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Increasing London's Affordable Homes

G15 research report

September 2024

Introduction

England is experiencing a housing crisis. The level of housing need, particularly in London, is unprecedented and should be impossible to ignore. In 2023, over 320,000 families in London were on social housing waiting lists, with over 1.2 million households across England waiting for a social home.

London is at the centre of the UK's temporary accommodation crisis. In 2023, 60,000 London households were in temporary accommodation. This equates to 85,000 children, or one child in every London classroom not having a permanent place to call home. The number of households living in temporary accommodation has risen by almost 90% in a decade, costing local councils at least £1.74bn in 2022/23. This is simply unsustainable.

The unaffordability of the private rented sector is having a detrimental impact on Londoners. After housing costs are accounted for, 1 in 4 Londoners live in poverty.

To begin to tackle the housing crisis in London, and beyond, we need to build thousands more affordable homes, prioritising homes for social rent. Research has shown at least 90,000 more social homes need to be built every year, for the next decade, to meet demand. Research has also shown that building these homes would add £51.2bn to the economy.

G15 members are leading the way by building over 10,000 homes in London last year alone, the majority of which were affordable homes to rent or buy. However, economic and market challenges are making current funding models to build genuinely affordable homes unviable. As a result, our members, like the rest of the sector, have drastically reduced their development pipelines. We started building 76% fewer homes in London this year compared to 2022/23, which will only make the consequences of the housing crisis more acute.

We are ready to do more. For years, we've been constrained by inconsistent decision-making and a cycle of uncertainty. Aided by better policy decisions, like the recent announcement on rent stability and changes to the National Planning Policy Framework, we can continue to improve existing homes, and provide the new social and affordable homes London so badly needs, attracting private investment while ensuring that the benefits go directly back to the people. Social and affordable housing is our sole focus; it's who we are and why we exist.

Our case studies showcase the very best of the G15's development schemes in London, making the case for our core asks of the new government - increased investment for the delivery of social housing and long-term policy certainty.

Key findings

- Housing associations are by far the largest developers of social and affordable homes in England. In 2022/23, they delivered 78% of all affordable housing.
- In London, where the impacts of the housing crisis are felt the sharpest, G15 members are leading the way in affordable housing delivery, building over 10,000 homes in the capital last year.
- However, the financial challenges facing the sector are having a significant impact on housing associations' development pipelines. G15 members have seen a 76% drop in housing starts in London in 2023/24, compared to last year.
- Today, grant rates contribute only 12% to scheme costs compared to about 75% in the 1990s.
- Housing associations and local authorities need to match the government's funding settlement six times over to build enough homes in the capital.
- G15 members build more than just affordable homes in London, delivering large scale placemaking and supporting thriving communities.
- As long-term custodians of the homes we build, we work in partnership with local and national governments to unlock infrastructure investment and maximise the number of affordable homes on site.
- The government's recent announcements on planning reform are a very positive start; combined with our development capability and long-term perspective, these reforms could be transformational.
- However, housing associations are currently stretched to their absolute capacity and need consistent support to continue delivering the housing the capital needs.
- We welcome indications that the government intends to introduce a long-term, inflation-linked rent settlement. To allow us to continue building genuinely affordable homes and investing in sustainable communities, this should be followed up by a clear, long-term, national housing plan that provides the sector with both funding and policy certainty.

In numbers: building the affordable homes London needs

Housing associations are, by far, the largest developers of affordable homes in England. In 2022/23, they delivered 78% of all affordable housing. From 2016-2021, housing associations delivered 22.6% of all new housing supply in England, compared to the 4% provided by local councils and for-profit registered providers.

In London, where the impacts of the housing crisis are felt the sharpest, G15 members are leading the way in affordable housing delivery. Last year, G15 members started building over 10,000 homes in the capital, and 14,658 homes in total across the country. Most of these homes were affordable homes to rent or buy.

