BUSINESS LDN

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Updated: The case for private investment into affordable housing in London

INTRODUCTION

In 2022, BusinessLDN and CBRE published *The case for private investment into affordable housing in London*.[1] Much has changed since then, not least the election of a Labour Government, which has placed building more homes at the centre of its domestic agenda, recently announcing a 10-year Social and Affordable Housing Programme (SAHP) at the Spending Review. With this new, long-term SAHP in place, other financial support that has been made available and the introduction of many pro-development policies, the prospects for building significantly more affordable homes should be bright – but it is hard to make this case.

This report provides an update to the position in 2022. Set against the current state of the market, it outlines why, despite the Government's commitment to greater spending on affordable housing, there is still a huge need to drive more private investment into the sector in London, and how this can be achieved.

Previous report's recommendations

Our 2022 report set out a series of recommendations for the Government and the Greater London Authority (GLA) to unlock private investment into affordable housing. These included:

- Expedite the process for setting up a Registered Provider (RP).
- Level the playing field for all RPs – not-for profit and for-profit – in relation to tax and grant repayment.
- Update local authority-approved provider lists.
- Provide certainty over a future rent settlement.
- Raise awareness of alternative affordable housing funding and delivery models.
- Ringfence a proportion of GLA grant funding to support unviable schemes.
- Capitalise rental income, which would enable private capital to acquire a proportion of the surplus rental income from affordable housing in London, thereby generating significant capital receipts for housing associations.

GOVERNMENT ACTION

Since Labour came to power in July 2024, a raft of measures has been introduced to speed up the planning system and support more housebuilding. These include wider planning reforms such as changes to the National Planning Policy Framework (with more to come), the introduction of the Planning and Infrastructure Bill and increasing London's housing target to 88,000 homes a year. These actions have been accompanied by efforts to boost affordable housing delivery, such as two multi-million top-ups to the current Affordable Homes Programme (AHP) ending in 2026, and, as confirmed at the Spending Review,[2] a new 10-year £39 billion SAHP, a 10-year rent settlement of CPI +1, a consultation on introducing rent convergence and the creation of a National Housing Bank[3] with £16 billion of public investment.

Most recently, the Government, in conjunction with the Mayor of London, announced a package of support to stimulate housebuilding in the capital.[4] This outlined various initiatives, such as the introduction of a time-limited planning route if 20% affordable housing is provided, 10% of which would be grant funded, Community Infrastructure Levy relief and, following the recommendations made in our report in 2024 on the establishment of a City Hall Developer,[5] an initial allocation of £322 million to a City Hall Developer Investment Fund to accelerate housing delivery.

