

Boosting Development Viability

A British Property Federation report



Contents

3. Introduction and background.
4. Executive summary.
5. What do we mean my development viability?
6. The fall in Build-to-Rent construction from 2022 to 2025.
7. What does viability look like in numbers?
8. How to address the viability crisis.
10. Pinch points of delays, uncertainty and cost.
12. Policy recommendations to boost development viability.

Appendices:

18. Erosion of BTR viability from 2020 to 2025
19. Residual Land Value Method



Introduction and background

This paper addresses an issue that is affecting the entire development industry and jeopardising the Government's mission to secure the highest economic growth in the G7; build 1.5m homes in this parliament; deliver 300,000 new social and affordable homes; and decarbonise our buildings – **development viability**.

The British Property Federation (BPF) provides a voice for the UK real estate industry. Our members want to harness domestic and global capital to invest in more productive workspaces, including those identified in the Industrial Strategy and new homes. The Build-to-Rent (BTR) sector will be an essential component of the Government's housebuilding ambition - with the potential to contribute 10% of the Government's 1.5m target – and will be crucial to delivering New Towns at speed.

The planning, regulatory and pension fund reforms undertaken by the Government to date are welcome moves to encourage that, which we and our members have strongly supported. However, some measures in recent years, such as the abolition of Multiple Dwelling Relief and the delays caused by the Building Safety Regulator, have made viability significantly more challenging.

Urgent action is needed to overcome the overarching challenge of development viability to ensure that private sector capital can be unlocked to deliver the homes and workspaces we need across the country.

Who are 'developers'?

Developers encompass the full range of investors and businesses involved in bringing buildings forward - from acquiring land and navigating the planning process to constructing new developments or refurbishing existing ones. This group includes the UK's largest investors and institutions, such as pension funds, insurance companies, property companies (including Real Estate Investment Trusts - REITs), dedicated developer firms and a variety of collective investment funds.

What do we mean by 'viability'?

For a development to be financially viable, it needs to offer sufficient financial profit for the private sector to want to deliver it. In particular, it needs to offer a return which sufficiently compensates for the risk of the investment. If it doesn't, developers and investors will need to channel their capital elsewhere to seek the best returns for their shareholders (the pension and insurance fund holders – which means all of us!)

Executive summary

Development viability in the UK is currently in crisis. Developments that were viable just 5 years ago now can't get funding and many would even be loss making. The scale of the crisis is demonstrated by July's S&P Global UK Construction Purchasing Managers' Index which showed the sharpest contraction in construction for five years. This data is starkly corroborated by our Build-to-Rent (BTR) data, which shows a worrying trend of almost 18 months of falling construction starts (as illustrated on page 6) .

Viability is particularly challenging for high-density housing and other high-rise developments, including mixed-use regeneration schemes which have been particularly affected by the significant Building Safety Regulator delays. Due to a culmination of both market factors, like interest rates and construction cost inflation, as well as the added cost and uncertainty generated by a number of other tax and regulatory changes in recent years, the viability crisis is being felt across the UK, for both new development and retrofit works.

Development viability underpins the delivery of several of the Government's primary objectives - from housebuilding and the creation of New Towns, through the expansion of social and affordable housing and the decarbonisation of buildings, to lower energy bills, a stronger Industrial Strategy and sustained economic growth.

This paper sets out the scale of the viability challenge; the impact of delays and uncertainty in the property investment lifecycle on viability; and what policies Government should prioritise to boost development viability. This paper draws on input from the UK PropTech Association (part of the BPF Group), including insights from its work with MHCLG through the "PropTech Growth Partnership" to demonstrate the role of innovation in planning and housing delivery, and highlight potential policy interventions to support adoption and scaling.

The key recommendations in this paper are:



Prioritise tax and regulatory stability.



Speed up the planning and development process.



Support innovation to boost productivity and construction times.



Remove council tax and business rates on empty units in new developments.



Reintroduce SDLT support for high-density housing and a carve out for low value sites.



Stop adding new up-front costs and avoid any more developer contributions.

What do we mean by development viability?

The term ‘viability’ has a specific meaning in the context of the planning process. Typically, local authorities will carry out a more generic viability assessment of prospective developments on a “developer-blind” basis in order to determine an appropriate level of developer contributions, such as Section 106 (affordable housing) contributions. However, this is different to the type of viability or investment appraisal which would be conducted by an investor or developer.

For the purpose of this paper, the term ‘development viability’ broadly refers to economic viability. A potential investment will be economically viable if it’s both profitable and the returns sufficiently compensate the investor for the risks involved. Conversely, where an investment is not profitable, or where the returns do not sufficiently compensate for the level of risk, it would not be economically viable, and therefore, the private sector will not be able to deliver it.

