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# How can housing boost productivity growth?



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# About The Housing Forum



- The Housing Forum is the only cross-sector, industry-wide organisation that represents the entire housing supply chain.
  - Members include housing associations, councils, housebuilders, construction companies, architects and professional services.
- Focus is on collaboration and partnership to increase:
  - Housing supply
  - Affordable housing
  - Quality and decarbonisation



# The Housing Forum's work on policy

- Engaging across the housing sector to understand the issues we face
- Highlighting issues and solutions to government via reports, letters, the press and consultation responses
- Keeping members up to date on policy issues via webinars, round tables and briefings.

## Reforming the Right to Buy

### Reform or abolish?

The Housing Forum's members from across the housing sector – including housing associations, councils and the private sector – work together towards a mission of a quality home for all. We are acutely aware of the impact of the overall housing shortage and the vital role that council homes can play in meeting housing needs.

Ending the Right to Buy altogether would be the best way of safeguarding the social housing stock to be allocated to those who need it most. Nevertheless, we are conscious that all the main political parties want to help people own a home of their own, so may wish to keep the Right to Buy in some form.



### Recommendations for reform

Introducing a 'Buyers Charter' to ensure fairness and safeguard council homes for those who need them most

1. Covenants should be placed on sales to either prevent the property from being let out, or alternatively to require them to be offered to the council to let, if they are not being used for owner-occupation.
2. Discounts on a home should be reduced to no more than 20% of its value.
3. The length of residency required to purchase should be increased to at least 5 years.
4. The exemption criteria should be modernised.
5. The details of the 'Buyers Charter' should be devolved to local councils.

Giving councils the confidence to build new council homes

6. The Right to Buy should be removed for newbuild homes.
7. The cost floor rules should be reformed.

Making the most from the Right to Buy receipts

8. Councils need flexibility over how to spend their Right to Buy receipts.
9. The cap on acquisitions should be removed or made more flexible.
10. Councils should receive the full value of the Right to Buy sale to reinvest in social housing.
11. The £2,000 that councils can keep from the sales proceeds to cover the administrative costs needs to be increased so running the Right to Buy is cost-neutral for councils.

## Linking social rents to energy efficiency – how might it work?

Our *manifesto* advocates updating the social rent formula, so that rents reflect the energy efficiency of the property. How would this work in practice? And are there other ways we could link rent levels and energy efficiency?

The Housing Forum's *Manifesto for Housing 2024* calls for the social rent formula to be updated and adjusted to reflect the energy efficiency of a property. There are two key benefits from linking rents to energy efficiency:

- Social landlords will have a stronger financial incentive to upgrade their homes, potentially bringing in capacity for private finance to help them.
- Tenants will pay a fairer price for their home, which reflects the cost of bills.

But how is the social rent formula set, how energy efficient are social rent homes, and how would linking rents to energy efficiency help?

### How is social rent set?

Back in 2001, a standardised formula for setting social rents was set. This formula sets the rents for some four million households living in social housing in England, based on the property size and location. The formula is also important to local authorities and housing associations, whose finances are particularly challenging in 2024. Rents from residents pay for crucial repairs, planned maintenance and help fund upgrades, including decarbonisation.

Not all social housing rents are set according to the formula: some properties, particularly newly built units, can be let out at 'affordable rent', defined as up to 80% of market rent. However, social rent remains the dominant tenure within social housing, and it is social rents that we have focused on in this paper.

Maximum annual increases for social rents are set by central government and have in recent years tended to allow rents to be increased each year by one more percentage point than the Consumer Price Index (CPI), known as 'CPI plus one'. From 2016 – 2020 rents were instead cut by one percent a year. In 2023, the *median monthly social rent* for a two-bedroom home stood at £400 in England.

