SAVILLS RESEARCH

Delivering 300,000 homes per year in England

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More demand support, including grant funding for affordable housing, will be needed to deliver 300,000 homes per year

- We have looked at whether there is realisable demand to absorb 300,000 homes into the housing market in England each year. This will be critical to deliver the Government's pledge to build 1.5m new homes over five years.
- Our analysis and the history of housing delivery since 1945 shows that a clear shift in the tenure mix and pricing of new homes will be needed if this is to be achieved. Business as usual would leave a demand gap of 40,000 to 95,000 homes per year.
- A large increase in grant funding for affordable housing could quickly boost demand for new homes from Housing Associations and other Registered Providers. These new low cost rented homes could quickly be absorbed into local markets, providing homes for people on social housing waiting lists and homeless households.
- This must come alongside increased land supply through the planning system and resolving the wider financial challenges of housing associations.

Delivering 1.5 million homes over the five years of the current Parliament is a key Government pledge. The initial focus has been on land supply, with big changes to planning policy currently under consultation. But what about demand? Will the mix of tenures and price points at which the new homes come forward meet the realisable demands of households?

This question is crucial to the issue of absorption, the speed at which new homes can be 'absorbed' by local housing markets. In turn, this will dictate the speed at which sites are built out. The absorption rate is dependent on the tenure and pricing of the homes being built. Social rented housing, at a discount to market prices, can be absorbed much more quickly than homes offered for sale to private individuals at market prices. This was observed in the 2018 Letwin Review.

We have looked at whether there is likely to be demand for 300,000 homes per year during the late 2020s, the average annual level required to deliver 1.5m homes over five years. Of course, given the low starting point, it is likely that 350,000 to 400,000 homes will need to be absorbed during the final years of the Parliament.

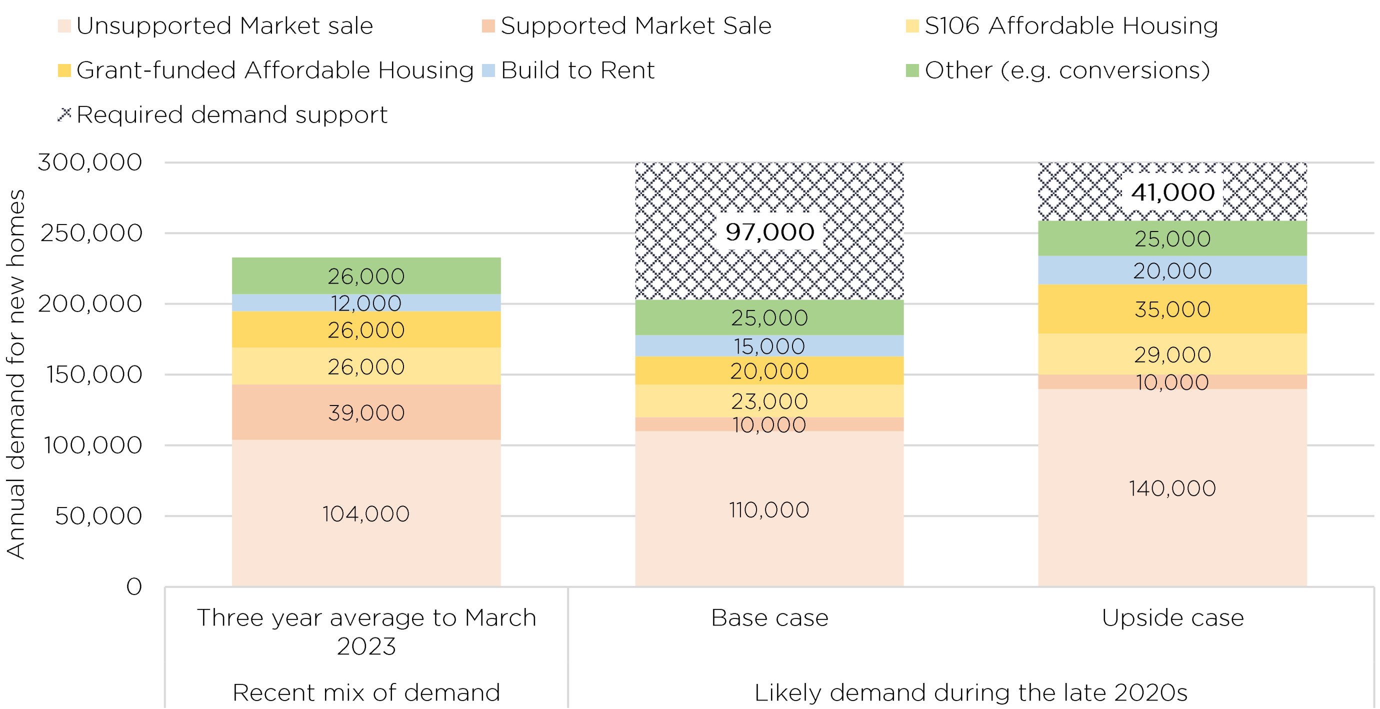
Our analysis shows that, even looking at this minimum absorption requirement, a big increase in demand support will be necessary. Without real change to the mix of homes coming forward, the Government's ambitions appear to rely on around 200,000 new homes sales to individual buyers per year. Private housebuilding has only reached this level in a handful of years since 1946 and not at all since the 1960s. Sales at this level would require new homes to make up around one fifth of all home sales in England – an unprecedented level. One tenth is more typical.

