

THE NEW BUILD BREAK:
STAMP DUTY RELIEF FOR FASTER SALES

THE YIMBY INITIATIVE

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A targeted reform to reduce upfront costs, accelerate new home sales, and unlock housing supply.

Executive Summary

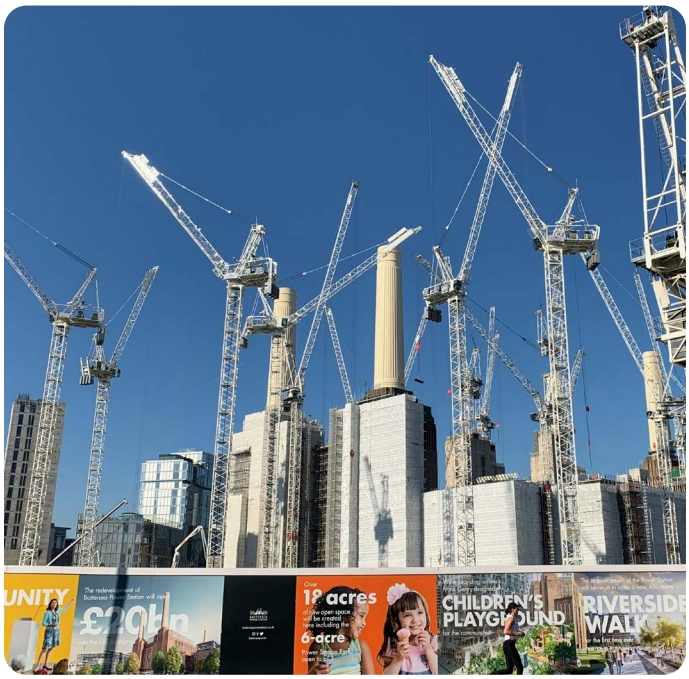
Britain's housing crisis is a result of long-standing supply shortages, stagnant planning policy, and distortionary demand-side taxation—particularly Stamp Duty Land Tax (SDLT). With housing completions failing to meet the demand necessary to close a 4.3 million-unit deficit, the current trajectory leaves young people disenfranchised and developers unable to finance new stock. While government initiatives have targeted planning reforms, a major friction point remains the SDLT regime, which impairs housing liquidity, raises transaction costs, and disincentivises capital flows into new development.



To assess the economic impact of reform, a dynamic Solow residual model was developed simulating the full removal of SDLT on all new build purchases. The model found that such a reform would result in a 10% increase in completions in year one, with GDP growing 0.1 - 0.35 percentage points faster per annum over the decade. Though SDLT receipts would initially decline by £440 million annually, the resulting rise in productivity, household mobility, and housing velocity would recover a significant portion of the lost revenue. The cumulative economic uplift would see GDP approximately 1.9% higher by year ten.

This policy offers a powerful opportunity to address the UK's affordability crisis and unlock growth. This targeted reform reduces up front costs, accelerates new home sales, and unlocks new housing supply. This also stimulates sector productivity, with higher welfare outcomes for first time buyers, those across the housing chain, and those working in the construction sector. Conditions are included to remove speculative abuse, whilst also having a clear implementation strategy that delivers the growth Britain needs.

The Housing Challenge



Britain's housing crisis has been much discussed in recent years. The planning system's sclerotic and painfully illogical processes have been laid bare on a human scale - rough sleeping is up 27% since 2010, homelessness has increased by 175% in the same time period, and the young people have never been more disenfranchised from the housing market. The iron law supply and demand remains the largest contributor to the current crisis - simply put, we have not built enough houses in recent decades to facilitate a functioning and fair market place.

The crisis facing the UK requires a wholesale review of the economics of the British housing market. Yes, supply is the insurmountable option, where a glut of new units entering the market would bring down prices - but demand is also pitifully low. Why does this matter? If developers cannot shift stock through consumer purchases, then they cannot finance the further building required to solve the housing crisis.

Demand stimulation, where customers are financially incentivised to enter the housing market, has had a potted history as we will explore below. The Right to Buy Scheme, initiated through the Housing Act 1980, permitted a significant discount to council house tenants to purchase their homes. Whilst viewed as an electorally successful policy by the Conservatives, with data indicating that the increase in home ownership leads to voters moving towards the aforementioned party, it was limited in its effectiveness as councils did not replace the foregone stock. Likewise, Help to Buy, a scheme to discount the purchase price of a house for first time buyers came under criticism for artificially stoking price inflation in the market.

