

Florence Eshalomi MP
Chair
Housing, Communities and Local Government Select Committee
By email

23 January 2026

Dear Chair,

Thank you for the opportunity to provide evidence to the Committee on 6 January as part of its inquiry into home ownership and affordability. I am writing to follow up on several points that we were unable, in the time available, to explore fully.

1. Viability of new housing

During the session I mentioned a recent report by Zoopla detailing the scale of the viability crisis in which the industry is operating. Zoopla found that 48% of England (outside of London) is either unviable or marginal for residential development.

The scale of the viability emergency was acknowledged by government in its recent package to unlock housing delivery in London and by the 18 December 2025 letter from the Housing Minister to the Chief Executive of the Planning Inspectorate which stated:

'You will be acutely aware, as am I, that housebuilding has faced significant challenges over recent years – including the impact of the coronavirus pandemic, increased construction costs, high interest rates, regulatory changes and wider economic conditions. These challenges have been especially acute in London, necessitating the emergency package that the Secretary of State and the Mayor of London announced on 23 October 2025.'

The pressures on viability have been acute in recent years owing to a proliferation of new taxes and levies on new homes at the same time as large increases in build costs. The nature of the business of building homes means that, with prices set by the wider market and valuers working on behalf of mortgage lenders, these costs are not passed on to the buyers of new homes. Land values and developer contributions are, therefore, the balancing items in the equation that determines whether or not a prospective development is, or is not, viable.

New policy costs, taxes and levies on development imposed over recent years include Residential Property Developer Tax (RPDT), a UK home builder specific surcharge on Corporation Tax; the Building Safety Levy; Biodiversity Net Gain; and multiple changes to the regulatory environment, including to Parts F, L, O and S of Building Regulations. At the Budget in November, it was also confirmed that Landfill Tax rates will double in April 2026 and continue to escalate over the next four years, eventually increasing by around five times the current rate by the end of the Parliament.

HBF estimates that the regulatory, fiscal, materials and employment costs involved with building the typical new home have increased by in excess of £100,000 in the past five or so years. Over a period in which the average price of a new home has increased by 7-10%, the cost of building that home along with the necessary regulatory and policy costs and levies, has increased by an estimated 30-35%.

Of major concern, too, as was touched upon during the evidence session, the central government claims on land value via these new policy costs, taxes and levies all trump the claims of local communities through developer contributions. In short, costs such as the new homes levy which

will be implemented in October 2026, along with Biodiversity Net Gain and RPDT all must be met before local developer contributions can be agreed. There is a limited envelope of land value that

can be provided to meet public policy objectives and over recent years an increased proportion of this value is being extracted by Whitehall departments.

2. Effective demand for new homes

Some of the discussion during the session related directly or indirectly to the business models of home builders and, particularly, the relationship between *effective demand* for new homes and investment by home builders.

Effective demand goes beyond latent demand for housing and represents what is realisable in the market. It is this that determines investment appetite in any sector, but it is especially important for home builders because (a) the process of securing planning permission and building out a site is a lengthy and risky one; and (b) the value of a home necessitates reliance on other market actors and external factors including the tax regime and, crucially, the market for mortgages.

The market for mortgages on new build properties is a sub-market of the wider mortgage industry with relatively few lenders engaged and less favourable deals as compared with mortgages that may be available for buyers of older homes – even if those older properties perform less well and lead to higher ongoing costs. The differential is usually greatest in relation to buyers of apartments, a typical option for a first-time buyer. Typical Loan-to-Values on new build houses are around 90% while for apartments 85% is usually more common.

Furthermore, active new build lenders will also have exposure limits on individual sites or locations. Without a multitude of lenders offering competitive mortgage deals for buyers of new homes, builders will maintain some caution about forward investment. This challenge is exacerbated in higher interest rate environments.

3. Build out rates

The speed at which developments, once fully consented by the local planning authority, can be built out is determined by a range of factors. This was comprehensively explored by the Competition and Markets Authority's Housebuilding Market Study in 2024 and followed other similar analyses by the Letwin Review (2018), the Office of Fair Trading Market Study (2008) and the Barker Review (2004).

The CMA Market Study rightly found that the pace of build out is influenced by housing demand in the local area (page 85). In this regard, it is important to consider the role of *effective demand*, as discussed above. This is no different from other markets.

The CMA also noted that there are feasibility constraints which determine how many homes are built on any given site. It was around some of these factors that some of the discussion at the session on 6 January focused. This includes the availability of qualified and skilled labour; weather; site characteristics; and the type of housing being built. On this latter point, the viability challenges currently being experienced by developers of apartment buildings are a limiting factor at present.

The Market Study considered the probable outcomes of building homes more quickly, should builders seek to exceed local absorption rates:

'Because the number of homes that housebuilders can build (and therefore sell) in an area in the short to medium term is inherently limited by the planning system, lowering

their prices is more likely to bring sales of these homes forward in time, rather than increasing their overall sales over the medium term.' (page 81)

Prices, the CMA noted, are largely determined by local comparables rather than arbitrary decisions by builders. It should also be noted that viability assessments and developer contributions will have been determined much earlier in the process with consideration of prevailing market conditions.

