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BUILDING PROSPERITY

THE ECONOMIC CASE FOR A STEP CHANGE IN LONDON HOMEBUILDING

ABOUT THIS REPORT

Building Prosperity: The Economic Case For a Step Change in London Homebuilding was written by **Jack Airey**, Director of Housing and Infrastructure at Public First, and **Ben Savours**, Senior Economist at Public First. The research was supported by Berkeley Group, British Land and Landsec.

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EXECUTIVE SUMMARY

Homebuilding in London is in freefall. Housing starts have collapsed to historic lows, far short of the Mayor's target of 88,000 new homes per year. Without decisive political action to reverse decline, the capital's chronic housing shortage will continue to grow, driving up rents, worsening affordability and undermining the city's economic dynamism. Taken together these effects pour sand into the engine of the UK economy.

A major economic opportunity

Our economic modelling shows that reversing the decline in homebuilding would create **immediate and long lasting benefits** for London and the wider UK economy, driven above all by productivity gains that would raise living standards in the capital.

Delivering the Mayor's target of 88,000 new homes per year by 2028 would generate a powerful economic uplift. By 2034, the total annual impact would peak at £40.4 billion (2025 prices), equivalent to 6.5 per cent of London's GDP and 1.6 per cent of UK GDP.[1] This growth would come from the immediate stimulus of construction activity and the longer-term structural benefits of a larger, better functioning housing market. It would be made up of the following effects:

- **Construction-led growth**: Delivering 88,000 homes per year would generate up to **£14.8 billion of annual GVA from 2028**, with a cumulative £118.7 billion to the end of the next parliament. This represents a **2.4 per cent boost to London's GDP** in that year, sustaining tens of thousands of jobs in construction and supply chains. It would be approximately equal to the contribution of the whole hospitality sector to the UK's capital.
- **Rent savings and consumption**: More homes would ease pressure on rents, delivering up to **£607 million of annual rent savings by 2035**. These savings would translate into higher consumer spending, adding hundreds of millions to London's retail and hospitality sectors.
- **Agglomeration benefits**: A larger housing stock would allow more working-age people to live in London, deepening labour markets and driving productivity gains. By 2035, this could generate **£3.7 billion of additional GVA annually**, with the benefits compounding over time.
- **Internal migration and labour market transformation**: Lower housing costs make London more attractive and accessible to younger, highly productive workers from across the UK, and encourage dynamism in the labour market. By

[1] The modelling assumes new housing delivery reverts to baseline levels after the end of the next parliament.

2037, this could add more than **£30 billion per year** to London's economy - about 5 per cent of London's GDP, or 1.1 per cent of UK GDP.[2]

These estimates do not include the additional GVA that would be generated by future occupiers of the expanded housing stock. That figure would be substantial, but primarily a reflection of London's population simply being larger. Instead, our modelling focuses on the mechanisms through which jobs are created, disposable incomes rise and productivity improves - the drivers that directly lift wages and living standards for everyone in London.

Finally, building 88,000 homes a year would also unlock significant community and fiscal benefits. Section 106 and Community Infrastructure Levy contributions would strengthen local infrastructure and services.[3] Additional tax revenues — peaking at **£6.2 billion in 2034** — and the billions of pounds in extra economic output driven by higher rates of homebuilding would provide the Government with greater fiscal headroom to make choices around public spending.[4]

Boosting London's long term prosperity

If London continues on its current path towards record low homebuilding, the city risks a lost decade of fewer new homes, weaker growth and declining competitiveness. In a worst case scenario, London's competitiveness is irreparably harmed as our international competitors develop industries in which London used to be world leading, meaning London loses its ability to bounce back and drive the UK's wider economic growth and competitiveness.

Conversely, an ambitious step change in housing delivery would provide a structural boost to productivity, wages, and living standards that endures for decades. **As this report makes clear, the economic uplift is powerful, but it will only be realised if decisive action is taken by policymakers to remove the barriers that currently stall homebuilding in London.**

[2] The benefits would be £3.4 billion by 2030, £26 billion by 2035 and £30.6 billion by 2040.

[3] Recent JLL research has found that delivering 88,000 homes per year over ten years would unlock more than £36 billion in Community Infrastructure Levy and Section 106 receipts. Green Street News, Revealed: how London lost out on £4bn in development receipts, 2025

[4] As demonstrated by recent projections by the OBR, higher rates of homebuilding can have very positive effects on the economy and the Government's fiscal headroom. Office for Budget Responsibility (2025) - Economic and fiscal outlook

INTRODUCTION

London faces the most acute housing shortage in the country. Private rents have surged by 28 per cent in just three years,[5] every new property listing attracts dozens of prospective tenants and home ownership is out of reach even for those earning six-figure salaries and with significant savings.[6] Meanwhile, the number of households in Temporary Accommodation has doubled in the past decade, stretching council budgets across the city.[7]

The paradox is stark: nowhere is housing less affordable, nowhere is competition for homes fiercer and nowhere is support for new building higher.[8] Yet the city is on the verge of its weakest period of homebuilding in modern times.

Despite such a high need for more housing, new housing delivery in the capital is collapsing. Just 3,990 homes started construction in the 12 months to Q1 2025, 60 per cent below the previous record low set in 1990.[9] At a time when London's new homes target has been increased to 88,000 new homes a year, homebuilding is in freefall.

The reasons why are manifold. On the demand side, higher interest rates, the end of Help to Buy and steeper Stamp Duty on landlords and international investors have priced out first-time buyers and reduced the pre-sales that once kick-started new developments,[10] and shrunk the market into which developers can sell. Rising debt costs have also stalled new investment in Build to Rent schemes. In London, where flats dominate the new homes market, developers cannot easily slow the pace of build-out, so weaker demand has a sharper impact.

On the supply side, costs have increased significantly. Labour and material costs have risen by around a fifth since 2020.[11] New taxes and regulations — like the Future Home Standard, the Building Safety Levy and Residential Property Developer Tax — add further burdens, while second staircase and dual aspect requirements reduce the area of new residential buildings that can be used and sold for housing. Rigid policy demands for schemes to be at least 35 per cent Affordable Housing erode potential revenues. Delays seeking approval from the Building Safety Regulator (BSR), on top of familiar planning delays, make schemes even harder to deliver. This is exemplified by

[5] Analysis of Price Index of Private Rents (PIPR) from the Office for National Statistics, January 2015 to July 2025

[6] Public First research shows that a young Londoner today needs at least £67,900 in savings and a salary of £120,600 to buy a first home. In reality, the average young non-homeowner has just £9,100 saved and earns £27,400. Public First, 2025, Saving the British Dream: Investing in First Time Buyers for Economic Renewal

[7] Trust for London, Temporary accommodation over time in London (updated 2025)

