

Housing Research Note 10

**The affordability impacts of new housing supply:
A summary of recent research**



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The cover image shows the locations of new developments around the Deptford area of London, using data from the London Datahub

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1. Executive summary

- 1.1 This note summarises the findings of recent economic research into the impacts on affordability of new housing supply.
- 1.2 There is already evidence that increases in the supply of housing bear down on housing costs over the long term, but until recently there has been little evidence on the short-term and local impacts of new supply on affordability.
- 1.3 Several recently published economic papers attempt to identify these impacts using new data sources and new analytical techniques.
- 1.4 This research finds that in general, building new market-rate homes makes other housing more affordable. It does so by creating chains of vacancies and moves that can reach across an entire housing market area. These moving chains improve the availability and affordability of housing throughout the range of prices and rents, including for low-income households.
- 1.5 Building market-rate housing therefore indirectly increases the availability of homes affordable to low-income households, although not as directly as building social housing and other kinds of affordable housing.
- 1.6 The geographical distribution of market-rate housing supply matters. If it is focused only in low-income areas it can lead to localised increases in prices and rents in those areas (while still improving affordability elsewhere), if the impact on demand resulting from improvements in local amenities and services outweighs the impact on supply.

2. Introduction

- 2.1 There is a broad consensus in the academic and policy literature that increases in the supply of new housing bear down on prices and rents over the *long term* and at *city or national level*, but considerable uncertainty over the *short-term* and *local* effects. Some of this controversy is due to a lack of good evidence, given the difficulty of separating out cause and effect when new construction can seem to coincide with rising prices, and when a host of other factors can affect prices and rents. For example, there are concerns that adding high-priced new homes into an area drives up costs for those nearby, or at least does little to improve the prospects of lower-income households.
- 2.2 Recent academic research from around the world aims to overcome these challenges by employing new techniques and exploiting new data sources. This paper summarises the new literature and relates these findings to a range of existing evidence.
- 2.3 The paper focuses on evidence of the impacts of new supply, rather than on the effects of different policies aimed at increasing supply. One recent overview of evidence (predominantly from the US) on the impacts of ‘zoning’ changes on supply is provided by [Freemark \(2023\)](#).

3. Existing evidence on the impacts of housing supply

- 3.1 A large body of economic research comparing long-term changes in the housing stock with changes in house prices and rents, and controlling for a range of other causal factors, shows that increases in housing supply tend to reduce housing costs when all else is equal. Some of this research focuses on one country, while other studies (such as [Andrews 2010](#)) involve cross-country comparisons. The UK government’s official estimates of housing supply impacts (summarised in [MHCLG 2018](#)) are based on this kind

of analysis. According to those estimates, a 1% increase in the housing stock leads to a 2% fall in house prices *if nothing else changes*. The impact on private rents is thought to be similar. In practice, the effect of supply is offset by factors that increase demand such as population and income growth, and can be (and in the UK usually is) swamped by them so that housing costs rise over time.

- 3.2 Another substantial strand of research analyses the extent to which homes that were originally built for inhabitants with above-average incomes tend to ‘filter’ down to less affluent segments of the market over time. Recent research ([Liu et al 2022](#)) has established that filtering rates vary substantially from place to place, and that the process only operates as long as new housing supply is reasonably responsive to changes in demand. Where new supply does not increase enough in response to demand, the filtering process can go into reverse and homes that were previously occupied by low-income households are increasingly bought and rented by higher-income ones – a process that is often called ‘gentrification’. The vast majority of empirical research into filtering has focused on the US, with very little in the UK.
- 3.3 As well as its impact on prices, there is also evidence (see [Bramley et al 2010](#) and [Bramley 2019](#)) that additional housing supply enables demographic change through higher rates of household formation over the long term, thereby reducing the number of ‘concealed’ households, a major category of housing need (although this increased household formation will itself add to demand). Relatedly, research into the long-term decline of short-distance spatial mobility in Britain has suggested that the rising cost and constrained supply of housing may have led to people (particularly older people) making fewer short-distance housing moves in recent decades, and therefore contributed to a growing mismatch between what people want from their homes and what they have ([Shuttleworth et al, 2018](#)).
- 3.4 This existing evidence base has a number of limitations.
 - First, it focuses on *long-term changes* taking place over several years or even decades, partly because some of the mechanisms it describes (such as filtering) operate quite slowly over long spans of time, but largely because the available data and techniques only allow for estimating long-term effects. It therefore cannot tell us what the short-term impacts of housing supply are (if any), or much about how these translate into longer-term changes.
 - Secondly, research into short-term and local impacts of new housing supply has been dogged by the challenge of *identifying causation*, because new construction often appears to coincide with or even precede the changes in demand or neighbourhood conditions that may have prompted it, and because of simultaneous changes in other factors that can affect prices.
 - Finally, the pre-existing evidence base generally lacks a sufficiently fine-grained *spatial resolution* to be able to distinguish between hyper-local, local and regional effects of new supply. Given that new supply can have a transformative impact on its immediate surroundings but can also affect the housing market of a wide region, this lack of spatial distinction is a serious shortcoming.