We estimate that there will be a gap in demand of between 40,000 and 95,000 homes per year, against a target of 300,000 per year. Plugging this gap will rely on demand support. This could be aimed at individual home buyers, perhaps through a more targeted version of Help to Buy.

A more direct and countercyclical boost to delivery could come from a large increase in grant funding for affordable housing. This would quickly increase demand for new homes from housing associations and other registered providers. These new low cost rented homes could quickly be absorbed into local markets, providing homes for people on social housing waiting lists and homeless households. It would also give the Government more influence over tenure mix, prioritising social rent.

This must come alongside increased land supply through the planning system and resolving the wider financial challenges of housing associations.

Figure 1 Is there realisable demand for 300,000 homes a year in England?



Source Savills using MHCLG, NHF, BPF

Our Completions Forecast released in May this year was based on the policies of the previous Government. But the expected collapse in delivery this year is the unavoidable starting point for the new Government in its ambition to deliver 1.5m new homes over five years.

We expected the number of new homes completions to drop to 165,000 in 2024/25, down from an average of 210,000 per year between 2018 and 2023. Forward indicators are still pointing towards a fall of that magnitude.

It is likely that the 1.5m target is net additional dwellings, subtly different from new homes completions. The vast majority of net additional dwellings are new homes completions, but conversions, changes of use and demolitions are also included. Typically, this adds about 20,000 to 30,000 homes to the supply coming from completions. Over the last three years, conversions have averaged around 25,000 homes.

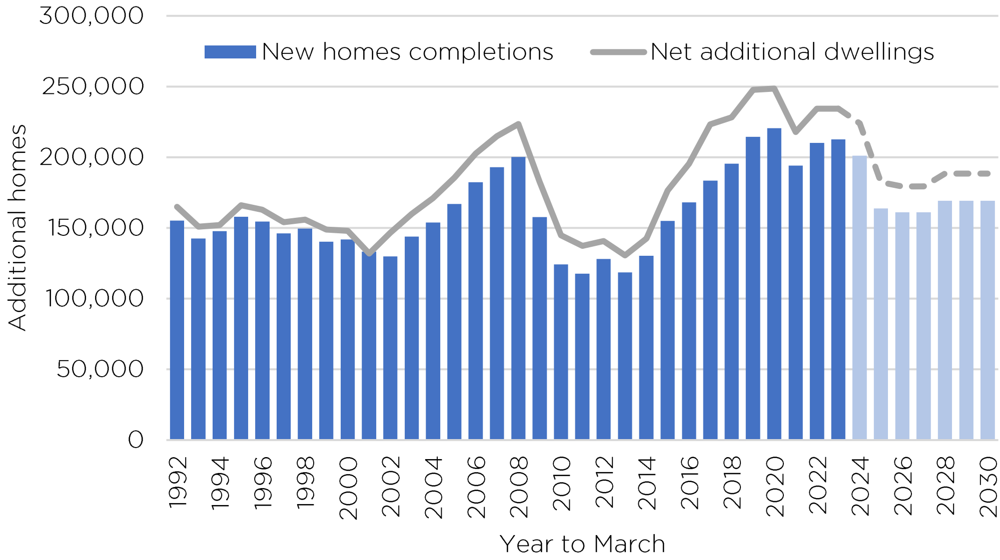
This leaves 275,000 new homes completions required to reach a total of 300,000 net additional dwellings per year.

Grant-funded affordable housing is the only form of delivery that does not rely on open market demand for new homes.

Inflation has reduced the number of homes that the current grant programme can deliver. The next programme may keep the level of funding the same and deliver a lower number of homes, or it may be increased in line with inflation to maintain delivery numbers.

