



Funding London's affordable homes

G15 research report

August 2024

#roomtogrow

Introduction

The provision of social and affordable housing allows London to be a city for everyone. Without it the fabric of London would change. Our work helps to ensure London maintains its economic vitality and diversity, prevents housing-related poverty, and unlocks a huge amount of social value for residents, for London and the UK, and for society at large.

With a new Labour government now setting ambitious target for new homes, this report examines the critical role that housing associations play, both in ensuring London remains affordable and accessible to Londoners, and in raising the funds necessary to meet the moment and bring about real change.

Summary of key points:

- Housing associations provide 289,000 socially rented homes in London at an average rent of £130.27 per week. 75% of these homes are provided by G15 members.
- Social housing is 70% cheaper on average than private market alternatives. Without it, London would be off limits to many people on medium to low incomes; our work helps to ensure London maintains its economic vitality and diversity.
- For those on the lowest 20% of incomes in London, the average social rented home costs 28% of their take-home income, while a privately rented home would consume over 94% of their income.
- Providing a stable, affordable home also delivers benefits across a host of other areas, promoting higher employment, lower ill-health and stimulating the construction and maintenance sector.
- Since government funding was cut by 60% in 2010, housing associations have been increasingly reliant on income from private borrowing and profits from selling and renting homes on the private market.
- Nonetheless, social housing rents are still our main source of income and we use them both to fund upgrades to existing homes and to cover part of the cost of building new social homes.
- Having reliable income from rents allows us to borrow cheaply without adding to the government's debt, but uncertainty around how much rent we can collect over the next decade is damaging our ability to do so cost-effectively.
- By borrowing privately we multiply any money that the government chooses to put in, raising £6 for every £1 in government investment.
- That's why we're calling for greater policy certainty to allow us to improve existing homes, build new ones, and address the housing crisis.

What we do

Social housing allows London to be a city for everyone

- Housing associations provide 44% of London's socially rented homes and the remainder are managed by local authorities. G15 members provide 75% of London's housing association homes
- Housing association homes including those managed by the G15 are significantly more affordable than market rent
- This drives inclusive growth and unlocks a range of economic benefits

The homes we manage

Within London, housing associations provide **289,000** homes for social rent. G15 members provide **75%** of these homes – **214,705** in total. Social rent is the least expensive form of social/affordable housing and is set according to a government formula that considers local incomes. Across London, the average socially rented home managed by a housing association costs **£130.27** per week.¹

Our socially rented homes are primarily let to households on local authority waiting lists, meaning we house people facing the highest degree of housing need, including those without a home or those previously living in overcrowded, unsafe, or otherwise unsuitable conditions. Last year, housing associations let **16,357** homes in London, **13,096** of which were let at social rents.² Of these, 13.5% were newly built.

The money our homes save

As outlined in table 1, social rents are around 70% lower than private market alternatives and provide low-to-middle income households with the option to live in extremely high-cost areas of London.

If all of London's housing association social renters were to pay market rents, they would be collectively liable for **£4.8bn** a year extra in rental costs.³

Some residents receive support from the welfare system to pay their rents. Were these residents living in the private rented sector, then they would be eligible to receive local housing allowance benefit payment. Our socially rented homes therefore also save the taxpayer a potential **£3.5bn** a year over meeting all housing needs through the private rented sector.⁴



Within London, housing associations provide **289,000** homes for social rent.



The average socially rented home managed by a housing association costs **£130.27** per week.

Many housing associations also provide a smaller number of homes set at 'affordable' rents, which are more expensive than socially rented homes. Affordable rents must be 80% or less than market value. Some of our members, like L&Q, set their affordable rents lower than this, linking them to local earnings as well as market rates, meaning rents are typically 50-60% of market rates in expensive areas. Additionally, many homes built since 2016 in London are set at 'London Affordable Rent', which is **£178.23** per week for a two-bedroom property (typically equivalent to 40-50% of market rents).

