Research
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Affordable Housing

Understanding the unmet demand and market for private capital

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Addressing affordable housing challenges

"The UK is suffering from a long-term, systemic undersupply of affordable housing. This struggle is happening at a time when household finances are under pressure and affordability is crucial and in high demand. For every four households in social housing, there is one on a local housing register *(p4).* There are currently 1.2m households on waiting lists in England alone, but our research finds that the unmet demand is actually far higher.

A large number of social households are living in overcrowded homes. The country is also reliant on the private rented sector and temporary accommodation, though the number of homeless people is still unknown. Together we estimate that there are 2.2m households in England that do not have the social homes they need, pushing true demand to around 6.2 million *(p6).*

For those households, finding answers isn't easy. In the private market *(p5),* over the past decade, house prices have risen by 70%, far outstripping average earnings which have increased by only 24% over the same period; whilst private rents have gone up by 22%, though are rapidly becoming more expensive as costs rise.

The position with the supply of new social housing has been exacerbated by the fact that gains in new homes are largely offset by sales of existing social housing, particularly through Right to Buy. On average, over the last 20 years, the net addition of low cost rental homes is a paltry 5,500 per year, with another 13,000 of net gains in low cost home ownership, pushing the average net gain only to around 18,500 – miles off the estimated 90,000-150,000 new affordable homes we need annually *(p8).*

Sadly, things are only likely to get worse. According to the English Housing Survey, 1.1 million private renters say it is difficult for them to afford their rents; and 48% of renters have no savings *(p5).* Rising rents paired with the cost of living crisis means more private renters will be seeking social housing.

At the same time, registered providers face conflicting pressures and demands on their investment on many different fronts – retrofitting, fire safety work, inflation, interest rates and dealing with damp and mould *(p9).* It will not be easy for any social landlords to increase their development programmes. Institutional capital, therefore, has a growing part to play in delivery. We have seen a significant increase in institutional investment across all the living sectors, spanning PRS, multi-family, single family, specialist supported and mainstream affordable *(p11).*

The sector needs to embrace that and make the most of investors' willingness to work in partnership. Together, we cannot let the impossible imbalance of supply and demand go on much longer without making the sort of changes to the model that will be necessary to deliver real increases in supply.

Richard Petty
Head of Affordable Housing and Living Advisory, UK, JLL

Unmet Demand

01

Static stock levels mask rising demand

For every four households in social rented housing, there is another waiting on a housing register

Over the past two decades, social housing supply has remained roughly static. While the number of households in England has grown by 17%, the number of social rented households grew by 1%, with 4m homes in the English Housing Survey (EHS) 21-22.

However, there is also a significant unmet demand in households waiting for accommodation on local authority housing registers.

This has consistently accounted for a further 1m households, though peaking at 1.9m in 2012. At this time, total demand stood at 5.7m households, with a provision rate of just 67%. From 2012 onwards housing register numbers have fallen back down, dropping to 1.2m in 2022. This apparent fall in unmet demand has occurred despite the fact there has been no addition to supply.

Where did these households go? Did they become wealthier and gain access to different tenures? Between 2012 and 2022 house price growth of 70% has outpaced wage growth of 24%, and while private rents had kept pace, rising 22%, annual growth in 2023 has since risen to new highs.