[8] The Quiet Yes - Public First, August 2025

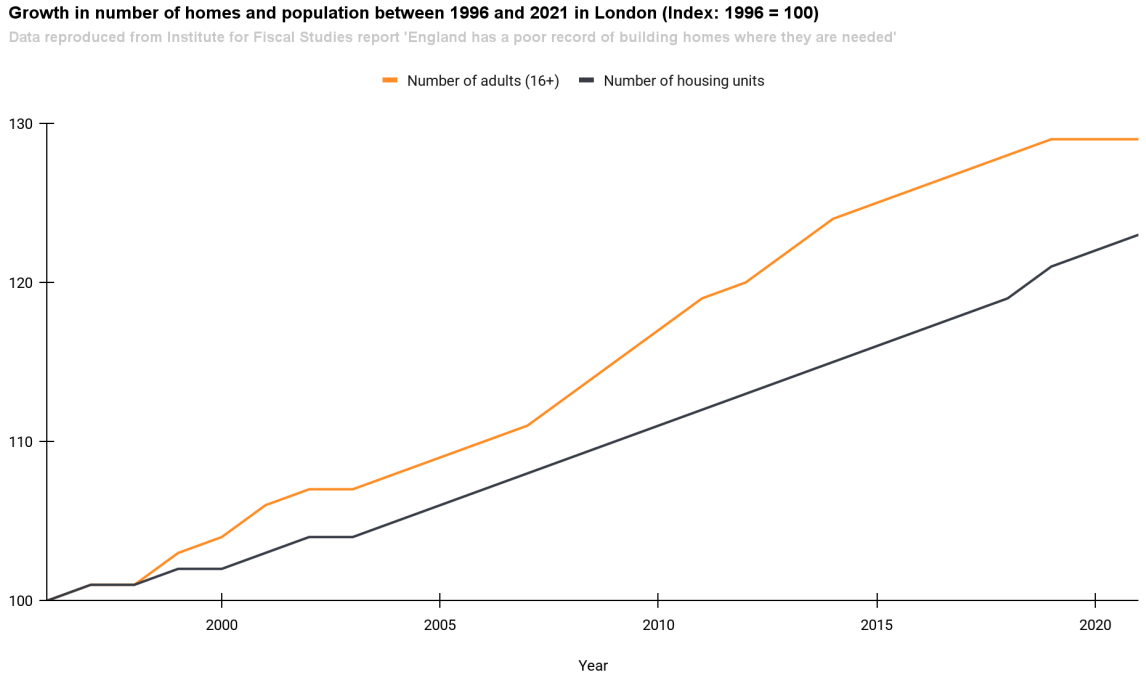
[9] MHCLG, Table 217: permanent dwellings started and completed by tenure and region

[10] Molior, Residential Development In London Q2 2025

[11] UK Finance, The evolving cost of construction in the UK: Trends, challenges, and future outlook

more than 1,000 homes that are built but remain unoccupied due to delays in sign off by the BSR.[12]

Together, these pressures mean homebuilding is costlier and riskier than ever. Developers are left with the choice of building homes at prices that risk losses, or not at all. The result is housing demand in London stretching further away from supply - it is the only region of England where population growth has consistently outpaced the number of new homes as shown in the chart below,[13] a trend set to persist.



The consequences are severe. Fewer new homes mean more Londoners forced into cramped, costly, or insecure living arrangements; more young people delaying independence or never moving to the capital; and more families leaving the capital.

The impact of fewer homes is taking a particularly significant toll on younger working Londoners. As part of this research we conducted a focus group of young Londoners to understand how the housing shortage impacts them.[14] Whilst we do not suggest the findings are representative of young Londoners as a whole, the excerpts featured throughout this report paint a picture of how those who are struggling to get on and move up the housing ladder feel about the housing market.

The economic impacts are just as stark. As this report makes clear, lost construction weakens growth in the short term, while high housing costs undermine London's long-term productivity by deterring people from moving to the capital. **Unless urgent action is taken, London risks a lost decade of homebuilding with profound consequences for affordability, inequality, and the city's future prosperity.**

[12] Sky News, 2025, Hundreds of empty flats that developers say sum up UK's housing crisis
[13] Institute for Fiscal Studies, 2024, England has a poor record of building homes where they are needed
[14] The focus group included eight participants under 35 working and living in London.

IMPACTS OF THE HOUSING SHORTAGE:

AFFORDABILITY

Focus group participants described affordability as their greatest concern whether in terms of rent, value for money or the challenges of getting onto the housing ladder.

> *I'm moving soon... I knew it would be depressing, but, oh my god, it's depressing... They're like "this is a spacious property for one person", and it's a little bed with a bit of space to walk around to get to the door. Then they might be charging £900 a month.*

WOMAN
Mid 20s

> *I just moved back in with my parents from uni, but there is absolutely no chance I will be able to move out anytime soon... I think the cost now has gone absolutely ridiculous, even for something really small.*

WOMAN
Early 20s

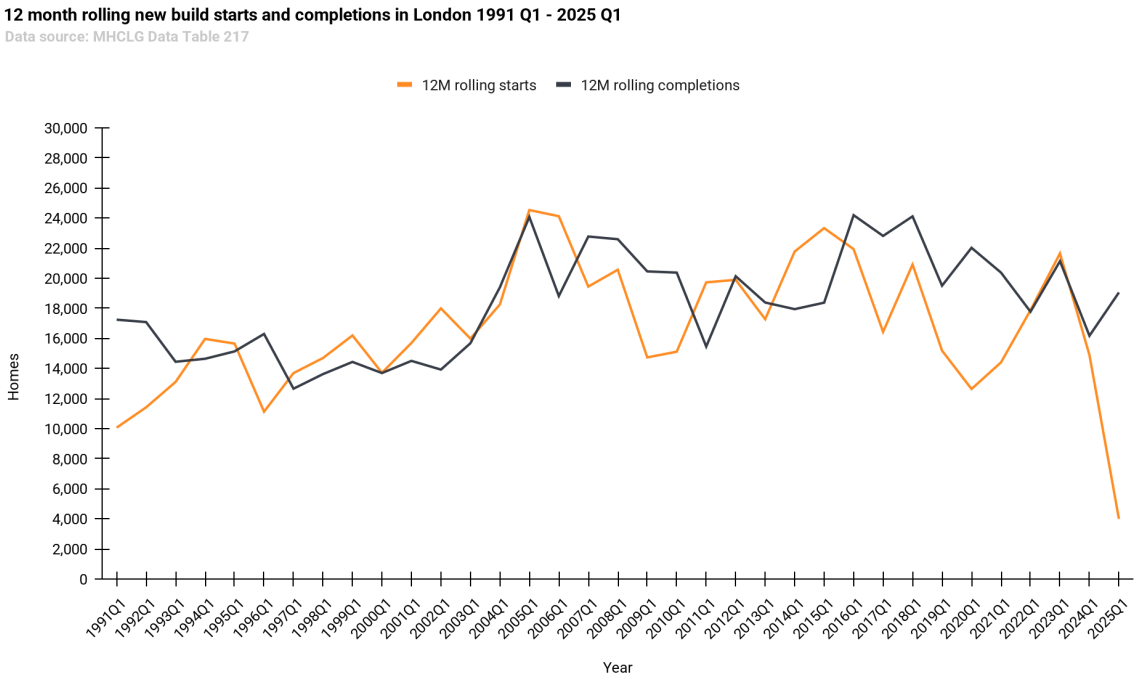
> *I think that we've just completely exploded the market. In Manchester and places like that it's so much more affordable. I don't understand why it's such a big gap. Obviously people are making them and they are safe and they're nice to live in. Why can't we have the same here?*

WOMAN
Mid 20s

CHAPTER ONE:

LONDON'S NEW HOUSING DELIVERY IS IN FREEFALL

After rates of new homebuilding in London gradually increased during the first part of the 2010s, output has been in decline since 2018. Rising costs and worsening market conditions have reduced the number of consented homes being built, as can be seen in the chart below.



Forward looking data on both new home starts and new planning permissions in London suggest the downward trend in new home completions is going to accelerate. Data from MHCLG, Molior, the GLA and HBF confirm a significant and ongoing current crisis in new home starts by the private and public sectors.

MHCLG data shows 3,990 homes were started in the 12 months to Q1 2025 - a record low by some distance.[15] The sharp recent fall can be seen in the chart above.

Molior has reported that only 3,950 new homes were sold in the capital during the first half of 2025.[16] In April, May and June of 2025, Molior recorded zero starts of

[15] MHCLG, Indicators of New Supply, Table 217
[16] Molior, Residential Development In London Q2 2025

developments with 20 or more private homes in 23 London boroughs.[17] Looking ahead, Molior projects that only 9,100 private homes will be completed across 2027 and 2028. Meanwhile, GLA data also shows that only 6,696 Affordable Housing grant-funded units have been started in the previous two and a quarter years.[18]

Recent analysis from the Home Builders Federation (HBF) found that in the 12 months to June 2025, just 996 projects were granted planning approval.[19] This represents the lowest 12 month period since records began in 2006.

