



## Net Migration and Housing – A CPS Briefing

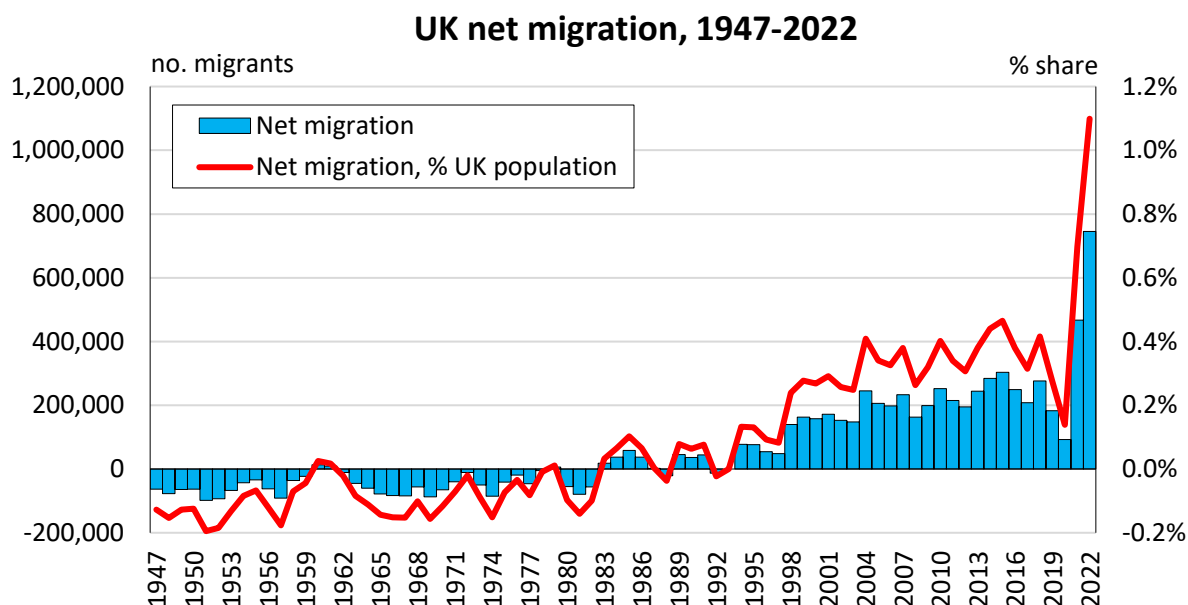
By Karl Williams

### Summary

- New ONS statistics show that net migration to the UK reached a record 745,000 in 2022
- That equated to population growth of 1.1%, more than double the average in the 2010s
- Combined with net migration of 467,000 in 2021, migration has increased the UK population by 1.2 million people in just two years – equivalent to a city the size of Birmingham
- If housing targets were adjusted to take account of net migration, the official target of just under 300,000 homes per annum in England should have been 515,000 homes in 2022 – more than 217,000 (73%) higher. Yet we only built 35% of that figure
- Over the past decade, we have built 1.34 million fewer homes than are needed to keep up with population growth. This has made an already appalling housing deficit even worse – not least because migration tends to be concentrated in the areas of greatest housing pressure
- Unless we can get housebuilding up and net migration down, the already cavernous housing deficit will only continue to widen, and the housing crisis will continue to get worse

### Net Migration

Recent figures published by the Office for National Statistics (ONS) show that net migration in 2022 soared to a record 745,000 – three times the annual average in the decade before Brexit (241,000).<sup>1</sup> This unprecedented figure represents additional population growth of around 1.1%. Given net migration of 467,000 in 2022, this means that over the last two years, net migration has added 1.2 million people to the UK's population – equivalent to a city the size of Birmingham.



Sources: ONS, BoE, CPS analysis.



The main driver of this rise was a very large increase in the number of non-EU nationals coming to the UK for work or study (and bringing their dependents). According to ONS provisional estimates, net migration among non-EU nationals reached 873,000 in 2022, with immigration of 1,030,000 more than offsetting emigration of 157,000.