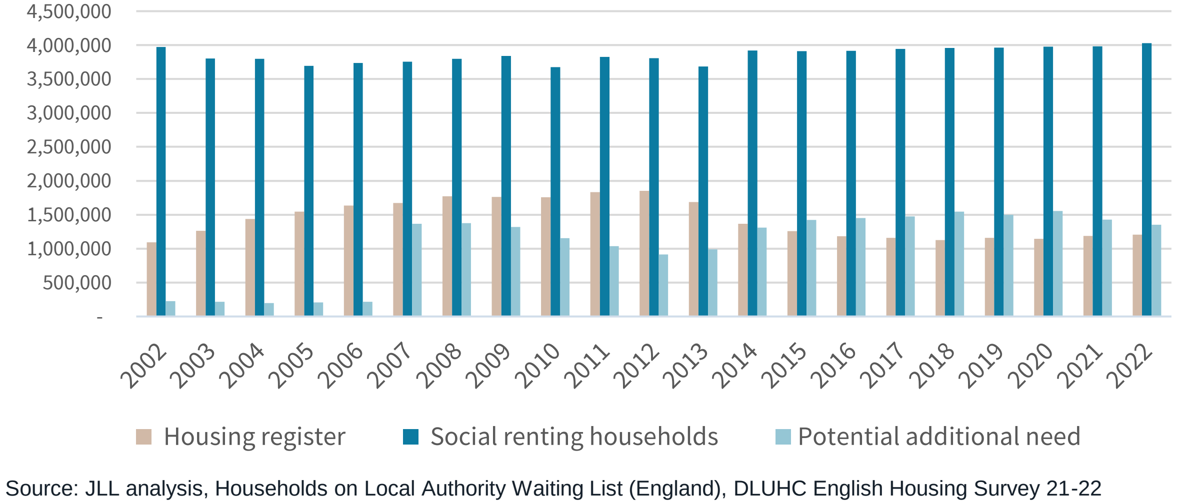
In this context, it's clear the need for social housing has more likely grown. In fact, rather than reflecting a change in circumstances, the fall is a response to changing criteria recognising those in need.

The Localism Act of 2011 removed the requirement for local authorities to consider all applications for social housing, allowing broad bans on categories of applicants, to aid prioritisation.

Applicants must provide evidence of a "local connection", having lived or worked in an area for a set number of years; earnings and savings must be below a certain threshold; and there are rules against people with prior rent arrears, anti-social behaviour, and, at times, those found to have rejected previous recommendations.

Council requirements laid out in local allocation schemes accept the overwhelming undersupply. However these restrictions mean people in need are excluded and there is little transparency into the true scale of demand. To understand this requires analysis of those unrecognised households that have spilled into other parts of the market.

Understanding the unmet demand: number of households in need of social housing



Source: JLL analysis, Households on Local Authority Waiting List (England), DLUHC English Housing Survey 21-22

Households move into the PRS

The Localism Act 2011 allowed councils to move households in need of social housing into the private rented sector. Today there are more low income households in the PRS than in local authority housing, at some 0.9m households (EHS 21-22).

The PRS is large – having doubled over the past two decades, and caters to tenants with a broad range of incomes. Lack of supply and high demand, amid rising landlord costs (interest rates, taxes and new regulation), mean it is also becoming more expensive.

A quarter of PRS households receive housing support, with the amount set through the local housing allowance (LHA). These rates have been frozen at 2018-19 rents since 2020 despite significant rises in rents.

In May, annual rental growth rose to 5% in the UK, according to the Office for National Statistics, this is the highest level of growth since 1996. Data from Rightmove, Zoopla and Homelet have consistently reported double digit annual rises on new lets. Analysis from the Institute of Fiscal Studies, examining Zoopla listings, found that in Q1 2023 just 5% of rentals were affordable to housing benefit recipients.

A large number of people were already struggling before these hikes. The EHS reports 1.1m PRS households have difficulty paying their rent. The survey also reveals 48% of the PRS do not have savings, at 2.2m households. A further 1.9m mortgaged homeowners also have no savings, together making 4.1m people with no protection from high costs. Many need social housing, or may do in the near future.

Who is most affected by rising costs?

Low income savers: 726,000 households
A high share of income on rent, but have savings

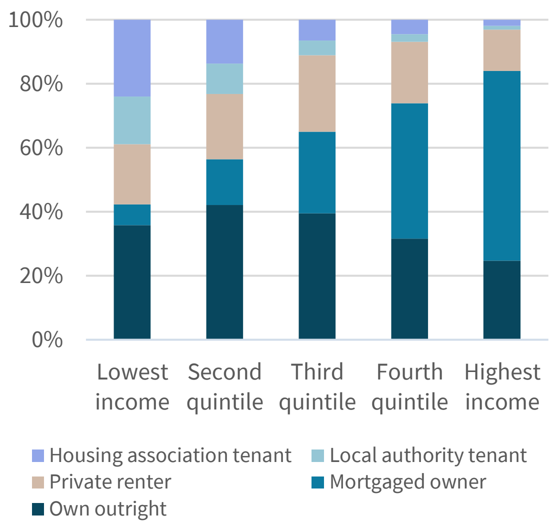
Struggling families: 473,000 households
Three quarters are single parents, likely to receive housing support. 49% have difficulty paying rent; just 10% on housing register