This is not to say that demand incentives are not beneficial for the housing market, instead, incentives should be better constructed to avoid, as much as is possible, unintended consequences. With new builds being the only other way to onboard new supply (the other being renovating or converting derelict stock, which makes up 1% of total dwellings), ensuring they have an easier route to market is vital.

The government is aware of this monumental challenge, and the recently tabled Planning and Infrastructure Bill provides new powers to free up the housing market to increase supply and provide the requisite infrastructure to facilitate modern living. Overruling anti-development councils and off-setting environmental externalities have been welcomed by the development sector - however, given the extent of the crisis facing the UK's housing market, further actions are required.

Providing stamp duty relief for new builds would allow developers to increase the velocity of sales travelling the market, offloading empty stock for smaller two-beds all the way up to more executive housing. In practice, this reduces barriers to entry for both new entrants and consumers who are looking to move up the housing chain. The faster and more voluminous throughput of higher new build velocity would permit developers to capitalise new projects, thus giving the housing market a much needed 'shot in the arm'.

The Offer from New Builds

New build housing has added 2.88m units since 2000, with the private sector only failing to complete 16,620 units over this period, demonstrating the efficiency of developers when they are empowered to deliver. In the same period, the population of the UK has grown from 59m to 68m, resulting in an even tighter and more inflated housing market - new builds remain the most effective manner of delivering housing. In 2023, the Centre for Cities found that the UK had a housing deficit of 4.3m units. Watling and Breach, the authors of the study, found that in order to satiate demand, the UK is required to build "654,000 [units] per year over the next decade in England alone" - as it stands, only 221,070 additional dwellings were added in 2023-24. By the end of 2024, the YTD figure was 217,000. Savills places this, rightly, on the broken planning system - but that does not mean we should stray from the demand side problems facing the sector. With the failure to add additional housing to the market, and increased innovation, it is likely that the housing deficit is more severe.

New builds provide the optimal solution for the housing crisis outside of cities - whilst supply remains a key issue, which makes up the backbone of this government's planning reforms, off-loading new units into the market place is best done via the new builds system. Indeed, of the total net additional stock, new builds made up 90% of the novel housing supply in 2024, with the remaining 10% resulting in conversions and changes in use.

On average, a new build house takes between 26 and 32 weeks to construct from beginning to end. This does not include the purchasing of the land or the granting of planning permission, but such short time scales for construction demonstrates the effectiveness of the extant housebuilding sector to deliver the necessary units for any particular site.

As with any economic activity, the initial creation of new capital (i.e. new housing stock) is a speculative investment in the first instance. With the average costs of developing a 100 unit greenfield site reaching around £43,620,480, the risks for developers are considerable. Off-loading new supply is not guaranteed, and especially difficult in current market conditions - as outlined above, it is hard for developers to execute new investments whilst other built stock sits idle. To any bank or lender, providing additional capital to expand the increase in the size of unsold stock, and with no encouraging changes in household finances or the overall macroeconomy, is a grueling task. Finance cannot be raised, purchased land remains vacant, and new houses are not added to the market, even when demand is at all-time highs.

With the new build sector offering the best rapid-build solution to the ongoing supply crunch in housing stock, tailored fiscal measures are required to deliver new homes for the population and make progress towards achieving the government's 1.5m home goal by the end of this Parliament. Offering a demand-side rebate for fresh stock offers the best, fiscally affordable deal for housebuilders to accelerate the end of the housing crisis.



The confusion and damage of Stamp Duty Land Tax

Whilst Stamp Duty has its origins in the Regency Period of the 17th Century, modern Stamp Duty Land Tax was introduced in the Finance Act 2003. Since its reintroduction, SDLT has undergone 10 separate reforms and tweaks, leading to an insecure investment environment for developers and buyers alike. With a development taking between 2 to 5 years to complete, changes to stamp duty must be long-term and clearly communicated with the public to drive real changes to the property market.

Regardless of the time period, however, there is consensus that stamp duty is one of the most damaging taxes levied by the government. Stamp duty, as with any transactional tax, is a hindrance for goods or services between two holders of assets or finances. This means that liquidity dries up and the market becomes gummed up - a terrible system where supply is already in short supply and housing chains are lengthy and fragile - we would not tolerate any other asset market behaving this way. With the recent lowering of the stamp duty threshold in April 2025, we can expect to see a decrease in transactions.

