Chapter 3

Affordable housing supply in the UK: the challenges ahead

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Introduction

Four years after the most recent comprehensive assessment of housing need across Great Britain (Bramley, 2018), it is time to take stock and assess how far new housing supply is meeting those needs. The study concluded that we need to build 380,000 new homes annually of which 163,000 should be affordable housing. Of the latter, the bulk should be for social rent (100,000) and the remainder for other rented stock (33,000) or affordable home ownership (30,000), see Table 1.3.1.[1]

Table 1.3.1 **Projected new housebuilding requirements in Great Britain, 2018**

	Total	Affordable housing		
		Social rent	Shared ownership	Intermediate rent
England	**340,000**	**90,000**	**25,000**	**30,000**
Scotland	**26,000**	**5,500**	**2,500**	**2,000**
Wales	**14,000**	**4,000**	**1,500**	**1,500**
Great Britain	**380,000**	**100,000**	**29,000**	**33,500**

Bramley, G. Housing supply across Great Britain for low-income households and homeless people.

The Bramley study made significant allowance for suppressed household formation by young adults arising from affordability constraints and an ongoing backlog of unmet housing need (described in more detail in the 2019 *Review*). Although the 2018 study has not yet been fully updated, Bramley's most recent work suggests that in England needs have sharpened further since then, with 49 per cent of people in need now requiring social rented homes compared with 43 per cent in the 2018.[2] This does not cover worsening conditions during the pandemic, with supplements to the English Housing Survey (EHS) showing that, during it, overcrowding increased, arrears among private tenants rose threefold, and more than one-fifth of private renters had lower earnings.[3]

More recent evidence from elsewhere in the UK was summarised in Commentary Chapter 2 of the 2021 *Review*. For Scotland, a 2020 study broadly confirms the 2018 Bramley assessment, although indicating a need for a higher proportion of social rented homes. In Wales the latest official assessment puts the overall need for new homes at about half of Bramley's figure, placing less emphasis on clearing the needs backlog, but still suggesting 3,500 affordable homes of different types are needed annually. Bramley's review did not cover Northern Ireland, but the latest evidence suggests a need to build 4,900 homes annually, of which about 1,500 should be for social rent.

Overall housebuilding targets across the UK are discussed in Commentary Chapter 2. This chapter focuses specifically on how countries are meeting *affordable* housing needs, either via direct provision of rented housing by social landlords or, in respect of affordable homeownership via a mix of direct provision and other measures which assist some low-income, first-time buyers.

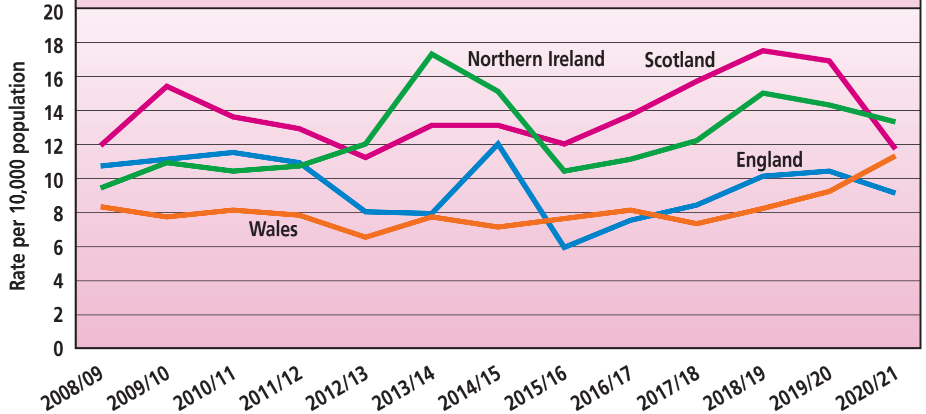
What do current programmes achieve?