This does not appear to have been a one-off. Net migration in the year to June 2023 was lower, at 672,000 – but this figure could well be revised upwards in due course, just as the May 2023 figure for full year 2022 was off by 139,000.<sup>2</sup> The Home Office is continuing to issue record numbers of immigration visas – 1.08 million in the first nine months of 2023, up by 3% on the same period last year. Even if Ukrainian refugees and Hong Kong BN(O) visas are stripped out of the figures, the numbers are up by 26%, so the underlying drivers of immigration still appear to be strengthening.

Meanwhile, as the ONS and Office for Budget Responsibility (OBR) have noted, the changing composition of migration from EU to non-EU and changing migrant behaviours means that these new arrivals may be likely to remain for longer, pushing down the emigration component of net migration. The OBR noted in its November report that the ‘stay rate’ of those arriving on work visas appeared to have risen to 57%, more than double the level in 2010-4. And more students appear to be moving on to two-year graduate visas after their studies.<sup>3</sup> Visa extensions in the year to September 2023 are up by 48% (225,000).<sup>4</sup>

Immigration at an appropriate scale can bring many benefits, and there is broad public support for the Government’s generous offer to Ukrainian refugees and British overseas nationals from Hong Kong. However, as the Prime Minister noted earlier this year,<sup>5</sup> net migration on the scale we are now seeing is inevitably going to place increasing pressure on public services, infrastructure and in particular housing. Last year, the Centre for Policy Studies (CPS) carried out polling on immigration and asylum. When asked whether immigration had made an overall positive, neutral or negative contribution in various areas, the standout answer was on housing: fully 50% of voters thought immigration had had a negative effect on ‘the number of houses available’, vs 16% who thought the reverse.<sup>6</sup>

As our analysis below shows, this finding should come as no surprise.

### **The Housebuilding Deficit**

The national housing target for England adopted by the Government in December 2020 derives from analysis produced by the Department for Communities and Local Government (DCLG) in 2016, which looked at outturn data for 2012-14.<sup>7</sup>

The 2016 analysis predicted that the net rate of household formation in England would be around 214,000 per annum in the coming years. This assumed that:

- The average household size of 2.36 in 2012 would gradually trend down to 2.22 by 2037
- Net migration would run at about 170,500 per annum
- New arrivals would, on average, form households of the same size as the existing population

This formula implied that there would be around 72,250 new migrant households formed every year, i.e. that net migration was responsible for almost exactly a third of underlying housing demand.



Once that figure had been arrived at, various tweaks and adjustments were then made to reflect market trends, regional differences, historic underbuilding and wider questions of affordability (especially in the big cities). That resulted in the 300,000 figure for annual housing need in England – 297,605 to be precise.<sup>8</sup>

Now, obviously this is all fairly imprecise. The ONS has revised its household formation figures more than once since those estimates.<sup>9</sup> It has also cautioned that household formation estimates should not be used to make definitive claims about housing need – a point echoed by the CPS, not least due to the way the housing crisis appears to have suppressed household formation on a very significant scale (just look at the huge rise in the number of adults living with their parents).<sup>10</sup> Indeed, given that a household is by definition a collection of people living in a home, household formation is largely a function of housebuilding, rather than an external and independent variable.

The Government's approach is also open to criticism in that it does not take sufficient account of the geographic distribution of housing demand, which is intensely concentrated in London and the South-East.

But still – this is the methodology the Government has adopted. And it is obviously the case that, given that methodology, higher net migration should mean a higher level of housing need.

Taking the Government's methods at face value, existing population growth and wider market trends are generating a need for 225,360 homes to be built each year. Then net migration of 170,500 adds the need for another 72,250 homes each year (dividing by household size).<sup>11</sup> The problem, of course, is that net migration is not running at 170,500, or anything like it.

We know that around 90% of immigrants come to England rather than the other parts of the UK.<sup>12</sup> So to get a figure for the impact of additional net migration on that housing target, we can multiply the UK net migration figure by 0.9, and then subtract the 170,500 migrants already assumed in the housing target.