Vulnerable singles: 424,000 households
Live alone with no savings. One in five are in paid work. Half are likely to spend at least five years in their current home; 10% on the housing register

Older renters: c8,470 households
7% of 121,000 older renters report difficulties paying rent. 90% of these are over 65, long-term renters

Source: *A fairer private rented sector,* analysis based on EHS surveys, Department for Levelling Up, Housing and Communities

Tenure by income band



Source: EHS 21-22

Housing support vs housing supply

25%

Proportion of the PRS in receipt of housing support, equating to 1,154,767 households in England

£160bn

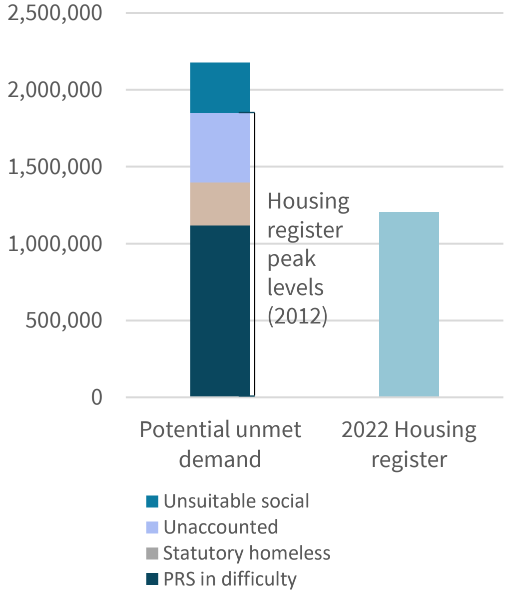
Amount paid in housing support over the last decade. Some £99bn was paid to social housing tenants, with the remaining £61bn going to private landlords

2,507,490

New affordable homes that could have been funded if housing support had been directed to affordable grants, based on pricing in the Affordable Homes Programme 21-26

Source: JLL, EHS 21-22

The true scale of social housing need: taking the 1.9m households peak from outside the sector, plus demand from overcrowding within the sector



Source: JLL analysis, EHS 21-22, Statutory Homeless Annual Report 21-22. Each classification isolates households in need across different tenures.

New affordable annual targets

- The National Housing Federation estimates 1.6m households in need of social housing that do not have access. The NHF's *People in Housing Need 2021* report highlights issues of overcrowding, affordability and suitability for residents driving social housing demand.
- Heriot-Watt University research for Crisis and the NHF in 2019 reported a need for £12.8bn a year to be invested to build 1.45m affordable homes over a decade. This includes 90,000 new social rented homes every year, to help clear the backlog and meet future demand.
- Shelter has called for 3.1m homes built as part of a "historic renewal of social housing" over 20 years, equating to 155,000 a year.

The 1.1m private renters reporting difficulty paying rent also correlates with the number in receipt of housing support – providing guidance for social housing demand from the PRS.

There is also significant demand from within the social rented sector. The EHS claims 325,384 social households live in overcrowding and a further 380,367 live in non-decent homes. Taking the overcrowding figure as an indication for new housing need leaves a 731,452 households unaccounted.

Homeless and hidden

A decline in households on housing registers comes as the number of households living in temporary accommodation has risen.

The government reported 99,270 households in temporary accommodation at the end of September 2022. This includes homes let to registered providers, but also in hostels, B&Bs and private accommodation.

The Chartered Institute of Housing and Centre for Homelessness Impact claim £7,760 a year would be saved for each household moved from temporary accommodation to social housing – equating to £770m for all households every year.

Still this is only a small part of the picture when it comes to unaccounted households. The government estimates some 278,110 statutory homeless households – of which 144,670 were assessed as homeless and a further 133,460 were being threatened with homelessness.

These figures are widely thought to be understated. The Greater London Authority has previously said for every rough sleeper in London it believes a further 13 are "hidden homeless", homeless but not recognised in official statistics. Some may be rough sleepers but not identified in counts, or may be staying with friends or family. Regardless, these households do not have a home of their own.

