



MAKING SOCIAL RENT HOMES VIABLE

Edition one

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Homes For
People We Need

TABLE OF CONTENTS

FOREWORD	2
ACKNOWLEDGEMENTS.....	3
EXECUTIVE SUMMARY.....	4
1. INTRODUCTION	9
2. DO SOCIAL RENT HOMES PAY THEIR WAY?.....	13
3. MAKING SOCIAL RENT HOUSING VIABLE	16
4. THE NEED FOR A RETURN FROM CAPITAL EMPLOYED	27
5. HOW DOES THE GOVERNMENT FUND THE CAPITAL SUBSIDY NEEDED?	36
6. WHAT IS THE INVESTMENT CASE FOR THE UK GOVERNMENT?.....	40
7. WIDER CONSIDERATIONS	42
8. CONCLUSIONS	44
APPENDIX 1 - DEFINITIONS.....	45
APPENDIX 2 - THE UNREPORTED SUBSIDY FROM PLANNING GAIN	49
APPENDIX 3 - HOW IS LAND VALUED FOR DEVELOPMENT?.....	50
APPENDIX 4 – THE SUBSIDY REQUIRED FOR SOCIAL RENT APARTMENTS - RP.....	56
APPENDIX 5 – THE SUBSIDY REQUIRED FOR SOCIAL RENT HOUSES - RP	57
APPENDIX 6 – THE TOTAL SUBSIDY FOR 90,000 SOCIAL RENT APARTMENTS	58
APPENDIX 7 – THE TOTAL SUBSIDY FOR 90,000 SOCIAL RENT HOMES (URBAN AND SUBURBAN).....	59
APPENDIX 8 – SUBSIDY TABLES FOR SOCIAL RENT BY BEDROOM	60
APPENDIX 9 – AFFORDABLE HOUSING VIABILITY MODEL: USER GUIDE.....	61
APPENDIX 10 – AFFORDABLE HOUSING VIABILITY MODEL: OUTPUT SHEET	72
APPENDIX 11 – SOCIAL VALUE & ECONOMIC VALUE	73
APPENDIX 12 – CEBR - THE ECONOMIC IMPACT OF BUILDING SOCIAL HOUSING	75
BIBLIOGRAPHY & FURTHER READING.....	79

FOREWORD

The UK's housing crisis represents one of the most significant social and economic challenges of our time. Yet within this challenge lies an opportunity: to reshape our housing system in ways that delivers lasting benefits for communities across the country. The shortage of affordable homes has had serious consequences, with the lack of social rent housing being particularly acute, but it is also an area where meaningful progress can be made with the right solutions.

Although the scale of the crisis is widely acknowledged, there remains a knowledge gap among many policymakers and industry stakeholders. This gap has sometimes been reflected in policy pronouncements and lobbying efforts that overlook the complex economic realities underpinning social housing delivery. Addressing this gap is not only necessary but also achievable.

Previous reports have highlighted the problem and suggested solutions, but they have often lacked one crucial element: a detailed cost analysis of implementation. By providing this essential financial context, proposals can move from theory to practice and become genuinely actionable.

This study seeks to demystify the economics of social rent housing by presenting clear, accessible insights for those without specialist knowledge. By breaking down financial models, planning considerations and delivery mechanisms, we aim to create a resource that encourages informed, constructive dialogue among all stakeholders in the housing debate.

To ensure accuracy and practical relevance, we have drawn on the expertise of professionals from both the public, private and third sectors. Their contributions and rigorous peer review have been invaluable in producing a cross-industry report that reflects today's realities while pointing towards viable pathways forward.

While the delivery of social rent homes is not Grainger plc's core business, we recognise their vital role in addressing the housing crisis and the importance of their delivery to unlock other forms of housing tenures. We believe that an effective response requires an all-tenure approach, with social rent housing playing a central part alongside other housing types. Only through this comprehensive understanding can we build sustainable solutions that meet the diverse housing needs of our society.

This study represents a constructive step towards bridging the knowledge gap and fostering the collaborative, evidence-based approach needed to make social rent homes a practical and achievable part of today's housing landscape.

Helen Gordon, Chief Executive of Grainger plc

ACKNOWLEDGEMENTS

Many people who reviewed the evolving drafts of this paper asked us:

“Why are you doing this?”

Our answer was always the same:

“Because we can – and because the subject is often misunderstood.”

This paper is the result of contributions from many individuals, and we are deeply grateful for the guidance, constructive challenge and critical insights provided by our colleagues and all those who reviewed the drafts. In particular, we would like to acknowledge the time and support given by Arcadis and Savills at the very start of this journey.

Every comment and contribution has strengthened this paper, and the encouragement we received has been a real source of motivation to see it through to completion.

It has taken around a year from the original idea to publication. However, in many ways the real work begins now.

EXECUTIVE SUMMARY

Introduction

The United Kingdom faces an unprecedented housing crisis that demands immediate and decisive action. With 1.33 million households¹ on local authority waiting lists and over 164,000 children living in temporary homes², the scale of need is staggering. Recent publications from Shelter³, the Tony Blair Institute for Global Change⁴, and the Radix Big Tent Housing Commission⁵ have all called for substantial increases in housing delivery across all tenures. Shelter and Crisis advocate for 90,000 social homes annually for the next decade, whilst the Tony Blair Institute⁶ proposed 700,000 Social Rent homes over ten years. These ambitious targets reflect the severity of what has been termed a “housing permacrisis”. A permacrisis which requires radical intervention.

The Core Challenge

The fundamental challenge confronting affordable housing delivery is stark: affordable homes, specifically Social Rent homes, simply do not pay their way. Their capital value is significantly less than the total development costs, creating a large viability gap. This gap is not simply due to the direct cost of development but also stems from the cost of capital over the lifetime of the homes. The low rental income generated by Social Rent housing cannot support the capital investment required for development and ownership, even when considering very long-time horizons. Confronting this reality requires substantial public subsidy to bridge the viability gap and enable delivery at the scale needed.

Key Findings on Subsidy Requirements

The recent step change in investment in affordable housing announced by the Government of £39bn over 10 years, as well as the rent settlement and other initiatives, is hugely welcomed.

The reality though is that yet more funding is required. The detailed analysis behind this report reveals that the true scale of subsidy required to deliver 90,000 Social Rent Homes per year in England by a Housing Association/Local Council (RP) is c£18.83bn per year.

The £18.83bn per year subsidy required assumes the development of 50% of the 90,000 homes as suburban houses and 50% apartments (in city centre blocks) and excludes land costs, demonstrating that even with free land, a substantial subsidy is necessary. It also excludes cross-subsidy from development and S106 affordable housing, which would fall well short of the total needed. This paper outlines a potential solution to finding the subsidy via tax credits which have been used to great effect to facilitate the building of affordable housing in the USA.

Methodology

For the purposes of this paper, the analysis covers 10 Local Authorities / Broad Rental Market Areas across England⁷, employing a discounted cash flow (DCF) model to calculate the required Internal Rate of Return

¹ Department for Levelling Up, Housing and Communities (2024). *Social Housing Lettings in England, Tenancies: April 2023 to March 2024*.

² House of Commons Levelling Up, Housing and Communities Committee (2025). *England's Homeless Children: The Crisis in Temporary Accommodation*. HC 338, 2024–25.

³ *10-City Plan* (Shelter, 2024)

⁴ Tony Blair Institute for Global Change (2023). *Housing Affordability Since 1979: Determinants and Solutions*.

⁵ Radix Big Tent Housing Commission (2024). *Beyond the Permactrisis – Delivering 1,000 Homes Per Day*.

⁶ *The Urgent Need to Build More Homes*, p.23 (Tony Blair Institute for Global Change, 2024)

⁷ As indicated in Appendix 9, however, the analysis can be easily extended across all Local Authorities and Broad Rental Market Areas.

(IRR) with specific assumptions reflecting Investor characteristics and type of home, as shown in the table below.

Tenure Type
Social Rent - Refer to "Definitions"
Investor Type
Housing Association/Local Council (Registered Provider) Refer to "Definitions" <i>For the purposes of this analysis, the following assumptions are made: 50-year time horizon; IRR Target of 5.50%; Nil Exit Value</i>
Home Type
Houses Refer to "Definitions" <i>For the purposes of this analysis, the following unit mix is assumed: 20x 2-Bed, 40x 3-Bed; 40x 4-Bed</i>
Apartments Refer to "Definitions" <i>For the purposes of this analysis, the following unit mix is assumed: 20x 1-Bed, 40x 2-Bed; 40x 3-Bed</i>

In broad terms, the methodology behind this paper incorporates location-specific construction costs using Building Cost Information Service (BCIS) indices, operational expenditure assumptions, and widely published capitalisation yields for affordable housing.

Land Valuation and Section 106 Mechanisms

The research uses the standard Residual Land Value methodology to understand the relationship between value and costs; which is how land is valued by developers including Housing Associations and Councils (RPs) for development. It notes that Section 106 Agreements effectively function as land value taxation at source, with developers factoring in the construction of affordable homes into their land purchase calculations. However, whilst Section 106 mechanisms provide valuable cross-subsidy, they cannot deliver the scale of affordable housing required, especially if the priority is to develop Social Rent homes. Other levers are needed in addition to the recently announced grant programme.

Cost of Capital

A critical point in the debate is that both public and private sector capital carries a real cost – there is no 'free money'. Over the past 12 months, the UK 10-Year Gilt has traded at yields of between approximately 3.73% and 4.91%, establishing the baseline cost of public capital. Housing Associations/Local Authorities (RPs) must generate returns sufficient to service their cost of capital.

The low rental income from Social Rent homes (and to a lesser extent Affordable Rent - capped at LHA) cannot support these development and operational costs, creating the fundamental viability challenge that can only be solved by investing subsidy.

Social and Economic Value

A report by the Centre for Economics and Business Research⁸ (CEBR) examined the socioeconomic value from building 90,000 Social Rent homes. Whilst the CEBR report underestimated the required subsidy, it outlined a compelling argument for the benefits that are delivered. Whilst the social and economic benefits are

⁸ Centre for Economics and Business Research (2024). The Economic Impact of Building Social Housing – A CEBR Report for Shelter and the National Housing Federation.

substantial, including job creation, reduced use of temporary accommodation, reduced housing benefit costs and improved health outcomes, these benefits accrue to society and also for the benefit of HM Treasury rather than directly to the Housing Associations/Local Authorities (RPs). In short there is a compelling return to HM Treasury for the subsidy invested.

Current Funding Context

The previous 2021-2026 Affordable Housing Grant Programme totalled £11.5bn⁹, which was an average of £2.3bn annually. The Labour Government's Comprehensive Spending Review (CSR) on 11th June 2025 materially increased this to £39bn over the next 10 years which is £3.9bn per year.

The MHCLG publication "Delivering a decade of renewal for social and affordable housing" July 2025 is targeting 180,000 Social Rent homes and a further 120,000 affordable homes using the 10-year £39 billion Social and Affordable Homes Programme (SAHP). This is in addition to Social Rent homes delivered through Right to Buy Receipts and S106 Agreements.

Despite this increase in funding for affordable housing, this report demonstrates that funding at this level still falls well short of the need as it represents only c20% (at today's values) of the actual subsidy of £18.83bn needed for the delivery of 90,000 Social Rent homes per year.

The average subsidy of £64,000 per affordable home in the 2021-2026 Programme across different types of affordable home contrasts sharply with the analysis in this paper¹⁰, which reports an average subsidy of £169,207 for Social Rent¹¹ houses and an average subsidy of £249,312 for Social Rent apartments.

	Investor Type	Subsidy Per Home	Total Subsidy
Apartments	Registered Provider (RP)	£249,312	£22.44 bn
Houses		£169,207	£15.23 bn

Social Rent	Avg. Subsidy / Home	Total Subsidy (90,000 Homes) *
Registered Provider (RP)	£209,260	£18.83 bn

*50:50 Split between Houses and Apartments

This gap explains why affordable homes delivered via Section 106 Agreements predominantly deliver Shared Ownership, and Intermediate Rent Affordable homes, rather than Social Rent homes. In short Shared Ownership homes and Intermediate Rent homes are worth more to the Housing Associations/Local Authorities (RPs) and therefore these homes need less financial support/help.

Key Observations

Several key observations can be drawn from the analysis undertaken for this report:

- Free land is not a silver bullet – even with zero land costs, substantial subsidy remains necessary to bridge the viability gap.

⁹ Department for Levelling Up, Housing and Communities (DLUHC) (2022) *Scoping Report for the Evaluation of the Affordable Homes Programme 2021-2026*.

¹⁰ Refer to Appendices 4-8 for the full series of tables.

¹¹ Specifically, on the assumption of a Registered Provider (RP)

- No innovative financial investment model can get round the fundamental requirement for appropriate returns on the capital investment and the cost of capital.
- Section 106 Agreements alone cannot deliver affordable housing at the scale and of the required type to address the housing crisis.
- Additional Government subsidy is essential and unavoidable for further meaningful affordable housing delivery.

Strategic Recommendations

The report considers funding mechanisms and suggested policy reforms:

- Social Housing Tax Credits represent a promising approach, enabling private capital deployment now in exchange for future tax relief.
- Section 106 Agreements should fix affordable housing values at the planning stage to improve market efficiency.
- Right to Buy should be further reformed to preserve the affordable housing stock.
- 'Flex Rent' approaches linking rents to household income should be considered to optimise revenue generation whilst maintaining affordability.
- The Housing Association sector desperately needs recapitalisation in addition to the recent 10-year rent settlement.

The Investment Case for Government

The scale of investment required – £18.83 billion to develop 90,000 Social Rent homes¹² per year– represents a significant commitment, but one that is both necessary and justified by the scale of need and the potential returns on investment to HM Treasury. The choice facing policymakers must not be whether to invest in affordable housing at this scale, but how to structure and fund such investment most effectively.

The investment case for substantial Government subsidy is compelling. Current temporary accommodation costs of £2.8 billion annually could, theoretically, all things being equal, service index-linked bonds worth c.£160 billion, sufficient to fund approximately 765,000 Social Rent homes as set out in Section 6.1. The economic multiplier effects, reduced welfare dependency, improved health outcomes, and enhanced social cohesion provide substantial returns on investment to HM Treasury, although these benefits are seen over extended timeframes and across multiple Government departments and Local Authorities.

In theory an investment by HM Treasury to build c.130,000 Social Rent homes for those families currently in temporary accommodation, assuming £209,000 subsidy per home and thus a total subsidy of £27.2bn, could reduce the current bill for Temporary Accommodation to zero.

Thoughts on Implementation

The timing of investment requires careful consideration to avoid overstimulating the construction sector and driving cost inflation. Counter-cyclical investment could stabilise the residential construction industry, enabling

¹² Apartments RP - £249,312 * 45,000 = **£11.2 billion**
 Houses RP - £169,207 * 45,000 = **£7.6 billion**
Total = £18.83 billion (Avg. Subsidy = £209,260 / home)

investment in recruitment training and skills including in Modern Methods of Construction. The Housing Association sector requires recapitalisation to address current challenges including higher interest rates, building safety requirements, and net zero transition costs.

Conclusion

The analysis behind this report establishes that Social Rent housing delivery at scale requires substantial public subsidy. The fundamental truth remains:

“You cannot have subsidised housing without subsidy”

The choice facing policymakers must not be and cannot be whether to provide subsidy, but must be how to structure and fund it most effectively. The scale of investment required – £18.83 billion per year to develop 90,000 Social Rent homes per year – represents a significant commitment but one that is essential for addressing the housing permacrisis and maintaining social cohesion.

As the heart of this paper is a call to UK society:

“Social Rent homes are not for people IN NEED. Social Rent homes are for people WE NEED”.

The economic and social returns on this financial investment, in what is actually our social infrastructure, justify the scale of commitment required, making it not just essential housing policy but an investment in the UK's future prosperity and social stability.

The question is not whether the UK can afford this investment, but whether it can afford **not** to make it.

Delay simply compounds the crisis, increases costs, and undermines social cohesion. The time for decisive action is now, with clear recognition that meaningful delivery of Social Rent homes requires significant public investment at a scale not seen since the immediate post war years. The Govt's £39bn investment is a very strong signal and a leap forward but it is simply not enough on its own.

The alternative, of doing nothing more, will be a continued housing shortage, escalating temporary accommodation and housing benefit costs, and growing social inequality representing a far greater cost and threat to society and the economy.

The path forward requires acceptance of the subsidy requirements and then sustained commitment over the next 10-20 years to deliver the affordable homes of all types that our society desperately needs.

The evidence is clear, the need is urgent, and the solutions are within reach – what remains is even more political courage to act decisively and at the scale required. The housing permacrisis demands nothing less than a fundamental shift in approach to a transformational long-term investment at scale.

1. INTRODUCTION

There has been a recent dramatic increase in the number of studies and publications on developing more homes in the UK including more Affordable Homes. These are a response to what has been called a “Housing Permacrisis” in the UK – a term used in the title of the Report of the Radix Big Tent Housing Commission¹³. Much as the Scottish parliament declared in May 2024¹⁴, with a convincing majority, there is a “housing emergency”.

The following¹⁵ is a non-exhaustive list of recent publications about the need to deliver additional homes and yet more have emerged as this report has been written. These publications, in turn, build upon previous studies:

Example Publications

- Tony Blair Institute for Global Change (2023). Housing Affordability Since 1979: Determinants and Solutions.
- Centre for Economics and Business Research (2024). The Economic Impact of Building Social Housing – A CEBR Report for Shelter and the National Housing Federation.
- The Housing Forum (2024). The Cost of Building a House.
- Tony Blair Institute for Global Change (2024). The Urgent Need to Build More Homes.
- Radix Big Tent Housing Commission (2024). Beyond the Permacrisis – Delivering 1,000 Homes Per Day.
- BPF and L&G (2023) Delivering a Step Change in Affordable Housing Supply
- Lichfields and the HBF (2024) The Economic Footprint of Home Building in England and Wales

All reports agree that the most effective solution to the housing crisis is to build more homes across *all* tenure types.

In England and Wales, there appears to be a shift in momentum, with the new Labour Government committed to instigating change and championing “YIMBYism”¹⁶. This reflects the growing understanding that the demand for housing and other vital national infrastructure should win over the short-sighted perspectives of what can be described as an unsuccessful experiment in localism to the detriment of strategic planning.

The UK also faces both a dramatically accelerating temporary accommodation bill and an accelerating housing benefits bill, which are threatening to bankrupt more and more Local Authorities.

This report “Making Social Rent Homes Viable” is the conclusion of detailed analysis to understand how to make Social Rent homes financially viable, so that the UK can deliver these critically important homes for people we need.

It also seeks to link with the recent body of work, which all make the case for developing more new build homes of all tenures in the UK.

Whatever solutions are proposed to build more Affordable homes and in particular Social Rent homes they must have regard to the cost of capital. The fact that there is a cost of capital does not appear to be widely understood, yet it is the key to understanding and addressing the challenge of Making Social Rent Homes Viable.

¹³ Radix Big Tent Housing Commission (2024). *Beyond the Permacrisis – Delivering 1,000 Homes Per Day*.

¹⁴ Scottish Parliament (2024) - *Scotland's Housing Emergency: Motion S6M-13197*, 15th May 2024.

¹⁵ Refer to “Bibliography” for all works cited in this report.

¹⁶ YIMBY is a colloquial acronym, meaning ‘Yes In My Back Yard’, with the counterpart term being ‘NIMBY’, or ‘Not In My Back Yard’. NIMBY behaviour is typically characterised by the opposition of development projects by local residents, irrespective of the economic and social benefits which would arise. It has been argued that *The Town and Country Planning Act 1991* catalysed and enabled NIMBY behaviour in that anyone – irrespective of their proximity to the development site – is able to object to a planning application.

This paper, taken with the information in the Appendices, seeks to create an overarching framework to understand the viability of affordable housing, how to make Social Rent homes viable and therefore calculate the raw subsidy required.

A brief review of the reporting by various media outlets shows that we have a very simplistic and incomplete understanding of the challenge. This simplistic commentary often takes the form of the following:

Myths	Solution
<i>"Housebuilders are not interested in building affordable homes since they can make more profit from developing homes for sale."</i>	<i>"If we had free or cheap land from the public sector, we could build affordable homes."</i>
<i>"We do have the money to build social rent housing just not the will."</i>	<i>"If we use Compulsory Purchase Orders to buy land at existing use value, we could build affordable homes."¹⁷</i>
<i>"The income for Social Rent Homes covers the cost of developing it."</i>	<i>"What we need is innovation in financial models for patient private sector capital to invest in building affordable homes"</i>

A better understanding by politicians both local and national, policy makers, lobbyists and the general public is essential if the UK is to materially address the need to build more homes, and in particular, more Social Rent homes.

Just in England alone, the 1.29m households¹⁸ on Local Authority waiting lists for Social Rent homes make the need to build these homes essential, as does the 151,630 children in temporary accommodation¹⁹. Crisis and Shelter are both, for example, lobbying for 90,000 Social Rent homes to be delivered every year for the next ten years²⁰, whereas *The Urgent Need to Build More Homes*, produced by the Tony Blair Institute for Global Change, advocated for launching a programme to deliver 700,000 Social Rent homes over 10 years²¹.

The 2021-2026 Affordable Housing Grant Programme totalled £11.5bn²² - £7.5bn of which was distributed by Homes England, and the remaining £4bn distributed by the GLA in London – an average subsidy of £2.3bn a year. This was to facilitate the delivery of 180,000 homes over 5 years, equating to an average subsidy of c£64k per Affordable Home. The Labour Government's Comprehensive Spending Review on 11th June 2025²³ budgeted for £39bn over the next 10 years which is an average subsidy of £3.9bn a year.

This paper starts by setting out a financial model and analysis and then explains the viability challenge and what is needed to solve it.

'Spoiler Alert': What is needed to solve it is unsurprisingly public subsidy. This paper identifies the amount of that raw subsidy per home (excluding land cost) and the amount required to develop 90,000 Social Rent homes. As public finances are very stretched, this paper also signposts a proven funding mechanism to add to the £39bn announced by the Government for the Affordable and Social Housing Programme.

¹⁷ *The Urgent Need to Build More Homes*, p.31 (Tony Blair Institute for Global Change, 2024)

¹⁸ *Social Housing Lettings in England, Tenants: April 2022 to March 2023* (DLUHC, 2024)

¹⁹ *Tables of Homelessness, England; Table TA1* (MHCLG, 2024)

²⁰ *10-City Plan* (Shelter, 2024)

²¹ *The Urgent Need to Build More Homes*, p.23 (Tony Blair Institute for Global Change, 2024)

²² Ministry of Housing, Communities and Local Government (2020)

²³ Brien, P., Keep, M. & Harari, D. (2025) Spending Review 2025: Background Briefing. House of Commons Library Research Briefing, Number 10276, 4 June

The paper explains how and why the subsidy required for Affordable homes including Social Rent homes is directly proportional to the Net Income received by the owner of the homes which is typically a Housing Association/Local Council (RP), and in more recent years For-Profit Registered Providers (FPRP).

It should be noted that For Profit Registered Provider is a very poor name for what these organisations deliver. Both Housing Association/Local Authority (RPs) and FPRPs make profit. This is entirely appropriate, as profit is simply a return for very real risk. The only difference between an RP and an FPRP is what happens to this profit.

Housing Associations/Local Authorities (RPs) hold onto profit (surplus) to be recycled into funding the building of more homes. FPRPs, once they have sufficient reserves to be resilient (as monitored by the Regulator for Social Housing), have the choice to distribute the profit to the shareholders or reinvest it in housing as a way of providing growth for their shareholders. Both are highly regulated by the same Regulator for Social Housing, and both are accountable for meeting standards for their tenants (customers).

It is also worth setting out here that there are six types of Affordable Homes:

 <i>From Lowest to Highest Capital Value</i>	➤ Social Rent ➤ Affordable Rent - Capped at Local Housing Allowance (LHA) ➤ Intermediate Rent (including the GLA's London Living Rent) ➤ Discount Market Rent (intermediate rent associated with Build to Rent developments) ➤ Affordable Rent - Uncapped ➤ Shared Ownership
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The types listed above are arranged in ascending order of Capital Value – that is, from lowest to highest.

If we ignore the “investor” type²⁴, it follows that as Capital Value is directly related to the level of Net Income received by the “Investor”, the type commanding the lowest Capital Value – Social Rent – generates the greatest viability gap (it needs the most subsidy), as the physical costs of development are broadly similar for all six types.

Each type of Affordable Housing delivers not only a Capital Value, but also a Social and Economic Value however Social and Economic Value is indirect and harder to quantify and is not earned by the Investor in the Affordable homes but rather it benefits society.

Therefore, regardless of any potential benefits, a Housing Developer and a Housing Associations/Local Authority (RPs) cannot factor Social Value and Economic Value into their financial assessment of a development.

For the purpose of this paper, focus is placed on Social Rent homes. As such, Intermediate Rent, Affordable Rent (Capped at LHA and Uncapped), Discount Market Rent or Shared Ownership homes – which have more value due to the higher rents charged compared to Social Rent homes – are not considered here.

The key point is that the subsidy for these other types of affordable housing will be considerably less, and may even, in certain locations, contribute small amounts to land value thus requiring zero subsidy.

This fact explains why most housing built via Section 106 Agreements is not Social Rent and why Shared Ownership is so popular.

“It’s the viability stupid”

²⁴ This will influence the time-horizon, exit option and targeted return threshold.

This paper explains why Social Rent homes cannot pay for themselves.

It explains how the land used for developing homes is valued by developers, including Housing Associations/Councils (RPs) and what “total development cost” means.

It considers the Capital Value of Social Rent Homes, together with the Social and Economic Value of developing Social Rent homes.

This paper confronts the financial challenge that the UK faces, as developing these homes requires subsidy from somewhere. After all:

“You can’t have subsidised housing without subsidy”

At the heart of this paper is a simple call:

“Affordable Homes are not for people IN NEED. Affordable homes are for people WE NEED.”

To make the contents of this paper accessible to as many readers as possible, the definitions of the key terms referenced throughout this paper are set out in Appendix 1.

It is hoped that this paper hits its mark and exceeds the readers expectations by communicating the reality of viability and the scope of the challenge but also signposts how the UK can meet the challenge head on.

If this report leads to just one extra Affordable Home being built, then it was worth it.

2. DO SOCIAL RENT HOMES PAY THEIR WAY?

The fact that Social Rent housing cannot pay its way and is in effect loss-making is rarely communicated nor understood.

It is a common misconception, not shared by Housing Associations (RPs), FPRPs and Residential Developers / Housebuilders, that the income and capital value of Affordable Housing will recoup the cost of delivering those homes if you assume a long enough period.

“Eventually it pays for itself”

This paper shows clearly that for Social Rent homes this is not the case taking into account the *Capital Value* it is worth to Housing Associations/ Local Councils (RPs) and also taking into account their cost of capital.

Section 4.9 of this paper explains that there is Social and Economic Value to Society, but that value is not accessible to Housing Associations/ Local Councils (RPs). It is a value to society and a financial benefit to HM Treasury.

Indeed, for the majority of types of Affordable Housing, the Capital Value of Affordable homes is much less than the total development cost, meaning that Affordable housing is loss-making.

Similarly, holding Affordable homes over a longer period of time will not end up repaying all of the costs of developing these homes, never mind delivering a profit for risk.

