

# Building Hope: how land reforms will help deliver the homes we need

**Policy briefing** | Alex Diner and Michael Marshall | November 2024

## Summary

The UK's dysfunctional land market is one of the key drivers of our broken housing model. Reforming it is therefore vital to address the housing crisis. This research identifies the extent of public gain if the government builds on its predecessor's reforms to limit the impact of 'hope value' on land valuations subject to Compulsory Purchase Order (CPO).

This paper explores the extent to which this reform would enhance the financial viability of a mass social house building programme by significantly reducing the amount of grant funding required to deliver it. As our research outlines, hope value reform could reduce the public grant required to build 90,000 social homes per year by £4.5bn, shrinking the up-front overall cost by around a quarter. Alternatively, these reforms could allow the same amount of public grant to be stretched further, building an additional 27,000 social rent homes per year.

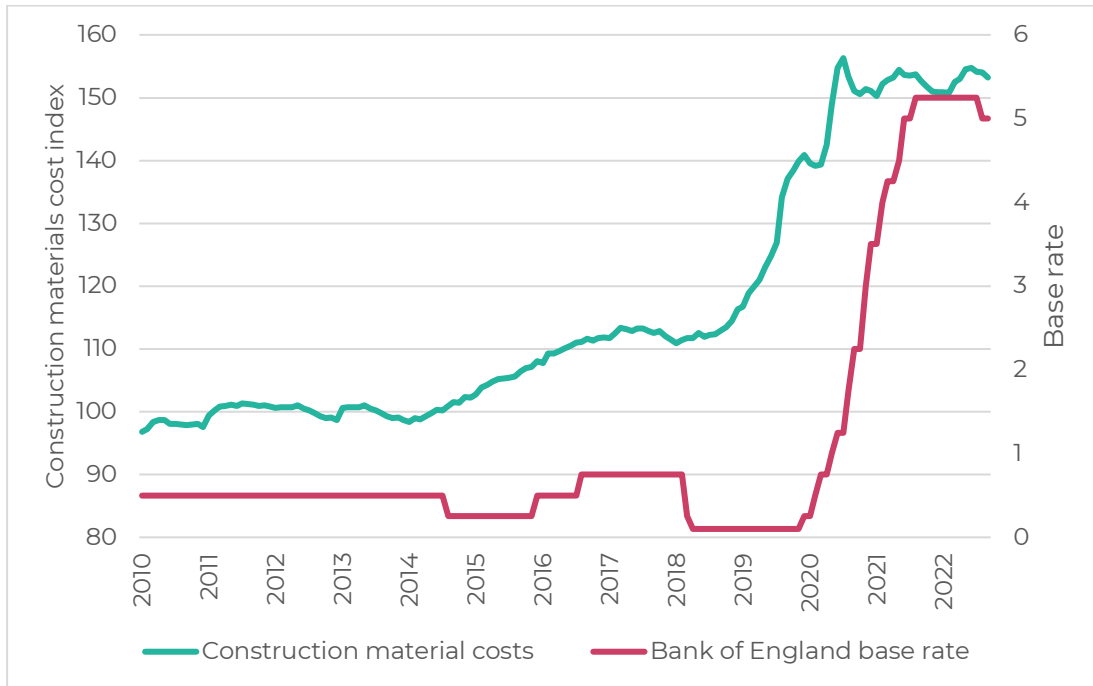
Ministers should feel emboldened to proceed with these further land reforms, enhancing the viability of a programme of mass social house building which is indispensable to resolving the housing crisis. Further reforms to hope value are vital if ministers are to build the volume of social homes required to hit their overall targets to build 1.5m new homes over this parliament.

## Introduction

The cost of the main components of building new homes have all risen sharply in recent years. Figure 1 shows construction material costs and borrowing costs remain relatively high compared to recent years, while figure 2 shows land costs have continued to rise.

**Figure 1: Construction material costs and interest rates have stabilised albeit at relatively high post-pandemic levels**

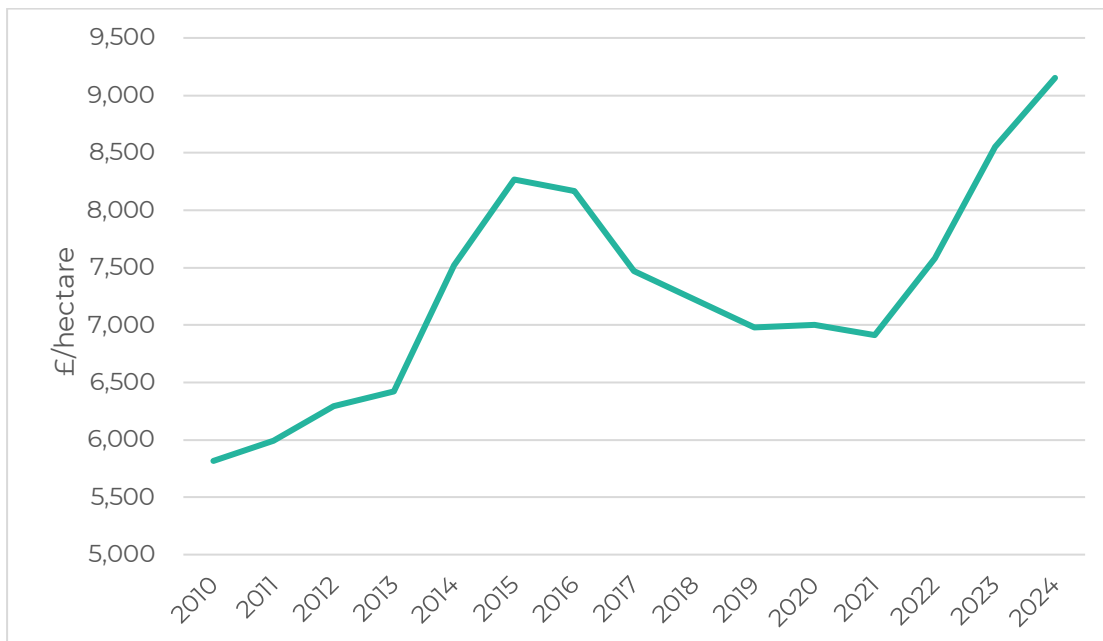
*UK construction material costs and Bank of England base rate, 2010-2024*