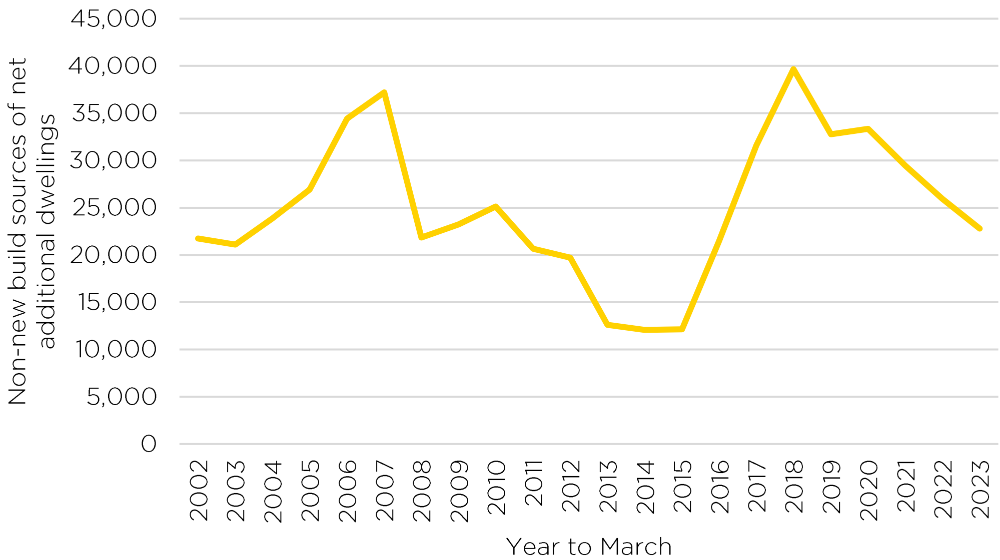
The other variable in a new programme is tenure mix. If the share of social rented homes increases from c.16% at present to 80% (as has been mooted by before the election), delivery will fall due to the higher grant rates required.

Figure 2 An unenviable starting position



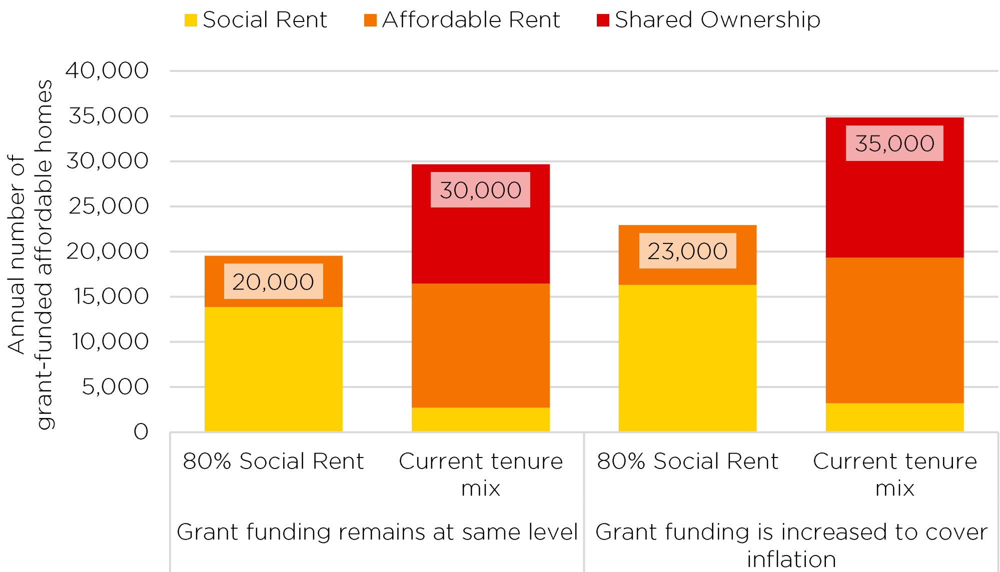
Source Savills Completions Forecast, May 2024 (https://www.savills.co.uk/research_articles/229130/359081-0)

Figure 3 Conversions and change of use will continue to play a role



Source MHCLG

Figure 4 Business as usual from the Affordable Homes Programme?