This is due to the cost of capital used in developing and then operating Social Rent homes.

Section 3 of this paper reports on the calculations which identify the subsidy required to bridge the funding gap for Social Rent homes.

2.1. What is Capital Value?

The Capital Value is what an Investor will receive if they sell the home to another Investor. It is in other words the Market Value and it is what is reported on the Balance Sheet (Financial Accounts) of the Investor.

The Capital Value²⁵ of a rental home is based directly on the Net Rent that the Investor can earn. The Net Rent being the rent left over from the gross rent received, minus all the costs of operating that home.

The resulting annual net income (income stream) is then ‘capitalised’ at the market net yield. From that figure the notional costs of a future sale to another Investor are deducted and what is left is the Capital Value as set out below:

$$\text{Capital Value (CV)} = \frac{\text{Annual Net Rental Income (NRI) (£)}}{\text{Market Net Yield (NY) (\%)}} \quad \equiv \quad CV = \frac{NRI}{NY}$$

$$\text{Capital Value}^{26} = \frac{£10,000}{5.00\%} = £200,000$$

The market net yield is simply determined by supply/demand and is based on actual evidence from the sale and purchase of rental homes in the market. The market net yields for all forms of rental assets are assessed constantly by independent Valuers registered with the Royal Institution of Chartered Surveyors (RICS). They are also published widely.

²⁵ As stated on the Balance Sheet, or, the price achieved when sold on the open market.

²⁶ As an alternative, one could take the reciprocal, or inverse of the yield, which is subsequently multiplied by the annual net income. Thus, in the example used: $(100 \div 5) \times £10,000 = £200,000$

The market net yield represents an investors' view of:

- Premium over the Risk-Free Rate;
- Rental Growth;
- “Weight of Capital” (Investor Demand = Competition)

Capitalisation Further Explained

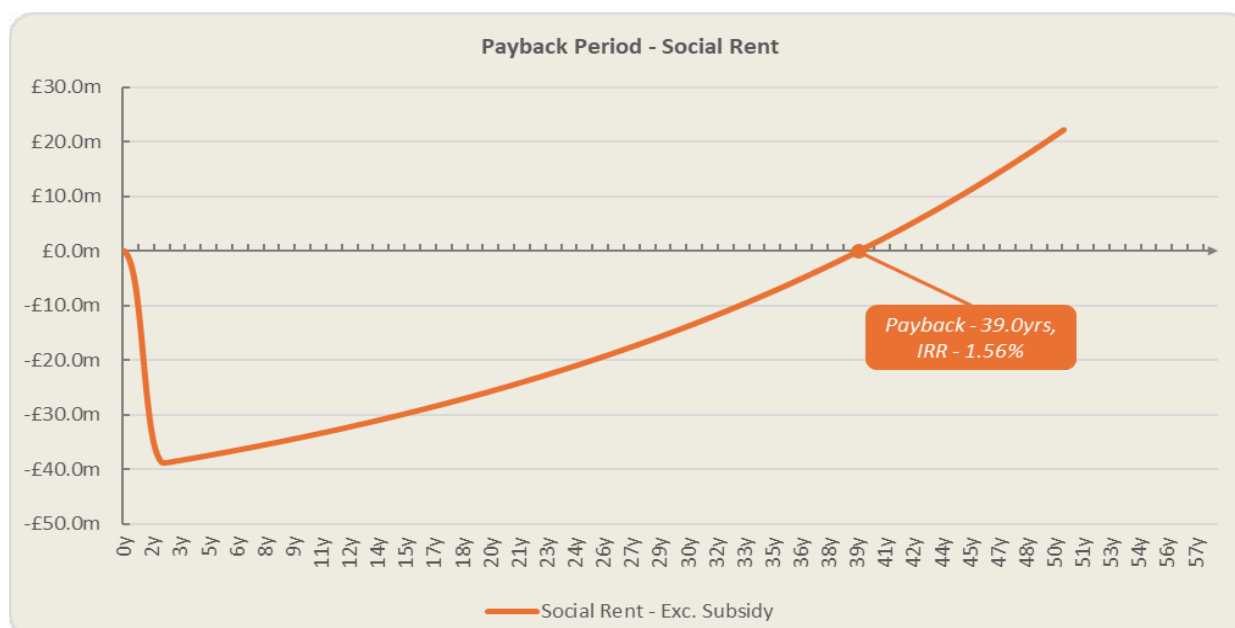
- Capitalisation is a core concept in valuing income-producing assets like properties or businesses. In simple terms, capitalisation converts an income stream into a capital sum by applying a multiplier to the asset's cashflow.
- The multiplier is the inverse of the yield. For example, a 4% yield equals a 25x multiplier ($1/4\% = 25$). The yield, in turn, is a reflection of the asset's risk and growth profile, such that a lower yield implies lower risk and higher growth, resulting in a higher value. By way of comparison, a higher yield suggests the opposite. Therefore, for an identical income stream, applying a lower yield produces a higher value than a higher yield.

Key Points for Noting:

- A higher yield (e.g. 10.00%) does not signify that it is a better investment than an asset commanding a lower yield, of say, 5.00%. In fact, the higher yield implies greater risk. Independent Valuers assess yields by comparing similar assets and considering location as a key factor for residential property. In valuations, the yield is an input used to calculate value, it is not an output.
- It is crucial to distinguish between gross yield (before operational costs) and net yield (after operational costs) when capitalising income. Gross yield is applied to gross income and net yield is applied to net income, but the Capital Value at the end will be the same.

2.2. Payback over Time

There is a common perception that Social Rent homes eventually repay the cost of developing and operating those homes. In the simplest of terms, it is true that the original cost in “today's money” will be paid off over many years as the below graph shows. Using the model behind this report, the graph below shows that 39 years' (the payback period) worth of income generated from owning and operating a Social Rent development in for example Manchester, is required before the Housing Associations/ Local Councils (RPs) initial cash outlay is repaid. This payback ignores the cost of capital.



The initial downward curve in the graph on the previous page is the spending on developing the homes (excluding land), and the curve then turns upwards to reflect the net rent received each year by the Housing Associations/ Local Councils (RPs).

Although it appears that the Housing Associations'/Local Council's (RPs) outlay is repaid, this is an overly simplified and misleading analysis as it ignores the fact that money in future years is not worth the same as it is today. The effects of inflation alone would erode the real value (or purchasing power), of the money earned each and every year up to Year 39.

It is essential that the cost of the capital used to develop and operate the Social Rent homes²⁷ is taken into account. By taking this into account (by discounting for the Investor's cost of capital using 5.5% per annum as a realistic example) one can see as shown in the chart below, that Social Rent homes never earn enough income to repay the Development costs once the cost of capital is included.



Even if the time horizon is extended to 60, 70, and indeed 80-years, the rent is unable to repay the total development cost after including the cost of the capital used to develop the homes.

2.3. Conclusion

It is a fact that at Social Rent levels in England today these affordable homes cannot pay their way, unless they have financial support/help to make them viable.

²⁷ As set out in Section 4

3. MAKING SOCIAL RENT HOUSING VIABLE

The failure to communicate the loss generated by Social Rent homes may in part be because developing homes of a single affordable type on a site is rare and therefore the loss is rarely calculated explicitly.

Residential development tends to be mixed tenure (and often mixed use) with cross-subsidy from the profit generating parts of the development, and often a Section 106 Agreement that impacts the land value (this is a form of land value taxation at source).

This is why Section 106 Agreements are considered as Planning Gain. The land value paid by a developer has been subject to the “land value taxation” that occurs because the developer must take into account the costs of meeting their obligations which will be required in a Section 106 Agreement, and critically, the Affordable Housing that will be required to achieve Planning Permission. Appendix 2 provides information on the large but unreported subsidy generated by S106 Agreements and CIL.

In practice, the Capital Value of each development use is simply identified on the ‘top-line’, and then all the total development costs are deducted to identify the residual land value, as depicted at Section 3.2 and explained further in Appendix 3.

An analysis of the Capital Value and the cost of development for each use is not usually of significant relevance to a developer. Instead, the developer is simply focused on whether the overall mixed tenure (potentially mixed use) development delivers the appropriate profit/return, at a land value that they can purchase the land for, in the open market.

In this section we undertake various calculations to show the loss that the development of Social Rent housing makes, and by doing so we identify the gap that needs to be filled by subsidy to make those Social Rent homes viable.

***NOTE:** This subsidy helps to understand the land value tax per Affordable Housing type that has occurred at the point of the Developer purchasing the land subject to a Section 106 Agreement requiring Affordable Housing.*

***NOTE:** It should be noted that in all cases the subsidy assumes that the land is free. Whilst this is an unlikely situation in the real world it is done to make the point that free or cheap land is not a “silver bullet on its own.”*

For some readers the next Section is going to be “full of jargon” and it does assume a certain amount of investment knowledge. However, the Sections that follow this and the Appendices seek to explain this jargon and to provide the basic knowledge to place the reader in a position to understand it all. So, we recommend reading to the end of this paper and then revisiting this Section if you feel you need to.

3.1. Methodology and Assumptions

We have undertaken analysis for both an ultra-urban (medium/high rise city centre) development of apartments and for a suburban housing development (houses on edges of cities or towns) in England.

3.1.1. Ultra-Urban Development

To understand the loss of each Social Rent homes at a unit-level we are assuming the development of a theoretical block of 100 single tenure social rent apartments (20 x 1 beds, 40 x 2 beds and 40 x 3 beds) assuming a Gross to Net area of 75%.

This paper reports on 10 locations to illustrate the findings across England as follows:

- Birmingham
- Bristol
- Brighton & Hove
- Leeds
- Liverpool
- London Borough of Lambeth
- London Borough of Newham
- London Borough of Barking & Dagenham
- Manchester
- Oxford

However, the reported analysis has also been undertaken for all 295 locations across England²⁸.

The net income from Social Rent apartments was capitalised at a market net yield of 4.25%, as an approximation across England. The net income from the Social Rent houses was capitalised at a market net yield of 4.15%. These market net yields have been based on a current assessment by an RICS Valuation Surveyor specialising in Affordable Housing valuation.

The analysis reports for a typical Housing Association/Local Council (RP) and assumes a 50-year time horizon with no onward sale at the end of the period and an IRR hurdle of 5.50%.

Note: *RPs generally run a Net Present Value (NPV) model at a 5.50% discount factor to deliver nominal profit, which is the same as using an IRR hurdle of 5.50%.*

The Hard Construction Costs are based upon a nationwide estimate of £250 per sq/ft for apartments²⁹, with each LA or BRMA distinguished by reference to their specific index value in the BCIS Locational Study.

The Hard Construction Costs have been increased by 38.50%, to account for the following allowances:

- 12.50% - Preliminaries
- 6.00% - Overheads & Profit (OHP)
- 20.00% - To cover: (1) Site Infrastructure; (2) Professional Fees; and (3) Contingency

Operational costs assume a 32.5% for Social Rent homes again, distinguished by the BCIS Locational Study³⁰. The gross rent is therefore reduced by 32.5% to reflect the actual net rent received by the Housing Association/Local Council (RP) on operational income after having covered management, maintenance, major repairs, void period and bad debt.

Note: *because of this, the Operational costs increase in line with rental inflation.*

Note: *The cost of land is excluded*

²⁸ Refer to Appendix 9 – However, it should be noted that the analysis is potentially historic insofar as certain assumptions have evolved since the User Guide was first written. Even so, the difference, if any, is likely to be minor.

²⁹ London – £303 PSF; South East – £269 PSF; East Midlands – £256 PSF; North West – £251 PSF; South West – £250 PSF; East of England – £249 PSF; West Midlands – £244 PSF; Yorkshire and the Humber – £226 PSF; North East – £224 PSF.

³⁰ As mentioned in Appendix 9 – whilst this is not entirely precise, it still serves as a useful proxy to differentiate between the cost profiles of each individual location.

Programme Assumptions:

- 2-year Build Period (24-months);
- Investment Phase of c. 47 years,
- CPI + 1% Rental Inflation (assuming CPI target is 2%). No rental caps.³¹
- Subsidy Payment - 50% paid at start on site and 50% paid upon practical completion.
- Lease-Up Rate – 25 homes per month (4 months)

3.1.2. Suburban Development

To understand the loss created by each type of Social Rent house we are assuming the development of a theoretical development of 100 single family social rent houses (20 x 2 beds, 40 x 3 beds and 40 x 4 beds).

This paper reports on 10 locations to illustrate the findings across England as follows:

- Birmingham
- Bristol
- Brighton & Hove
- Leeds
- Liverpool
- London Borough of Lambeth
- London Borough of Newham
- London Borough of Barking & Dagenham
- Manchester
- Oxford

The same assumptions have been used as stated in section 4.1.1 above except for:

The Hard Construction Costs are based upon a nationwide estimate of £200 sq./ft for houses³², with each LA or BRMA distinguished by reference to their specific index value in the BCIS Locational Study.

The Hard Construction Costs have been grossed up by 38.50%, account for the following allowances:

- 12.50% - Preliminaries
- 6.00% - Overheads & Profit (OHP)
- 20.00% - To cover: (1) Site Infrastructure; (2) Professional Fees; and (3) Contingency

Operational costs assume a 30% Gross-to-Net leakage for Social Rent homes again, distinguished by the BCIS Locational Study³³. The gross rent is therefore reduced by 30.0% to reflect the actual net rent received by the Housing Association/Local Council (RP) on operational income after having covered management, maintenance, major repairs, void period and bad debt. Note, because of this, the operational costs increase in line with rental inflation.

Note: *The cost of land is excluded*

³¹ Operational Costs moving in lockstep with Rental Inflation.

³² London – £242 PSF; South East – £215 PSF; East Midlands – £205 PSF; North West – £201 PSF; South West – £200 PSF; East of England – £199 PSF; West Midlands – £195 PSF; Yorkshire and the Humber – £181 PSF; North East – £179 PSF

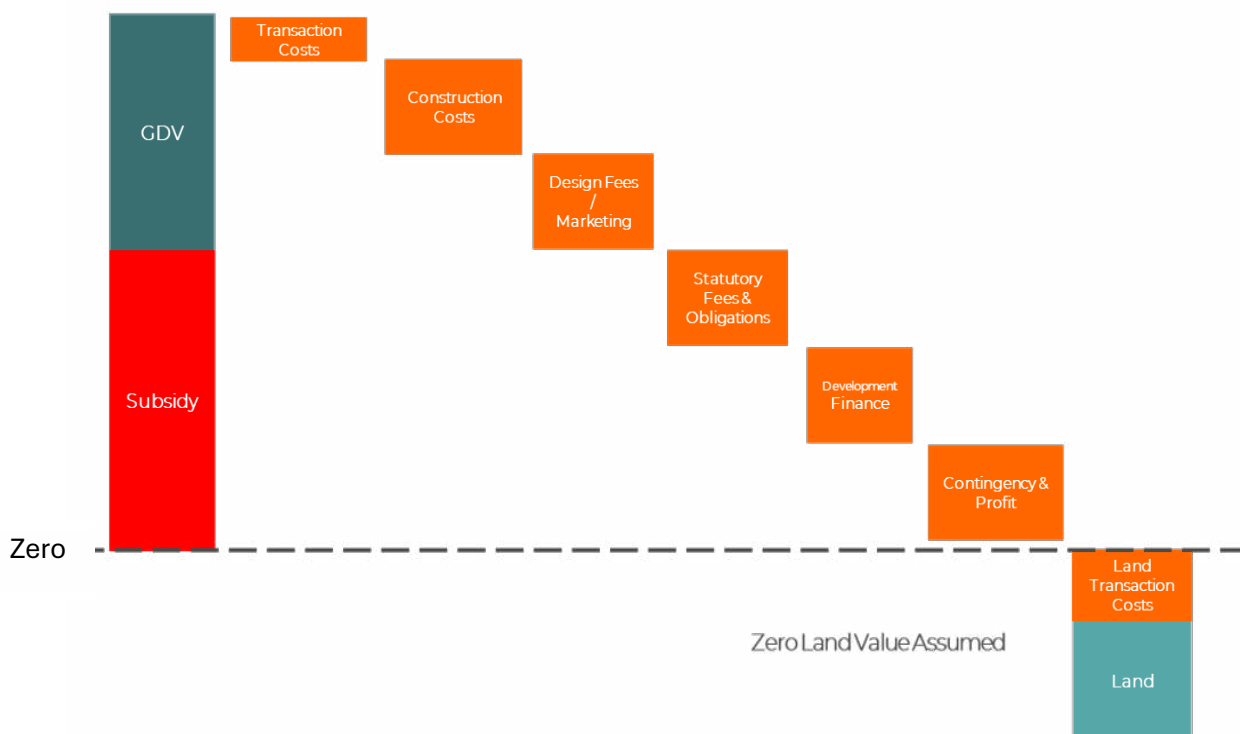
³³ As mentioned in Appendix 9 – whilst this is not entirely precise, it still serves as a useful proxy to differentiate between the cost profiles of each individual location.

Programme Assumptions:

- Building Period of 65 months based upon: 5 homes / phase (20x phases), each lasting 9 months – the start of each subsequent phase overlapping with the preceding one by 3 months
- Investment Phase of c. 47 years with no end sale.
- CPI + 1% Rental Inflation (assuming CPI target is 2%). No rental caps.³⁴
- Subsidy Payment - 50% paid at start on site and 50% paid upon practical completion.
- Lease-Up Rate – 25 homes per month (4 months)

3.2. Visualisation of the Basic Model

From a financial modelling point of view the following diagram visualises the residual value calculation. Further detail on the model is set out in Appendix 3:



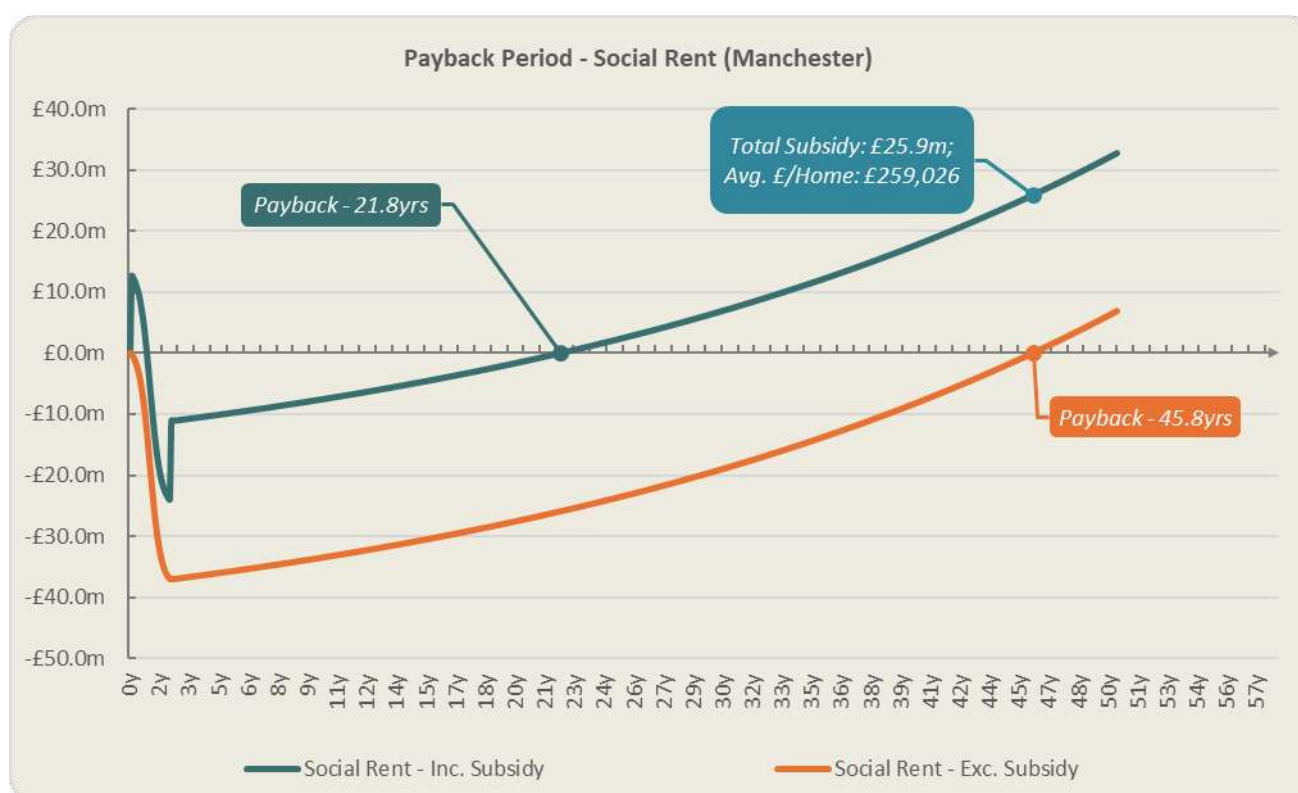
3.3. The Subsidy Required for Social Rent Apartments

The table on the next page reports the subsidy required to develop Social Rent apartments developed by a Housing Association/Local Council (RP) in the 10 locations.

³⁴ Operational Costs moving in lockstep with Rental Inflation.

Social Rent Apartments	
RP (50-year; 5.50% IRR; Nil Exit Value)	
Local Authority	Subsidy Required (Blended / Home)
LB Lambeth	£298,924
LB Barking & Dagenham	£271,313
Brighton & Hove	£265,358
LB Newham	£262,926
Manchester³⁵	£259,119
Oxford	£238,346
Liverpool	£237,644
Bristol	£233,840
Birmingham	£225,139
Leeds	£200,516

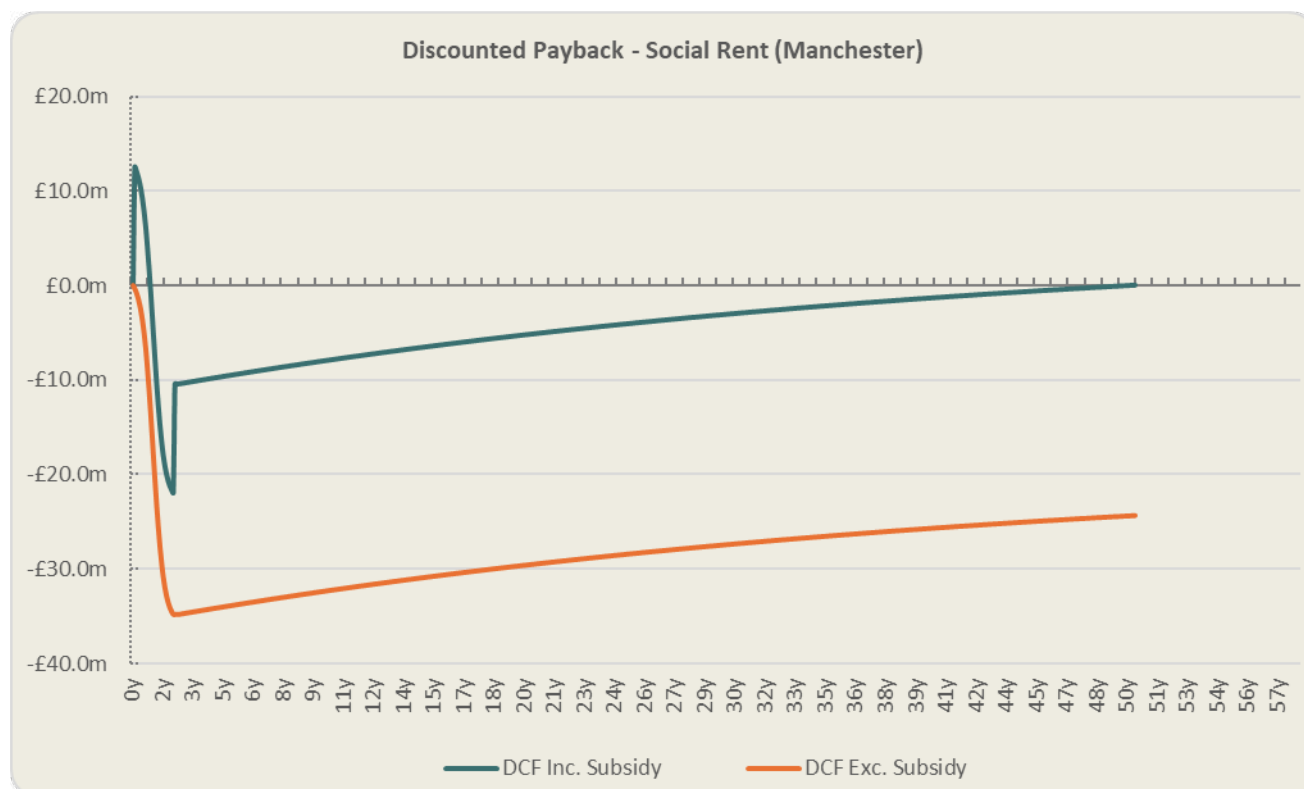
Using Manchester as a random but illustrative example, the graph below shows the simple payback periods (no cost of capital applied) with subsidy as c.22 years and without subsidy at 46 years as we noted in Section 2.



The upward tick in the blue line at Year-2 in the graph above is the injection of the remainder of the cash subsidy (50%/50%).

³⁵ Excel's GoalSeek function operates via iterative approximation, resulting in values which are fractionally above or below the pre-determined target. This form of 'round-off error' largely explains the instances when minor variances between performing the same calculation are observed.

The graph below shows the impact of the cost of capital³⁶ for a Housing Association/Local Authority (RP) being applied (costs are discounted for the cost of capital at 5.5%) with subsidy and without subsidy. With subsidy the Social Rent Homes do pay their way by year 50.