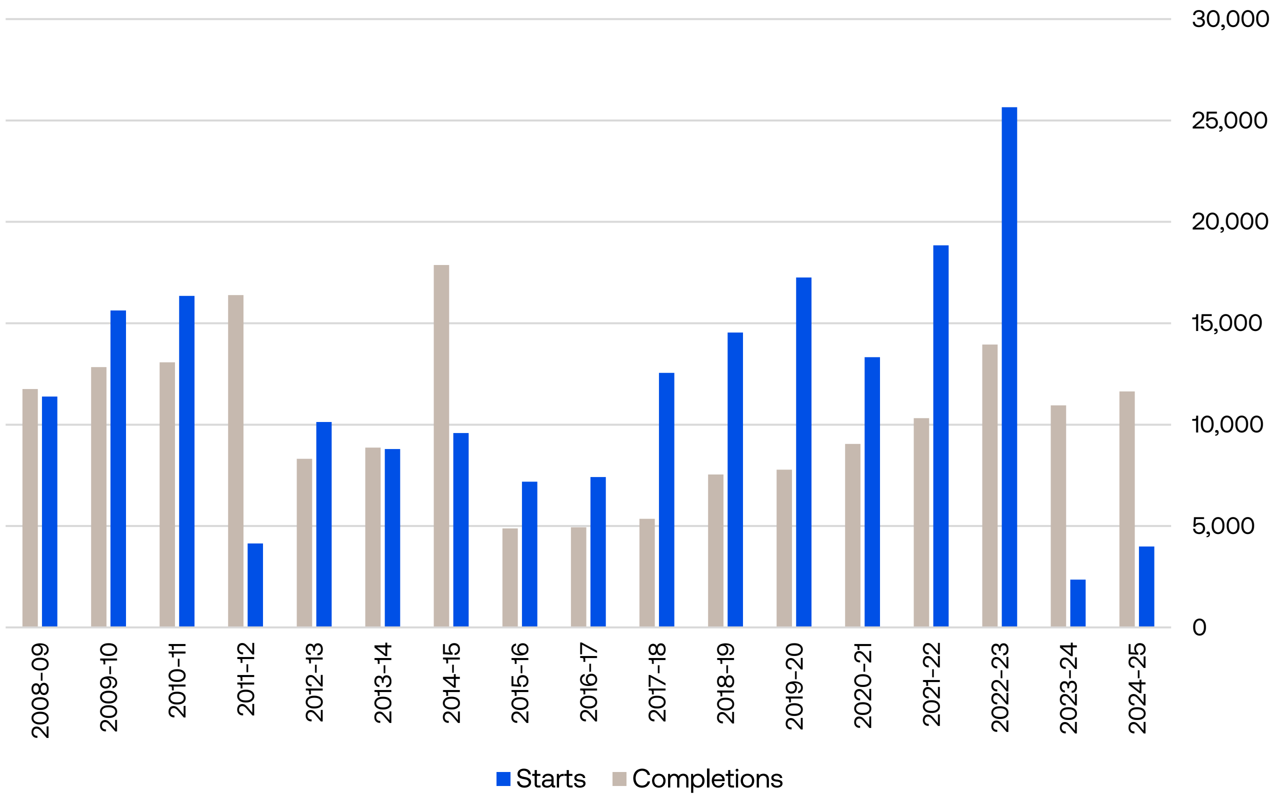
All these steps will help to kick-start development, but with new affordable housing starts in London having hit rock bottom, huge levels of investment are required to deliver the quantum of affordable homes the capital needs.

AFFORDABLE HOUSING DELIVERY IN LONDON

A challenging and unpredictable regulatory environment, including delays to the gateway process overseen by the Building Safety Regulator (BSR), a slow and under-resourced planning system and viability challenges have, in the last two years, contributed to a significant decline in affordable housing starts in London, which has in turn impacted affordable housing delivery in England as a whole.

During 2022–23, 25,658 affordable homes were started on site in London, the highest number in almost 15 years. This was followed by a 90% reduction in the following year to 2,358 starts and a similarly low level of starts in the year to March 2025, with just 3,991 starts taking place (Figure 1).

Figure 1: Total affordable starts and completions in London (2008–2025)



Source: GLA

Aside from the fluctuations in year-on-year delivery of affordable housing, there is a disconnect between the number of starts and completions, even when taking into account construction periods. Since the global financial crisis, there have only been five years where completions exceeded starts on site, and evidence suggests that viability for completing multi-phase developments is particularly challenging.

Despite the number of starts on site in 2022–23, the record lows seen since are further compounding the chronic undersupply of affordable housing. Notwithstanding the positive announcements at the Spending Review and the recently announced package of support, the reliance on RPs to lead the charge on affordable housing delivery can no longer be maintained as they continue to grapple with a range of competing demands, such as fire safety and retrofit of their existing homes.

It is important to acknowledge that the decline in construction of affordable housing is also exacerbating borough spending on temporary accommodation costs, which are approximately £5.5 million per day – a significant increase on the £4.2 million per day spent in 2023–24.[6]

RPs INVESTING IN EXISTING AND NEW HOMES – A BALANCING ACT

A review of the 2025 financial accounts of London's largest RPs, often referred to as the G15, shows that whilst the total number of homes owned and managed collectively continues to grow, cash reserves and interest cover ratios are declining (Figure 2).

Increases in the number of homes owned and managed across the group are driven by development activity and strategic mergers. Peabody's merger with Catalyst in 2023 significantly expanded its portfolio, while the 2022 merger of Optivo Housing and Southern Housing Group formed Southern Housing. More recently, Sovereign and Network Homes merged to create Sovereign Network Group (SNG), further consolidating assets and operations. It is anticipated that creating larger housing providers will enable the sector to maintain operational efficiency and sustainably navigate various headwinds.