An investor would generally assess viability in advance of major capital outlays in the property investment journey – such as before buying land and committing to construction works. It’s worth noting that the income, costs and risks incurred over the life of the investment, which could be decades for a property investment, will be considered as part of the development viability assessment.

There are three possible options to boost development viability:

- Reduce costs;
- Increase returns; or
- Reduce the level of risk associated with the investment.

This paper primarily focuses on how we can reduce risk which can be done by reducing delays and uncertainty over the life of the property investment cycle.

It also sets out why certain existing taxes and levies on development have, in many instances, increased costs to unviable levels, and why they have a disproportionate impact on the viability of high-density housing developments and projects on lower-value sites.

As identified in the Government’s National Planning Policy Framework, higher-density construction will be an important part of the solution to delivering 1.5m homes – as well as making the most effective use of inner-city and brownfield locations. The BTR sector also typically builds out 30-60% faster than traditional build-for-sale business models, which will be crucial for delivering New Towns at speed. It’s therefore essential that the adverse impact of some taxes on higher-density developments are addressed without delay.

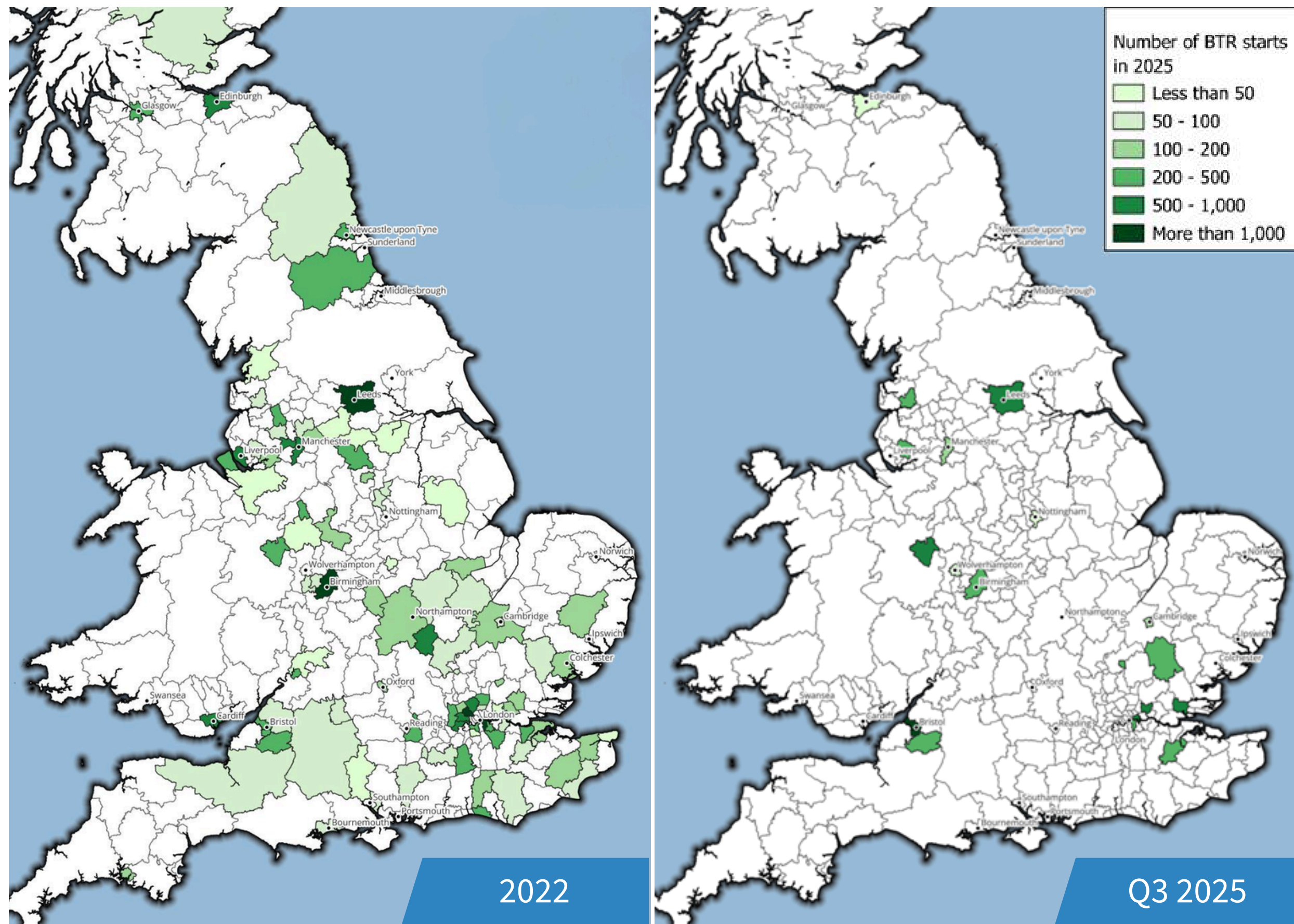
The fall in Build-to-Rent construction from 2022 to 2025

The BPF's latest [Build-to-Rent \(BTR\) data for Q3 2025](#) illustrates the severity of the viability crisis on the delivery pipeline of rental homes.