3.4. The Subsidy Required for Social Rent Houses

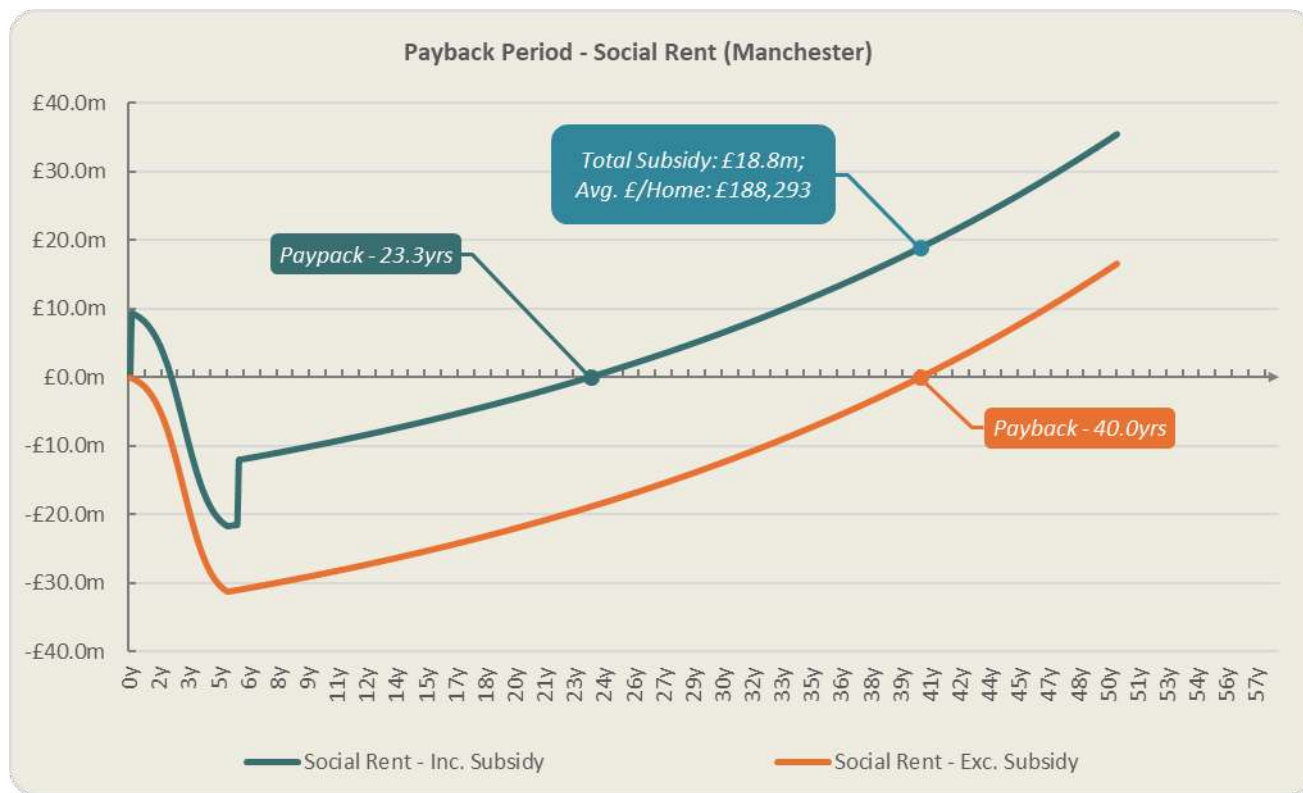
The following table indicates the subsidy required to develop Social Rent houses developed by Housing Association/Local Council (RP) in the 10 locations:

Social Rent Houses RP (50-year; 5.50% IRR; Nil Exit Value)	
Local Authority	Subsidy Required (Blended / Home)
LB Lambeth	£212,060
Manchester	£186,519
Brighton & Hove	£182,249
LB Barking & Dagenham	£181,775
LB Newham	£173,055
Liverpool	£167,852
Bristol	£153,394
Oxford	£150,561
Birmingham	£150,289
Leeds	£134,319

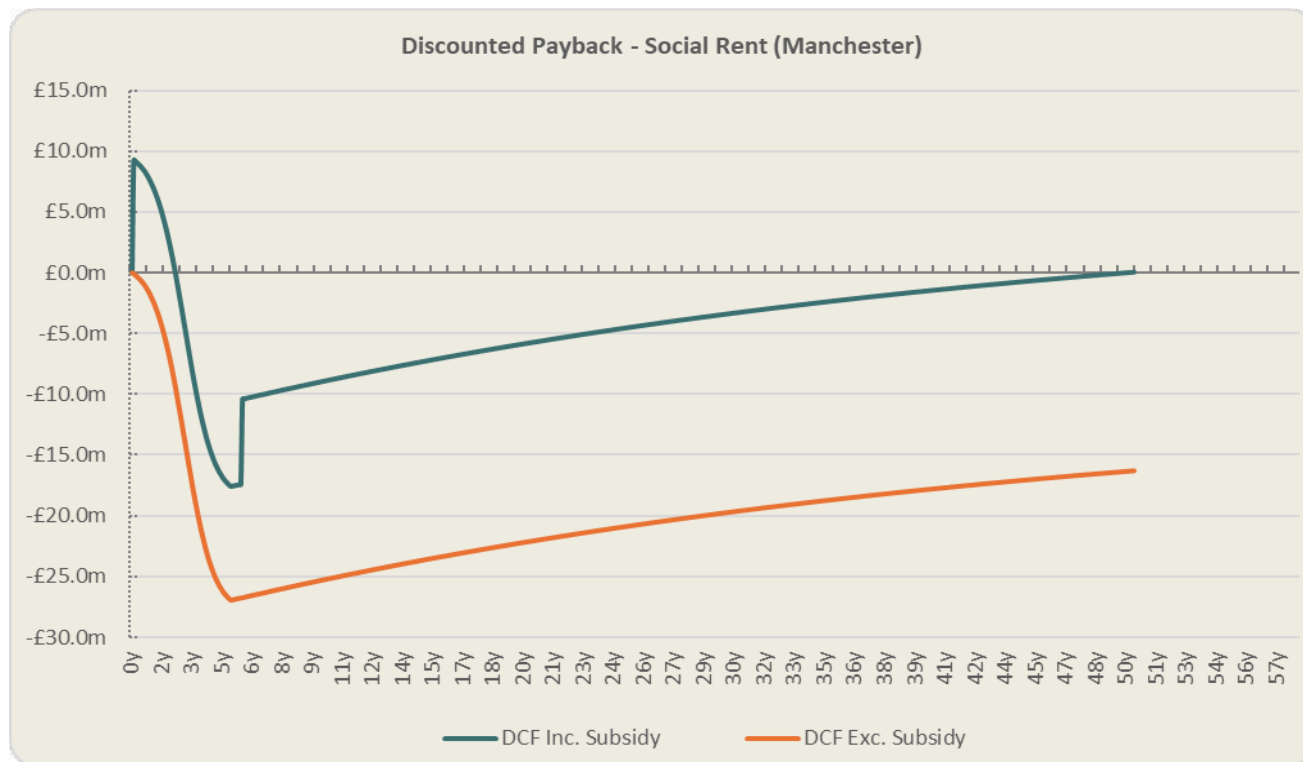
³⁶ Despite the apparent visual similarity, there is an important difference between the two graphs, which respectively show the Nominal, and Discounted Payback Periods. Whereas the latter accounts for the Time Value of Money, the former does not.

The graph below shows the simple payback periods (no cost of capital applied) with subsidy as c23 years and without subsidy at c39 years.

Appendix 4 - includes more details on the build-up of these average subsidies.



The graph below shows the impact of the cost of capital being applied (costs are discounted for the cost of capital aka DCF) with subsidy and without subsidy:



3.5. Uses for this Information

The level of subsidy for Social Rent homes reported in Appendix 4 and 5 provides information which can be used in several ways:

- It can be used to sense check Affordable Housing S106 quotas in Local Plans based on the policy mix of tenure and home type by bed space.
- It can be used to quickly value the benefit in kind provided by non-grant funded Section 106 housing based on mix, tenure and home type by bedspace.
- It can be used to reconsider how best to spend grant funding and the Section 106 housing in kind contribution if one wished to prioritise a tenure.
- It can be used at a macro-level to understand the level of subsidy required to deliver the Social Rent homes required outside of those delivered via Section 106 housing and to apportion the recent announcement of £39bn.
- As the inputs in a Trading Developer's, or Investing Developer's, appraisal for land they bought in the past which has deteriorated (as construction and debt costs have increased, yields expanded) which results in a need to reassess the viability of the Planning Permission. The metrics can be used to sense check and identify what is deliverable and/or the top up grant required for Section 106 housing to unlock them.
- It can be used to assess the art of the possible from "grey belt" development and New Towns development with respect to delivering affordable housing.
- It can be used to explain that whilst free and cheap land helps it really doesn't solve the viability gap on its own. These subsidy levels assume land is free. If the land must be bought, then the subsidy increases.
- It can be used to demonstrate the reality that subsidy is required to cover both the viability gap between hard costs of development and the Capital Value of the completed and let Social Rent home and, therefore, the gap between the net income return versus the cost of the Investor's capital.

3.6. Combined Results

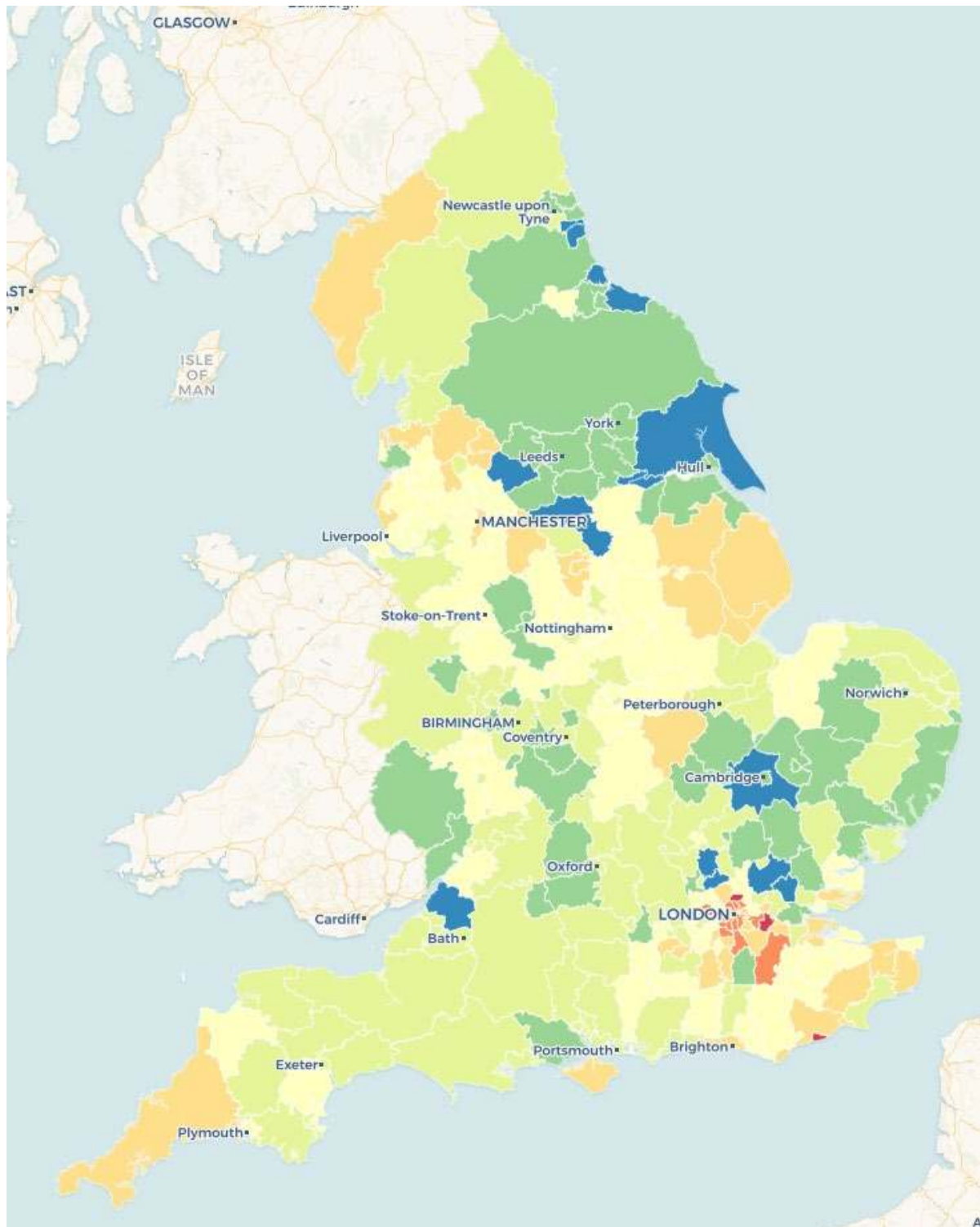
The table below reports the subsidy assuming 50% suburban Social Rent houses and 50% city centre (Ultra Urban) Social Rent apartments. More details of the detailed subsidy levels is enclosed at Appendices 7 and 8.

Location	RP – Subsidy £/Home
Liverpool	£202,748
Manchester	£222,819
Birmingham	£187,714
LB Lambeth	£255,492
Brighton & Hove	£223,804
Oxford	£194,454
LB Barking & Dagenham	£226,544
Leeds	£167,418
Bristol	£193,617
LB Newham	£217,990
Blended	£18.83 bn

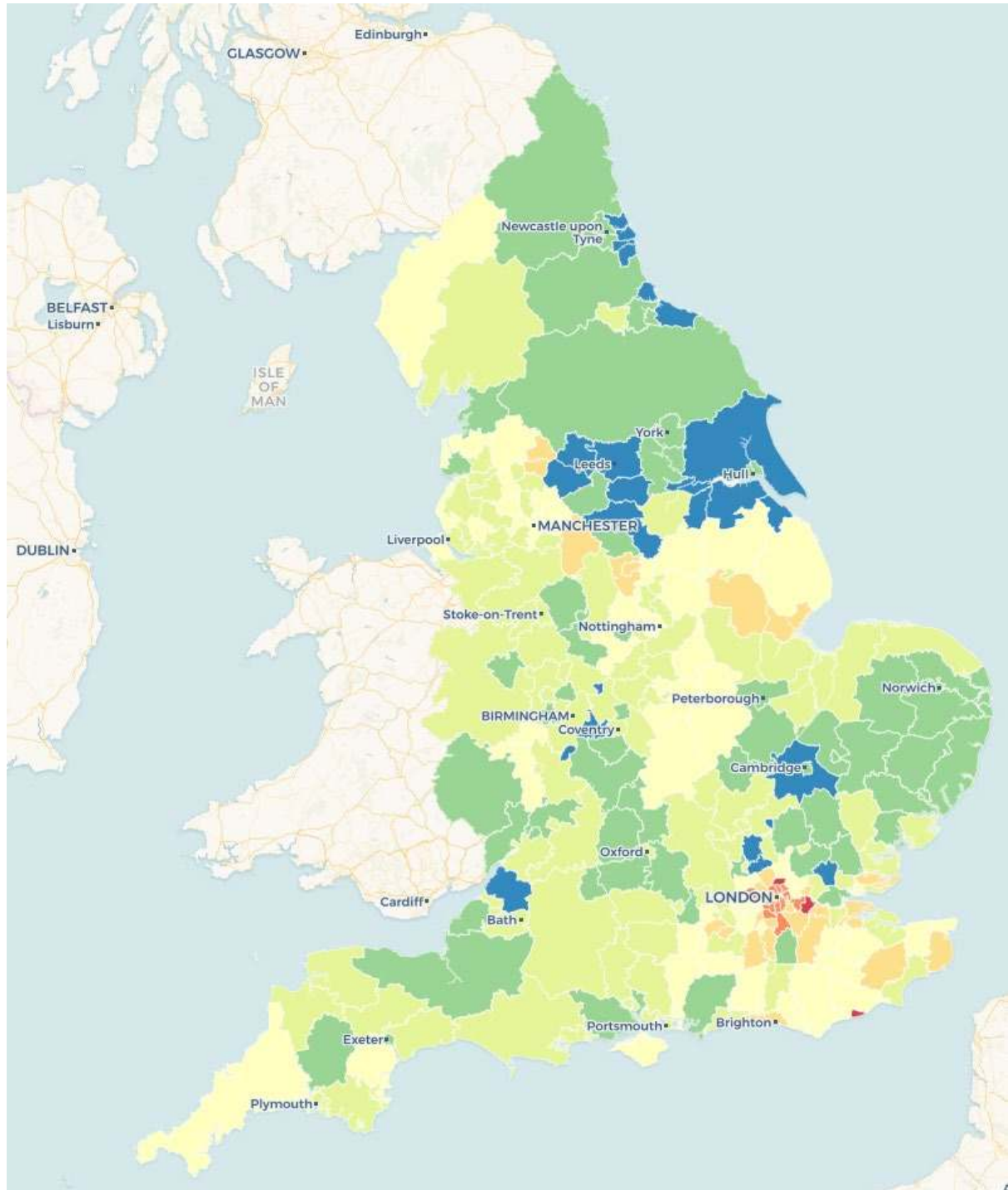
3.7. Interactive Map

As an output from this work, an interactive map has been created, which illustrates the varying levels of subsidy required per home across England. A screenshot of which is shown below:

3.7.1. Houses RP (50-Year)



3.7.2. Apartments RP (50-Year)



More detail on the financial model used to undertake this analysis is enclosed at Appendix 9 and a sample output sheet is enclosed at Appendix 10.

3.8. Contrast with Current Subsidy Levels

By way of reminder, the 2021-2026 Social Housing Grant Programme totalled £11.5bn, of which £7.5bn of was distributed by Homes England, and £4bn by the GLA in London. On average, this was £2.3bn each year. This was to facilitate the delivery of 180,000 homes of various affordable tenures which equated to an average subsidy of c. £64,000 per Affordable Home.

The Labour Government's Comprehensive Spending Review on 11th June 2025 budgeted £39bn over the next 10 years which is an average of £3.9bn each year.

The MHCLG publication "Delivering a decade of renewal for social and affordable housing" July 2025 is targeting 180,000 Social Rent homes and a further 120,000 affordable homes using the 10-year £39 billion Social and Affordable Homes Programme (SAHP). This is in addition to Social Rent homes delivered through Right to Buy Receipts and S106 Agreements.

The £39bn is a significant uplift on the previous 5 years, but it is also significantly less than the required £18.83bn each year demonstrated by this report.

However, if there was ever a time to face the challenge of building more Social Rent homes head on, then surely it is now.

4. THE NEED FOR A RETURN FROM CAPITAL EMPLOYED

For the purposes of this paper, there are two types of Capital – namely, Private Sector Capital and Public Sector Capital, the latter of which for the purposes of this paper includes Capital deployed by Housing Associations/Local Councils (RPs).

Note: *Housing Associations are not public sector bodies, but they behave more like public sector bodies in terms of their core purpose and cost of capital.*

In both the private sector and public sector, there is a Cost of Capital, and the Capital deployed is being subjected to a specific level of risk, which must be compensated for by an appropriate return. The appropriate return must cover not only the Cost of Capital but also deliver a Profit commensurate with the risk of the development in question.

A simple, but useful way to define development risk is the probability of the permanent loss of Capital from undertaking the development process – either due to increased costs and/or the failure to achieve the assumed end development value.

4.1. Private Sector Capital

Private Sector Capital is driven by the so-called ‘profit motive’, or by the prospect of financial returns. However, many companies are also driven by a desire to profitably invest in an ESG-conscious way. This is particularly applicable, but not exclusive to, the Public Listed Sector (otherwise known as UK Plc).

The appropriate return is guided by:

- Cost of Capital (Equity and Debt);
- The specific risk level of the development under consideration;
- Market norms – the ‘going rate’.

Trading Development of homes for sale (traditional house building) in the UK is considered to have more risk than investing in rental homes. This is simply because with Trading Development, there is only one point at which the value of the Development becomes realised – namely, at the first point of sale. Investing Developers, by way of contrast, can take a longer-term view if the value at stabilisation does not initially meet expectations. The Investing Developer can extend the Investment Phase and postpone their exit (sale) until a more opportune moment.

Trading Development therefore needs a higher return, as typically evidenced by the higher profit margins that the private sector requires for Trading versus Investing in homes.

4.2. Profit Margin

The profit margin on the Trading Development of homes is often expressed as:

- Percentage Return on all Development Costs;
- Percentage Return on Value (Total Income) of the Development.

This profit margin is assessed at the time of first buying the land, monitored throughout the Development process, and then finalised at the sale and exit of the last home once all other works have been completed, and all development-related charges have been paid for.

4.3. Return on Capital Employed and Internal Rate of Return

However, behind these simple metrics is a more complex assessment related to time, and what is termed the 'Internal Rate of Return' for some Trading, but certainly all Investor Developers.

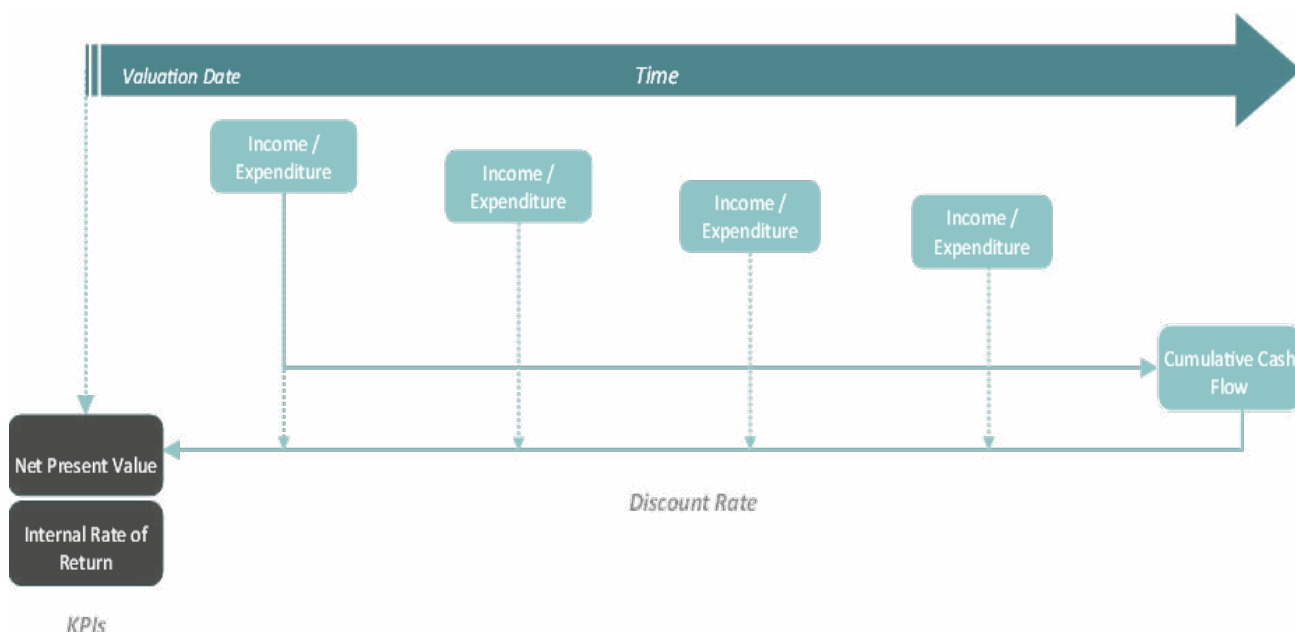
Although the profit margin may be expressed simply, there will have been an assessment, by the Developer, of the annual Return on Capital Employed (ROCE) over time. For Trading Developers, such as housebuilders, ROCE is the key profit metric, which measures the most efficient use of available funds³⁷. Therefore, if two development opportunities result in the same net profit, but one has a total development period of two years compared to four years, the preferred option will be the former – assuming all other variables are equal – as its ROCE will be twice as high.

Furthermore, if two development opportunities have the same total cost, but one requires less cash funding because its delivery is phased, the ROCE will likely be higher since sales revenue from earlier phases can be used (reinvested) to pay the costs for the later phases.

Developing a single block of 100 flats is less 'efficient' compared to a development of 100 individual houses: in the case of the former, the entire block of flats may need to be built before any sales revenue can be earned³⁸, whereas individual houses can be built across a number of phases with sales revenue being derived throughout the project as each phase sells.

At this point, it is also important to explain the difference between Real Returns, which accounts for the reduction in purchasing power over time (due to the impact of opportunity cost/inflation) and Nominal Returns, which do not account for this reduction over time.

Investors, as they intend to own the completed homes over a medium-to-long term horizon, always work on an extended and therefore more complex model which is driven by the Internal Rate of Return (IRR) – or its related concept, Discounted Cash Flow (DCF) – which estimates the costs and income over a specified period of time, culminating in an actual, or theoretical sale to another party, and then work this back to an average annual rate of return, as depicted below³⁹:



³⁷ Typically, a blend of debt and equity.

³⁸ Barring, of course, the possibility of any off-plan sales.

³⁹ Discounted Cash Flow Application, as adapted from RICS, *Valuation of Development Property*, 2019, p.26.

4.4. Public Sector and Quasi-Public Sector Capital

One might assume that Public Sector Capital operates under a different set of rules when funding or developing and owning homes for rent when, in fact, it does not. Indeed, it makes use of exactly the same discounted cash flow model based on the Internal Rate of Return (or the appropriate discount factor).

Note: in fact, it uses a discounted cash flow (DCF) to calculate a Net Present Value (NPV) using a discount factor, but as they tend to require an NPV of £1 or zero, this is actually very close to the definition of IRR.

There is no less risk in undertaking development for a Public Sector Trading Developer, and thus it would be irresponsible/negligent if they did not include a return (profit) reflecting the quantifiable risks of development. In a similar vein, the Public Sector also have a Cost of Capital, whether it takes the form of loans from the Public Works Loan Board (PWLb), or direct borrowing – for example, the use of bank debt or issuance of bonds.

Whilst it may be ideologically appealing to believe that Public Sector bodies do not need to generate a return, the fact is there is always an Opportunity Cost to *all* capital that the Public Sector deploys for investment.

For example, instead of undertaking development, a Public Sector body may opt instead to use their capital to repay debt, and benefit from the resulting reduction in interest payable on that debt.
--

The cost of Government borrowing – primarily facilitated by the issuance of Government Bonds (gilts) – is transparently published by the Bank of England (BoE) and others. To draw again upon the concept of Opportunity Cost, the use of tax receipts for investment, instead of redeeming gilts, can be clearly quantified as it is the cost of new bonds that the government has had to issue.

The common saying that:

“There is no such thing as free money”

reflects an objective truth. Local Councils and Housing Associations (RPs) must consider their Cost of Capital and weigh the expected returns from their investments in affordable housing against that cost and risk.

Where the cost exceeds the expected return, the investment will be unsustainable over time, potentially leading to a downsizing in other services, and ultimately bankruptcy⁴⁰. More specifically, one must consider not only the overall cost versus overall return, but also the relationship between, for example, the annual cost of debt and the level of annual Net Rental Income.

As with Private Capital, Public Capital actors will use an IRR (or the related discounted cash flow - NPV) model and may assume a *notional* exit in the form of a sale to a third-party. However, since they have no *actual* intention of selling affordable homes for rent, these actors cannot crystallise the ‘paper’ capital appreciation to repay the cost of capital, in addition to the original principal borrowed. Public Capital, therefore, is concerned with ensuring that the annual net rental revenue covers the cost of capital deployed.

It is this reality, which is critical to understand, when considering the subsidy required to operate Social Rent homes.

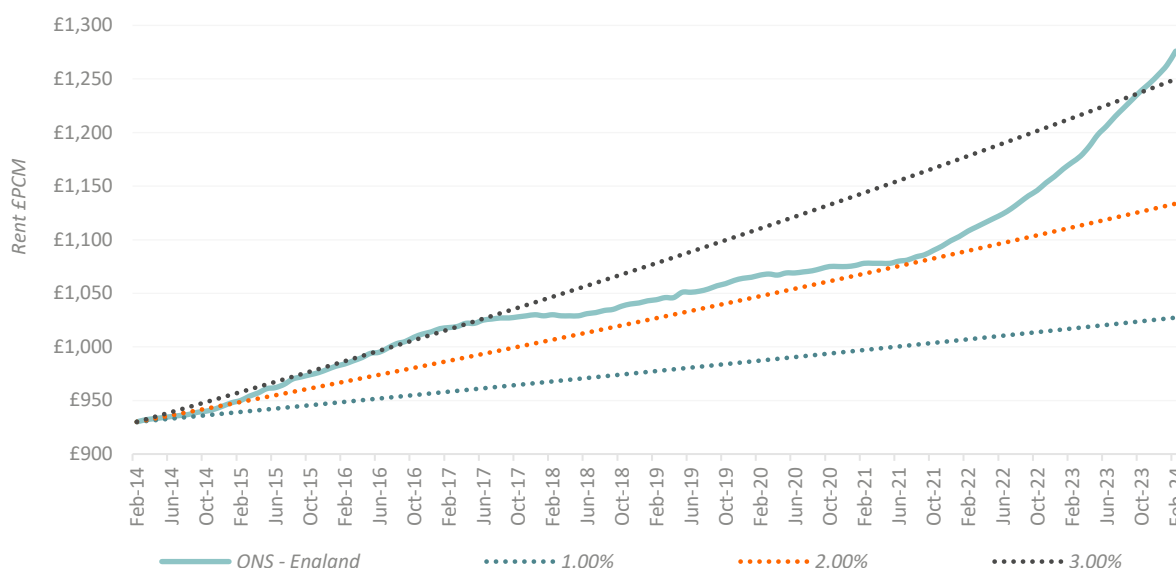
4.5. The Key IRR Drivers from Investing in Homes in the UK

All IRR (and other DCF) models – irrespective of the type of Investor – can only function with a predetermined time period, in addition to an exit where the homes are assumed to be sold to a third-party.