However, financial pressures remain apparent across the G15, and declining cash reserves and interest cover ratios suggest increased strain or a shift in capital strategy. Rising and more expensive debt levels have pushed gearing ratios higher and significantly reduced earnings before interest, depreciation, tax, amortisation, major repairs included (EBIDTA MRI) – a key metric of financial health within the sector. Despite the difficult financial climate, operating surpluses have remained stable, showing the resilience and ability of the sector to cope with challenges.

Global Accounts of registered providers

The latest data from the Global Accounts for private registered providers,[7] covering all RPs with over 1,000 homes, highlighted the following:

- Operating margin remains stable at 17%; however, above-inflation increases in operational costs exceed income growth.
- The sector raised £12.5 billion in new debt facilities and reports £29.9 billion in undrawn facilities. However, weaker performance and high levels of investment saw a reduction in cash and short-term investments to £5.5 billion, the lowest level since 2015.
- Overall sector debt increased by £6.1 billion to £99.7 billion and higher interest rates led to a 16% increase in interest costs – this will contribute to a reduction in borrowing capacity.
- EBITDA MRI interest cover declined to 88%, the first time it has dropped below 100% since the 2007–2008 financial crisis. The sector average is slightly higher than that of the G15, further exacerbating matters in London.
- RPs spent £9 billion on repairs and maintenance of existing stock in the last year, a 13% increase from the previous year and 55% above pre-pandemic levels. This is forecast to increase to a record £9.9 billion in the next year.
- A continued decline in levels of investment into new supply, with development spend in the year to March 2025, totalling £13.6 billion – this is a decrease on spend in the prior year and over £3 billion less than forecasts in 2023.
- The sector anticipates an increase in the forecast sale of fixed assets over the next five years – cash receipts over this period are forecast to be £19 billion, over 40% more than the previous plan. This means that RPs will sell surplus or non-core assets, such as build-to-rent or student housing, and consolidate their assets in core operation locations.

In addition to routine maintenance and repairs, RPs are making record levels of investment into their existing homes, driven by the need to comply with new policy such as Awaab's Law (the new regulation for social housing landlords that establishes strict timeframes for investigating and fixing hazards like damp and mould), new consumer standards, fire safety upgrades and decarbonisation requirements. While the introduction of new regulatory standards to promote the safety and security of tenants is the right thing to do, the costs of compliance currently far outweigh the level of income RPs are receiving and have received in recent years. This imbalance ultimately means that tough decisions are being made about development pipelines.

Notting Hill Genesis: Balancing the delivery of new homes against maintaining existing homes

Notting Hill Group (NHG), like other non-profit registered housing providers, aims to make a significant contribution to the UK's housing crisis, especially for people who might not otherwise be able to afford a home. It is seeking to strike a balance between building new homes and investing in its existing 65,000 homes to meet building safety requirements. NHG will be investing £800m in its existing homes over the next 10 years, and its current development pipeline will deliver 3,000 new homes over five years between 2023/24 to 2027/28 – an average of 600 a year – but it wants to do more.

The purchasing of homes through Section 106 opportunities does not always deliver what NHG tenants need – for example, one-bed flats instead of family homes – and the rental yields often do not cover the cost of financing, providing no incentive to buy them. NHG was pleased to see the Government's support for the social housing sector. Further changes to how grant funding can be used would help it return to the levels of new development delivered in the past. These changes could include a general relaxation of the use of the GLA's recycled capital grant fund, which would create capacity to support their new build programme; longer-term funding programmes to give greater certainty (with inflationary reviews); and innovations in grant-funding terms to fund key projects.

In addition to the Government's financial support, private investment is also needed. The long-term rent settlement should help to encourage more private investment into the sector, as would a fair and consistent approach to rent convergence; taken together, both would provide RPs and investors with the certainty needed to plan investment over the long term.[8]

While developing new homes will always be a strategic priority for many RPs, ensuring existing homes meet regulatory standards must be prioritised. The balancing act as to where RPs should invest is perhaps also made easier by the current viability challenges facing the whole residential development sector. High land costs, construction costs, interest rates and the increases in regulatory costs associated with new build, particularly the requirements of the BSR's gateway process, mean that for many RPs starting new development at scale is not an option.