Sources: Trade Building Materials and Components: monthly statistics (2015=100), Bank of England

**Figure 2: The value of UK agricultural land has risen by almost two-fifths since 2010**

*Average value, UK agricultural land, 2010-2024*



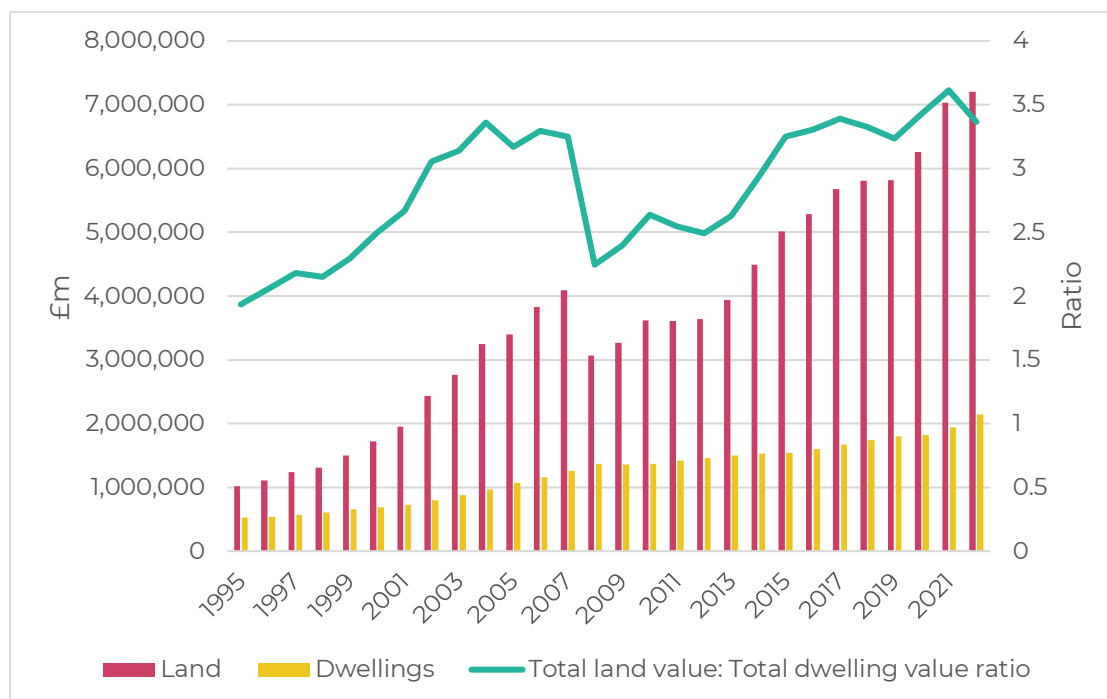
Source: Knight Frank Farmland Index

Unlike most commodities, land supply is highly inelastic to increased demand, meaning the available quantity of it is not sensitive to price changes.<sup>1</sup> Rising demand therefore leads directly to rising prices in the immediate term.<sup>2</sup> Land values will therefore often increase through no effort on the part of the landowner, producing financial returns they did not 'earn' in any meaningful sense of the word. Instead, its value is largely determined by demand, its geography and its proximity to wealth generation, population growth and infrastructure.

Long term trends show that rising land prices are constituting an ever-increasing portion of the value of our homes. As outlined in figure 3, the total value of UK dwellings was around half of the total value of UK land in 1995. By 2022, the total value of the UK's land outstripped that of its dwellings by almost 3.5 times. These rising land values have fed into rising prices and rents, increasing the cost and risk of building new homes for all tenures.

Figure 3: Total land values now outstrip total dwelling values by almost 3.5 times

*Land values compared to dwelling values, UK, 1995-2022*



Source: ONS. *The UK balance sheet national estimates* (2023)

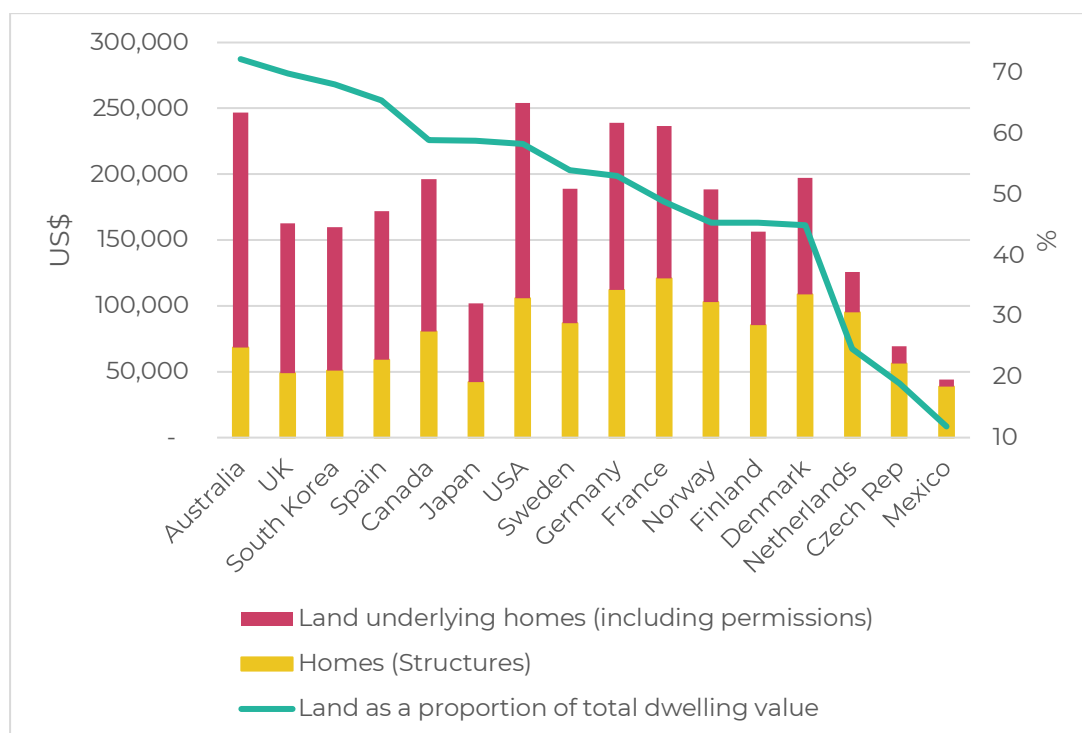
<sup>1</sup> Murphy, L. (2018, August). *The Invisible Land: The hidden force driving the UK's unequal economy and broken housing market*. The Institute for Public Policy Research.

