

Beyond a one size fits all housing policy



Current state of play ■ Estimating housing need ■ Diverse housing needs

A positive supply story for now

Affordable housing supply faces a significant slowdown as mounting pressures start to bite. Policy needs to respond urgently to address this slowdown.

Despite the mounting pressures facing affordable housing providers in recent years, the number of new affordable homes being built in England has steadily increased. Completions reached an eight-year high in the 12 months to March 2023 with c.58,000 new affordable homes delivered.

Early indicators suggest the delivery of affordable homes for 2023-24 will be almost as much, supported by an increase in Housing Associations deploying grant to buy homes intended for private sale. However, beyond 2024, the outlook for affordable housing supply is much more challenging.

Changing direction of travel

Under the previous Government, the delivery of affordable housing steadily increased whilst the overall mix of affordable housing tenures remained fairly stable. Delivery through Section 106 (S106) has consistently been the single largest method of delivering affordable housing since 2015-16, accounting for roughly half of total new affordable housing completions. Policy has focused on the delivery of less grant intensive tenures such as Affordable Home Ownership (AHO) (mostly Shared Ownership) and Affordable Rent. This has been at the expense of grant funding for Social Rented homes, leading to the lowest levels of real-terms grant funding since before 1992.

A very weak outlook for affordable housing supply

We are now facing a serious downturn in the supply of new affordable homes. Affordable housing delivery peaked in 2022-23, with early indicators showing that this slowdown has already begun. Quarterly construction data from the National House

Building Council (NHBC) shows that construction starts in the alternative sector (predominantly affordable housing) have fallen by just over a third in the 12 months to September 2024 compared with the same period in 2023. Similarly, in February 2024, the G15 group of London-based Housing Associations issued a warning to the Government that starts by its members were down by 76% in London in 2023-24 compared to the previous year, and down by 37% outside of London.

Caution ahead

Inflation, higher costs of finance and a slowdown in the wider housing market, alongside changes in policy in recent years have all made it more difficult for providers of affordable housing to develop new homes, contributing to this slowdown in affordable housing supply.

Firstly, inflation has taken a considerable toll. Due to rising inflation and the cost of living crisis, the Government mandated caps to rent increases in 2023 to support tenants. But below inflation rent increases have left affordable housing providers struggling to cover the costs of their existing homes, significantly constraining their financial capacity.

Rising inflation has had a significant effect on Government funding for new homes too. The 2021-26 Affordable Homes Programme, the largest investment in affordable homes in over a decade, has been whittled away by rising construction costs and a lack of financial capacity within the sector. From an initial target 180,000 new affordable homes, this has now shrunk to between 110,000 – 130,000, with grant funding covering the cost of fewer and fewer homes.

👉 Affordable housing delivery peaked in 2022-23, with early indicators showing that a slowdown in supply has already begun 👉

We estimate that 187,000 additional households are in need of sub-market housing each year, requiring a significant step up in delivery.

This need varies between and within regions. Future housing policy should recognise this variation and grant funding should be directed towards supporting new homes that will have the biggest impact on people's housing challenges. This is likely to require greater coordination between districts, within regions or mayoral areas to ensure homes are delivered in the right places.