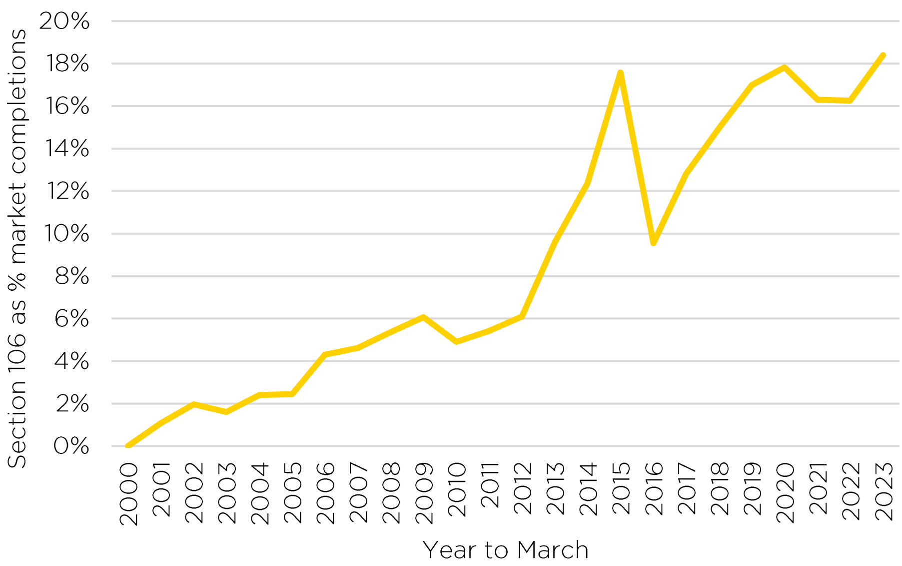
Source Savills, NHF

Having dealt with conversions and changes of use, and grant funded affordable housing, the remaining 240,000 to 255,000 new homes completions will need to be delivered by the market. Two aspects of this do not require sales to individual buyers.

The first is Section 106 Affordable housing. This is inextricably linked to market delivery volumes. Over the last five years, it has averaged around 17% of all market completions.

Although the Government would like this percentage to be higher, this is untested and increased land value capture may not be viable on many sites. We think assuming Section 106 delivery will be in line with recent past trends is most plausible, particularly over the period to 2030. Emerging policies on land value capture will take time to have an impact.

Figure 5 How much of housing supply is Section 106 Affordable housing?



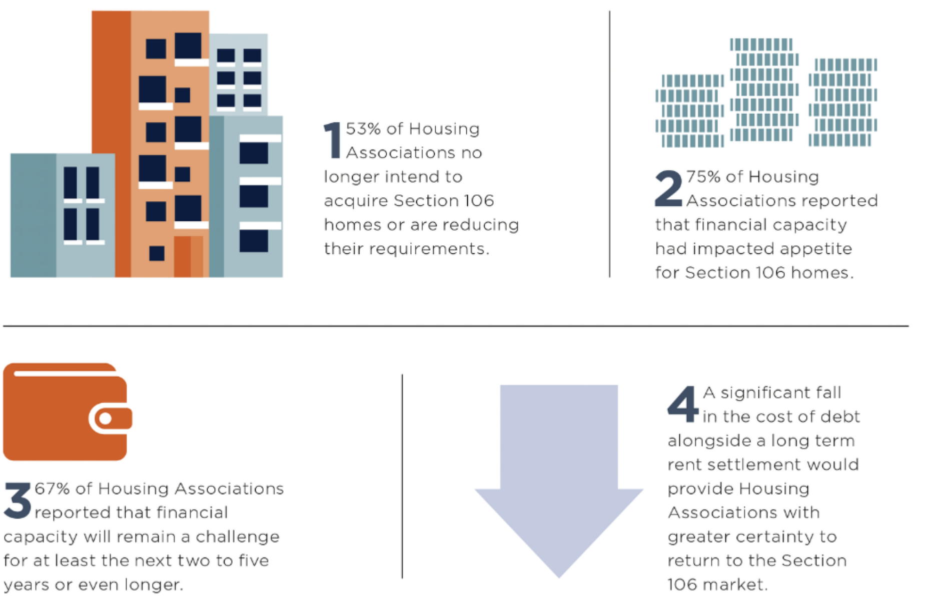
Source Savills using MHCLG data

If the market (including Section 106) did manage to deliver 255,000 homes per annum, adopting this would imply around 37,000 Section 106 affordable homes per year.

But currently most housing associations are reducing their requirements for Section 106 housing. The main cause is severely restricted financial capacity in the face of rising costs, below inflation rent rises over recent years and commitments to remediate existing stock to meet building safety and environmental standards. These issues need to be addressed to enable housing associations to return to the market.

For more on this topic, see our paper on the [Challenges of Unlocking Section 106 Delivery](#).