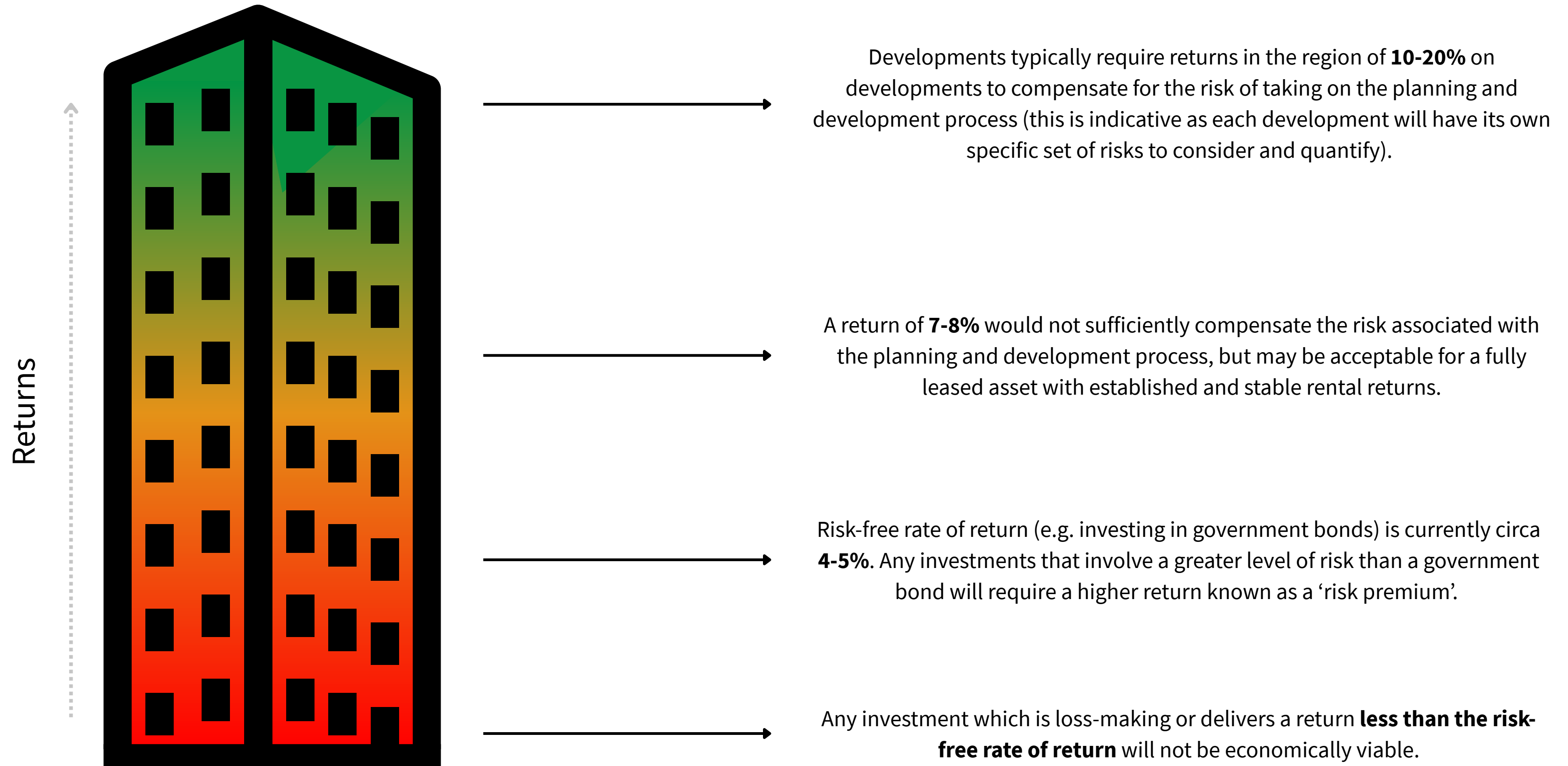
Completions of BTR developments have outpaced construction starts for the last 21 months and the number of schemes in planning is not growing outside London. This means that the existing pipeline, which will provide new homes over the next 2-3 years, is severely constrained.

This is illustrated by the following heatmaps, showing construction starts in 2022 compared to Q3 2025. Only c.6,114 homes had started by September, compared to c.26,000 in 2022 – that's a pro-rata fall of 77%, which has mostly impacted the regions.

Without decisive action from this Government now, we're likely to have very little delivery of new BTR developments of scale in 2028, and perhaps none outside of London and the main cities.



What does viability look like in numbers?