November 2023  
The Housing Forum Working Group on Planning:  
Report 1

## Streamlining planning to build more homes



September 2024  
A Housing Forum Report

## The cost of building a house How has the thing we need most become unaffordable?







## How can housing boost productivity and growth?

- **Housebuilding**
  - Direct impact on employment in construction, including infrastructure cross-subsidised by development
  - Indirect boost via expenditure related to house moves and expenditure on the home
  - Reduction of costs that arise as a result of under-supply of housing – expenditure on homelessness, health& educational impacts of overcrowding
  - Lack of labour mobility (including higher wages) in areas of shortage.
- **Improving quality and decarbonisation** – a growing business

## So how is government going to increase housebuilding?

- **High aspiration, with cross-party agreement** - 1.5m new homes over the parliament.
- **Long term thinking - A new generation of new towns alongside urban extensions** - Taskforce set up in September to decide on locations and approach within 12 months.
- **A willingness to prioritise housing above other concerns** - compromises around greenbelt, 'beauty' in design, etc.



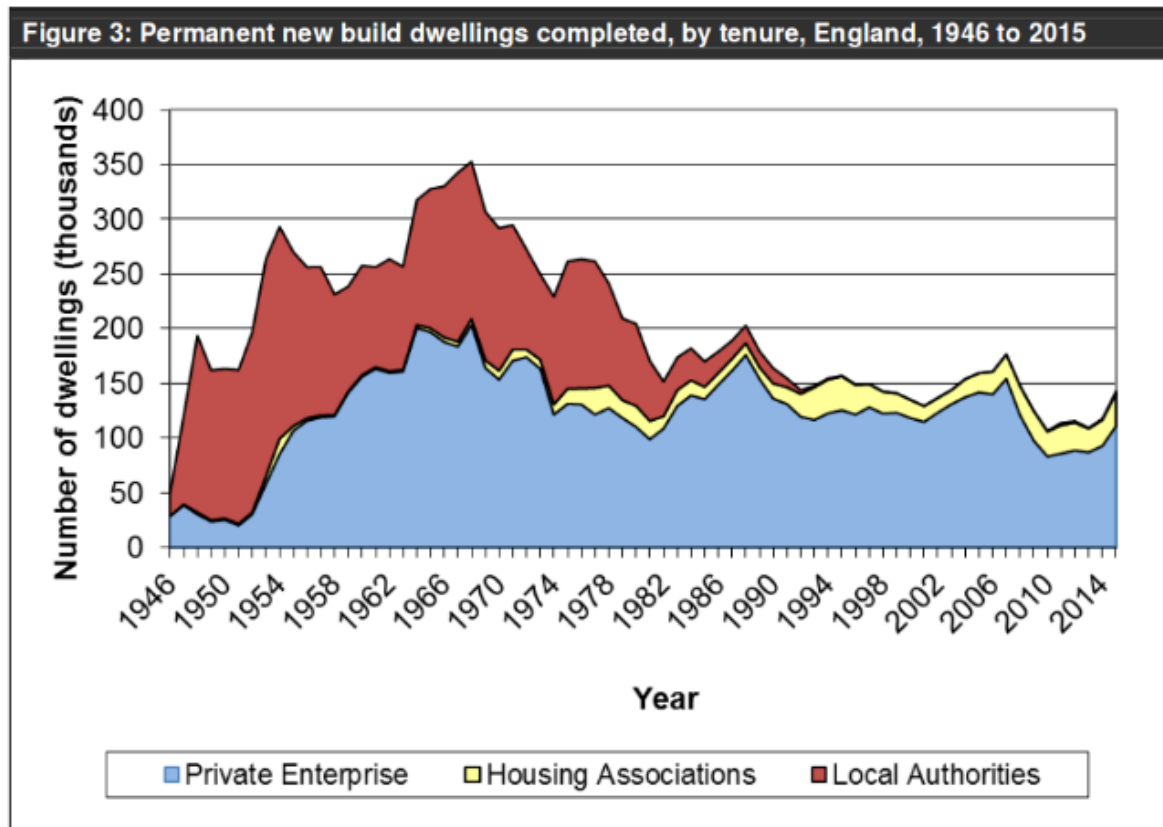


## Planning reform

- **New National Policy Planning Framework** - published in December sets new formula for targets, which are higher overall, and no longer skewed so heavily towards urban areas (more realistic). Makes the 'standard method' mandatory and gives fewer reasons to avoid meeting the targets.
