Making a bad situation worse
The impact on housing supply of proposed changes to the NPPF
February 2023
Housebuilding contributes £104bn to the economy, supporting 1.2m jobs, £3.1bn of tax income, £7bn of developer contributions via s.106 and CIL, and helps people buy and rent their own home.

**Economy**
- £43.9bn Direct GVA
- £59.8bn indirect GVA
- £16bn new build sales revenue in 2020-21

**Jobs**
- 496k direct jobs
- 674k indirect jobs

**Public Finances**
- £2.8bn from Stamp Duty
- Land Tax, Corporation Tax, PAYE and NI
- £280m new build residents’ council tax receipts
- £7bn in developer contributions

Too few homes are being built. In 2021, we were over 2 million houses short of what our population needs, and the problem is growing. By 2030, even if we continued building at current rates, there will be a backlog of 0.75m homes against the 300K per annum target.

We have a backlog of 2.1m to accommodate those who currently need a home.

+2.1m Homes short

23.4m Households
1.6m Concealed households
1.5m vacancy (6%)

24.9m Housing stock
0.5m second homes
0.02m derelict stock

24.4m Homes available
26.5m Homes needed

2.4m extra homes would match the homes per capita average in comparable northern European neighbours.

+2.4m Homes short

482 dwellings per 1,000 popn is the average of four neighbours (excl. France & Spain)

Since 300K became a national target in 2018, the backlog is already 200k and at current rates of housebuilding would be 0.75m by 2030.

Source: Census 2021, English Housing Survey / Lichfields analysis
Figures may not sum due to rounding. 2021 Base Date. Target vacancy rate of 6% based on lower range of averages from OECD. 1.6m concealed households based on estimate of number of households arising from the c.2.5m adults who are sofa surfers or living in a household but would prefer to buy or rent their own accommodation.

Source: OECD / Census 2021 / Lichfields analysis. 2021 Base Date. Benchmark based on Netherlands, Denmark, Belgium and Germany. This is a conservative figure; a much higher number would be generated if based on a wider number of European countries. Other ways of benchmarking with Europe – such as that produced by Centre for Cities in its 2023 report – generate higher figures of up to 4m.

Source: DLUHC / Lichfields analysis compounding growth of backlog, assuming c.230K per annum net additions from 2022.
An annual target of 300k extra homes is the minimum necessary to begin addressing the housing crisis. Addressing household growth and shortfall, doubling affordable housing delivery, matching the stock of our near European neighbours, or moderating growth in prices would all support a higher target.

389k homes a year to address the shortfall by 2030

1.7m households to form (2018 projections + adjustments for HRR)

1.6m Backlog of concealed households

389k homes a year until 2030 with a 6% vacancy rate

Source: ONS / DLUHC / Lichfields analysis (2021 base date). Backlog based on English Housing survey. Indicative 10% uplift applied to 2018-based projections to address change in methodology for Household Representative Rates (HRR) applied by ONS to projections since 2016 which assumes suppressed formation continues.

468k homes a year to bring our stock in line with the average of our European neighbours

2.4m homes to match per capita rate of near European neighbours

1.7m to meet household growth (with adjustments for HRR)

468k Homes a year to 2030 (with 6% vacancy rate)

Source: ONS / DLUHC / OECD / Lichfields analysis (2021 base date). European Benchmark based on OECD comparison with NL, DE, BE, DK. Household growth based on 2018-based projections with indicative 10% uplift to reflect HRR as described left.

466k homes a year to double s.106 affordable housing delivery with nil grant

11% of net additions are affordable under s.106 agreements. The total affordable was 23% of net additions. Other affordable homes are typically funded via Homes England or the GLA.

26k p.a. current affordable housing delivery via s.106

52k p.a. To double Affordable housing via s.106

466k Homes a year

Source: ONS / DLUHC / OECD / Lichfields analysis (2021 base date). Backlog based on English Housing survey. Indicative 10% uplift applied to 2018-based projections to address change in methodology for Household Representative Rates (HRR) applied by ONS to projections since 2016 which assumes suppressed formation continues.

330k homes a year to moderate the growth in house prices to 2021 levels

Source: Lichfields analysis of DLUHC 2022 live tables on housing supply

Source: Lichfields analysis using assumptions about the elasticity of supply with prices that are applied by the OBR in its November 2022 Economic and Fiscal Outlook.
Extensive academic research shows that a shortage of housing impacts negatively on almost every aspect of our society and acts against the Government’s own policy objectives and Levelling-up Missions: quality of life, the falling birth rate, economic productivity, social mobility, addressing climate change and public services.

**Increased housing supply is part of the solution to the manifest housing problems, not just because of the gradual moderation in price levels it can achieve but also... because it enables much more of other more direct solutions, notably the building of more social and intermediate affordable housing in mixed developments funded by land value capture.**

*Professor Glen Bramley, Heriot Watt University*

A weak supply in housing means a less stable economy and higher house prices.