How to address the viability crisis

1. Addressing delays and uncertainty in the property investment lifecycle

Tackling delays and uncertainty in the property investment cycle is vital to improving viability as it lowers investment risk. While Government's focus on planning delays is welcome, further action is needed.

Investment appraisals will typically factor in all the expected income and costs, including regulatory and tax obligations, to assess the net returns that a completed development will deliver over the life of an investment. Although, recent changes like the Building Safety Levy and Landfill Tax changes will have a more upfront impact on development viability. Changes to the tax and regulatory environment at any point in the property investment lifecycle will influence an investment appraisal.

Changes to the tax and regulatory environment across the whole investment lifecycle also have a compound effect on investor sentiment. As well as changing the underlying viability appraisal, constant change gradually erodes investor confidence in the stability of the investment environment.



How to address the viability crisis (cont.)

2. Understanding the impact of upfront costs and levies on development, and ensuring that higher-density schemes and development on areas of lower land value are better supported

While all property investment and development costs affect viability, up-front costs (incurred before any sale or lease) generally add the most risk. These costs will also affect the price a developer can offer for land which disproportionately hampers low-value areas where land values are not able to absorb significant taxes and levies.

It's important to note that even transaction taxes which will become due on a completed development will affect the net proceeds available on the sale of a development (i.e. the net return on a possible sale) and are therefore also factored into the viability appraisal and the land value (see “Residual Land Value Method” graph in the appendix for visual explanation). In low-value areas, this can result in negative land values which can prevent development.

This issue is compounded for higher-density developments because transaction taxes, like SDLT, will generally be greater on the completed development compared to a lower-density site. This generally makes it harder for these schemes to be viable and delivered, especially outside London and the South-East.

Higher-density developments will be crucial to meeting the Government's housing delivery targets and rolling out New Towns at pace. Government should seek to address the disproportionate impact of taxes and levies on low-value land and high-density developments.



The following page sets out where there are pinch points of delays, uncertainty and cost in the property investment lifecycle, and what policy measures Government should focus on to address these and improve viability.

Pinch points of delays, uncertainty and cost



Financing

1 year +

From buying land to opening a bank account and securing investment, significant time and resources go into a potential development before planning even begins.

To assess viability and land value, developers and investors need as much certainty as possible over project costs and returns. Constant changes to tax and regulation make early investment appraisals more difficult and gradually undermine investor confidence. In the past year alone, changes to Multiple Dwellings Relief, the Renters' Rights Bill and proposals to remove Upward-Only Rent Reviews have all shifted assumptions around costs and income.

These changes directly affect development viability. Long-term stability and certainty in the tax and regulatory environment are essential.



Planning

2 - 6 years

The planning system always comes with an element of risk because there are degrees of uncertainty around what kind of development will be allowed; the levies and developer contributions that will be imposed; and how long the whole process will take. A large project can take anywhere from 2-6 years to go through the planning process.

We support the focus the Government has given to the planning system and the need to speed up every part of it, including agreeing developer contributions and meeting the requirements of statutory consultees. These must all be achieved within agreed statutory timeframes. We need to go further and faster to speed up the process - unlocking planning is key to unlocking growth.



Development

2 - 3 years +

Due to the long timeframes involved in the planning process, a lot of financial assumptions underlying an initial appraisal could have shifted significantly, particularly construction costs and development finance costs. Bringing down the planning timeframes will reduce the risk of cost inflation and changes to the lending environment affecting viability at the development stage.

Access to enabling infrastructure is a key part of the development process. Agreeing a simpler system to set out who pays for what, and by when, will help support a quicker development journey. Technology also offers the potential to speed up all phases of the property investment journey, including offering new, more productive construction methods. Government and businesses need to be prepared to trial more innovative technology.



Leasing

1 - 2 years

For long-term investors in buildings, significant risk and uncertainty remains for an investor until the building is fully leased, so it's important to ensure that this process can be as fast and 'risk free' as possible.

A large multi-let speculative development, like a Build-to-Rent development of scale, can take 1-2 years to fully lease. Currently, council tax and business rates are chargeable on empty units until they are leased, which adds significant and unknown costs to the development.

Furthermore, modernising the Landlord and Tenant Act and improving how VAT and the Construction Industry Scheme apply when a tenant requests modifications to their fit out will remove further delays in the leasing process and avoid unexpected cash flow challenges.