4. Findings from recent research

Techniques and data sources

- 4.1 The research summarised in this section use new techniques and new data to overcome the challenges mentioned above and to identify the causal impacts of new housing supply in the short term and in the local area.
- 4.2 The techniques employed include:
- Tracking the ‘chains’ of housing moves that are initiated when a household moves into a new dwelling, freeing up their existing home for someone else to move into, who frees up their home, and so on;
 - ‘Spatial difference-in-difference’ models, which assess whether places nearby to new housing developments experience different trends to places further away;
 - ‘Natural experiments’, which allow researchers to identify changes in the supply of new housing that aren’t driven by changes in demand.
- 4.3 The data used is generally much more detailed and precise than what was available to previous researchers, including data on specific newly constructed buildings, individual-level data on incomes and addresses, and longitudinal data that tracks household moves from one place to another. Some of this data comes from commercial sources, and some from official population registers. Due to the paucity of both kinds of data in the UK, most of this research comes from other countries – but generally from contexts that are comparable to the UK more broadly and to London in particular.
- 4.4 The research covered here comprises a selection of recent economic papers that robustly identify causal impacts of new housing supply. This is a rapidly developing field so the selection cannot claim to be exhaustive, but is intended to be representative of high-quality research in this area. Four of the seven papers have so far appeared in peer-reviewed journals. Selections have also previously been reviewed by [Phillips et al \(2021\)](#) and [Grein \(2022\)](#). The findings of the papers are described below and summarised at the end of this section.

Mast (2021), 'The effect of new market-rate housing construction on the low-income housing market' - [Journal of Urban Economics](#).

- 4.5 This research examines the impacts of new buildings with apartments to rent or buy in areas with above-average incomes in or near the centres of large US cities (including expensive cities with severe housing shortages, such as New York and San Francisco). It focuses on the chains of housing moves that are initiated by new construction, using individual address history data to identify 52,000 residents of these new buildings, their previous address, the current residents of *those* addresses, and so on for up to six ‘rounds’ of moves. Chains of moves come to an end (or are not created in the first place) when a new or vacant home is bought as a second home or is moved into by a newly forming household.
- 4.6 Mast finds that while most of those who move into the new apartment buildings from elsewhere in the same metropolitan area move from nearby high-income areas, 20% move from neighbourhoods with average incomes below the median level. But when each link in the chain of moves initiated by the new building is traced, 40% of the final round of moves are from areas with average incomes below the median for the metropolitan area. Mast estimates that a new market-rate building in a city centre that houses 100

households ultimately frees up between 45 and 70 homes in low-income neighbourhoods (of which 17 to 40 are in areas with very low incomes, i.e. in the bottom 20% for the metropolitan area), with most of these additional moves happening within three years.

4.7 It is important to note that this paper does not directly examine the impact of new supply on either prices or rents. Instead, by tracing the moves initiated by new supply it identifies the impacts on the *availability* of housing across a city, including in areas with very different income profiles. It finds that building new homes in one area can effectively increase the supply of housing in other areas, because new homes induce households to move and because most moves are relatively local. Whether there is any effect on prices or rents depends on whether the owners of homes freed up by moves need to drop their prices/rents to attract buyers/new tenants.

4.8 Another point to note is that not all new homes initiate a chain of moves, and some chains end quickly, because of purchases by second-home owners or moves by new households that do not free up an existing home. These effects do not increase the overall availability of housing, but they do avoid the reduction in availability that would occur if the same purchasers were to buy or rent homes elsewhere.

