BRIEFING HOUSING

Getting homes built: why social and affordable capacity is key

The Government can support housebuilding by increasing the financial capacity of social and affordable housing providers.

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Written by: Darren Baxter

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Executive summary

UK housebuilding is in weak state, with quarterly starts dropping significantly since late 2023, meaning that the Government's 1.5 million homes target is likely to be missed.

A primary cause is soft demand for new builds. Residential buyers, private landlords, and social housing providers are buying at lower rates, largely due to high interest rates straining affordability and undermining investment cases.

We argue that targeted measures to increase the financial capacity of housing associations and councils, thereby enabling them to build a greater number of new homes, should be a key plank of a plan to get housebuilding going again.

Despite the Government's vocal commitment to delivering 1.5 million homes in this parliament, housebuilding in the UK is in crisis. Quarterly housing starts have dropped significantly since late 2023 and remain below historic levels. Without additional action, the housebuilding target will be missed by some margin.

A core feature of the housebuilding slump is weak demand for private sector housebuilding. Higher mortgage rates and the end of Help to Buy have dampened demand for new build homes and slowed house price growth, while rising construction costs are making development unviable in many areas. At the same time, Build to Rent landlords — who have played an increasing role in buying and

building homes in recent years — have seen rising interest rates and construction costs squeeze yields, reducing investment appetite.

Meanwhile, the demand for social housing remains strong and growing. The number of households on council housing waiting lists (1.34 million) is at a ten-year high (MHCLG, 2025a). However, many of the same pressures impeding private sector output are also limiting the financial capacity of housing providers. This has further demand implications, with falling appetite for Section 106 acquisitions — historically a significant share of private sector output — adding further pressure on private housebuilders. It also means that housing providers are, save further action, in a weak position to increase their output to offset the decline in private sector output.

If the Government is to hit its 1.5 million homes target, boosting the financial capacity of housing providers to meet this demand will be critical.

Government is already taking important and welcome steps in this area. Its recently published Section 106 Roadmap and Homes England's new strategic plan both contain welcome proposals for how it will use regulatory levers, financial transaction powers (including through the recently launched National Housing Bank), and rent policy to deliver more social and affordable housing in the current market context (MHCLG, 2026; Homes England, 2025). The scale of this challenge, however, demands further action.

We set out proposals for Government to use targeted spending and/or financial transactions to unlock supply — investments that are both pro-growth and pro-living

standards. Our proposals are designed to be scalable in ambition, from targeted interventions to a step-change in social housebuilding capacity.

Recommendations

The Government should increase the financial capacity of housing associations by:

- increasing the financial capacity of housing associations by
- using its debt guarantee scheme to create an Affordable Housing Acquisition Scheme (AHAS), allowing housing associations to purchase Section 106 (S106) or off-plan homes from their, and the Government's, balance sheets and
- supporting equity investments in housing associations, either directly (through the National Housing Bank) or through coordinating a new large-scale investment vehicle) to release capital for housebuilding.

The Government should boost council housebuilding capacity by:

- supporting councils to build by
- providing a cash injection into Housing Revenue Accounts (HRAs) and
- lifting Housing Revenue Account debt from councils and putting it onto the central government balance sheet, either wholesale as part of unlocking a new generation of council housebuilding or in targeted investments designed to unlock scheme viability.

1. Housebuilding in the UK is in a weak state

The Government has made housebuilding a key part of its agenda. Its pledge to deliver 1.5 million homes over the parliament is a central part of its mission to deliver growth and improve living standards. It will also be an important yardstick — come the next election — to assess how far it has fulfilled its promise to strengthen the state's capacity to deliver for the public good.