A peak of 1.9m households on housing registers, with 1.1m in the PRS and 278,110 statutory homeless, gives an estimated 453,342 hidden homeless households.

Together with the additional need from within the sector, this points to unmet demand of 2.2m and total demand of 6.2m households in England.

Supply Stalls

02

Gains offset by social sales

The sector added almost 1m homes over two decades but also sold 616,000, shrinking net additions to a third of the total

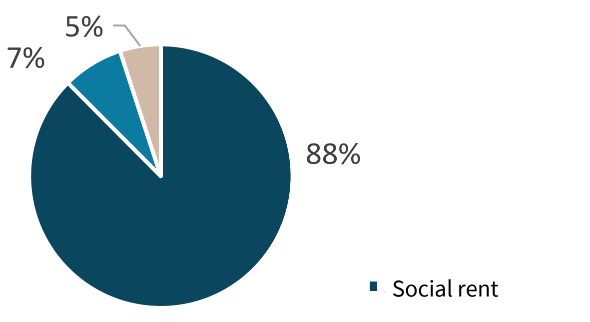
The social housing sector has remained the same size, despite considerable new-build efforts. Some 987,198 new social homes have been completed over 20 years, though any significant gains have been offset by a large number of social housing sales.

Over this same timeframe, 616,352 affordable homes were sold. These sales have largely been as a result of tenant sales. Some 73% of homes sold during this period were through Right to Buy and similar tenant purchases, with a growing number of shared ownership staircasing in more recent years.

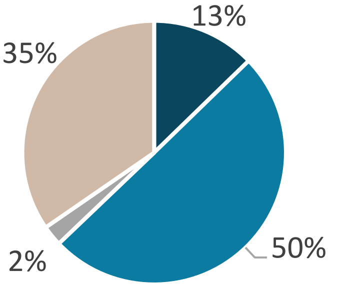
A net gain of 370,846 homes over this period equates to 18,542 homes per year, and just 5,592 low-cost rental. This is a fraction of the estimated annual need of 150,000 (*p6*, Heriot-Watt University, NHF, Crisis 145,000; Shelter 155,000).

Alongside the large undersupply, the sector is also experiencing a shift to more expensive tenures. Examining existing stock, 88% is social rented, whereas just 13% of new affordable homes completed last year were social rented homes, with the majority in affordable rent and shared ownership.

RP owned stock by tenure

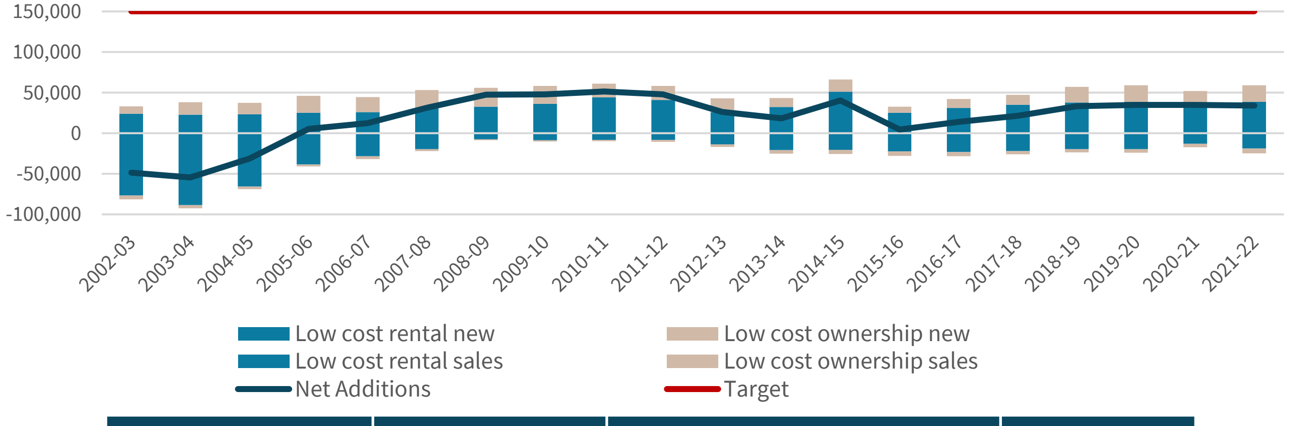


New homes delivered last year



Source: DLUHC, affordable housing supply; RSH 2021-22

Net additions fall short of affordable housing need



Tenure	Low cost rental	Low cost home ownership	Total
New completions	655,543	331,655	987,198
Social housing sales	-543,707	-72,645	-616,352
20-year total	**111,836**	**259,010**	**370,846**
Average per year	**5,592**	**12,951**	**18,542**