[Asquith, Mast and Reed \(2023\), 'Local Effects of Large New Apartment Buildings in Low-Income Areas' – Review of Economics and Statistics](#)

4.9 Like the previous paper, this one looks at the impacts of constructing new apartment buildings in the centres of large US cities (again, including high-cost cities with pronounced housing shortages). The key differences are that this time, the buildings are in central neighbourhoods with *below*-average incomes; that the analysis focuses on the construction of new apartments to rent and not to buy; and that it looks at the impact not just on migration but on rents in nearby buildings. The analysis focuses on the hyper-local impacts of individual new buildings, rather than aggregate impacts of new supply over an entire city or region.

4.10 Using a spatial difference-in-difference approach, the authors investigate the effects of new buildings (with a median size of 117 homes) on rents within a 250-metre radius, a distance that they argue is most likely to capture the impacts of both the additional supply from each individual building and any changes to demand (for example from any new amenities associated with the development). Each new building increases the stock of housing within that 250-metre radius by an average of 37%.

4.11 The authors find that the rents of existing dwellings within a 250-metre radius of new buildings fall by an average of 6% compared to those further away (between 250m and 600m). The effects are shown to persist for at least three years. Consistent with findings from Mast (2021), they find that the new development spurs increased in-migration from other neighbourhoods, particularly low-income areas.

4.12 These findings reinforce those of Mast (2021), but crucially they show that by freeing up nearby homes, new construction also tends to reduce rents in the immediate vicinity. Relevant to other papers reviewed below, they also found that “If buildings improve nearby amenities, the effect is not large enough to increase rents”. One caveat to note is that their rents data is more representative of the upper rather than the lower end of the market.

Bratu, Harjunen, Saarimaa (2023), 'City-wide effects of new housing supply: Evidence from moving chains' – Journal of Urban Economics

- 4.13 The two papers summarised so far focused on housing markets in large US cities. This next paper examines whether similar dynamics take place in the very different social and economic context of Helsinki. It also differs from the previous two studies in analysing the impact of both market-rate and social housing supply. Finally, whereas the previous two papers looked at the average incomes of the neighbourhoods that people in moving chains moved from, this paper is able to identify the incomes of specific individuals and households by using highly detailed population register data. The analytical approach is otherwise similar to Mast (2021), in that it tracks the moving chains initiated by the construction of new homes in relatively high-cost central areas but does not attempt to measure any further impacts on prices or rents.
- 4.14 Consistent with the previous two papers, the authors find that people moving into new market homes in the city centre tend to have above-average incomes, but the moving chains triggered by these new units free up homes in middle- and low-income neighbourhoods quite quickly (within one or two years). The size of the effects identified are broadly similar to those of Mast (2021): For every 100 new market-rate units built in central areas, around 66 are freed up within two years in neighbourhoods with below average incomes (of which around 31 were in areas with average incomes in the bottom 20%).
- 4.15 The chains of moves created by new social housing look different because lower-income households are much more likely to make the first moves into these homes, but by the end of the chains the effects of social housing in terms of freeing up homes in low-income areas look similar to those of market housing. In other words, because it is directly targeted at low-income households, social housing 'loosens' the housing market in low-income areas more quickly and more substantially than market-rate housing, although both forms of new supply are helpful in this regard. The local context may be important here: Helsinki has low rates of overcrowding and homelessness so households moving into new social housing units are likely to free up an existing home, but if many households moving into social housing are moving from overcrowded homes or hostels then fewer moving chains will be created.
- 4.16 Using the highly detailed data available to them, the authors also show that the moving chains initiated by new market-rate supply include low-income households, rather than just people with relatively high incomes moving out of low-income areas. This improves on the area-based results provided in the two previous papers.

Mense (2023), 'Secondary housing supply' – Working paper

- 4.17 Like the previous paper, this one examines a European rather than North American setting. Mense analyses the impacts on average market rents in German cities of new housebuilding, measuring aggregate rather than hyper-local impacts. He takes a novel approach to separating out cause and effect, using variation in weather conditions (heavy rain and deep frosts) which are shown to delay construction to predict changes in the availability of new homes that are not linked to changes in demand. He focuses on delays to the construction of single-family homes, because apartment construction is much less sensitive to weather conditions.
- 4.18 Using this approach, he finds that new construction initiates chains or 'cascades' of moves: each newly built home results in 4 to 5 additional properties being freed up in the second-hand rental market. This additional supply reduces rents at the city-wide level,

with a 1% increase in the flow of new homes lowering average rents by 0.2%. Crucially, he finds that new supply lowers rents in all market segments, including cheaper homes (though the impact is larger on more expensive homes). This is consistent with new supply at the high end improving availability at the low end through chains of moves. The impact is the same when the analysis is restricted to only those areas with above-average growth in demand.