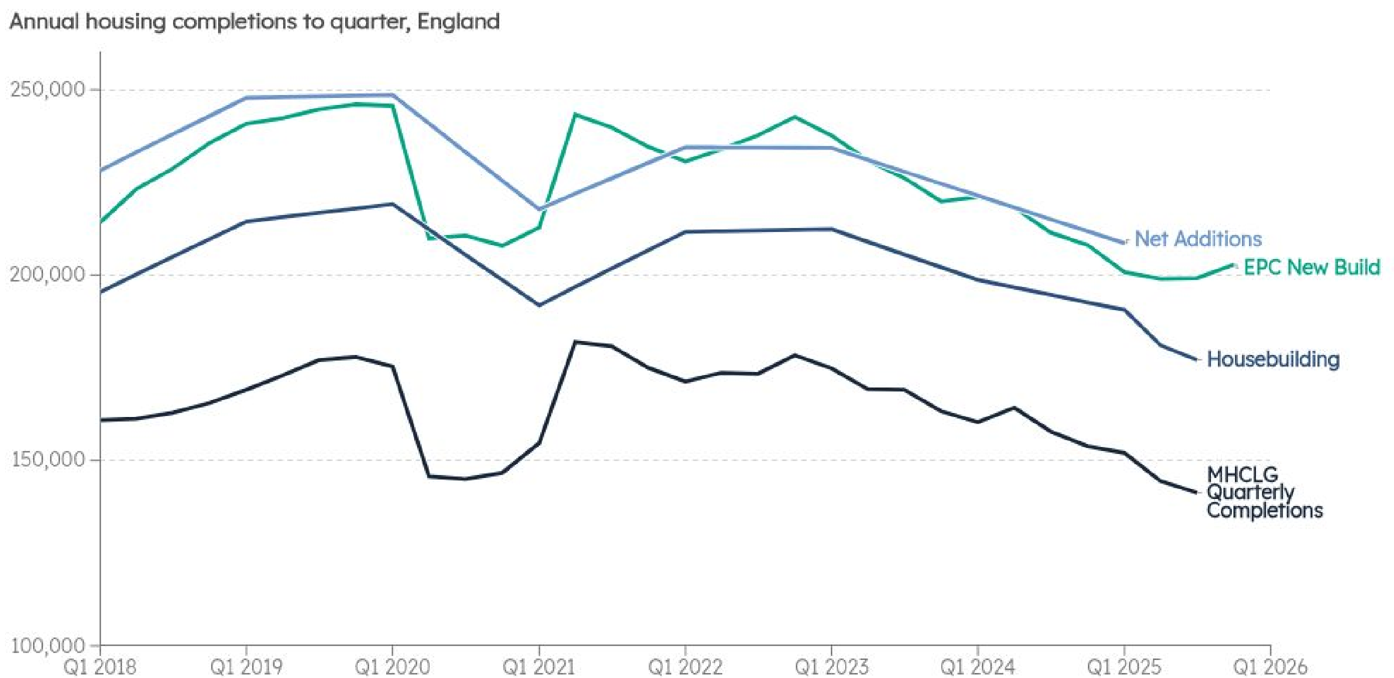
The Government made a positive start in delivering against this mission. Within weeks of the election housebuilding targets were restored, the National Planning Policy Framework (NPPF) was amended to increase the ability to build on the 'grey belt' (MHCLG, 2024a), and a £39 billion settlement for the Social and Affordable Homes Programme was announced at the Government's first Spending Review (MHCLG, 2025b).

Furthermore, the Planning and Infrastructure Bill, which recently received Royal Assent, will enact reforms to the planning system which should make it easier and quicker to build new homes and national infrastructure (UK Parliament, 2025).

Over the long term, these will be important measures which make it easier to build the right homes in the right places. In the short term though, these measures are being undermined by current market conditions.

Data shows housebuilding to be in a parlous state. Quarterly housing starts in England dropped notably in late 2023 and, while slightly recovering, have settled at lower than historic levels since. The number of Energy Performance Certificates for new build homes, a leading indicator for net additions, shows the delivery currently stuck around 200,000 a year, with a shortfall of over 120,000 homes against the Government's target already built up since the election (MHCLG 2026). And the latest S&P Global UK Construction PMI — an index tracking construction industry activity — has seen its biggest fall since May 2020 (S&P, 2025).

Figure 1: Housing completions in England have dropped notably in recent years



Source: Neal Hudson, BuiltPlace analysis of MHCLG, 2026 • MHCLG is Ministry for Housing, Communities and Local Government. EPC is Energy Performance Certificate.

There are several challenges facing housebuilding which have led to this situation. Some of these are regulatory. For example, the new building safety regime is clearly having teething issues both due to delays and a high volume of applicants who fail to reach the required standards (Inside Housing, 2025). But a core component of the challenge facing housebuilding is in the demand for the homes themselves.