If we plug the net migration data for 2022 into this equation, we get the following:

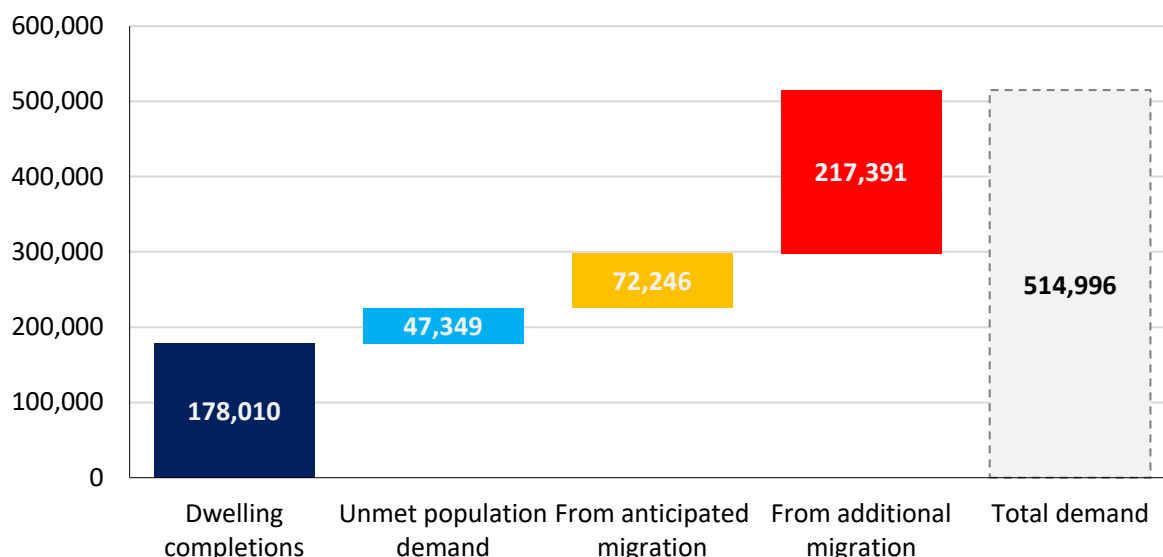
$$297,605 + ((745,000 * 0.9) - 170,500 \text{ migrants}) / 2.3 = 514,996 \text{ houses}$$

So this suggests that we should have built around 515,000 homes in England in 2022 – 73% higher than the official target. In fact, there were only around 177,810 dwelling completions in England in 2022,<sup>13</sup> barely 35% of what we needed to match estimated growth in housing need.

As the graph below shows, net migration beyond that anticipated in the housing target pushed the total up by 217,000 homes. Overall, net migration accounted for 56% of the total housebuilding need, pushing the need for new homes up by 290,000 versus a 'net zero migration' scenario.



### Required housebuilding in England, 2022



It is important to point out here that dwelling completions is an incomplete statistic. It is widely agreed, not least by the ONS, that a better metric is the overall size of the housing stock, captured by its time series on ‘net additional dwellings’, since this takes account of conversions and demolitions too.<sup>14</sup>

There is a complication here. Migration data has usually been published on the basis of the calendar year, while net additional dwellings follow the fiscal year. That means that previously, it was not straightforward to map the two on to each other.