- 4.19 Mense argues that the relatively quick and direct impact of high-end new supply on rents in the lower end of the market can be explained by the fact that many moves involve significant ‘jumps’ in housing quality and costs (something that Bratu et al also found). This in turn is due to the costs (both financial and non-financial) of moving being quite high: if they were not, moving between homes of similar quality and price would be much more frequent, and it would take a longer chain of moves for increases in high-end supply to reduce lower-end rents.

Pennington (2021), 'Does building new housing cause displacement? The supply and demand effects of construction in San Francisco' – [Working paper](#)

- 4.20 This paper looks at the effects on rents, displacement risks and local business turnover in San Francisco of new market-rate and affordable housing development. Like Mense, Pennington uses a ‘natural experiment’ to separate out cause and effect, but instead of looking at variations in supply caused by weather she looks at variation caused by serious building fires, which significantly increase the probability of additional housing being built on the parcel of land where the fire occurred. On average, developments on fire-affected parcels create 66 new homes, of which 20 count as affordable. Pennington combines fires and new construction with data on historic rents and an exceptionally detailed dataset on individual migration histories.
- 4.21 The headline finding is that rents fall by 1.2% to 2.3% within 500 metres of a market-rate housing development, and a smaller effect out to a radius of 1km. Pennington also estimates that the risk of households in the vicinity being displaced falls by 17% (eviction notices and moves to lower-income neighbourhoods are used to estimate rates of displacement). This finding suggests that relatively small changes in rents can be associated with relatively large changes in displacement risk.
- 4.22 Pennington also finds a ‘hyperlocal’ impact of new supply on demand: within 100 metres of development sites there is a 22% increase in nearby business turnover, and properties are significantly more likely to see richer residents moving in. But if these increases in demand tend to push up rents and prices, they appear to be outweighed by the increase in supply, and the net impact is to improve affordability.
- 4.23 Pennington finds that affordable housing development has no effect on nearby prices or rents. She does not analyse the reasons, but it is possible that even if new build affordable housing induces moves by low-income households, the effect on the overall balance of demand and supply in the market may not be large enough to affect rents (especially in a market as pressured as San Francisco). It may also be the case that those moving to affordable homes in the city are less likely to come from nearby or to free up another home when they move (due to having been a concealed household, for example). Pennington also notes that affordable housing directly reduces gentrification and displacement.

Li (2022), 'Do new housing units in your backyard raise your rents?' – Journal of Economic Geography

- 4.24 Li looks at the effects on nearby prices and rents of new high-rise buildings in New York City that had relatively high prices or rents compared to their local areas. To separate cause and effect she exploits the fact that construction completion timelines depend on a wide range of factors unrelated to demand, which introduces a quasi-random element to changes in new supply. She does not attempt to identify effects on rents or prices in the wider market beyond the immediate vicinity.
- 4.25 The headline finding is that a 10% increase in the housing stock leads to a persistent 1% fall in rents in the immediate vicinity (within 500 feet), and there is a similar effect on prices of increases in the supply of homes for sale. Within neighbourhoods, the downward impact is larger for high-end and mid-range existing rental buildings, because they are closer substitutes to new high-rises. Li notes that she cannot rule out some buildings taking longer to complete when the local housing market weakens, a phenomenon which would mean her headline finding is an under-estimate of the true effect.
- 4.26 Like Pennington, Li also identifies a positive demand effect: new high-rise buildings lead to new restaurants opening (and probably other business openings, although those are not measured). But, also like Pennington, she finds that the impact on prices and rents of these increases in demand are more than offset by the increases in supply.