Put simply, fewer houses are being built because those who would usually buy them cannot afford, or do not have the appetite, to buy them.

2. Low demand is behind the slump in house building

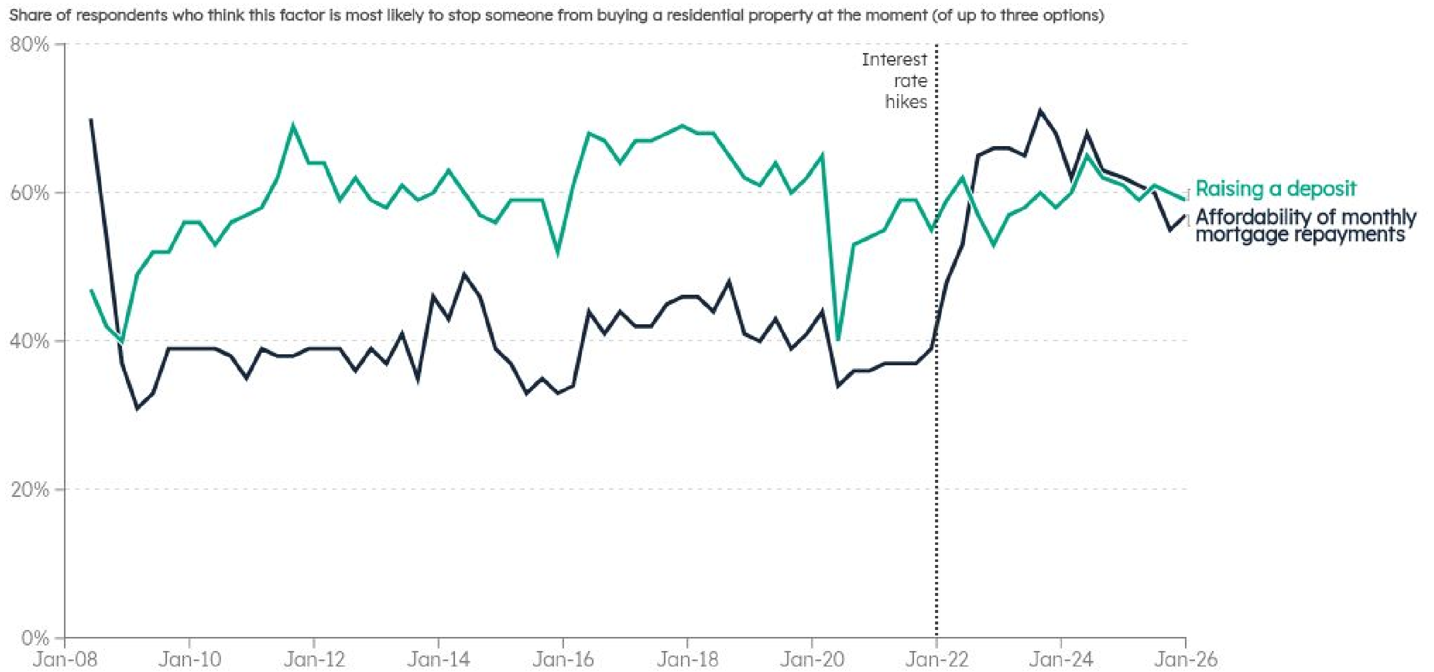
The demand issues facing housebuilding are significant blockers which will fundamentally undermine the Government's housebuilding target, bringing with them the attendant economic and political challenges. This following section unpacks these issues, focussing on 3 important buying groups: residential home buyers, housing associations, and private landlords.

Residential home buyers are facing strained affordability

Higher mortgage interest rates are constraining affordability for first-time buyers and home movers, reducing the number of transactions and playing a key role in slowing house price growth. The impacts of this are most pronounced in the south of England (including London), where higher loan to income ratio lending is required, and therefore the impact of higher rates is greatest.

This has had an impact on the demand for housing generally, and on the demand for new build homes specifically, and is reflected in estimates of the number of mortgages issued for new-build purchases. Analysis from BuiltPlace shows a drop of approximately 50,000 mortgages a year issued against new builds in 2024, from their peak in 2021 (Built Place, 2025). While the high cost of borrowing is reflected in sentiment data. For example, the Building Societies Association Property Tracker sees a significant spike in respondents reporting the cost of borrowing as weighing

on households' decisions to buy a home (BSA, 2025).



