability finely balanced in many areas

The table shows how the viability of housing development is finely balanced in many areas based on this assessment of viability.

Housing led development is viable in markets where sales values are generally higher, while development becomes marginal where sales values are in line with or slightly below average delivery costs.

Across this list of 38 areas, 16 (42%) are viable while the remaining 58% are unviable or marginal (22 areas).

The table shows the variance between sales prices and overall costs of development and relativity bars that represent the variation to the average. Bars to the left show a greater shortfall between delivery costs and sales values. Bars to the right show sales values above delivery costs and development is more viable.

In areas where development is viable the differentials between cost and sales values are relatively small. This highlights the sensitivity of housing development to increasing costs of delivery whether build costs, policy and regulation or land costs.

This report reviews the options to improve viability which, in simple terms, means reducing costs or increasing sales values. Housing development is occurring in areas that are unviable, but the reasons homes are being built will vary depending upon land costs at the time of acquisition and the product type and pricing of the homes.

It is important to note that actual build costs and sales values will vary from scheme to scheme within regions and local authorities impacting on viability at a site level.

Viability of development follows a clear north-south divide

The map overleaf shows the viability status for all local authorities across England. The purple areas are where home building is viable i.e. end sales values are higher than the all-in costs of delivery.

Pink areas are where the costs of delivery are higher than sales values, making home building unviable. The lighter areas are marginal for development with costs and prices within +/-5%.

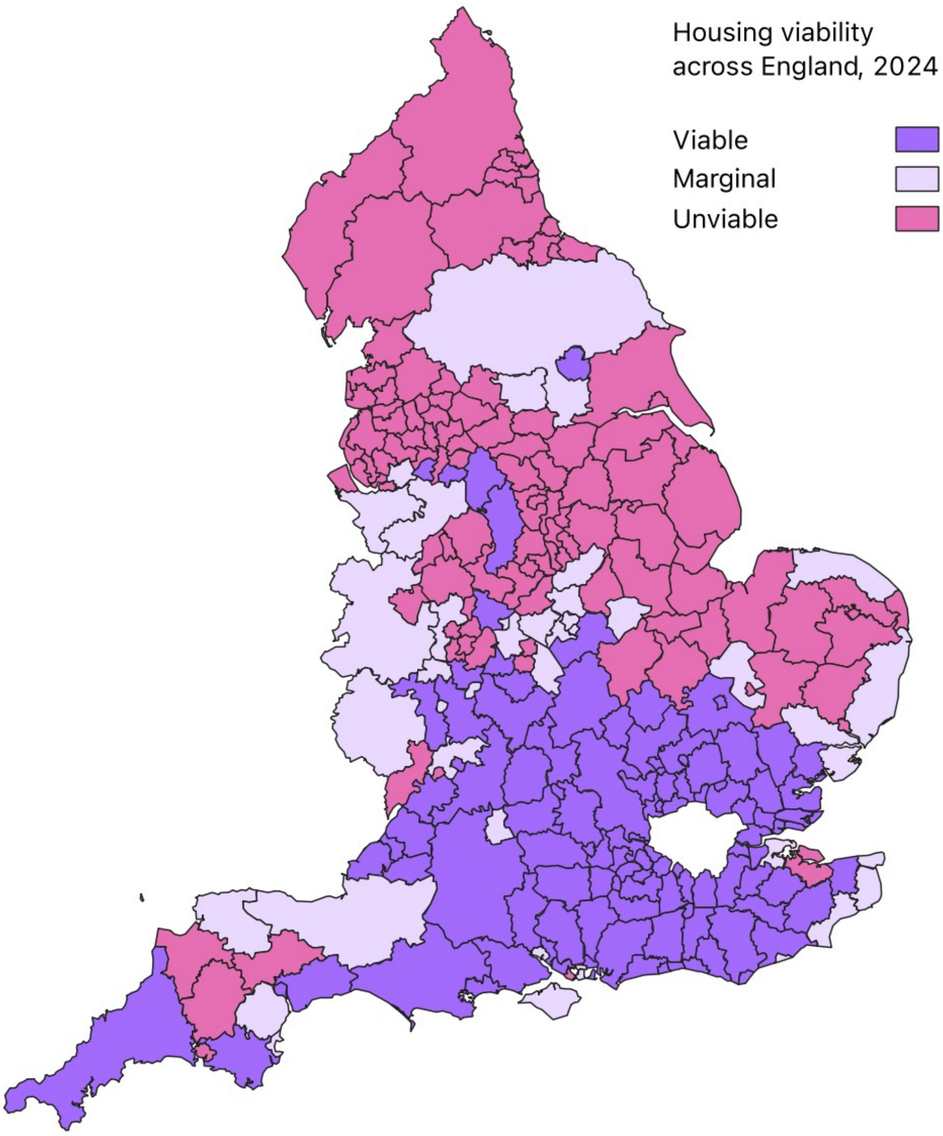
The analysis shows a clear north-south divide in viability. Higher sales values in southern England are supportive of development viability, compared to the midlands and northern England where sales values are lower relative to the costs of delivering new homes.