As described in Commentary Chapter 4, in all four administrations the current programmes for delivering new affordable homes are more ambitious than their predecessors. Broadly speaking, the English Affordable Homes Programme (AHP) aims to start 36,000 homes per annum; Scotland's Affordable Housing Supply Programme's target is to deliver 11,000 homes annually; Wales aims to build 4,000 'social homes for rent' annually and Northern Ireland to start 1,850 homes each year under its programme ending in April 2022. However, this is not the whole story as, in England in particular, developer contributions provide roughly a further 27,000 homes annually, forecast by Savills to drop to about 25,000 over the next few years.[4]

Combining these separate programmes produces a crude UK affordable homes target (a mix of starts, completions and developer contributions) of about 78,000 new homes each year, which is rather higher than recent output but similar to that of the peak year 2014/15 (see Compendium Table 20f). However, it is only about half of what Bramley judges to be required.

Relative performance across the four nations is illustrated by Figure 1.3.1, which shows recent affordable output according to population size. Scotland and Northern Ireland have performed better than both England and Wales.

Figure 1.3.1 **Affordable housing delivery per 10,000 population across the UK**



Source: Compendium Table 20f.

Tensions in meeting targets: competing claims on providers' investment resources

The new affordable supply programmes across the UK all put extra public money into new build investment but also require providers to invest more too – at a time of significant competing pressures on those organisations' investment resources. These can be summarised as:

- Responding to tenant and regulator concerns about dwelling quality and awaiting the outcome of various reviews of current statutory standards.
- Investing in building safety in response to legislation and heightened public expectations.
- Meeting decarbonisation targets in the existing stock on very tight timescales.
- Doing so while adjusting to rising costs of building supplies and labour (reported as significant by nine out of ten Welsh social landlords in a recent CIH Cymru survey).[5]
- Responding to pressures on rental income, post-pandemic.

Regulators are drawing attention to these pressures and attendant risks and providers must strike the right balance in their investment programmes while evaluating the full impact of building safety requirements, awaiting details of government decarbonisation targets and potentially facing new housing quality standards.[6] Unsurprisingly social housing providers are spending more money on upgrading their housing stock with inevitable consequences for planned new supply (see below). The Regulator of Social Housing's latest risk profile for the sector in England says that landlords are planning 12 per cent more investment in existing homes in their latest 5-year forecasts compared with previous forecasts.

The two most crucial issues competing with new build for investment resources are building safety and decarbonisation. A third factor, rent inflation, is a major consideration in each landlord's determination of its investment resources.

Building safety

The work required to tackle the risks of the types of cladding linked to the Grenfell Tower fire, now largely complete, are the tip of an iceberg. The social sector is now grappling with wider safety concerns in high-rise and even medium-rise schemes, which for English housing associations could cost £10 billion.[7] This is already having an impact on new build plans. For example:

- A survey of 106 housing associations found that 61 are cutting plans to build 12,900 new affordable homes over the next five years, in order to prioritise spending on building safety.[8]
- L&Q, a large association with a total building safety bill of around £450 million, is cutting back its house building target by 70 per cent (to around 3,000 homes annually).[9]
- Other large landlords with cuts specifically related to building safety priorities include: Optivo, with 2,000 new homes cut from a 4,500-home target for 2020-23; Catalyst cutting its annual new build programme from about 1,300 to 1,000 homes; Clarion's output cut by about 1,800 over five years.[10]

The Local Government Association has pointed out that, without more financial support, English councils will be forced to divert funds from maintenance and repair and from providing new social housing to cover remediation costs, which the LGA calculates as totalling £8.1 billion for councils' housing stock.[11]

Decarbonisation of the existing stock

Scotland is ahead of the rest of the UK in setting clear decarbonisation targets for social housing. Landlords had until 2020 to meet the first milestone for the Energy Efficiency Standard in Social Housing (EESSH) and until 2032 to meet the second milestone, at a projected cost of £2 billion to housing associations.[12] The EESSH is being reviewed and this may put increased pressure on costs.

In England, analysis for the LGA estimates the additional investment required to decarbonise council housing stock at almost £1 billion per year over a 30-year period,[13] a considerable call on resources given that capital spending on new and existing stock averages about £5-6 billion per year.[14] Parallel analysis for the NHF[15] showed that up to 2030 about £2.2 billion will be required annually on top of associations' existing spending of about £1.5 billion on major repairs and planned maintenance. One association, Hyde, estimates that it will need to spend an average of £15,000 per unit on decarbonising its stock, of which only one-third will be covered by its normal investment budgets, illustrating the scale of the funding 'gap'.