In addition to higher interest rates, the end of Help to Buy, which had previously targeted significant support to first-time buyers to purchase new homes, has also played a role in softening demand (BSA, 2025). These trends away from new-build homes appear to be continuing, despite an overall increase in transactions, including

from first-time buyers, to levels similar to those prior to the spike in interest rates (JRF analysis of Nationwide transactions data), suggesting that more residential buyers are purchasing existing homes.

At the same time as prices have softened, inflation in building costs has continued to increase. This has led some to argue that housebuilding is becoming unviable in an increasing number of places, as the cost of building a home outstrips the price that a developer can command in the market. Research by Zoopla, for example, argues that development is currently not viable in almost half (48%) of the country and house prices are constraining affordability in places where viability is greatest (Donnell, 2025).

Softer prices are also shaping how house builders plan for the future. Gains made during the more prosperous Help to Buy years led housebuilders to pay down debt and build up healthy reserves and land banks (Lloyd, Grayston and Hudson, 2023). As such, developers are in a strong position to wait out the current period of lower prices.

Private landlords are reducing investment plans

In recent years Build to Rent landlords have taken on a growing amount of new build homes. This sector has grown from a low base to a stock of around 127,000 homes in 2024 and accounted for around 8% of new-build completions in the same year (Savills, 2025a). This growth has offset almost all the decline in amateur private landlords since 2016, with this sector contracting due to tax changes and more

recently — and more significantly — higher interest rates (Elliott and Baxter, 2025).

The Build to Rent sector has been positive for developers, providing much the same impact on cash flows and build-out rates as social housing providers. While the more stable rental demand meant that as interest rates spiked it was possible for developers to convert stock to sell to landlords as buyer demand fell (Lloyd, Grayston and Hudson, 2023).

Build to Rent landlords, investors and housing-market commentators have been generally confident about the future of the sector, noting a positive political environment, ongoing demand due to housing scarcity, and an ability to capitalise on predicted rental growth (Savills, 2025a). However, despite this there are some signs of slowing output, given a drop in recorded starts (Savills, 2025b).

There are several factors driving this. In part this reflects the slowdown in the wider market, with some Build to Rent providers buying off plan, and delays from the new building safety regime (as discussed previously). At the same time, a higher interest rate environment also appears to be impeding some schemes, particularly as build costs rise. Comparing build to rent yields in a number of markets to ten-year gilt yields shows they are broadly comparable (JRF analysis of Knight Frank, 2025 and UKDMO, 2025). This suggests that yields are not offering returns which sufficiently reflect investment risk.

Housing associations are cutting back on development plans

Unlike is the case facing the private sector, the demand for social and affordable housing is strong, for example, the total number of households on council waiting lists hit a ten-year high of 1.34 million in 2025 (MHCLG, 2025a), and much more stable in the face of wider economic shifts. However, many of the same issues facing private demand and supply are also impeding the ability of registered providers to meet this demand.

This has wider impacts on overall housebuilding, as housing associations have been a key customer for new-build homes in recent decades. Local planning policies require housebuilders to provide a certain proportion of their homes to social housing providers through Section 106 agreements.

Over the last 10 years (2014-13 to 2023-24) around 240,000 social and affordable homes have been delivered through this route: this is around 44% of all the social and affordable housing delivered over the same period, and around 10% of new build homes (JRF analysis of MHCLG 2025c and MHCLG 2025d). This represents a significant effective subsidy, equivalent to around £7 billion in 2018-19 (Lord et al., 2020).

While sometimes framed purely as a cost on development — albeit one that should be reflected in the prices housebuilders pay for land — Section 106 agreements have played a key role in the finances of developments, with the upfront payment from registered providers being beneficial for cash flow and aiding quicker build-out rates

(Shelter, 2025).

Social housing acquisitions have also supported the market at times of downturn (given that the demand for social housing, which is allocated by need, is much less cyclical), with developers leaning more on social housing providers during the Global Financial Crisis in 2008/09, and again looking for such partnerships around 2022 as the rapid rise in interest rates led to a sharp drop in residential demand (Lloyd, Grayston and Hudson, 2023).