Blanco and Neri (2023), 'Knocking it down and mixing it up: The impact of public housing regenerations' – Working paper

- 4.27 The papers already reviewed cover a wide range of locations and housing market contexts, from high-cost and high-inequality US cities like New York and San Francisco to the more affordable and egalitarian Helsinki. But only this paper by Blanco and Neri looks at a UK housing market setting, and it is a relatively specific one – estate regeneration projects in London that were approved between 2004 and 2018 and that replaced social housing with a mixture of market-rate and affordable housing.
- 4.28 Like Li and Pennington, Blanco and Neri look at the impacts on both nearby amenities (to identify any increases in demand) and the overall impacts on nearby prices and rents. They estimate that these developments significantly raise house prices and rents in the immediate vicinity (within a 100m ring), although house prices decrease farther away (between 200m and 500m), and the authors note that prices decreased overall, as there are relatively few homes in the immediate vicinity.
- 4.29 They find evidence of rents increasing up to 400m away, and no evidence of falling rents at any distance, although given the difficulty of distinguishing buildings that are part of the regeneration from those that are not, it is possible that some of the more expensive rentals identified in the vicinity are actually part of the overall scheme. A more fundamental point is that they estimate their effects from the point of planning approval, which is in advance of most of the works being started, let alone completed. Schemes take an average of one year to start and four years to complete, during which time tenants whose homes are being replaced may be re-located in the nearby area, potentially pushing up local rents on a temporary basis. If measured from the point of completion of the final unit in a scheme they find no effects of any kind on rents, which implies that all of the effect occurs during the (often lengthy) development period.
- 4.30 The key difference in the measured impacts from this study compared to other studies appears to be due to increases in demand outweighing the increase in supply: Blanco and Neri provide evidence of large improvements in nearby amenities as a result of estate

regenerations, including increased mentions of cafes and restaurants in property listings, and a substantial reduction in the number of recorded crime which they estimate accounts for a third of the change in house prices within 200m. In a [separate paper](#), Neri also finds an increase in local student achievement as a result of estate regenerations.

- 4.31 These amenity improvements are likely to significantly increase demand for the nearby second-hand stock, more than offsetting any increase in vacancies caused by the new building. Evidence that higher-income households are responding to these amenity improvements comes from increases in sales and listings of older properties near regenerated estates, in the number of second-hand homes advertised for rent after undergoing refurbishment, and in the number of local schoolchildren not eligible for free school meals.
- 4.32 While the number of schoolchildren not eligible for free school meals increases in areas of estate regeneration, the number of children who are eligible does not fall. Blanco and Neri interpret this finding as being consistent with estate regeneration not significantly decreasing the stock of social housing.
- 4.33 Blanco and Neri do not track any moving chains that may be initiated by the new homes built on estates, and do not attempt to estimate any impacts on prices or rents beyond a 1km radius. Their findings therefore do not contradict the message from the other papers reviewed here that new supply tends to increase the availability and lower the cost of housing across the housing market as a whole.

Summary of new research findings

- 4.34 Looking over these seven papers as a whole, a number of consistent findings emerge:
 - New housing supply tends to attract residents from the local housing market, initiating ‘chains’ of moves that allow multiple households to improve their housing situation for each new home provided.
 - While the initial moves into new-build market housing tend to be by high-income households, these moving chains increase the availability of low-cost as well as higher-cost homes across the housing market as a whole.
 - The supply impact of new homes tends to reduce nearby prices and rents but diminishes over distance.
 - New housing development can also lead to substantial improvements in amenities like local restaurants and even reductions in crime rates. These improvements, if large enough relative to the existing neighbourhood context, can generate enough increased demand for the second-hand housing stock in the area to outweigh the supply impact of new homes, and therefore push up prices and rents.
 - Put another way, new supply usually creates a net increase in the number of vacant properties in the area, putting downward pressure on prices, but in cases where new supply is accompanied by a significant improvement in amenities it could attract enough new demand to *lower* the vacancy rate, putting upward pressure on prices in the local area (while still lowering them elsewhere through chains of moves).

5. Relationships to other research

- 5.1 This section situates the findings from this new wave of research in the wider context of existing research and evidence.

Aggregate effects of new supply

- 5.2 The pre-existing evidence base showed that additional housing supply changes prices in the long term, but this new evidence shows that supply also has short-term effects on prices and rents. A key point here is that the short-term effects of individual developments are concentrated at the local level, and harder to measure at regional or national levels. So it is usually only when the impacts of many developments are aggregated over time that an effect large enough to be measured at regional and national level is generated.
- 5.3 Another important point made by the new literature is that new housing supply and the moving chains it initiates lead to immediate improvements in housing quality for multiple households ahead of and in addition to any reduction in prices and rents. These improvements in quality and choice strengthen the case for new homes.