When appraising UK residential investments with an IRR (or NPV model), the common practice involves assuming an annual rental growth rate of circa 3% over the specified time period. The underlying rationale of

⁴⁰ For example, consider the Section 114 Notices issued under the Local Government Finance Act 1988 by the following LAs: Slough (July 2021), Croydon (November 2022), Thurrock (December 2022), Woking (June 2023), Birmingham (August 2023), and Nottingham (November 2023).

this assumption is that 3% broadly equates to the long-term average annual growth rate in rents. *Figure 5*, which depicts the ONS Rental Index for England over the last ten years against other growth rates, supports this 3.00% assumption⁴¹:



For large blocks of rental homes, the standard assumption for private sector investors will be a hypothetical sale, in full, to another investor at the end of the period, formally known as the ‘end’, ‘exit’ or ‘terminal’ value.

For single family homes – and perhaps smaller apartments blocks – the working assumption could be that the portfolio of homes is subdivided on a unit-by-unit basis and sold to individual owner-occupiers or investors. In this case, the IRR model will consider House Price Inflation (HPI) over the period and apply it to the equivalent open-market sale value of the homes at completion of the development phase.

Whilst the norm is to use a complex cashflow model – frequently with spreadsheet software packages such as Microsoft Excel, which estimates costs and income over the investment time horizon to enable the Internal Rate of Return to be calculated, there is a short-cut to understanding the IRR by considering the three key drivers:

	Driver	Comment
1.	Net Income Return p.a.	<i>Expressed as a percentage on the total costs of development per year</i>
2.	Capital Appreciation p.a.	<i>Expressed as a percentage on the total costs of development per year</i>
3.	Profit Margin	<i>Profit at the end of the development period, expressed as a percentage on the total costs of development annualised over the hold period</i>

There is, however, more to an IRR than the above, including the additional drivers below:

	Driver	Comment
4.	Time Period	<i>IRR is sensitive to not only the quantum of cash in or outflows, but also their timing</i>
5.	Capital Expenditure	<i>Expended during the Investment Phase</i>
6.	Transaction Costs	<i>Stamp Duty Land Tax (SDLT); Disposal / Agency fees; and Legal fees upon purchase of land or sale at exit.</i>

⁴¹ ONS Rental Index (England) vs. Varying Growth Rates; Produced by Grainger plc

However, for medium to long-term investment into residential homes for rent, it is the first three drivers that have the major impact on the IRR.

4.6. What is an Appropriate Return (Profit)?

Return is the alternative word for profit. In determining whether the return for a development and/or investment is appropriate, it is important to consider the Cost of Capital together with Development Risk.

The market tends to identify the appropriate return in a self-regulating manner, as open competition exists for purchasing land and other assets. In other words, the market forces of supply and demand declare the appropriate return for the development risk.

The return can also be termed as the risk premium, over what is known as the Risk-Free Rate. The Risk-Free Rate assumes there exists in the market an investment that an investor can invest in which will provide a 'guaranteed' return at nil risk.

When considering whether to invest in something other than the Risk-Free investment, an investor needs to be compensated for doing so. This compensation is the premium, over and above the Risk-Free Rate. This gap is often called "the spread".

Market practice is that the return from the Risk-Free investment corresponds to the nominal, or occasionally, the inflation-protected yield obtainable by investing in Government Bonds issued by the country in which the investment is located in. However, it should be noted that the decision to invest will also consider available Risk-Free Returns and investment returns internationally, not just in the relevant country.

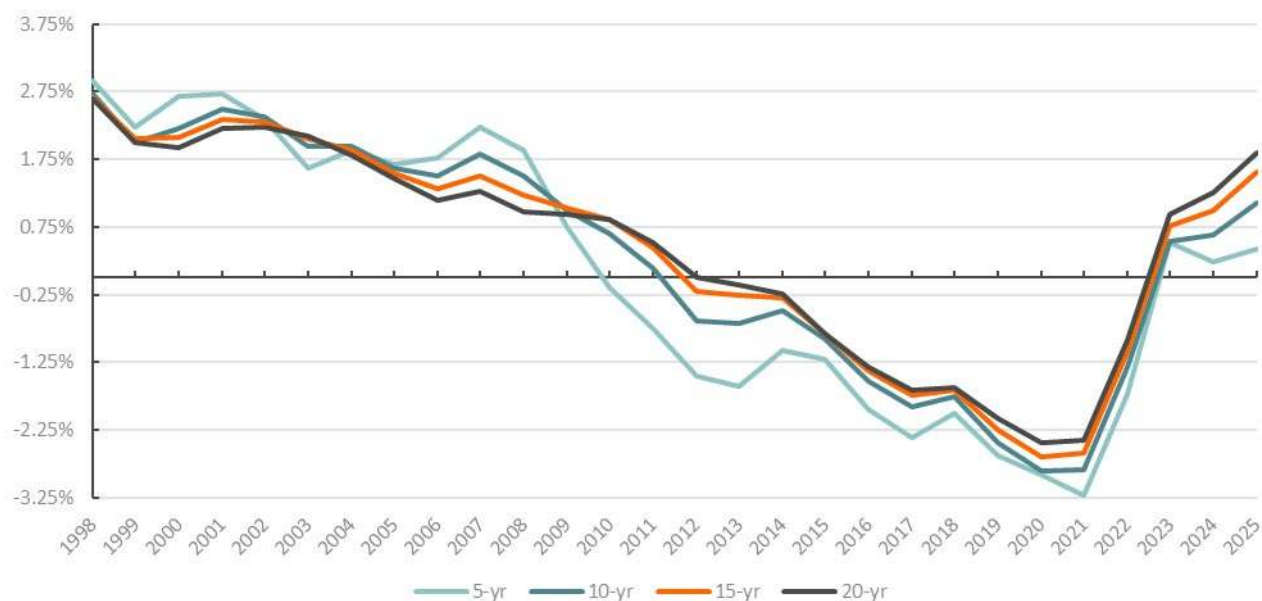
Building upon the concept of the Risk-Free Rate for the UK, there are two types of UK government bond which are issued by the UK Debt Management Office to raise capital:

- *Nominal Bonds* – For this category, the bondholder receives the periodic coupon, or interest payment until maturity, whereupon the BoE redeems the original principal, or original investment at a specified date. Subject to the creditworthiness of the issuing government, a nominal return is all but 'guaranteed'.
- *Index-Linked Bonds* – The key distinction which applies to an Index-Linked Bond, is that the coupon increases annually by RPI, and similarly, that the original principal (the face value/price of the bond purchased) is likewise indexed. In other words, whereas the return from an Index-Linked Bond is inflation protected – 'real' – the return in respect of a Nominal Bond is exposed to a likely reduction in purchasing power arising from inflationary forces.



Note

- The above figure displays the yields obtainable on short (5-year), medium (10-year) and long-dated (30-year) bonds issued by the UK Government. The yield obtainable on such bonds is often mistaken for the coupon payment, and vice versa. Whereas the coupon is based upon the bond's face value and remains fixed, the actual yield is the effective return an investor would earn until maturity based upon the bond's *current* market price.
- By way of simple example, a bond with a face value of £100 and paying £5 per annum equates to a coupon of 5.0%. However, since such bonds are publicly traded, it is possible that an investor pays a premium or discount to face value. Purchasing the bond at £125 would equate to a yield of 4.0%, whereas buying at £62.50 would imply a yield of 8.0%.



Note

- The above figure displays the historic spot yields, by reference to index-linked gilt prices, enabling market-based estimates of real yields for different maturities – in this case, 5, 10, 15 and 20-years.
- Strictly speaking, Index-Linked Bonds are not completely protected from inflation, since there is an RPI indexation lag of 3-months for those issued post from Sep-2005 onwards. Prior to Sep-2005, the indexation lag was even greater, at 8-months.
- One will notice an extended period of negative bond yields – this often arises when investors are anticipating higher inflation in the future and are therefore willing to accept a negative yield on the grounds that the principal and coupon are protected from inflation.
- It can also be observed that the profile of yields on Nominal and Index-Linked are broadly similar, with the Nominal Bonds trading, for the reasons previously explained, at higher yields. The spread between the Nominal and Index-Linked bonds of the same duration effectively indicates the market's collective expectations as to the rate of inflation until the bond matures.

Either category of bond can serve as the Risk-Free Rate – however, it could be argued that the Index-Linked bond is more appropriate for considering investing in UK residential assets given the nature of the supply-demand imbalance for housing in the UK, where both house prices and rental values have shown a strong correlation to the Consumer Prices Index (CPI), Retail Prices Index (RPI) and wage inflation over time.

The Index-Linked Bond yield in its role as the Risk-Free Rate would be compared to the Market Net Yield for residential assets, which is widely published by market analysts and researchers. Using the Nominal Bond yield as the Risk-Free Rate, however, would require a comparison to the investor's required IRR. Naturally, an IRR is not a market-derived metric, meaning that it varies from one investor to another – sometimes markedly so. In a similar vein, an investor is highly unlikely to disclose their IRR in the public domain for reasons of commercial confidentiality.

In either case, however, one must consider the concept of 'duration matching' – that is, using the 10-year bond yield for the purposes of considering a 30-year investment horizon would be wrong. In other words, the

duration of the Risk-Free Rate must be aligned with the duration of the cash flows from the investment under consideration.

Notwithstanding the above, both benchmarks can be used to assess the implied margin for risk in the UK market at any given point in time. Whereas the Nominal Bond rate is assessed relative to the IRR, the Indexed-Linked bond rate is compared against the market net yield:

IRR	7.00%	Market Net Yield	4.00%
<i>Less</i>		<i>Less</i>	
Nominal Bond Yield	4.00%	Index-Linked Bond Yield	1.00%
<i>=</i>		<i>=</i>	
Implied Risk Premium	3.00% (300bps)	Implied Risk Premium	3.00% (300bps)

Basis points (bps) are a unit of measurement used in finance to describe changes in the percentage movements in interest rates, bond yields, and other percentages. One basis point is equal to 1/100th of a percentage point, or 0.01%. As such, 1 basis point = 0.01% - or alternatively, 100 basis points = 1.00%.

Basis points are used, as they provide clarity and precision when discussing small changes in financial metrics, especially in contexts where even slight differences can have a significant impact (e.g., interest rates or investment returns).

Using basis points avoids ambiguity. For example, saying “a 1% increase” could mean an absolute change (e.g., from 5% to 6%) or a relative change (e.g., a 1% increase of 5% = 5.05%). Basis points eliminate this potential confusion.

4.7. The Return from Trading Development

Trading Housing Developers typically seek a profit of 20%-25% on Gross Development Value⁴², the sought-after profit level being a determinant of what price can then be paid for land. Residential Developers operating in urban medium to high rise homes, as opposed to House Builders, may accept lower returns in the order of c. 20% on cost. However, construction costs are higher – and likewise – this metric is not what drives their decision-making, but rather, the IRR⁴³. The period of time that the capital is at risk – a factor more relevant in the development of apartment blocks – is critical to the consideration of the overall level of risk and return.

The return from Trading Development takes into account the risk of the construction phase, in addition to market risk⁴⁴ – for example, that the completed homes do not sell at the anticipated values, or at the projected rate of sale.

4.8. The Return from Development for Investment

An assessment of IRR will vary significantly based on a Developer Investor’s weighted average cost of capital⁴⁵. For a relatively ‘low-risk’ investment, such as rental housing in the UK, today one might expect an IRR in the order of 7.0% - 8.0% p.a. It should be noted that since the IRR is driven fundamentally by the Net Income Yield of between 3.5% - 5.0%, in conjunction with a generally assumed Rental Growth Rate of 3.0% - then, all things being equal – it is unlikely that returns in excess of the above IRR range would be sought from Investing in Residential Development. Unless there is a return to the low-interest rate environment of the 2010’s.

⁴² Akin to 25-30% Profit on Cost.

⁴³ For example, compare the difference between earning 20% over a period of two versus three years – the CAGR equates to +9.54% and +6.27%, respectively.

⁴⁴ Also known as market risk, represented by overarching macroeconomic factors that can affect all investments, irrespective of industry or sector.

⁴⁵ Often abbreviated as ‘WACC’, it represents the weighted average use of debt and equity in an investor’s capital structure.

The return from Development for Investment also considers the risk of the construction phase. However, the market risk is perceived to be lower, as rental values are easier to assess than sales values. Similarly, the supply-demand imbalance in the UK means that the risk of protracted void periods is diminished.

In addition, unlike Trading Development, which has a single exit point – ideally at the earliest point after practical completion – Development for Investment considers a longer time-horizon of 10-30 years. This larger window affords the Investor greater flexibility to choose a more favourable moment to sell and navigate the peaks and troughs of the market⁴⁶.

In the case of Housing Associations/Local Councils (RPs), the demand for homes is always present, the pricing is discounted, and there is no genuine intention to sell. As such, the risk of failing to meet the anticipated returns is more theoretical. For Housing Associations/Local Councils (RPs), it is the annual net income (income stream), which is of the greatest significance.

4.9. What about Social and Economic Value?

A common thought is that public sector investment should somehow formally recognise the other benefits from its investment, outside of a direct financial return. These non-financial benefits can be broken down into Social Value and Economic Value, which are defined in more detail in Appendix 11.

Of course, the public sector does indeed seek to consider an investment's Social and Economic Value – likewise, it is a key consideration of the UK Treasury when allocating funding/spending. However, the benefits accruing from Social and Economic Value cannot be directly identified and “booked” to pay back the borrowing (bonds) issued to raise the capital.

The returns from Social and Economic Value may well occur, albeit the timing is difficult to pinpoint for the reason that they are not directly associated with the timing of the investment in question.

For example, if a Local Council invests Capital in a programme of Social Rent home building which creates work and jobs for the wider construction industry, the tax receipts do not flow back to the Local Council. Society and the Treasury benefit directly, whereas the Local Council does not.

Likewise, if those modern energy-efficient social rent homes help the people living in those homes to succeed and build a productive future, it will result in lower welfare benefits and an increase in income tax receipts for the Treasury. Also, if those people are less likely to be a burden on the NHS because of the wellbeing benefit of secure and warm homes, then, unfortunately none of that financial benefit flows back to the Housing Association/ Local Council. It does, however, flow back to wider society and result in reduced Government spending at some point in the future.

In summary, the economic value of government investment is its capacity to generate lasting benefits for the economy and society by enhancing productivity, creating jobs, supporting long-term growth, and improving quality of life.

⁴⁶ Notwithstanding the fact that the Balance Sheet value will reflect any market movements.

5. HOW DOES THE GOVERNMENT FUND THE CAPITAL SUBSIDY NEEDED?

The UK Government utilises two main methods to raise funds for public spending and investment. These are taxation and borrowing. However, despite the information being freely available, it does not appear to be widely understood by the general public how much tax is raised annually by HMRC for HM Treasury, and from where nor how the money that is raised is spent, nor the annual shortfall (the budget deficit). Finally, it does not appear to be widely understood by the general public that this shortfall is funded by bonds (Gilts) issued by the UK Debt Management Office.

5.1. *Taxation*

The main method of raising capital is of course taxation, receipts of which were £772bn on an annual basis (Oct-23-Sep-24);

- **Income Tax:** Levied on individual earnings, with rates varying based on income brackets.
- **National Insurance Contributions (NICs):** Paid by both employees and employers to fund various state benefits.
- **Value Added Tax (VAT):** Applied to most goods and services at a standard rate of 20%.
- **Corporation Tax:** Charged on company profits.
- **Council Tax:** Collected by local authorities to fund local services.
- **Excise Duties:** Applied to specific goods like alcohol, tobacco, and fuel.
- **Capital Gains Tax:** Levied on profits from the sale of assets.
- **Inheritance Tax:** Charged on estates above a certain threshold.

5.2. *Borrowing*

Since tax revenues are insufficient to cover annual spending, the Government needs to borrow money via:

- **Issuing Gilts:** Government bonds sold to investors, promising repayment with interest.
- **Treasury Bills:** Short-term debt instruments, typically used for cash flow management.
- **National Savings and Investments (NS&I):** Savings products offered directly to the public.

General Government Net Borrowing – c. £151bn (of which):

- £144bn Central Government.
- £6.7bn Local Government

The sum of all borrowing by the Government to date is in the order of £2.7trn.

The interest payment per annum, which is paid for by taxation and further borrowing, was £80bn in the 12 months between Oct 2023 and Sept 2024.

5.3. *Other Methods*

Whilst the Government can also raise money via the following routes, these are relatively minor sources in the grand scheme of things:

- Asset Sales
- Quantitative Easing
- Fees and Charges
- Investment Income
- Fines and Penalties
- Public-Private Partnerships (PPPs)

5.4. The Potential for Tax Credits

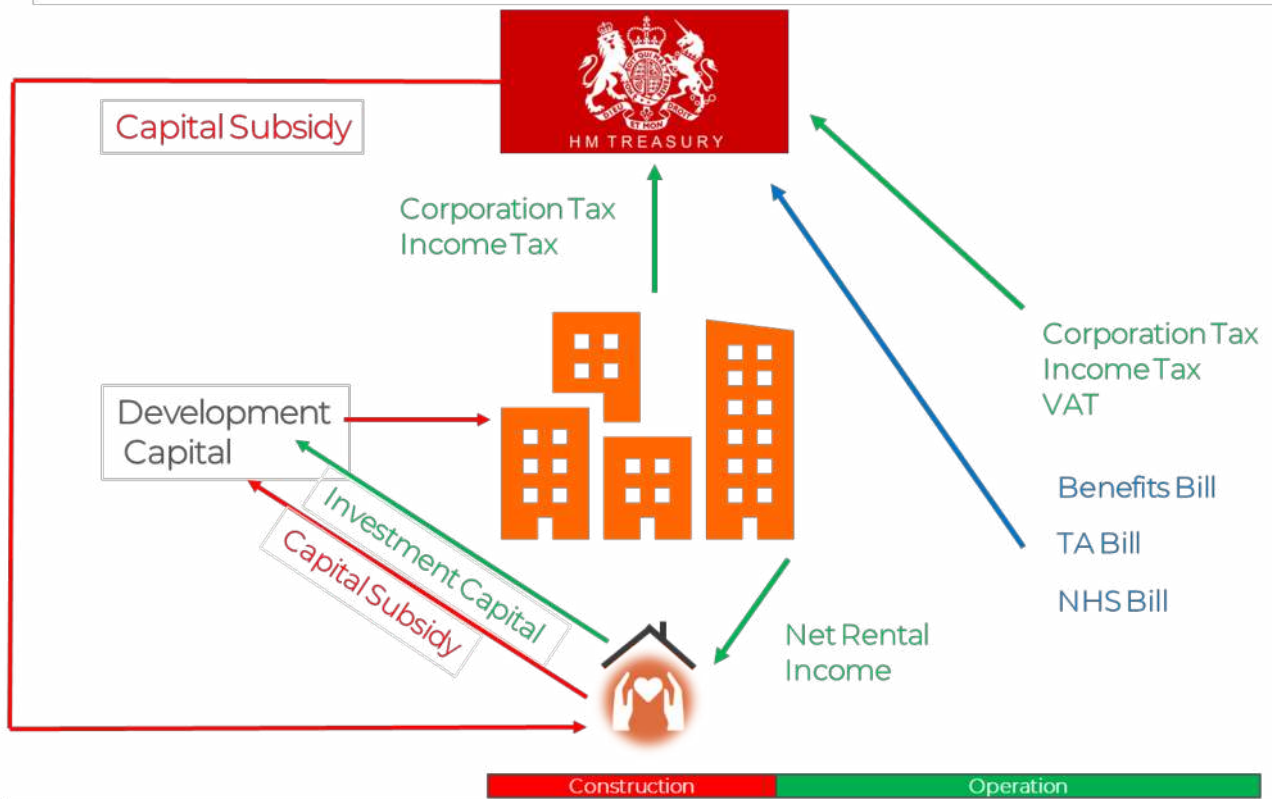
A hybrid solution of raising the capital required to provide the subsidy (public investment) in Affordable Housing has been proposed in the form of Corporation Tax Credits, which would not, on the face of it, impact the Public Sector Borrowing Requirement

This is an innovative way to deploy private capital now, in return for tax credits to be offset against future corporation tax bills over a period of time, for example 10 years.

Section 10 considers the Investment case for the Subsidy and in theory the Corporation Tax Credits would be largely self-funding in absolute and in cash flow terms, in the short to medium term. This self-funding is delivered through a combination of savings to Treasury and Local Authority budgets and increased tax receipts to HM Treasury.

Below shows a potential method by which the raising of investment from Tax Credits could be distributed via the existing Social and Affordable Housing Grant framework in England to deliver the affordable housing.

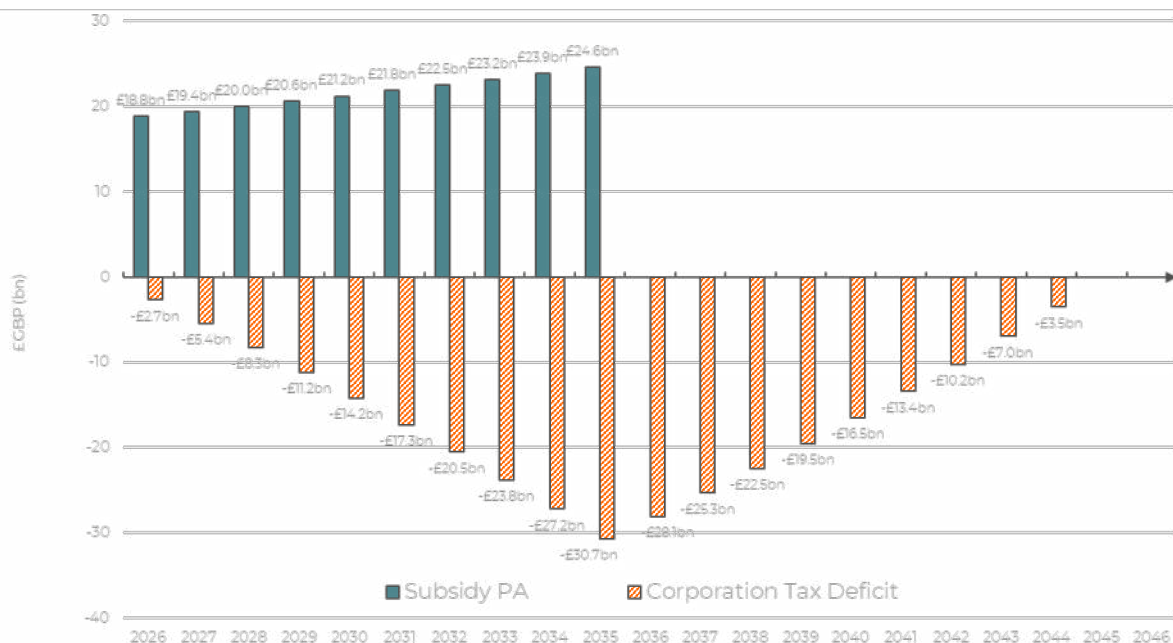
Flow of Funds – Capital Subsidy



In simple terms Tax Credits is a scheme where profitable companies pay for example 10 years of corporation tax to HMRC early and get a discount because they are paying early/up front. This raises capital for the government to invest now in Social Rent homes and the benefits of doing so are not only cost neutral but actually benefit HM Treasury over the 10 years period and beyond.

The following is a very simple graphical representation of the principle assuming 10 years of raising £18.83bn each year. This is prepared for illustrative purposes only, as the reality is the investment would need to be tailored to the availability of schemes to fund, and more importantly, the capacity of the construction industry supply chain to build.

Housing Tax Credits



Corporation Tax Income Tax TABill Benefits Bill NHS Bill

It is essential to the business case for Corporation Tax Credits that they must create additionality. They must not fund development that would occur in any case nor takes the place of existing delivery of private and affordable housing. This is commonly termed “crowding out” where public funded investment takes the place of private sector investment that would have otherwise happened.

5.5. Conclusion

The practical reality is that in order to fund the required subsidy identified in Section 3.0 earlier, there are only two real sources of the capital – taxation and borrowing.

There is a view by some, whether explicitly or implicitly, that taxation is ‘free money’ compared to borrowing, as borrowing requires interest to be paid whereas taxation is just collected and spent. This is clearly incorrect.

The total of UK Government borrowing is currently c. £2.7trn with an interest charge of c. £80bn pa, thus every £1 of taxation spent rather than repaying the national debt has a very real opportunity cost (or cost of capital) equal to the interest rate the Government continues to pay on the debt it decided not to repay.

At the date of writing, the most recent bond issuances were as follows (UK Debt Management Office, 2025):

Type	Issue Date	Maturity	Coupon
Nominal (4¼% Treasury Gilt 2035)	03/09/2025	10-yr	4.75%
Index-Linked (1¼% Index-linked Treasury Gilt 2038)	11/06/2025	13-yr	1.75%

The Nominal and Indexed-Linked bonds are currently trading as below at the time of finalising this report in early September 2025:

Nominal Bond (Source – Bloomberg)

Maturity	Coupon	Price	Running Yield	+/- Par Value
2-yr	3.75%	99.78	3.90%	-0.22%
5-yr	4.38%	101.31	4.05%	+1.31%
10-yr	4.50%	98.82	4.65%	-1.18%
30-yr	4.38%	83.60	5.52%	-16.40%

Index-Linked Bond (Source – Debt Management Office)

Remaining Duration	Maturity	Coupon	Real Yield	Issue
~3-yr	10/08/2028	0.125%	0.465%	0 1/8% Index-linked Treasury Gilt 2028
~6-yr	10/08/2031	0.125%	0.918%	0 1/8% Index-linked Treasury Gilt 2031
~10-yr	22/09/2035	1.125%	1.673%	1 1/8% Index-linked Treasury Gilt 2035
~30-yr	22/11/2055	1.25%	2.463%	1 1/4% Index-linked Treasury Gilt 2055

Therefore, whether it is taxation or borrowing, makes no effective difference to the cost to the UK, and this money simply will not materialise from elsewhere.

Is it time to face this reality and raise the money for this investment in the future of our society?

6. WHAT IS THE INVESTMENT CASE FOR THE UK GOVERNMENT?

Private Sector Capital cannot be raised to fund the subsidy simply because the “investment” provides no direct return on the Capital invested. It is not a “financial investment”. This is obvious as of course by definition the subsidy is the gap between what the Private Sector can and will invest in, and what it won’t and can’t invest in.