Figure 2: Summary of the Financial Status of the G15 Housing Associations

Registered Provider	Total Homes Owned and Managed		Value of Homes (£m)		Turnover (£m)		Operating Surplus (£m)		Debt Facilities (Total/Committed) (£m)		Debt Facilities (Drawn) (£m)		EBITDA MRI (ICR)		Cash Reserves (£m)		Gearing	
	2025	**2022**	**2025**	**2022**	**2025**	**2022**	**2025**	**2022**	**2025**	**2022**	**2025**	**2022**	**2025**	**2022**	**2025**	**2022**	**2025**	**2022**
A2 Dominion Group	39,495	39,293	2,772	2,780	422	466	186	94	1,846	2,076	1,446	1,688	89%	107%	50	119	50%	56%
Clarion Housing Group	118,796	124,860	8,884	8,191	1,087	1,059	232	303	5,770	5,450	4,593	4,452	102%	115%	102	138	51%	53%
Guinness Partnership	70,023	64,326	4,426	3526.2	535	388.2	76	97	3,010	2,323	2,044	1,487	59%	110%	98	80	44%	41%
Hyde Housing	117,908	48,062	3,530	3,159	466	£374	123	111	1,715	1,548	834	758	90%	164%	128	121	45%	45%
London & Quadrant	109,659	107,193	11,807	11,026	1,111	1,112	377	271	6,462	6,539	5,482	5,479	156%	222%	98	216	46%	48%
Metropolitan Thames Valley Housing	56,694	57,000	5,242	4,617	454	£406	148	122	2,208	1,904	1,518	1,236	93%	115%	88	152	40%	38%
Notting Hill Genesis	68,032	67,691	7,100	6,742	718	837	6	230.7	4,185	4,142	3,635	3,353	53%	145%	36	112	46%	48%
Peabody[9]	108,902	68,000	11,900	7,336	1,030	664	220	213	6,139	4,600	5,129	3,098	34%	93%	106	125	43%	38%
Riverside (Formerly One Housing)	75,667	76,675	4,289	3,860	686	448	108	79	2,652	2,414	2,272	1,949	40%	109%	53	70	58%	54%
SNG (Formerly Sovereign/ Network Homes)[10]	84,977	21,003	7,588	2,158	794	244	205	43.1	4,694	1,314	4,052	1,140	106%	94%	119	68	52%	51%
Southern Housing[11]	80,427	30,000	6,595	2,309	674	252.3	123	71.2	3,967	1,782	3,375	1,231	40%	99%	84	103	52%	41%
Total or Average	**930,580**	**704,103**	**74,133**	**55,704**	**7,977**	**6,251**	**1,803**	**1,635**	**42,648**	**34,092**	**34,379**	**25,871**	**78%**	**125%**	**962**	**1,304**	**48%**	**47%**

Source: CBRE review of accounts and financial statements for each entity

SLOW DOWN IN THE SECTION 106 MARKET

Over the past decade, Section 106 agreements have been a vital mechanism to fund and deliver affordable housing in London and across the country, but the reduced focus by RPs on purchasing new-build affordable homes has meant that developers are increasingly unable to secure an RP partner in their schemes.[12]

This has also resulted in development taking significantly longer to progress as alternative solutions are found or construction simply does not start. With 44% of all new affordable homes across England being funded through Section 106 agreements,[13] the reduction in transactional activity in this market is having a significant impact on the total number of new homes being built.

To avoid schemes becoming stalled and to ensure the continuation of vital construction activity, some developers are setting up their own for-profit Registered Providers (FPRPs) to hold, potentially just temporarily, the affordable homes once constructed.

Ballymore: establishing an FPRP

Ballymore has 14,300 homes in its pipeline in London. Over the past few years, it has been unable to procure RPs for the Section 106 affordable homes in its developments.

For Ballymore, it is a simple equation: no RP equals no project. Therefore, the biggest risk to Ballymore's entire pipeline is the inability to source an RP to acquire the Section 106 homes.