In Wales, retrofitting the 230,000 social sector homes is estimated to cost £5.5 billion, with about a third required as grant.[16] In Northern Ireland, costs for the social sector of achieving EPC band B are put at £1 billion.[17]

While the availability of grant funding from different sources is becoming clearer, landlords will have to cover a significant proportion of costs themselves. The cost could possibly be eased (as the G15 has suggested) by, for example, reducing or removing VAT on decarbonisation work, by driving through economies of scale or by allowing rents to be increased where work will reduce tenants' fuel bills (so-called 'warm rents'). However, none of these is currently on offer.

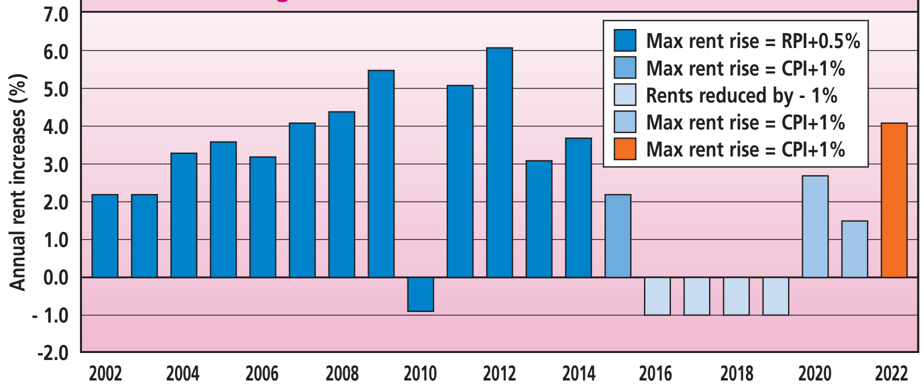
Preparedness for zero carbon is still patchy. BEIS recently conducted a survey of providers in England which showed that only half know the EPC rating of the majority of their stock, and only a quarter had relevant targets (e.g. to achieve EPC Band C by 2030). The principal barrier to achieving higher standards was seen to be finance.[18]

Handling rent inflation

Social landlords find themselves in a dilemma when deciding their rent policies, which of course determine the income available for new investment as well as running costs. On the one hand, having had to cut rents in the four years up to 2019 (see Figure 1.3.2), English landlords can make above-inflation rent increases and indeed in 2022 will be able to raise rents by up to 4.1 per cent as a result. On the other hand, while arrears have remained relatively stable during the pandemic, landlords are well aware that many tenants struggle to pay their rent, partly because the proportion receiving help through the benefit system is falling. Indeed, analysis by the Resolution Foundation shows that, in London and the South East, more than half of social tenants have to pay their own rents in their entirety.[19] In addition, 11 per cent of housing association tenants now pay higher Affordable Rents, reported to be creating hardship for many.[20]

Welsh social landlords can also raise rents above inflation, within certain constraints. In Scotland, which has no social rent policy, rent increases have exceeded inflation in recent years, but social landlords were reported to have increased rents by an average of just 1.2 per cent in 2021, probably in recognition of tenants' tighter finances, post-pandemic (see Commentary Chapter 4).

Figure 1.3.2 **How rents policies have restricted social sector rent increases in England**



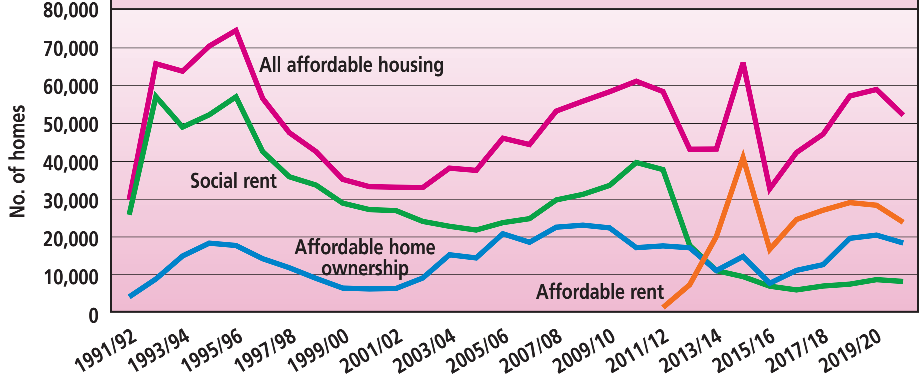
Source: Resolution Foundation, Housing Outlook, 4th quarter of 2021.
Note: Dates refer to the April of each year when rent increases take effect.