<sup>2</sup> Drayton, E., Levell, P. & Sturrock, D. (2024, 30 July). *The Determinants of local housing supply in England*. Institute for Fiscal Studies. <https://ifs.org.uk/sites/default/files/2024-07/WP202435-The-determinants-of-local-housing-supply-in-england.pdf>.

International comparisons, as outlined in figure 4, further highlight the extent to which UK land costs constitute a disproportionately high portion of overall house values.

**Figure 4: UK land values constitute a higher proportion of house prices than most other comparable economies**

*Land and house structure values per capita, 2021 at 2022 US Dollar values*



Source: Tony Blair Institute for Global Change. *The Urgent Need to Build More Homes* (2024).

Because of their geographical monopoly, landowners are incentivised to hold out to obtain the highest possible price for their land, providing land only for schemes that maximise their profits. This incentivises developers to hold land with planning permission as an asset, as well as drip feeding land onto the market to preclude depressing land values.<sup>3</sup> Policy has effectively created a negative feedback loop, in

<sup>3</sup> Foye, C. & Shepherd, E. (2023, September). Why have the volume housebuilders been so profitable? Centre for Housing Evidence. <https://housingevidence.ac.uk/wp-content/uploads/2024/01/CaCHE-housebuilding-report-v9-25.09.pdf>.

which the high cost of land is driven by the shortage of homes, while as land prices rise it becomes more difficult to build more homes, driving prices up yet further.<sup>4</sup>

## Capturing land value for public benefit

Crucially, the ability of the state to capture rising land values and redistribute gains towards public policy objectives, such as the provision of affordable housing, has not been maximised. Research by NEF and others has detailed the inability of existing land value capture mechanisms through the planning system (whereby developers make contributions through s106 agreements and the Community Infrastructure Levy as part of obtaining planning permission) and tax (through SDLT and council tax) to properly account for land value uplift and derive adequate public benefit.<sup>5</sup> Notwithstanding that, it is right that ministers have resolved to retain s106, rather than embark on the previous government's ambition to scrap and replace it with the Infrastructure Levy, which would have been more complex, less effective, and likely resulted in diminished affordable housing supply.<sup>6</sup> Further, while far from being a silver bullet, we welcome the government's ambition to strengthen the s106 regime and generate greater developers' contributions.<sup>7</sup>

Moreover, for decades land compensation rules have prevented the state from capturing the often very significant uplift in values that arises from the prospect of development. Since the Land Compensation Act 1961, landowners have been able to capture the hope value – the value of the land based on what it might be worth subject to the attainment of planning permission at any given point in the future – when a local authority or other public authority issues a CPO to acquire land without the owners' consent to support public projects such as infrastructure or new housing development. Compensation is therefore awarded on the basis of a "land of make believe", as it was described in the Court of Appeal, whereby landowners are compensated for planning permissions that had not been sought let alone granted.<sup>8</sup>

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<sup>4</sup> Bentley, D. (2017). *The Land Question: Fixing the dysfunction at the root of the housing crisis*. Civitas. <https://www.civitas.org.uk/content/files/thelandquestion.pdf>.

<sup>5</sup> Kibberd, E. & O'Connor, A. (2024, 27 June). *The Foundations of the Housing Crisis: How our extractive land and development models work against public good*. New Economics Foundation. <https://neweconomics.org/2024/06/the-foundations-of-the-housing-crisis>;

<sup>6</sup> National Housing Federation. (2023, 22 February). *Joint letter to the Secretary of State on the proposed Infrastructure Levy*. <https://www.housing.org.uk/news-and-blogs/news/joint-letter-to-the-secretary-of-state-on-infrastructure-levy/>.

<sup>7</sup> The Labour Party. (2023, 7 October). *Rayner says Labour will deliver "biggest boost to affordable housing for a generation"*. <https://labour.org.uk/updates/press-releases/rayner-says-labour-will-deliver-biggest-boost-to-affordable-housing-for-a-generation/>.

<sup>8</sup> Bentley, D. (2018, October). *Land of Make Believe: Compensating land owners for what might have been*. Civitas. <https://www.civitas.org.uk/content/files/landofmakebelieve.pdf>

This increases the cost of land acquisition significantly compared to if it were bought under its existing use value (EUV). Land is worth on average 275 times more with planning permission than without it.<sup>9</sup> As well as significant additional costs for the land itself, hope value rules add significant risk that CPOs becomes bogged down in lengthy and expensive legal proceedings, often dissuading local authorities from issuing them in the first place. All this makes it far harder to purchase land at the scale required to build the volume of homes needed, including social homes, to tackle the housing crisis.