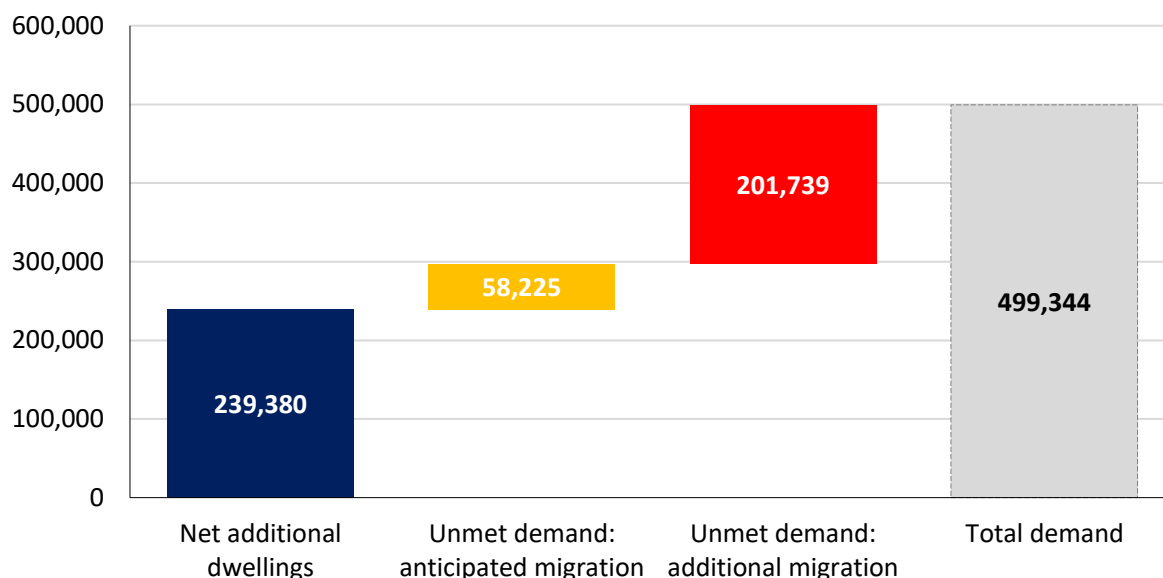
Fortunately, the ongoing efforts of the ONS to improve how migration data is collected and analysed mean that we now have a more granular picture of migration flows, and can track movements over the fiscal year.<sup>15</sup>

By that metric, net migration to the UK in the year ending March 2023 was 705,000. Plugging these numbers into the equation above, we get a figure of 499,344 additional dwellings needed across that 12-month period – when in fact the housing stock increased by around 239,000.<sup>16</sup> This was enough to cover demand from underlying population growth – around 225,000 dwellings, according to the Government’s methodology – and some of the demand from anticipated migration. But the surge in net migration meant that over that fiscal year, we ended up 318,00 units short of what population growth required.

In other words, whether you measure by building completions or net additions to the housing stock, the rise in net migration means we are still falling woefully short of our housing targets.



### Required net additional dwellings in England, year ending March 2023



But it gets even worse. Migrants who come to England do not spread out evenly across the country. They disproportionately live in London and the South-East, where economic opportunity and a large number of universities are concentrated.<sup>17</sup> That, of course, is also where housing pressures are greatest.

We do not yet have net additional dwellings data by region for 2022-23, but in recent years London and the South-East have together accounted for around 33% of new housing stock. On this basis, net additions to the housing stock in these regions amounted to just under 80,000 in 2022-23.

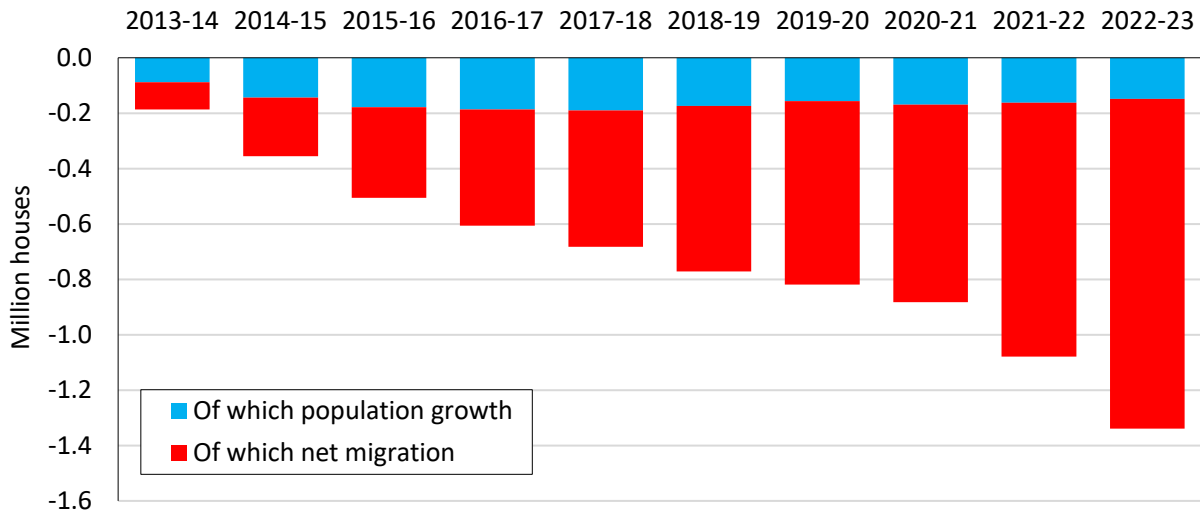
It is also clear that these regions appear to be getting a higher share of new migrants than of new housing. Between December 2021 and December 2022, the number of payrolled employees in the UK went up by roughly 680,000. That included a rise of 420,000 in non-EU workers. And of those 420,000 jobs, some 120,000 were created in London.<sup>18</sup>