Research from the Adam Smith Institute indicates that stamp duty destroyed 75p of wealth per £1 raised, making it 4 times more damaging than income tax, and 8 times more damaging than VAT. The Henry Tax Review said of the tax: "stamp duties are poor taxes. As a tax on transferring land, they discourage land from changing hands to its most valuable use. Stamp duties are also an inequitable way of taxing land and improvements, as the tax falls on those who need to move…Stamp duties on conveyances are inconsistent with the needs of a modern tax system." Closer to home, the landmark Mirrlees Review found that they have "little to say in its defence". Scanlon et al, in a study published by LSE, found that almost 40% of house-buyers considered SDLT to be decisive in their decision to enter the property market - even more than finding a suitable mortgage, having a stable job, or the hassle of moving. When stamp duty is removed, such as during the 2008-2009 stamp duty holiday, "the 16-month stamp duty holiday was enormously successful in stimulating housing market activity, increasing the volume of house transactions by as much as

Figure 1

January 1997	<£60,000 = 0%
	>£60,000 = 1%
2005	<£120,000 = 0%
	£120,000 - £250,000 = 1%
	£250,000 - £500,000 = 3%
	>£500,000 = 4%
2016 (unless first time buyer or additional purchase)	<£120,000 = 0%
	£120,000 - £250,000 = 1%
	£250,000 - £925,000 = 5%
	£925,000 - £1,500,000 = 10%
	>£1,500,000 = 15%
2016 for additional purchase	<£40,000 = 0%
	£40,000 - £125,000 = 3%
	£125,000 - £250,000 = 5%
	£250,000 - £925,000 = 8%
	£925,000 - £1,500,000 = 13%
	>£1,500,000 = 15%
2016 / 2025 for first time buyer	<£300,000 = 0%*
	£300,000 - £500,000 = 5%
	£500,000 - £925,000 = 8%
	£925,000 - £1,500,000 = 10%
	<£1,500,000 = 12%
	* Over £500,000, SDLT was charged at 2% from £125,000 - £250,000, and 5% from £250,000 to £925,000
2025	<£125,000 = 0%
	£125,000 - £250,000 = 2%
	£250,000 - £925,000 = 5%
	£925,000 - £1,500,000 = 10%
	>£1,500,000 = 12%

Adapted from Stamping Down - Alex Morton, CPS

20% in the short run (due to timing and extensive responses) followed by a smaller slump in activity after the policy is withdrawn (as the timing effect is cancelled out)." (Best and Kleven, 2015) This was likewise noted by Cheshire, Hilber and Schoni in 2021 when reviewing transaction data during the pandemic.

The question as to why stamp duty is so destructive is not, however, intuitive. How can it be that such a low rate of tax, paid only three or four times in one's life, can cause so much damage to the economy? There are three reasons.

In the first instance, the tax is executed. Stamp duty must be paid in cash at the point of the transaction taking place - an entirely different saving addition to the deposit. As there is currently the stamp duty nil-rate-band for first time buyers has been lowered from £425,000 to £300,000, the purchaser of the average residential property (£300,000) in England and Wales will be hit by an additional £2,500 charge. Should the purchasers wish to live in the economically more prosperous South East or London, where the average price is £625,000, the additional stamp duty will be £20,000. Already, one in five first time buyers pay stamp duty, with this set to rise as the rules on the nil-rate-band change in April 2025.

As elasticities of demand for housing is highly inelastic (with some areas of the UK boasting elasticities around 0.01), piling additional costs on the transaction only furthers the ineffectiveness of housing to respond to demand. In recent years, the OBR has updated their behavioural responses to SDLT, almost doubling the negative reaction to the tax for housing transactions.

In the second instance, stamp duty has a significant corollary with welfare loss. Li and Uren (2024) finds that Australian stamp duty (which is levied in a similar manner to the UK), results in a mismatch between the characteristics of the size and location of a property, and the needs of the purchaser. The authors also find that purchasers would prefer a consumption tax or recurring property tax, similar to council tax, than a stamp duty. Hilber and Lyytikäinen (2013) found similar welfare losses in the UK, especially concentrated on those in lower income households who wished to move 'up the ladder' into higher quality or more spacious units.

These mobility issues are felt acutely on the personal level, but also macroeconomically. By raising barriers to mobility, it means that economic activity is also slowed down. Workers cannot move where the best jobs are, quashing productivity and placing a larger burden on infrastructure - the investment for which is not forthcoming owing to the aforementioned productivity slump. Scanlon et al (2021) found that, where all else being equal, "extending the [stamp duty] holiday in perpetuity might generate a net increase in government revenues because of greater economic activity and higher house prices".