Homes are currently being built across areas that are listed as unviable as actual new homes sales values are above the 75th percentile across parts of northern England. This would improve the viability picture notwithstanding the fact that higher sales value shrink the pool of demand.

4. Viability of housing development

> **"The analysis shows a clear north-south divide in viability of new housing development. Higher sales values in southern England are supportive of development viability, compared to the midlands and northern England where development is less viable"**

Map 1 – Where is it viable to build new housing led schemes?



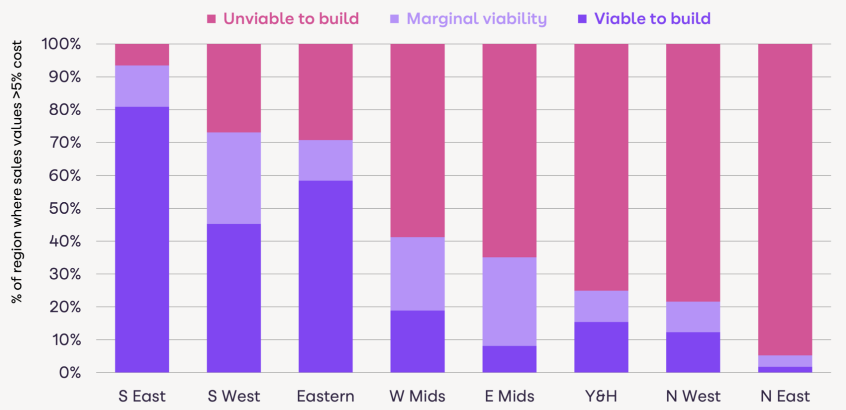
Source: Zoopla Research – new homes viability model
London local authorities and high-density postcode districts excluded

5. Viability and housing affordability

Viability and affordability mismatch

Two thirds (64%) of southern England have average sales prices at a level that can support the cost of delivering new homes, compared to 13% in the Midlands and 10% in Northern regions.

Viability of building homes follows a north-south divide



Source: Zoopla Research calculations

Assumes end sales value set at 75th percentile, housing stock weighted

> **“While the viability to develop new homes is better in southern England, these areas have some of the most unaffordable markets for home buyers. This limits the pool of potential demand and creates sales risk and slow sales rates for new housing schemes.”**