As investment in existing stock increases, the logic of tenants paying more is obvious, but the imperative of ensuring rents are affordable (not least because of the implications for arrears) remains equally important.

Supplying low-cost rented homes

Housing need assessments such as those noted above have consistently shown that the needs of nearly half of those living on low incomes who are homeless or living in unsatisfactory conditions are best met by providing housing at lower, social rents. The backlog of unmet need has grown considerably due to the failure to meet this aspect of supply. In part this is because, at the UK level, there has been a marked shift in the balance of affordable output away from social rented homes: whereas in 2010/11 they accounted for some two-thirds of completed homes, that has fallen to less than a quarter, while Affordable Rent and other intermediate rent products now account for nearly half of the total.

Figure 1.3.3 **Supply of new affordable housing by tenure in England, 1991/2 to 2020/21**



Source: DLUHC Live Table 1000.
Note: Social rent includes London Affordable Rent; Affordable homeownership includes shared ownership.

However, the scale of shortfall is very different in England compared with the rest of the UK. In Scotland, where about 5,600 social rented homes have been delivered annually for the past five years, the new target will be 7,700 homes, which is in line with current estimates of the requirement. The 2021 *Review* estimated that, as a result, Scotland's total social rented stock should have increased by 25,000 since 2016. In Wales, about 2,000 social rented homes are being delivered annually and the new programme for 2021-26 aims to provide 4,000 homes for rent per annum, reflecting the priority now given to that tenure.[21] In Northern Ireland, social rented needs are already being met by current output.

In contrast, in England social rented output has fallen to less than 7,000 units annually (see Figure 1.3.3), with more than half of that coming from developer contributions rather than from grant-funded programmes. The numbers are far from sufficient to replace the social rented homes lost, let alone add to overall supply. Since 2012, the stock has *fallen* by 208,000 (five per cent), and the principal reason for this is the loss of 128,000 homes through right to buy (RTB) sales.

The other main reason is the drastic shift of emphasis (unique to England) towards lettings at higher, Affordable Rents (AR). There are several elements to this. One has been conversions of social rented homes to AR lettings: although numbers are falling sharply, such conversions have rivalled RTB in their effects, totalling 120,000 since 2011. Another has been that where homes sold through RTB are replaced, this is usually via new AR lettings not via homes for social rent. The third is that AR has displaced social rent as a priority for government funding. The result is that delivery of new homes for Affordable Rent has been three times the level of social rented output.

The cumulative effect of these changes is that the stock let at higher, Affordable Rents by housing associations has grown to 281,594 units (11 per cent of HA stock) in less than a decade. Local authorities have added a further 30,222 AR lettings. Yet the original aspiration that AR would cater for 'a more diverse section of the population' has not been achieved: while tenants paying AR are more likely to be in work, they are almost as likely to require housing benefit as those paying social rents, i.e. there is no self-sufficient group of households who can pay the higher Affordable Rents without government help.

Under the AHP 2021-26, Homes England expects half of its programme to deliver rented homes (both social and AR), while the GLA's share of the programme aims for at least half of its output to be for social rent. Within these targets, two more factors favour a modest increase in the proportion built for social renting. One is the incorporation of more local authorities into strategic partnerships with the two funding agencies; the second is that many English local authorities' plans to build more homes, delayed by the pandemic, will resume. Councils will now be able to take belated advantage of the removal of the caps on their borrowing that took place in 2018, aided by the ending of the four-year period of rent reductions (see Figure 1.3.2), and in many cases are likely to favour building social rented homes to replace those lost through right to buy.

Savills forecast that social rent output could therefore double to around 11-12,000 annually by 2026,[22] which implies that it gains a bigger share of grant funding and/or that more units are built without grant. It seems unlikely that developer contributions will help more in this respect, however, in part because the government wants them to prioritise output of First Homes, and in part because of the possible early impact of planning reforms (see below). Indeed, Savills forecast that output of both types of rented homes via developer contributions will fall by a fifth. Even if doubling of social rented output is achieved, however, it will still fall well short of the 90,000 homes required annually to meet housing need suggested by Bramley.