Therefore, whilst seeking to entice those in the Private Sector with a relatively low cost of capital (return hurdle of say a pension company) makes sense, calling for Private Capital to provide the subsidy will be wholly unproductive. Private Sector Capital, with its various hurdles, will only invest in the part that delivers a direct financial return.

There is, however, a clear case for Government to subsidise Affordable Housing by treating it as Social Investment, as it has a compelling financial return. The Treasury can directly benefit from a programme to build Affordable Homes.

This is the conclusion within the 2024 CEBR Report for Shelter and the National Housing Federation entitled *“The Economic Impact of Building Social Housing”* the sole recent attempt to make a business case for investing in Social Rent housing.

This report identifies that the pay back from Investing in Social Rent Housing to HM Treasury and therefore the taxpayer is delivered through a combination of a net increase in tax and a relative decrease in costs as follows:

Economic Benefits

- Construction work
- Property management

Direct Benefits

- Corporation Tax
- Income Tax
- Decrease in temporary accommodation bill
- Decrease in housing benefit

Indirect Benefits

- Increase in Employment
- Decrease in Universal Credit
- Reduced homelessness
- Health care (NHS) premium
- Lower Crime

More detail of the CEBR report is enclosed at Appendix 12 together with a brief critique based on the findings of the study behind this paper.

Despite the critique in the Appendix, the principle that there are significant wider social and economic benefits to HM Treasury is sound logic. It is just that the quantum needed, and thus the payback period and return for the subsidy, may be over optimistic. What is clear is that much more detailed and robust analysis of the

benefits should and must be undertaken by HM Treasury to demonstrate the actual but still compelling business case.

6.1. Current Temporary Accommodation Bill

An example of the benefits uses the current Temporary Accommodation Bill.

On 29th August 2024 Shelter highlighted that the Government had published figures revealing that in 23/24 £2.8bn was spent by local councils on temporary accommodation for homeless households in England.

This annual expenditure could, in theory, be used to fund the coupon (interest) on Index Linked Bonds issued by the UK Debt Management Office. Index linked, because private rents and hotel rates etc. tend to correlate with inflation and also correlate with wage inflation over the long term.

In Sept 2025 UK index-linked bond traded at 1.75%.

Thus, the £2.8bn per annum temporary accommodation bill could otherwise service index linked bonds like these of c. £160bn (granted this assumes a bond in perpetuity). Calculation as follows;

$$\frac{\pounds 2.8\text{bn}}{1.75\%} = \frac{\pounds 2.8\text{bn}}{.0175} = \pounds 160\text{bn}$$

At the estimated £18.83bn subsidy to develop 90,000 Social Rent homes per annum (or £209,260 per home) in this report, that is enough subsidy to deliver c. 765,000 Social Rent homes in theory.

This is before considering all the other elements of social value and economic value that accrues to the UK Treasury for the benefit of society (which would easily pay the principal of the index-linked bond at the end of its life).

It is noted that this would require the Housing Association, Council House Sector and FPRPs to raise circa £12.1bn pa per 90,000 homes within that period, to own the net income stream from Social Rent homes (which in turn would provide them with initial income at the current market net yield of 4.25%). A total investment of £102.6bn to go with the subsidy of £160bn

At the very least an investment by HM Treasury into c.130,000 Social Rent homes at a cost of £27.2bn could on paper reduce the bill for Temporary Accommodation to zero.

6.2. Other Value to Society

There is, perhaps, another element of the analysis which would be useful to consider, related to the wider soft benefit to society of making this investment in terms of social justice and social cohesion. The UK has long been a relatively stable country with respect to the rule of law, politics, financial governance and a positive open culture. This is often taken for granted by the UK population. The UK needs to invest in Affordable Housing to maintain social cohesion and avoid an expansion of the disenfranchised “have nots” and doing so delivers an intangible value.

7. WIDER CONSIDERATIONS

It is worth pointing out that there are wider considerations and opportunities from funding a programme of Social Rent home building.

7.1. *Timing of Government Subsidy*

The timing of the investment needs to be considered in balance with investment in housing by the Private Sector and its business cycle. Getting the timing and balance wrong risk over stimulating the already stretched construction industry which would lead to material cost inflation and less housing delivered for the public investment (subsidy).

7.2. *Demand Management for the Residential Construction Sector*

There is a compelling opportunity to use the investment into Affordable Housing to act countercyclically to housebuilding by the Private Sector. This could:

- Create the stability of pipeline that enables further investment into Modern Methods of Construction
- Stabilise the dysfunctional residential construction industry providing more stable careers and workload, such that main contractors can vertically reintegrate to some degree, and all supply chain members can invest in apprenticeship, skills and training with confidence. The latter having a direct benefit on UK construction industry capacity generally, and capacity to retrofit existing homes through to 2050 and beyond.

7.3. *Additionality and the Ripple Effect*

Building more housing of any tenure will have an impact on values and rents, even if only to moderate the inflationary pressure. The inflationary pressure on house prices, and indeed rents, is entirely due to the structural under supply of homes. However, building more Affordable Homes, particularly Social Rent homes, takes people and families out of temporary accommodation in the PRS (and also hotels) and directly increases the net supply of homes to rent in the PRS. If those homes are not lost to the homeowner market, they provide more choice for those on intermediate incomes. The reduction in the supply/demand imbalance over time should also force Landlords at the bottom of the market to improve their product.

This ripple effect is noted in “The Urgent Need to Build More Homes” (page 13), but it is the same logic if you increase the net number of Social or Affordable Rent homes:

‘Consider a new home sold to parents with a newborn second child. They sell their previous home to a first-time-buyer couple with a baby. In turn, that couple’s former rental flat becomes available for other renters, increasing the choice available and the competition among landlords to find a tenant, which decreases upward pressures on rents. That will in turn help reduce the overall bill for housing benefit and temporary accommodation, meaning less money is wasted on expensive private rentals and more can be spent on investing to build affordable housing. The “moving chain” outlined above will also give each of the occupants more living space and help to reduce overcrowding at the lower end’.

7.4. *Recapitalise the Housing Association Sector*

Housing Associations/Registered Providers (RPs) need more than the recent long-term rent settlement and rent convergence. They will also need recapitalising to enable them to be an engine for delivering and operating an increase in Social and Affordable Rent homes, as they struggle with today’s major issues;

- Higher interest rate environment
- Higher property management and customer service standards
- Backlog maintenance of the structure, fabric and services of their housing stock

- Awab's Law – damp and mould
- Fire safety remediation
- Net Zero Carbon transition

7.5. Reform Right to Buy

The criteria for Right to Buy and the discounts have been tightened by this Labour Government, which is very welcome, and the new grant programme has stipulated 35 years before a property can be subject to Right to Buy. However, given the housing shortage, and the budget constraints, there must now be a strong argument for Right to Buy to be abolished entirely.

7.6. Consider "Flex Rent" in the Affordable Housing Sector

Irrespective, it must surely be the time for the Government to consider a Flex Rent approach to affordable housing. Flex rent being rent that moves up and down dynamically depending on the household income of its tenants/customers.

In an environment where we are means testing Pensioners for the Winter Fuel Allowance, the same means testing principle should be applied to those benefitting from subsidised housing.

Flex rent is likely to elicit additional income for Housing Associations and Local Councils, which can be reinvested into new affordable housing, or cross subsidising those on the lowest incomes assisting with reducing the Housing Benefit bill.

It should be noted that HMRC hold this data on tax paying individuals in the UK.

7.7. Inclusive Communities and Inclusive Growth

It is important to maintain the mixed tenure approach to housing development and regeneration to create cohesive and sustainable communities. Focusing on one tenure such as Social Rent, laudable as that may be given the pressing need, in the absence of other tenures risks recreating "ghettos" of deprivation. The Housing Association sector is clear about the errors of the past where "sink estates" were created out of what were originally built to be mixed tenure housing estates.

7.8. Fix Affordable Housing values in the Section 106 Agreement

At the time of writing this paper the Section 106 affordable housing market is not operating well, as there is a dearth of Housing Associations willing or able to buy the housing. In turn, if this is not resolved, private for-sale housing will be delayed due to the usual conditions on housebuilders and residential developers to build affordable homes by the time a site-specific amount of private for sale homes can be sold and occupied.

However, it has always been a perversity that publicly funded (grant) Housing Associations would bid against each other in a competitive market for the Section 106 housing being built by a housebuilder/residential developer. This is simply not value for money for the taxpayer, as HAs in competition may overpay. Overpayment over and above the assumed value at the time of buying the land will be additional profit to a Housebuilder or Residential Developer. The Government should consider a Local Planning Authority mandating the value of the affordable housing by an agreed formula at the planning application stage, such that the Housebuilder/residential developer knows what it will receive and buys the land on that basis. The value could be indexed to CPI to maintain its relevance on development due to taking a long period of time.

The House Builder/Residential Developer would then select a Housing Association on merit.

8. CONCLUSIONS

The following section sets out some conclusions in the context of industry commentary and misconceptions.

8.1. Housebuilders and Affordable Housing

Myth: "Housebuilders are not interested in building affordable homes because they can make more profit from developing homes for sale".

Housebuilders are perfectly happy to build affordable homes on the basis they have deducted the cost of doing so from the land value they pay at the point at which they buy the land (or exercise the option to buy the land provided they have a Planning Permission). As housebuilders work on a Return on Capital Employed (ROCE) basis, it can be argued they make the same profit from all tenures that they build.

However, if circumstances change after they have bought the land, such as an increase in construction costs, debt costs, or construction regulations then having already bought the land they will still need to achieve their ROCE to proceed (as they can otherwise wait for prices to rise). In the case of not wanting to wait, they will seek to use the only lever they have to protect the ROCE, which is to claw back some affordable homes to private for sale homes or, of course, ask for subsidy.

8.2. Free Land is not a Silver Bullet

Myth: "If we had free or cheap land from the public estate, we could build affordable homes."

Myth: "If we use Compulsory Purchase to buy land at existing use value, we could build affordable homes."

Of course, free land assists with reducing the overall costs of developing affordable homes, and in particular, in ultra urban areas of the major cities. However, as has been clearly demonstrated by the calculation of the investment (subsidy and excluding land) in this paper, there remains a nationally significant requirement for investment (subsidy) for the direct delivery of affordable housing by Housing Associations, Local Councils and/or by FPRPs etc.

8.3. Innovative Financial Models to Bridge the Gap

Myth: "What we need is innovation and new financial models for patient private sector capital to invest in building affordable homes".

There are structural models, such as PFI and sale and leaseback etc. that can be created to leverage private capital into delivering public assets. However, there is no model that defeats the need for private capital to make an appropriate return for the risk it is taking. Affordable housing is deemed relatively low risk but investment in it will still require a risk premium over the risk-free rate, which in this case is best considered as the Index Linked Bond issued by the BoE. The current risk premium is around 250bps-350bps, given that the Index-Linked bond is around 1.75% and the Market Net yield of affordable housing for valuation is 4.15% - 4.5%.

This paper has identified the level of public investment (subsidy) required to make Social Rent homes in 10 locations viable for a Housing Association/Local Council (RP)

To put it starkly.

Myth: No subsidy, no investment, no affordable housing.

The levels of subsidy currently spent and planned for is short of the aspirations to build 90,000 Social Rent homes, never mind 100,000s of Affordable Rent and other affordable tenures.

8.4. Section 106 Land Value Tax Capacity

Taxing land value at source to compensate for the wider impacts of development and to deliver affordable housing works in principle. However, it is clear that at this juncture we may have reached a tipping point, whereby the tax on the land, particularly in urban areas, has led to over-taxation and development being stalled.

Whether or not this is the case, Section 106 planning gain ("land value tax") can only do so much of the lifting. It will not raise £18.83bn each year to develop 90,000 Social Rent homes.

8.5. Government Investment (Subsidy)

Whether one likes it or not, in order to deliver significant amount of Social Rent homes, and other forms of affordable housing, the government will need to step in with subsidy raised via taxation and/or borrowing to make this investment in social infrastructure.

Right now, more government borrowing seems to be "off the table" as a practical alternative. Furthermore, raising taxes is currently politically very difficult.

However, Social Housing Tax Credits (as used successfully in the US) offer a practical and pragmatic route to delivering the money for investment (subsidy) required without impacting the Public Sector Borrowing Requirement (PSBR).

Whatever the route, this undeniable reality of the need to build Social Rent housing and other forms of affordable housing needs facing up to.

The argument that the UK cannot afford this investment needs to be offset by the reality that the UK cannot afford to delay that investment any longer. Delay just results in an expanding temporary accommodation and housing benefits bill, and also a deterioration in our society and the social contract.

The Government needs to urgently make the case for the social and economic returns and value, which will flow from this investment in Social Infrastructure and to make the case that:

"Social Housing isn't for people IN NEED. Social Housing is for people WE NEED".

APPENDIX 1 - DEFINITIONS

To make the contents of this paper accessible to as many readers as possible we have set out, on the next few pages, the definitions of the key terms referenced throughout:

Term	Definition
Affordable Rent Home	A type of rental property which is typically offered to customers at a discount below local market levels. Such homes are made available for rent up to a maximum of 80% of local market levels. In this instance, they are assumed to entail homes let at Local Housing Allowance (LHA) levels. Government guidance on rent setting, such as the Local Housing Allowance (via the VOA), define the maximum level of rent that can be charged for a specific property type within a defined area known as a “Broad Rental Market Area” (BRMA).
Alternative Use Value	The value of a parcel of land or property based on uses which are physically, financially, <i>and</i> legally possible in the near future.
Balance Sheet	An essential part of the formal financial statements prepared by a company or entity on at least an annual basis. The balance sheet indicates what is <i>owned</i> – assets – and what is <i>owed</i> – liabilities – as at a specific ‘snapshot in time’.
Capital Value	The monetary amount for which a property asset will exchange for, as determined by market forces as at a specific point in time. It will be the Market Value on the Balance Sheet.
Capitalisation	Capitalisation is a key concept within the field of valuation. This is where a multiplier is used to convert an annual income stream into a capital value. In simple terms, this multiplier is the inverse of the chosen yield (1/x%) – for example, a 5.00% yield corresponds to a capitalisation rate of 20.00 (1/5%). If the income from the investment is £100 per annum, the capital value is £2,000.
Community Infrastructure Levy (CIL)	A tax on development charged by Local Authorities on the basis of per/m ² of floorspace, the receipts of which are used to help pay for local infrastructure, such as parks, educational, and healthcare facilities. Whilst complementary to S106 Agreements, CIL may be used for the less direct impacts of the actual development. Similarly, CIL cannot be used to fund affordable housing.
Cost of Capital	A public or private sector investor’s “personal” interest rate, which accounts for the relative use of debt and “equity” funding. It is often used as a minimum benchmark to determine whether a project is financially viable, and therefore worthy of pursuit. If the project cannot <i>at least</i> return the cost of capital, it is unlikely to be recommended for approval.
Discounted Market Rent Home (DMR)	A rental home which is offered to qualifying customers, often by the private sector rather than Councils or Housing Associations, at a discount to open market rent. The level of discount varies, depending on location and provider, and will be dictated in a binding Section 106 Agreement, but is typically between social and market rented levels.
Economic Value	The value of government investment is its capacity to generate long-lasting benefits for the economy and society by enhancing productivity, creating jobs, supporting long-term growth, and improving quality of life.
Existing Use Value (EUV)	The value of a land or property, based on its current, <i>de facto</i> use. EUV is the value an investor could expect to receive when selling land or property ‘as it is’.
Forward Acquisition	An acquisition structure where an Investor commits to buying a development at a future date – invariably, upon completion of the development. Unlike a Forward Funding, ownership of the development is only transferred to the investor upon completion.
Forward Funding	An acquisition structure where the Investor acquires the land on ‘Day-1’ and subsequently funds the developer to undertake the construction works, which may also include periodic payments once certain milestones are achieved.
G15	Originally comprising 15 members, the G15 is a group of London’s eleven largest housing associations, including Clarion Housing Group, Peabody Trust and L&Q. Collectively, the G15 is the largest provider of affordable homes in London, but also operate outside of London.
Gap Funding	A form of funding which covers the shortfall in viability to make a project justifiable. This shortfall is the difference between a project’s total cost, and the amount of existing funding.
Grant	Financial assistance, usually provided by the Government, in respect of supporting the delivery of Affordable Housing (Social Housing Grant), or other projects with social benefits that facilitate development.
Housing Association (HA)	A not-for-profit organization that provides affordable housing – including Social Rent, Affordable Rent and Shared Ownership Homes – typically with government support, for those who are unable to afford open-market housing. HAs reinvest any surplus profit back into maintaining their existing

	portfolio and developing additional affordable homes. HAs are often called Registered Providers (RP), which are accountable to the Regulator of Social Housing (RSH) and are eligible for grant funding.
Internal Rate of Return (IRR)	The annual rate of interest, or annual discount rate, at which a project breaks-even. As a rule, if an IRR equals or exceeds one's cost of capital, it is typically deemed viable subject to a view of the intrinsic risk of the development. Whereas when an IRR is below an investor's cost of capital, it is ordinarily unviable and rejected.
Investment Activity	Business operations which prioritise the long-term generation of financial returns in cash, typically characterised by long periods of holding the asset. For example, this might entail an investor retaining an asset long past its initial completion, or alternatively, acquiring a completed development from a Trading Developer.
Net Income	The rental income generated from a property after accounting for all property-level operating expenditure (OpEx), which typically includes repairs, maintenance, bad debts, void, management, insurance, and health and safety costs.
Net Present Value (NPV)	An approach used to determine whether a project is financially viable, considering the reality that receiving £100 in one year's time is potentially worth less ⁴⁷ than £100 received today due to the eroding effects of inflation, and the forgone interest which <i>could</i> have been earned, or Opportunity Cost. NPV therefore accounts for the 'time value of money'. The discount rate is personal to private companies, albeit the Government publishes their rate in The Green Book ⁴⁸ , currently set at 3.50% in real terms. A positive NPV indicates a profitable investment, whereas a negative NPV denotes a loss.
Nominal Return	The percentage gain or loss on an investment without adjusting for inflation. It simply reflects the change in value of one's initial investment relative to current value, disregarding any erosion of purchasing power.
Opportunity Cost	The next best alternative return compared to the option chosen. In other words, what has been foregone in making the decision to proceed with one option in lieu of another. By way of simple example, the opportunity cost of investing £1 in a bond, is investing the same amount in shares ⁴⁹ .
Private Capital	Funds provided by private institutions or individuals to deliver a project, on the expectation of receiving an appropriate financial return for the level of risk taken.
Public Sector Capital	Funds provided by a governmental or public body, typically for the purposes of funding projects for the public benefit.
Public Works Loan Board (PWLb)	A statutory body operating operated by the UK Debt Management Office (DMO), an agency of the UK Treasury. The PWLB provides loans to Local Authorities, primarily for capital projects such as infrastructure, housing, and other public sector initiatives.
Real Return	The percentage gain or loss on an investment <i>after</i> adjusting for inflation, reflecting the true change in purchasing power from the initial investment to its current value, accounting for increases in the general price level over time. By way of simple example, a nominal gain of +20% equates to a real gain of +10% after accounting for total inflation of 10%.
Residual Land Value (RLV)	The remaining amount – 'residue' – after deducting a project's total development costs from the development's capital market value, and importantly, after also accounting for an appropriate return for the developer relative to the risk of development.
Return	The total profit or financial gain produced by an investment, typically expressed as a fixed percentage of total development cost or value and deducted as a 'cost' when determining the Residual Land Value of a given development.
Return on Capital Employed	Development project-level Net Profit Margin divided by the annualised cumulative funds employed (as opposed to total costs).
RICS	The Royal Institution of Chartered Surveyors (RICS) is the global body responsible for setting and upholding professional standards and best practice for chartered practitioners in the built environment. Practitioners in the industry include Valuation, Quantity, Building and Monitoring Surveyors, for example.

⁴⁷ At least insofar as purchasing power is concerned, considering a normal inflationary environment.

⁴⁸ *The Green Book – Central Government Guidance on Appraisal and Evaluation* (HM Treasury, 2022).

⁴⁹ Assuming mutually exclusive alternatives.

<i>S106 Agreement</i>	A legally binding agreement made between a local authority and a developer/landowner, introduced by <i>The Town and Country Planning Act 1990</i> . The objective of such agreements is to directly mitigate the impact of a development, such that the developer is obligated to provide financial contributions and in-kind contributions. The latter may be affordable homes, community facilities and buildings for other uses such as schools and GP surgeries, for example.
<i>Shared Ownership Home</i>	A type of home ownership, where a customer initially buys a share of the property – usually between 25-75% – whilst paying a low rent ⁵⁰ . The customer can acquire further shares over time, in what is colloquially known as ‘staircasing’.
<i>Social Rent Home</i>	A form of low-cost housing that is made available to those eligible at a rent level based on a formula established by the government. The rent paid varies, and depends on local salaries and property values, but is approximately 50% of local market rents.
<i>Social Value</i>	The value of government investment measured by its positive impact on community well-being, social equity, and sustainability, creating a more inclusive, fair, and thriving society beyond just economic gains, generated for the local community and wider society from a property or development. Social Value is difficult to precisely quantify, given the indirect benefits it entails, such as quality of life and community engagement.
<i>Subsidy</i>	A form of financial assistance (money or loans) advanced by the government, with the aim of making a certain good or service more affordable for the end-user.
<i>Trading Activity</i>	Business operations which are focused on the short-term generation of financial returns in cash. For example, this typically involves regularly buying and selling assets or developing assets for onward sale.
<i>Trading Developer</i>	A developer who develops assets to sell them once complete and or let up and does not hold for income/ investment purposes.

⁵⁰ 2.75% of the unowned equity value, indexed to CPI + 1.00% every year if grant funded. For non-grant funded schemes, the unowned equity value is 3.00%.

APPENDIX 2 - THE UNREPORTED SUBSIDY FROM PLANNING GAIN

There appears to be a lack of knowledge and understanding, outside the realms of Housing Associations and Residential Developers/Housebuilders, of the inherent subsidy for Affordable homes developed by Residential Developers/Housebuilders achieved by planning gain delivered through agreements under Section 106 of the Town & Country Planning Act 1990 (S106 Agreements).

It could be argued that Residential Developers and Housebuilders, in part, undertake the work of HMRC and HM Treasury when undertaking development, as the agent taxing the land. S106 Agreements are designed to tax Land Value at source⁵¹. The costs of all S106 obligations are taken into account by the Residential Developers/Housebuilders when assessing the price that they can pay for land they are seeking to buy (Residual Value of Land). A key part of S106 Agreements is the provision of affordable housing, which typically entails a mix of Affordable Rent, Shared Ownership, Intermediate Rent Social Rent, and more recently Discounted Market Rent homes.

The S106 Agreement will specify the mix and the affordability levels to be used to set rents for Social Rent and Affordable Rent homes on the presumption that these will be owned and operated by a Housing Association or For-Profit Registered Provider (FPRP), once built.

The costs of developing these homes are factored into the land buying calculation. To offset some of the costs, the Residential Developer/Housebuilder will assess how much a Housing Association (Registered Provider) or FPRP will pay for the completed homes (the value of the net income stream) as they will be required to sell the affordable homes to an entity regulated by the Regulator of Social Housing.

Note: The price paid by a Housing Association or FPRP is materially less than the cost to develop these homes.

Whilst there is no publicly available data source on the number of S106 Agreements, or the quantum of obligations agreed through them, a report produced by the MHCLG in 2020, disclosed the indicated value of agreed planning obligations by region, as of 2018/19:

REGION	AFFORDABLE HOUSING		NON-AFFORDABLE		CIL		TOTAL	
	VALUE (£m)	MIX (%)	VALUE (£m)	MIX (%)	VALUE (£m)	MIX (%)	VALUE (£m)	MIX (%)
EAST	562	12%	170	13%	81	8%	813	12%
EAST MIDLANDS	328	7%	263	21%	11	1%	602	9%
LONDON	1,097	23%	195	15%	629	61%	1,921	28%
NORTH EAST	119	3%	66	5%	4	0%	189	3%
NORTH WEST	282	6%	109	9%	22	2%	413	6%
SOUTH EAST	1,297	28%	220	17%	196	19%	1,713	25%
SOUTH WEST	425	9%	97	8%	43	4%	565	8%
WEST MIDLANDS	306	7%	114	9%	13	1%	433	6%
YORKS & HUMBER	258	6%	39	3%	32	3%	329	5%
TOTALS	4,675	100%	1,273	100%	1,030	100%	6,978	100%

According to this data, the value of Land Value taxation collected was c. £7bn, of which c. 67% was allocated to the development of Affordable Homes on site. It is likely that this was predominantly a mix of Shared Ownership and Affordable Rent homes, rather than much Social Rented homes, which is understandable once the comparative subsidy required to development Social Rent Homes is understood. Further Social Rent Homes from S106 Agreements will mean less Affordable Homes in aggregate.

⁵¹ As is also the case with Community Infrastructure Levy (CIL) and S278 Agreements.

APPENDIX 3 - HOW IS LAND VALUED FOR DEVELOPMENT?

Despite the subsidy levels being calculated in this paper being before the cost of land is taken into account, it is necessary to understand how land is valued by developers for development purposes.

Valuation of land is often thought of as a “dark art”, however, it is actually based on a straightforward and well-established method.

The notion of it being a “dark art” is likely to be due to the number of inputs involved.

A3.1 Residual Land Value Methodology

Land for development is valued by Developers using the Residual Land Value Method.

The land value is simply an output of a simple calculation. The calculation simply deducts all the costs of development from the Capital Value (what it can earn for the Developer when sold).

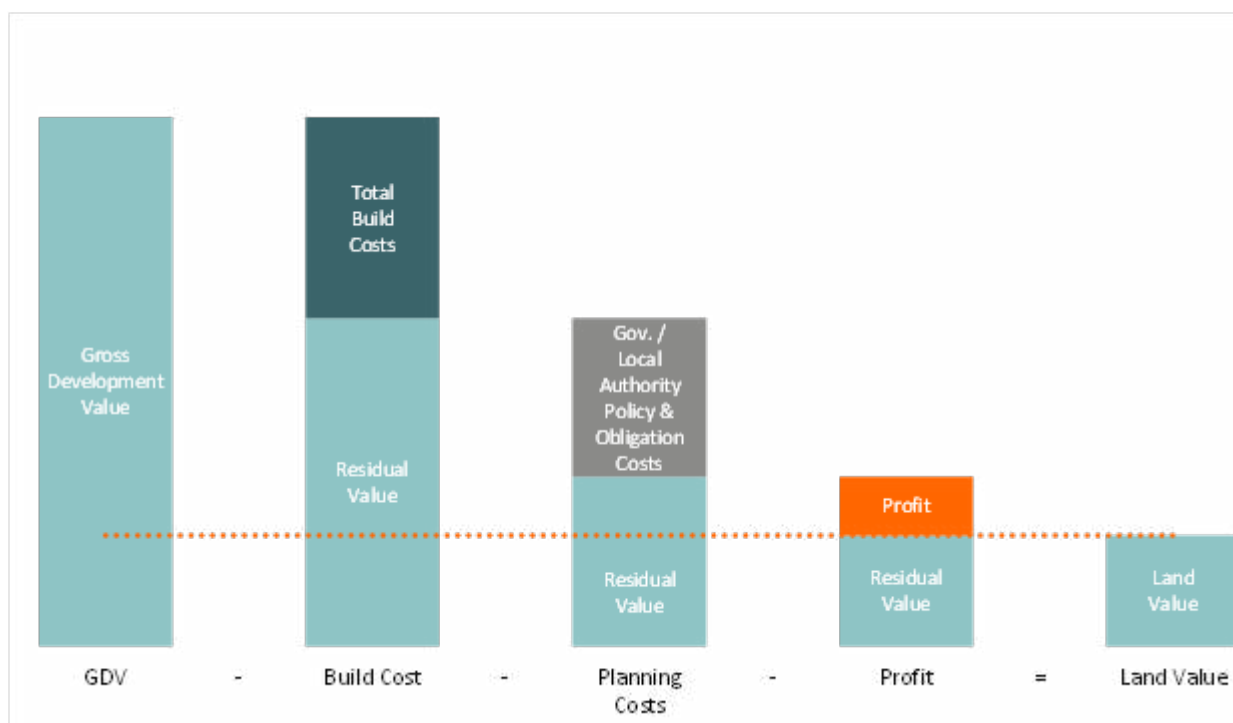
It is important to note that the profit from development *is* considered a cost of development.