Lower economic activity correlates with the final instance of stamp duty's primary problems - it lowers housing velocity and housing supply. As intimated above, housing developers require long-term stability in the housing market in order to maintain viability in their plans. This is especially true for smaller developers, who cannot leverage more significant reserves or their size for additional capitalisation for riskier periods.

Morton (2019) found that a 1% cut in stamp duty across the board would lead to 20% additional transactions. Indeed, during the SDLT holiday during the Covid-19 pandemic, the rate of sales increased by 140% despite a deep recession. When this holiday was lifted at the end of the pandemic, the rate of housebuilding reopened at a more suppressed rate than before, indicating a contraction in supply-led velocity. The damage, therefore, caused to the onboarding of new housing units is clear from the imposition of stamp duty - though economists have repeatedly called for its total abolition, that seems out of the Overton Window for the government. Instead, we should turn to carving out stamp duty for those suppliers who are best equipped to onboard more housing supply at the lowest cost and at the highest speed - new builds.

The author of this paper is under no illusions that there are 'fans' of the current stamp duty regime, whether in Treasury, in the property and development sector, in think tanks, or in the Labour Party - should this smaller exemption be exempted and proved to be an economically conducive measure, it could signal an end to this pernicious tax and usher in a more efficient property tax regime as a replacement.

Modelling a carve-out

The UK's chronic housing shortage continues to impose profound economic and social consequences. Despite longstanding consensus that supply is the fundamental constraint, barriers to demand, specifically transaction taxes like Stamp Duty Land Tax (SDLT), play a more significant role than often acknowledged. To better understand the macroeconomic implications of removing SDLT on new build housing in its entirety, we have constructed a dynamic Solow residual model. This model assesses how such a policy reform might influence GDP, housing delivery, tax revenues, and overall productivity over a ten-year horizon.

The Baseline Economic Context

As of the 2024–25 fiscal year, SDLT generates around £14 billion in annual revenue for HM Treasury. A significant share of this tax is levied on new build housing, which comprises approximately 90% of the UK's net additional housing stock. Under this revised model, we now assume 100% of new builds, including both owner-occupied and previously excluded marginal categories—fall within the scope of the proposed SDLT exemption.

At the same time, housing delivery remains far below the level needed to meet demand. In 2023–24, England added approximately 221,000 new dwellings, a figure that falls drastically short of the 654,000 completions per year required to eliminate the housing deficit over the next decade, according to the Centre for Cities. Furthermore, the private sector delivered fewer homes in 2024 than at any time since before 2017, suggesting structural headwinds to increased supply.

The housing sector's macroeconomic contribution is substantial. New residential construction in 2023 produced £53.3 billion in output, equivalent to over 2% of national GDP. The sector is also a significant tax base in its own right, generating billions in Council Tax, employer National Insurance, VAT, and income taxes. The effective economic footprint of housebuilding therefore extends well beyond SDLT.



Model Construction and Assumptions

To evaluate the economic impact of removing SDLT on all new build housing, we developed a calibrated Solow residual model that includes capital (K), labour (L), and a housing-specific capital component (H). The model projects GDP growth under two scenarios: a baseline with current SDLT rules, and a reform case where SDLT is fully eliminated for all qualifying new builds. Over a ten-year window, the model calculates total GDP, the Solow residual (total factor productivity), housing completions, and government tax receipts.

Our central assumption is that removing SDLT improves housing market liquidity by reducing the transaction costs for new buyers. This accelerates turnover, increases demand, and permits developers to offload existing stock more quickly—thereby unlocking capital for future projects. The model assumes a 10% increase in completions in the first year post-reform, followed by more modest incremental growth.

GDP growth under the baseline is projected at 2% annually. The reform scenario incorporates an average increase in GDP growth of between 0.1 and 0.35 percentage points per year, compounding over the decade. These growth differentials reflect the direct impact of additional housing construction, as well as indirect effects such as improved labour mobility and better capital allocation.

Model Results

The model indicates that by the end of the 10-year period:

- Housing completions in the reform scenario grow steadily from 242,000 in Year 1 to over 266,000 by Year 10, compared to a flat 220,000 per year under the baseline.
- Cumulative GDP in the reform case is approximately 1.9% higher than in the baseline, primarily due to increased housing investment and productivity gains.
- SDLT revenues fall by an estimated £440 million in Year 1, with the cumulative loss over ten years reaching approximately £4.4 billion.

Despite this revenue loss, dynamic tax feedbacks, from higher incomes, consumption, and property activity, recover a significant portion of the shortfall.