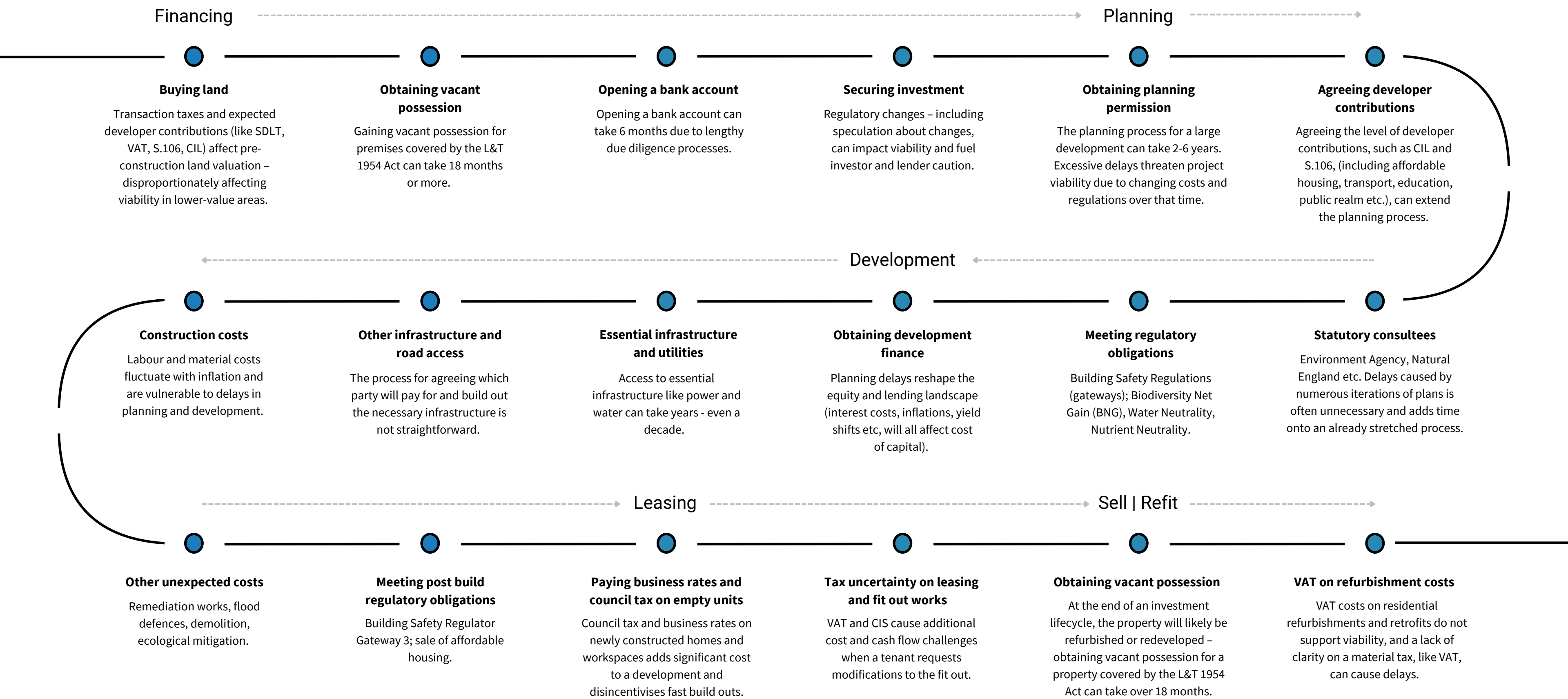
Sell | Refit

Sell - 1 year
Refit - up to 10 years

Every property will eventually come to the end of its investment cycle and an owner or developer will need to decide what the best course of action would be to get value from the building - which will likely involve refurbishment, redevelopment or selling the asset. All the pinch points of delay and cost mentioned will need to be reconsidered in the context of a new refurbishment or redevelopment project.

In particular, the VAT costs on refurbishment of a residential building often means that the total cost of refurbishing a building can be more expensive than knocking it down and starting from scratch, which is counter intuitive given our sustainability goals.

Pinch points of delays, uncertainty and cost (cont.)



Policy recommendations to boost development viability

1. Tax and regulatory stability must be prioritised

The private sector capital the Government needs to deliver the homes, modern workplaces of all kinds and the rejuvenation of our communities is invested at scale for the long-term - and investors have choices. Policy and regulatory uncertainty adds risk and even the suggestion of new taxes or levies can make investors look elsewhere, while their imposition can quickly tip a viable project into the red. The UK property sector is already the most highly taxed in the OECD. To deliver the Government's ambitions for growth and homes, there must be no new taxes and a stable policy framework.

Where change to policy is unavoidable, the Government must consult early with impacted stakeholders, and provide clarity and appropriate lead times as quickly as possible to manage disruption and limit uncertainty. Investors' reaction to the inclusion of a ban on Upward-Only Rent Review clauses in the English Devolution Bill demonstrates how quickly confidence can be dented in the UK's reputation for policy stability.

This also helps to ensure that changes are fit for purpose. We fully support successive Governments' focus on building safety but the stalling of the housing market and millions of pounds of lost investment through the delays at the Building Safety Regulator demonstrates the impact of rushing through measures without necessary technical engagement.