The extent to which these arrangements inflate land prices and hamper housebuilding was a problem recognised by the previous government, which took important steps to begin remedying this. Following the Levelling Up and Regeneration Act 2023, the Secretary of State is now entitled to scrap the application of hope value on a case-by-case basis. This allows hope value to be removed when a development is deemed to be in pursuit of public benefit, specifically in relation to new affordable housing or health and education facilities. While this marked an important step in the right direction, it still leaves important issues unresolved. The new regulations define affordability by reference to the market (as per the statutory definition of so-called affordable rent), instead of expressly linking it to local incomes (as per social rent). And they fail to mandate that developers provide on-site affordable housing as part of development projects.<sup>10</sup>

Crucially, however, the fact that a local authority still requires the permission of the Secretary of State to remove hope value on a given site builds in uncertainty to the process. Obtaining approval from Whitehall adds an additional level of bureaucracy to the process that has the potential to block up the system while leaving councils exposed to another stage at which it could face judicial review.<sup>11</sup>

In opposition, Labour outlined its ambition to further reform hope value.<sup>12</sup> Its manifesto pledged to:

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<sup>9</sup> Aubrey, T. (2018, September). *Gathering the Windfall: How changing land law can unlock England's housing supply potential*. Centre for Progressive Policy. <https://www.progressive-policy.net/downloads/files/LVC-Report-Sep-2018.pdf>

<sup>10</sup> Galarza, V., (2023, October). *The chequered flag for hope value – but not land and planning reform*. Shelter. <https://england.shelter.org.uk/what-we-do/updates-insights-and-impact/the-chequered-flag-for-hope-value>.

<sup>11</sup> Lange, M. (2024, January). *What do new Compulsory Purchase reforms mean for the housing crisis?*. Centre for Cities. <https://www.centreforcities.org/blog/what-do-new-compulsory-purchase-reforms-mean-for-the-housing-crisis/>

<sup>12</sup> Stacey, K. (2023, 29 May). 'Labour plans to allow local authorities to buy land cheaply for development', *The Guardian* (29 May 2023)

*Further reform compulsory purchase compensation rules to improve land assembly, speed up site delivery, and deliver housing, infrastructure, amenity, and transport benefits in the public interest. We will take steps to ensure that for specific types of development schemes, landowners are awarded fair compensation rather than inflated prices based on the prospect of planning permission.*<sup>13</sup>

In her first major speech on housing policy to parliament, the Housing Secretary, Angela Rayner, confirmed the government's desire to "further reform compulsory purchase rules so that what is paid to landowners is fair, but not excessive".<sup>14</sup> Further details of the government's plans include setting lower benchmark values for land that would cap the amount of compensation landowners would receive, reinforced by the removal of hope value in the event of a CPO being issued.<sup>15</sup> CPOs are likely to be most effectively deployed as a negotiating tool by public authorities (namely local authorities, regional and combined authorities, Homes England, and development corporations), incentivising landowners to engage and encouraging them to sell at lower prices to avoid delays and uncertainty.

These reforms – which have been proposed as part of the consultation into the National Planning Policy Framework and could form part of the Planning and Infrastructure Bill - would unlock land at lower prices when justified in the public interest.<sup>16</sup> Parallel to this, a Law Commission inquiry into compulsory purchase is due to report later this year, which could lead to recommendations that give rise to more effective and less cumbersome CPO procedures.<sup>17</sup>

These proposals are controversial amongst landowners. The Country Land and Business Association, which represents English and Welsh landowners, has described proposals to broaden land reforms as "forcing hard-pressed farmers to sell their land for a fraction of its potential value", and a "strange way to level up the

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<https://www.theguardian.com/politics/2023/may/29/labour-allow-local-authorities-buy-land-cheaply-for-development>

<sup>13</sup> Labour Party Manifesto 2024 <https://labour.org.uk/change/>

<sup>14</sup> Ministry of Housing, Communities and Local Government (2024, 30 July). *Deputy Prime Minister on changes to national planning policy*. <https://www.gov.uk/government/speeches/deputy-prime-minister-on-changes-to-national-planning-policy>

<sup>15</sup> Wright, O. (2024, 11 August). 'Landowners' profits from sale of green belt sites could be capped', *The Times* <https://www.thetimes.com/uk/politics/article/landowners-face-compulsory-knockdown-prices-for-green-belt-sites-b8dl827dt>.

<sup>16</sup> Ministry of Housing, Communities and Local Government (2024, 24 September). *Proposed reforms to the National Planning Policy Framework and other changes to the planning system*.

<https://www.gov.uk/government/consultations/proposed-reforms-to-the-national-planning-policy-framework-and-other-changes-to-the-planning-system/proposed-reforms-to-the-national-planning-policy-framework-and-other-changes-to-the-planning-system>.

<sup>17</sup> Law Commission. *Compulsory Purchase*. <https://lawcom.gov.uk/project/compulsory-purchase/>.

country”.<sup>18</sup> The proposals will also likely face legal challenge on the purported basis that such steps could interfere with landowners’ rights under the first additional protocol to the European Convention on Human Rights regarding the protection of private property.<sup>19</sup> To mitigate these concerns it is likely that, even if hope value is removed from calculations of land value, valuations will need to incorporate some additional value on top of EUV.

There is a further risk that expanding these reforms could discourage landowners to bring forward land for development if they felt they could not achieve anything more than EUV for their land. This risk will be mitigated if the CPO mechanism itself acts as credible leverage to bring landowners to the table.

## **Reforming hope value to build the social homes we need**

The government has declared it is on a “moral mission” to deliver the “biggest boost to social and affordable housing in a generation”.<sup>20</sup> Recent research from NEF has demonstrated that, for the government to meet its overall target of building 1.5m homes over this parliament, it will be essential to build significant volumes of social housing. To hit these targets, at least 365,000 social homes will be needed over the next five years, and England must build 90,000 social homes per year by as early as 2027/28. Such a construction programme would yield net economic and social benefits of around £225bn over 30 years.<sup>21</sup>

Our new analysis identifies the extent of public gain if the government pursued wider reforms to hope value, specifically the savings it would generate by reducing the amount of public grant required, alongside the number of additional homes that could be built within the same spending envelope. Our model provides estimates across all English regions, incorporates an assumed level of s106 delivery, and considers the proportion of homes delivered on brownfield and greenfield land. As

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<sup>18</sup> Morton, B & Eardley, N. (2023, 30 May). ‘Labour plans would let councils buy land for lower prices’. *BBC News*. <https://www.bbc.co.uk/news/uk-politics-65752423>.