The formula, in its most basic form, is straightforward, as follows:

$$\text{Capital Value of Completed Development} - \text{All Costs of Development} = \text{Land Value}$$

The RICS Professional Standard⁵² on the valuation of development property contains a simplified Residual Valuation model, as re-created and adapted below.

The Basic Residual Method – As adapted from Valuation of Development Property (RICS, 2019)



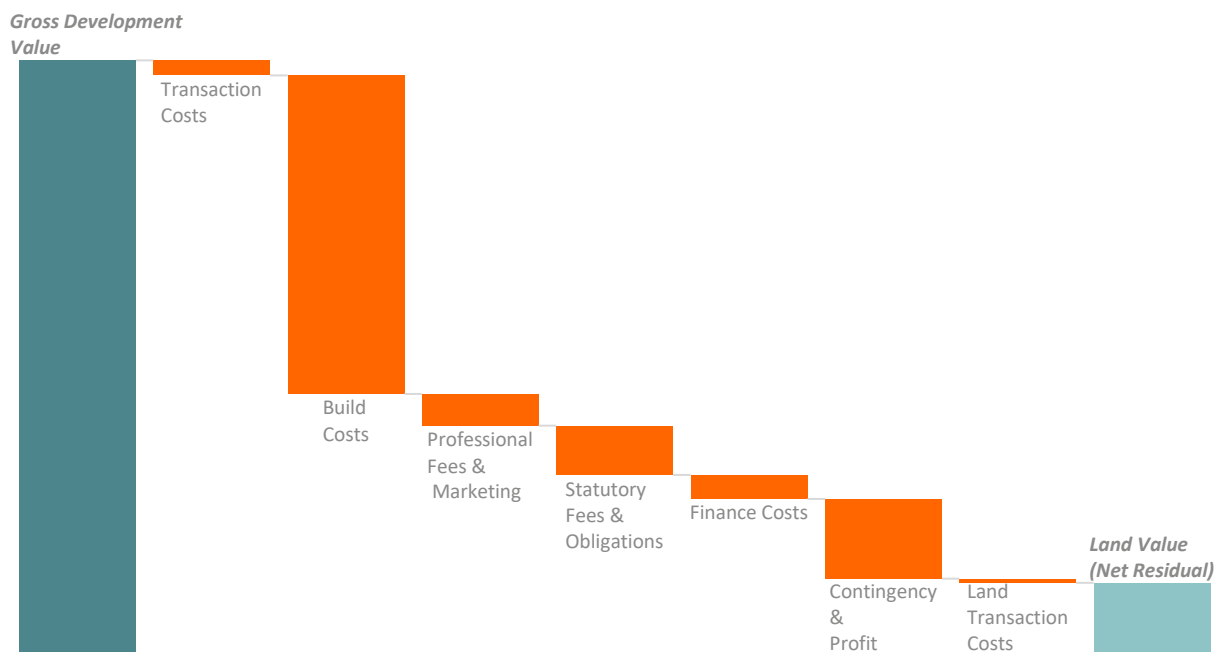
⁵² Royal Institution of Chartered Surveyors (2019). *Valuation of Development Property: RICS Professional Standard, Global*. 1st ed. London: RICS.

This still simple model, as above, can be expressed by way of the following formula:

$$GDV - (Build Costs + Planning Costs + Profit) = \text{Land Value}$$

A more detailed model may take the form of the “waterfall” set out below. Regardless of the further detail, however, the final outcome remains the ‘residue’, or Residual Land Value.

Detailed Residual Method – Produced by Grainger plc



The above figure, can be expressed by the following formula:

$$GDV - \text{Transaction Costs} - \text{Build Costs} - \text{Professional Fees \& Marketing} - \text{Statutory Fees \& Obligations} - \text{Finance Costs} - \text{Contingency \& Profit} - \text{Land Transaction Costs} = \text{Land Value (The Residual)}$$

A3.2 Market Value of Land

It is important to understand that the Residual Land Value Method **does not** determine the Market Value of land. Rather, the method is simply a means of identifying the value/price that a developer can pay for the land based upon a specific use or development they have in mind.

For example, in the case of student accommodation, a higher Land Value is often generated using the Residual Land Value method than would be achieved from, for example, developing rental homes. In a similar vein, in some locations, land occupied by an industrial use can generate a higher Land Value than the Value of the Land if developed for private for sale homes.

If the Residual Land Value calculated by a Developer is in fact equal to, or greater than, the value of the land for all other uses – including its existing use – then it may also represent Market Value.

This always assumes that there is a willing buyer and willing seller at such a price level.

A3.3 Trading Developers v. Investing Developers

At this stage, it is also worth clarifying the difference between Housing Development for Trading, and Housing Development for Investment.

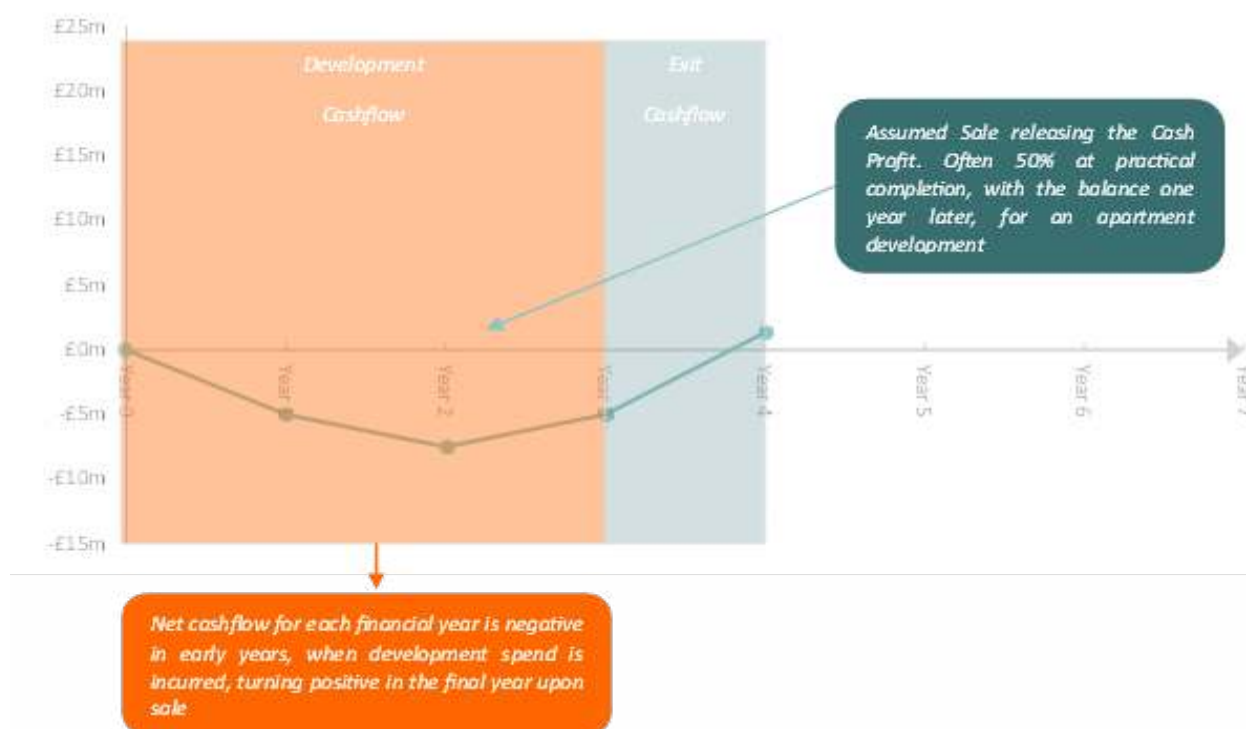
Housing Development for Trading is for the purposes of an immediate sale upon completion of the works, whereas Housing Development for Investment is for the purposes of earning an income (income stream) from the homes, with a sale in the distant future, or alternatively, retaining the homes and income indefinitely.

A3.4 Housing Development for Trading

Trading Developers include the major housebuilders and other residential developers⁵³, and their primary objective is to build homes for immediate sale, receiving cash profits and exiting the development when the last home is sold.

The development cash flow is relatively simple, as depicted below:

Depiction of Cashflow for Trading Developer – Produced by Grainger plc



A3.5 Housing Development for Investment

The Investing Developers (often also called Property Companies) are developers of rented homes, and can be institutions or private companies, Housing Associations/Local Councils (RPs). These entities are motivated to develop and/or to own homes to earn income over the medium-to-long-term. With this class of developer, the Residual Land Value Calculation is, in principle, the same as depicted by *Figure 2*, albeit with an important difference.

Before discussing this difference, it is important to understand that a number of Housing Associations (RPs) maintain a dual-role, to the extent that they are also Trading Developers building for onward sale to homeowners, using the profit to cross-subsidise the building of their Affordable Homes.

⁵³ The difference between a housebuilder and a residential developer is that whereas the former directly builds the homes via a host of trade contractors and then sells the homes, the latter appoints a Main Contractor to deliver the buildings on its behalf and then sells the homes when they are handed over upon completion.

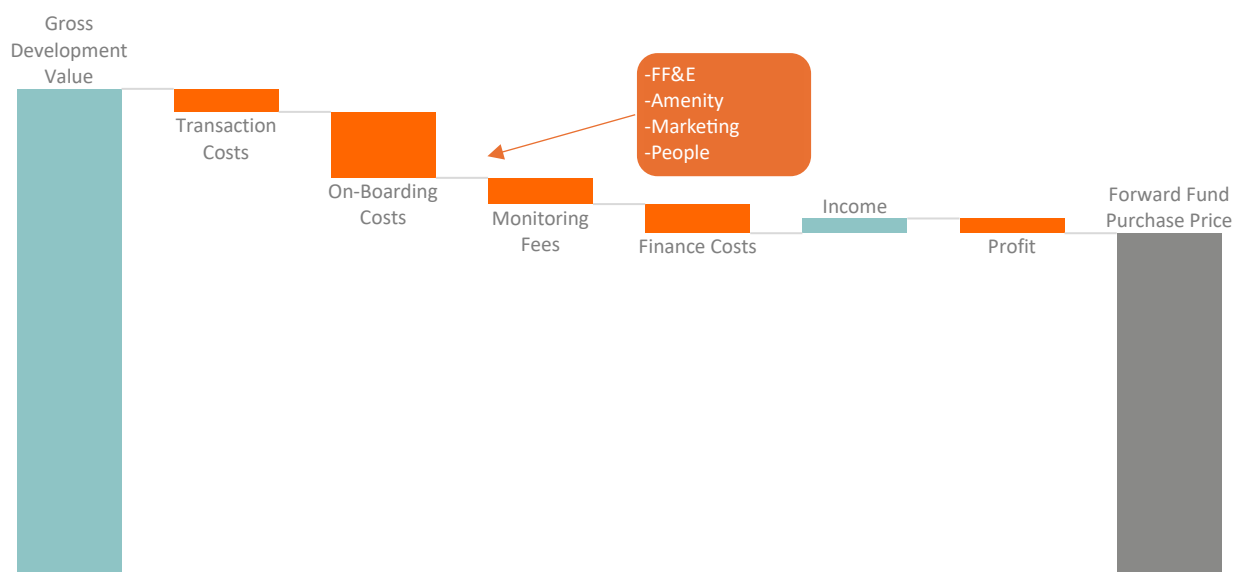
Housing Associations (RPs) can also use an income cross-subsidy model, where the income generated from private rented homes is recycled into the core activity of operating Affordable Homes. To varying degrees, large active Housing Associations have been making use of this model for many years.

A3.6 Forward Funding and Forward Acquisition JVs

It is also important to acknowledge that homes can be developed in a form of partnership between Trading and Investing Developers such as Forward Funding and Forward Acquisition partnerships. In general terms, the former is where the development is undertaken by a Trading Developer on land acquired by the Investor who also provides the funding for the works, whereas in the latter case, the Investor simply purchases the whole development once the land has been purchased, and the development completed by the Trading Developer.

In this scenario, the Trading Developer would make use of the Residual Land Value Method as depicted previously by *Figure 2*, to ensure they can viably agree a land purchase with the landowner at a value based on what the Investor will pay for the completed homes, whether by way of a Forward Funding or Forward Acquisition.

In the case of the Investor, however, the form of Residual Land Value Method takes the form of the below figure. Here, the Investor calculates the amount they can pay the Trading Developer for the completed homes:



A3.8 The Difference when Developing for Investment

The difference of developing for investment rather than trading includes;

- The phases of the Investment Cycle
- Timing of cash flow
- Concept of Stabilisation and
- How the profit margin required is determined

A3.8.1 The Three Phases of the Investment Cycle

There are three phases of the investment cycle as follows;

- Development Phase – This is the period from securing the land through design and construction, to what is termed Practical Completion, followed by a period of letting up to the Stabilisation Date.

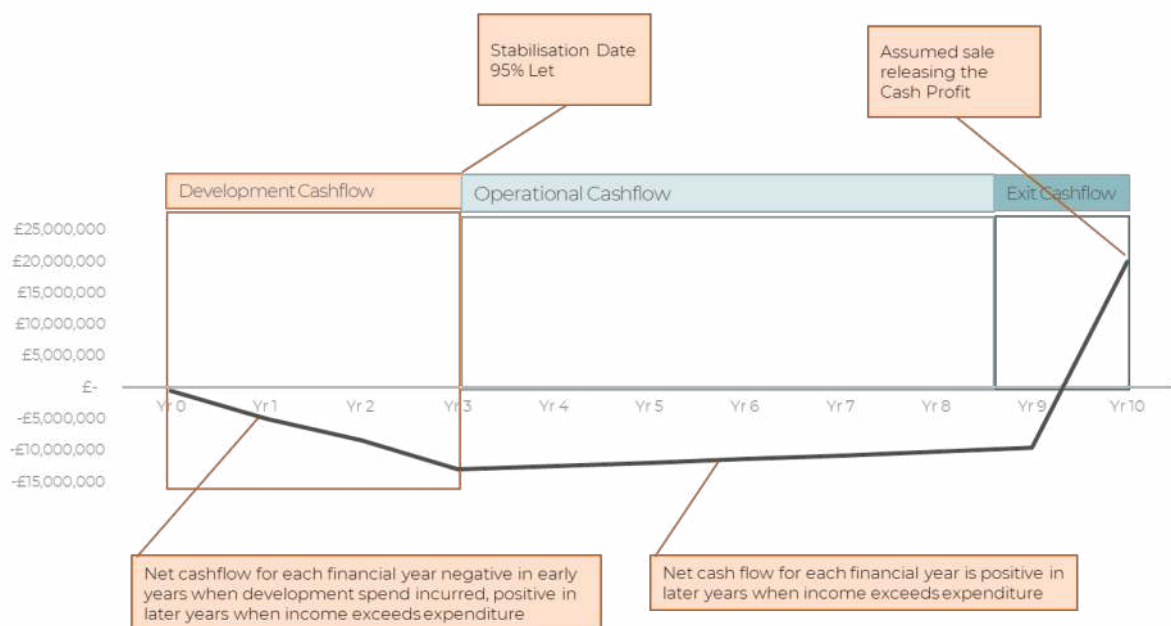
For private sector developers, the Stabilisation Date is defined as the point when 95% of the homes are let. For Housing Associations, stabilisation is defined as 100% let.

- Investment Phase – the income phase from Stabilisation (fully let development) including rental income growth. This is the “hold period”.
- Exit Phase – A sale to another party at a set date in the future – whether hypothetical or actual.

A3.8.2 Timing of Cash Flow

The following shows a typical cash flow and the Investment Cycle over many years.

Depiction of Cashflow for Investor Developer



As with Trading Development, the cash-flow profile is front-loaded.

A3.8.3 The Concept of Stabilisation

The Gross Development Value (GDV) is calculated when the homes are built and reach full occupancy which is typically when more than 95% of the homes are let, and this marks the end of the Development Phase. This is called the point of Stabilisation.

At Stabilisation, an Investor would ordinarily expect to be able to show a profit for its efforts if it immediately sold all of the homes to another Investor. As the intention is not to sell (trade on) the profit is a paper profit reported on the balance sheet⁵⁴.

A3.8.4 How The Profit Margin Required Is Determined

The amount of profit required at Stabilisation is a function of the investor's required investment hurdle, their IRR, over the full period of the Investment Cycle. The profit level at Stabilisation and therefore the residual land value is driven by the investor's IRR hurdle.

⁵⁴ Naturally, since no sale has taken place, the 'profit' is not in bankable, cash terms. Rather, it refers to a situation where the value of the asset exceeds the total cost of the development phase.

This non-cash profit at Stabilisation still needs to reflect the risk of developing and certainly must exceed zero. As with an IRR, there is no “one size fits all” figure for the profit margin, and it can vary significantly between one investor and another.

A3.8.5 How The Investing Developer Considers Whether To Invest

Investing Developers will consider the following:

- The level of the unlevered IRR⁵⁵ (no debt used)
- Whether the Profit at Stabilisation, as required by the IRR calculation compensates adequately for the risk of undertaking the development phase.
- The relationship between the Income Yield on the Investment made at Stabilisation⁵⁶ versus the Debt Interest rate for the Investment Phase (if debt is used)
 - If the debt interest rate exceeds the Income Yield, then the interest cost is eroding the income return to the extent that the investment is ‘negatively geared’ and this is not a positive outcome.
 - If the income yield is the same as the debt interest rate, the investment is ‘neutrally geared’
 - If the Income Yield exceeds the debt interest rate it is ‘positively geared’.

A3.9 The Hope of the Developer

When seeking to buy land for residential development, the ‘hope’ is that the Residual Land Value is *at least* equal to the higher of the following:

- Zero⁵⁷
- Existing Use Value
- Alternative Use Value

If the Residual Land Value of the Housing Developer’s appraisal does not achieve any of the above thresholds, then it is highly unlikely that they will be able to secure the land for development in the first place.

If the Housing Developer already owns the land and is seeking to develop residential homes, then the hope is that the Residual Land Value exceeds the independent valuation of the land as an asset held on the Housing Developer’s Balance Sheet. The value will be the lower of all costs spent to date, or its Existing Use Value – (unless the land benefits from Planning Permission for an Alternative Use, which commands a greater value than both cost to date and EUV).

⁵⁵ Refer to Footnote 5.

⁵⁶ Net Income ÷ Total Development Costs.

⁵⁷ On occasion, the land value can be less than zero. Specifically, the EUV can be negative because the buildings on the site are obsolete and there is no Alternative Use, but, for other reasons such as transferring a liability or seeking regeneration, the Landowner still wishes to see the development proceed. In this case, there are instances where Housing Developers have been paid a ‘dowry’ with the land. This is a form of direct subsidy from the Landowner, rather than a government subsidy.

APPENDIX 4 – THE SUBSIDY REQUIRED FOR SOCIAL RENT APARTMENTS - RP

The following table reports more detail on the subsidy required to build Social Rent apartments developed by a Housing Association/Local Council (RP) in the 10 locations:

<i>Social Rent Apartments</i> <i>RP (50-year; 5.50% IRR; Nil Exit Value)</i>					
Local Authority	Home Type	IV @ Stab	All in Dev. Cost	Profit @ Stab.	Subsidy Required
Birmingham	1-Bed	£96,071	£252,777	£-156,705 (-62.0%)	£160,899
	2-Bed	£111,967	£353,793	£-241,826 (-68.4%)	£225,199
	3-Bed	£122,463	£404,067	£-281,603 (-69.7%)	£257,199
	Blended	£112,987	£353,699	£-240,713 (-68.1%)	£225,139
Bristol	1-Bed	£99,325	£263,042	£-163,717 (-62.2%)	£167,117
	2-Bed	£116,741	£368,161	£-251,419 (-68.3%)	£233,902
	3-Bed	£128,541	£420,475	£-291,934 (-69.4%)	£267,139
	Blended	£117,978	£368,063	£-250,085 (-67.9%)	£233,840
LB Lambeth	1-Bed	£117,245	£320,782	£-203,538 (-63.5%)	£213,631
	2-Bed	£134,055	£448,976	£-314,922 (-70.1%)	£299,003
	3-Bed	£137,110	£512,775	£-375,665 (-73.3%)	£341,491
	Blended	£131,915	£448,857	£-316,942 (-70.6%)	£298,924
Manchester	1-Bed	£86,510	£264,325	£-177,815 (-67.3%)	£185,183
	2-Bed	£96,965	£369,956	£-272,991 (-73.8%)	£259,188
	3-Bed	£103,267	£422,527	£-319,259 (-75.6%)	£296,018
	Blended	£97,395	£369,858	£-272,463 (-73.7%)	£259,119
LB Newham	1-Bed	£111,575	£296,403	£-184,828 (-62.4%)	£187,904
	2-Bed	£131,025	£414,854	£-283,829 (-68.4%)	£262,996
	3-Bed	£146,952	£473,804	£-326,852 (-69.0%)	£300,367
	Blended	£133,506	£414,744	£-281,238 (-67.8%)	£262,926
LB Barking & Dagenham	1-Bed	£104,046	£295,120	£-191,074 (-64.7%)	£193,898
	2-Bed	£123,343	£413,058	£-289,715 (-70.1%)	£271,385
	3-Bed	£136,050	£471,753	£-335,703 (-71.2%)	£309,948
	Blended	£124,566	£412,948	£-288,382 (-69.8%)	£271,313
Brighton & Hove	1-Bed	£94,931	£281,005	£-186,074 (-66.2%)	£189,642
	2-Bed	£110,360	£393,303	£-282,943 (-71.9%)	£265,428
	3-Bed	£123,231	£449,191	£-325,960 (-72.6%)	£303,145
	Blended	£112,422	£393,199	£-280,776 (-71.4%)	£265,358
Oxford	1-Bed	£108,816	£278,439	£-169,623 (-60.9%)	£170,338
	2-Bed	£131,175	£389,711	£-258,536 (-66.3%)	£238,409
	3-Bed	£146,812	£445,089	£-298,277 (-67.0%)	£272,287
	Blended	£132,958	£389,608	£-256,650 (-65.9%)	£238,346
Leeds	1-Bed	£91,928	£230,963	£-139,036 (-60.2%)	£143,302
	2-Bed	£107,388	£323,263	£-215,875 (-66.8%)	£200,569
	3-Bed	£116,058	£369,198	£-253,140 (-68.6%)	£229,070
	Blended	£107,764	£323,177	£-215,413 (-66.7%)	£200,516
Liverpool	1-Bed	£89,034	£251,493	£-162,460 (-64.6%)	£169,836
	2-Bed	£100,113	£351,997	£-251,884 (-71.6%)	£237,707
	3-Bed	£106,495	£402,016	£-295,520 (-73.5%)	£271,485
	Blended	£100,450	£351,904	£-251,454 (-71.5%)	£237,644

APPENDIX 5 – THE SUBSIDY REQUIRED FOR SOCIAL RENT HOUSES - RP

The following table report more details on the subsidy required to develop Social Rent Houses by a Housing Association/Local Council (RP) in the 10 locations

<i>Social Rent Houses</i> <i>RP (50-year; 5.50% IRR; Nil Exit Value)</i>					
Local Authority	Home Type	IV @ Stab	All in Dev. Cost	Profit @ Stab.	Subsidy Required
Birmingham	2-Bed	£130,477	£258,925	£-128,448 (-49.6%)	£128,279
	3-Bed	£142,709	£295,718	£-153,010 (-51.7%)	£146,507
	4-Bed	£156,384	£333,199	£-176,814 (-53.1%)	£165,076
	Blended	£145,733	£303,352	£-157,619 (-52.0%)	£150,289
Bristol	2-Bed	£136,330	£269,440	£-133,110 (-49.4%)	£130,929
	3-Bed	£150,110	£307,727	£-157,617 (-51.2%)	£149,534
	4-Bed	£168,957	£346,730	£-177,773 (-51.3%)	£168,486
	Blended	£154,893	£315,671	£-160,778 (-50.9%)	£153,394
LB Lambeth	2-Bed	£158,690	£328,585	£-169,895 (-51.7%)	£181,003
	3-Bed	£162,307	£375,277	£-212,970 (-56.8%)	£206,724
	4-Bed	£175,797	£422,841	£-247,044 (-58.4%)	£232,925
	Blended	£166,980	£384,964	£-217,984 (-56.6%)	£212,060
Manchester	2-Bed	£113,266	£270,754	£-157,488 (-58.2%)	£159,203
	3-Bed	£120,628	£309,228	£-188,600 (-61.0%)	£181,825
	4-Bed	£133,417	£348,421	£-215,004 (-61.7%)	£204,871
	Blended	£124,271	£317,210	£-192,939 (-60.8%)	£186,519
LB Newham	2-Bed	£154,160	£303,613	£-149,452 (-49.2%)	£147,711
	3-Bed	£172,900	£346,756	£-173,856 (-50.1%)	£168,700
	4-Bed	£189,265	£390,705	£-201,440 (-51.6%)	£190,082
	Blended	£175,698	£355,707	£-180,009 (-50.6%)	£173,055
LB Barking & Dagenham	2-Bed	£145,078	£302,299	£-157,221 (-52.0%)	£155,154
	3-Bed	£160,024	£345,255	£-185,231 (-53.7%)	£177,201
	4-Bed	£181,492	£389,014	£-207,521 (-53.3%)	£199,660
	Blended	£165,622	£354,167	£-188,545 (-53.2%)	£181,775
Brighton & Hove	2-Bed	£129,384	£287,841	£-158,457 (-55.1%)	£155,558
	3-Bed	£144,473	£328,742	£-184,270 (-56.1%)	£177,663
	4-Bed	£161,441	£370,409	£-208,968 (-56.4%)	£200,181
	Blended	£148,242	£337,229	£-188,986 (-56.0%)	£182,249
Oxford	2-Bed	£153,699	£285,212	£-131,513 (-46.1%)	£128,511
	3-Bed	£172,020	£325,740	£-153,720 (-47.2%)	£146,772
	4-Bed	£191,186	£367,026	£-175,840 (-47.9%)	£165,375
	Blended	£176,022	£334,149	£-158,127 (-47.3%)	£150,561
Leeds	2-Bed	£124,607	£236,581	£-111,974 (-47.3%)	£114,648
	3-Bed	£134,667	£270,199	£-135,532 (-50.2%)	£130,939
	4-Bed	£141,683	£304,445	£-162,762 (-53.5%)	£147,535
	Blended	£135,462	£277,174	£-141,713 (-51.1%)	£134,319
Liverpool	2-Bed	£116,633	£257,611	£-140,978 (-54.7%)	£143,270
	3-Bed	£124,068	£294,217	£-170,149 (-57.8%)	£163,628
	4-Bed	£135,675	£331,507	£-195,832 (-59.1%)	£184,367
	Blended	£127,224	£301,812	£-174,588 (-57.8%)	£167,852