The Government should monitor the impact of the Renters' Rights Bill once enacted, particularly with respect to the increased court capacity which will be critical to ensure the rental market operates smoothly and efficiently.

A stable policy environment will also be key to attracting private sector investment into making our buildings more energy efficient and cut bills for homes and businesses. The Government needs to work closely with the sector as we introduce new Minimum Energy Efficiency Standards (MEES) for the private rented sector to ensure lead in times are realistic and that we strike the right balance between improving the quality of homes and supporting a thriving private rented sector. We also urgently need clarity on the Government's position for commercial buildings – so that future standards and regulations can be factored into investment decisions.



Policy recommendations to boost development viability (cont.)

2. Speed up the planning and development process

We support the Government's focus on the planning system and the need to accelerate all aspects of it, including the role of statutory consultees. Getting capital deployed into the homes and buildings we need, without delay, should remain a top priority – and Government can go further by:

- Addressing the Building Safety Regulator (BSR) delays - regulators and statutory consultees must meet their statutory deadlines, and expectations and guidance must be simple and clear. The recent government measures to strengthen the BSR, including the plan to recruit over 100 new staff, are welcome. However, it's vital that these roles prioritise technical expertise in building and fire safety to ensure that the reforms deliver meaningful change in practice.
- Making local plans rigorous but deliverable - local plans need to be balanced with realistic and deliverable policies in practice, and those making decisions should be properly trained on viability in the development process.
- Increasing planning resources – we need 3,000 additional planners to boost capacity in local authority planning teams. We also support the use of technology to speed up the process further and ensure that planning resource can be dedicated to more complex cases.

Alongside investment in additional planning resource and the use of technology to streamline processes, further work is already underway through the “PropTech Growth Partnership” between the UK PropTech Association and MHCLG. This programme is raising awareness of how digital tools can reduce delays, demonstrating their benefits in practice and identifying the policy interventions needed to support scaling across the system.



Policy recommendations to boost development viability (cont.)

3. Support innovation to boost productivity and construction times

Property technology ('PropTech') offers significant potential to address viability constraints across the development lifecycle. Digital planning platforms, automated compliance tools, integrated project management systems and real-time cost tracking can accelerate delivery, enhance certainty and improve financial viability. However, unlocking this potential requires urgent action to dismantle the systemic regulatory, institutional and market barriers that hinder PropTech adoption. Outdated procurement frameworks, fragmented data infrastructure and risk-averse institutional cultures continue to prioritise traditional processes over innovation.

Further work is needed to identify interventions that overcome these barriers and enable impactful integration. Without coordinated action, the property sector risks remaining bound to analogue systems in a digital age, perpetuating the viability challenges that continue to constrain housing delivery at scale. To best execute this, recommendations include:

- Seeking to better support supply chains of modular developments. For example, New Towns could provide a valuable supply chain to kick start the sector.
- Using tax incentives (like R&D tax credits) to ensure that trialling of new technology and modern construction methods are adequately encouraged in the development sector.

- Providing policy clarity early on new technology. For example, HMRC should provide clarity on the VAT recovery on the construction of modular homes and ideally bring the point VAT recovery earlier in a build to accommodate delivery.

The "PropTech Growth Partnership" with MHCLG is investigating these barriers and shaping policy recommendations to support adoption and scaling.

Complementing this, the PropTech Innovation Fund is helping to test and scale new approaches across planning and housing delivery processes. Together, these initiatives provide a route to embed innovation into the sector and deliver meaningful improvements in viability.



Policy recommendations to boost development viability (cont.)

4. Remove council tax and business rates on empty units for newly developed or refurbished properties at the very least.

Council tax and business rates on empty units add significant cost and risk for large-scale developments and discourage quick build out rates. For very large regeneration schemes, it can take well over a year, and sometimes closer to two years, to lease all the homes and units once a development is complete.

Removing council tax and business rates on newly developed or refurbished empty units would reduce upfront costs of a development and significantly support viability. It would also better encourage faster build out rates and higher-density construction.

In order to meet our housing targets and roll out New Towns at speed, the tax system should be actively encouraging higher-density housing developments which are rolled out quickly - not penalising them.



Policy recommendations to boost development viability (cont.)

5. Reintroduce SDLT support for high-density housing and consider a carve out from SDLT completely in areas with very low land value, like brownfield land and regeneration sites

Our suite of taxes and levies impacting developments should be reformed to ensure that they are actively encouraging high-density developments and better supporting viability in low-value areas. This would support the National Planning Policy Framework which is seeking to encourage higher density developments on previously developed (brownfield) sites - and will be crucial to delivering New Towns at speed.

SDLT is widely regarded as a damaging tax. It reduces liquidity and prevents assets from changing hands at different stages in a property's lifecycle. SDLT also reduces the valuation of a fully developed asset which has a significant impact on viability of new development (both commercial and residential), particularly high-density developments in low-value areas, like brownfield regeneration sites.