Moreover, we cannot look at 2022 or 2022-23 in isolation. Everyone knows we have not been building enough houses for decades now. And even if we limit ourselves to looking at just the last 10 years, the picture is bleak.

The 300,000 target was based on DCLG analysis of data across 2012-14. So if we assume around 300,000 houses have been needed a year from that point on, we can form a rough picture of the cumulative housebuilding deficit arising from population growth and net migration over the last decade.



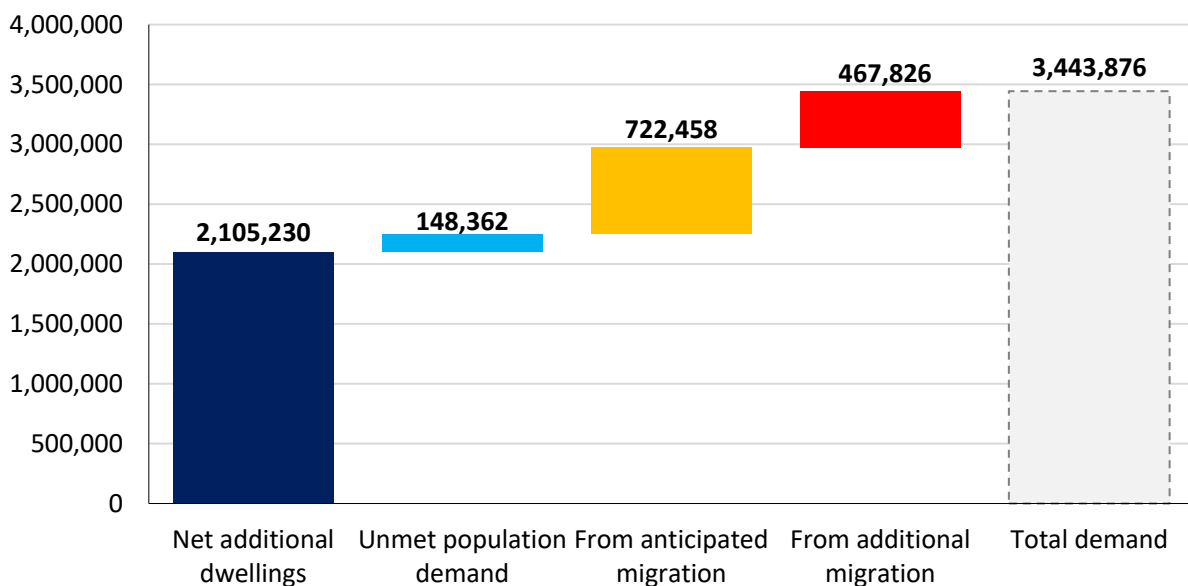
### Cumulative net additional dwellings deficit in England



The figures show that to cope with underlying population growth and the actual levels of net migration over the last decade, we needed to expand the housing stock by around 3.44 million homes: 2.25 million to meet underlying demand pressures, and 1.19 million to cope with net migration.