Tackling poverty in the capital

Our members' homes don't just represent good value for money, they are also among the most effective tools we have for addressing poverty. Housing costs are the biggest driver of poverty in London; when housing costs are taken into account, London's poverty rate rises from 14% to 24%.⁵

London has a reputation as a wealthy city, but incomes have not come close to keeping up with prices in its private rented sector. A household with an income equal to the median salary in London (£33,562 after tax) would pay 68% of their income on housing on average, based on rents and earnings at the local authority level.⁶ In the least affordable area, Westminster, this rises to 106% of the median salary.

Nowadays, most people who live in or are eligible for social housing earn below median income. In 2021/22, almost 75% of social housing residents were in the bottom 40% of incomes, of which 47% are in the bottom 20% of incomes.⁷ The average privately rented home would take up 94% of take-home pay for those in the lowest 20th percentile of incomes. In the most expensive borough, Westminster, this equates to 153% of median income.

Rents in inner London are stratospheric, and only a privileged few can afford them. However affordability is a pressing issue across London. Even Croydon, where private renting is most affordable relative to local incomes, the average price of a new let is 56% of median income, and 70% of the lowest 20th percentile of incomes.

By contrast, our socially rented homes cost just **28%** of post-tax income for the lowest 20th percentile of earners in London. As many social housing residents earn less than the average income, this represents by far the most affordable option, and is vital to tackle poverty caused by high housing costs. Social housing is a lifeline for people who earn less than average incomes in London, and without this tenure, the capital would be a very different place.

Housing association and market rents by London borough

Borough	Number of housing association homes for social rent	Average social rent (as a proportion of the lowest 20th percentile of incomes)	Average market rent at new let (as a proportion of the lowest 20th percentile of incomes)	Saving between social and market rent (per week)
Tower Hamlets	25,230	£134.37 (27%)	£493.38 (101%)	£359.01
Lambeth	18,370	£126.98 (26%)	£548.31 (111%)	£421.33
Lewisham	18,215	£117.50 (25%)	£410.31 (89%)	£292.81
Hackney	17,292	£128.57 (27%)	£428.08 (91%)	£299.51
Bromley	13,312	£122.21 (25%)	£412.85 (86%)	£290.64
Southwark	12,212	£130.94 (28%)	£410.31 (87%)	£279.37
Islington	12,126	£136.13 (27%)	£451.62 (89%)	£315.49
Brent	11,764	£134.68 (30%)	£455.08 (103%)	£320.40
Greenwich	10,007	£127.49 (27%)	£384.92 (81%)	£257.43
Bexley	9,635	£118.31 (26%)	£384.92 (83%)	£266.61
Westminster	9,544	£141.10 (30%)	£716.77 (153%)	£575.67
Newham	9,543	£128.16 (29%)	£428.08 (97%)	£299.92
Hammersmith and Fulham	9,461	£138.39 (28%)	£586.15 (118%)	£447.76
Kensington and Chelsea	9,182	£136.84 (27%)	£586.15 (115%)	£449.31
Merton	8,970	£122.05 (26%)	£448.62 (95%)	£326.57
Croydon	8,741	£131.04 (28%)	£319.85 (70%)	£188.81
Waltham Forest	8,723	£125.12 (26%)	£348.69 (73%)	£223.57
Ealing	8,350	£136.58 (31%)	£414.00 (93%)	£277.42
Haringey	8,120	£127.99 (28%)	£451.62 (99%)	£323.63
Richmond upon Thames	7,846	£131.36 (27%)	£407.08 (83%)	£275.72
Wandsworth	6,811	£138.08 (26%)	£517.15 (99%)	£379.07
Camden	6,187	£142.68 (30%)	£532.62 (112%)	£389.94
Hounslow	5,884	£132.72 (30%)	£407.08 (91%)	£274.36
Barnet	5,800	£136.32 (30%)	£440.08 (98%)	£303.76
Enfield	5,763	£130.06 (29%)	£395.08 (87%)	£265.02
Hillingdon	5,106	£132.03 (29%)	£375.00 (83%)	£242.97
Sutton	3,998	£125.55 (27%)	£448.62 (98%)	£323.07
Redbridge	2,834	£131.96 (29%)	£348.69 (77%)	£216.73
Barking and Dagenham	2,802	£125.53 (29%)	£352.15 (81%)	£226.62
Harrow	2,748	£141.08 (32%)	£375.00 (84%)	£233.92
Havering	2,387	£124.50 (27%)	£352.15 (78%)	£227.65
Kingston upon Thames	1,516	£137.79 (29%)	£448.62 (93%)	£310.83