Together, the figures indicate that **London is entering a period of substantially reduced housing delivery** — a long way short of the Mayor's target of building 88,000 new homes per year with the gap expected to grow — exacerbating affordability pressures, increasing homelessness, and undermining economic growth.

IMPACTS OF THE HOUSING SHORTAGE:

WHO SHOULD FIX IT?

While views vary on the root causes of housing affordability and potential solutions, focus group participants agreed that central government ultimately bore responsibility for fixing the problem. Some were aware of the Government's commitment to deliver 1.5 million homes and that Labour had made homebuilding a priority, but most did not instinctively see a link between new homebuilding and affordability. Most also admitted they had little understanding of how responsibilities were divided between national government, local authorities and the Mayor.

[17] Molior, Residential Development In London Q2 2025
[18] GLA, Affordable Housing statistics
[19] HBF (2025) - Mind the Gap

> *I remember reading some manifestos in 2021 with some very bold claims about what the mayor could do? But as just an ordinary person, I have no idea who has what powers. I have no idea whether something is the London Assembly or the mayor or the borough or the national government when it comes to these kind of things.*

MAN
Early 30s

> *National government [has responsibility]... I don't think any other body has enough power. I don't think the Mayor has enough power for it to be relevant to them. Someone needs to take responsibility. They need to do something about it.*

WOMAN
Mid 20s

CHAPTER TWO:

THE ECONOMIC IMPACT OF BUILDING MORE HOMES IN LONDON

The collapse in housing delivery risks leaving London less affordable, less dynamic and more unfair. Reversing this decline would not only prevent further economic harm but also reignite economic growth through abundant housing.

This chapter sets out the economic case for action. It shows how a step change in housing delivery would generate substantial and lasting gains - from immediate increases in output and jobs in the construction sector, through to long-term productivity growth driven by greater economic density and enhanced labour mobility.

Framework and scenarios

We model the effects of higher housing delivery through five interconnected channels in the economy:

1. **Construction-led growth**: Every home built represents not only direct construction output but also demand across London's supply chains and induced spending from wages. These multiplier effects contribute directly to London's Gross Value Added (GVA).
2. **Rent savings**: Increasing supply reduces rental prices relative to the counterfactual. This delivers measurable savings to renters who make up a substantial share of London's households, improving affordability and freeing up disposable income.
3. **Consumption effects**: Lower rents shift income from landlords to renters, who typically have a far higher marginal propensity to consume. The result is a net increase in household expenditure and additional retail GVA.
4. **Agglomeration benefits**: By enabling more people to live and work in London, additional housing raises effective economic density, which in turn drives productivity improvements via well-documented agglomeration economies.
5. **Internal migration and labour market impacts**: Reducing housing costs makes London more accessible to internal migrants and enables a more dynamic labour market. New arrivals in the city tend to be younger, more likely to work, and more productive. This directly raises output per head and indirectly stimulates productivity gains through further increases in density.

The modelling is structured around three scenarios of accelerated housing delivery:

- **Modest increase:** 46,000 new homes per year (equal to the recent 2019 peak in net additions);[20]
- **Strong increase:** 67,000 new homes per year (the midpoint);
- **Ambitious increase:** 88,000 new homes per year (meeting the Mayor's housing target).

Delivery rates are assumed to be achieved by 2028, with a linear increase in the preceding years. Each scenario is appraised over 30 years, reflecting the enduring impact of a significant positive supply shock on London's housing market and economic trajectory. While delivery is assumed to revert to baseline levels after 2035, the legacy of improved affordability, stronger agglomeration, and deeper labour market participation persists for decades. All estimates are provided in 2025 prices.

Mechanisms and methodology

Delivering more homes does far more than put roofs over heads. It sets in motion a series of interconnected economic mechanisms that ripple through the capital's economy, supporting growth in the short term and lifting productivity in the long term.

This section provides a high-level overview of each channel, our approach to quantifying them and the key literature on which our modelling draws. Full technical details are provided in the appendix. The methods we use are rooted in established economic literature and consistent with HM Treasury's Green Book principles.

What these estimates do not capture is the additional GVA generated simply by having more working-age adults living in the new homes and contributing to output. That uplift would be significant, but it mainly reflects the effect of a larger city. Our modelling instead isolates the channels through which jobs are created, living costs are reduced, and productivity and wage growth are driven - the mechanisms that directly raise disposable incomes, spending power and living standards for Londoners.

All results are calculated against a baseline trajectory of 15,000 new homes delivered per year that reflects historic evidence and the most recent data on housing starts and completions. Estimates presented in this report represent the net benefits of accelerated delivery compared to this baseline.

Construction-led growth

Accelerating housing delivery stimulates economic output in three ways:

1. **Direct effects:** well-paid jobs are created and sustained over the nine-year period of elevated homebuilding. These include architects, engineers, site managers, and construction workers directly employed by developers.
2. **Indirect effects:** further demand is stimulated through supply chains in London and across the UK, supporting further economic activity and jobs in materials,

[20] Net additions include conversions and as such is higher than delivery of new builds.

logistics, professional services, and manufacturing. Our modelling estimates the impact that this has within the Greater London boundary.

3. **Induced effects**: the salaries earned in both direct activity and supply chains feed back into the economy, generating further activity as households spend their income in shops, restaurants, and on services across the capital.

We estimate average construction spend per new home using a range of third-party sources. This is fed into Public First's local-geography input–output model to capture the GVA generated within London.

Rent savings

The second channel recognises the benefits of more housing are not confined to those occupying newly built homes. A step change in supply creates a city-wide positive supply shock, driving down rents across London. This increases disposable income for the large renter segment of the population, who typically earn less than homeowners or landlords and for whom rent absorbs a disproportionate share of take-home pay.

By projecting the increase in residential stock and applying estimates of the price elasticity of demand and supply, using London-specific results where available, we estimate how additional supply translates into lower house prices. This is modelled with a lag, reflecting the fact that price effects materialise gradually. Assuming relatively stable rental yields, these lower property values translate into lower rents. Aggregate savings are then derived using ONS data on the size and composition of London's rental market.

The key sources underpinning this approach are studies by the Bank of England and the Institute for Fiscal Studies,[21,22] both of which provide robust estimates of how housing supply affects prices.

Consumption spending

Rent savings translate into a third channel: higher consumer spending. Because renters on average have a higher marginal propensity to consume than landlords, income shifted from the latter to the former yields a net increase in retail and service spending. The result is more money flowing into London's shops, pubs, restaurants, and high streets, further supporting job creation.

This effect is estimated by combining our rent saving calculations with estimates of marginal propensities to consume by tenure. We then convert the resulting uplift in household expenditure into GVA effects, again using our local geography input–output model.

[21] Bank of England, 2019, UK House prices and three decades of decline in the risk-free real interest rate, Bank of England, 2019

[22] IFS, 2025, The determinants of local house supply in England

Agglomeration benefits

Beyond these short and medium term gains is one of the most powerful mechanisms of urban economics: agglomeration economies. Productivity in large cities like London is higher not by accident but because of the benefits of density. These include knowledge spillovers between firms, deeper and more specialised labour markets, and better matching between businesses and workers.

By enabling more people, particularly working-age adults, to live in London, new housing directly raises effective economic density. That boosts productivity and wages across the city, for everyone, not just for those who move into the new homes.

We estimate this effect by modelling the increase in the working population resulting from additional homes, and applying elasticity estimates that link density to productivity. Given the time it takes for density effects to embed, we build in a lag to reflect the gradual accrual of benefits. Our approach draws on well-established literature in this field.[23]

Internal migration and labour market impacts

Finally, a further wave of productivity benefits comes through internal migration and improved labour market vitality. Lower housing costs make London more attractive to workers from elsewhere in the UK. These migrants are typically younger, more skilled, and more productive so that more of these individuals choose to move, average productivity in the city rises. Further still, lower housing costs stimulate further activity in the labour market by making it easier for people to relocate to new job opportunities, improving their ability to match to a productive job and increasing the size of the labour pool available to employers.