The increased use by home builders of off-site construction methods supports efficiency of build out, but effective demand, influenced by mortgage availability, remains a key component determining eventual build out rates. Evidence suggests that even during what has been a challenging market period for the industry, build out rates have remained consistent and strong by historical standards. This is partly because of the increased use of off-site construction methods but is also testament to the overall appetite of HBF members to build more homes in spite of the very significant problems with viability and effective demand.

4. 'Unbuilt planning permissions'

We were unable to discuss at length the points made by Committee members about unbuilt planning permissions. Although we are unable to comment on individual sites or experiences locally, it is important to note that some reporting on this subject, particularly around information collated by campaign groups can easily misrepresent the reality.

Once again, the CMA's 2024 market study provides a useful summary of the role of land banks in the development of new homes:

'One of the primary reasons for a housebuilder to hold land is to ensure it has a steady supply of land to feed into its business. Without the supply of developable land, no new houses can be built, and the housebuilder's business cannot exist. Land banks ensure a forward pipeline of sites that have or are likely to have planning permission and are ready to go when needed.'

It is often remarked that there are one million or so permissioned plots in England that have not been built out. Firstly, it should be established what constitutes a 'permissioned plot'. There is limited data available on planning consents but a site is generally categorised as 'permissioned' for the purposes of Glenigan data, for instance, once the first planning condition is discharged.

We regularly encounter spurious claims that there are one million homes with planning permission that have not yet been built. However, these numbers are based on flawed assumptions and often significantly overstate the number of homes that are deliverable in the short term. Many of the permissions counted are only at 'outline' stage and do not yet have the detailed consents required to start work. Moving from outline approval to implementable consent can take many months, often involving the discharge of dozens - or even over 100 - planning conditions. Until these conditions are met, developers are not legally permitted to begin construction.

Other permissions included in these figures are double-counted with replacement consents - where developers have submitted revised applications for layout, design, or housing numbers, meaning earlier permissions are effectively superseded. But these duplicated planning permissions will remain in the data consistently as the level of analysis usually only involves a simple equation of the number of consents granted over a period minus the number of new build completions.

There are also significant external factors causing delays. These include unresolved Section 106 agreements, issues with nutrient neutrality regulations, delays to Building Safety Regulator approvals, and inadequate infrastructure provision. In many cases, developers are actively working to bring sites forward, but are held back by delays that are outside their control.

Finally, some permissions relate to homes on sites where construction is already underway but not completed. There is understandably a time lag of two to three years between a planning permission being granted and a home being completed and recorded in official statistics.

5. Home ownership schemes of the past 25 years

Since the early 2000s, successive governments have sought to intervene to assist buyers of new homes with initiatives that bridge deposit or affordability gaps. While some of these schemes have been very successful in boosting home ownership, they have also underpinned effective demand and given builders confidence to invest in sites and skills that will generate a return sometimes as long as three to five years into the future.

The **First-Time Buyers Initiative (FTBI)** was an equity loan scheme established by Labour Government of the early 2000s. It provided buyers of new homes with an equity loan, interest-free for a period.

Later in the 2000s, the same government introduced **Homebuy Direct**, one in a range of 'Homebuy' products designed to maintain home ownership levels while providing builders with confidence in effective demand. Homebuy Direct was a shared equity scheme that saw

government and participating builders take an equity stake in each home sold. It helped maintain housing delivery during the Global Financial Crisis but saw participation largely from larger builders only who were the ones able to meet the high costs involved and accept the long-term/indefinite timescales involved.

Following the 2010 General Election, Homebuy Direct was effectively rebadged with the introduction of **FirstBuy**, a very similar shared equity scheme.

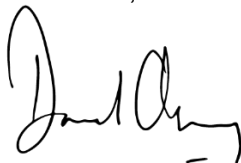
By 2012/13, with the long-term consequences of the GFC continuing to suppress housing delivery, output dropped to the lowest peacetime figure ever recorded. The terms of FirstBuy were not eliciting significant investment in new homes, the mortgage market for new homes was near non-existent and the planning system was sclerotic and uncertain. It was in this environment that the Coalition Government launched **Help to Buy**, a scheme similar in its fundamentals to the First-Time Buyers Initiative.

By addressing the challenges buyers faced with deposit requirements and simultaneously allowing buyers access to the type of mortgage rates associated with lower LTV mortgages, the scheme opened up home ownership to many more households. This additional effective demand led to the fastest increase in housing supply on record with output doubling from around 125,000 to 250,000 in the space of six years. By the end of the 2010s, annual net housing supply surpassed the numbers seen during the 1950s and 1960s.

The returns for the Exchequer from the Help to Buy scheme have been very positive. By March 2025, just under half of the 387,000 equity loans issued under the programme had been fully repaid at an average uplift of around 10%. Help to Buy has therefore generated a positive return – effectively profit for taxpayers – of more than £1bn on the loans repaid by March 2025. Taken together with interest income Help to Buy generated £1.2m of profit every day during 2024/25 as homeowners repaid their equity loans in large numbers.

I would be delighted to discuss with you and your Committee colleagues any of the points raised above or any wider issues relating to housing supply and home building.

Best wishes,



David O'Leary
Executive Director