Map of G15 homes at social rent, by London Borough

Brent

- **11,764** housing association homes let at social rents
- Average social rent is **£134.68** per week
- Average market rent at new let is **£455.08** per week
- Social rents are **25%** of lower local net incomes, market rents are **103%** of lower local net incomes

Lambeth

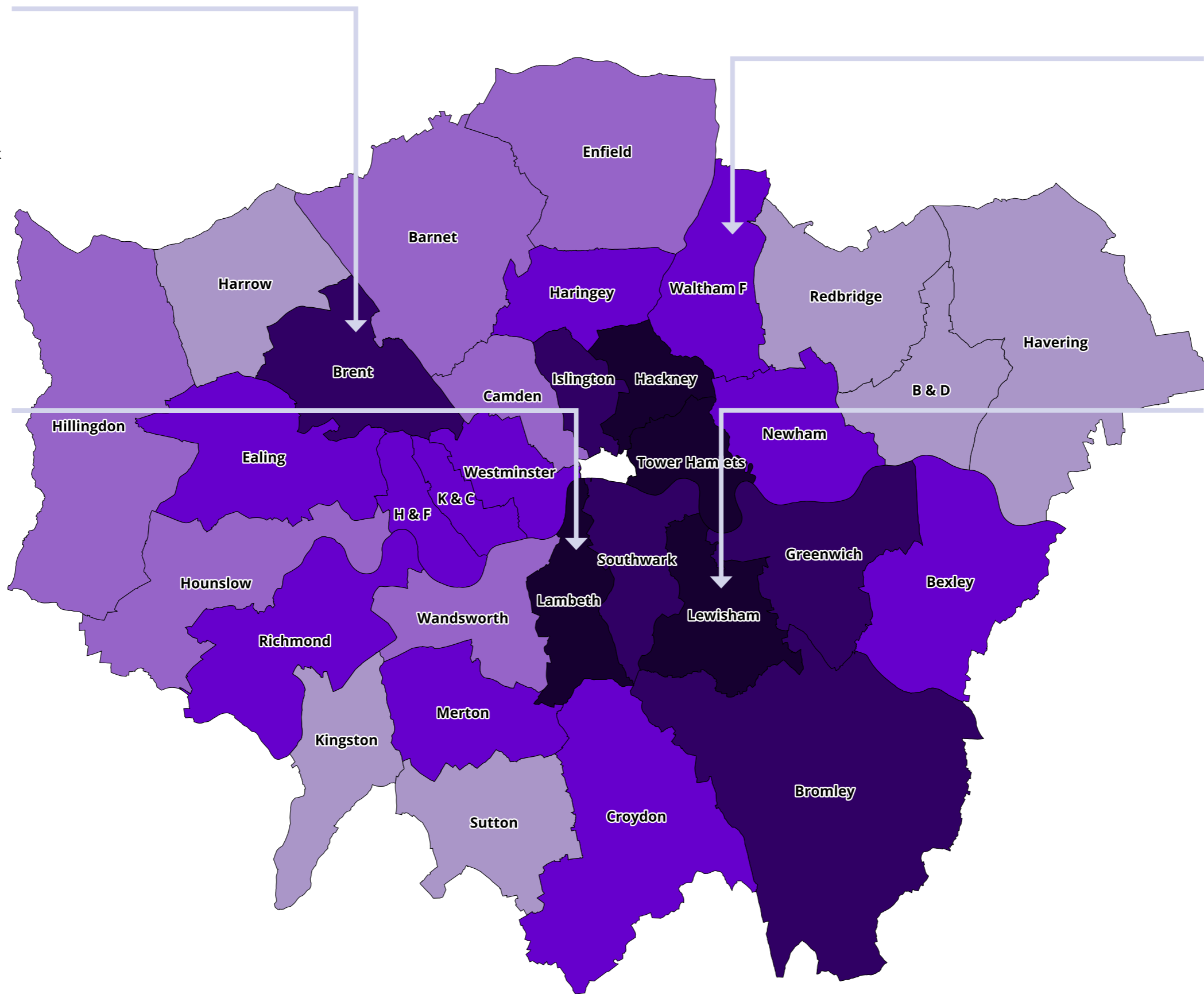
- **18,370** housing association homes let at social rents
- Average social rent is **£126.98** per week
- Average market rent is **£548.31** per week
- Social rents are **26%** of lower local net incomes, market rents are **111%** of lower local net incomes