These mechanisms are distinct from those captured in our agglomeration analysis. Rather than density increases driven by residents of the newly built homes, they capture the additional density caused by the gravitational effect of lower housing costs and provide additional labour market effects beyond those caused by densification.

In summary, the mechanisms driving productivity gains are:

- **Labour market flexibility**: more affordable housing makes it easier for workers to move to where their skills are most valued, reducing mismatches.
- **Agglomeration reinforcement**: new arrivals further increase density beyond that generated by new builds, amplifying the spillover benefits described above.
- **Commuting effects**: with more people able to live closer to their jobs, commuting times fall, raising labour productivity.
- **Wage pressure**: lower housing costs reduce the extent to which wages must rise simply to cover living expenses, improving competitiveness.

[23] OECD, 2007, Agglomeration Economies and Transport Investment

To estimate these effects, we build on our earlier modelling of positive supply shocks and reduced house prices, linking these to productivity gains through the mechanisms described above. To do this we draw on a growing body of research, including Homes England and Alma Economics' recent report *Housing affordability and productivity*, which provides robust evidence of the relationship between housing costs, migration, and productivity.[24]

IMPACTS OF THE HOUSING SHORTAGE:

PLANNING SEEN AS A BLOCKER

Planning was seen as a major obstacle to homebuilding. Focus group participants described a system that was too slow and too complex. For some, local opposition to homebuilding was associated with a vocal minority.

> *I think they should just say 'Okay, we're gonna build houses here. Let's get on with it, and we'll do the regulations and checkups as you go.'*

WOMAN
Early 20s

> *If you look at the hoops that you need to go through to get planning permission, you can have one cranky old NIMBY that is able to hold everything up for years. And then it needs to go through different committees, redo different petitions locally... it's just a never ending process.*

MAN
Early 30s

[24] Homes England and Alma Economics, 2025, Paper 7: Housing Affordability and Productivity

Results

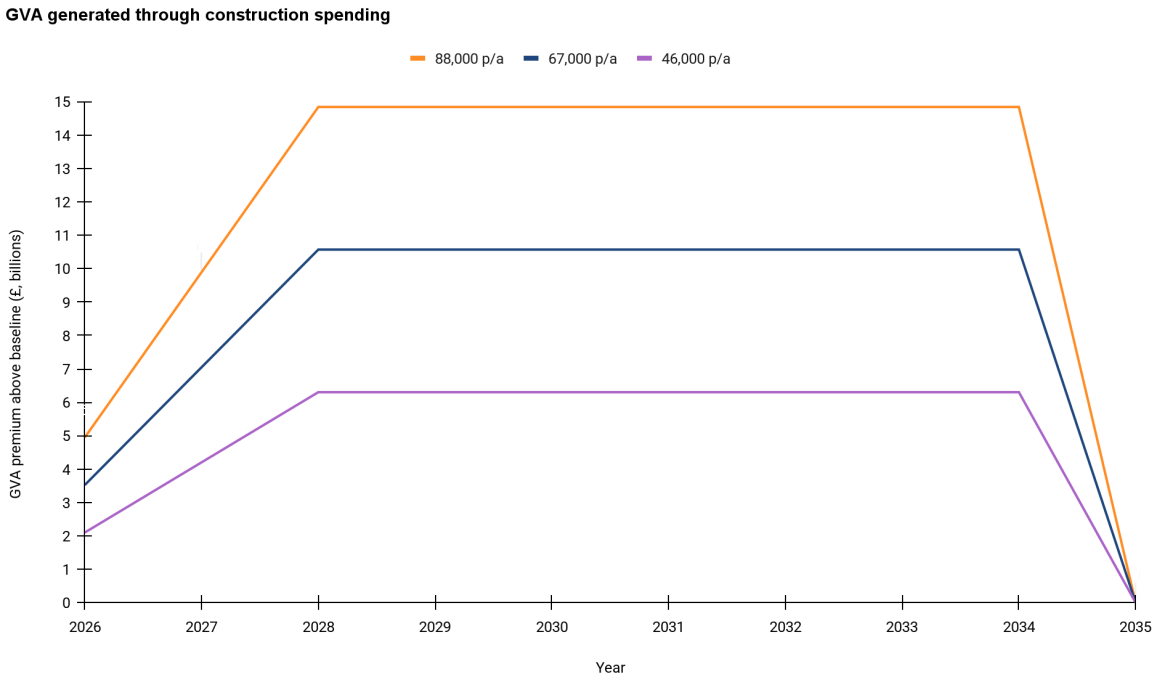
Construction impacts

Higher housing delivery creates an immediate surge in economic output through the direct, indirect and induced channels of construction activity.

In a scenario where there is a modest increase in London housing delivery to 46,000 new homes per year, the direct, indirect and induced construction impacts reach **£6.3 billion of GVA by 2028**. Over the period in which this raised target is modelled, **a total of £50.4 billion of additional GVA is generated**, with a **NPV of £41.7 billion** over the same horizon (all results are presented in 2025 prices).

Meeting the Mayor's housing target of 88,000 new homes per year would deliver a step change in construction-led growth. By 2028, the construction impacts would reach **£14.8 billion of GVA per annum**, equivalent to a **2.4 per cent boost to London's GDP** in that year and approximately equal to the contribution of the whole hospitality sector to the UK's capital. Over the period, the cumulative construction contribution totals **£118.7 billion**, with an **NPV of £98.1 billion.**

The chart below traces the trajectory of construction-driven GVA under all three scenarios we model. It shows that increasing homebuilding delivers immediate, front-loaded gains in economic activity as projects mobilise and supply chains ramp up, with higher delivery rates translating into proportionally larger gains.



The immediate beneficiaries of this economic boost would be construction workers, contractors, SMEs in the building trades and professional services, followed by materials, logistics and manufacturing suppliers serving London projects. Local high streets would also benefit via induced spending from those higher wages.

Rent savings

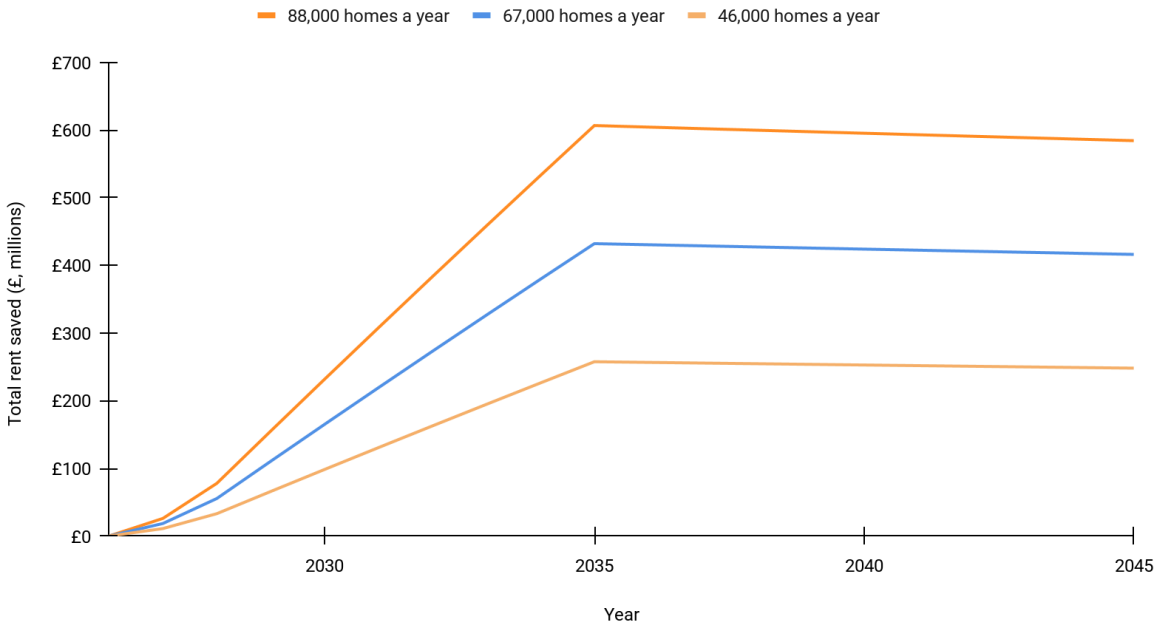
Higher rates of homebuilding also deliver a broad cost-of-living dividend for Londoners who rent.