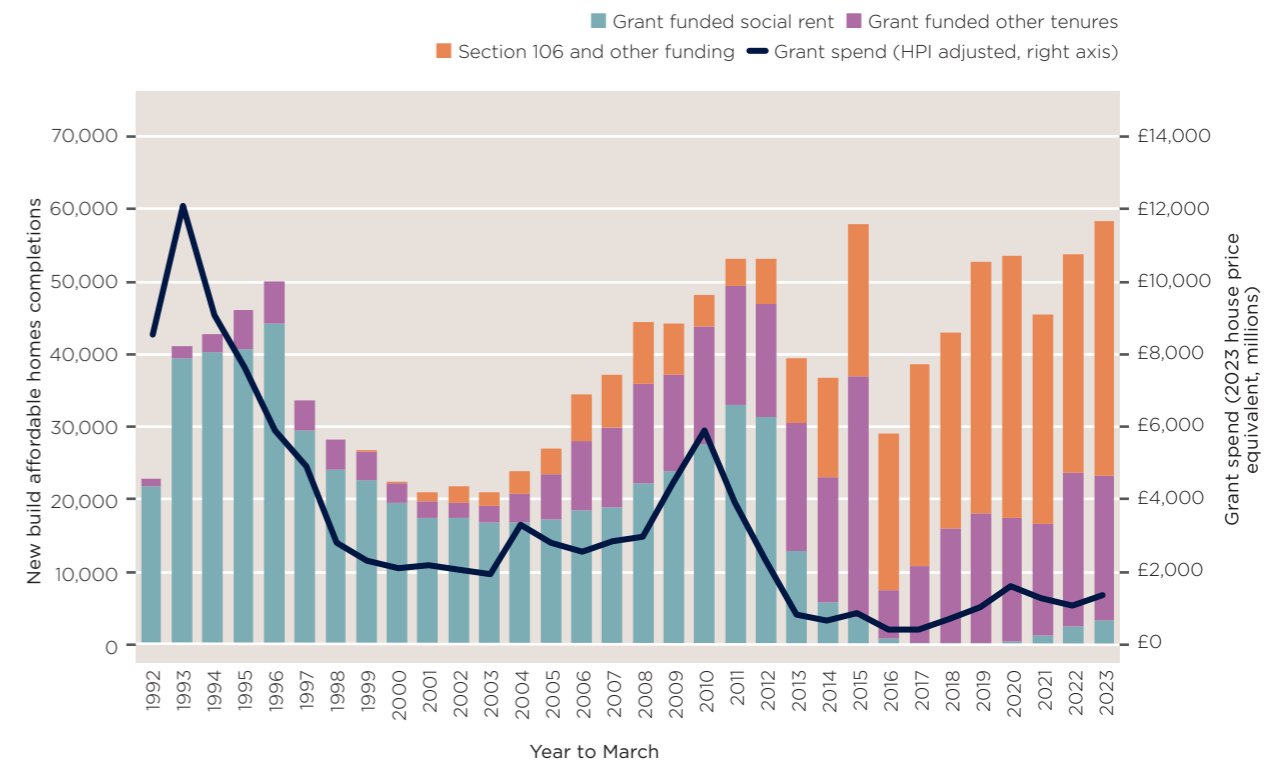
Future grant programmes will need flexibility to deliver the most appropriate affordable housing in each area. Our research shows that more social rented homes are needed everywhere alongside other affordable tenures, such as intermediate rent or affordable home ownership options.

Grant funding is likely to be constrained over the coming years. Delivering a range of affordable housing tenures, matched to the requirements of local areas, would therefore maximise value for money and have the greatest impact on people's lives.



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Figure 1 Adjusting for house price inflation, grant levels have fallen to their lowest levels since before 1992



Source: Savills using Nationwide, MHCLG

Alongside this, there has also been a reduction in the number of affordable homes delivered by private developers as part of their S106 obligations. An even more pressing concern is that once built, developers are struggling to find buyers for S106 homes. With Housing Associations

now having to spend a growing share of their already-constrained budgets on improvements to existing homes, there is significantly reduced capacity to fund new development or acquire S106 homes, as reported in [our recent paper](#).

How can policy urgently respond to this slowdown?

1. Restoring financial capacity

Confirmation of a long term rent settlement would provide Housing Associations with greater certainty around future rental income. Recent Savills analysis has found there is both the need and capacity to increase general needs rents at CPI +1% over the next 10 years, whilst maintaining a discount to [private rents](#).

A new Affordable Homes Programme from 2026 would also support the rebuilding of financial capacity. Expanded grant funding to support new housebuilding and support improvements to existing homes. Further details around

the new programme are not expected to be announced until spring 2025.

2. A clear direction for planning policy

Planning policy and guidance looks likely to continue to emphasise the need for Social Rent over other tenures. Recently proposed changes to the NPPF would remove the requirements for 10% of homes on major sites to be for AHO and for at least 25% of affordable housing units secured through developer contributions to be First Homes. Without considerable uplift in grant, it will be very challenging

to deliver as many or more affordable homes if the proportion of delivery as Social Rent continues to increase.

3. Devolution of funding and decision making

Planning authorities and mayoral authorities should have greater power to decide whether affordable homes should be offered for rent or for ownership, and at what level of discount. Our research highlights the role intermediate housing can play in supporting the delivery of affordable homes and helping to address the housing crisis.