Waltham Forest

- **8,723** housing association homes let at social rents
- Average social rent is **£125.12** per week
- Average market rent is **£348.69** per week
- Social rents are **26%** of lower local net incomes, market rents are **73%** of lower local net incomes

Lewisham

- **18,215** housing association homes let at social rents
- Average social rent is **£117.50** per week
- Average market rent is **£410.31** per week
- Social rents are **25%** of lower local net incomes, market rents are **89%** of lower local net incomes



Housing association homes for social rent

Total number by borough

- Up to 5,000 units
- 5,000 to 7,499 units
- 7,500 to 9,999 units
- 10,000 to 14,999 units
- 15,000 units or more

2. Number of G15 socially rented homes by London borough, selected market and social rents. All incomes are 20th percentile. Source: RSH Statistical Data Release, Homelet Rental Index

Promoting inclusive growth

As well as preventing housing-related poverty, our members' homes unlock a huge amount of social value for their residents, for the state, and for society at large.

Social housing residents perform a wide variety of jobs that are essential for the healthy functioning of the city. Research by our member Peabody has found that one third of the capital's police officers, ambulance staff and care-workers live in social housing, as well as 31% of workers in 'elementary jobs' such as security staff, cleaners, postal workers, kitchen assistants, and bar and waiting staff.⁸ Without social housing, it would be next to impossible for many of these people to live in the capital based on current pay levels.

Many social housing residents who are not currently in work also perform socially vital roles, for instance as unpaid carers or volunteers. A recent study by the Hyde Group and social value consultancy Sonnet Impact, featuring data from several of our members, found the wider value of a social home is at least £23,777 (the components of this are outlined in the table below).⁹ Across all the socially rented housing association homes in London, this means a social value contribution of **£6.86bn** per year.

Value of a social tenancy by category

Category	Value of savings across all G15 socially rented homes
Economic: higher employment and improved performance at work	£2.34bn
NHS: improved physical and mental health	£1.34bn
Construction: total spending on construction	£1.1bn
Police and justice: fewer victims/perpetrators of crime	£648.5m
Maintenance: total spending on maintenance	£556.8m
Local authorities: temporary accommodation and social care savings	£554.3m
Central government welfare (DWP): lower spending on unemployment benefit	£168.8m
Education: higher school attendance	£179.4m
Other (including lower debt, fewer fires)	£38m

3. Social value savings by category. Source: Hyde and Sonnet Advisory & Impact. The Value of a Social Tenancy, 2024



Shifting funding models

Changes since 2010 have made housing associations more reliant on private borrowing and market activities

- Housing associations receive 60% less capital funding from government than twenty years ago
- We have bridged this gap by borrowing more money from private lenders and generating profits from selling and letting homes on the open market
- We need policy certainty around future rent levels to continue borrowing money at lower rates to invest in existing and new homes

Where do housing associations get their money from?

