

# The Viability Crunch

Analysing the impact of policy, tax, and  
regulatory pressures on home building

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# Assessing the viability of home building

Viability refers to the financial feasibility of a residential project, determining whether the total revenue generated from selling the finished homes exceeds the total cost of developing them. A project is considered viable if it can cover all costs – land purchase, construction, financing, and regulatory requirements – and still offer an appropriate return to the builder and incentive for the landowner to sell.

In 2020, following several years of strong construction activity, and government-led initiatives designed to accelerate new home delivery, housing supply reached an annual peak with just under 250,000 net additions to the housing stock. However, amid rising costs and a less favourable policy environment, these record levels of output have not been sustained. In the 2024/25 financial year, only around 208,000 new homes were completed, representing an 16% decline from 2020. More recent indicators, including planning approvals and Energy Performance Certificates suggest that supply has continued to soften, with annual completions now hovering around 200,000.

While planning reform has long been at the forefront of the sector's calls for change – and the 2024 updates to the National Planning Policy Framework (NPPF) were viewed as a positive step – planning reform alone is not a miracle cure for the housing crisis. The home building industry now faces a combination of structural and economic headwinds that make meeting national housing targets increasingly difficult.

Rising construction costs, additional policy costs, higher taxes, and a growing array of levies have collectively eroded the financial viability of many new developments. Developers are struggling to maintain profitability in an environment where material prices, labour costs, and regulatory burdens have all surged at a rate far exceeding general inflation.

While not all of these factors are within the control of policymakers, the cumulative effect has been to push many marginal sites into unviability,

especially in areas of the country where viability was already challenging, including large swathes of northern England and the Midlands.

Viability for residential sites is determined through a residual land valuation calculation, which assesses the development value of a site after deducting all associated costs. These costs include construction, regulatory compliance, taxation, marketing, affordable housing contributions, financing, and a reasonable return on investment.

For many years, it has been blithely assumed by policymakers that rising development costs could be offset by adjustments to land values. The adage has been that landowners would ultimately bear these costs. Yet the scale of cost increases over the past five years has pushed this assumption to its limit. Land values can only fall so far before the supply of land for housing is compromised. The continued decline in the number of sites securing planning permission illustrates the challenge of expecting land values to adjust further to maintain viability.

This report estimates and calculates the total potential additional costs that have been introduced to the building of a home since 2020. Not all homes will be affected by all of the costs identified, as their applicability will vary depending on factors such as geographic location, tenure, and the timing of site acquisition and regulatory approvals. While some of these costs may have been reflected in earlier viability assessments, others have arisen more recently or increased over time and may therefore not have been fully accounted for.

While home builders are making significant efforts to mitigate the impact of these additional costs and maintain housing delivery, doing so is becoming increasingly challenging as further cost pressures continue to emerge. This is particularly the case for smaller businesses, which typically have more limited financial capacity to absorb successive increases in development costs.

Over recent years, the viability of home building in the UK has come under mounting pressure, with the sector facing an increasingly complex and challenging commercial environment.



# Additional costs for each new home



The costs in this report are based on an average low rise 90m<sup>2</sup> house. The policy costs have been taken from the rates set by government or from impact assessments. Inflationary costs are based on rates taken from the Office for National Statistics. Additional costs for high-rise buildings are detailed later in the report.

## Building Safety Levy

**£2,320 / PER UNIT\***

The Building Safety Levy is set to come into force in October 2026, and will be applied to all new homes, intending to collect £3.4 billion. This is despite the home building industry having committed to pay £7 billion towards building safety costs through:

- » a 4% surcharge on Corporation Tax (explored below) totalling £2 billion.
- » £4.1bn through a unique voluntary self-remediation pledge which commits over 50 UK home builders to complete the remediation of thousands of buildings developed over 30 years.
- » £700 million in reimbursements to government funds

The majority of the money collected through these existing forms has not been spent, and there has been no sufficient analysis to ascertain just how much more in funding is genuinely needed. The structure of the levy is also such that rates will be set according to local house prices with each local authority area having a rate. This will disproportionately hit housing delivery in London where rates are set at a level resulting in an average increase in costs of delivery of around £3,000 per new apartment. The Levy will affect the viability of apartment schemes in general as the total levy payable will be determined by the gross floorspace of a development therefore including all unsaleable space in the calculation.

Additionally, the vast majority of home builders that will now be subject to the new levy have never built any dwellings taller than the average family home.<sup>1</sup>

## Future Homes Standard

**£10,200 / PER UNIT\***

The Future Homes Standard, the details of which have recently been confirmed to mandate solar panels on roofs covering an area equivalent to 40% of the ground floor space. The recently announced changes are in addition to the 2021 Part L uplift. Taken together, these changes have increased costs by £10,200.

The industry has made great strides to reduce the carbon footprint of new homes, with the average new dwelling already only emitting around a third of the amount of CO<sub>2</sub> as the average existing property.