To combat this, Ballymore took the decision to establish its own for-profit RP. The process is long and rightly rigorous, but Ballymore has most of the skills required to navigate it. It is now seeking to outsource allocations and tenant management through either partnering with other RPs or with boroughs.

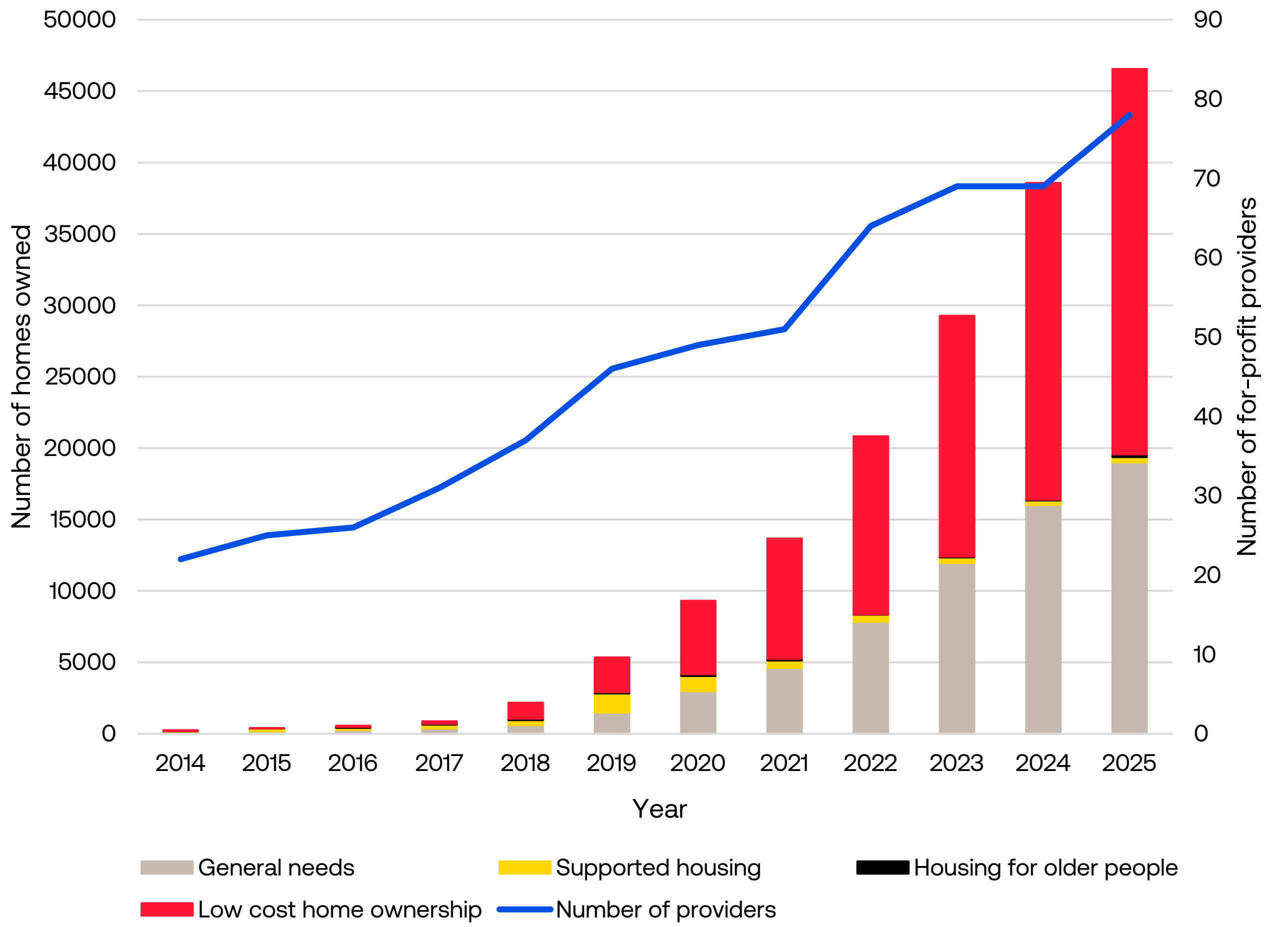
While Ballymore has not concluded the process to become an FPRP, it remains hopeful of success. Through a single entity managing all aspects of the estate for all residents, Ballymore strongly believes its communities will be fully integrated and will therefore avoid many of the issues caused by the traditional two-tier management structure.[14]