AR output was running at 26-28,000 annually for the three years to 2019/20 but then dipped to 23,715 in 2020/21: Savills forecast this to decline slightly then return to 26-27,000 by 2026. Again, this is likely to rely on grant funding, with a smaller proportion coming from developer contributions.

Measures to promote affordable homeownership

Across the UK there is a variety of schemes supporting access to homeownership. Setting aside tax interventions,[23] and the Lifetime ISA (and earlier Help to Buy ISA) which can be used to fund a first home by any household, each country has developed differing suites of 'affordable homeownership' solutions to assist lower-income households. These include Northern Ireland's long-established Co-Ownership scheme (since 1978) and shared ownership (SO) in England (since 1980).

In England, the government originally committed to building 135,000 new SO homes in the last AHP. The latest data (see Compendium Table 20a) show there were 76,488 SO completions in the period 2015/16 to 2020/21 although starts fell by two-thirds in 2020/21, partly due to the pandemic. A further 12,622 affordable homeownership homes were completed over this period – a small number of which would be Rent to Buy (for which no separate data are provided).

Roughly 50 per cent of the planned output from the new AHP in England is affordable homeownership, principally SO. This is the new version of SO with a minimum share of ten per cent and allowing staircasing at one per cent per annum, alongside the 10-year period where the landlord has responsibility for repairs.[24] There is also a right to shared ownership entrenched in most of the rented homes built under the current AHP.

The shared ownership schemes operating elsewhere in the UK deliver relatively modest numbers (see Compendium Table 20) but this is mitigated by lower house prices and better market access to homeownership.

Since 2013, Help to Buy (HtB) has dominated the policy landscape in GB in terms of assisting a wide spread of homeowners and first-time buyers. Often overlooked but it was also aimed at boosting housing supply and assisting the recovery of the building industry. Crucially it is a market product rather than an affordable housing one and was open to any buyers of newly built homes up to a price of £600,000, depending upon country/region. We have examined HtB in previous editions of the *Review* (in most detail in Commentary Chapter 6 of the 2020 edition).

Around 80 per cent of purchasers via HtB have been first-time buyers (FTBs). After April 2021, it was formally restricted to FTBs only and, after being extended, HtB is now scheduled to end in 2023 in England and Wales and has already closed in Scotland. The scheme has not been without controversy, not least in terms of how it has boosted builder profits and dividends. An private sector alternative, Deposit Unlock, has been launched by the housebuilding industry and this is discussed later. However, HtB's closure as a government scheme does suggest an increasing reliance upon SO as a major route into homeownership for those outside the mainstream market.

Despite the different interventions, the Intermediary Mortgage Lenders Association (IMLA) argues that, compared to rates of entry into homeownership prior to 2007, there have been some 2.7 million aspiring FTBs in the UK who did not get into the market since then, of whom nearly 200,000 failed to do so in 2020.[25] IMLA and others[26] argue that the tightened regulatory regime put in place after the global financial crisis has been a key driver of this 'shortfall'. The Bank of England's Financial Policy Committee takes a different view (as discussed in Commentary Chapter 3).

Bridging the affordable homeownership gap?

At the 2020 Conservative Party conference, the prime minister pledged to transform 'generation rent' into 'generation buy' and committed the government to bringing another two million households into homeownership by May 2024: presumably an ambition for the UK as a whole and – subject to how this is measured – a very ambitious target! With rising prices and stalling wages, access to ownership in general as well as the output of affordable homeownership products have been falling. In any year roughly half of all purchasers will be FTBs but, despite government programmes, achieving that 2024 target looks increasingly unlikely.

Despite its weaknesses, HtB has been an important mechanism: perhaps 15-30 per cent of scheme users would have been unable to become or remain homeowners without it, and others have been able to 'buy bigger, better and sooner' via HtB. A crude estimate is that by March 2023 when all the schemes across the three countries should have closed, around 500,000 households in total will have used HtB (see Compendium Table 105). This suggests that between 75,000 and 150,000 households have become homeowners who could not otherwise have done so. Over the same period the more tightly targeted shared ownership output delivered by housing associations and local authorities across Great Britain would have delivered around 190,000 homes, highlighting both the significance of the latter and the importance of the former in this sphere.