However, the development of the FHS has been characterised by delays and prolonged uncertainty, which has created challenges for effective budgeting, investment, and long-term business planning across the sector. While clarity on the final requirements is welcome, the confirmed solar coverage requirement raises significant practical concerns. Analysis by the Home Builders Federation suggests that around 60% of homes may not be able to practically meet this standard. On top of the significant additional costs for the homes that can support this level, the changes have the ability to block home building significantly.<sup>2</sup>

## Landfill Tax

**£2,000 / PER UNIT\***

The proposed changes to the Landfill Tax rates will see costs increase significantly. Home builders already work hard to minimise the volume of waste sent to landfill, but are often constrained by factors such as site topography, previous land use, and planning requirements.<sup>3</sup>

\*Average additional cost.

## Biodiversity Net Gain

**£5,700 / PER UNIT\***

Biodiversity Net Gain (BNG) is an approach to development that ensures that habitats for wildlife are in a better state at the development's completion than before projects began. Under this framework, developers must achieve a minimum 10% net gain in biodiversity, as measured in biodiversity 'units'.

The home building industry has embraced the principle of BNG and is committed to creating places that protect and enhance the natural environment. However, while the costs associated with delivering BNG were initially expected to be a few hundred pounds a plot, these have in practice been far higher and are throwing viability assessments off course.<sup>4</sup>

There are a number of reasons for these increased costs. Firstly, insufficient national guidance about the interaction of BNG with plan-making means that many local authorities are now introducing additional criteria or setting the BNG policy above 10%.

Additionally, most builders, particularly smaller builders, will seek to deliver BNG off site. However, the market for these off site units is immature and units are not available at appropriate sizes for small sites and SME home builders – who often require less than one unit. As a result, developers end up forced to buy more than is required and the costs are disproportionately expensive.



1. Average additional cost.

## Building regulations

**£7,770 / PER UNIT\***

A combination of updates and changes to other Building Regulations introduce significant additional costs for home builders. The changes are not opposed by the industry and, on their own, address important issues. However, there has not been sufficient consideration as to how these changes, taken together, impact viability and deliverability.

- » **Part G:** The Government is currently consulting on revising the minimum Water Efficiency Standard in new houses through fittings from<sup>5</sup> 125 l/p/d to 105 l/p/d, and the optional technical standard from 110 l/p/d to 100 l/p/d. The new build industry was already building homes to a significantly more efficient standard than the average home, with homes already built to a standard of 110 l/p/d. The industry has already collaborated to produce the 'Water Ready' report which outlines a roadmap for future standards for l/p/d t 2025, 2030 and 2035 as 105, 100 and 90 respectively, with even more ambitious targets in water stressed areas. The changes are expected to cost an additional £3,100 per home.
- » **Part M(1):** New accessibility standards introduced in 2022 to make new homes more adaptable to accommodate<sup>6</sup> potential future needs of homeowners and to improve overall wheelchair accessibility included changes such as level thresholds for all external doors to the property, wider internal staircases and bathrooms on every level that contains a bedroom. The changes have added an additional £1,800 per property.
- » **Part R:** As of 2022, all new properties were required to be fitted with physical infrastructure for gigabit-capable broadband. The changes mandate a connectivity plan and the installation of gigabit-ready infrastructure, and a gigabit-capable connection where feasible within a £2,000 cost cap.<sup>7</sup>
- » **Part S:** Introduced in June 2022, the changes require new residential buildings with parking to have at least one EV charge point per dwelling, and major renovations of residential buildings with more than 10 parking spaces to have a minimum of one charge point and cable routes for all other spaces. The changes have added an additional £870 per property.<sup>8</sup>

## Taxes

**£2,055 / PER UNIT\***

Increases to both National Insurance and Corporation Tax have seen increased costs for all businesses. Additionally, Corporation Tax payments include an additional 4% surcharge in the form of the Residential Property Developer Tax (RPDT) – an additional charge on the home building industry ostensibly to pay for building safety works.

- » The increase in employer National Insurance contributions will see an average increase of around £55 per property.<sup>9</sup>
- » The increase in Corporation Tax from 19% to 25% plus the additional cost of the RPDT has seen the contribution per house increase by an average of £2,000.<sup>10</sup>

## Material and labour

**£37,000 / PER UNIT\***

Due to unusually high levels of inflation over the last five years, because of a range of issues including Brexit, the Covid pandemic, geopolitical upheaval and associated supply chain pressures, wider economic uncertainty, material and labour costs have rapidly increased for the home building industry.

- » Inflation on relevant building materials has exceeded 40% since 2020, adding an additional £28,500 to the cost of building a home. Given recent events in the Middle East and the impact on supply chains that the conflict is having this figure is likely to increase over the coming months, particularly material costs and increased fuel costs. It is still too early to estimate what the additional impact on home building and viability will be.
- » Labour costs have increased by 23%, an average of £8,500 per home.<sup>12</sup>

## Section 106 inflation

£985 / PER UNIT\*

Also due to high inflation levels,<sup>13</sup> Section 106 contributions paid by developers have increased significantly since 2020, particularly for education, health and highways. While developers are happy to pay these contributions to support the local community, the increase still represents yet another additional cost to consider when assessing the viability of home building.