Figure 6 The key challenges facing S106



Source Savills Survey of Developing Housing Associations

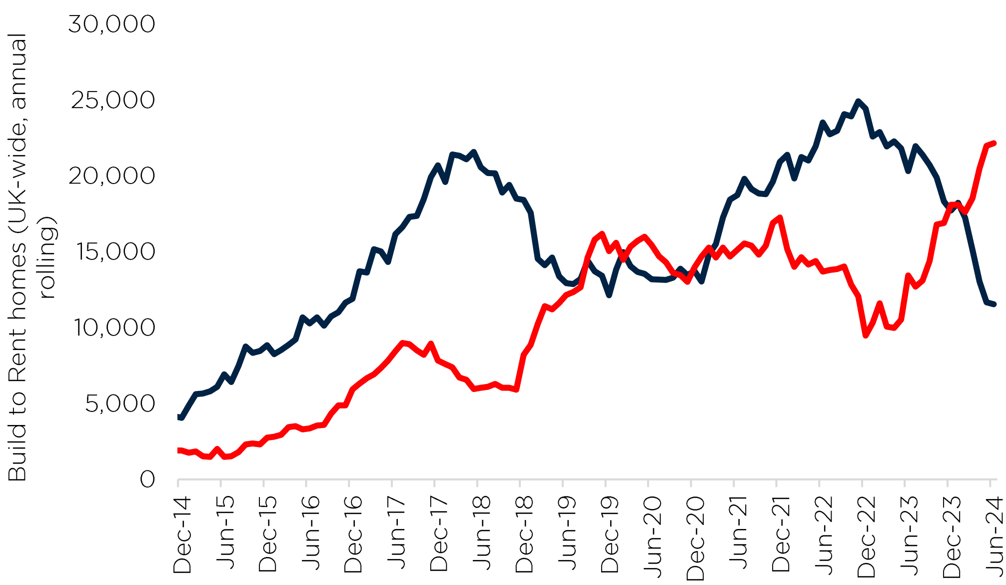
Build to Rent is the other form of delivery unconnected to the sales market. This sector has averaged around 12,000 annual completions across England in recent years.

Although completions are currently at a high, starts have fallen sharply indicating that this level of activity will not be consistent.

Over the medium term, we think this sector is unlikely to exceed a broad average of 15,000 new homes a year across England.

[Our analysis for the British Property Federation](#) suggests an upside scenario of 20,000 homes a year if there is an especially supportive policy environment.

Figure 7 What is the likely scale of Build to Rent development?



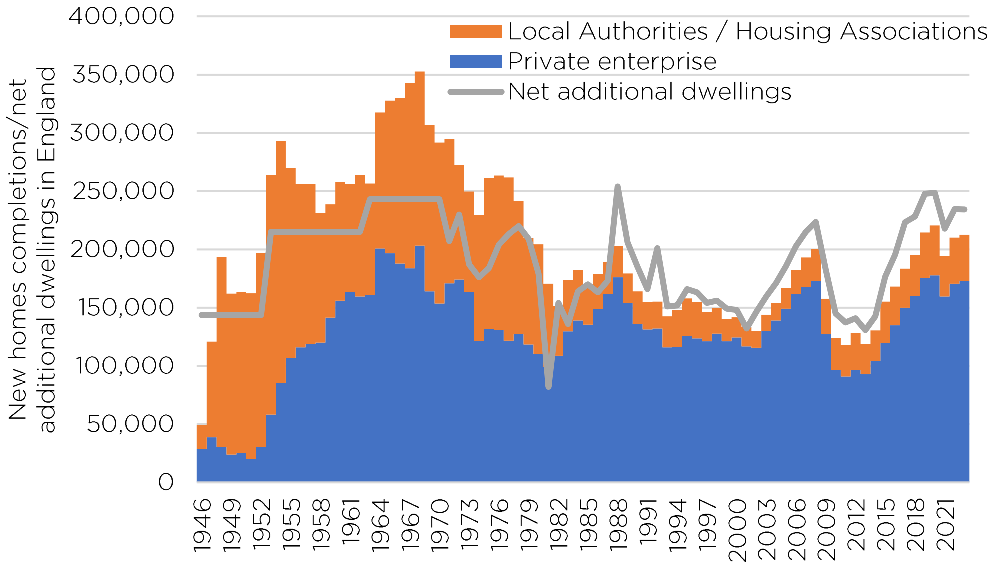
Source Savills, British Property Federation

Having deducted conversions, changes of use, grant funded affordable housing, Section 106 affordable housing and Build to Rent, the remaining 203,000 new home completions are reliant on homes being sold to individual owner-occupiers.

This source of demand was the dominant one for market delivery of new homes until recent years. So a reasonable proxy for what has been delivered previously is the long run ‘private enterprise’ completions series from MHCLG.

This shows that over 200,000 new private homes a year has been achieved just twice since the 1940s, and not at all since the 1960s.

Figure 8 What are the precedents for high levels of market delivery?