Multiple Dwellings Relief (MDR), which was abolished last year, was widely regarded as one of the key policies that supported the growth of the BTR sector over the last decade. MDR allowed for the appropriate rate of SDLT to apply based on the average price of a home in a large-scale residential development. This disproportionately supported BTR development viability in lower-value areas, including brownfield land and regeneration sites, and was regarded as a key catalyst for the BTR sector outside of London. The abolition of MDR eroded the valuation of the BTR asset class which in turn has hampered viability in the sector as well as BTR housing viability in all but our largest cities.

We recommend that new and better targeted SDLT support is reinstated for large scale residential housing transactions (like BTR) – which also addresses the impact of the SDLT surcharges primarily aimed at the home ownership market.



Policy recommendations to boost development viability (cont.)

6. No more up-front costs and developer contributions

Developer contributions such as CIL, Section 106 and more recently the Building Safety Levy and Biodiversity Net Gain, are all up-front costs. As with SDLT, these upfront costs are the most damaging for viability in areas with lower land values, because the value of the land is less able to absorb these costs. This is illustrated by the 'Residual Land Value' method in the appendix which shows that all costs of a development need to be factored into a viability appraisal in order to determine the value that can be attributed to the land. Where there is very low land value to start with, these costs can very easily result in attributing a negative land value.

In addition, lots of levies and contributions to negotiate also add delays and uncertainty in the planning and development process – and the inflexibility of CIL can mean that affordable housing quotas are often sacrificed. In order to prevent an inadvertent impact on development viability, and avoid further complexity in the planning process, we recommend:

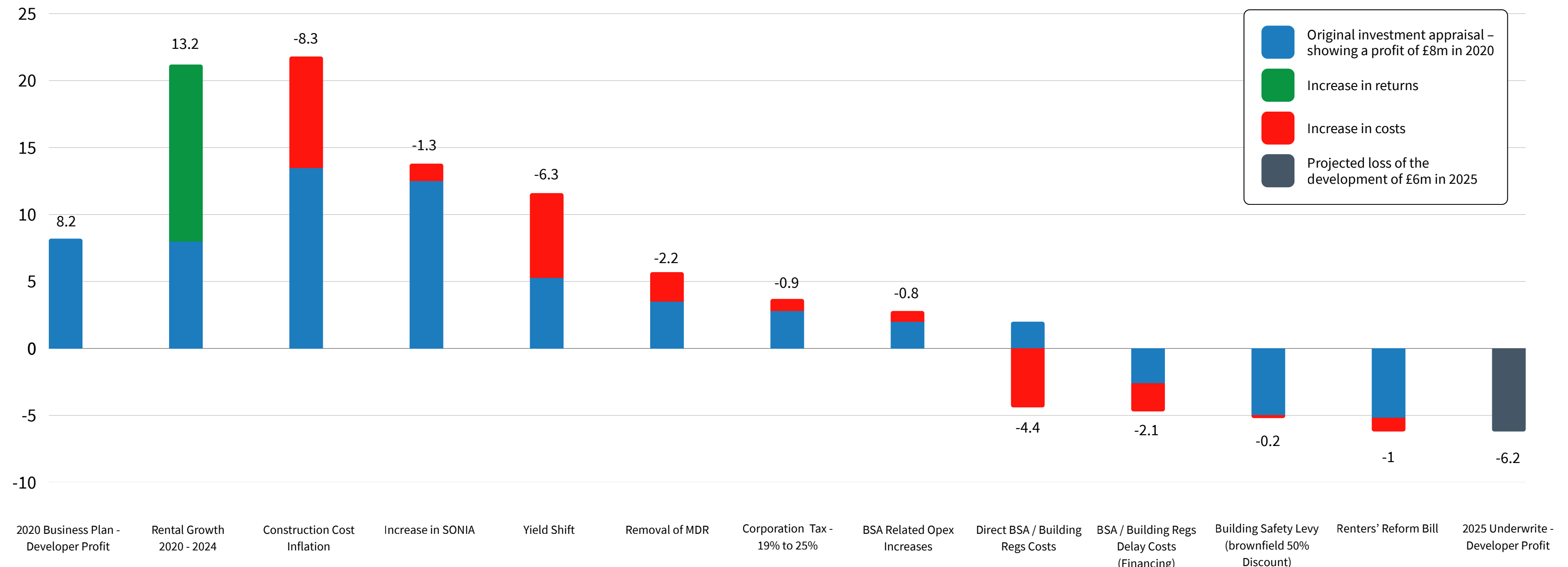
- Avoiding new levies or upfront costs on development - where new levies are unavoidable, carve outs should be considered for low-value areas - and some flexibility in these developer contributions should be considered in periods when viability is seriously constrained. Given how important development is to our economy, and to the delivery of the homes and workspaces we need, it's better to have some development than no development.