Worryingly, the picture does not look as promising for the next few years. G15 landlords have cut their development pipelines, covering all tenures and including areas outside London, from 14,658 homes last year to 6,387 in the current financial year, a 56% decrease. G15 member L&Q has seen an 82% drop in housing starts alone. London has been especially hard hit, with new starts down by 76% between 2022/23 – 2023/24.

The G15 has voiced our concerns about the alarming drop-off in our new home pipeline with the previous Conservative government. Our open letter to former Secretary of State for Levelling Up, Housing and Communities, Michael Gove, highlighted the magnitude of London's housing crisis due to insufficient sustainable funding and other structural issues.

With a new Labour government, there is an opportunity to unlock the development of new homes in the capital and start to turn the tide on the housing crisis.



In 2022/23 housing associations delivered **78%** of all affordable housing.



Last year G15 members started building over **10,000** homes in London.

G15 new housing starts 2022/23 and 2023/24

Total 2023/24 regional and tenure split, including Q4 forecast:

Category	London	Outside London	Total
Affordable Rent	65	971	1,036
Intermediate Rent	0	18	18
London Affordable Rent	79	n/a	79
London Living Rent	0	n/a	0
Shared Ownership	962	1,397	2,359
Social Rent	663	623	1,286
Market Rent	179	1	180
Open Market Sale	274	868	1,142
Rent to Buy	n/a	287	287
Supporting and Specialist Housing	0	0	0
Total	2,222	4,165	6,387

35% of starts will be in London

Total 2022/23 regional and tenure split:

Category	London	Outside London	Total
Affordable Rent	1,270	928	2,198
Intermediate Rent	38	340	378
London Affordable Rent	1,714	n/a	1,714
London Living Rent	454	n/a	454
Shared Ownership	3,181	1,343	4,524
Social Rent	646	545	1,191
Market Rent	179	24	203
Open Market Sale	2,713	1,223	9,936
Supporting and Specialist Housing	60	0	60
Total	10,255	4,403	14,658

70% of starts will be in London

In numbers: How much does it cost to build an affordable home in London?

Based on research from the GLA and Savills, building an affordable home in London costs between £449k and £464k. Between 2023 and 2028, the average subsidy requirement is £200,000 per home.

However, subsidy gaps vary greatly between tenures, with social rent homes costing the most to deliver. The average subsidy requirement for a social rented home is £273,000, compared to £44,000 for shared ownership.

Using targets from the London Plan, we know that London needs £4.9bn a year between 2023/24 and 2027/28 to meet affordable housing needs. With government committing £4bn from the Affordable Homes Programme (AHP) over a five-year period to deliver affordable homes in London, there is a £22.2bn funding gap to deliver these homes the capital needs.

In other words, housing associations and local authorities need to match the government's funding settlement six times over to build enough homes in the capital.

Government grants for new social and affordable homes



How do housing associations plug the funding gap to build affordable homes?

Funding the building of affordable homes is varied and complex and has changed drastically over the last decade. Through a combination of grant funding, developer contributions, private investment and using proceeds of private sales to provide cross-subsidy, not-for profit providers have become increasingly creative in the way they deliver affordable homes.

Here is a simple breakdown of the different funding streams and mechanisms that contribute to the delivery of affordable homes.

Government funding

Capital grant for affordable homes is delivered through the Affordable Homes Programme (AHP) in five-year cycles. Government has allocated £11.4bn for the 2021-2026 AHP, with the target of delivering 180,000 homes - 50% at discounted rent. This includes £4bn of funding specifically for London.



This funding is distributed to housing associations by the government's housing and regeneration agency, Homes England, and the Greater London Authority (GLA) in London. Housing associations apply for grant funding from the AHP and enter into a Grant Agreement Contract, that allows them to claim grant funding when a scheme meets the relevant criteria.

Developer Contributions

Under the Town and Country Planning Act 1990, Section 106 agreements require private developers to contribute to the provision of affordable housing as a condition of their planning permissions. This can either be from the building of affordable units on-site, or through financial contributions for affordable housing provision elsewhere. S106 has played a vital role since the financial crisis and the reduction of grant funding. In 2022-23, s106 nil grant agreements accounted for 47% of all affordable homes delivered.