The majority of housing associations' money comes from rent. We are usually expected to cover the day-to-day spending costs on existing properties using this rental income. The rental income also part-funds the cost of building new homes, as well as acting as security for us to borrow money to cover the remaining costs.

Historically, the cost of building new homes has largely been covered by grant funding from the government. In 2010, grant funding for new social homes was cut by 60%.¹⁰ To continue building new homes, our members borrowed larger sums of money from private lenders and built more homes for private sale and rent. Known as the cross-subsidy model, the profits from private housebuilding were used to subsidise the cost of affordable homes, instead of government grant funding.

Between 2005/06 and 2022/23, housing associations' turnover from non-social housing activity (predominantly from homes for private sale and rent) rose almost tenfold, from £391m to £3.6bn.¹¹

This model has made housing associations more susceptible to economic and housing market fluctuations. A slowing housing market and rising interest rates and inflation in recent years have made it increasingly difficult to continue funding affordable homes through this route.

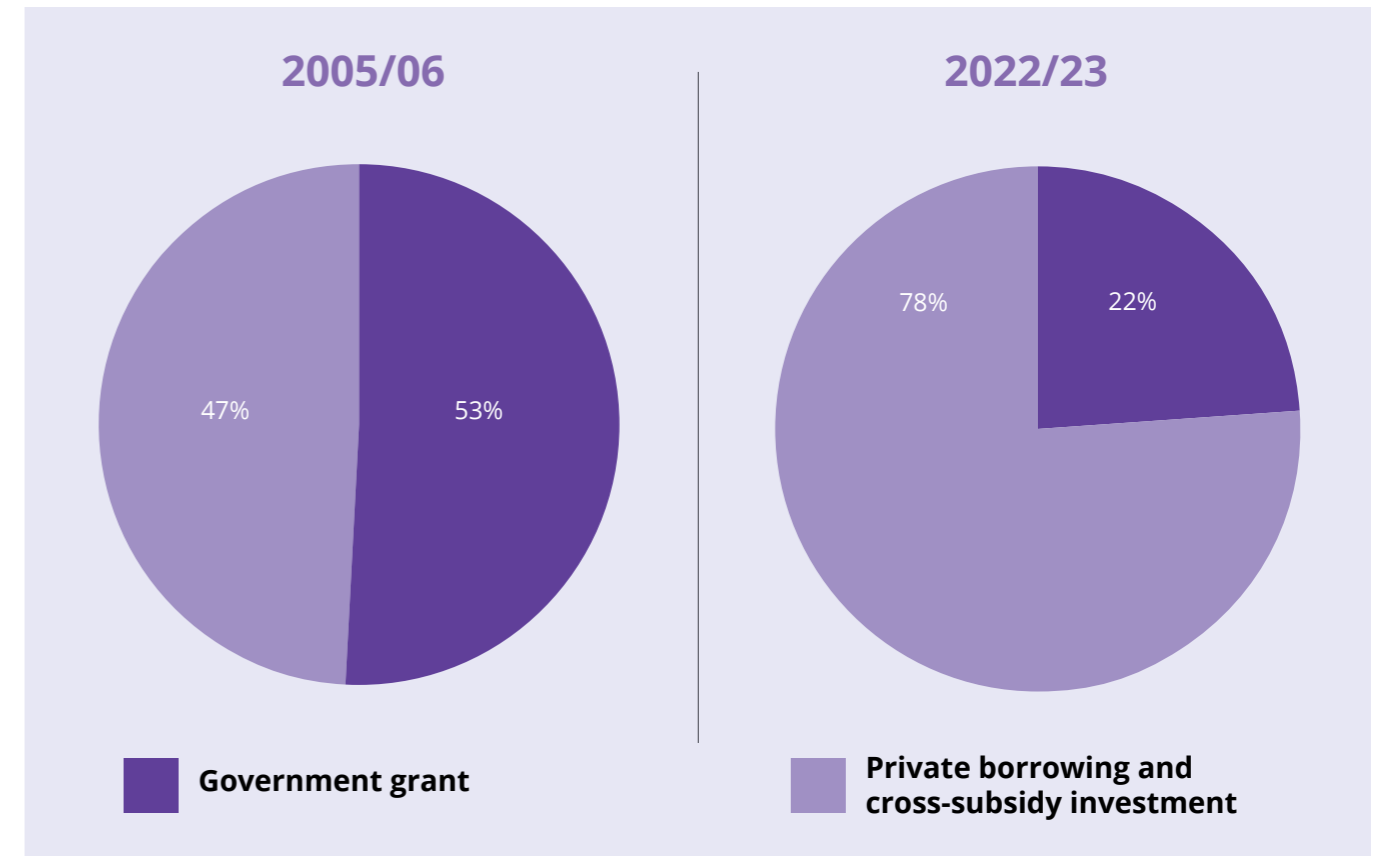
At the same time, the government also introduced a new form of social housing called affordable rent, that required lower grant levels. This enabled housing associations to continue building lower cost rented homes for households on social housing waiting lists. In practice, this move shifted the burden of paying for new social housing from the government balance sheet to incoming residents, many of whom have limited ability to afford higher rents.