Source: DLUHC, affordable housing supply; social housing sales

How to prioritise?

Retrofitting for decarbonisation: EPC C by 2030, NZC by 2050

Fire safety measures and second staircases

Exposure to sales market, prices set to fall in 2023

Increasing demand from local authority waiting lists

Labour and materials costs for repairs and maintenance climb above CPI

Financing costs remain high

Energy bills and operating costs

Appetite for risky development diminished with soaring construction inflation

Damp, mould and condensation challenge landlords and becomes a political priority

Short- to mid-term challenges in rent regulation policy

Affordable housing providers are juggling a number of conflicting priorities at the same time as the increased demand for new homes.

The largest providers each manage more homes than the entire UK multifamily build-to-rent sector of 72,700 homes (end of 2022). Delivery levels differ between providers, but on average across the largest six private RPs, annual new completed affordable homes account for just 1.4% of their total portfolios.

These substantial portfolios are experiencing high costs to operate and maintain. New regulation, such as retrofitting for decarbonisation, will also require significant, additional capital. For example, Peabody estimates it will cost over £1bn to bring its portfolio to EPC B by 2050.

The G15 group of London housing associations reported that providers have lost £6.6bn in resources for investment since 2016, due to government rent policy changes alongside a 60% cut to funding for new affordable homes. In evidence to the Department of Levelling Up, Housing and Communities' inquiry into the finances and sustainability of the social housing sector in May 2023, the G15 said rising inflation and interest rates had caused some members to scale back development plans by as much as a third.

The Housing Finance Corporation (THFC) wrote "the combined effect of fire safety works, health & safety spend, and EPC/NZC expenses is gradually eroding credit quality", noting the significant number of housing associations having to renegotiate lender covenants to avoid defaulting.

Individual providers also expressed that their capacity to deliver has been reduced by the divergence between inflationary costs and rental income.

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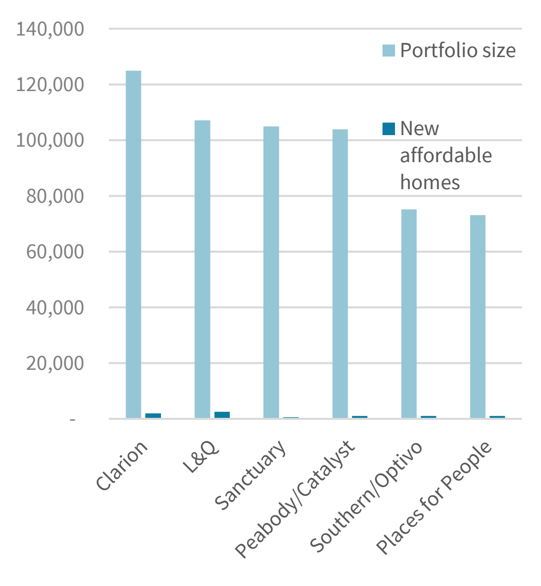
At the heart of the challenge is that these priorities are all interlinked.

Investment in existing homes is rightly the first priority, but without housing associations' contribution to building new affordable homes, issues like overcrowding aren't going to be dealt with, which in turn impact the conditions of existing homes.

It's too simplistic to suggest we can pick investment in existing homes over new build – we need both.

Geeta Nanda OBE
Chair of G15, chief executive of MTVH
Evidence to DLUHC select committee into social housing sector finances, May 2023

Affordable portfolios vs completions 21-22



Source: JLL analysis, public company reports, RSH 21-22

Investor Opportunity

03

Partnerships pave the way for growth

Pension funds team up with housing associations for long-term gains

In the first half of the 20th century, local authorities were responsible for the vast majority of new homes supply. Today that contribution stands at 1%. Housing associations started producing new homes at scale in the 1970s and now account for 18% of supply. The remainder comes from private enterprise.