Cross-subsidy

Most developments offer a range of tenures, not only does this contribute to diverse mixed communities, but it allows housing associations to sell a small portion of homes on the open market to cross-subsidise the affordable tenures. If house-prices drop or market rates are down, this model become less viable. With inflation, rent caps and a refocus on investing in existing homes, cross-subsidy is no longer sufficient to meet the cost of building new social housing.

Debt and equity

Since 2010, housing associations have increasingly turned to private finance and capital markets to fund new developments. Raising funds through loans, bonds and institutional investments, not-for profit providers are uncovering increasingly innovative ways to deliver affordable homes. Analysis published by Legal & General (L&G) and The British Property Federation (BPF) found that £10bn of additional private capital would be required to meet the cost of building 145,000 affordable homes each year alongside an increase in government funding of between £9bn-£14bn per year. Today, the majority of funding for the delivery of affordable homes is through debt and private equity.

G15 member, The Hyde Group, has successfully established two co-investment partnerships with institutional investors, enabling them to build more affordable homes. The M&G Shared Ownership Fund was established in 2021 and has allowed Hyde to deliver an additional 450 shared ownership homes. The partnership is helping to deliver new affordable homes, with the proceeds enabling Hyde to deliver more than it can alone. In 2022, Hyde entered into an innovative partnership with major investment firm, AXA, that could unlock over £400m in development capital over the next 10 years. AXA has taken a 50% stake in Hyde's for-profit subsidiary, Halesworth, alongside Hyde and Homes England's 25% shares. The three firms have committed to investing up to £200m of equity, which will provide up to £400m in development capital that will deliver thousands of affordable homes over the next decade. Once built, the homes will be managed by Hyde.

G15 member, Sovereign Network Group (SNG) has raised £400m through the bond markets, which will support them to build 25,000 homes over the next 10 years. The 33-year bond, secured under their sustainable finance framework, was oversubscribed, with 80 investors participating in the bidding process.

Why are housing associations dramatically reducing building new homes?

A perfect storm of challenges in recent years is having a significant impact on housing associations' ability to build new affordable homes.

Land and Planning

The high cost of land, particularly in London, is a huge barrier for housing associations and local authorities to build social housing. Land now accounts for 70% of the cost of a market home. Hope value, that factors in what the land would be worth if high-value property was built on site, means that land prices are inflated even further than market value, outpricing many local authorities and registered providers wanting to build social homes.

Stringent planning regulations and complex approval process greatly delay and often block affordable housing development. The removal of local housing targets is also damaging to the delivery of new homes.

Inflation and building costs

Since 2021, the cost of building a new home has risen significantly due to inflation and higher interest costs, while house prices have remained fairly stagnant.

The significant inflation of building materials and the shortage of skilled labour are all impacting development costs. Although inflation is starting to fall, in 2022, underlying inflation for residential build costs had risen by 23% in a year. On top of this, developers will need to find an additional £9,000 - £11,000 per home by 2025 to meet enhanced sustainability obligations.

Competing priorities

Ensuring every resident's home is safe and in good condition is every G15 member's top priority. To achieve this, our members are investing almost £1.5bn each year in existing homes. Additionally, G15 members have estimated that dealing with the building safety crisis will cost £4bn over the next decade.

Net Zero

Improving the sustainability of our homes, to meet the government's ambitious net-zero targets and reduce energy bills for our residents is another critical priority. 73% of our members' homes already meet or exceed EPC C, and we plan to retrofit roughly 27,000 homes by 2025. However, we still have 98,000 homes to upgrade to EPC C. Meeting net zero targets will require significant investment in fabric efficiency upgrades, low carbon heating systems, on-site renewable energy generation and offsets. Collectively, G15 members have estimated it will cost approximately £11 billion to meet net zero.