<sup>19</sup> The Law Society (2022, 4 August). *Compulsory purchase: compensation reforms – Law Society response* <https://www.lawsociety.org.uk/campaigns/consultation-responses/compulsory-purchase-compensation-reforms>.

<sup>20</sup> Stacey, K. (2024, September 22). Angela Rayner hints at major social housing announcement. *The Guardian*. <https://www.theguardian.com/society/2024/sep/22/angela-rayner-hints-at-major-socialhousing-announcement>

<sup>21</sup> Diner, A., Tims, S., & Williams, R. (2024, 29 October). ‘Building the Homes We Need: The economic and social value of investing in a new generation of social housing’. *New Economics Foundation*. <https://neweconomics.org/2024/10/building-the-homes-we-need>



such this model updates and extends previous research to build a comprehensive picture of the public gain to be extracted from ending hope value.<sup>22</sup>

Our analysis is based on building around 90,000 social homes in 2028, broken down by region. We also assume that existing land value capture mechanisms, principally s106, will deliver a proportion of these homes, reducing the number required to be delivered through grant funding. We estimated this based on the proportion by region delivered in 2022/23. As is clear, existing s106 arrangements, without any further steps taken to strengthen developers' obligations under it, will fund only a small portion of the genuinely affordable homes needed.

**Table 1: Existing s106 arrangements only marginally reduce the number of homes required to be funded by grant**

*Annual total and social housing need by region and funding source assumed in the modelling, England, rounded*

<b>Region</b>	<b>Total homes</b>	<b>Social rent</b>	<i>Of which: funded through s106</i>	<i>Of which: funded through grant</i>
East Midlands	17,250	1,900	140	1,750
East of England	46,100	11,000	400	10,600
London	74,500	33,000	6,000	27,000
North East	7,000	850	10	800
North West	22,600	4,300	200	4,150
South East	90,200	26,250	1,800	24,450
South West	42,150	8,350	1,950	6,400
West Midlands	21,100	3,150	1,400	1,700
Yorkshire & Humberside	18,900	1,800	350	1,450
<b>Total</b>	<b>339,800</b>	<b>90,600</b>	<b>12,250</b>	<b>78,300</b>

Source: Bramley, G. (2018). *Housing supply requirements across Great Britain: for low-income households and homeless people*; MHCLG (2022/23). *Affordable housing completions*.

<sup>22</sup> Bentley, D. (2018, March). *Reform of the land compensation rules: How much could it save on the cost of a public-sector housebuilding programme?* Civitas.

<https://www.civitas.org.uk/content/files/reformofthelandcompensationrules.pdf>

Next, our analysis considers the size of the homes needed and the distribution of them by the number of bedrooms. Our modelling outlines three archetypal schemes, following the approach adopted by others, accounting for the size and distribution of homes in different types of development: (i) London high density; (ii) greenfield; and (iii) urban extension.<sup>23</sup> Using National Described Space Standards and assessments of units built per hectare, we can map out how much space would be required to meet housing need, by bedroom number, in each.

**Table 2: Mapping the space requirements to build the range of homes required**

*Archetypal schemes by bedroom need and square metrage requirements*

Archetype	Distribution	Beds	People	Size sqm	Proportion within each archetype
London High Density	1 bed	1	2	50	28%
	2 bed, 3 people	2	3	61	11%
	2 bed, 4 people	2	4	70	33%
	3 bed, 4 people	3	4	74	10.50%
	3 bed, 5 people	3	5	86	10.50%
	4 bed	4	6	107	7%
Greenfield	1 bed	1	2	44	0%
	2 bed	2	3	76	30%
	3 bed	3	4	96	30%
	4 bed	4	5	147	40%
Urban Extension	1 bed	1	2	44	10%
	2 bed, 3 people	2	3	60	20%
	2 bed, 4 people	2	4	76	20%
	3 bed, 4 people	3	4	96	20%
	4 bed	4	5	147	30%

Sources: Bramley (2024). *2024 UK Housing Review*; Savills (2022). *London's Affordable Housing Funding Requirement*.

<sup>23</sup> Bramley, G. (2024). *2024 UK Housing Review*. Chartered Institute of Housing. <https://www.cih.org/bookshop/uk-housing-review-2024>; Savills (2022). *London's Affordable Housing Funding Requirement: Research undertaken for the Greater London Authority*

We assume, as others' work has previously, that the London high density and urban extension archetypes are delivered on brownfield land, while the greenfield archetype is delivered on greenfield land.<sup>24</sup> In London, therefore, we assume that all supply will be delivered in accordance with the London high density archetype. Across the remainder of the country, however, we assume supply will be derived from a combination of urban extension and greenfield sites. Using assessments of available brownfield land by region, we are therefore able to identify the estimated supply of social homes per region, in accordance with Bramley's assessment of need and by archetype.

**Table 3: Identifying the spread of supply across the regions**

*Archetype supply by region, rounded*

Region	Grant funded programme	Greenfield site proportion	Urban extension proportion	London high density proportion
East Midlands	1,750	1,400 (79%)	350 (21%)	0 (0%)
East of England	10,600	6,350 (60%)	4,250 (40%)	0 (0%)
London	27,000	0 (0%)	0 (0%)	27,000 (100%)
North East	800	700 (86%)	100 (14%)	0 (0%)
North West	4,150	1,750 (42%)	2,400 (58%)	0 (0%)
South East	24,450	11,500 (47%)	12,950 (53%)	0 (0%)
South West	6,400	4,650 (73%)	1,750 (27%)	0 (0%)
West Midlands	1,700	1,050 (61%)	650 (39%)	0 (0%)
Yorkshire and The Humber	1,450	800 (56%)	650 (44%)	0 (0%)

Source: NEF analysis

<sup>24</sup> Bentley, D. (2018, March). *Reform of the land compensation rules: How much could it save on the cost of a public-sector housebuilding programme?* Civitas.