Section 106 planning agreements from developers are the largest source of affordable homes, accounting for 44% of completions in 2021-22. This funding source has overtaken government grants, which has fallen to 38% of completions, from 87% a decade earlier. However, private capital, specifically institutional investment, is impacting new supply in various ways.

Rise of the FPRPs

The growing weight of capital targeting UK living has begun expanding into affordable housing. Over the ten years to the end of 2022, institutional investors poured £35bn into UK build-to-rent, peaking at £6.2bn in 2022.

Private investors seeking diversification have deployed an estimated £4bn into affordable housing, accounting for 10% of investment in rental housing. This is a small sub-sector, though gaining pace as investors overcome barriers, becoming registered providers and establishing partnerships for growth.

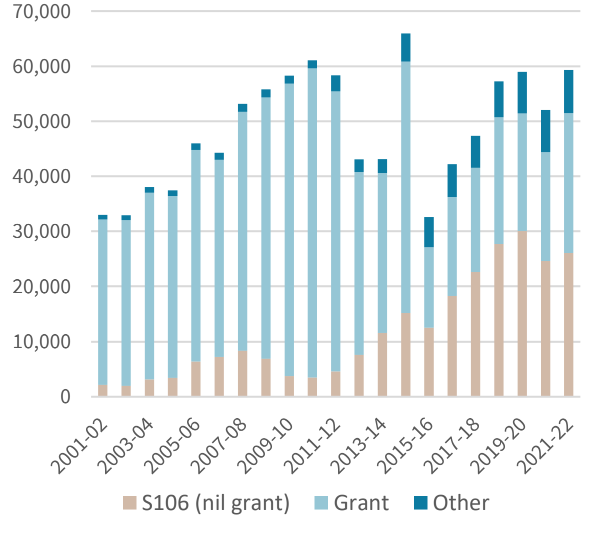
At the start of 2023 there were 69 FPRPs. This has more than tripled in the last decade. Recent additions include London Square's affordable housing business Square Roots and Delancey's T3 Residential. Developers Lendlease and City & Docklands have also successfully registered FPRPs to manage new affordable housing at their schemes.

At the end of 2022, there were 26,400 affordable homes owned by investors via FPRPs, according to analysis of company statements and reports from the Regulator of Social Housing. Some 85% of these homes belong to just four providers.

The largest, Sage Housing, completed its 10,000th home at the end of 2022. The Blackstone-owned housing association delivered 3,421 new affordable homes in 2021-22, more than any other registered provider that year, primarily through Section 106 purchases.

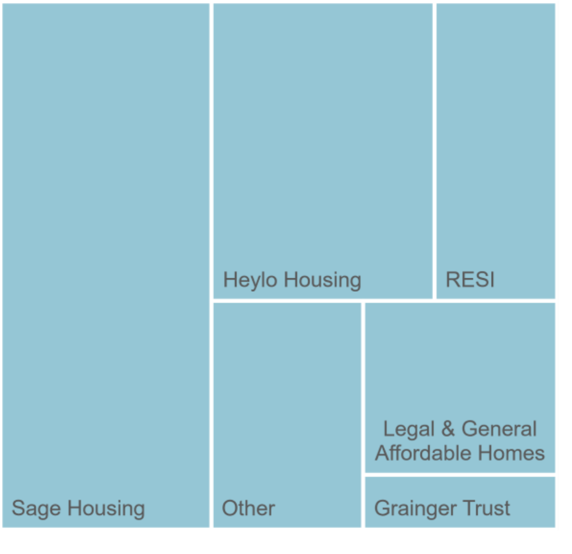
Several others focus on shared ownership, for example M&G Real Estate, which hopes to fund 2,000 shared ownership homes with the Hyde Group. Partnerships like this leverage housing associations' operational capabilities and patient capital to forward fund new homes. Legal & General's tie-up with MTVH takes a similar approach, alongside Section 106 purchases and direct delivery at its own developments.