Insufficient funding

Capital funding from government to build new affordable homes was cut by 60% from 2011 to 2015 compared to the previous programme which ran from 2008 - 2011. Today, grant rates contribute only 12% to scheme costs compared to about 75% in the 1990s. This dramatic reduction in government funding is central to the delivery challenges in the sector.

Rent policy

Capping social rents below inflation last year was the right thing to do to support residents struggling with the cost of living. However, capping social rent increases at 7% means that across all G15 members, around £800 million of re-investable income will be lost by 2030.

What's more, G15 members are missing £211.4m a year in resources to invest in repairing and maintaining homes because of inequality in rents since convergence was scrapped by the government in 2015, and following the 2023/24 cap on affordable rents.

Feeling the squeeze

The culmination of these challenges means housing association budgets are tighter than ever before. Grant rates for the 2021-2026 AHP have remained static while costs have soared. High inflation and borrowing costs, at a time when providers are focusing on investing in existing homes, means members are having to reduce their financial headroom. This has seen multiple G15 members viability ratings downgraded by the Regulator of Social Housing (RSH) from V1 to V2.

While all members are still compliant with regulatory standards, material risks need to be managed more closely. This explains why G15 members are scaling back their development pipelines, as our most recent new start figures show.

A perfect storm of challenges in recent years is having a significant impact on housing associations' ability to build new affordable homes.



Case studies: The G15 in action

The following case studies showcase the G15's contribution to large scale placemaking and thriving communities in the capital.

Through the support and collaboration of multiple levels of government, we have successfully delivered significant amounts of affordable housing, along with investments in infrastructure, green and biodiverse spaces, and other elements vital to a sustainable community.



The Hyde Group: Charlton Riverside

Hyde's Charlton Riverside development in Greenwich showcases the invaluable contributions our members make to the wider built environment and local infrastructure when building at scale. The scheme will deliver over 1,200 homes along the river, bringing new life and much needed affordable homes to the previously industrial area. 40% of these homes will be affordable with a combination of London Living Rent and Shared Ownership.

The core principles of the masterplan go far beyond just delivering homes. The development will create a riverside public realm through the refurbishment of the Thames Path and the reconstruction of the jetty for public use. Charlton Riverside will also offer new green spaces, playgrounds, a neighborhood square, communal terraces, and an expansive employment and commercial offer to support a vibrant and diverse neighborhood.

Charlton Riverside was identified as an Opportunity Area by the Mayor of London back in 2008 and has featured in the London Plan, the capital's spatial development strategy, since 2011. The site will be a catalyst for further development in the area. Hyde has been working in partnership with Greenwich council to deliver the scheme. The recently established Regeneration team at Greenwich is having a particularly positive impact in bringing forward the delivery. With the right financial support, housing associations are optimal partners for delivering the shared ambitions of local authorities.

The development has not been without its challenges and highlights the impact of the current external operating environment. Build cost inflation, compiled upon the significant upfront infrastructure and s106 costs, has greatly affected the viability of the site. However, through innovative funding models and the exploration of new joint venture agreements with development partners, progress at Charlton Riverside is continuing.



L&Q: Barking Riverside

Pioneering in both scale and joint venture model, L&Q's Barking Riverside scheme will deliver at least 10,000 new homes at the former Barking Power Station site on the fringes of East London. It is one of Europe's largest development schemes, that will include seven new schools, 21 hectares of open space, and community led infrastructure. It may eventually reach 20,000 homes, should a new Outline Planning Application be approved.



In 2016, L&Q purchased a 51% stake in Barking Riverside Limited (BRL) from Bellway Homes, forming a joint venture with the Mayor of London. With two not-for profit organisations at the helm, Barking Riverside is unique in its governance. Both partners are driven by a public sector ethos, prioritising affordability and placemaking over profit, whilst also being equipped to bring in private sector partners and tap into their expertise when needed. This approach will allow thousands more affordable homes to be delivered and extensive infrastructure investment.