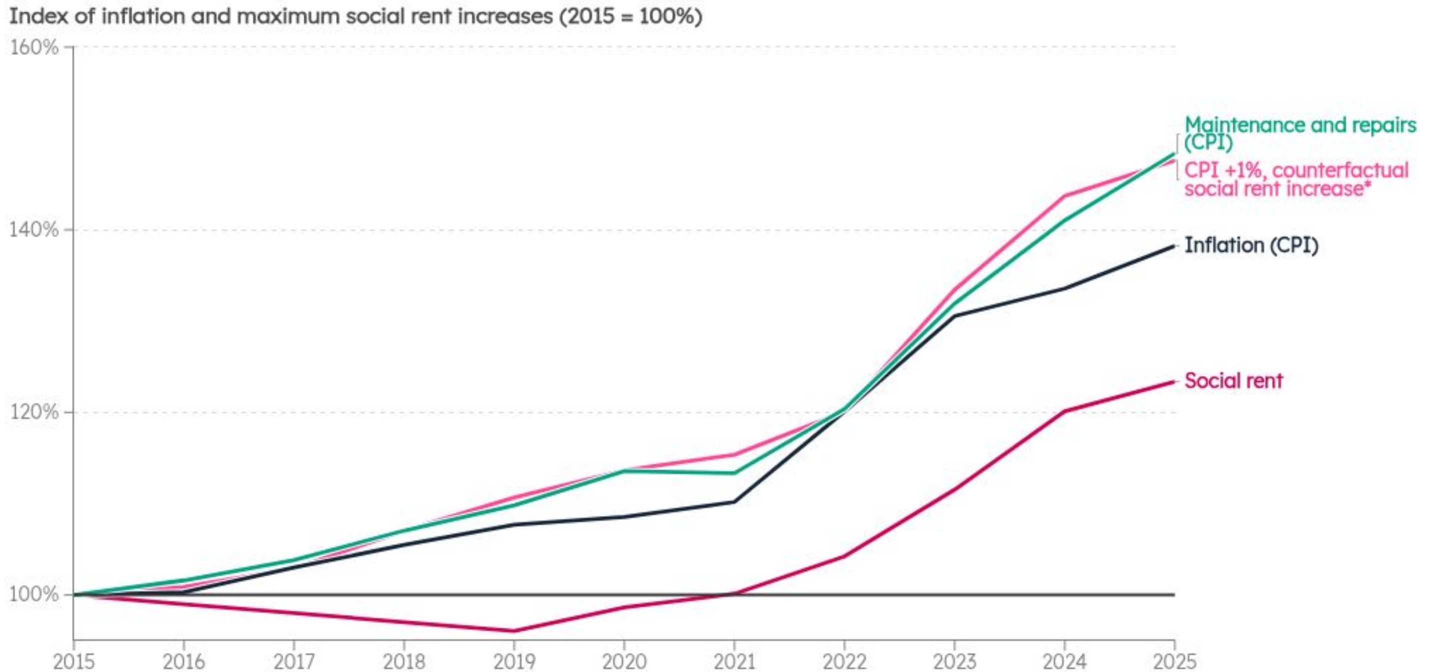
In recent years, it has been widely reported that housebuilders have reported difficulties in finding buyers for Section 106 units. For example, the Home Builders Federation (HBF) claimed a survey of theirs in December 2024 found at least 17,432 Section 106 Affordable Housing units within S106 agreements signed by these 31 companies and which have detailed planning permission were uncontracted (HBF, 2025a). However, a Freedom of Information request by JRF to Homes England found that just 1,517 homes were listed on the organisation's clearing house for unsold S106 units between December 2024 and September 2025.

The exact scale of the problem aside, the reasons for lower S106 demand are mixed. In a large part, this reflects the sorts of units on offer to housing associations — with issues around the quality of units, the need to retrofit certain homes to meet upcoming environmental efficiency standards, and management issues stemming from taking units with complex ownership arrangements (Shelter 2025). All these factors dissuade housing associations taking on S106 units, and in some cases make it outright unviable for them to do so.

It is clear though, that housing associations' (who deliver the majority of social and affordable housing) financial positions have become more strained in recent years, and that this is impeding their ability to deliver new homes. Registered providers face a tough economic climate.