- **New Planning and Infrastructure Bill – published this month:**
  - Reforms to planning committees (compulsory training for councillors, maximum size and national scheme of delegation, meaning many applications have to be determined by officers).
  - Nature Recovery Fund - which developers pay into, and councils (or other public body) manages to the benefit of nature, and to mitigate the impact of the development. Should direct the funding where it's most useful, and speed up development.
  - Big changes on strategic planning - Spatial development strategies to force LAs to work together. Produced by mayors, Combined Authorities or LAs (upper tier).
  - Councils to set own planning fees – some concerns here, but should help channel funding into planning departments, which is badly needed.
  - Minor changes to CPO powers and processes, and to the powers that Development Corporations have, to help with new towns.
- **Reducing the number of statutory consultees**, and greater oversight of consultees' input on planning applications – so they don't cause so many delays.

## Is 1.5m new homes achievable over 5 years? (300,000/year) A few graphs:

Graph 1: Post-war housebuilding



*Used to argue that it is only possible if the public sector builds it.*

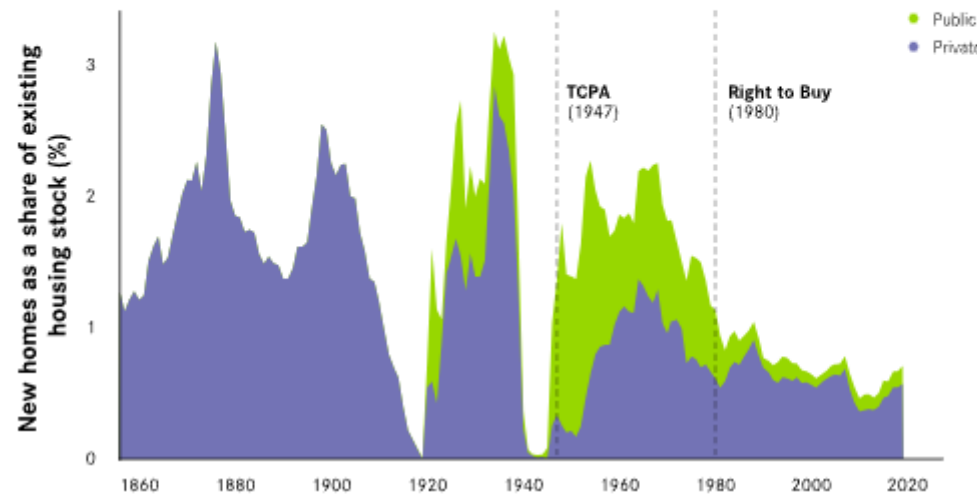
Source: [Ministry of Housing, Communities & Local Government](#)

However....