In fact, we have increased the number of homes by 2.11 million.<sup>19</sup> That leaves a deficit of 1.34 million homes, with net migration in effect accounting for 89% of the deficit. And of course, that cavernous deficit is intensely concentrated in London and the South-East.

### Required growth in the housing stock in England since March 2013





Over the last decade, average house prices have risen by 52% in real terms across the UK.<sup>20</sup> There are a number of factors driving skyrocketing house prices, many of which have been examined in detail in previous CPS research – our broken planning system and failure to build enough houses being the most important, but also asset price inflation caused by a prolonged period of ultra-low interest rates; policy interventions which have pumped up demand, such as Help to Buy; and frictions in the housing market such as stamp duty.

But to these we must undoubtedly add the unprecedented rate of net migration.

It should also be remembered that this is not just about house prices, housebuilding and home ownership. It inevitably affects the rental market too.

A 2017 study by the ONS found that ‘more recent migrants are more likely to privately rent than live in social housing or own their own home’, with 88% of EU migrants and 80% of non-EU migrant arrivals between 2014 and 2016 privately renting.<sup>21</sup> Assuming these figures are still roughly correct, then in 2022 there was a net increase of around 450,000 people entering the rental market in England (even assuming almost all Ukrainians remained with their host families). And again, they would have done so mostly in the places where housing pressures are most acute – in particular the big cities.

This is not just about workers. There has been a huge rise in the number of international students, not least because fees paid by home-grown students are capped. But those universities are in effect importing international students and capturing most of the value through high student fees, while externalising all the costs, which are borne by local communities in terms of increased pressure on public services and infrastructure, and higher rents.

According to the ONS, private rental prices increased by 6.1% in real terms in the 12 months to October 2023, and by 6.8% in London.<sup>22</sup> This follows robust rental price growth across 2022. According to Rightmove, average monthly rents hit £2,500 in London and £1,190 in the rest of the UK in Q1 2022, and the number of inquiries per property was up by 173% compared to the same period in 2019.<sup>23</sup> And according to analysis from research firm Capital Economics, net migration increased average UK rents by up to 8% last year.<sup>24</sup>

Clearly, as with the broader housing crisis, there are lots of factors other than migration feeding into rising rents, including higher interest rates, buy-to-let tax changes, pending rental reforms and energy efficiency requirements, all of which have caused many landlords to sell up and exit the market. But again, we cannot ignore the substantial demand pressures caused by soaring net migration.

## **Conclusion**

In light of November’s record net migration figures, it is clearer than ever that we need to significantly increase housebuilding while also getting net migration down to manageable levels – otherwise we are forever going to be running up the down escalator as we try in vain to escape the housing crisis.

We welcome the steps the Government is already taking on this front, such as the announcement earlier this year that it will tighten the rules on student dependents, whose numbers have risen rapidly. This should reduce immigration by more than 100,000 people. But as the change will not come



into effect until January 2024, there will be no real impact on the 2023 net migration numbers, nor the associated housing pressures.

Although any further changes will be too late to make a difference to the 2023 numbers, there are several further levers the Government could pull to begin bringing numbers down in 2024. For example, ministers could clamp down on students entering the country by enrolling on low-quality university degrees, end the abuse of legitimate visas, and reform salary thresholds and the Shortage Occupation List (as recently recommended by the independent Migration Advisory Committee).<sup>25</sup> The Government could also look at setting a cap on legal migration for 2025 and onwards. But whether or not it does any of these, it also needs to build many more homes.

When it comes to fixing the housing crisis, a combination of high migration and low housebuilding is the worst of all possible worlds. Yet it is exactly what our politicians appear determined to deliver.