Source Savills analysis of MHCLG data

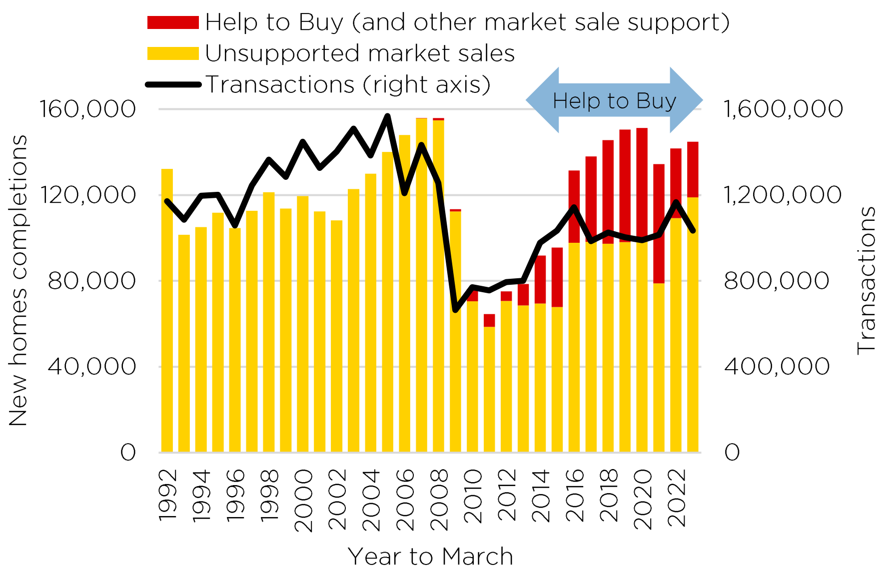
That’s before considering the “10:1 rule”. This is the observation that private new homes delivery has only ever (at least since the late 1970s) been one tenth of total housing sales across the whole market, new and second hand.

In recent years, this rule has been broken by Help to Buy, which pushed new homes sales to a level well above one tenth of total market activity.

Help to Buy gave new homes a number of competitive advantages over the rest of the market. Its withdrawal, alongside higher interest rates, has been a major factor affecting housebuilder sales rates over the last two years.

Various schemes have tried to replace aspects of Help to Buy, including Deposit Unlock, Own New and schemes run by individual housebuilders, but they are less generous and have struggled to gain momentum in a higher interest rate environment. We have assumed lower interest rates may enable 10,000 sales per year through such schemes by the late 2020s, a quarter of Help to Buy volumes.

Figure 9 Only Help to Buy has broken the 10:1 rule during the last 30 years

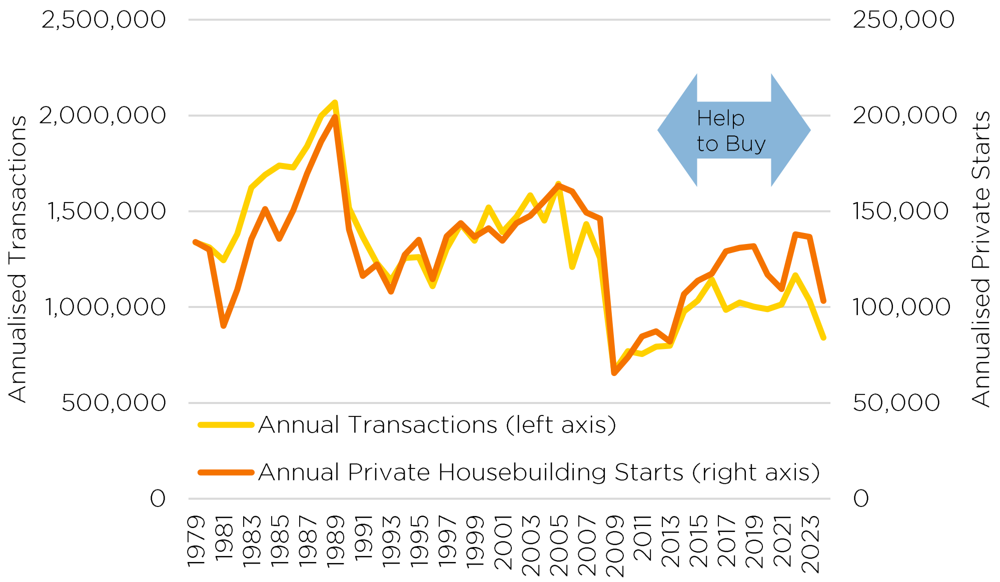


Source Savills using MHCLG and HMRC data

Before 1992, it is not possible to isolate sales as a segment of new homes completions. But the relationship between private housebuilding and overall residential market transactions holds until the 10:1 ratio was broken by Help to Buy. The reason why this ratio persists is unclear, but is potentially linked to the types and pricing of new homes built. Without Help to Buy or another change of similar impact, it is likely that the ratio will be restored, with consequences for housing delivery.

This relationship is a factor in [the OBR forecast for the housing market, including completions volumes.]