In addition, the long-established right to buy programmes aimed at boosting low-income homeownership amongst public sector tenants have ended in Scotland and Wales, will be curtailed in Northern Ireland and provide diminishing numbers in England (see Contemporary Issues Chapter 4 for a full review). Again this suggests increasing reliance on SO as the route for lower-income FTBs.

As is well known and more recent research has confirmed, one of the strengths of SO is that it is open to a wide spread of incomes – reflecting the variable percentage of share being bought – though it is argued even then seven out of ten low-income renters would still not be eligible.[27] The new SO model starting in England (see above) will ease some tensions but others remain as is evident, for example, in the fall in the numbers able and/or willing to staircase to 100 per cent ownership. SO needs further reform if it is to become the ever-more-important route into affordable homeownership that policy has ascribed to it and the market wants and needs.

However, aside from reform the SO market faces other problems. Many shared ownership flats have been caught up in the chaos surrounding the English government's approach to cladding and fire safety and have become un-mortgageable, though a partial solution was announced in January 2022 (see Commentary Chapter 2). This in turn compounds the problems that have emerged with the cross-subsidy model that many housing associations have used to counteract falling grant rates and gearing constraints. Little wonder there is a growing asset sale market. In December the Welsh Government responded to the cladding problems by announcing a buy-out scheme which may include flat owners unable to sell on the open market without triggering negative equity, people in mortgage arrears and those now in need of a bigger home.

Although still being piloted in England, the new First Homes (FH) scheme offers a minimum, perpetual, 30 per cent discount on a new home delivered through the planning system. To achieve this, developers will seek to maximise their use of section 106 agreements (and First Homes exceptions sites) and to draw upon a £150 million government support scheme.[28] Assuming this scheme comes fully on-stream in 2023/24 it may deliver up to 10,000 homes per annum. However it will have clear implications for SO as the two schemes will compete for the use of some of the same sites. The government suggests FH will account for at least 25 per cent of all affordable housing delivered via planning obligations. Some 50 per cent of all SO units are also developed in this way so it seems likely that more FH homes will mean fewer SO homes and indeed fewer social rented homes too, especially given the current cutbacks in new housing association SO output noted above. The Rural Services Network has pointed to problems in implementing FH in rural areas, including that the discounts will be insufficient to make FH affordable. They also note that, in displacing new SO schemes, FH will have a double impact on delivery of low-cost rented homes because associations rely on SO sales to cross-subsidise them.[29]

Although homeownership is typically more affordable in Northern Ireland, Scotland and Wales than many parts of England, all of them operate affordable homeownership schemes (each with different definitions and data sources on affordable housing, rendering cross-UK comparisons difficult-see Contemporary Issues Chapter 4 in the 2020 *Review*). In summary the schemes are as follows:

- In Scotland, the First Home fund through which FTBs can get a £25,000 equity loan to buy a new or an existing home had supported nearly 9,000 purchases by March 2021 and funds are fully allocated for 2021/22 after which the scheme closes. LIFT (Low-cost Initiative for First-Time Buyers) continues with two variants – Open Market Shared Equity (OMSE) and New Build Shared Equity. A total of 733 sales were recorded in 2020/21 for OMSE compared to 1,145 sales the year before, this fall in part due to the First Home scheme.
- In Wales, HtB closes in 2023[30] and the Rent to Own scheme has closed with no new funding. It had delivered 187 homes over three years to March 2021. SO continues from February 2018 and in some areas HomeBuy offers up to a 30 per cent equity loan on existing properties.[31]
- Northern Ireland's Co-Own and Rent to Own schemes allow households to choose almost any new or existing home in NI with a value up to £175,000, with over 1,000 households a year using Co-Own. In addition, three housing associations offer an SO scheme, Fair Share.

Generally, demand exceeds supply and countries vary in the extent to which they trade off affordable renting and homeownership. With respect to ownership, access to the market has tightened for a variety of reasons, with serious impacts on both a regional and generational basis. As the Resolution Foundation recently commented, '...not only do today's aspiring first-time buyers need a larger income ...compared to previous generations, they also require more savings upfront in order to begin to build up property wealth'.[32]

Minding the gap – solutions and consequences for affordable homeownership

By 2023, with HtB's contribution to affordable homeownership gone and output of SO probably reduced, fewer than 20,000 affordable homeownership homes might be delivered each year across GB, down from perhaps 30,000 per annum. How then might we fill both this gap and meet the ongoing unmet demand – as well as make progress on the prime minister's stated ambitions?