Delivering 46,000 new homes per year would provide **annual savings for renters of £258 million by 2035**. Over the first ten years, **cumulative rent savings total £1.18 billion**. Averaged across a 30 year appraisal period, this equates to about £209 million in savings per year.

If the Mayor's housing target of 88,000 new homes per year is delivered, this would increase **annual savings for renters to £607 million by 2035**. Over ten years, **the cumulative saving is £2.78 billion**. This corresponds to an average annual rent saving of around £492 million over 30 years.

The chart below shows the trajectory of rent savings over time, illustrating the medium term ramping up of these savings as cumulative increases in supply put downward pressure on house prices.

The impact of higher rates of homebuilding on rent savings



These savings accrue to private renters, a group that is disproportionately younger, lower-income, and more exposed to high housing costs. Lower rents free up cash for essentials and local spending, and, critically, make it easier for younger households to

save for a deposit to buy their first home. Building 88,000 homes annually would, by 2035, generate rent savings for each London renter equivalent to **10 per cent** of the average deposit paid by first time buyers in the UK.[25]

Consumption spending

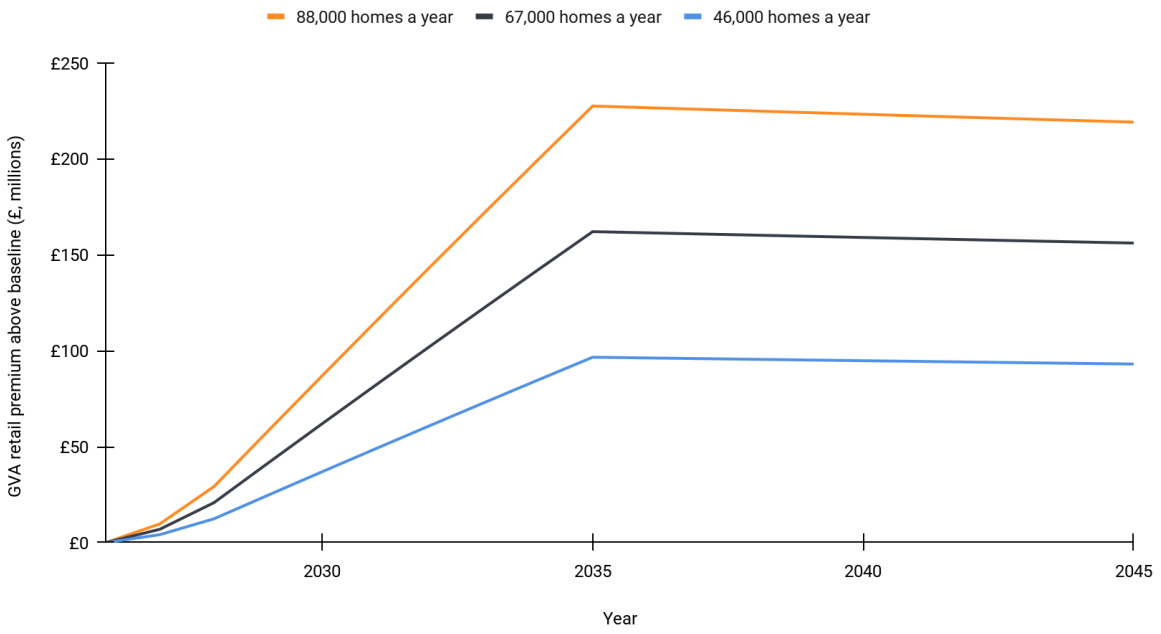
Rent savings translate into higher day-to-day spending, especially in retail and hospitality.

In a scenario where 46,000 new homes are delivered per year, the uplift in household spending generates **£97 million of additional GVA in 2035**, concentrated in retail and hospitality. Cumulatively, **consumption contributes £443 million over the ten year period to 2035**. Over a 30-year appraisal, the **NPV of these consumption-led gains is £1.26 billion**, equivalent to an average of £78 million per year across the period.

Building 88,000 new homes per year would provide an uplift in household spending of **£227 million of additional GVA in 2035**, a total of **£1.04 billion over the ten year period to 2035**, and a 30 year **NPV of £2.96 billion**, and an average of £185 million per year over 30 years.

This is a medium-term boost that feeds directly into local high streets and neighbourhood centres. The benefits are likely to be felt most by lower-income and younger workers - those disproportionately employed in retail, hospitality and personal services. The chart below illustrates the three growth trajectories.

The impact of higher rates of homebuilding on consumption activity



[25] Halifax, Press release, 2024

Agglomeration

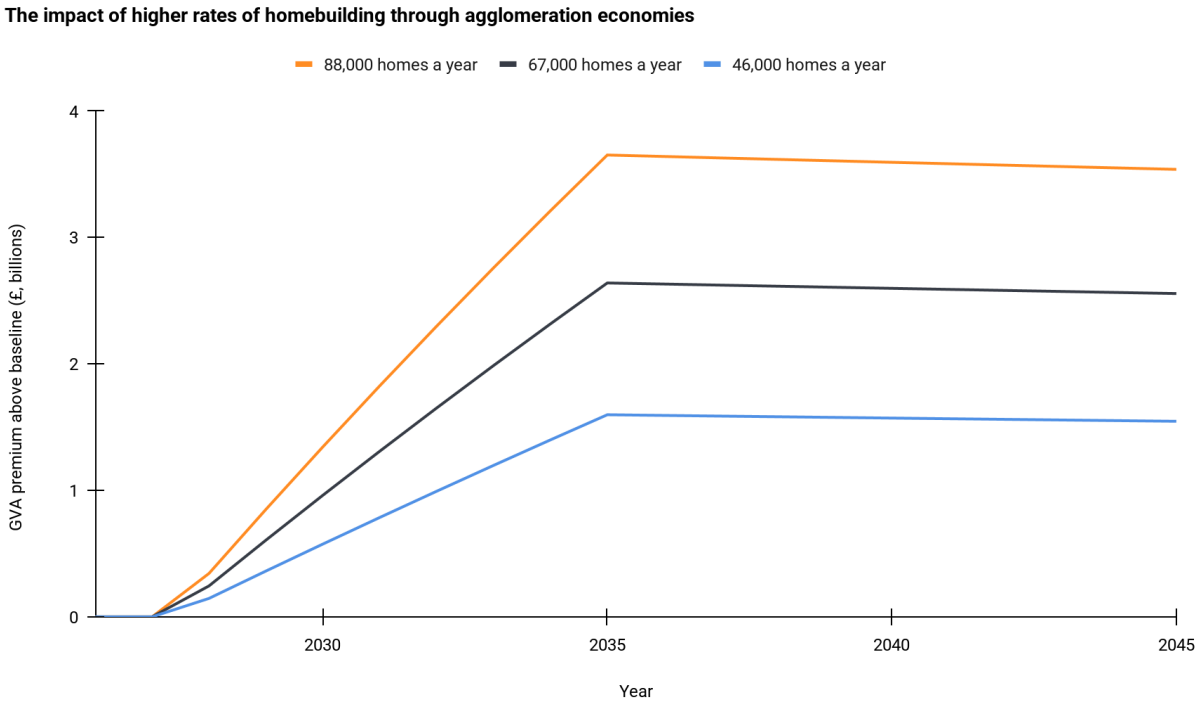
Large and enduring gains from faster homebuilding in London come from agglomeration economies. By enabling more working-age people to live in London, additional homes raise effective economic density, strengthening knowledge spillovers, specialisation, and matching in labour markets.