High interest rates and inflation have increased costs while at the same time, recent rent policy (including 4 years of rent cuts and a recent below-inflation rent increase) has depressed incomes. In combination, these factors are straining housing provider balance sheets, particularly as recent policy and regulatory changes have increased the pressure on housing associations to focus on their existing stock, further restricting investment capacity.

Figure 3: Polices that have cut rents and capped increases at below inflation have resulted in social rents falling in real terms over the last decade



Source: JRF analysis of Consumer Price Inflation index, ONS, 2026 • Indices have been created using annual inflation rates as at April each year for CPI and the maintenance and repairs CPI item, while social rents are maximum increases each April based on CPI+1% as at September in the previous year except where alternative rent uprating policies constrain maximum increases. *Counterfactual social rent increases show indexed maximum social rent increases if they had not been subject to a -1% rent reduction for 4 years from 2016/17 and capped at below inflation in 2023/24.

This means that private registered providers have much less headroom for investment. EBITDA MRA interest rate cover — which compares earnings to interest payments and is used as a measure of financial capacity – has been falling, and in the latest data (2024/25) has dropped to 91% and is not forecast to return above 100% until 2027/28 (Regulator of Social Housing, 2024). These are the lowest levels since the financial crisis and represent a real constraint in the ability of housing

providers to invest.

Collectively, these factors have led housing associations to pull back on their development plans, including taking on Section 106 units, as well as presenting a broader supply challenge as social housebuilders are unable to play a counter cyclical role in the housing market, as they have done at other points in time.

The recent Spending Review had some positive news for housing providers, including increased funding and a long-term rent settlement. Collectively, this will improve their financial position and make it more viable to develop. But, given the welcome focus on social-rent homes (which require a higher proportion of grant per home delivered) and the continued need to focus on their existing stock, this settlement likely only maintains their capacity for development and does not expand it.

Collectively, the factors impeding these buyer groups explain a large part of the slowdown in this market, and suggest that we will continue to see a lower rate of new housing construction in the coming years.

3. Addressing the new build demand problem needs Government action

Taken together, the issues facing residential buyers, Build to Rent landlords, and registered providers mean that greater action to support the supply of new homes is needed if housebuilding is to recover and, ideally, exceed recent averages.

Calls for action on demand are growing and have so far focused largely on spurring residential demand — through a return to Help to Buy or a similar equity loan scheme (HBF, 2025b). There is a case for this. The previous scheme successfully boosted housebuilding in the aftermath of the Global Financial Crisis and, contrary to common perception, had modest to no impact on house prices (NAO, 2019).

However, the context has shifted considerably. The original scheme addressed the limited availability of high loan-to-value (LTV) lending on new-build properties post-crisis, a problem that does not exist in the same way today, with 95% LTV mortgages more widely available. Any new scheme would instead be addressing affordability pressures from higher mortgage rates and would need to be carefully designed to protect households from the risks of taking on equity loans in a higher interest rate, lower house price growth environment.

But action to address the demand for new homes, and the financial capacity of different actors to deliver them, demands action on all fronts. Accordingly, alongside

any effort to support homeownership there ought to also be a further focus on efforts to get social housebuilding going to tap into the large demand for these homes. This approach has many potential benefits, it can enhance supply, directly address affordability, and — given that Government already holds many levers to direct supply — is directly at the gift of policy and regulatory change.

The Government is already taking important steps in this area. Its recently published Section 106 Roadmap and Homes England's new strategic plan both set out how it will use regulatory levers, financial transactions, including through the new National Housing Bank, and rent policy to support social and affordable housing delivery (MHCLG, 2026; Homes England, 2025).

These are welcome and meaningful steps, but the scale of the housebuilding slump, and the fact that even returning to recent averages would fall short of meeting the Government's house building target, merits going further. Building on the current financial transactions approach will be important, but where this reaches its limits, targeted additional spending is necessary. Of all the competing demands on the public finances, investment in housebuilding offers a pro-growth, pro-living standards return that should be high on the Government's list of priorities when fiscal space allows.

The following sections set out a range of options for achieving this, spanning targeted interventions, for example to offset the current slump in Section 106 delivery, to more fundamental increases in social housebuilding capacity.