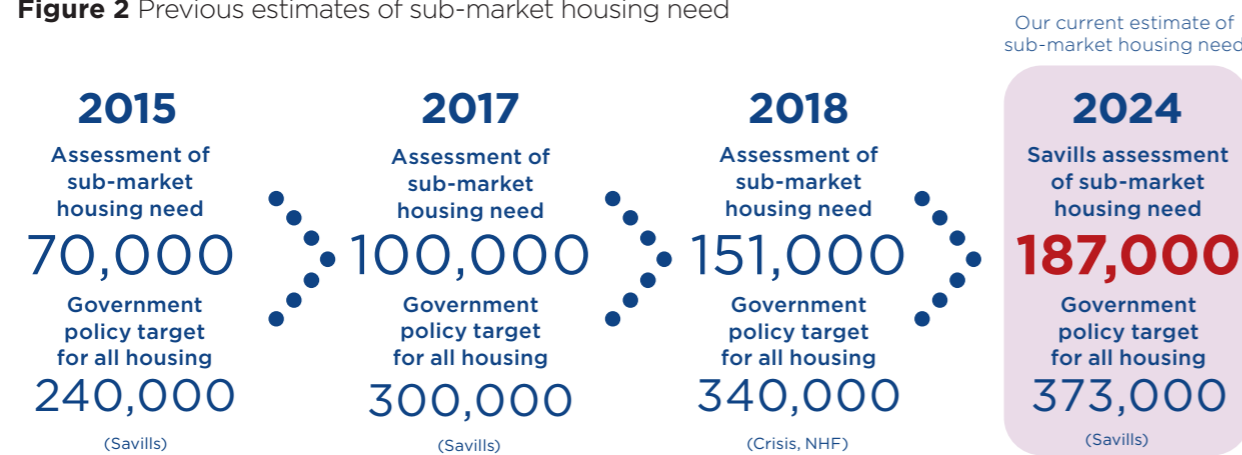
What is the true scale of sub-market housing need?

Meeting affordable housing need means providing for households excluded from the housing market alongside maintaining the current provision of affordable housing.

There is substantial need for sub-market housing across England, but the mix of solutions varies across the country, by region and by local market. Different levels of discount are required in different

places, and there is a continued role for homeownership support. Policy choices around tenure and funding that reflect this could significantly improve the impact of a constrained grant funding pot.

Figure 2 Previous estimates of sub-market housing need



We have updated our 2017 analysis to look at the scale and nature of sub-market housing need. The findings are stark. With house prices, mortgage rates and market rents all now higher than in 2017, housing affordability has been stretched further and further. The Government's recently proposed changes to the standard method for housing need adds up to c.373,000 homes per year across all English local authorities. We estimate that, based on this figure, around 187,000 homes need to be sub-market homes. A significant step change in delivery is needed but as identified in 2017, this need varies greatly across the country. It is clear that a 'one size fits all' housing policy fails to address the variety of issues faced in different markets.

Our estimate of sub-market housing need is based on calculating the number of households currently excluded from the housing market, in addition to maintaining the current provision of affordable housing. The estimate aims to provide for all emerging households priced out of the current housing market. We then translated this total need into a proportion of annual housing delivery (assuming delivery at c. 373,000 homes per year, the proposed Government policy aim.)