Policy intervention that leads to 46,000 new homes per year being delivered would, through agglomeration effects, generate **£1.6 billion of additional GVA by 2035**. Over the first ten years, cumulative gains reach £7.1 billion, with an **NPV of £21 billion over 30 years**.

If the target of 88,000 new homes per year is delivered, the agglomeration dividend rises to **£3.7 billion of additional GVA by 2035**. Across the first decade, this totals **£16.3 billion**, and the **30-year NPV is £47.3 billion.**

Agglomeration benefits accumulate gradually as added residents deepen markets and embed firm-to-firm and worker-to-firm connections; there is a lag before the full gains are realised, but these dynamics lift productivity and wages across the city as a whole - not only for those who move into the new homes - creating a compounding, city-wide benefit over time.

The chart below shows the longer growth trajectory characteristic of agglomeration effects.



Internal migration and labour market impact

The largest and most transformative gains come from internal migration and labour market flexibility.

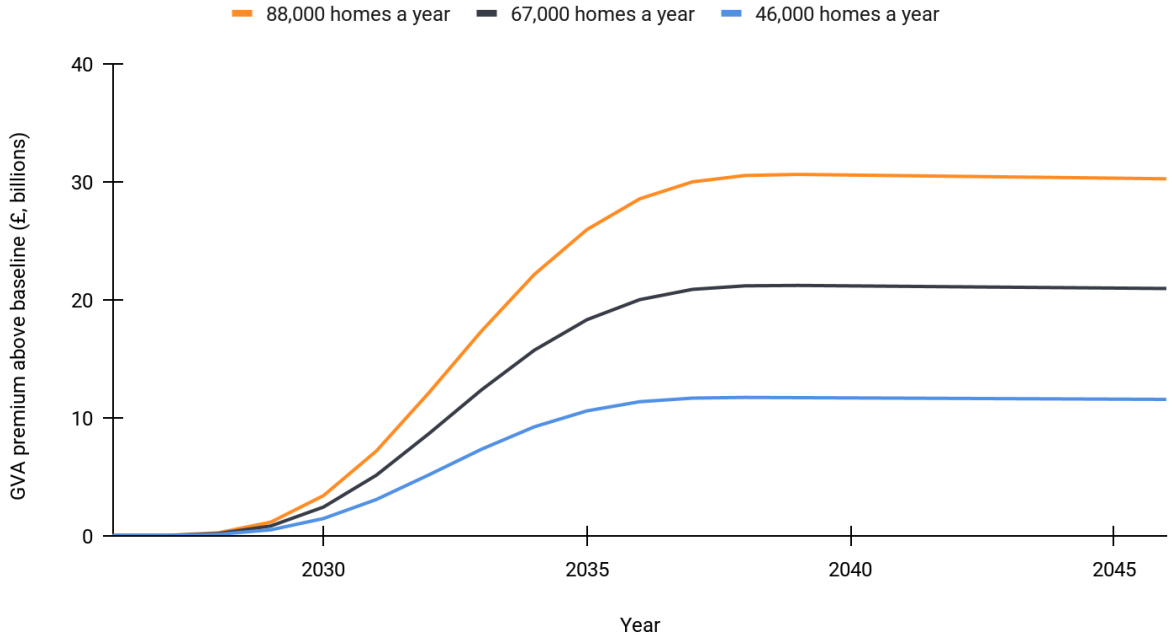
In a scenario where there is a modest increase in London housing delivery to 46,000 new homes per year, the labour market effects generate **£10.6 billion of additional GVA by 2035**, rising to £11.7 billion by 2040 - around **1.9 per cent of London's GDP**. Over a 30-year horizon, the average annual GVA uplift is £9.3 billion, with an **NPV of £142 billion**.

If the Mayor's housing target of 88,000 new homes per year is delivered, this productivity channel produces **£22.1 billion of GVA by 2035**, increasing to **£30.6 billion** by 2040 - **about 5 per cent of London's GDP**. Across 30 years, the average annual GVA uplift is £24.0 billion, with an **NPV of £363.2 billion**.

This is by far the biggest effect, due to the numerous mechanisms through which it operates - net in-migration, reinforced agglomeration from new arrivals, and a more dynamic working population able to make long-term economic choices. The benefits are wide and deep, affecting workers across sectors, firms seeking valuable skills, and neighbourhoods that gain from higher labour participation and spending. Over time, this can drive structural change, reversing some of the long-term damage caused by the housing shortage in London. These impacts build over a long horizon as migration flows respond to affordability and as careers, firms and neighbourhoods adjust.

The chart below shows the very long growth trajectory, extending well beyond the immediate boosts from construction and consumption.

The Impact of more housing through internal migration and labour markets

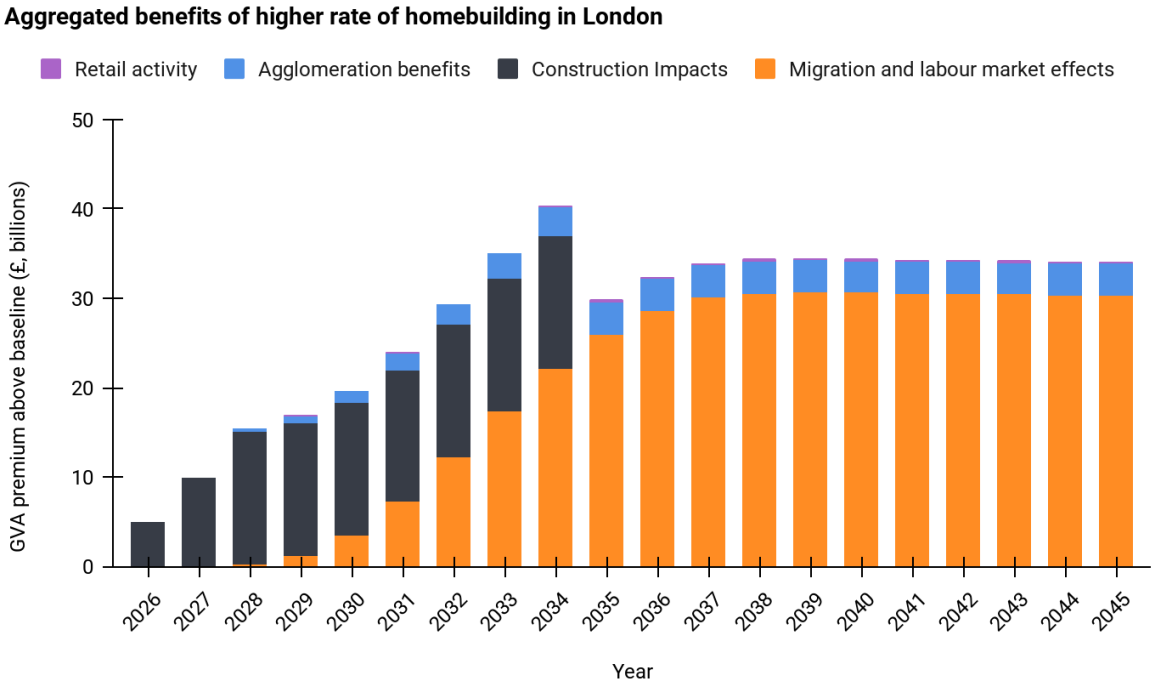


Comparing and aggregating benefits

The five benefits estimated in this chapter would operate over different horizons:

- **Short term**: construction activity creates immediate jobs and output;
- **Medium term**: rent savings, consumption effects and agglomeration strengthen the economy;
- **Long term**: migration and labour market dynamics transform London's economic trajectory.