Re-capitalising housing association balance sheets in a targeted, pro-supply way

Government's action at the spending review, and more recently, has been positive for housing association balance sheets, with an above inflation rent settlement and the ability to converge rents offering some additional financial capacity, and additional low-cost lending giving a boost to viability. But, this is most likely to maintain and not enhance social housing supply. There is a case to go further still if housing providers are to expand their rates of building and acquisition. We propose 2 ways the Government could use its balance sheet to achieve this — issuing debt guarantees and targeted equity investments.

Using debt guarantees to support new off-balance delivery vehicles

Government's roadmap for Section 106 delivery sets out a number of approaches for increasing access to lower-cost borrowing for registered providers, recognising that this is a barrier to scheme viability and an overall pressure on balance sheets (MHCLG 2026). They propose achieving this through access to lower-interest borrowing, through the National Housing Bank, and through the extension to the existing Affordable Homes Guarantee Scheme. On the latter, they are also looking to consider how best to deploy Government guarantees to shore up Section 106 delivery, for example establishing 'an affordable housing acquisition vehicle supported by debt guarantees which is able to buy Section 106 homes'.

This would be a welcome approach to take and Social Finance, with funding from JRF, has already proposed the creation of a new off-balance sheet, non-profit vehicle for affordable housing acquisition to unlock new financial capacity (Social Finance, 2025). They call this the Affordable Housing Acquisition Scheme (AHAS).

AHAS would be set up and operated by housing providers, who would invest equity into the vehicle alongside a government grant (either from the SAHP or in addition to it). The vehicle — which could be a Registered Provider — would then acquire homes to rent, which it would let out via management agreements with individual housing providers.

This could then be further supported by Government guaranteeing the debt, reducing the cost of borrowing and therefore reducing the amount of grant needed per home. Alternately, were the vehicle to acquire homes through S106 agreements, it would enhance its capacity to take on a greater number of these homes.

There would be a number of advantages to this. By being off balance sheet for housing associations, it would unlock additional financial capacity, and — depending on how it is designed — could be off balance sheet for Government, which may be useful in the current fiscal context. While lower grant rates can expand the overall number of homes which can be delivered.

Social Finance estimate that a £500 million pilot scheme designed in line with the Affordable Homes Acquisition Scheme (AHAS) approach could acquire approximately 2,500–3,000 homes, which could scale to around £2 billion (and

around 10-12,000 homes) annually (Social Finance, 2025) — therefore potentially offering a significant contribution to housing supply. This is an area the new National Housing Bank should urgently pursue.

This model could be spun up in a number of different locations and focus on a mix of purposes. For example:

- creating a guaranteed buyer for S106 homes (subject to guarantees on quality, price, and management arrangements)
- expanding social housing supply in areas of high demand
- targeting the use of temporary accommodation, scaling up alternatives to reduce cost for councils and improve the quality of provision
- delivering mid-market or intermediate homes (let at affordable or living rents) for those who typically do not qualify for social housing but, due to high local rents, face affordability pressures, similar to the Mayor of London’s Key Worker Living Rent offer (Mayor of London, 2024).

Targeted equity investments

An additional option would be for the Government to work directly to recapitalise housing association balance sheets. This could be achieved by the new National Housing Bank making targeted equity investments into housing associations, in return for a commitment to increase supply.

It has become more common for traditional housing associations to partner with for-profit housing providers to sell them units, often taking these back under management agreements, and then using the freed capital to reinvest in their stock. Often this has focused on Shared Ownership units. This offers some welcome financial capacity for housing associations but comes at the expense of privatising an asset that would otherwise have provided returns to a non-profit or public entity. And to date, this has not necessarily happened in a strategic way.

This model could be replicated in a way that keeps these assets, and the returns they generate, in the public domain, through the National Housing Bank acquiring stock from housing associations. This would free capital for those providers in return for a commitment to increase supply, which Homes England could further enable by providing grant, or other assistance, from the Social and Affordable Homes Programme. While requiring an initial capital outlay, this would ultimately be self-funding for the Government with the rent and any future sales receipts from the shared ownership units providing a return on their investment.