Meeting local housing needs

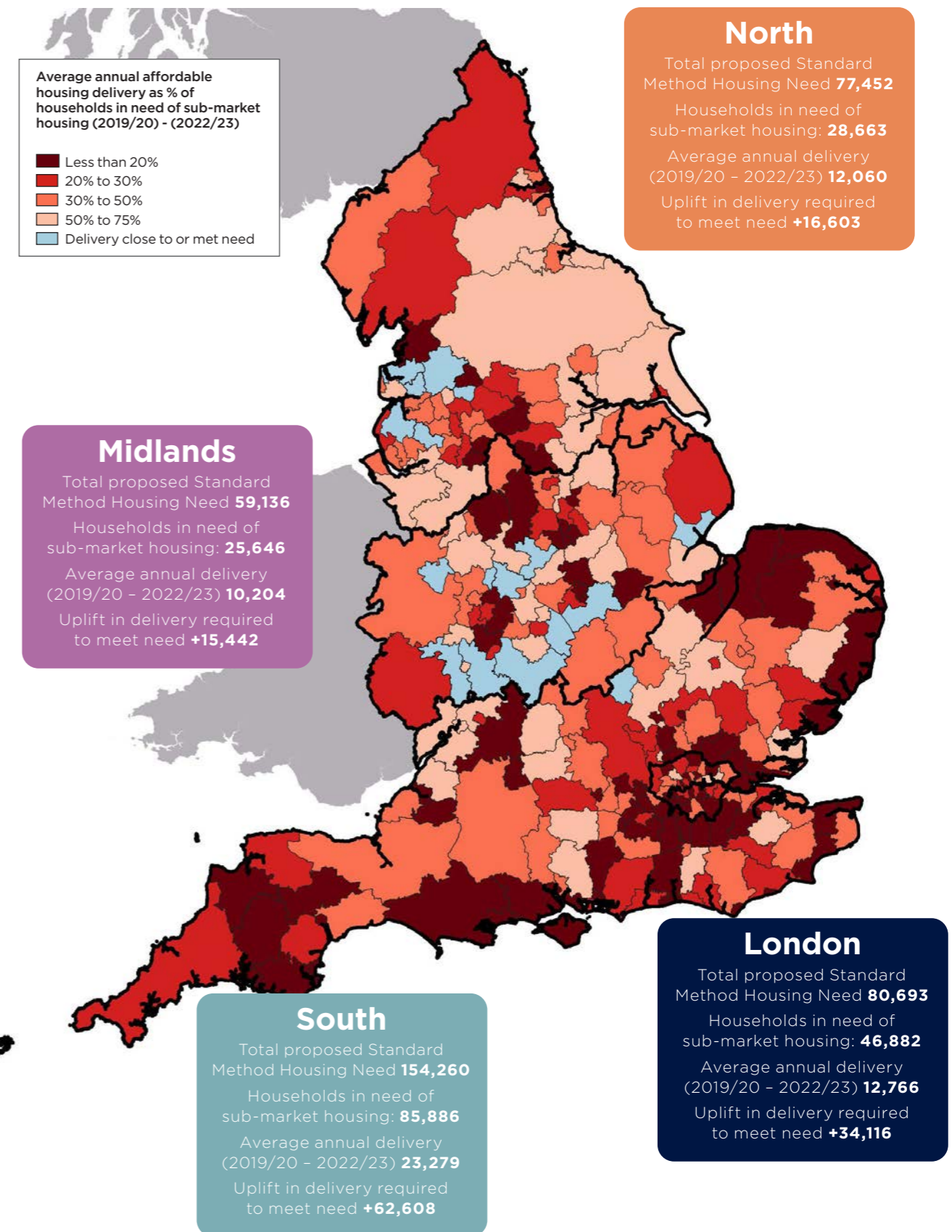
Looking at need at a local level reveals a varied picture across England. Many parts of London and the South currently build less than 20% of the sub-market housing required to

meet our estimate of need. Much of this is concentrated around London, the Home Counties and the south coast, traditionally very expensive and supply constrained markets. There are also notable rural hotspots where delivery is well short of need, in parts of the South West and East Anglia. As part of our response to proposed reforms of the planning system, we noted that in many places the English planning system assumes uniform standards or district-level policy that fails to capture the important nuances around actual economic geographies.

In the North and Midlands, there are many local authorities where delivery would need to increase significantly to meet need, on a similar scale to the South. But there are some local authorities in these regions which are delivering within 25% of their estimated need, or in fact are meeting it already - we found that there were seven local authorities where current average delivery meets our estimated need figures.

These are often isolated pockets of higher development activity. For example, districts such as Stratford-on-Avon and Ribble Valley have higher levels of affordable housing delivery in part due to greater volumes of overall housebuilding generally (with Section 106 delivery enabling increased affordable housing delivery in turn). These areas will be picking up the overspill of demand from constrained urban markets such as Birmingham.