As Barking Riverside sits on the outskirts of London, securing major transport infrastructure at an early stage has been critical to the site's progress. L&Q was able to leverage long-term finance to fund the extension of the London Overground to Barking Riverside, bringing the TFL network into the heart of the development. L&Q has also part funded a pontoon jetty, allowing London's River Bus to access Barking Riverside. These new transport options have transformed the site into a viable destination for homes and businesses, demonstrating how vital infrastructure is to unlocking large-scale development.

Peabody: Thamesmead

Peabody's Thamesmead development demonstrates the unique role housing associations can play as long-term stewards of places. Master planned in the 1960s, and hailed as an inner-city 'new town,' Thamesmead boasts an abundance of green space, seven kilometres of canals, and over 5,6000 homes. The site saw a period of decline due to under-investment and poor transport links until Peabody took ownership of 65% of the land in 2014, with the aim of improving, growing, and caring for the town for the long-term.

With their social purpose at the forefront, Peabody are delivering one of the largest and most ambitious placemaking programmes in the country. The regeneration will last decades, weathering economic uncertainty and outlasting political cycles, benefitting local people, now and for years to come.



Peabody's approach balances the immediate care of existing neighbourhoods alongside building new homes. Many existing homes have been refurbished and retrofitted and six new community and culture buildings have already been delivered.

A key priority of the regeneration is enhancing Thamesmead's landscape. Peabody's Green Infrastructure Strategy aims to enhance biodiversity, respond to the climate emergency, and tackle health inequalities by ensuring more people are using Thamesmead's natural spaces. Involving local residents is central to this framework. They have helped plant South London's first tiny forest, designed accessible park facilities, and co-created new walking and cycle routes.

As well as greatly improving the area for existing residents and communities, Peabody is determined to relieve some of London's housing challenges with the development of Thamesmead Waterfront. This site has the capacity to deliver 15,000 homes, thousands of jobs, a new urban centre, and a new major park for London.

This is all contingent the right transport infrastructure. The SE28 postcode, where the Thamesmead waterfront site sits, is the only one in London without a rail or tube station. An extension of the Docklands Light Railway (DLR) under the Thames is critical to the development's viability. Peabody are working with TFL, the GLA and Homes England to ensure the site's potential is reached and Thamesmead's residents can easily access the city.

The Government has set in motion an ambitious plan to build a new generation of new towns, with the New Towns Taskforce. This is as relevant a topic in London as elsewhere, and Thamesmead is one of the largest and most deliverable opportunities for housing growth in London. It is perfectly placed to fulfil the Government's aims, connecting affordable housing to the employment hotspots of the docklands and central London and relieving some of the growing housing pressures on London's outer suburbs. We hope to see this as part of the conversation as the new towns agenda develops.

What's needed to deliver more affordable homes in London?

While we welcome the Government's focus on reforming the planning system, which is a very positive first step in tackling the housing crisis, this alone will not be enough to deliver the homes we need. Our central ask from the government to support housing associations is a 10-year rent settlement that will give the sector the certainty it needs to build new homes alongside providing good services for existing residents. We welcome recent indications that a long-term, inflation linked settlement is forthcoming: to have the biggest impact, this settlement should have cast-iron guarantees so that it can't be amended partway through, with safeguards to protect tenants from unaffordable increases.

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).

Our other recommendations include:

- Work with the Mayor of London to set up Development Corporations to build on strategically defined areas of green or grey belt land, compensating for any loss of nature. One estimate suggests that nearly 900,000 new homes could be accommodated on just 25,000 hectares of land within walking distance of train stations well-connected to central London. We are optimistic that the recent reforms to the NPPF to reclassify poor quality 'Green' belt land as grey belt will ease this process.
- End the short-termism that has dominated housing policy by creating an expert body, the Affordable Housing Commission, to scrutinise housebuilding targets and hold government accountable to delivering them.

All of our policy asks must be delivered as part of a clear, long-term, national housing plan that provides the sector with both the funding and policy certainty it needs to continue building.



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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