APPENDIX 6 – THE TOTAL SUBSIDY FOR 90,000 SOCIAL RENT APARTMENTS

By reference to the above tables in Appendix 5, which are based on 10 locations, we can estimate the required subsidy (without considering land cost) to deliver 9,000 Social Rent apartments in each location, equalling 90,000 homes in total, delivered by a Housing Association/Local Council (RP) as £22.44bn:

APARTMENTS					Blended	RP
Location	Homes	1-Bed	2-Bed	3-Bed	Per Home	Total Subsidy
Liverpool	9,000	£169,836	£237,707	£271,485	£237,644	£2.14 bn
Birmingham	9,000	£160,899	£225,198	£257,199	£225,139	£2.03 bn
Manchester	9,000	£185,183	£259,188	£296,018	£259,119	£2.33 bn
Oxford	9,000	£170,338	£238,410	£272,287	£238,346	£2.15 bn
Leeds	9,000	£143,302	£200,569	£229,070	£200,516	£1.80 bn
Brighton & Hove	9,000	£189,642	£265,429	£303,146	£265,358	£2.39 bn
LB Lambeth	9,000	£213,630	£299,003	£341,491	£298,924	£2.69 bn
Bristol	9,000	£167,117	£233,902	£267,139	£233,840	£2.10 bn
LB Barking & Dagenham	9,000	£193,898	£271,385	£309,948	£271,313	£2.44 bn
LB Newham	9,000	£187,904	£262,996	£300,367	£262,926	£2.37 bn
TOTALS	90,000	£178,175	£249,379	£284,815	£249,312	£22.44 bn

APPENDIX 7 – THE TOTAL SUBSIDY FOR 90,000 SOCIAL RENT HOMES (URBAN AND SUBURBAN)

We can then consider the subsidy required if we build 50% of the total Social Rent homes as city centre (Ultra Urban) apartments and the other 50% as Suburban houses:

Registered Provider

Social Rent	Blended	RP
Location	Per Home	Total
Liverpool	£202,748	£1.82 bn
Birmingham	£187,714	£1.69 bn
Manchester	£222,819	£2.01 bn
Oxford	£194,454	£1.75 bn
Leeds	£167,418	£1.51 bn
Brighton & Hove	£223,804	£2.01 bn
LB Lambeth	£255,492	£2.30 bn
Bristol	£193,617	£1.74 bn
LB Barking & Dagenham	£226,544	£2.04 bn
LB Newham	£217,991	£1.96 bn
TOTALS	£209,260	£18.83 bn

APPENDIX 8 – SUBSIDY TABLES FOR SOCIAL RENT BY BEDROOM

APARTMENTS				
Location	1-Bed	2-Bed	3-Bed	Blended
Liverpool	£169,836	£237,707	£271,485	£237,644
Birmingham	£160,899	£225,198	£257,199	£225,139
Manchester	£185,183	£259,188	£296,018	£259,119
Oxford	£170,338	£238,410	£272,287	£238,346
Leeds	£143,302	£200,569	£229,070	£200,516
Brighton & Hove	£189,642	£265,429	£303,146	£265,358
LB Lambeth	£213,630	£299,003	£341,491	£298,924
Bristol	£167,117	£233,902	£267,139	£233,840
LB Barking & Dagenham	£193,898	£271,385	£309,948	£271,313
LB Newham	£187,904	£262,996	£300,367	£262,926
TOTALS	£178,175	£249,379	£284,815	£249,312

HOUSES				
Location	2-Bed	3-Bed	4-Bed	Blended
Liverpool	£143,270	£163,628	£184,367	£167,852
Birmingham	£128,279	£146,507	£165,076	£150,289
Manchester	£159,203	£181,825	£204,870	£186,519
Oxford	£128,511	£146,773	£165,375	£150,561
Leeds	£114,648	£130,939	£147,535	£134,319
Brighton & Hove	£155,558	£177,663	£200,181	£182,249
LB Lambeth	£181,003	£206,723	£232,924	£212,060
Bristol	£130,929	£149,533	£168,486	£153,394
LB Barking & Dagenham	£155,154	£177,201	£199,660	£181,775
LB Newham	£147,710	£168,700	£190,081	£173,055
TOTALS	£144,426	£164,949	£185,856	£169,207

NOTE:

Please note that while the conceptual framework and methodology described below remain unchanged, the underlying assumptions have evolved since the original drafting. As a result, there may be a difference in outputs; however, any such differences should be minimal and are attributable to the updated assumptions rather than changes to the core methodology.

Likewise, whilst the User Guide makes reference to the model's ability to implement future functionality - for example, the ability to analyse suburban housing schemes - this functionality has already been incorporated since the publication of this user guide.

OVERVIEW

This User Guide intends to serve as a complement to the Affordable Housing Viability Model ("the Model"), the latter of which, in turn, further substantiates the conclusions of the paper entitled "*Making Social Rent Homes Viable*" ("the Paper")⁵⁸.

BACKGROUND

By way of brief reminder, the Paper contained an analysis undertaken by Arcadis – in tandem with a supporting role from Savills – who offered their services to calculate the quantum of subsidy required per home across five locations in England⁵⁹, based upon a series of financial assumptions⁶⁰.

The analysis was conducted based upon different typologies – that is, urban versus suburban housing, further distinguished by tenure type, whether Social Rent ("SR") or Affordable Rent, assuming Local Housing Allowance ("LHA") rates.

Whilst the methodology employed by Arcadis / Savills was robust, the collaborative approach proved to be somewhat inefficient when requesting for minor amendments to the financial assumptions to be applied. As such, it was decided that the model should be reconstructed from the ground-up and fundamentally enhanced to enable other users to manipulate the key assumptions with ease and efficiency.

AFFORDABLE HOUSING VIABILITY MODEL (Apartments)

In its current configuration, the Model has been *specifically* engineered for the purpose of analysing the viability of medium-to high-density blocks of apartment (apartments) schemes for the SR and LHA tenure types.

As the subsequent overview explains, the Model has been designed with ease-of-use in mind, minimising the need for numerous manual inputs. Concurrently, it accommodates extensive flexibility by way of the combination of inputs available, as well as the ability to implement future functionality. For example, if desired, the ability to analyse the viability of suburban housing schemes can be incorporated, as required.

Stage 0 – Geographical Boundaries & Rental Levels

The Model has the advantage of comprehensive geographic coverage across England, incorporating 295 Local Authorities ("LAs"), and 152 Broad Rental Market Areas ("BRMAs") for SR and LHA, respectively. In both instances, the determination of rental levels is either prescribed, or formulaic:

⁵⁸ As first presented to the Grainger plc Investment Committee on 14th November 2024.

⁵⁹ Birmingham, Bristol, LB Lambeth, LB Newham, Hitchin, and Manchester.

⁶⁰ For example, the subsidy required in order to attain a specific IRR over the prescribed time-horizon.

Local Housing Allowance: LHA rental rates⁶¹ are set in accordance with local statute and published by the Valuation Office Agency (VOA) on an annual basis. The Model operates by way of a ‘lookup’ function, by reference to the selected BRMA and home typology⁶² as tabulated below:

Local Authority	Brighton and Hove		
Home Type	£PW	£PCM	£PA
Shared	£135.00	£587	£7,044
1-Bed	£211.73	£921	£11,048
2-Bed	£276.16	£1,201	£14,409
3-Bed	£333.70	£1,451	£17,412
4-Bed	£460.27	£2,001	£24,016

Source Data: Local Housing Allowance (LHA) Rates applicable from April 2025 to March 2026

Social Rent: Relative to LHA, determining the appropriate Formula Rent (“FR”) is a more convoluted process, albeit now entirely automated by the Model. In brief, 0.3x of the rental level is a function of relative property values, with 0.7x determined by relative local earnings, subsequently adjusted for bedroom size:

$$FR = (0.7 \cdot NAR \cdot RCE \cdot BW) + (0.3 \cdot NAR \cdot RPV)$$

Abbreviation	Description	Note
FR	Formula Rent	On a per week basis, as at 2000.
NAR	National Average Rent	National Avg. Rent for HA Sector as of March 2000 = £54.62 p.w.
Where RCE	Relative County Earnings	National Avg. Earnings of £316.40 p.w.
BW	Bedroom Weight	So as to address the differential between properties of varying sizes
RPV	Relative Property Value	National Avg. Property Value (SH-EUV) ⁶³ of £49,750

Having determined the above FR, however, one needs to apply the growth rates prescribed by the Regulator of Social Housing (“RSH”)⁶⁴ in order to compute the rental level as at “today”. Based on the historical growth schedule, the multiplier to adjust from 2000 to 2025 values equates to circa 2.23x.

The Model operates both prospectively and retrospectively – for example, one is able to select the desired year of reference. For example, in the instance of 2020 being the selected milestone, the cumulative inflator would equate to circa 1.60x.

Formula Rent - Automatic		Blended			
Home Type	Home Count	R Property Value	Weighting	2000	2025
0.5-Bed	0	1.2628x	0.80x	£47.91 p.w.	£103.94 p.w.
1-Bed	20	1.2628x	0.90x	£51.31 p.w.	£111.33 p.w.
2-Bed	40	1.2628x	1.00x	£54.71 p.w.	£118.71 p.w.
3-Bed	40	1.2628x	1.10x	£58.11 p.w.	£126.09 p.w.
4-Bed	0	1.2628x	1.20x	£61.51 p.w.	£133.47 p.w.
5-Bed	0	1.2628x	1.30x	£64.91 p.w.	£140.85 p.w.
6-Bed	0	1.2628x	1.40x	£68.32 p.w.	£148.23 p.w.
Blended	100	1.2628x	1.02x	£55.39 p.w.	£120.18 p.w.

Source Data: PRP Geographic Look-Up Tool – Statistical Data Return 2024

The Relative Property Value initially presented a major obstacle for two reasons: Firstly, since it is assessed as at January 1999, and secondly, since it is specifically on the basis of the Existing Use Value for Social Housing (“EUV-SH”). To the best

⁶¹ LHA rents are, in turn, based upon private market levels. Comparably, SR levels are a function of *historic* relative earnings and capital values.

⁶² Properties are categorised by the VOA as either CAT A, B, C, D or E, which respectively correspond to a shared space, 1, 2, 3 and 4-Bed.

⁶³ Social Housing – Existing Use Value

⁶⁴ Policy Statement on Rents for Social Housing

our knowledge, there is no database of values or index in the public domain – largely for practical reasons. Namely, EUV-SH is based upon *individual* market valuations reflecting the specific attributes of the subject property.

Applying Land Registry values in lieu of EUV - SH would be fundamentally flawed, since the former assumes open-market Vacant Possession Values (“VPV”). Doing so, therefore, would either significantly over or underestimate the FR. For example, our analysis indicates that the premium or discount to VPV varies significantly depending on the LA in question – ranging between +77% (Cannock Chase, Staffordshire) and -48% (Kensington & Chelsea, London).

However, by virtue of the Statistical Data Return, we have been able to methodically reverse-engineer average property values as at January 1999 on the basis of EUV-SH, by rearranging the abovementioned formula. By the ‘click of a button’, one is therefore able to establish Social Rents for each home typology, across 295 LAs in England.

The FR is also influenced by the ‘rent flexibility level’, and separately the rental cap – both of which are embedded in the Model. In the case of the former, Housing Associations (RPs) are permitted to set initial rents up to 5%⁶⁵ *in excess of* the FR. The rental cap⁶⁶, which is standardised by home typology, only protects a small proportion of properties in the areas of highest value if it is indeed operative.

For example, our analysis indicates that Kensington & Chelsea is the highest value LA, with the average FR (2025) equating to c. 87% of the stipulated maximum cap – thus leaving room for a 3.00% p.a. up-rating in rent for ~4.5 years before reaching the ceiling. However, at this point, the upper limit may have well been revised. Therefore, the Model only accounts for a ‘Day-1’ cap.

Stage 1– Accommodation Schedule

Subsequent to selecting the desired location for either or both LHA and SR, it is a simple case of entering the quantum of homes, floor area (Net Internal Area) and sales value for each home⁶⁷, across each tenure type as appropriate.

Logically, of course, if one were reviewing an SR and LHA scheme concurrently, the locations would have to be aligned. The below tables continue with using Brighton & Hove as the target location:

LHA				Brighton and Hove					
Type	Count	MV / £ Unit	Avg. NIA	Total NIA	Σ OMV	OMV £PSF	Σ Rent £PA	Rent £PCM	Rent £PSF
Shared				-	-	-	-	-	-
1-Bed	20	£250,000	538 ft ²	10,760 ft ²	£5,000,000	£465	£220,951	£921	£20.53
2-Bed	40	£295,000	753 ft ²	30,120 ft ²	£11,800,000	£392	£576,373	£1,201	£19.14
3-Bed	40	£325,000	860 ft ²	34,400 ft ²	£13,000,000	£378	£696,465	£1,451	£20.25
4-Bed				-	-	-	-	-	-
TOTALS	100	£298,000	753 ft ²	75,280 ft ²	£29,800,000	£396	£1,493,788	£1,245	£19.84

SR				Automatic - Gross Brighton and Hove					
Type	Count	MV / £ Unit	Avg. NIA	Total NIA	Σ OMV	OMV £PSF	Σ Rent £PA	Rent £PCM	Rent £PSF
0.5-Bed				-	-	-	-	-	-
1-Bed	20	£225,000	538 ft ²	10,760 ft ²	£4,500,000	£418	£127,996	£533	£11.90
2-Bed	40	£255,000	753 ft ²	30,120 ft ²	£10,200,000	£339	£272,964	£569	£9.06
3-Bed	40	£285,000	860 ft ²	34,400 ft ²	£11,400,000	£331	£289,936	£604	£8.43
4-Bed				-	-	-	-	-	-
5-Bed				-	-	-	-	-	-
6-Bed				-	-	-	-	-	-
TOTALS	100	£261,000	753 ft ²	75,280 ft ²	£26,100,000	£347	£690,896	£576	£9.18

⁶⁵ For Supported Housing, the rent flexibility level is 10% - the Model, however, focuses exclusively on Social Rent Housing (General Needs).

⁶⁶ As at December 2024 – See Table 4: Formula Rent Caps for 2025-26 (Regulator for Social Housing).

⁶⁷ This is elective, since it merely plays a theoretical role – that is, assuming a break-up sale of the homes upon exit.

Stage 2 – Indexation

Having selected the target location and subsequently inputted the accommodation mix, one proceeds to apply growth rates for three separate criteria – rental income, operational expenditure (“OpEx”)⁶⁸ and VPVs⁶⁹. One will correctly observe that construction cost inflation has been omitted. However, this is purposely so, as, for the sake of convenience, it is assumed that the build contracts are of the stipulated sum / guaranteed maximum price category.

In addition to the three criteria, one is also to select the nature of the growth profile – that is, either a flat or variable-term structure. If electing for the latter, one simply inputs the growth rate appropriate for the *full* duration of the investment horizon. In the case of the latter, one is conferred with the latitude to apply a specific growth rate from year-to-year.

Rental Income Growth – Social Rent

Of course, one must distinguish between the SR and LHA tenure types. In respect of SR, Registered Providers (“RPs”) are precluded from implementing rental increases of *greater than* CPI + 1.0% – the Model correspondingly replicates this mechanism by setting the ceiling on rental growth to being $x + 1.0\%$. Naturally, one’s long-term assumption of “ x ” – CPI – should be reasonable. By default, the Model assumes long-term CPI of 2.25%, meaning that the maximum growth rate is 3.25% per annum, as presented below.

As an important aside, since the cashflow follows a monthly format, the multipliers under the columns “Rental Income x ” and so on, are the product of periodically converting the annual growth rate to the monthly equivalent via an exponential transformation.

Rental Income Growth – Local Housing Allowance

The Model does not differentiate between the growth mechanism for SR and LHA. At first, this might seem to be an incorrect notion. However, this is entirely logical based upon the essence of LHA rents – which, as noted previously – are set and published by the VOA on an annual basis. Currently, the LHA system is based on the adoption of the 30th percentile⁷⁰ of local rents corresponding to each BRMA, as distinguished by home typology. Being intrinsically linked to private market rents, assuming a growth rate of CPI + 1% is entirely reasonable⁷¹.

Rental Growth Ceiling	Annual [%]	Monthly [%]
Long-Term CPI	2.25%	0.19%
Addition	1.00%	0.08%
Max. Growth	3.25%	0.27%

ANNUAL INDEXATION					Period:	30 yrs	Structure:	Fixed
Calendar	Year	Rental Income	OpEx	VPV		Rental Income x	OpEx x	VPV x
Fixed	Year 0	3.00%	3.00%	3.00%		1.0000	1.0000	1.0000
Variable	Year 0							
2025	Year 1					1.0025	1.0025	1.0025
2026	Year 2					1.0025	1.0025	1.0025
2027	Year 3					1.0025	1.0025	1.0025
2028	Year 4					1.0025	1.0025	1.0025
2029	Year 5					1.0025	1.0025	1.0025

⁶⁸ Of course, should the rate of OpEx growth exceed rental growth, the investment’s income profile will, with sufficient time, ultimately be eroded in its entirety. See further at: **3.4: Stage 3 – OpEx**

⁶⁹ As mentioned in Footnote 10, this is not an essential input, but rather, an academic one.

⁷⁰ In 2008, LHA was based on the 50th percentile – that is, median rent – for each BRMA. Between 2013- 2024, however, LHA was decoupled from local market rents.

⁷¹ Numerous studies have verified that private market rental values have broadly moved in lockstep with inflation, particularly over long time-frames.

Stage 3 – Operational Expenditure

Of all the Model's component parts, OpEx has perhaps presented the most room for discussion. Arcadis' model applied a default Gross-to-Net ("GtN") in the order of 23.0% and 20.0%, for urban and suburban housing schemes respectively⁷². However, no geographical distinction was made, even though the level of GtN is intrinsically linked, at its core, to local costs and values. In addition, it could be argued that an NOI margin of 77.0%⁷³ for the SR tenure is far too optimistic an assumption to be making in the first place.

Following reasoned discussions, it was agreed that we provisionally set a national GtN benchmark at 32.5% and 30.0% for SR and LHA, respectively. As a quasi-proxy, we have subsequently applied the BCIS Locational Study⁷⁴ to broadly differentiate between the individualised cost profiles of different localities. For example, relative to England, Brighton & Hove is indexed at 109.50, such that the relative GtN is 35.6%.

On an equal-weighted basis, our analysis indicates the average level of leakage to be ~33.9% across England, equating to circa £2,385 per unit p.a. We do recognise, however, that the latter figure – at face value – appears to be far below the Headline Social Housing Cost⁷⁵ reported by the RSH in *Value for Money Metrics and Reporting 2024*. In order to be of any utility to the Model, however, we would need to conduct a multiple regression⁷⁶ of RSH's underlying dataset in order to adjust for the distorting effect of houses, building height, non-recurring operational costs, Supported Housing, and so forth. We remain open to refining this methodology further and would therefore welcome any suggestions.

LOCATION			
	Social Rent	LHA	Combined
Local Authority / BRMA	Brighton and Hove	Brighton and Hove	
Home Count	100	100	200
Floor Area	75,280 sq. ft.	75,280 sq. ft.	150,560 sq. ft.
Avg. Area	753 sq. ft.	753 sq. ft.	753 sq. ft.

BASELINE RENT ROLL			
	Social Rent	LHA	Combined
Σ Gross Rent EPA	£690,896	£1,493,788	£2,184,685
EPCM	£576 PCM	£1,245 PCM	£910 PCM
£Unit PA	£6,909	£14,938	£10,923
£PSF	£9.18 PSF	£19.84 PSF	£14.51 PSF

OPEX - Input			
Top Down	Social Rent	LHA	Combined
OpEx - Leakage	35.59%	32.85%	33.72%
Σ OpEx EPA	£245,873	£490,709	£736,582
£Unit PA	£2,459	£4,907	£3,683
£PSF	£3.27 PSF	£6.52 PSF	£4.89 PSF

⁷² As stated initially, the Model, in its current guise, is tailored to apartment schemes.

⁷³ The inverse of the GtN – indicating what percentage of gross rental income is retained to the 'bottom-line'.

⁷⁴ See further at: 3.5: Stage 4 – Programme & Timings

⁷⁵ For 2024, the baseline headline cost per home equated to £3,850. However, this represents a 'snapshot in time' – and contextually – has been distorted by above-average maintenance and major repairs expenditure relating to the Building Safety Act 2022.

⁷⁶ Thus far, our initial analysis of the dataset would suggest that approximately 63% of recurring OpEx is attributable to four variables – that is, relative earnings; ratio of SH (General Needs); ratio of apartments-houses; and income deprivation. The RSH's definition of Headline Social Housing Cost has been modified to include the following categories: Management; Service Charge; Routine & Planned Maintenance; and Major Repairs.

Across England, we derive an average and median cost of £3,800 and £3,518 per unit respectively, on the assumption of an apartment scheme of entirely Social Rent (General Needs). At this juncture, these findings are inconclusive and should be treated with due caution.

Stage 4 – Programme & Timings

Build Costs

Previously, our analysis was conducted by applying rents at the Local Authority level, yet build costs on the corresponding Regional level. This resulted in some abnormal outputs, which thus prompted us to refine the methodology by drawing upon the BCIS Locational Study mentioned earlier.

For the avoidance of doubt, the BCIS Study does *not* provide £PSF cost figures for individual LAs – rather, it is an index of reference points, which specifies the construction costs in each LA, *relative to* the UK as a whole at a specific point in time. The user of the Model, therefore, is responsible for establishing the average hard build cost in the UK. In this instance, we have established the UK baseline as £250 PSF.

As indicated below, one is able to make an assumption as to building efficiency – that is, the ratio of Gross Internal Area: Net Internal Area. Similarly, one has the flexibility to toggle between the low, midpoint or high-end of the £PSF hard build cost figures originating from the BCIS Study. Likewise, the User is afforded with the latitude to amend the indirect costs, which by default uprates the hard costs by 38.5%. However, this figure can be adjusted at the User's discretion.

AREA EFFICIENCY			
Tenure	Efficiency [%]	NIA	GIA
LHA	75.00%	75,280 sq. ft.	100,373 sq. ft.
Social Rent	75.00%	75,280 sq. ft.	100,373 sq. ft.
TOTALS	75.00%	150,560 sq. ft.	200,747 sq. ft.

HARD BUILD COSTS - INPUTS			
Region	Base Rate	Σ £	£ / Unit
London	£303 PSF	£60,725,867	£303,629
South East	£269 PSF	£53,950,667	£269,753
East Midlands	£256 PSF	£51,441,333	£257,207
North West	£251 PSF	£50,437,600	£252,188
South West	£250 PSF	£50,186,667	£250,933
East of England	£249 PSF	£49,935,733	£249,679
West Midlands	£244 PSF	£48,932,000	£244,660
Yorkshire and the Humber	£226 PSF	£45,418,933	£227,095
North East	£224 PSF	£44,917,067	£224,585
UK - Average	£250 PSF	£50,186,667	£250,933

Tenure	Area	Range	Base £PSF
Social Rent	Brighton and Hove E06000043	Mid PSF	£274 PSF
LHA	Brighton and Hove		

TOTAL DEV. COSTS - INPUTS		Brighton and Hove	
Region	Increment [%]	Increment [£]	Cumulative [£]
Hard Build Costs			£54,954,400
Preliminaries	12.50%	+£6,869,300	£61,823,700
O&P	6.00%	+£3,709,422	£65,533,122
Site Infrastructure	5.00%	+£3,276,656	£68,809,778
Contingency	5.00%	+£3,276,656	£72,086,434
Professional Fees	10.00%	+£6,553,312	£78,639,746
Adjustment Factor	0.00%	+£0	£78,639,746

Project Timings

As indicated below, the User is to make a series of assumptions relating to duration – for example, the build and lease-up period:

TIME PERIODS		50.00 yrs	
	Duration	Start	End
Today	0 months	31/03/2025	31/03/2025
Acquisition (From Today)	1 months	30/04/2025	30/04/2025
Build Period	24 months	31/05/2025	31/05/2027
Lease-Up	4 months	30/06/2027	31/10/2027
50.0 units / month (25x LHA; 25x SR)			
Operational Period ⁷⁷	47.33 yrs	30/11/2027	31/03/2075

Any changes made to the build period, in turn, automatically change the cost profile based on the standard construction S-curve:

BUILD COST SCHEDULE		100.0%	£78,639,746		
Month	Date	PCM [%]	Cashflow PCM	Σ [%]	Σ Cashflow
0	31/03/2025				
1	31/05/2025	1.2717%	£1,000,051	1.3%	£1,000,051
2	30/06/2025	1.8527%	£1,456,996	3.1%	£2,457,048
3	31/07/2025	2.6601%	£2,091,902	5.8%	£4,548,950
4	31/08/2025	3.7402%	£2,941,245	9.5%	£7,490,195
5	30/09/2025	5.1068%	£4,015,963	14.6%	£11,506,158
6	31/10/2025	6.7006%	£5,269,341	21.3%	£16,775,499
7	30/11/2025	8.3470%	£6,564,058	29.7%	£23,339,557
8	31/12/2025	9.7506%	£7,667,818	39.4%	£31,007,375
9	31/01/2026	10.5704%	£8,312,498	50.0%	£39,319,873
10	28/02/2026	10.5704%	£8,312,498	60.6%	£47,632,371
11	31/03/2026	9.7506%	£7,667,818	70.3%	£55,300,189
12	30/04/2026	8.3470%	£6,564,058	78.7%	£61,864,248
13	31/05/2026	6.7006%	£5,269,341	85.4%	£67,133,589
14	30/06/2026	5.1068%	£4,015,963	90.5%	£71,149,552
15	31/07/2026	3.7402%	£2,941,245	94.2%	£74,090,797
16	31/08/2026	2.6601%	£2,091,902	96.9%	£76,182,699
17	30/09/2026	1.8527%	£1,456,996	98.7%	£77,639,695
18	31/10/2026	1.2717%	£1,000,051	100.0%	£78,639,746

Likewise, changes to the rate of lease up bears an effect on the causal sequence:

LEASE-UP SCHEDULE				
Month	Month	Homes PCM	Σ Leased	Σ [%]
1	31/12/2026	40	40	20.0%
2	31/01/2027	40	80	40.0%
3	28/02/2027	40	120	60.0%
4	31/03/2027	40	160	80.0%
5	30/04/2027	40	200	100.0%

⁷⁷ The Operational Period is a function of setting the total Investment Horizon, which is situated on the Cashflow for ease of manoeuvrability.