In England, FH may deliver up to 10,000 homes per annum when it is mainstreamed in 2023/24 and SO a further 15-18,000 but the picture is a little less clear in Scotland and Wales. Scotland has set out its plan to build 110,000 new affordable homes to 2032 (70 per cent for social rent) while Wales has committed to building 20,000 new homes over the period 2021-2026 again mainly for social rent. Both will include affordable homeownership but no precise numbers have been released. Northern Ireland will presumably continue with around 1,000 co-ownership homes per annum.

Setting aside the short-term mortgage guarantee scheme on existing homes due to close at the end of December 2022, one encouraging new development is the number of market led initiatives. Deposit Unlock, the housebuilders' alternative HtB scheme, supports 95 per cent mortgages on selected new build properties, underwritten by a mortgage guarantee.[33] Alongside this we have Market Mortgage which brings together a conventional mortgage with an insurance company top-up loan, all offered at a competitive 95 per cent, and Proportunity, another entrant to the market, offering an equity loan alongside a conventional mortgage.[34]

These and other private sector initiatives highlight a new appetite in investors to fund (primarily by equity investment) residential real estate and take advantage of the sustained price growth in the housing market, itself reflecting the long-term undersupply of homes. One feature of the UK mortgage market is that it is deeply price-competitive and getting new products to scale has often proved difficult. Most households if given a choice prefer mainstream providers and products. But there are clear gaps in the market and this has encouraged innovation which may reduce the pressure for further government action to facilitate ownership. With public finances under considerable strain, governments will minimise what they do if there is any evidence the market can deliver real solutions to close the gaps.

The market is also offering more 95 per cent loan-to-value mortgages and these now cover new build – a market not historically covered at all. Shared ownership has for the most part been a public sector product and tended to be led by grant or section 106 funding, resulting in a long-term undersupply of SO and a lack of competition and few incentives to either improve the product or expand its availability. This has now changed fundamentally, as equity investors have shown an appetite both to provide SO and to buy up books of existing SO homes, especially in London and the South East. Given that this is designated affordable housing it also allows investors to offer ESG (environmental, social, and governance) bonds for which there is a ready and expanding market.

Heylo, a private company and SO provider (via new build and book acquisition) for some years, has recently agreed significant loan finance with Blackrock and has also developed the Home Reach SO product for new build homes. Alongside Heylo, and perhaps more significantly, for-profit registered providers (FPRPs) have been buying up portfolios of SO homes that are reaching the market, as not- for-profit RPs rework their budgets and operations to deal with cladding, fire safety and the issues discussed earlier.[35] Hyde, for example, has sold 422 SO homes to an FRP, who will now fund up to 2,000 new ones. FPRPs currently own around 12,000 SO homes (March, 2021) but the expectation is that they will continue both to acquire and to build SO stock. Savills suggest that by 2026 they could have delivered 100,000 new homes for SO and rent; in practice much of this is likely to be SO.

New interest is also being shown in reviving the largely defunct Do it Yourself Shared Ownership (DIYSO), by which households opted for SO on an existing home rather than via new build. This was popular with older households – in some cases downsizing to more expensive areas – and with other households who preferred to buy in established areas. DIYSO was funded by the Housing Corporation in the 1980s and 1990s: it was expensive in grant terms and did nothing for new supply.

Without doubt there is a continuing case for a product that helps households buy existing homes and not least as a mechanism to assist movement within the market by a variety of otherwise ‘trapped’ households. The question now is whether there may be an appetite for lenders and investors to re-invent this product and bring it back to market? While Northern Ireland, Scotland and Wales all have small schemes which cover the purchase of existing homes, there is none in England where the greatest need exists.[36]

There is thus the potential to see a radically transformed SO market given that at last we are beginning to see increased supply, competition and innovation. That might then reinvigorate the current housing association-dominated market with the prospect of bridging more of the affordable homeownership gap over the next decade?