Figure 3 75% of the shortfall in delivery is concentrated in London and the South



Source: Savills using Census 2021, Experian, HM Land Registry, portal listings data, MHCLG Live Table 1011

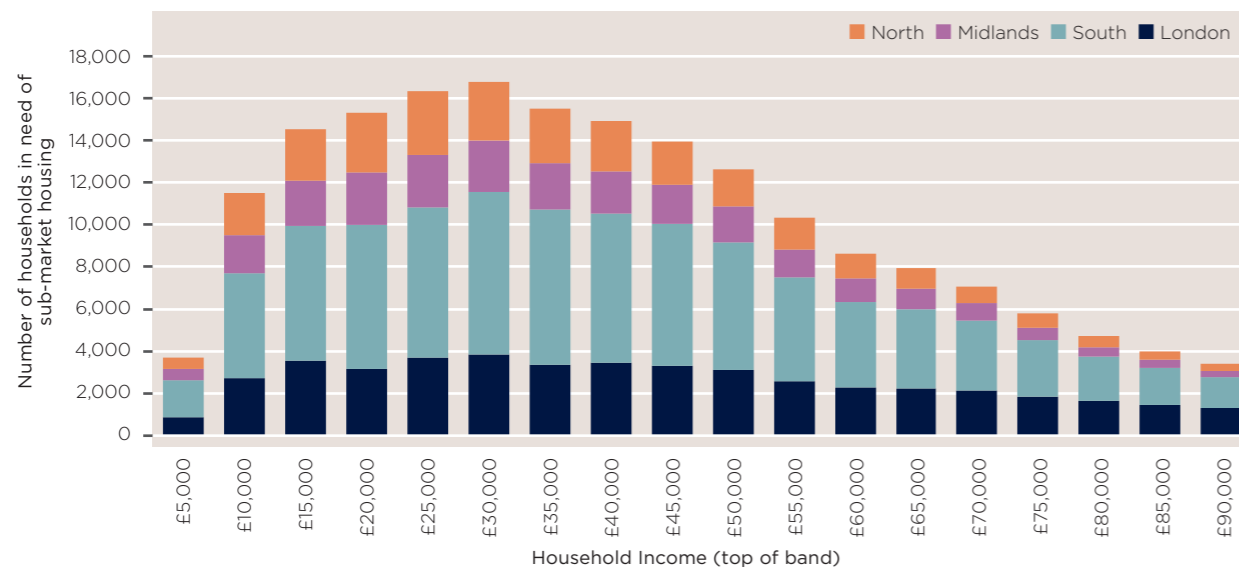
Meeting the diverse needs of local markets

Maximising value for money means using grant funding flexibly to help meet housing needs in local markets

Due to the variation in house prices and rents across the country, housing need varies significantly, and therefore the balance between tenures required to meet need. In London, almost half of households in need have incomes in excess of £30,000; this is due to the challenge of very high

house prices and rents, even for those earning above average wages in a national context. By contrast, in the northern regions, 80% of households in need have incomes under £30,000.

Figure 4 Across England, the greatest need is concentrated between households earning between £10,000 and £30,000.



Source: Savills using Census 2021, Experian, HM Land Registry, Zoopla - powered by Hometrack, MHCLG Live Table 1011
*These income levels exclude housing benefit.

Diversifying the tenure offering

In all regions, we need to be building more affordable housing, but a key part of the policy solution is diversifying this supply and the tenure offering across different markets. Local markets are diverse, therefore matching housing need to supply will produce the best outcomes for households. Providing a mixture of tenures, which won't be the same in every area, is needed to get the best value for money from limited grant funding.