Figure 10 The 10:1 ratio has endured since at least the late 1970s

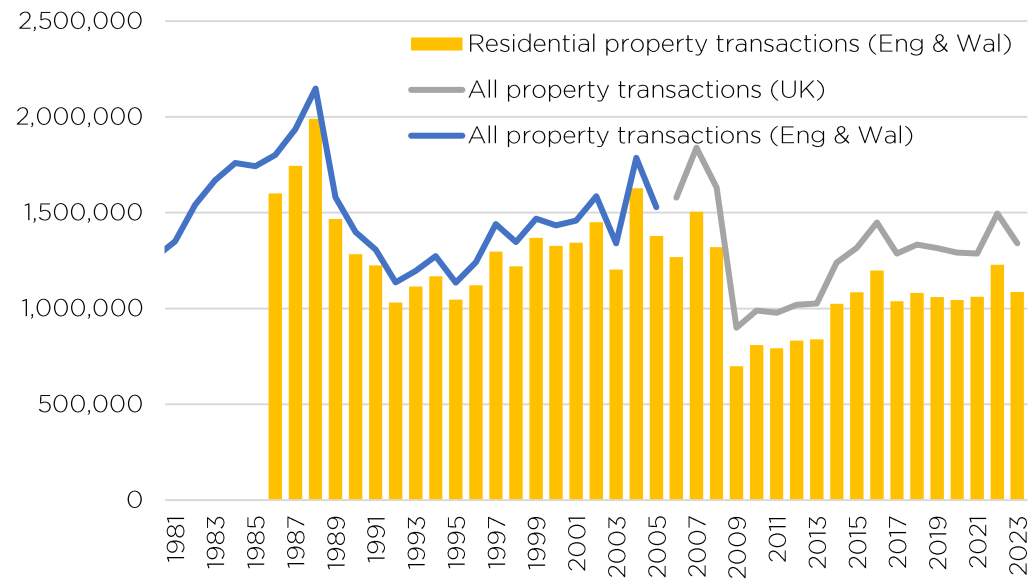


Source MHCLG, HMRC, UK Housing Review

If the 10:1 ratio is a real limit on the number of new homes that can be sold each year, then the level of sales activity in the whole residential market is a key factor affecting the potential to deliver 300,000 homes per year.

It would mean that over 2 million residential transactions are needed to enable the sale of the remaining 203,000 new homes. This level of activity in the housing market has only been approached in one year (1988) over the last four decades – a very different housing market with greater affordability, more relaxed lending requirements, and policies like Right to Buy in full effect.

Figure 11 Transactions have only approached 200,000 in one year over four decades



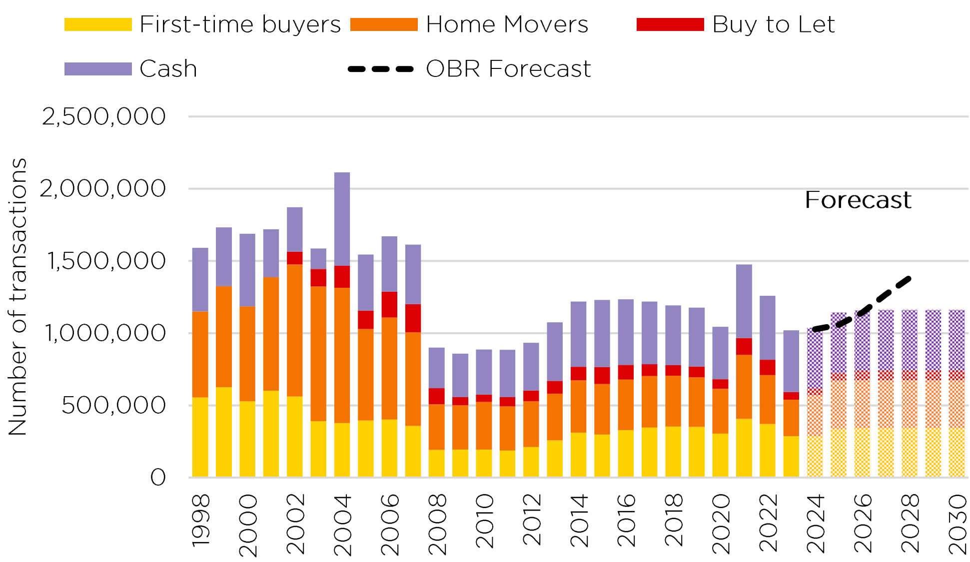
Source UK Housing Review, HMCR

Our forecasts (dated Autumn 2023) envisage transaction volumes of just over 1.16 million in the coming years. This would imply around 116,000 private sales.

Even if a return to pre-pandemic low interest rates raised activity levels, recent history suggests that would only create a little over 1.2 million transactions, or 120,000 new homes sales.

The OBR currently forecasts annualised transactions returning to 1.4 million by early 2029. Though higher than our forecast, this still only implies private sales of 140,000 – still not enough to fill the gap.