Graph 2: Going back a bit further

**Figure 1: The English and Welsh housebuilding rate decreased after 1947 and before 1980**

Gross Housebuilding in England and Wales from 1856



Source: Centre for Cities

*Used to argue the Town and Country Planning Act stifled delivery.*

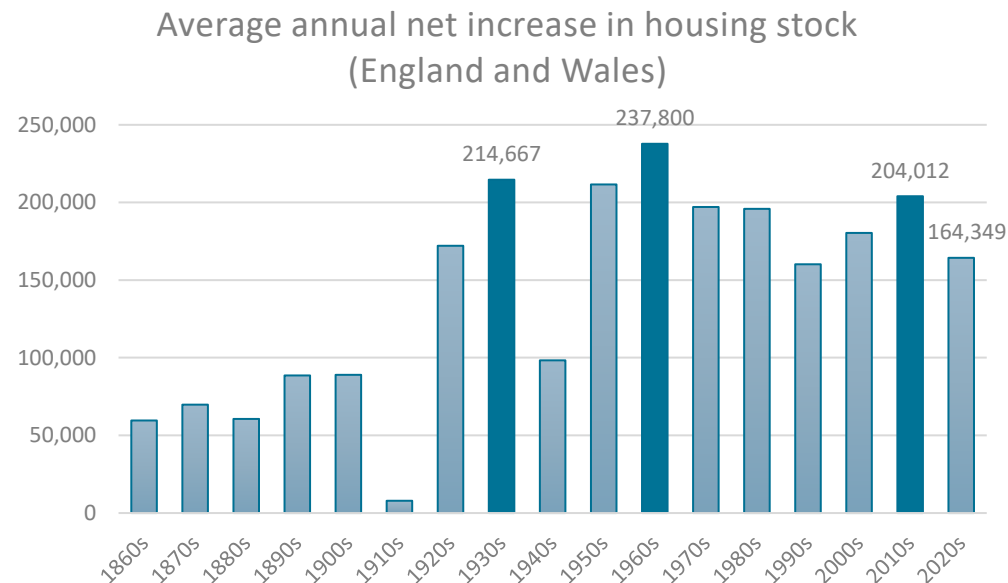


## Reality a bit more complex:

*Prior to 1948:*

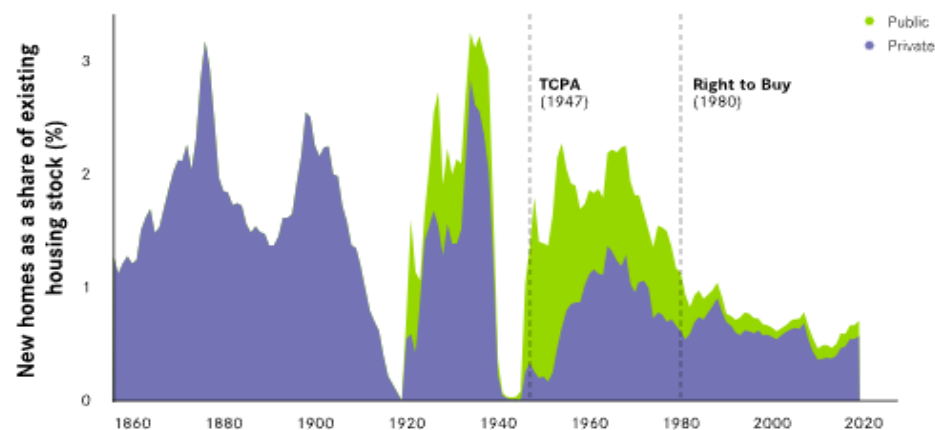
- *No planning. No greenbelt.*
- *Limited building regulations.*
- *Housebuilding was much cheaper (annual council rents were 9% of the construction cost in 1914; today they're 2%). Land also a lot more expensive today.*
- *Quite a lot of the new housing was simply replacing older housing.*

Graph 3: Looking at **net increase** in housing over the same period:



Source: Holmans 2005, plus MHCLG

Gross Housebuilding in England and Wales from 1856

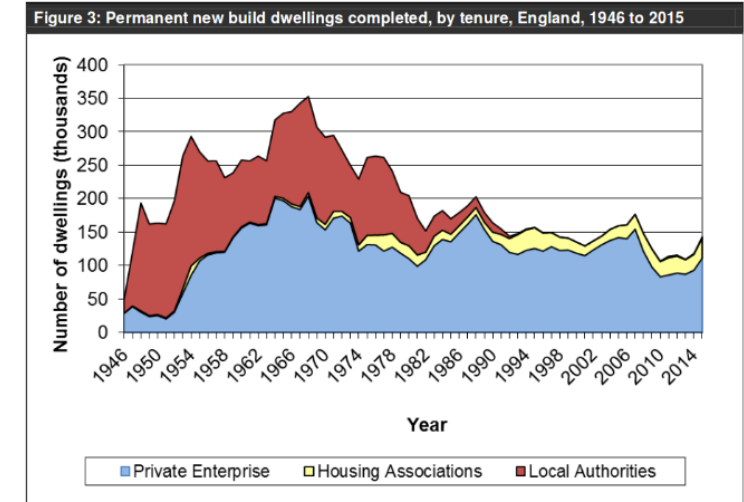


## And in more recent years:

*The boom of the 1960s & 1970s was at a time when:*

- *Greenbelts had been drawn up to allow for a few decades' worth of development within them.*
- *More enthusiasm for thinking big in terms of new towns, growth, less focus on conservation or the environment.*
- *A **very large amount of capital subsidy** was used from both central and local government. Tax was higher, expenditure on other areas (eg health) was a lot lower. No political party today has proposed the level of funding that would be required (even those who have proposed the outputs!)*

*So reality is that the large majority of new homes will have to be delivered by the private sector (or in partnerships)*



Source: [Ministry of Housing, Communities & Local Government](#)



## Can the private sector deliver?

- In high priced areas, there's no inherent reason why not.
  - Other countries deliver higher rates of housebuilding – there's not some fixed limit on private sector capacity.
  - There is plenty land – urban areas only 7% of UK (11% in England)
  - No industry-wide conspiracy to constrain supply to hold prices up (wouldn't be in the interests of any one housebuilder to do that).
- Challenges:
  - Builders will only build at a certain rate of any one product on any one site – to avoid market-saturation.
  - Finance constrains their ability to buy and work on many sites at once.
  - Each site goes slowly and unpredictably, mainly because of planning (but also workforce & infrastructure provision)
  - We are increasingly reliant on large builders and therefore on large sites, which tend to build out more slowly.
- The companies we work with are all keen to expand, to build more homes.



## What else needs to happen to help deliver?

### Biggest challenge right now is finance and viability

The Housing Forum's report last year on The Cost of Building a House showed the costs of an average house are around £252,000 – *excluding land*.

*This is more than the average newbuild house sells for in some areas.*



## Total costs of building a house

Table 5: **Total costs of building a house including future costs** (excluding land values)

Cost of the most straightforward house	Estimate (2024 rates)
Costs of planning application	£1,000
Total construction costs	£133,000
External works	£22,000
Professional fees (architect, legal, etc)	£4,000
Contingency (to cover unforeseen circumstances)	£8,000
Sales and marketing, including conveyancing	£6,000
Finance costs	£8,000
Services and utilities	£20,000
<b>Total</b>	<b>£202,000</b>
Additional costs, incurred on most developments	Estimate (2024 rates)
Abnormal costs, lower estimate (houses)	£13,000
Abnormal costs, upper estimate (houses)	£68,000
<b>Abnormal costs, typical estimate (houses)</b>	<b>£40,000</b>
<b>Total cost including typical abnormal costs</b>	<b>£242,000</b>
Future costs	
Biodiversity net gain	£1,000
Future Homes Standard	£6,200
Electric vehicle charging	£1,200
Building Safety Levy	£1,000
Water saving incentives surcharge	£300
<b>Total future costs</b>	<b>£9,700</b>
<b>Total current, typical abnormal and future costs</b>	<b>£251,700</b>