Some of the cost of improving the quality of existing homes has also historically been borne by the government. The Decent Homes Programme, which ran between 2000 and 2010, injected £20bn into the sector to fund improvements to existing homes. No such funding currently exists; rents are expected to cover both day-to-day spending and new development.

Lessening the burden on the public purse

Today, as much as 78% of the money used to build affordable housing comes from money that housing associations borrow or raise through non-social housing activities, up from 47% in 2005.¹² This means we build affordable housing without adding substantially to the government's debt.

Housing association investment spending by source



4. Housing association investment spending in Great Britain. Source: UK Housing Review 2024, Table 60

Lenders are only willing to lend us this money (at affordable rates of interest) because we have a reliable income stream from social housing rent, and they know we will be able to repay our debts. A deal – known as a 'rent settlement' – on how much social housing rents will go up each year was agreed in 2013 and was expected to last 10 years from 2015. The present rent settlement, linked to inflation (CPI), should have provided adequate stability and certainty for lenders to have confidence in our future financial arrangements. However, the sector saw four separate changes to rent policy between 2015 and the present day.

Investor confidence is crucial for housing associations to access loans at affordable interest rates, whether we are developing new affordable homes or investing in existing stock. At a time when housing associations are more reliant on private financing than ever, this confidence is critical to our funding model. It is absolutely right that government sought to address the recent extreme pressure on household budgets through inflationary pressures, however this could have been dealt with through other policy levers such as raising the benefit cap or local housing allowance. It is crucial that any future rent settlement comes with cast-iron guarantees that cannot be broken.

Under pressure

In recent years, our income has not kept up with our costs and we are having to make difficult decisions about where to spend money

Like many public services, our costs have increased substantially over the past years. Some of the reasons for this are:

- Our members are spending £4bn to complete essential building safety works following the Grenfell Tower tragedy and associated changes to building safety regulations, with no government assistance or access to the Building Safety Fund to fund remediation work on social housing (unlike leasehold).
- Maintenance and new development costs have increased substantially due to price inflation and a shortage of labour.
- The housing stock in the UK is among the oldest in Europe, and our homes are no different - they need regular maintenance to ensure they remain fit for purpose.
- We need to invest billions of pounds to improve the energy efficiency of our homes and reach net zero carbon emissions by 2050. To achieve this, we need the rest of the Social Housing Decarbonisation Fund to be indexed to inflation and allocated quickly.
- The retreat of other public services including local authorities and the NHS means more residents have unmet needs (eg related to health, financial capacity, etc) making our services more complex and costly to deliver.

As a result, rental income, which makes up the bulk of our revenue, is now expected to cover a much wider range of expenses than it did in the past.