*Kate Barker*

Long-term increases in supply, sustained over 20+ years will be needed to reduce overall housing market pressure, increasing the ‘size of the cake’ and resulting in a ‘positive sum’ gain. Government’s primary role is in guiding the long-term environment that will support its objectives.

*Redfern Review*

**Quality of life.** The average owner spends 22% of their income on mortgages, but renters spend 33% (the EU average is 15% and 20%) meaning they have less money to spend on other things. This – amongst other things – undermines the Levelling Up missions for housing and well-being.

**Families.** The birth rate is falling and research shows higher house prices discourage people from having children. A 10% rise in house prices resulted in a 1.3% decrease in births in England between 1996 and 2014. Rising housing costs allied to high childcare costs make family life impossible.

**Productivity.** Lack of homes in England’s most economically successful areas, such as Oxford, Cambridge and London, locks people out of opportunities in these most productive places, limiting social mobility; being unable to find labour leads globally-mobile firms to direct investment overseas. This will undermine Levelling Up missions for productivity.

**Inequality.** In 2022, the average home in England earned more than the average job. Those who cannot own a home miss out, and spend more income on ever-rising rents; those renting in northern and midland Core City regions who could reasonably expect to buy but for high deposits will lose out a total of £945m in lost savings and equity over the next ten years.

**Climate Change.** New homes are more efficient than old ones, emitting 1.4 tonnes of carbon compared with 3.7 for all homes. Restricting growth of cities leads to more carbon-intensive living, because those living outside cities account for 50% more emissions than city-dwellers.

**Public services.** Nurses, teachers, NHS cleaners, and community support officers are being priced out of areas that need them most. 2018 research found key public sector workers need to save between 5% and 7% of gross pay for more than 30 years just to afford the average deposit. Recruitment is a key barrier to Levelling Up missions for education, health and crime.
More people are renting, but the desire for home ownership is as strong as ever. 89% want to own, but only 62.5% do, near the lowest rate in Europe. Boosting supply relative to population growth over time moderates the increase in price of homes – most of all in least affordable areas – helping people achieve that goal.

Renting is increasing and home ownership declining. Research has found 175,000 potential first time buyer households in Northern Core City regions stuck in the ‘rental trap’ over the next 10 years.

89% of renters want to buy, but only 62% of private renters and 27% of social renters expect to be able to and many expect it to take five or more years (English Housing Survey). The Resolution Foundation found little change in the preference of young people (25-34) to own over three decades.

Boosting supply over the long term helps make homes more affordable. Analysis of affordability, rates of house building, and population change 2011-2021 shows extra supply relative to population growth in the least affordable housing markets had a positive correlation with relative improvements in rates of affordability.
Planning isn’t working. The 2012 NPPF helped drive up supply, but 300K is out of reach for reasons explained by the 2017 White Paper. Policy uncertainty since 2020 has slowed plan making and reduced permissions, and will lead to fewer homes being built. Proposed NPPF changes will make it worse.

Just 40% of LPAs have an up-to-date local plan. And things are getting worse, with the rate of plans submitted for examination and adopted now around half of the average in the years before the 2020 Planning White Paper.

Policy uncertainty means Local Plan production is stalling. The 33 local plans put on hold in the last year will cost 38,200 homes and £1.4bn of GVA.

The number of planning permissions so far in 2022 (Q1-Q3) is 10% lower than five years ago and the trend is downward.

Source: HBF, 2022 New Housing Pipeline / Lichfields analysis

Source: PINS, 2022. Lichfields analysis

The average number of local plans submitted to the Planning Inspectorate each year since 2020 (17) is roughly half what it was before the 2020 housing white paper (average of 33 from 2012-2019). For adopted plans, the position is similar; the average since 2020 is 18, whereas the average 2012-2019 is 30. Last year just 13 plans were adopted and only 14 submitted for examination, a historic low.
In recent years, Local Plans have released Green Belt for much needed new homes, many of them in award-winning developments. The proposed changes to the NPPF remove the expectation that local planning authorities should look for opportunities to create these beautiful places.

**Trumpington Meadows, Cambridge.**

A site-wide design code guided the architecture of 1,200 apartments and townhouses and the site additionally achieved 10% biodiversity net gain.

**North Wingfield Road, Derbyshire**

Each house type is bespoke around a communal courtyard, encouraging interaction between residents.

**Pantiles Garden Centre, Lyne**

50% on site affordable homes. Highly sustainable with 110% increase on policy for on-site renewables and all houses with electric car charging points.

**Cane Hill, Croydon**

Characterised by high-quality green spaces based around existing trees and landscape features, fronted by 677 new homes.
Proposed NPPF policy revisions on local plans and housing land will result in c.77k fewer new homes per year, dropping to just half the Government’s 300k ambition, even before accounting for homes held back by water and nutrient restrictions. By 2030, this means over a million fewer homes than the national target.

| 300k p.a. | The total homes estimated by the advisory starting point (the Standard Method for LHN) is slightly less than 300k = a loss of 1.8k homes p.a. |
| Standard Method under-shoots 300k | London under-delivers |
| 300,000 | 250,000 | 200,000 | 150,000 | 100,000 | 50,000 | - |
| 300k | 300k | 300k | 300k | 300k | 300k | 300k |
| - 1.8k | - 19.6k | - 30.4k | - 3.6k | - 37.6k | - 49k |

Recent delivery = c233k pa

The proposed revisions to the NPPF will cut housing supply to just 156k, undershooting recent rates of delivery by 77,000 and just half the Government’s minimum target.