## Nutrient neutrality

£7,000 / PER UNIT\*

- » Nutrient mitigation: In over a third of the country, developers need to offset the additional nutrient pollution caused by new developments within 'nutrient sensitive catchments.'<sup>14</sup> This can be done either by creating nutrient mitigation schemes themselves or by purchasing credits from bodies such as Natural England.
- » The cost of nutrient mitigation varies by area but can see an additional £7,000 per unit added to the cost of development.

## Potential additional costs for high rise buildings

£22,272 / PER UNIT\*

- » Building Safety Regulator: Established under the Building Safety Act 2022, the Building Safety Regulator is the national body in England that sets and enforces safety standards for buildings. Developers looking to build high rise buildings will have to apply for BSR approval at three gateway points. The cost of application adds an additional £272 per unit.<sup>15</sup>
- » In addition, high rise development has been hit by further costs due to additional safety measures. Like many of the changes outlined in the previous sections of this report, these changes are not opposed by the industry. However, there is a lack of understanding of the increased costs the new measures bare. It is estimated that reforms to require second staircases in high rise buildings can add up to £22,000 per unit. While this will mostly impact development in London and urban centres, it is these areas where demand is highest and affordability most stretched.
- » As with the Building Safety Levy, high rise buildings also fall victim to the Community Infrastructure Levy being calculated by floorspace, meaning that unusable space is included in calculations, further impacting the viability of such schemes.

## Total costs

Cumulatively, these new taxes, levies and inflationary costs have the potential to add **£76,000 to the cost of building a home compared to five years ago.**

This is significantly more than the average house price inflation in the same period.

The £76,000 also represents 20% of the average new home value of £365,000 (as of June 2025).

Total additional costs from new taxes, levies, and inflation

£76,000

High-rise buildings could face an additional £22,000, bringing the potential total to

£98,000

## Other issues

### Sustainable Drainage Systems

Sustainable Drainage Systems (SuDS) are nature-based solutions designed to manage surface water run-off in urban areas.. Most major developments will feature SuDS to manage surface water flood risk.

The costs of development and infrastructure of SuDS represent yet another pressure for developers. However, the greater cost comes from the loss of land that now has to be allocated, which could be up to 15% of a site. Under Schedule 3 of the Flood and Water Management Act, this issue is likely to be significantly exacerbated.

### Affordable Housing

Another key driver of the viability of housing delivery is the market for social and affordable homes delivered through Section 106 agreements. Over the past two to three years, this market has faced sustained challenges, with registered providers showing a reduced appetite to take on new units. This has slowed delivery and created additional pressure on already constrained housing supply.

A further shift from Affordable Rent towards Social Rent has compounded these issues, as it requires a higher level of cross-subsidy, further impacting viability.

# Our asks of Government

Even where sites remain viable, it is worth noting that increased costs reduce contributions to Affordable Housing through Section 106 agreements. There is a finite amount of land value that can be captured, and this value has been diverted towards central government priorities, such as building safety (Building Safety Levy) or environmental objectives (Future Homes Standard), rather than investment in local communities. The industry is concerned that this is undermining the vital community support and local consent needed to support increased delivery and the Government's ambitious housing targets.

A recent study from Zoopla finds that building homes is currently financially unviable across 48% of the country with challenges to viability in an additional 16%. This means that it is viable to build a typical housing led schemes across just over a third of local authorities in England.

The home building industry recognises that there is a legitimate policy rationale for many of these new or additional policy costs and taxes. However, in aggregate, they have imposed a significant cumulative cost burden on housing delivery, which is inevitably limiting the ability of developers to invest in new sites and threatening the housing pipeline.

There should be a moratorium on further new policy costs, taxes and levies on home building, along with a comprehensive analysis of the unprecedented increase in policy costs imposed from across various government departments in the past few years. This moratorium should also involve the suspension of the introduction of the Building Safety Levy, currently planned by government for October 2026, that is set to add thousands of pounds of costs to the delivery of each new home.

Going further, the government should reconsider the introduction of the Building Safety Levy. In addition to the billions in funding contributed by the industry outlined above, the need for the new tax has not been clearly demonstrated, especially considering that more than £2.5 billion remains unallocated in the existing £5.1 billion Building Safety Fund, established over four years ago. There needs to be a more thorough analysis conducted before proceeding with the levy, which examines the number of buildings that need remediating and considers how the tax will affect the delivery of both private and affordable homes.

In addition, while the industry welcomed the government's decision in the 2025 Autumn Budget to not to introduce a single rate of Landfill Tax, the tax will still rise, not by the mooted 3,000% but, instead, by around 500% by the end of the Parliament. Still a significant increase, this will add further pressure to viability from April 2026. The Government must reconsider any further increases to the tax from April 2026.

Without a coordinated review of cumulative costs and a willingness to make necessary trade-offs between different government priorities (for example, building safety versus waste management versus affordable housing), the viability of new housing development will continue to erode, with serious implications for the Government's housing ambitions.

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## About the Home Builders Federation

The Home Builders Federation (HBF) is the principal representative body for private sector home builders and voice of the home building industry in England and Wales.

HBF member firms account for some 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from widely recognised national firms, through regionally-based businesses and small local companies.