Source: The Housing Forum: The Cost of Building a House, 2024



## What's caused the financial difficulties?

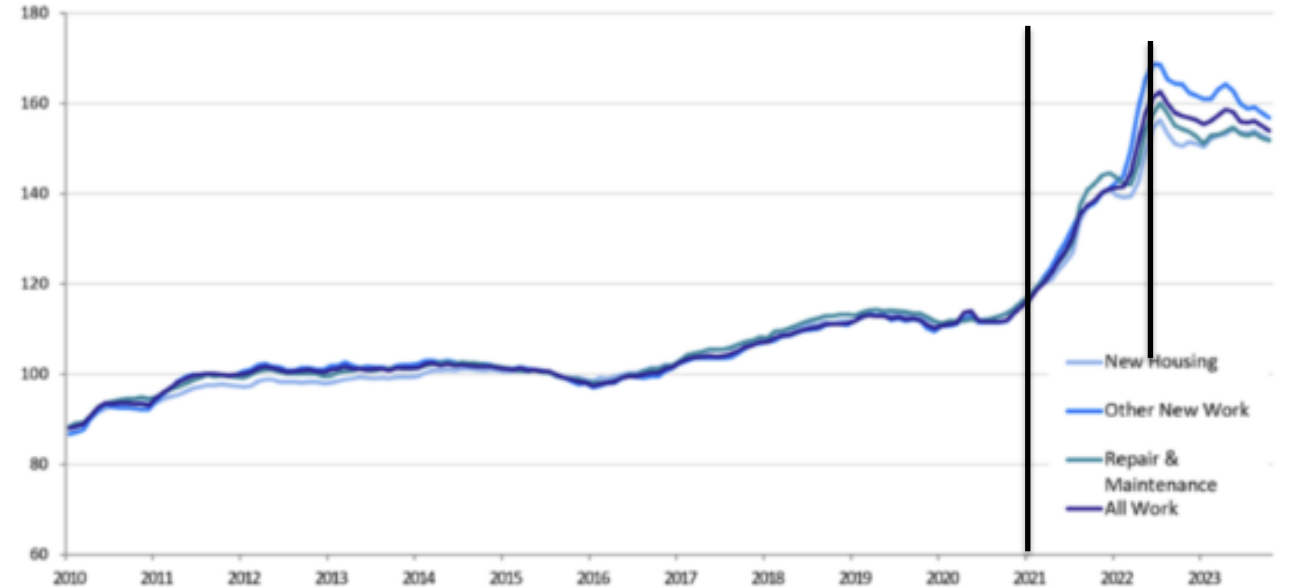
**Big rise in construction costs:** Rose by 50% in 2 years. Stable since then but still affecting viability of sites purchased prior to that, or in low value cost areas (where land prices were already low)

**Increased labour costs** – Labour shortages, especially in locations where housing costs are high (so where housebuilding is most needed...). Particular shortages of building safety experts, planners and heat pump engineers.

**Interest rates have ended their long run of <1%.** A new normal? But has caused house market growth to stall.

**Increased policy costs** – New building safety requirements, biodiversity net gain, payments to pay to upgrade water system or offset pollution or water usage, new building standards (2021 regs, then Future Homes coming in soon). A long-term trend of putting costs on development, hoping it will come off land prices or profits, but current environment makes this hard.