More broadly, the constrained finances of RPs have provided an opportunity for private sector capital to step in to acquire Section 106 homes. The dilemma facing RPs about where to invest their capital is not the same for FPRPs, which are unencumbered by legacy issues from existing homes. However, transacting obviously still relies upon developers and FPRPs coming to an agreement on pricing to deliver sustainable returns in a high-cost environment.

GROWTH OF THE FPRPs

The most visible sign of more private investment making its way into affordable housing is the rise in the number of FPRPs. The FPRP landscape has seen a dramatic shift in recent years, with the number of new registrations up to 79 as of November 2025. Figure 3 charts the significant increase in both entities that have entered the market in the last decade, as well as the increase in the number of homes owned by FPRPs.

Figure 3: Total number of FPRPs and number of homes owned (2014–2025)



Source: Regulator of Social Housing

In 2025, the number of homes owned by FPRPs grew to 46,555, 21% more than the previous year (c. 38,600 homes). Part of this increase is because investors are now acquiring rented tenures as well as continuing to target low-cost home ownership (i.e. shared ownership). Between 2023 and 2024, FPRPs accounted for approximately 20% of the total increase in affordable housing.

In the last six years alone, FPRPs have seen their portfolios in London grow from 312 homes to 2,822, an increase of more than 800%, whereas the portfolios of non-profit RPs in London only grew by 6% during the same period. Set against a challenging backdrop, FPRPs continue to outpace the traditional sector.

It is worth noting, however, that at c. 3,000 homes owned in London, this represents only 6% of the total number of homes owned by FPRPs in the country (44,700 homes). Comparatively, non-profit RPs in London own, as a percentage of the number of overall homes owned by non-profits across the country (2.78 million homes), more than double this figure, at 15%. Given the scale of investment by FPRPs in a relatively short period of time, it highlights the importance of providing opportunities in the capital to deploy increased levels of investment into new-build affordable homes.

A NEW WAY OF THINKING: HOW TO SUPPORT MORE PRIVATE INVESTMENT INTO AFFORDABLE HOUSING

The Government's £39 billion SAHP will stimulate some development activity in the non-profit RP sector; however, it will not deliver the number of affordable homes required across the country, particularly in the short to medium term. A recent report produced by private residential landlord, Grainger, also highlighted the disconnect between the costs of developing a new affordable home and the level of subsidy that is really needed to do so.[15] Added to this, the ongoing requirement for non-profit RPs to focus their attention on asset management strategies and ensure the financial sustainability of their organisations will continue to constrain capacity. As such, there remains an opportunity for private capital to accelerate investment into the affordable sector and deliver at scale.

For London to capitalise on the rapid growth of FPRPs, there must be a willingness to address the barriers to securing this additional investment.

Given the extent of the challenge London faces in delivering new affordable homes, the recommendations outlined in the 2022 report remain relevant, although some of them have been addressed, such as introducing a long-term rent settlement and raising awareness of alternative affordable housing funding and delivery models. However, further action is needed, and therefore, the following recommendations, in addition to those previously made and not addressed, should also be implemented:

1. **Streamlining the process for setting up an RP and parity in the treatment of grant repayment in future grant funding programmes**. Setting up an RP can often take many years and while rightly remaining rigorous, the process should be streamlined to enable RPs to be established in a more timely manner. In addition, parity should be created between non-profit and FPRPs with regard to the repayment of grant. Under the current AHP, non-profit RPs can either repay or recycle grant after a trigger event such as disposal of a property, whereas FPRPs are required to repay grant plus a share of any market uplift. This ongoing liability can often impact the amount that an FPRP can pay for grant-funded homes at the outset, as they must make allowances for potential future repayment which in turn, impacts development viability. With fewer homes being brought forward by the GLA's strategic funding partners, as evidenced by the latest figures on housing starts, it is crucial that a fairer, more level playing field between FPRPs and non-profit RPs is created so that the sector can attract the funding needed to deliver new, affordable homes.