- Better supporting high-density housing development – a tax borne by each home (such as SDLT and the Building Safety Levy) means that higher-density developments will typically incur more tax on the same size plot of land than lower-density schemes, once the development is complete. As the taxes due on sale of the completed development must be factored into the investment appraisal (and will influence the pre-development land value), these taxes currently have a disproportionate impact on the viability of high-density developments.

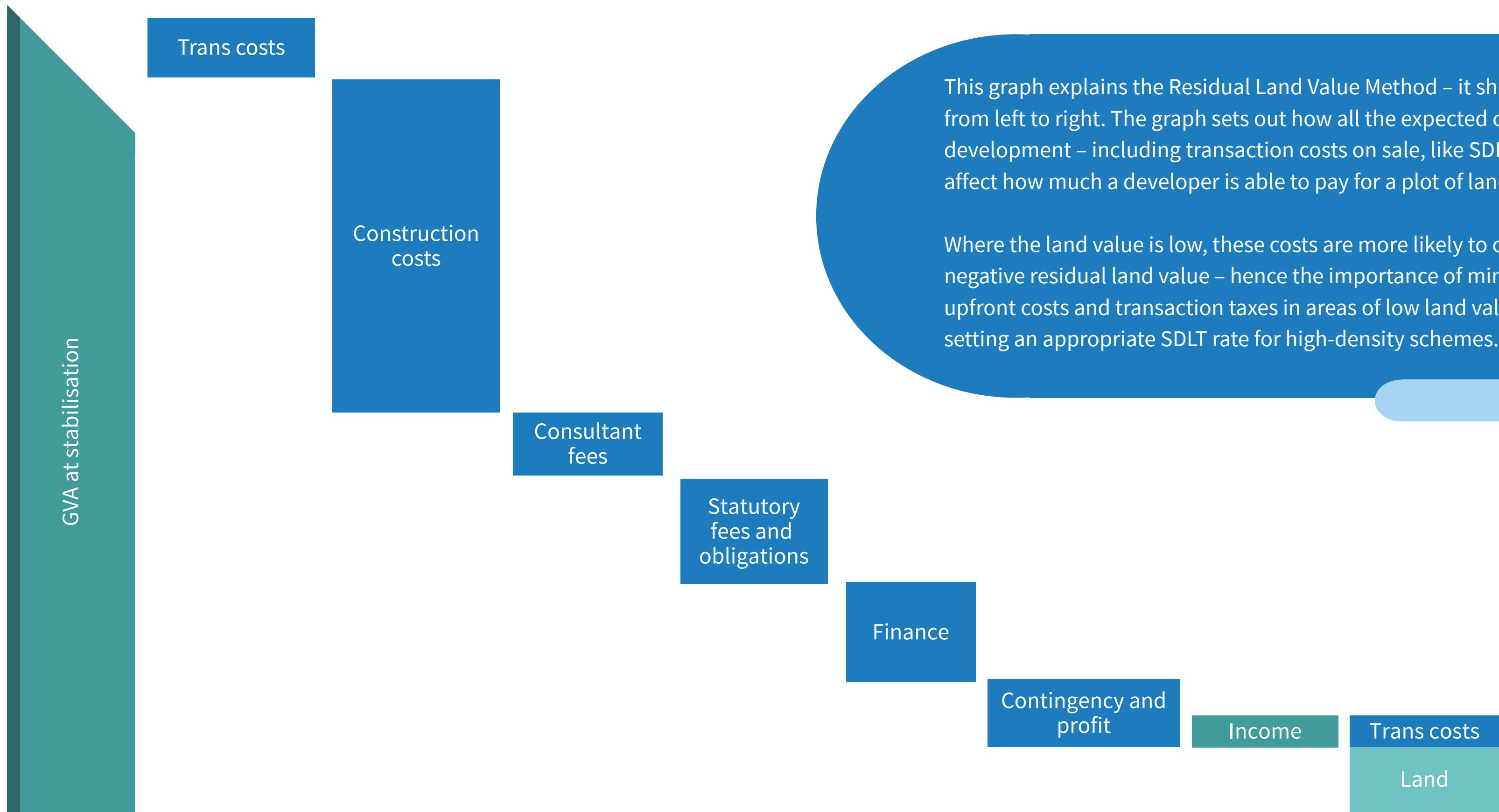


Case study: Erosion of BTR viability from 2022 to 2025

This graph illustrates the investment viability appraisal of a development that was deemed viable in 2020 and subsequently constructed, delivering approximately 300 new homes. Changes in market factors such as interest rates and inflation, along with increased costs arising from tax and regulatory changes over the past five years, have dramatically altered the scheme’s viability — shifting it from a profitable project generating £8m to one that would now result in a £6m loss.



Residual Land Value Method



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