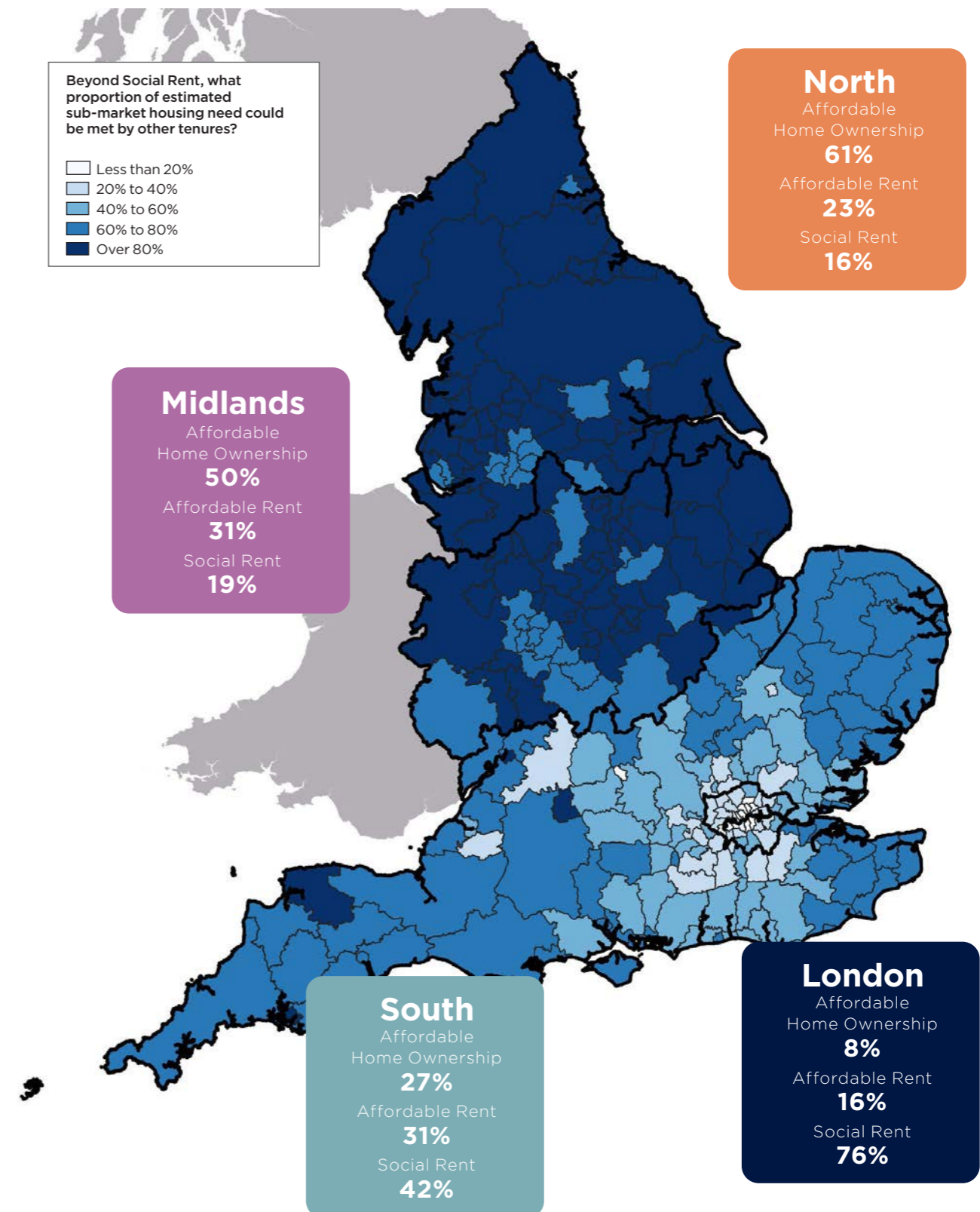
Our research highlights that in London and much of the South, housing need is best met by prioritising social rented

homes as the biggest discount to market pricing is required in these areas. Other tenures will still have a role to play alongside social rented supply, particularly when supporting scheme viability. In other regions, the mix of tenures is likely to be more varied, with a greater range of intermediate and AHO tenures as part of the supply solution.

Affordable housing can also help meet housing needs for specific groups, through the provision of intermediate housing prioritised for key workers for example, as reported in [our recent note](#).



Figure 5 Alongside more social rented supply, there are significant variations in the mix of affordable housing tenures required in different markets



Source: Savills', Savills using Census 2021, Experian, HM Land Registry, portal data listings MHCLG Live Table 1011

To calculate the mixture of tenures required, we have made the following assumptions: 1. Affordability is determined by having a sufficient income to access a product. Products are sorted by increasing discount, starting with Affordable Home Ownership tenures (Affordable Home Ownership / Discount Market Sale, First Homes, and Shared Ownership), Affordable Rent (including London Living Rent and Discount Market Rent), with residual households unable to afford any product allocated to Social Rented housing. 2. Affordable Home Ownership products assume no existing equity on the part of the buyer, a discount to the median capital value in each local authority in 2023 (of 20% for Affordable Home Ownership, 30% for First Homes, and a 25% first tranche for Shared Ownership), and a 95% LTV mortgage at 5% rates over 30 years. An income cap of £80,000 is applied to First Homes and Shared Ownership outside of London in line with policy. A cap of £90,000 applies within London. 3. Affordable Rent products assume a discount to the median rent in each local authority in 2023. London Living Rent is priced at a 30% discount with an income cap of £67,000. Affordable Rent is offered at a discount of 50% outside of London, or 60% inside London, based on evidenced discounts from the Private Registered Provider Social Housing Stock in England dataset.



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We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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