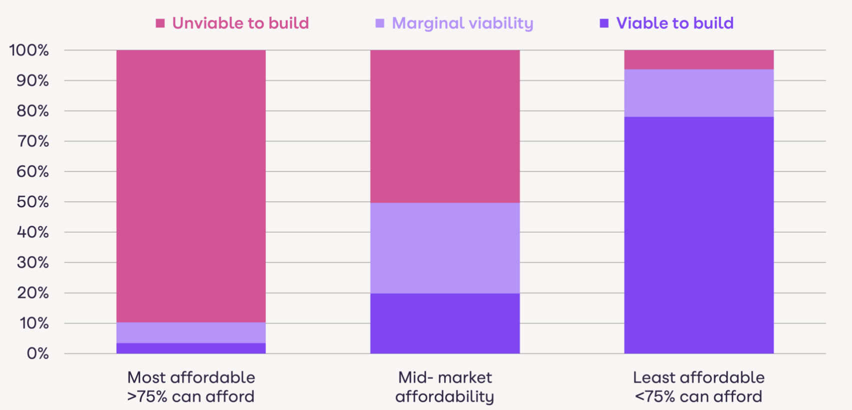
While the viability to develop new homes is better in southern England, these areas have some of the most unaffordable markets for home buyers. This limits the pool of potential demand and creates sales risk and slow sales rates for new housing schemes.

To illustrate the affordability point, we have cross referenced the ability of households to buy average priced homes with the viability of building homes at a local authority level.

The affordability of housing is based on a comprehensive analysis and report published by Zoopla in autumn 2024[8] .

The analysis reveals an inverse relationship between where homes are affordable to buy and where development stacks-up commercially as shown in the chart below.

Where development is viable, fewer households can afford to buy



Source: Zoopla analysis

Base assumption is sell at 75th percentile pricing (above average)

[8] *Can Rent; Cant Buy – the affordability of renting and buying for workers across Great Britain; Zoopla – October 2024.*

5. Viability and housing affordability

In the most affordable housing markets where over three quarters of full-time workers can afford to buy, we find that builders have little incentive to build homes in 90% of these areas due to sales values being below the overall cost of delivery.

Building more homes in these areas requires overall cost of development to reduce and/or targeting higher prices to reset the balance of viability. Increasing prices shrinks the size of the pool of buyers and works against increasing housing supply.

Conversely, in the areas where development is viable we find that most are where <75% of full-time workers are unable to buy an average priced home.

ONS house price data[9] shows that home builders have been lowering average sales prices, relative to the resale market, in southern England. This has been carried out through a change in mix and property types to help improve affordability for home buyers and support viability and sales rates.

Building more homes requires more demand which is currently constrained by access to mortgage finance at levels that are affordable to home buyers which is why there are some calls from for more demand side support for home buyers.

[9] Analysis of ONS House price data: quarterly tables – new homes v resale pricing from quarterly house price data based on a sub-sample of the Regulated Mortgage Survey, May 2025

6. Options to improve viability

> **“Reforms to the planning system need to continue to increase the flow of land and increase certainty in the process. ”**

> **“.. house price inflation can not be relied upon to resolve the viability challenge ..”**

How to improve the viability of housing development?

The economics of housing development are complex. Improving viability could be achieved by either reducing the costs of development or rising sales prices. Key costs include build costs, the direct and indirect costs of policy and regulation, land values and the margins builders target when buying land. This section offers high level commentary and observations on some of the key areas that will impact the viability of development in future.

Lower costs – build, regulation, land

Build costs are set to keep rising, with projections of a 2.5% to 3% increase over 2025 and 2026 and a 14% increase over the next 5 years to 2030 driven by higher labour costs[9]. Measures of UK house price inflation are slowing and range from 1.5% to 3% and likely to fall short of underlying build cost inflation. This re-enforces the author’s view that house price inflation can not be relied upon to resolve the viability challenge of growing housing supply.

The cost of policy and regulation has increased in recent years from stalled schemes impacted by nutrient neutrality and biodiversity net gain requirements to additional direct costs on developers. The Government has listened to industry and announced a delay to the introduction of the Building Safety Levy[10] (BSL) until Autumn 2026.

Other costs related to regulation are mostly fixed and therefore have a disproportionate impact on viability in areas where sales prices are more affordable. For example, the impact of the Future Homes Standard is set to be similar across the country with a greater impact on viability in regions where sales prices are lower.