Filtering

- 5.4 Previous research has shown that new buildings ‘filter’ down to lower-cost market segments over time, as long as the supply of newer buildings is large enough relative to demand ([Liu et al, 2022](#)). The research reviewed here sheds light on how this process happens: new supply initiates chains of moves that create vacancies in older buildings, and if the vacancies are numerous or persistent enough the owners of those buildings lower prices or rents in order to fill the vacancy. Filtering is therefore an intermediate mechanism between the short-term changes initiated by new supply and the long-term impact of supply on prices.

Housing moves

- 5.5 For new supply to generate the kinds of moving chains reaching into low-income areas that these papers identify, two conditions appear to be required: firstly, most moves into new build homes and subsequent homes in the chain should be from within the same housing market area; secondly, the financial and other costs of moving should be substantial enough for most voluntary moves to be motivated by significant changes in quality rather than minor changes in affordability.
- 5.6 To assess the first criterion, we start by noting that in the data used by Mast (2021), 67% of people moving into new build homes in or near US city centres came from the same metropolitan area, while in the Helsinki study the figure was 90%. It is unsurprising that the Helsinki figure is higher, given it is relatively isolated from other cities in Finland whereas many US cities are part of much larger mega-regions with considerable inter-urban mobility.
- 5.7 Most moves into new homes in London also appear to be relatively short distances. 2019 data on moves into private rented homes produced for the GLA by the rental analysis firm Dataloft showed that around half of households moving into new build private rented homes came from within a 5 miles radius (Cosh and Gleeson 2020). This figure is almost identical to the share of private renters moving less than 5 miles into recently built homes (those built after 2001) in the 2010s from GLA analysis of English Housing Survey data. According to the same analysis, around 82% of owner occupiers and 62% of private renters who moved into new homes in London came from less than 10 miles away. The fact that these patterns are broadly consistent with those identified by Mast suggests that similar dynamics to those he identifies are at work in London's housing market.
- 5.8 As for the second criterion, English Housing Survey data analysed in the GLA's [2019 Housing in London report](#) (Cosh and Gleeson 2019) indicates that by far the most

common reason given for moving by households in London is that they wanted to move to a better neighbourhood / to be near a better school, or because they wanted a larger home. A substantial number of households said they moved because their previous accommodation was in poor condition or otherwise unsuitable, while a relatively small proportion said they moved because they wanted a cheaper home. These findings are consistent with most households moving because of substantial changes in quality rather than minor changes in affordability, and thus with a housing market where improved availability in one segment is swiftly 'transmitted' to others.

Effects on different market segments and income levels

- 5.9 There is a limited existing economic literature on the impacts of new housebuilding on the cost of housing aimed at households at different income levels. One notable paper is by Diamond and McQuade (2019), who find that building affordable housing targeted at households on low to moderate incomes tends to lower nearby property values when it occurs in high-income neighbourhoods but to increase values when it occurs in low-income neighbourhoods. They attribute this finding to the different impact of the new housing, its residents and associated amenity impacts relative to the existing neighbourhood context.
- 5.10 The papers reviewed here present a complex picture on the extent to which new supply of (often relatively expensive) market-rate homes affect affordability of lower-cost homes. Looking first at papers identifying hyper-local effects, Li finds larger effects of market-rate supply on the rents of higher-cost homes in the immediate area, while Blanco and Neri find that market-rate supply can push up rents in low-cost areas when accompanied by a substantial improvement in amenities. Relatedly, [Damiano and Frenier \(2020\)](#) find that new market-rate construction in Minneapolis increases the rents of nearby low-cost homes (although Phillips et al 2021 raise some concerns over the representativeness of the trends identified). Asquith et al find that new market-rate construction in areas with below average incomes lowers rents in the immediate area, although their rental data is more representative of the upper end of the market.
- 5.11 Turning to papers that examine wider effects, Mast and Bratu et al find that market-rate supply increases mobility from low-income areas and among low-income households, implying a loosening of the market. Mense finds that new supply causes rents in all market segments to fall, although those at the higher end fall by more.
- 5.12 To understand these results, it is helpful to distinguish between the concentrated impact of a new development on its immediate area and the more diffuse impacts on its wider area transmitted via moving chains. In the immediate area, higher-end properties are more likely to see an increase in supply as they are closer substitutes for new market-rate homes, while lower-end properties are relatively likely to see an increase in demand due to improved amenities. As moving chains diffuse the supply impacts across a wider area, availability and affordability improves in all market segments, but less so at the lower end of the market because chains are more likely to 'break' before they reach that far.