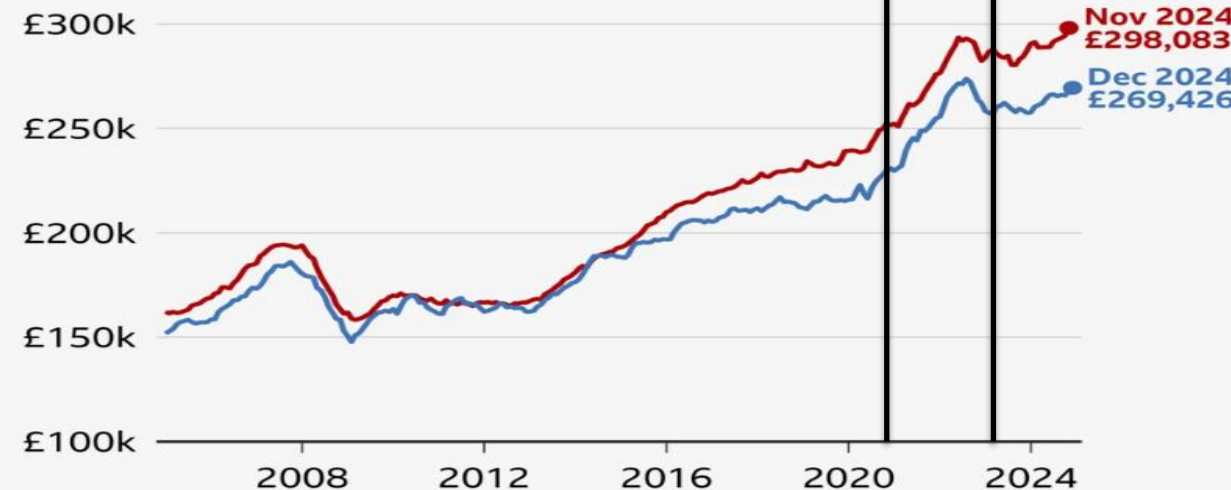
**Chart 1: Construction Material Price Indices, UK**  
Index, 2015 = 100



Source: Monthly Statistics of Building Materials and Components, Table 1

## Average house prices in the UK

Average UK house price, **Halifax** and **Nationwide**



Note: Axis does not start at zero

## What would help?

**Direct funding for the affordable housing sector** – would help deliver on manifesto commitment of “the biggest increase in social and affordable housebuilding in a generation” but also keep the whole of the housebuilding sector going while markets adjust, house prices start to rise again, and private sector can accelerate.

Rhetoric around this continues, but no significant cash as yet. Sector is hopeful for the Spring Spending Review.

**Urgent action to address the blockages around building safety** – The new Gateways process is causing a hiatus in getting started on sites –Building Safety Regulator does not want to offer advice or engage in dialogue, but nor are the requirements clear and unambiguous enough that applicants know what to do to get approval.

**Allow social landlords to put rents back to “target rent” level** where they were heading towards before the 2016-20 rent cuts. (Around half of this cost would be picked up by DWP via higher benefit claims.) A longer-term rent settlement (eg 10 years) would help too, though unless it’s contractual, the sector (and its investors) may struggle to trust that it won’t be changed by a future government.

**First time buyer support** – can help to keep housebuilding rates up, especially if targeted at newbuild.

**Focus on mixed tenure in larger scale developments** – including Build-to-Rent housing and mix of affordable tenures – helps build-out rate as a wider range of occupants. And realism on build-out rates for larger sites when allocating 5 year land supply.

**Investment in skills and training**, especially at the FE level – apprenticeships and on-site learning for 16+, careers advice to help people into the right role for them. Also mid-career switchers.

**Build cross-party support** - not just for the aspirations but for the policies needed to get there. Is Labour-Tory agreement sufficient? Increasingly fractured political system.

***The Government’s long term plan for housing*** – expected out in June, alongside Spending Review





### A couple of potential curveballs:

**Local Government reorganisation** - should be helpful for housing (more strategic, bigger scale, more efficient), but the transition is likely to be a distraction from other agendas.

**Immigration** – the elephant in the room with housing requirements – if we continue with net migration of 1m a year, then 300,000 new homes a year will only lessen the rate at which the shortage gets worse. Need higher aspirations. (Average UK household size = 2.4 people, so 1m people need (417,000 houses.)

### But much reason for optimism –

**Need patience, and a long-term view:** A lot of the planning reform really positive, but will take time to yield results. Market should pick up gradually too as interest rates come down a little and wages grow.

Not likely to meet 1.5m target over 2024-29 period but should be able to ramp up to 300,000+ a year by 2029.

**Government needs to keep listening** – People across the housing sector are reporting really positive stories of engaging with ministers and civil servants, period of paralysis appears over. This should help unblock future issues and find ways forward to unlock higher rates of housebuilding and economic growth.

Thank you for  
listening



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