Currently, many of our members are responding to these constraints by reducing their spending on new development. Last year, the four largest developers of new social and affordable housing were G15 members, and all four (L&Q, Clarion, Peabody and SNG) are scaling back their development programs this year.¹³

We know that there are many demands on the public purse but we believe that social housing delivered by not-for-profit housing associations like G15 members can achieve particularly effective outcomes. Our ability to access private finance multiplies any money that the government chooses to put in. For every £1 of government investment, housing associations raise £6 in private finance.¹⁴ Social and affordable homes contribute to the UK's future prosperity, promoting economic growth, improving wellbeing and building a fairer society.

What we want

To continue delivering affordable homes which add so much value to London, we need stability

Alongside the multiple economic shocks of the past decade, social landlords have also seen 16 different Housing Ministers since 2010, a complete overhaul of the regulatory regimes around building safety and consumer standards, and repeated shifting of the goalposts on rent regulations. We stand ready to support Government to deliver on some of its biggest aims: building the new affordable homes the country needs, driving net-zero forward by retrofitting our ageing housing stock, playing our part in restoring a sense of pride in communities and enabling inclusive growth. In order to do these things, the sector is in desperate need of certainty.

We welcome the Deputy Prime Minister's recent commitment to giving councils and housing associations greater certainty over how much rent we can collect. This is an important first step. To have the biggest impact, this settlement should be **long-term, lasting a minimum of 10 years**, be tied to inflation and have cast-iron guarantees so that it can't be amended partway through. Where rents are lower than the government-set formula for historic reasons, government should introduce a mechanism for landlords to increase them gradually over time (also known as rent convergence). Rents make up the bulk of our income, so if we know what our rental income will be, we will be able to access private finance at cheaper rates. A more stable environment would enhance lender confidence and allow us to borrow more easily, helping us maximise the public subsidy we receive.

In the immediate term, building safety work is having a significant impact on housing associations' budgets, because unlike leaseholders, socially rented homes are not eligible for financial assistance under the Building Safety Fund. By expanding access to the Building Safety Fund, the government could help alleviate pressure on housing associations' finances.

We also need clarity from the Government on what housing associations' rental income is expected to pay for. As demonstrated in the previous section, rents are now funding a far wider range of expenses than was initially intended.

Discussions around accelerating improvements to property condition, retrofit or decarbonisation should consider dedicated funding streams, similar to the Decent Homes programmes instituted under the previous Labour government.

Finally, social housing residents must be at the forefront of the conversation on these changes. Rent increases, however small, can have a serious impact on affordability for those on low incomes, and certainty is as important for residents as it is to landlords. It is vital that any changes do not result in unaffordable rent rises for social renters.

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About the G15's 'Room to Grow' campaign

London is built on a vibrant mix of people from all walks of life, yet the capital is increasingly unaffordable for many.

Our Room to Grow campaign shines a light on the real social and economic value created by London's affordable homes and the not-for-profit housing associations that provide them. The campaign aims to inform the public, politicians, and the wider sector of the dynamic and important role housing associations play in addressing the housing crisis, contributing to the economy, and providing for those in housing need.

The case studies provided by G15 members will look at how homes get built, who pays, how residents benefit, net zero, the stigma associated with living in social homes, and how the Government can help create more room to grow for Londoners, London, and the UK.

About the G15

The G15 is the group of London's largest, not-for-profit housing associations.

We're the collective voice of some of the leading organisations in the housing sector.

Our members house one in ten Londoners and are the largest providers of affordable homes in the capital. We build a quarter of all London's new homes and own or manage more than 850,000 homes across the country.

Housing associations were set up to support people in housing need and this remains at the heart of everything we do today.

We're independent, charitable organisations and all the money we make is reinvested in building more affordable homes and delivering services for our residents.

Each G15 member is different, but we're all striving towards the same goal – to solve the capital's housing crisis and improve the lives of Londoners.

The G15 members are:

- A2Dominion
- Clarion Housing Group
- The Guinness Partnership
- Hyde
- L&Q
- MTVH
- Sovereign Network Group
- Notting Hill Genesis
- Peabody
- Riverside
- Southern Housing

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