2. **Increasing the provision of other forms of subsidy to improve viability**. For example, interest-free loans can bridge the gap between the amount that developers can afford to sell the affordable homes they build and the price that is paid by institutional investors. A recent report commissioned by the G15 and Housing Today[16] highlights the benefits of this approach, where the capital does not sit on the Government's balance sheet as a liability but instead becomes a recoverable investment, allowing for a greater proportion of subsidy to be made available.

3. **Implementation of a tax credit scheme which can be used to fund the delivery of new affordable homes**. This approach, as championed by Grainger's report, *Homes for People We Need*, proposes the implementation of a tax credit scheme which enables profitable corporations to pay future corporation tax liabilities upfront for a fixed term e.g. 10 years, in exchange for a discount on the total amount paid. This lump sum is immediately available to the Government and can be used in the short term to further capitalise existing grant funding programmes, such as the SAHP, to deliver more affordable homes.[17] This approach would follow programmes that have successfully been adopted in the US market.

4. **Active promotion of partnerships and private sector investment within affordable housing by all levels of Government**. Shifting the narrative is important, signalling to the market that national, regional and local Government sees the investment community as an integral stakeholder within the affordable sector. The GLA can directly support this approach through the establishment of

partnerships with institutional investors, such as those seen between Homes England and FPRPs, an example of which is highlighted below. The GLA has a valuable opportunity to leverage its varying resources, such as grant and other funding streams, alongside the land and expertise present within the investment sector to deliver large-scale, affordable schemes in a programmatic manner.

Habiko: Public-Private Partnerships

Partnerships between the public and private sector can take many forms, whether this involves investors and RPs or investors and Government bodies. As an example, Habiko, the partnership between Pension Insurance Corporation (PIC), Muse and Homes England that was launched in 2024, has recently announced two development sites in Warrington and Chester, which will deliver 590 low-carbon affordable homes.[18] Overall, Habiko is seeking to deliver 3,000 sustainable, affordable homes for rent over a 12-year time horizon. Each partner within the joint venture brings with it a range of expertise from site selection, development, placemaking and funding. Long-term ownership and management of the affordable homes once delivered will transfer to PIC.[19]

CONCLUSION

Leveraging more private investment into affordable housing is a necessity rather than a nice-to-have. It will not only help deliver the affordable homes that London desperately needs, but it will also reduce the growing temporary accommodation crisis, which is tying up billions in local authorities' resources; unlock stalled residential-led schemes where an RP cannot be found; and help the Government to meet its ambitious target of building 1.5 million homes in this Parliament.

ENDNOTES

1. The case for private investment into affordable housing, BusinessLDN, CBRE (October 2022).
2. Spending Review, HM Treasury (June 2025).
3. Over 500,000 homes to be built through new National Housing Bank, MHCLG (June 2025).
4. New measures announced to ramp up housebuilding in London, MHCLG (October 2025).
5. City Hall Developer, BusinessLDN, PwC (July 2024).
6. Borough homelessness costs soar to £5.5 million a day, London Councils (September 2025).
7. Global accounts of private registered providers, Regulator of Social Housing (updated January 2025).
8. Notting Hill Gensis.
9. 2025 financial data relates to performance of the merged Peabody entity (including Catalyst) while 2022 data is for Peabody pre-merger.
10. 2025 financial data relates to performance of the merged SNG entity while 2022 data is for Network Homes only.
11. 2025 performance data is for Southern Housing group post-merger. 2022 data does not include Optivo's financial performance.
12. Which way to turn? Explaining the blockages in the process of purchasing section 106 affordable homes, BusinessLDN, Ballymore, DS2 (May 2025).
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14. Ballymore Group.
15. Making social rent homes viable, Homes for people we need (October 2025).
16. State of the Capital: Shaping a new model for affordable housing, Housing Today and G15 (April 2025).
17. Making social rent homes viable, Homes for people we need (October 2025).
18. Habiko announces sites for first 590 low carbon, low energy affordable homes, Habiko, PIC, Homes England (October 2025).
19. Habiko.

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