Grant funding dries up as Section 106 drives homes



Source: DLUHC, affordable housing supply

Top five FPRPs by homes



Source: JLL analysis, public company reports, RSH 21-22

Future outlook

Affordable housing to grow to 23% of private institution-owned homes

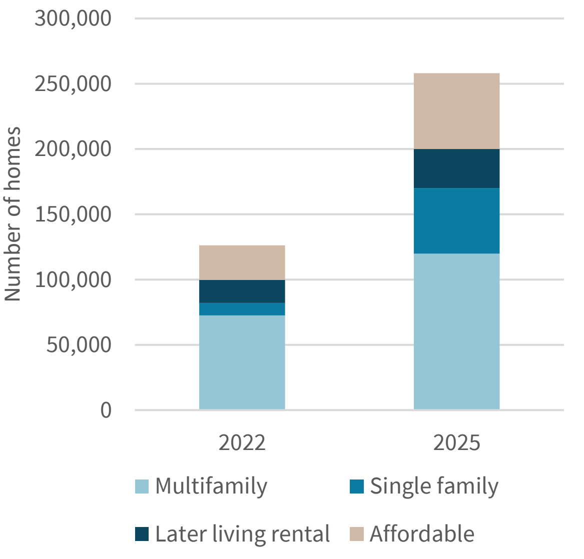
Investor projections and current delivery rates will see institutional ownership double over three years, rising to 58,100 homes by the end of 2025.

This high rate of growth will outstrip multifamily and see affordable housing rise to account for 23% of institutional-owned homes. Yet it will still make up a small portion of the market, rising from 0.7% to 1.4% of affordable homes in England. Those homes would account for just 0.9% of the true demand estimate of 6.2m households, including the unmet demand.

Across the UK those trends of large waiting lists, systemic undersupply and reliance on the PRS are also true. At this level, the total demand rises to 7.5m households, making affordable housing the UK's largest potential market for living investment.

However, the opportunity could be far larger. This logic for demand is based purely around housing affordability to support low income households, but they may not be the only ones to benefit from a large increase in social housing provision.

Institutional affordable to double by 2025



Source: JLL

The 80:20 rule

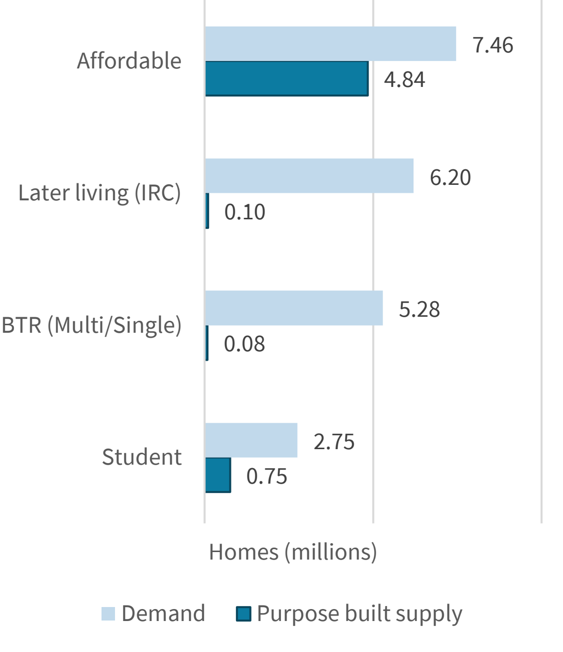
Public social housing accounts for fewer than 20% of households in the UK, with rental. However, in some cities and countries this ratio is reversed.

In Singapore, 80% of housing is government-funded, providing low-cost homes to buy, fuelling one of the highest levels of home ownership globally. Meanwhile, Vienna in Austria provides citizens with very low-cost rental homes, for which 80% of the population qualify. In this way, public investment can create diverse, inclusive neighbourhoods.

The UK affordable housing industry has consistently called for long-term government support to tackle the undersupply. This is especially critical in this moment given the current very high costs for housing support and temporary accommodation.

Recent partnerships, pairing operators and capital, provide the foundations for such growth. They also offer an opportunity for government investment, de-risking schemes, encouraging private investment, employment and housing. Together, this alignment could reap rewards for society and the economy.

Affordable is largest potential market in UK



Source: JLL

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