The chart below illustrates the four GVA effects and their varying time horizons, showing the aggregate effect of delivering 88,000 new homes per year to the end of the next parliament. By 2034, **the combined benefits of higher rates of housing delivery peak at around £40.4 billion of additional GVA**, which is worth **6.5 per cent of London's GDP, and 1.6 per cent of the UK's GDP.**



CHAPTER THREE:

THE FISCAL BENEFITS OF BUILDING MORE HOMES IN LONDON

Alongside profound benefits to the economy, building more homes in London would generate significant tax revenue benefits. These would occur through several channels:

- **Construction-related taxes:** revenues from wages, company profits and property transactions;
- **Consumer spending:** VAT raised from additional household spending driven by the relative increases in marginal propensity to consume;
- **Agglomeration effects:** multiple economy-wide revenues that scale with higher GDP;
- **Internal migration and labour market impacts:** multiple economy-wide revenues from greater internal migration, higher participation and productivity gains.

Methodology

The additional tax revenue generated through each channel is derived from the economic impacts estimated earlier, mapped to the relevant components of the UK tax system, and then calculated over a 30-year appraisal period.

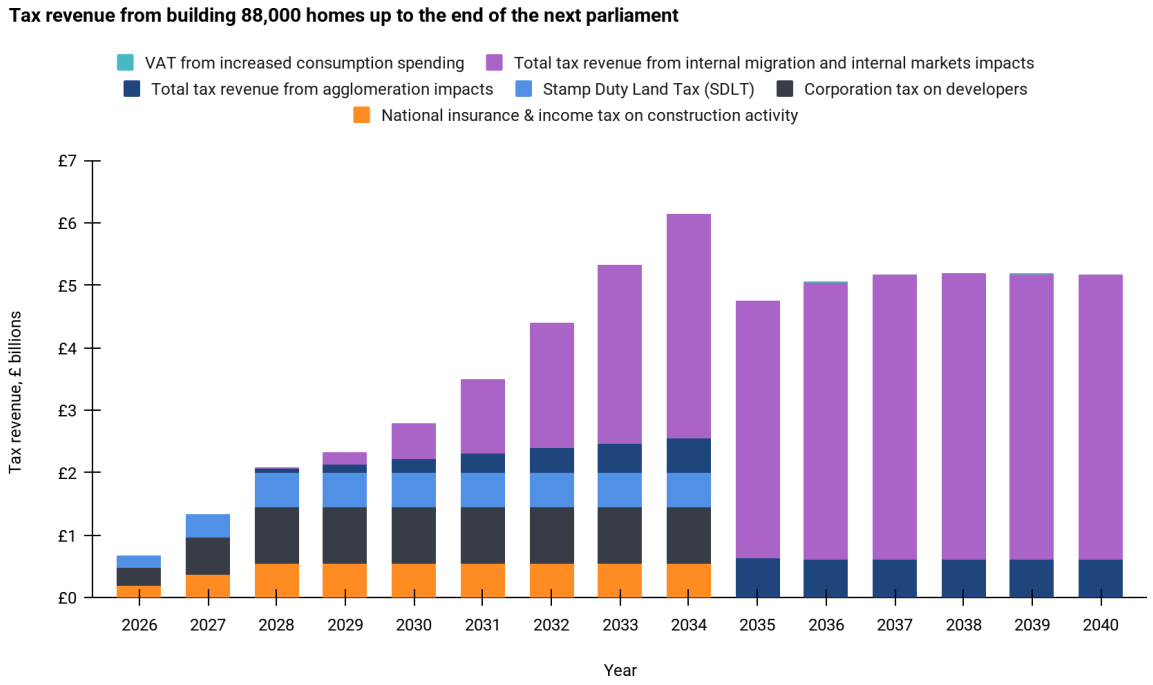
Impacts of building 88,000 new homes

Building 88,000 homes a year would generate significant additional tax revenues, **peaking at £6.15 billion in 2034**.

During the **construction phase**, the largest revenue source is Corporation Tax paid by developers, expected to reach £890 million a year by 2028. Stamp Duty and taxes on earning would generate £550 million and £560 million respectively.

In the **longer term**, the most significant revenues arise from internal migration and labour market effects, projected to generate £4.1 billion a year by 2035. Agglomeration benefits would also be substantial, adding £620 million by the same year. VAT from increased consumer spending would have a more modest impact, reaching £10.6 million by 2035.

The chart below illustrates the potential tax revenues over time. Construction related taxes would provide a short term boost to the public finances, while sustained improvements in productivity, labour mobility and economic growth as a result of higher rates of London homebuilding would boost the public purse in the longer term. Combined with the significant short and longer term boost to the economy, this would provide the Government greater fiscal headroom to make choices around public spending.



Alongside generating additional tax revenues, delivering 88,000 homes per year would also unlock substantial community benefits. Recent JLL research has found that meeting the Mayor's housing target over ten years would unlock more than £36 billion in Community Infrastructure Levy and Section 106 receipts.[26]

[26] Green Street News, Revealed: how London lost out on £4bn in development receipts, 2025

IMPACTS OF THE HOUSING SHORTAGE:

AFFORDABLE HOUSING

Despite the salience of housing affordability, no focus group participant had heard of Affordable Housing requirements or knew what the term meant in policy terms. Instead, they took it to mean housing that someone on a typical salary could afford. When prompted, no participant was aware of the requirements for developers to self fund the delivery of Government Affordable Housing programmes.

> *I guess having the ability to not just exist, but to be able to enjoy life, for me, that is what affordable housing is about.*

MAN
Early 30s

> *I don't know what specifically needs to be built. I think it just has to be affordable. At the moment it's either really expensive or not very livable. I think there needs to be something for everyone.*

WOMAN
Early 20s

> *I think anything more than half of your salary is not affordable, but it's a word that's thrown around as sort of an easy solution. I want everything to be affordable. There's nothing in my life that I want to be unaffordable.*

MAN
Early 30s

CONCLUSION

Our economic modelling demonstrates that reversing the decline in London's homebuilding would generate substantial economic benefits - both immediately through construction-led growth and over the long term by boosting productivity, labour market dynamism, and housing affordability.

Unlocking these benefits will require decisive political action to remove the barriers that currently stall delivery. Large parts of London, particularly brownfield sites, remain ripe for development, but they require the right planning, policy, and tax framework to enable the investment needed to bring them forward. At present, the barriers to bringing land forward for housing and getting it through the planning system are too numerous, and the risk of building the resulting development at a loss is too high.

To get London building homes again, policymakers must introduce measures that make more land available for the delivery of homes, increase the number of homes that can be delivered on that land and make it easier and faster to deliver those homes. Immediate blockages like the backlog at the Building Safety Regulator that prevents buildings from starting construction must be cleared. Policymakers must also decide how to tackle the chronic challenges around the economic viability of new development.

Although much of the economic backdrop is beyond the Government's control, there remains a wide range of policy levers that could be pulled to support homebuilding. National planning policy could emphasise the importance of housing delivery of all types and create more reasons to say yes to development. Taxes on development like the Community Infrastructure Levy, the Building Safety Levy, and the Residential Property Developer Tax could be reduced or removed, or tax incentives for investment into new housing delivery introduced to facilitate more investment. Design guidelines and related policies could be relaxed to allow buildings to be built more efficiently and to deliver more homes. Lastly, the amount of grant funding available for Affordable Housing could be increased, or the proportion of Affordable Housing expected on each development could be reduced to increase overall delivery.

It is up to policymakers to decide which of these levers to pull, in what order, and how hard. However, as this report makes clear, the upside of decisive action is significant. Not only for Londoners struggling with unaffordable rents and limited housing options, but for the wider UK economy and public finances.

By enabling more homes to be built, London can regain momentum as a place of opportunity and growth, delivering benefits that endure for decades to come.