<https://www.civitas.org.uk/content/files/reformofthelandcompensationrules.pdf>. Savills (2022).

London's Affordable Housing Funding Requirement: Research undertaken for the Greater London Authority.

This enables us to identify the volume of homes required to meet Bramley's regional assessment of need and the amount of land needed to build them on, in accordance with archetype and bedroom distribution.

Using government figures to arrive at average land values by region and archetype,<sup>25</sup> we can then model different land costs across four scenarios that highlight the role of reforming land compensation rules:

1. **Full market** – this scenario assumes all land purchased is at average residential cost in which hope value is maximised. This is likely to be a significant overstatement of land values but is nonetheless useful as a baseline.
2. **Present policy regime** – in accordance with other studies, this scenario assumes all greenfield land is purchased at agricultural values x15, and brownfield land is purchased at industrial values x2.5. Some studies have used industrial values x1.5,<sup>26</sup> but we have assumed 2.5x on the advice of industry stakeholders consulted for this research, which also closely approximates land values for social rented development in London.<sup>27</sup> These assumptions have been sense checked with industry stakeholders.
3. **EUV plus 50%** - this scenario assumes that greenfield land is purchased at agricultural values x1.5 and all brownfield land is purchased at industrial values x1.5. This therefore includes a 50% uplift in agricultural values, as is also assumed by Bentley, in order to ensure compensation payments are fair and reasonable.<sup>28</sup>

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<sup>25</sup> Ministry of Housing, Communities and Local Government (18 August 2020). *Guidance: Land value estimates for policy appraisal 2019* <https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal-2019>

<sup>26</sup> Bramley, G. (2024). *2024 UK Housing Review*. Chartered Institute of Housing. <https://www.cih.org/bookshop/uk-housing-review-2024>; Savills (2022). London's Affordable Housing Funding Requirement: Research undertaken for the Greater London Authority. <https://www.london.gov.uk/sites/default/files/2022-11/GLA%20final%20report%20-%202024nov22%20-%20CLEAN%20-%20no%20numbers.pdf>

<sup>27</sup> Savills (2022). London's Affordable Housing Funding Requirement: Research undertaken for the Greater London Authority. <https://www.london.gov.uk/sites/default/files/2022-11/GLA%20final%20report%20-%202024nov22%20-%20CLEAN%20-%20no%20numbers.pdf>

<sup>28</sup> Bentley, D., *Reform of the land compensation rules: How much could it save on the cost of a public-sector housebuilding programme?* (March 2018) <https://www.civitas.org.uk/content/files/reformofthelandcompensationrules.pdf>

4. **EUV plus 50% plus strengthened s106 enforcement** – this is based on the above scenario 3, but also factors in a strengthened s106 regime whereby 10% of new housing supply delivers social rent (an aspiration outlined in the existing National Planning Policy Framework), distributed proportionately across the regions as set out in table 1.<sup>29</sup> This reduces the land and construction costs of the government-funded programme, shrinking the grant required accordingly.

**Table 4: Hope value reform reduces the cost of land significantly across all regions**

*Land costs under each modelling scenario, by region, per unit, and per sqm of gross development*

Region	Full market value		Present policy regime		EUV plus 50%	
	Per unit	Per sqm	Per unit	Per sqm	Per unit	Per sqm
North East	£17,064	£157	£7,039	£65	£1,548	£14
Yorkshire and The Humber	£36,304	£345	£18,448	£175	£8,765	£83
North West	£25,601	£247	£16,504	£159	£8,389	£81
East Midlands	£31,952	£296	£13,187	£122	£4,653	£43
West Midlands	£51,414	£485	£21,365	£202	£10,053	£95
South West	£64,146	£598	£18,536	£173	£7,818	£73
East of England	£95,367	£901	£27,166	£257	£13,594	£128
South East	£122,498	£1,174	£57,657	£553	£32,250	£309
London	£218,202	£2,403	£130,126	£1,433	£78,076	£860
<b>England</b>	<b>£135,725</b>	<b>£1,354</b>	<b>£70,138</b>	<b>£700</b>	<b>£40,432</b>	<b>£403</b>

Source: NEF analysis

This outlines the extent to which reverting to EUV would reduce the land costs of a programme of social housebuilding. As might be expected, regions in which land values are highest and in which housing need is greatest – London and the South

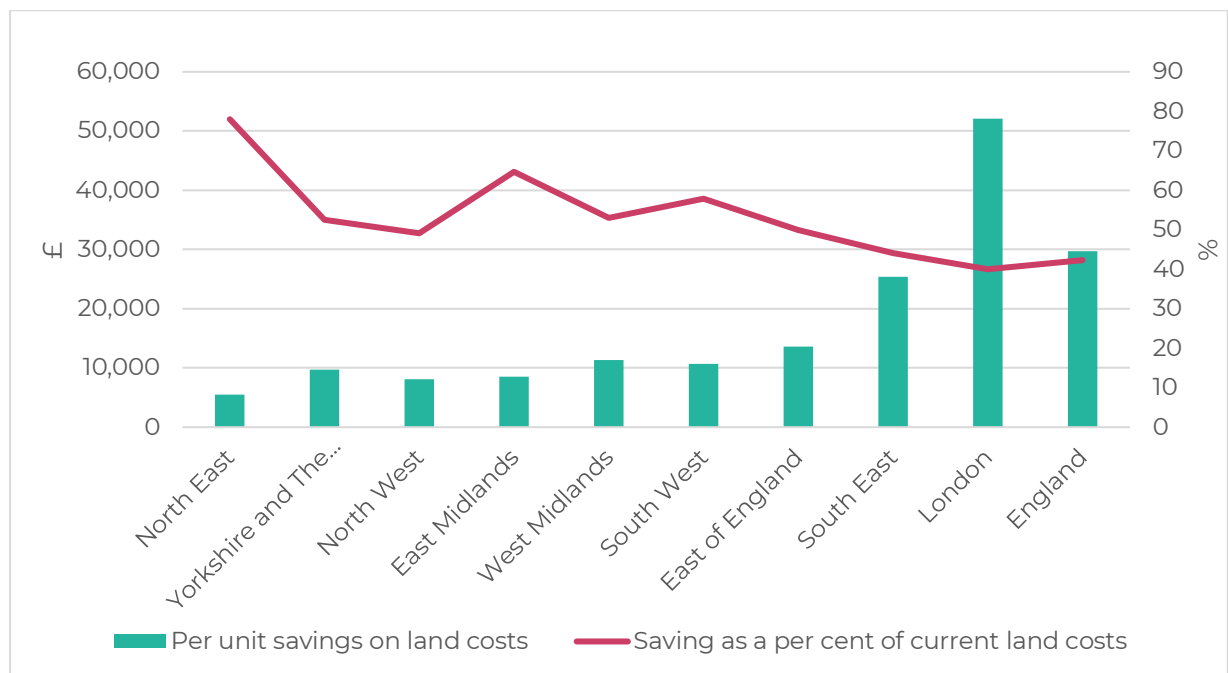
<sup>29</sup> Ministry of Housing, Communities and Local Government (2012). *National Planning Policy Framework*, p. 18.