Can governments focus more on delivering social rented homes?

If the market does deliver more, then will the pressures on government to support the market be reduced, allowing them to focus on ensuring there are affordable homes to rent? While the expanded Build to Rent and Buy to Let markets may provide some better quality (but possibly more expensive) homes for those waiting to access homeownership, the reality is that there are limits to how far homeownership can reach down the income spectrum. A large proportion of lower-income households still need social rented homes and in Scotland, Wales and Northern Ireland the governments have made political choices to focus their efforts on providing them.

In England, diverting funds away from supporting homeownership might help in the short term, but higher output will inevitably require more public funding. To help make the case, the housing sector has offered broader arguments for increasing rented output, in addition to that of meeting urgent housing needs. For example, a range of studies have shown the wider social and economic benefits of creating a bigger stock of social rented homes (rather than a diminishing one, as is currently the case), in some cases arguing that the fiscal costs are outweighed by the benefits in terms of pay-back to the Exchequer.[37] A recent study by CIH with the Centre for Homelessness Impact indicated that a modest increase in social rented output of 10,000 units annually could be largely funded from consequential savings in housing benefit and temporary accommodation costs.[38]

However, a study by the NHF of the funding needed to achieve the much bigger rented programme required to meet the levels of need projected by Bramley would be well in excess of the current AHP, and furthermore would require much higher grant levels per home.[39] This position has been reached because successive governments have ignored the backlog of unmet need that has been growing year by year, and now demands much more investment than would have been the case if it had been addressed earlier. Scotland offers a lesson in this respect, having maintained high levels both of total funding and of grant per unit, and indeed having recently increased grant levels to support a further expansion of its investment programme.

Apart from direct public support, we have already pointed to the huge role played by developer contributions in England, and how vital it is that this continues. Yet in addition to the problem already noted that First Homes will displace new rented provision, an additional threat is the wider changes to the planning system which could also affect affordable output. Since the government's proposals were analysed in the 2021 *Review*, several reports have highlighted the risks they pose, with recommendations for ways in which they could be modified so as to continue to deliver affordable housing.[40] For example, affordable requirements could be made an explicit part of planning permissions, ensuring both that they are delivered and that they form part of mixed developments. The government is undertaking a further review of its planning policies and it is vital that it takes these risks into account and ensures that the planning system continues to provide a large volume of low-cost rented accommodation.

The consequences of the long-term undersupply of social rented homes for those unable to buy or rent decent homes are threefold. First, it increases the numbers of lower-income households obliged to use the less attractive parts of the PRS, often in high-rent, poorer-quality and insecure accommodation. Affordability is a particular problem for private renters on low incomes: 69 per cent of renters in the two lowest income groups spend 30 per cent or more of their income on rent (in London and the South East, proportions rise to over 90 per cent). There are 1.2 million PRS households with low incomes and high rents and some 30 per cent of all those in poverty (after housing costs) live in the PRS.[41]

Second, it stops many households finding suitable accommodation at all, ending up in overcrowded conditions, sharing, sofa-surfing or using other forms of insecure shelter, or becoming street homeless. Already some 200,000 households in England are subject to what is called 'core homelessness' (see Commentary Chapter 5). An insufficient supply of affordable homes has driven these numbers up and they will continue to rise until investment reaches the necessary levels.

Finally, its failure to deliver more social rented homes leaves open the question of how far the UK government can really meet its promise to 'level up' between regions. It is often overlooked that, although housing pressures are at their greatest in London and the South, the biggest losses of homes at affordable rents have taken place in Northern England: these three regions have seen a fall of more than one-fifth in their affordable stock in three decades (see Compendium Table 22). Less surprisingly, Northern England also has the highest proportion of dwellings that fail to meet the Decent Homes Standard.

Our conclusion is that, whether viewed regionally or across different income groups, closing the housing affordability gap remains crucial to delivering the government's commitments. If it is serious in its aims of 'levelling up' and reducing inequality, it must not only help those who can afford homeownership to achieve it, but also ensure that the huge numbers of households who cannot buy still have access to decent and secure homes at affordable rents.

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7 See www.housing.org.uk/news-and-blogs/news/more-than-1-in-10-new-affordable-homes-lost-to-building-safety-costs/

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