APPENDIX:

METHODOLOGY

Counterfactual homebuilding rates

All economic benefits are estimated relative to a baseline counterfactual representing the trajectory of new housing delivery in the absence of additional intervention. The counterfactual assumes 15,000 new build completions per year in London. This figure is derived from the most recent data on housing starts and completions, which we consider to be the most accurate representation of prevailing market conditions.[27] It is slightly below the five-year average of 18,900 completions in London published by the ONS.[28]

Scenario homebuilding rates

We model three scenarios in which new homebuilding rates increase to:

- 'Modest' scenario: 46,000 homes per year, equivalent to the highest recorded rate of net additions in recent history (2019/20);
- 'Strong' scenario: 67,000 homes per year, representing a midpoint between recent delivery highs and London's new housing target;
- 'Ambitious' scenario: 88,000 homes per year, consistent with the current London housing target.[29]

This analysis does not estimate the impact of specific policy interventions on delivery levels. Rather, it models the economic impacts of the specified uplifts in completions. A three-year ramp-up is assumed in each scenario before reaching a steady-state delivery rate to the end of the next parliament. Please see 'Saving the British Dream: Investing in First Time Buyers for Economic Renewal' for an example of economic modelling which does model the impact of policy.

Construction impacts

To estimate the direct, indirect, and induced effects of additional homebuilding, we first model the uplift in homebuilding in each scenario against a fixed baseline of completions, using a three year phased ramp-up to the higher delivery rate. The model

[27] London Residential New Build Report, CBRE, December 2024

[28] Indicators of House Building, ONS, 2025

[29] MHCLG, Housing and Economic Needs Formula, 2025

captures direct on-site activity, indirect supply-chain effects, and induced household-spending effects within Greater London.

We assume a per-home construction cost of £242,000 per home in line with sector evidence.[30] Annual construction spend from the uplift is calculated by multiplying the additional completions by the unit cost. We apply a construction GVA capture factor of 0.84 from Public First's local-geography input–output model to translate construction spend into GVA generated within Greater London. Net present values are calculated over a 30 year appraisal period using a 3.5 per cent discount rate consistent with HM Treasury practice, applying the rate to the annual GVA stream over the construction period.

Tax revenue from construction activity

We estimate fiscal benefits to the Exchequer from construction-related activity across three principal channels:

1. The direct National Insurance and Income Tax of workers associated with the direct construction spend;
2. The Stamp Duty Land Tax (SDLT) associated with the new build sales;
3. The Corporation Tax paid by homebuilders on profits.

To estimate NI and Income Tax revenue we first estimate total labour costs by taking the average cost of building a home and apply an estimate of labour share of construction spend.[31,32] We then apply our homebuilding rate to aggregate.

To estimate total SDLT, we calculate the SDLT payable on an average house sale in London, using current Government rates and house price estimates from the UK House Price Index.[33]

To estimate Corporation Tax, we estimate total industry revenue using housing delivery and average house price and apply the operating profit share of output for the construction sector, sourced from ONS input output tables.[34] Finally, we apply Corporation Tax at 25 per cent.

Rental savings and consumption GVA

We calculate the percentage increase in housing stock implied by our scenario, from a base of 3,790,000 homes, adjusted for growth rates.[35] We then apply a Bank of England

[30] Cost of Building a Home, Housing Forum, 2024

[31] Cost of Building a Home, Housing Forum, 2024

[32] Cost to Build a House, My Builder, 2025

[33] House Price Statistics, UK House Price Index, 2025

[34] UK Input Output Tables, ONS, 2025

[35] London Assembly, London's Housing Stock, 2024.

price elasticity of demand estimate of -0.6 to estimate the percentage reduction in property price.[36] We assume a vertical price elasticity of supply, meaning the PED can be applied directly to find price changes. This is justified given an upper bound estimate of PES in the UK of 0.14, provided by the Institute of Fiscal Studies, with the report also demonstrating that London has a lower PES still.[37] Given current housing supply, this is likely currently even lower. The reduction in rent is modelled as proportionally equal to the house price decreases, but with a three year lagged effect. Finally, the aggregate value of rent is estimated by applying the share of private renters of 32 per cent to an estimate of average rent per household in the capital city of £2,235.[38,39]

The impact of rent decreases translates into an increase in retail GVA due to the difference in marginal propensity to consume between private renters and the landlords to whom they pay rent. We apply a MPC of 0.5 to the increase in disposable income that renters receive with the rent decrease, and a MPC of -0.2 to the equivalent amount that the landlords lose, calculated using composite results from recent research.[40]

Value added tax from additional consumption spending

The additional retail spending generated due to the difference between the MPC of renters and landlords delivers additional VAT to the Exchequer. To calculate this, we take the VAT share of total household spending (10 per cent[41]) combined with the housing cost share of household spending (27 per cent[42]) to estimate the share of household spending **after housing costs** that is paid in VAT - this is estimated as 13.7 per cent. We apply this to the total additional retail revenue calculated previously.

Agglomeration benefits of additional housing density

Building more homes leads to a higher density of working age adults living in the capital and so a higher effective economic density, which is in turn associated with higher productivity. To estimate this impact we use an estimated 1.44 working age adults per household and a baseline estimate of 5.8 million working adults to estimate the percentage increase in working age adults associated with the homebuilding scenarios.[43] By assuming this percentage increase translates into the same increase in effective economic density, and by applying the well known agglomeration coefficient 0.046, estimated by D. Graham (2007), we estimate the productivity increase generated

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[36] UK House Prices and three decades of decline in the risk-free real interest rate, Bank of England, 2019

[37] IFS, The Determinants of Local House Supply in England, 2025

[38] Profile of Households and Dwellings, MHCLG, 2024

[39] Price Index of Private Rents, UK: historical series, ONS, 2025

[40] Marginal Propensity to Consume for Different socioeconomic Groups, Canbury & Grant, 2019

[41] Office for Budget Responsibility, VAT, 2025

[42] UK Cost of Living Statistics, Money.co.uk, 2024

[43] Business Register and Employment Survey, ONS

by this increase in population.[44] This is applied to an estimate of London's GDP of £617.9 billion to calculate the increase in GDP.

Total tax revenue from agglomeration impacts

An increase in GDP will be accompanied by multiple fiscal benefits for the Exchequer. We estimate this revenue by applying the average share of GDP that is taxed, which is 39 per cent.[45]

Internal migration and labour market impacts

Increasing the supply of homes puts downward pressure on house prices. Recent research demonstrates that a reduction in property prices leads to long term increases in productivity, caused by a range of factors, including: higher internal migration as people are attracted to the city by lower housing costs; increased labour market dynamism as workers move closer to jobs opportunities; increased labour market dynamism as workers have the flexibility to change jobs and careers; reduced travel times and related productivity benefits.

To estimate this impact we first model the annual impact of housing supply on property prices using price elasticities of supply calculated by the Bank of England.[46] We make the same assumptions described in the 'Rental savings and Consumption GVA' methodology section above, with the addition of a three year dispersed lag. To this price change we apply a long-term price elasticity of productivity coefficient of -0.31, estimated in a report carried out on behalf of Homes England, with a dispersed lag of three years.[47] By applying this productivity increase to an estimate of London's GDP we estimate the GDP increase.[48]

Relative price deflation will also stimulate migration into the city - people who want to take advantage of the relative reduction in prices. This will increase demand for housing thus counteracting the downward prices effect somewhat. Given that we want to estimate the long term structural impacts of this mechanism it is important we build this into the model so that we don't overestimate the effect. To do this, we make use of coefficients which estimate the impact of house prices on net migration and model this migration as filling a share of the newly delivered home (in reality these migrants are unlikely to fill the new home, but someone else will who ultimately is vacating a property for those moving to the city).[49]

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[44] Daniel J. Graham, Agglomeration, Productivity and Transport Investment, 2007, Journal of Transport Economics and Policy

[45] Tax Statistics: an overview, House of Commons Library, 2025

[46] UK House Prices and three decades of decline in the risk-free real interest rate, Bank of England, 2019

[47] Housing Affordability and Productivity, Homes England, 2025

[48] Regional Economic Activity by Gross Domestic Product, ONS, 2025

[49] Murphy et al, Housing Market Dynamic and Regional Migration in Britain, 2006

Tax revenue from internal migration and labour market impacts

We use the method described in ‘Total tax revenue from agglomeration impacts’.

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