Data shows land values have adjusted to market conditions but there are limits on how far land values can fall to support viability without impacting the flow of land for housing. Savills’ latest development land index[11] shows average greenfield land values for housing are 10% lower since 2022 as land values absorb the impact of worsening viability.

Lower land values could support improved viability. The challenge for policy makers is whether landowners are prepared to bring land forward at lower values given the higher costs of promoting land through the planning system and the growing length of time taken to obtain planning. While land values have stabilised, falling numbers of sites receiving planning permissions for new housing highlights the challenge of expecting land values to adjust further.

Reforms to the planning system need to continue to increase the flow of land for housing including speedier decisions and greater industry certainty in the process.

[9] BCIS, Construction Industry Forecast, 3 July 2025

[10] The BSL aims to raise over £3 billion over the next decade to support the ongoing safety of residential buildings. Costs will vary depending on local housing values

[11] Savills development land index https://www.savills.co.uk/insight-and-opinion/research-consultancy/residential-indices.aspx#development-land

6. Options to improve viability

> **“New initiatives coming forward to support small builders are especially welcome in addition to encouraging more development by housing associations and the funding certainty to support this”**

> **“Policy makers should avoid relying on higher sales prices or house price inflation to repair the viability of home building”**

Lower developer margins

Report and accounts data shows the home building industry has seen lower operating margins over the last 2 years which currently average 17%. This is below a long run target of 20%.

Looking at home building on a return on equity (ROE) basis, equity investors in listed home builders will expect improving margins from current levels in the medium term. This ensures ongoing financial resilience and access to capital in what remains a cyclical sector. Returning operating margins to 20% would increase delivery costs reducing viability all other things being equal.

While volume home builders account for most new housing delivery, both private homes and affordable, it is important that builders of all sizes have improved access to market, including costs of capital. Larger builders have advantages of scale and buying power and support is needed for smaller builders who face higher costs.

New initiatives coming forward to support small builders are especially welcome in addition to encouraging more development by housing associations and funding certainty to support widening the pool of builders and home buyers is also important.

Higher house price inflation or sales prices

The viability of home building could be improved through stronger house price inflation that outstrips both underlying and regulatory cost inflation, tipping the balance back towards improved viability. The challenge of higher sales prices is that this reduces the pool of potential demand for new homes.

Our model shows that targeting new homes sales values at the top 10% of prices in the local area would mean that more than half the country would be viable for housing development (56%). Targeting higher prices would not support an increase in housing supply.

Making a very conservative assumption that two thirds of the 300,000 annual housing target is for private sale, would mean new homes accounting for c.18-20% of total annual housing sales.

This is almost double the long run average and would require the market for new homes to operate more effectively at all levels – demand for private homes, the purchasing of affordable homes by housing associations and strong demand from corporate investors buying homes for rent.

Policy makers should avoid relying on higher sales prices or house price inflation to repair the viability of home building. Growing supply is all about widening the pool of demand for new homes from private home buyers to corporate investors while reducing the cost of capital.

6. Options to improve viability

> “growing housing supply requires certainty of demand from all would-be purchasers of new homes both private homebuyers and corporate purchasers. ”

Corporate demand for new homes less certain

Growing housing supply requires certainty of demand from all would-be purchasers of new homes both private homebuyers and corporate purchasers. Large builders have relied on housing associations and other corporates to buy up to 25% of all homes produced. Higher housing targets may well see this proportion increase as builders look to manage sales risk and cashflows.

The recent Spending Review has addressed many of the challenges facing housing associations buying affordable homes provided through section 106 agreements. A long-term rent settlement for affordable homes and clarity on funding for the Social and Affordable Homes Programme is also welcome. However, industry concerns remain that without incentive for housing associations to buy s106 homes, the near-term challenges of growing housing supply will not be resolved.

There is also a risk that this could become a barrier to overall affordable and private housing delivery if the new funding is not routed towards schemes that are in progress or readily deliverable.