## Endnotes

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- <sup>1</sup> See: ONS, 'Estimating UK international migration: 2012 to 2021' (23 November 2023). [Link](#). And: ONS, 'Long-term international migration 2.00, citizenship, UK (Discontinued after 2019)' (26 November 2020). [Link](#).
- <sup>2</sup> ONS, 'Long-term international migration, provisional: year ending June 2023' (23 November 2023). [Link](#).
- <sup>3</sup> OBR, 'Economic and fiscal outlook – November 2023' (22 November 2023), p.29. [Link](#). See also: ONS, 'Reason for international migration, international students update: November 2023' (23 November 2023). [Link](#).
- <sup>4</sup> Home Office, 'Extensions detailed datasets, year ending September 2023' (23 November 2023). [Link](#).
- <sup>5</sup> R. Sunak, 'Controlled legal migration is fairer and better for everyone', *The Telegraph* (23 May 2023). [Link](#).
- <sup>6</sup> N. Timothy & K. Williams, 'Stopping the Crossings: How Britain can take back control of its immigration and asylum system' (December 2022), pp.40-41. [Link](#).
- <sup>7</sup> DCLG, 'Household Projections 2014-based: Methodological Report' (July 2016). [Link](#). As we pointed out in 2021, given demographic changes, there is a strong case for updating the assumptions underpinning the housing target. As we have moved further from one-off changes due to Covid, the case for revisiting this modelling using up-to-date outturn data has only strengthened.
- <sup>8</sup> For a detailed explanation of the process and methodology in 2020, see: M. Spry & B. Haynes, 'Mangling the mutant: change to the standard method for local housing need', *Lichfields Blog* (16 December 2020). [Link](#).
- <sup>9</sup> See: ONS, 'Families and households in the UK: 2022' (14 May 2023). [Link](#).
- <sup>10</sup> See: A. Morton & E. Dunkley, 'The Case for Housebuilding' (January 2023). [Link](#).
- <sup>11</sup> An alternative approach would be to scale up housebuilding need from net migration of 170,500 uniformly with the tweaks to take the overall target to 297,605 houses. In this approach, net migration of 170,500 could in fact be read as accounting for 100,300 new homes within the housing target, instead of 72,250. However, we have gone with the more conservative approach.
- <sup>12</sup> Migration Observatory, 'Where do migrants live in the UK?' (24 March 2022). [Link](#).
- <sup>13</sup> DLUHC, 'Table 244: permanent dwellings started and completed, by tenure, England, historical calendar year series', *Live tables on housing supply: indicators of new supply* (28 September 2023). [Link](#).
- <sup>14</sup> DLUHC, 'Table 118: annual net additional dwellings and components, England and the regions', *Live tables on housing supply: net additional dwellings* (24 November 2022). [Link](#).
- <sup>15</sup> For the latest progress update on methodological changes being made by the ONS, see: ONS, 'Improving international migration statistics using administrative data' (23 November 2023). [Link](#).
- <sup>16</sup> DLUHC, 'Housing supply: indicators of new supply, England: January to March 2023' (29 June 2023). [Link](#).
- <sup>17</sup> Migration Observatory, 'Where do migrants live in the UK?' (24 March 2022). [Link](#).
- <sup>18</sup> ONS, 'Employments from Pay As You Earn Real Time Information' (23 March 2023). [Link](#).
- <sup>19</sup> DLUHC, 'Table 244: permanent dwellings started and completed, by tenure, England, historical calendar year series', *Live tables on housing supply: indicators of new supply* (28 September 2023). [Link](#).
- <sup>20</sup> Nationwide Building Society, 'UK house prices since 1952'. [Link](#).
- <sup>21</sup> ONS, 'International migration and the changing nature of housing in England – what does the available evidence show?' (25 May 2017). [Link](#).
- <sup>22</sup> ONS, 'Index of Private Housing Rental Prices, UK: October 2023 (15 November 2023). [Link](#).
- <sup>23</sup> J. Clark, 'Average monthly rents hit £2,500 in London and £1,190 for rest of UK', *The Guardian* (28 April 2023). [Link](#).
- <sup>24</sup> M. Lawford, 'Record immigration drives up rents across Britain', *The Telegraph* (28 May 2023). [Link](#).
- <sup>25</sup> MAC, 'Review of the shortage occupation list 2023' (3 October 2023). [Link](#).