Sensitivity and Scenario Testing

We tested alternative scenarios to evaluate the robustness of the results. In a high-growth scenario, where the removal of SDLT spurs a sustained 10%+ increase in completions and faster GDP growth, the revenue loss narrows to around £3.4 billion. In a low-growth scenario, where the initial housing response is weaker, the net revenue loss could exceed £5.5 billion over the same period.

House price responses also vary. While critics of SDLT reform warn that tax savings may simply be capitalised into higher prices, the model indicates that even moderate price inflation is more than offset by the macroeconomic benefits of increased supply and mobility. Further, the direct welfare gain to buyers of lower upfront costs is not trivial.

Productivity and the Solow Residual

One of the most important yet underappreciated effects of SDLT reform lies in its impact on productivity. By lowering barriers to residential mobility, the policy enables workers to move closer to employment opportunities, reduces under-occupancy, and facilitates more efficient matching of housing stock to household needs.

In our model, this contributes to a higher Solow residual over time. The housing capital stock grows faster and is better utilised, increasing output not just through greater capital intensity but through improved total factor productivity (TFP).

Policy Suggestion

Stamp duty should be carved out for new-build housing purchases. Limiting the supply to single-use purchases, regardless of the housing being single bed to executive scale new build properties, will provide additional velocity to the housing supply at every level of the housing chain. Smaller properties will be adequate for first time buyers, even if they exceed the nil-rate-band of £300,000, as well as larger properties appropriate for those moving up the property ladder as their families or budgets increase in size.

Lower prices, as classical price theory tells us, will drive up sales velocity. This is evidenced by the aforementioned higher trend of housing delivery during the stamp duty holiday of 2020-21, despite the significant downward pressure on economic activity during this period.

Critics of the policy may point to the fact that the removal of stamp duty may cause prices to increase, in lieu of offsetting the expected tax. However, the marginal increase in property costs in response to such a development is not the problem, on the whole - it is the manner in which the tax is levied and collected, rather than the price of the housing. If stamp duty were to be able to be paid as part of the mortgage, this would be of little problem - however, the cash payment nature of the duty requires additional saving time and anxiety. Further, the decrease in the deposit cost, due to stamp duty being removed on new builds, would increase the affordability of homes due to a deeper pool of buyers.

In practice, with SDLT exemption on new build a prospective buyer has their upfront costs reduced, despite a fully-factored increase in pricing. As a result of the buyer not having to save as much this ultimate lower barrier to entry increases the pool of potential purchasers. Sales velocity refers to the speed at which new homes are sold once they hit the market. By reducing upfront costs through new build exemption, more buyers can afford to act. Increasing the demand helps homes sell faster. This faster turnover encourages building more, boosting overall housing supply while stimulating local economic activity, facilitating capital to be recycled and invested in future pipeline projects more rapidly.

Figure 2: First Time Buyer £500,000 Example Case Study

Baseline	£500,000	£510,000	% Difference
Deposit @ 10%	£50,000	£51,000	+2%
SDLT*	£10,000	£0	-100%
Total	£60,000	£51,000	-17%

** Nil SDLT up to £300,000 - 5% thereafter*

Even if the abolition of stamp duty raised house prices over the long-run, the uptick in housebuilding and velocity drives overall total factor productivity growth, resulting in higher incomes to compensate for the increase. The front-end inflationary effects of a stamp duty cut should, if the historic macroeconomic effects of housebuilding remain true, make housing more affordable.

Conclusion

Britain's housing system is structurally constrained by an inflexible planning regime and made worse by distortionary taxes such as Stamp Duty Land Tax. While policy attention has rightly focused on boosting supply, there remains insufficient recognition of how SDLT suppresses demand, discourages residential mobility, and prevents developers from recycling capital into new construction.

Our Solow residual modelling confirms that removing SDLT on new builds is a fiscally affordable and economically potent intervention. By reducing friction at the point of sale, the policy would stimulate completions, increase GDP, and enhance total factor productivity through improved labour mobility and more efficient capital use. While critics may warn of price inflation, the dynamic benefits to housing supply and market velocity outweigh these concerns. There is no reason to suspect that this policy would undermine the potency of a shared equity scheme or other equity loan scheme for first time buyers.

This reform should not be seen in isolation but as a necessary complement to planning liberalisation and infrastructure provision. As Britain aims to build 1.5 million homes by the end of this Parliament, removing SDLT on new builds offers a clear and targeted step toward a more responsive, efficient, and equitable housing market. Policymakers should act accordingly.



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