Gentrification and displacement

- 5.13 The findings of the new research reviewed here chime with some recent empirical research into the causes and effects of gentrification. For example, [Cho and Whitehead \(2022\)](#) report an increase after the financial crisis in the proportion of high-income households moving into more deprived areas across the country, but particularly in high-cost areas such as London. They argue that the trend is driven by increasing affordability constraints (particularly when it comes to buying a home) affecting even higher-income households,

and is facilitated by relatively low levels of housebuilding in less deprived areas. In other words, it is the reverse of what these new studies find to be the impact of building more homes in high-demand areas.

- 5.14 Gentrification is sometimes linked to increased rates of displacement of existing residents (particularly those on low incomes) as an area changes. However, [Fransham \(2020\)](#) found that gentrification typically changes the social mix of an area over time by affecting who moves into it rather than who moves out, a finding also supported by [Freeman et al \(2023\)](#). The papers reviewed here (particularly Mense 2021) indicate that the costs of moving are high and that the availability of higher quality alternative accommodation matters at least as much as affordability, which supports Fransham's finding that gentrification tends not to result in 'direct displacement' (making more low-income households move *out* of an area) but in 'exclusionary displacement' (making it harder for them to move *in* to an area). The research as a whole indicates that increased supply of both market and social housing reduce both direct and exclusionary displacement pressures.
- 5.15 One implication of the paper by Blanco and Neri on the price impacts of estate regeneration schemes in London is that some neighbourhoods in London (and in other high-cost cities) are only relatively affordable because they have or are perceived to have relatively low levels of safety, school quality or neighbourhood amenities. It follows that any successful measures to improve these factors would push up costs by attracting higher-income households to the area. The impact on costs and affordability for low-income households would if anything be likely to be greater if these improvements were *not* accompanied by new supply.
- 5.16 This suggests that efforts to regenerate or improve the quality of life in low-income neighbourhoods, whether through restate redevelopment or other policies, should be accompanied not just by protections for social housing tenants in the area but also by increased housing supply in more affluent areas (thereby drawing away some demand from high-income households) if affordability for low-income households in market housing is not to be worsened.

6. Conclusions

- 6.1 Bringing together the pre-existing evidence base, the insights from the seven papers reviewed here and the related research findings summarised in the previous section, the key points of the new evidence base on the impacts of housing supply can be summarised as follows.
- **New homes deliver improved choice and affordability for households beyond the immediate beneficiaries.** The chains of moves initiated by new supply mean that one new home, even an expensive one, can improve the housing circumstances of several households. New market-rate supply can also make housing more affordable – and where it doesn't, it is probably because it is accompanied by significant improvements in local amenities.
 - **The benefits of new supply extend beyond improvements in affordability.** The most immediate impact is that the chain of moves set off by a new home can enable several households to move to a better-quality home, or one that better matches their preferences (even if it costs more than their previous home).
 - **These benefits can spread quickly across a market area.** New supply quickly initiates chains of moves that reach across housing markets, and can also lead to rapid

changes in local prices and rents – but the direction of change in costs depends on whether the increase in supply outweighs any improvement in amenities.

- **Building relatively high-cost new homes in one area can lead to increased availability of low-cost housing in another area** because local housing markets are not highly segmented and moving chains link one segment to another.
- **Most housing moves, including moves into new homes, originate from the same housing market area.** This implies that while building new homes in a particular *neighbourhood* does induce households to move into that neighbourhood who otherwise might not have, it doesn't do much to affect flows of households between larger *regions* (for example, between the wider London region and the rest of the country), which are driven more by differences in relative economic performance.
- **Building market-rate homes only in low-income areas will induce higher-income households to move into those areas, potentially increasing gentrification pressures.** These pressures will be greater if the new homes are accompanied by significant improvements in local amenities.
- **Building new market-rate homes in high-income areas ultimately reduces gentrification pressures elsewhere,** even when those new homes are expensive, because it induces higher-income households to move in. Market-rate homes built in high-income areas are also less likely to have a transformative impact on local amenities and therefore more likely to reduce overall housing costs through the supply effect.
- **When demand for high-cost homes is not met by new supply it is primarily low-income households that lose out,** because low-income households benefit from the construction of even high-cost homes while high-income households can afford to satisfy their housing needs even in the absence of new supply.
- But while all kinds of new homes ultimately improve the availability of housing across the income spectrum, **new social housing provides the most immediate and direct benefits for low-income households.**

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