[https://assets.publishing.service.gov.uk/media/669a25e9a3c2a28abb50d2b4/NPPF\\_December\\_2023.pdf](https://assets.publishing.service.gov.uk/media/669a25e9a3c2a28abb50d2b4/NPPF_December_2023.pdf).

East – are the regions in which the total savings are largest but where savings as a proportion of land costs are the least. This will be in part due to the larger proportion of homes delivered on brownfield land in these regions.

**Figure 5: Scrapping hope value reduces per unit land costs the most in regions of highest demand**

*Per unit reduced land costs from EUV plus 50%, by region, compared to the present policy scenario*



Source: NEF analysis

Once other inputs regarding the costs of this programme – including implied subsidy, cross subsidy, borrowing costs, and construction costs less land – are accounted for, we can identify the public benefit that can be captured by comprehensively reforming land compensation rules.

**Table 5: Removing hope value and strengthening developers' contributions will slash the annual cost of a social housebuilding programme by £4.5bn**

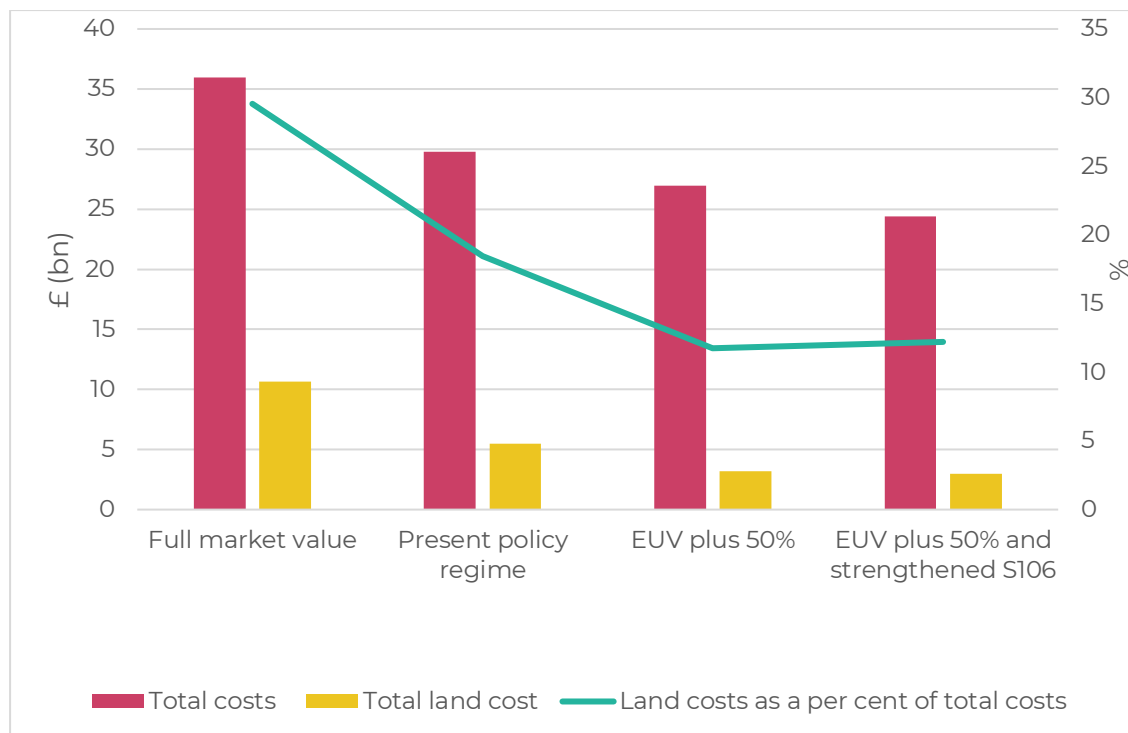
*Annual costs and savings of a programme of building 90,000 social homes in each of the modelled scenarios, rounded*

	Full market value	Present policy regime	EUV plus 50%	EUV plus 50% and strengthened S106
Total costs of construction	£35.97bn	£29.78bn	£26.96bn	£24.42bn
Land cost	£10.63bn	£5.49bn	£3.17bn	£2.98bn
Cross subsidy	£1.75bn	£1.75bn	£1.75bn	£1.75bn
Future rental revenue	£8.56bn	£8.56bn	£8.56bn	£7.73bn
Grant funding	£25.66bn	£19.48bn	£16.65bn	£14.94bn
Land cost as a proportion of total costs	29.55%	18.44%	11.75%	12.22%
Savings relative to full market value scenario	/	£6.19bn	£9.01bn	£10.73bn
Savings relative to present policy regime	-£6.18bn	/	£2.82bn	£4.54bn