Subsidy – Type and Timing

Naturally, one of the primary objectives of this work is to determine the extent to which subsidisation is required to deliver affordable housing across different LAs. For both LHA and SR, one is able to set the timing of the subsidy, and likewise, the nature of apportionment. We have applied two default options – firstly a front-loaded subsidy receivable upon start-on-site (“SoS”) and secondly, an equal division receivable upon SoS and Practical Completion.

SUBSIDY INPUTS		
LHA	Upfront	Variable
Start-on-Site	100.0%	50.0%
P.C.	0.0%	50.0%
	Upfront	Variable
Instalment 1	£10,739,744	£5,369,872
Date	31/05/2025	31/05/2025
Instalment 2	£0	£5,369,872
Date	-	30/11/2026
SOCIAL RENT	Upfront	Variable
Start-on-Site	100.0%	50.0%
P.C.	0.0%	50.0%
	Upfront	Variable
Instalment 1	£26,678,635	£13,339,318
Date	31/05/2025	31/05/2025
Instalment 2	£0	£13,339,318
Date	-	30/11/2026

Stage 5 – Cashflow

One might notice how certain inputs within the Model are placed in locations, which, at first, may appear unsuitable. However, it has been purposely structured this way, to enable the User to perform incremental iterations with minimal effort. For example, the investment time horizon input is located in *Stage 5 – Cashflow*, and not *Stage 4 – Programme*.

Further on the subject of the Model’s configuration, the cashflow in Stage 5 treats the LHA and SR tenures as two distinct income strips, thus enabling the User to conduct either an independent, or concurrent analysis. As an important aside, it would, of course, be illogical to combine an analysis of LHA in Manchester, with say, SR in Bristol. As such, the User should be wary that the selected geographies are compatible between the two tenure types.

All of the inputs adopted by the User in the five preceding stages – be it, development costs, project timings, indexation and so forth – ultimately culminate in the cashflow in Stage 5. As stated beforehand, the Model is highly versatile in nature, enabling the User to adapt all major inputs based on the specific affordable housing scheme(s) under evaluation. By way of example, in Stage 5, one can choose between the following characteristics:

Input	Option(s)	Note
Purchase Price	Manual;	• Manual – Assumes a nominal Entry Price of the User’s choosing ⁷⁸ ;
	Automatic	• Automatic – Assumes an Entry Price based on the Income Capitalisation Approach
Exit Option	Nil; Investment	• Nil – We are aware that RPs assume a Terminal Value of nil. This appears to align with how Social Housing providers are mandated to use EUV-SH as the basis of valuation, and not fair value (IFRS 13).
	Value; Vacant Possession Value	• Investment Value – This would typically be applicable for a For Profit RP (“FPRP”) • VPV – This is largely a hypothetical option – at least for RPs – since it appears that they generally assume the retention of their housing stock in perpetuity.

⁷⁸ In this instance, a notional purchase price of one penny has been assumed.

Subsidy Timing	<i>Variable; Upfront</i>	Variable – Assumes a two-part split of the subsidy receivable, based upon the two dates specified by the User.
		Upfront – Assumes that the subsidy is front-loaded and receivable at the point in time specified by the User.

Via Excel's 'Goal Seek' function, the User is able to readily determine the average, and in turn, total subsidy required in order for the project to meet the specified IRR threshold over the investment horizon, based on all the other assumptions applied:

OTHER INPUTS			
Total Investment Horizon	(Max: 60 yrs)		50.00 yrs
Operational Period			47.75 yrs
Purchase Price Option			Manual
Manual Purchase Price [£]			£0.01
	Social Rent	LHA	Blended
GtN Leakage	35.59%	32.85%	33.72%
Exit Option (1):	Social Rent		Nil
Exit Option (2):	LHA		Nil
Disposal Costs			1.50%

SUBSIDY	Social Rent	LHA	Blended
Type	Variable	Variable	
£ / Unit	£266,786	£107,397	£187,092
Σ Total	£26,678,635	£10,739,744	£37,418,379
£PSF	£354 PSF	£143 PSF	£249 PSF

Based on the example of Brighton and Hove as used in this User Guide, we can derive the following outputs, which is further expanded upon in Stage 6 – Summary⁷⁹. In summary, based on all the assumptions applied by the User, the SR and LHA schemes require an average subsidy per unit of £267k and £107k, respectively, in order to achieve a 5.50% IRR over the 50-year time horizon.

RETURNS	Social Rent	LHA	Blended
NPV [%]	£0	£1	-£1
IRR [%]	5.50%	5.50%	5.50%
Goalseek	5.50001	5.50006	5.50004

OUTPUTS	Social Rent	LHA	Blended
Net Cashflow	£37,485,260	£84,415,717	£121,900,977
Payback Period	21.67 yrs	21.75 yrs	21.75 yrs
Purchase Price [£]	£0	£0	£0
Total Dev. Costs	-£39,319,873	-£39,319,873	-£78,639,746
Cumulative NOI	£50,126,498	£112,995,847	£163,122,345
Terminal Value	£0	£0	£0
Total Subsidy	£26,678,635	£10,739,744	£37,418,379
NOI Stabilisation	£473,290	£1,066,791	£1,540,081
IV Stabilisation	£10,971,655	£23,356,124	£34,327,779
N.I.Y (Exc. Sub)	1.20%	2.71%	1.96%
N.I.Y (Inc. Sub)	3.74%	3.73%	3.74%

⁷⁹ Refer to *Summary Sheet*.

Summary & Outputs

This User Guide has sought to provide a general overview of how the Model is structured, its functionality – and likewise – applicability in practice. After several iterations based on internal and external discussions, we consider the Model, at its core, to be methodologically sound and user-friendly.

Notwithstanding this, we are aware that there are certain improvements which can be applied: we therefore welcome such feedback, with a view to making the Model as robust and versatile as possible.

To conclude this brief User Guide, we present two tables below which summarise, by region, the average subsidy per unit required, after having run an analysis based upon the below assumptions across each of the 295 LAs covered. The below represents one of the many types of output which the Model is capable of producing:

FPRP

Time Period	Build Period	Lease-Up	Unit Count	Subsidy	Exit Option	Avg. UK Build Cost	IRR Target
30-Year	24-months	4-months (25 homes / month)	100 (20% 1B; 40% 2B; 40% 3B)	50:50 (SoS & PC)	Investment Value ⁸⁰	Hard: £250 PSF Total: £392 PSF	7.00%

Region	Mean	Median	1-Bed	2-Bed	3-Bed
London	£298,687	£301,152	£213,461	£298,766	£341,221
South East	£265,452	£264,656	£189,709	£265,522	£303,253
East Midlands	£263,795	£262,529	£188,525	£263,865	£301,359
North West	£259,870	£258,722	£185,720	£259,939	£296,876
South West	£246,571	£247,507	£176,215	£246,636	£281,683
West Midlands	£241,679	£245,067	£172,720	£241,743	£276,094
East of England	£240,235	£237,544	£171,688	£240,299	£274,445
North East	£221,041	£221,095	£157,970	£221,100	£252,517
Yorkshire and the Humber	£219,996	£216,326	£157,223	£220,054	£251,323
UK	£256,265	£253,752	£183,143	£256,333	£292,757

RP

Time Period	Build Period	Lease-Up	Unit Count	Subsidy	Exit Option	Avg. UK Build Cost	IRR Target
50-Year	24-months	4-months (25 homes / month)	100 (20% 1B; 40% 2B; 40% 3B)	50:50 (SoS & PC)	Nil	Hard: £250 PSF Total: £392 PSF	5.50%

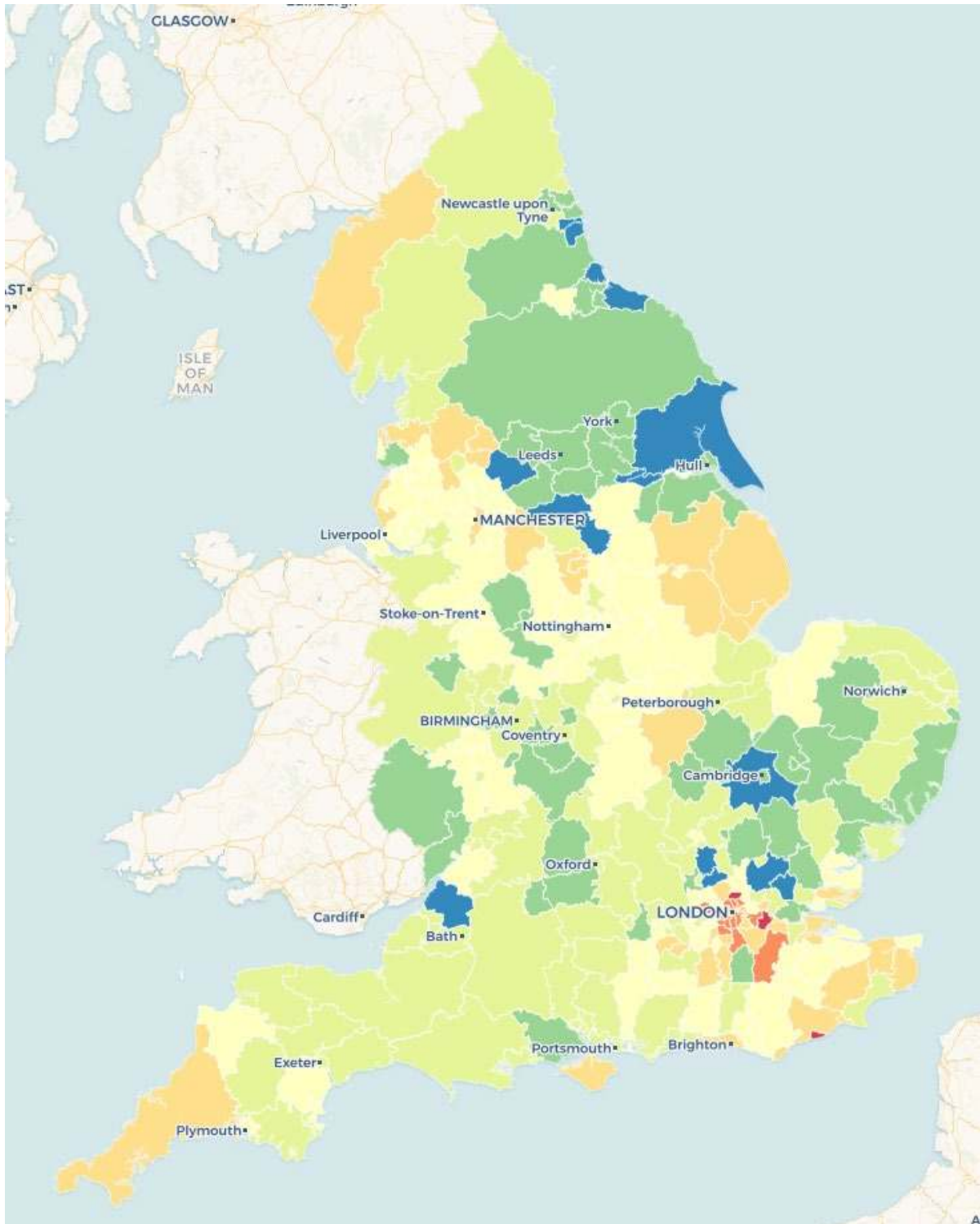
Region	Mean	Median	1-Bed	2-Bed	3-Bed
London	£278,710	£282,895	£199,185	£278,784	£318,399
South East	£247,117	£245,754	£176,606	£247,182	£282,306
East Midlands	£248,476	£247,439	£177,577	£248,542	£283,859
North West	£245,171	£243,264	£175,215	£245,236	£280,084
South West	£230,221	£230,456	£164,531	£230,282	£263,005
West Midlands	£225,496	£228,203	£161,154	£225,556	£257,607
East of England	£222,282	£221,812	£158,857	£222,341	£253,935
North East	£206,080	£205,986	£147,278	£206,135	£235,427
Yorkshire and the Humber	£204,582	£200,511	£146,208	£204,636	£233,715
UK	£239,273	£237,172	£171,000	£239,337	£273,346

Based on the above two tables, in order to deliver 90,000 social housing homes a subsidy of £256k (£23bn) and £239k (£21.5bn) is required for an FPRP and RP, respectively.

⁸⁰ For ease, a straight 4.25% exit yield has been applied across all LAs, notwithstanding differences in locational quality etc.

The heatmap of England, depicted below, is a further example of the type of raw analytical output which the Model enables us to prepare. In brief, the below map, produced via Carto, is based upon the individual outputs at the Local Authority level, vis-à-vis the average subsidy required per unit⁸¹.

The ‘warmer’ areas which fall within the yellow-red end of the spectrum – primarily the London Metropolitan Belt – are relatively more expensive to subsidise, compared to the ‘colder’ areas found on the green-blue segment of the range, such as Yorkshire, County Durham and Tyne & Wear.



⁸¹ The heatmap displays the output for Houses, based on the RP (50-year; Nil Exit; 5.5% IRR) scenario.

APPENDIX 10 – AFFORDABLE HOUSING VIABILITY MODEL: OUTPUT SHEET

SUMMARY SHEET			28-Mar-2025		
Location		Hard Build £PSF	Operational Period	OpEx [%]	Exit Value
LHA	Brighton and Hove	£274 PSF	47.75 yrs	32.85%	Nil
Social Rent	Brighton and Hove	£274 PSF		35.59%	Nil
HEADLINE OUTPUTS					
i) Cashflow					
	Total Dev. Costs	Cumulative NOI	Terminal Value	Total Subsidy	Net Cashflow
LHA	-£39,319,873	£112,995,847	£0	£10,739,744	£84,415,717
Social Rent	-£39,319,873	£50,126,498	£0	£26,678,635	£37,485,260
Blended	-£78,639,746	£163,122,345	£0	£37,418,379	£121,900,977
ii) Returns					
	N.I.Y. (Inc. Subsidy)	N.I.Y. (Exc. Subsidy)	Payback Period	NPV	IRR [%]
LHA	3.73%	2.71%	21.75 yrs	£1	5.50%
Social Rent	3.74%	1.20%	21.67 yrs	£0	5.50%
Blended	3.74%	1.96%	21.75 yrs	-£1	5.50%
1. ACCOMMODATION SUMMARY					
LHA		Brighton and Hove			
Home Type	No Homes	Σ Area	Gross Rent £PCM	Net Rent £PCM	Σ Net Rent
1-Bed	20	10,760 sq. ft.	£921	£618	£148,368
2-Bed	40	30,120 sq. ft.	£1,201	£806	£387,035
3-Bed	40	34,400 sq. ft.	£1,451	£974	£467,676
Sub-Total	100	75,280 sq. ft.	£1,245	£836	£1,003,079
Social Rent		Brighton and Hove			
Home Type	No Homes	Σ Area	Gross Rent £PCM	Net Rent £PCM	Σ Net Rent
1-Bed	20	10,760 sq. ft.	£533	£344	£82,445
2-Bed	40	30,120 sq. ft.	£569	£366	£175,823
3-Bed	40	34,400 sq. ft.	£604	£389	£186,755
Sub-Total	100	75,280 sq. ft.	£576	£371	£445,023
2. FINANCIAL SUMMARY					
LHA		Brighton and Hove			
Home Type	IV-Stab. / Home	IV-Exit / Home	Dev. Costs / Home	Profit / Home	Profit %
1-Bed	£172,734	£712,023	£210,754	-£38,020	-18.0%
2-Bed	£225,297	£928,693	£294,977	-£69,680	-23.6%
3-Bed	£272,239	£1,122,194	£336,893	-£64,654	-19.2%
Sub-Total	£233,561	£962,759	£294,899	-£61,338	-20.8%
Social Rent		Brighton and Hove			
Home Type	IV-Stab. / Home	IV-Exit / Home	Dev. Costs / Home	Profit / Home	Profit %
1-Bed	£101,631	£418,931	£210,754	-£109,123	-51.8%
2-Bed	£108,369	£446,706	£294,977	-£186,608	-63.3%
3-Bed	£115,107	£474,481	£336,893	-£221,786	-65.8%
Sub-Total	£109,717	£452,261	£294,899	-£185,182	-62.8%
3. SUBSIDY LEVELS					
LHA		Brighton and Hove		Social Rent Brighton and Hove	
Home Type	Σ Total	Per Home	Unit Type	Σ Total	Per Home
1-Bed	£1,535,064	£76,753	1-Bed	£3,813,259	£190,663
2-Bed	£4,297,039	£107,426	2-Bed	£10,674,289	£266,857
3-Bed	£4,907,641	£122,691	3-Bed	£12,191,087	£304,777
Blended	£10,739,744	£107,397	Blended	£26,678,635	£266,786

A11.1 Social Value

The social value of government investment refers to the broader, non-monetary benefits that such spending generates for society, often focused on improving well-being, equity, and social cohesion. When governments invest in areas like healthcare, education, housing, and public services, they aim to create value that enhances quality of life and fosters a fairer and more inclusive society. Key aspects of social value in government investment include:

- **Enhanced Quality of Life:** Investments in healthcare, education, and public amenities improve access to essential services, leading to healthier, more educated, and better-supported communities.
- **Reduced Inequality:** Spending on affordable housing, social welfare programs, and public education can help reduce socio-economic disparities, ensuring that more people have access to the resources and opportunities needed to thrive.
- **Social Cohesion and Inclusion:** Investments that promote social programs, public spaces, and community services contribute to a stronger sense of community and belonging, helping to reduce social isolation and foster a sense of shared purpose.
- **Environmental Sustainability:** Government spending on green infrastructure, renewable energy, and conservation projects can create lasting social value by promoting sustainable development, preserving ecosystems, and ensuring future generations can enjoy a clean and healthy environment.
- **Improved Public Health and Safety:** Funding for healthcare, public safety, and emergency preparedness can prevent disease, reduce crime, and protect communities from natural disasters, improving overall societal well-being.
- **Empowerment and Access to Opportunities:** Programs that increase access to education, training, and other resources can empower individuals, particularly marginalized groups, to improve their social and economic circumstances.
- **Cultural Enrichment:** Investments in cultural institutions, historical preservation, and the arts contribute to a richer cultural fabric, preserving heritage and fostering creativity and innovation within society.

In essence, the social value of government investment is measured by its positive impact on community well-being, social equity, and sustainability, creating a more inclusive, fair, and thriving society beyond purely quantitative economic gains.

A11.2 Economic Value

The economic value of government investment refers to the overall benefit that such spending brings to the economy, encompassing both direct and indirect impacts. When a government invests in infrastructure, education, healthcare, technology, or other sectors, it aims to create value in ways that transcend immediate financial returns.

Some key dimensions of economic value in this context include the following:

- **Increased Productivity:** Investments in infrastructure (e.g., roads, bridges, public transport) and education can boost productivity by making it easier for businesses to operate and for workers to develop skills that align with the needs of the economy.
- **Job Creation:** Government investments, especially in large public projects or emerging sectors, often generate employment opportunities, stimulating local economies and improving income levels in affected areas.
- **Long-Term Economic Growth:** Investments in research and development, clean energy, and innovation can foster new industries and lead to sustainable economic growth over time. This includes diversifying the economy and improving resilience against economic shocks.
- **Improved Public Welfare:** Spending on healthcare, public safety, and housing leads to healthier, safer, and more stable communities, reducing long-term costs related to illness, crime, and poverty.
- **Multiplier Effect:** Government spending can generate additional economic activity. For example, when the government invests in a project, the firms and workers involved in that project spend their earnings on goods and services, creating a chain of economic activity that stimulates further growth.
- **Increased Tax Revenue:** A more productive economy generally leads to higher incomes and business profits, which, in turn, increase government tax revenues. This can help offset the initial cost of investment over time.

APPENDIX 12 – CEBR - THE ECONOMIC IMPACT OF BUILDING SOCIAL HOUSING

The CEBR Report is one of the only publications that has considered the Social and Economic Value of delivering 90,000 Social Rent Homes as follows:

A12.1 Social and Economic Value

The total estimated socioeconomic value of building 90,000 social homes i.e. 1 year's supply is estimated to be £51.2 billion.

The combined socioeconomic value of building 90,000 social homes is estimated to be £51.2 billion



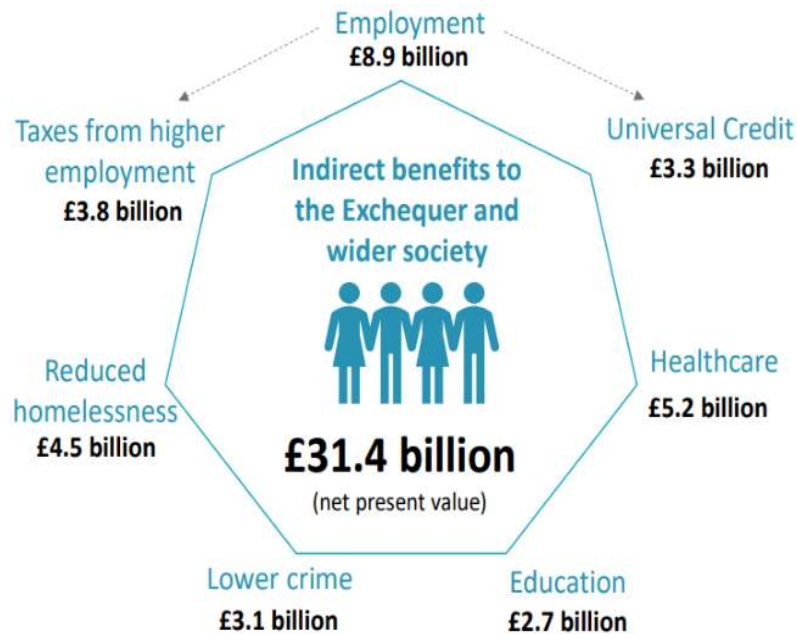
- Projected benefits within the first year: £32.6 billion
- Upfront cost of building 90,000 homes: £35.4 billion
- Government funding (one-third): £11.8 billion
- Remaining funded by housing associations/local authorities: £23.5 billion
- Break-even point: 3rd year post-construction
- Total economic impact from construction and management: £48.2 billion



- Construction impact: £27.4 billion
- Property/Service Management impact: £20.8 billion

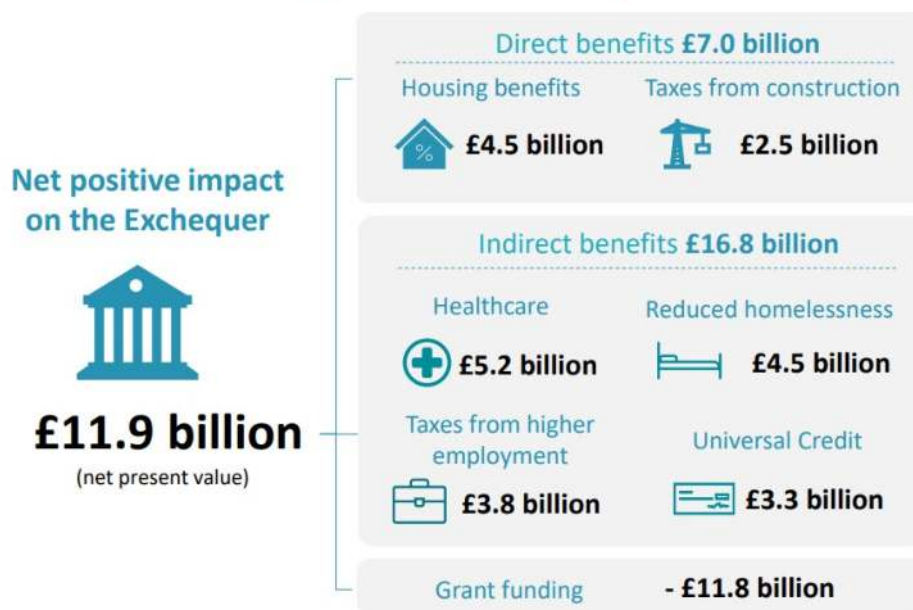
- Jobs supported:
 - Direct jobs in construction: 139,212
 - Total jobs (including supply chain): 353,029
 - Annual jobs from property/service management: 4,792 (direct), 10,158 (total)
- Indirect economic benefits: £31.4 billion

Moving households to social homes would generate £31.4 billion in indirect economic benefits to the Exchequer and wider society



- Net positive impact on the Exchequer over 30 years: £11.9 billion

Funding the programme would generate a net positive value of almost £12 billion to the government over 30 years



- Break-even point for the Exchequer: 11 years following construction

A12.2 A Brief Critique of the CEBR Report

However, whilst the structure of the model used by the CEBR is compelling, the numbers quoted are a little less secure. Therefore, the following is a brief critique of the CEBR Report to ensure balance and to not simply rely on its conclusions. As a professional courtesy, this critique has been discussed with a representative of the National Housing Federation who together with Shelter commissioned the CEBR to prepare the report.

A12.2.1 The Funding Gap

The underlying analysis of the need for only £11.8bn of subsidy for 60,000 social rent homes (on the basis that a further 30,000 will be delivered by S106 Agreements is optimistic (it assumes c£196,00 per social rent home). This report demonstrates that the figure is c. £18.8bn for 90,000 social rent homes and so c£210,000. The belief that 30,000 Social Rent Homes could be subsidised by land value taxation via Section 106 Agreements is unfortunately not realistic in practice and would crowd out any S106 delivery of intermediate rent homes and shared ownership homes.

To our mind the CEBR analysis focused on the cost gap and not on the more relevant cost of money gap (need for a net yield on investment by a Housing Associations, Local Council, related to their cost of capital).

As this paper has set out, it is not simply the cost to build – it is likewise the cost of the capital used by Housing Associations and Local Authorities.

The CEBR Report states:

“We have assumed that the upfront cost of building 90,000 homes in a given year would be £35.4 billion, with one-third (£11.8 billion) funded by the government and the remaining portion covered by providers of social housing, such as housing associations or local authorities. These figures serve as inputs in our models rather than findings of this report. Our analysis does not consider any potential reduction in costs that could be realised through land or planning reform, or changes in cost over time.”

Our subsidy calculations, as discussed previously, are the following in respect of delivering 90,000 affordable homes (Social Rent):

	Investor Type	Subsidy Per Home	Total Subsidy
Apartments	Registered Provider (RP)	£249,312	£22.44 bn
Houses		£169,207	£15.23 bn

Social Rent	Avg. Subsidy / Home	Total Subsidy (90,000 Homes) *
Registered Provider (RP)	£209,260	£18.83 bn

*50:50 Split between Houses and Apartments

Note: As noted previously, these figures excluded the cost of land, in addition to contributions via S106 (Land Value Tax).

A12.2.2 Funding Capacity of the Housing Associations and Local Councils

Furthermore, no commentary was made on whether Housing Associations and Local Authorities or FPRPs could access “equity” to buy the income streams for the affordable housing at around £23.6bn per annum per 90,000 social rent homes.

According to our calculations, the reality is that the amount of investment is likely to be half this amount - £12.1 billion - but in the current circumstances Housing Associations and Local Councils are cash strapped, and FPRPs are not prolific investors in Social Rent homes.

A12.2.3 Discount Rate

It should be noted that the CEBR have used a discount rate to calculate the NPV of the investment at 3.5%, which approximates to the Government Bond (Gilt) Coupon at the time of the report thus reinforcing the point that there is a cost of subsidy wherever it comes from. However, at the time of writing this paper, the 30 Year Government Bond rate is c5.5 %. Discounting at 5.5% will obviously reduce the Net Present Value of the benefits identified in the CEBR report.

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