One important trend in recent years has been a sustained increase in the flow of capital from corporate and institutional investors to buy homes for rent. Higher borrowing costs have also impacted the values that these investors are willing to pay. Cashflow based valuations typically deliver lower purchase prices than private home buyers will pay and this reduces overall development values which can impact project viability.

Widening the profile of buyers with more bulk sales upfront in the process is one way to increase certainty but cannot be relied upon given investment market sensitivities, global trends, and a reliance on large corporate entities who need to invest in a wide range of markets.

While demand side support is often referenced for private home buyers there is a case to consider guarantees and other options to boost demand from corporate purchasers of new homes. The new National Housing Bank has an important role to play supporting new housing delivery through a range of funding and guarantee products.

7. Summary

> **"Increasing home building to 300,000 a year is a longer-term journey, and this report has focused on the near-term challenges facing the industry. "**

Implications of the housing viability challenge

This analysis has demonstrated how the increase in the cost of delivering homes combined with static sales values has restricted the number of areas where it is viable to build housing. This has impacted the number of housing starts and planning approvals which have been trending downwards.

On the findings set out in this report, the target to build 1.5m homes will need to be achieved across less than 50% of the country. Yet where the housing market is more active and affordable, it is harder to develop homes without targeting higher sales values relative to the resale market. Where the viability of development is better, affordability is a constraint on sales volumes and pricing levels.

There is a risk that reforms to planning policy, designed to increase the supply side, won't unlock greater delivery in the near term because of the increase in the cost and complexity of building.

Reforms to planning policy rolled out so far are very welcome and set the right macro narrative for increasing housing delivery. Further legislation is moving through Parliament that will set the framework for long term growth in housing development. However, there is a short to medium term challenge to increasing housing delivery with important regional variations.

The medium-term outlook for the housing market is improving as mortgage rates stabilise and lenders relax stringent affordability testing which has increased borrowing capacity by up to 20%. We expect modest nominal house price inflation of 1-3% a year in the near term alongside and 1.1-1.2m sales a year.

Builders and the market have adapted to higher costs and lower sales value growth through a decline in land values and operating margins alongside housing product mix driven price adjustments where practicable. Uncertainty over the future of new homes demand at current pricing levels – from private home buyers and corporates remains a constraint to accelerating supply.

Increasing home building to 300,000 a year is a longer-term journey. This report identifies the near-term challenges facing the industry and sets out specific recommendations for policy makers to build on the announcement and reforms already underway.

The much-needed planning reforms and spending commitments of the last year simply enable the housing industry to start the journey towards 1.5m homes after a period of uncertainty and rising costs.

The demand is certainly there from owners and renters to occupy 300,000 new homes a year. It's how industry and policy makers work together to seize the opportunity to grow housing supply and support improved viability of housing development.

Appendix Methodology Part 1

Appendix – Data sources and methodology

This analysis of the viability of development in England is based on a comparison of two key data sources

1. The £psf distribution of housing sales prices in 2024 at a local market (postcode district) level, where the 75th percentile price was used as the target sales prices for new homes in the area.
2. The estimated 'all in' cost of developing a typical new home on a £psf basis at a regional level.

In simple terms, where the sales value at the localised level is below the cost of development, housing delivery is not viable. Where sales values are above delivery costs development is viable.

A data model was developed to generate this analysis and reporting. The approach was to build an assessment of viability at a localised level and then aggregate this to local authority and regional level for reporting purposes.

The sales pricing data is not a simple average across the local authority area. Sales pricing is calculated at a localised, postcode district level (e.g. SE5 or CT14) which reflects variations across local authorities, enhancing the quality of the overall results.
While sales values can vary widely across local housing markets, build costs are typically less variable for lower density, housing-led schemes across the country. The analysis is based on estimates for the all in cost of delivering a home on a £psf basis at a regional level. This covers build costs, land costs and gross profit margin assumptions which are described below.