Source: NEF analysis

**Figure 6: Hope value reform would significantly reduce land costs as a proportion of total costs of the programme**

*Land costs relative to total costs of the programme, by each modelled scenario*



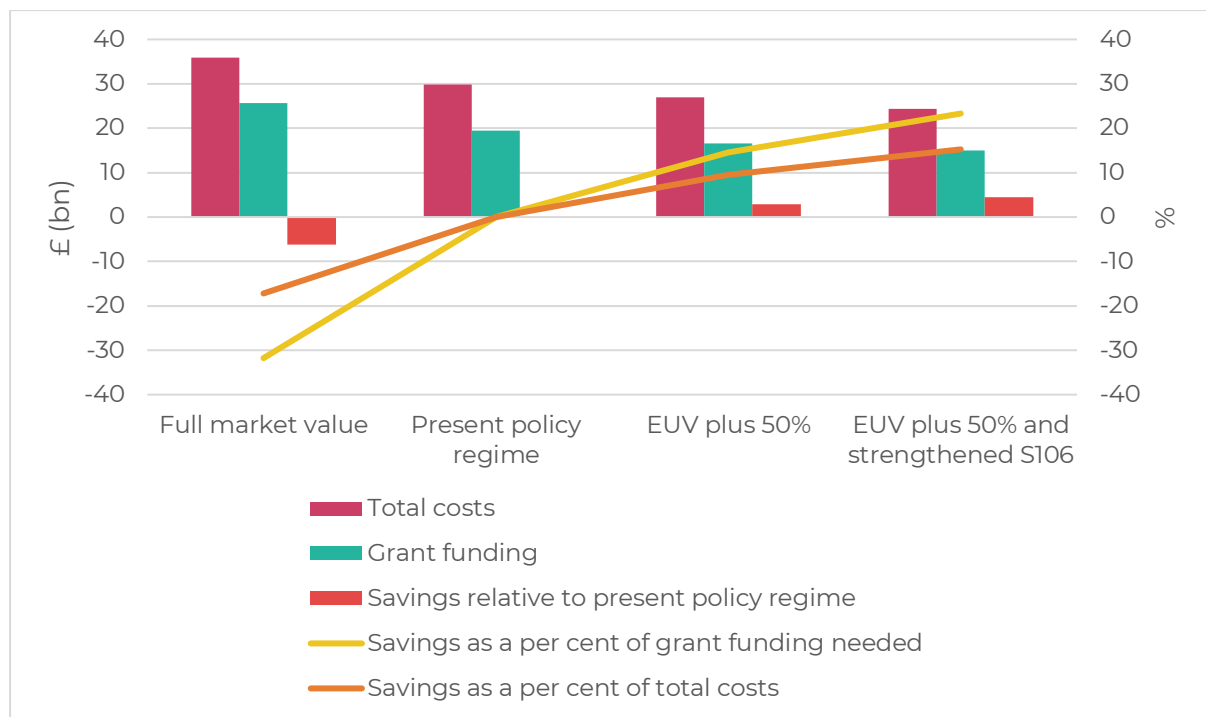
Source: NEF analysis

The estimated annual cost of constructing the same programme of 90,000 social homes, where landowners received EUV plus 50% instead of hope value would be £27bn, of which £16.7bn would be capital grant. This equates to a potential saving of £2.8bn relative to the present policy regime. However, if developers' contributions were to be maximised further alongside this, as the government intends to do, £4.5bn savings can be achieved annually relative to the current policy regime, reducing the grant required to fund the building of 90,000 social homes by 23p. Alternatively, these reforms would allow the same amount of public grant to be stretched further, building an additional 27,000 social rent homes per year and giving ministers a better chance of hitting their overall housebuilding targets by including a greater proportion of social rented homes.



**Figure 7: Reforming hope value and strengthening developers' contributions will reduce the grant required to build 90,000 social homes by around one-quarter**

Costs of construction and grant funding required, by each modelled scenario



Source: NEF analysis

There are alternative means of reducing the cost of a programme of social house building other than through land reform, but these run contrary to government objectives. The cost of the programme could be reduced by developing more homes on greenfield land, which is cheaper to develop on than brownfield land, but this would contravene the government’s brownfield-first policy.<sup>30</sup> Similarly, the costs could be reduced by building more homes for so-called Affordable Rent, but this would undermine objectives to improve affordability and ministers’ preference for social rent, while increasing the overall cost of housing benefit and universal credit.<sup>31</sup> Finally, developing at higher densities with a focus on one and two-bed homes would reduce the grant required, but this would exacerbate the existing

<sup>30</sup> Ministry of Housing, Communities and Local Government. (2024, 15 October). *Thousands of new homes to be built as government unlocks brownfield sites*. <https://www.gov.uk/government/news/thousands-of-new-homes-to-be-built-as-government-unlocks-brownfield-sites>.

<sup>31</sup> Diner, A. & Tims, S. (2024, 6 June). *Switching to social rent*. New Economics Foundation. <https://neweconomics.org/2024/06/switching-to-social-rent>.

undersupply of family-sized social housing and fail to address overcrowding.<sup>32</sup> As such, reducing land costs through further reforming hope value provides the clearest route to reducing the cost and enhancing the viability of a social housebuilding programme while addressing dysfunction in the land market.

## Conclusion

This research should embolden the government to continue its land reforms to maximise their potential and deliver long overdue, wholesale changes to the Land Compensation Act 1961. By reducing the amount of grant funding required to build 90,000 social homes by around a quarter each year, or by allowing the same spending envelope to build a further 27,000 homes, such reforms significantly enhance the viability of a programme of mass social house building. These reforms should therefore be considered a vital step for ministers to take to deliver the homes the country needs and give them the best chance of meeting their overall housebuilding targets over the course of this parliament.

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New Economics Foundation  
[www.neweconomics.org](http://www.neweconomics.org)  
[info@neweconomics.org](mailto:info@neweconomics.org)  
+44 (0)20 7820 6300

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<sup>32</sup> Ministry of Housing, Communities and Local Government. (2024, 18 July). *English Housing Survey 2022 to 2023: rented sectors*. Annex table 1.18. <https://www.gov.uk/government/statistics/english-housing-survey-2022-to-2023-rented-sectors>.