Figure 12 Transaction volumes have been subdued since the GFC



Source Savills

There are compelling reasons to expect transaction activity, and thus private sales, to remain muted.

Relative affordability will improve gradually, as the Bank base rate (and thus mortgage costs) falls over the period and buyer purchasing power is restored. Yet the market remains constrained by a fundamental lack of affordability, with house prices expected to remain high compared to incomes.

Mortgage regulation will likely remain restrictive and greater availability of higher loan to value mortgages appears unlikely. So we do not expect a return to the high level of transactions seen before the Global Financial Crisis in 2008.

Figure 13 There is little scope for a dramatic increase in transactions

	2023 (actual)	2024	2025	2026	2027	2028
UK Mainstream house price growth	-1.8%	2.5%	3.5%	4.0%	5.0%	4.5%
Annual UK transactions	1.02 million	1,.05 million	1.14 million	1.16 million	1.16 million	1.16 million
Average UK house price	£285k	£292k	£302k	£316k	£332k	£346k
Year-end Base rate	5.3%	4.5%	3.5%	2.5%	2.0%	2.0%
Nominal Income growth	7.4%	2.7%	3.5%	3.2%	2.9%	3.1%
Real GDP growth	-0.2%	0.6%	2.0%	2.0%	1.6%	1.6%

Source Savills Mainstream Forecasts, 2024-2028 (Spring 2024)

Adding up the higher and lower numbers outlined above gives the total potential absorption of new homes in England, assuming sufficient land supply, materials, labour, etc. The results are numbers that fall substantially short of the Government's target, even using the more optimistic scenario.

It is clear then that additional demand support will be needed to consistently deliver 300,000 homes per year. This will be needed alongside the measures currently under consultation to improve land supply through the planning system.

Of course, given the low starting point for housing delivery, demand for well over 300,000 homes will be needed for two to three years at the end of the parliament to deliver 1.5m homes.

Table 1 Do the numbers add up?

	Base case		Upside scenario	
Unsupported market sale	110,000	In line with 10:1 ratio at Savills transactions forecast	140,000	In line with 10:1 ratio at OBR transactions forecast. (Or break 10:1)
Supported market sale	10,000	Schemes such as Deposit Unlock, Own New, etc.	10,000	Schemes such as Deposit Unlock, Own New, etc.
Section 106	23,000	Circa 17% of rows above, 120,000	29,000	Circa 17% of rows above, 150,000
Grant-funded affordable housing	20,000	Funding level static; tenure mix shifts to 80% social rent	35,000	Funding level increases to allow volumes and tenure mix to remain
Build to Rent	15,000	Existing policy environment	20,000	More supportive policy
Conversions and changes of use	25,000	In line with recent levels	25,000	In line with recent levels
Total net additional dwellings	**203,000**		**259,000**	

What else could be done? There are three possibilities:

1. Rely entirely on planning reform
2. More supported sales
3. More grant funding for affordable housing.

The revisions to the National Planning Policy Framework currently under consultation would see local planning authorities required to plan for over 370,000 new homes per year. Depending on how this increase in land supply comes forward, it may create new opportunities for diversity of delivery and even maybe temper land values, which may in turn help to break the 10:1 ratio. But the various transition arrangements for Local Plans means that the combined housing target is unlikely to exceed 300,000 homes before 2029 (see our blog). So it will probably take a decade to find out whether this is effective.

During the 2010s, housing delivery was quickly and successfully boosted by support for sales in the form of Help to Buy. There is no sign that the Government is considering this as an option, with the rhetoric generally focussed on supporting social rent over other forms of subsidised delivery. While not without its faults, Help to Buy did drive up new housebuilding. Renewed support for sales, perhaps on a more targeted basis, should not be ruled out. It would be important for any new scheme to avoid inflating new homes prices.

Increased grant funding for affordable housing is the most direct policy 'lever' that the Government can pull to boost demand, increasing the ability of housing assocaitions and other registered providers to acquire new homes. Unlike sales support schemes, such as Help to Buy, it is also countercyclical and not vulnerable to market downturns. Increased grant (and adopting a tenure mix to ensure the grant goes as far as possible) would be the simplest and most effective solution to quickly drive up demand to the levels required.

New low cost rented homes acquired by registered providers can be quickly absorbed into local markets, providing homes for people on social housing waiting lists and homeless households.

The analysis in this report suggests that increasing the grant funding programme to support delivery of an additional 40,000 to 95,000 new homes per year is needed if 300,000 homes are to be delivered each year. The lower number depends on wider support for the housebuilding industry and backing for other market and affordable tenures alongside social rent.

NATIONAL HOUSING FEDERATION

The National Housing Federation has kindly sponsored the production of this report.

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