Pricing data
The pricing data is based on achieved prices and mortgage valuations of 2, 3 and 4 bed houses over 2024 on a gross floor area £psf basis supplied by Hometrack Data Systems at a postcode district level. The full pricing distribution by price decile was calculated enabling sensitivity analysis to be run at different assumptions for sales pricing levels.

Calculation of all-in cost of housing delivery
A model was developed at a regional level to build up an estimate the the all in £psf cost of delivering a 1,100 sq ft new home based on 1) build cost, 2) land cost and 3) builders gross profit margin.

Average build costs were based on the stated build cost from the published report and accounts of the largest 5 home builders for 2024. These were adjusted using the BCIS regional factors for 2024. The average build cost was £204 psf.

Appendix Methodology Part 2

Land costs pr sq ft were estimated using the average new homes sales prices in 2024, drawn from the ONS house price index, and data from annual report and accounts where the proportion of new homes sales value accounted for by land cost can be calculated. The average of land cost relative to sale price was 16% with no regional variation and assuming a 1,100 sq ft sized home.

For the purposes of this analysis builders' margins were assumed to be in line with the operating margins declared in the recent reports and accounts of major builders in 2024 (average 17%). These were applied to the average sale price to generate a £ margin per sq ft.

The build cost, land cost and margin were summed to calculate an estimated all in cost of delivering a new home. The England average, excluding London was £307 per sq foot which was corroborated as representative by industry professionals. The average cost breakdown across England, excluding London, was £204 psf build cost, £50 psf land cost, £53 psf gross margin.

Data assembly and modelling

A model was developed to compare sales prices and delivery costs across all postcode districts in England with the relevant local authority and region added for each area. Sales price data were appended at a postcode district level alongside the estimated delivery costs based on the regional level estimates.

A household density score was also appended at the postcode district level. Areas with a household density per hectare of >2,000 were classified as 'urban/city centre' where new housing is delivered at higher densities which have higher costs and different economics of development and excluded from this analysis. This removed c.5% of postcode districts from the analysis and could be flexed further.

The assumption was that development was viable where sales values were 5% or more above the cost of development. Marginal viability was +/-5% and unviable development was where sales costs were 5% or more below delivery costs. Other typology definitions could be applied.

Aggregation and weighting of results

The data in this report has been aggregated to local authority and regional level from the postcode district level. The results are weighted to the stock of housing where the sample for the pricing distribution used as a proxy for stock. This was considered more robust than a pure count of areas or more complex aggregations based on planning or other constraints on development.

Appendix Methodology Part 3

Interpretation of the results

This report is an ambitious and complex piece of analysis bringing together multiple datasets to assess the viability of developing new homes in England.

Modeling analysis, while powerful, has inherent limitations. These include the simplification of complex systems, reliance on assumptions, and potential for data-related inaccuracies. Models, by their nature, are abstractions of reality and cannot perfectly replicate the nuances of the real world, especially when I comes to the economics of developing individual development sites.

The margin assumed in the analysis is used as a proxy from published data but may not accurately reflect the margins that developers of all sizes need to target to allow for the cost of capital and the complex array of risk for different types of development.

The report has been through a review process by senior industry leaders and practitioners to ensure the outputs and core assumptions are fair and reflective of the reality of home building in England today.

Sensitivity analysis

The ability to run sensitivity analyses via the model is a powerful addition. The main report comments in several areas how changing assumptions can impact the viability of housing development.

We identified how increasing sales prices could improve development viability, but this would reduce the pool of demand.

Lowering the costs of development by 5% (land and build) would improve viability with 42% of the country viable for development and a further 9% marginal.

Lower costs and higher pricing delivers greater results with almost two thirds of the country viable for housing development. While this sounds positive higher prices are not the answer to boosting supply as it limits the pool of private home buyer demand. Assuming lower costs is also, at odds with the projections for steady build cost inflation and planned increases in policy costs.