London delivers far less than the 86k homes the standard method currently says it needs despite efforts over 20 years to boost brownfield output; NPPF proposals on character threaten higher density developments. Delivering at its average over three years of 37.4k = under-shoots need by 49k home p.a.

The 19 other big cities with a 35% uplift to their LHN have limited land for development once existing sites build out. With no need to review Green Belt, and reduced scope to densify ‘out of character’, their requirement is likely reduced by c.20%. A weakened expectation for neighbouring LPAs to pick up the slack = a loss against need of at least 19.6k homes p.a.

The proposed NPPF changes says that LPAs that have ‘over delivered’ on their LHN will have this ‘over-supply’ deducted from future targets = a loss against need of 3.6k homes p.a.

The proposed NPPF reduces five year land supply obligations, removes buffers, and limits sanctions if homes are not provided. Research suggests LPAs typically over-estimate supply from sites by 10-25% in their trajectories and there will now be no policy remedy or incentive to grant extra permissions to make good deficits. We estimate a loss of homes granted at appeal in Y1 and then a big drop in delivery = a loss against need of 38k homes p.a.

108 LPAs are significantly constrained by Green Belt and other national land use constraints. In future, no review of Green Belt will be required, encouraging LPs to set lower housing targets. There will be less scope to build at high densities and weakened expectation for cross-boundary re-distribution; over time existing allocations will build out and not be replaced = a loss of 30.4k homes p.a.

Source: Lichfields analysis

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Source: Lichfields analysis
The big fall in supply of new homes due to the NPPF changes will mean the shortfall against national targets is concentrated in areas where it is already most difficult for people to rent and buy homes. 52% of the housing supply shortfall against local housing need will be in the third least affordable local authority areas.

Source: Lichfields analysis based on applying indicative reductions to output derived from preceding analysis to LHN for LPAs based on typologies derived from their planning circumstances.
There is not enough brownfield land to meet housing need in any region, at just 31% nationally. Beyond the South East, 57% of capacity is in the least viable locations and 48% of sites are earmarked for flats at higher densities, properties which are demanded by just 17% of households.
The ‘brownfield first’ policy of the late 1990s reduced building on greenfield land, but the small increase in brownfield development – boosted by public spending on regeneration and the buy to let boom - did not compensate; new housing supply fell and by 2003 policy had to change, beginning with the Barker Review.

Source: Government Land Use Change Statistics - Statistical Release published on 19th December 2013 (discontinued)
The NPPF reforms will weaken the economy by undermining the housebuilding sector by over £34bn and 386k jobs. Limiting greenfield land release for housing will reduce the supply of land and buildings for business in the most productive cities which have no realistic prospect of delivering on the 35% uplift to LHN 20 urban uplift cities account for 40% of England’s GVA. They are already losing employment space to housing.

Since 2000 London lost a quarter (24%) Greater Manchester 20% and the West Midlands 19% of industrial floorspace to housing.

In some other cities, industrial values will outbid residential which means the ability to get residential units on those sites is limited.

The reduction in housing supply will reduce its contribution to the size of the economy by billions of GVA and thousands of jobs.

- Potential GVA if 300k target was met: £134bn of GVA
- Current estimated GVA: £104bn
- Estimated GVA after NPPF: £70bn
- Potential jobs if 300k target was met: 1.5m Jobs
- Current estimated jobs: 1.2m
- Estimated jobs after NPPF: 784k

Source: GVA and jobs estimated using Lichfields’ ‘Evaluate’ framework of analysis on the latest DLUHC and ONS data.

With c.77k fewer homes built each year, by 2030 the draft NPPF proposals alone will undermine the economy, reduce home ownership, increase rents, prevent young people from starting families and having children, add to the housing waiting list, increase homelessness, and harm living standards.

By 2030, compared with what would happen by maintaining the current rate of housebuilding (which itself is not enough and will lead to adverse outcomes), the cut in supply caused by proposed changes to the NPPF will lead to a series of adverse consequences.

**Worsening affordability**

**More concealed households**

**Higher rents**

**Longer Housing Waiting Lists**

**Increased homelessness**

**Falling birth rate**

Sources:
1. Lichfields analysis of OBR 2022 forecasts and ONS affordability ratios
2. Lichfields analysis of ONS 2023 Index of Private Housing Rental Prices.
3. Lichfields analysis of CRISIS, 2022 Homelessness Monitor forecasts (including housing supply sensitivities)
4. Lichfields analysis of English Housing Survey, ONS Household Projections
5. Lichfields analysis of DLUHC local authority housing waiting list data

**Sources:** Various research / Lichfields analysis