Housing Association Global Accounts reveal that housing providers held £218.2 billion in housing assets in 2025 (with £105.4 billion in debt) (Regulator of Social Housing, 2025). Releasing even a small portion of this asset value could support a significant increase in housing supply. For example, a £3 billion equity investment would be approximate to the ten-year cumulative impact on rental incomes from allowing housing associations to converge rents at up to £3 a week — though, with a more immediate, front-loaded impact (CIH, 2024).

If the Government wanted to be more ambitious, it could look to establish a funding vehicle (or vehicles) to lever in greater capital. The National Housing Bank could work alongside institutional investors, such as public sector pension funds, NEST (the workplace pension scheme set up by Government to act as the default pension provider), and other UK-based institutions to establish a national social housebuilding fund, which could direct funds towards equity investments in housing associations.

Some may argue that such an approach is already happening with for-profit providers, but there are a number of reasons to see a Government coordinated approach as advantageous. First, involving Homes England allows for investment to be targeted in pursuit of housebuilding, targeting it in areas of need and in partnerships where the recipient is committed to schemes for increasing social and affordable housing output.

Second, it can ensure the returns yield to UK-based investors (including the Government itself) and pension holders, promoting the wider UK economy. And lastly, it enables MHCLG and the Regulator of Social Housing to work together on the policy and regulatory framework needed to ensure tenants continue to be protected.

Improving the ability of councils to build

A further means of enhancing demand for new building is to look to councils. Historically, councils have played a major role in housing supply, but reforms enacted since the 1980s have impeded their ability to build. In the 1950s councils were

building 147,000 homes a year, but this has fallen to an average of just a few thousand a year in recent decades (LGA, 2025).

Councils are held back from building by their financial position. Stock holding councils' rental income and expenditure sit in their Housing Revenue Account (HRA), a ring-fenced account. This ring fencing intentionally prevents revenue from housing being used to fund wider local authority provision or general funds being spent on the maintenance of existing, or construction of, new housing.

HRAs were subject to a new self-financing agreement in 2012, which intended to put councils on a path to funding the maintenance of homes solely from their incomes. However, this agreement has been changed by Government multiple times both on the expenditure and incomes side, through both additional regulatory obligations and changes to rental policy (LGA, 2025). The combination of these trends and wider economic pressures, such as high build-cost inflation and higher interest rates, mean council HRAs are expected to be in deficit by £2.2 billion by 2028, impeding the ability of councils to both maintain and expand their stock (LGA, 2025).

While a new settlement on rents, which brings greater certainty and more income, will ease this pressure going forward and the recent announcement of some revenue funding for councils will also be beneficial, alone, this will not unlock the additional capacity needed to increase council housebuilding capacity. And with it, this ignores a potential untapped source of demand for new homes. Government should look at ways of enhancing council housebuilding. It could do this through a number of means.

A cash injection for HRAs

One option is for Government to offset some of the financial pressure by resetting HRAs through grant funding. A collective of local authorities, organised by Southwark Council, have called for such a cash injection to reset their finances, enabling councils to meet their obligations and invest in new homes. They estimate that £644 million, equal to the lost revenue from the 2023-2025 rent cap, would stabilise HRAs and avoid the cancellation of investment plans. This relatively small investment could therefore see significant returns in terms of housebuilding, and the economic activity this generates (Southwark Council, 2024).

Lifting HRA debt onto the central government balance sheet

Another approach — similar to the equity investments proposed for housing associations in the previous section — would be for central government to lift debt from Housing Revenue Accounts and into central government debt, therefore freeing financial headroom for councils to invest.

Councils have called for the whole HRA debt to be lifted through a process of re-opening the 2012 self-financing agreement and rebasing debts based on an assessment of the preceding 12 years, and an assessment of likely conditions going forward. Modelling from the Chartered Institute of Housing (CIH) and Savills (2024) estimate this would mean lifting around £17 billion of debt from local to central government balance sheets.

Transferring debt from local councils to central government would not increase the total government debt figure, since it's already counted as public sector debt. However, any new borrowing by councils through their Housing Revenue Accounts after the transfer would increase overall government borrowing. The advantage is that central government would know this new borrowing is specifically targeted at housing stock, whether maintaining existing homes or building new ones, and therefore supports wider government housing objectives.

Unlocking a significant increase in social house building needs council capacity to be unlocked, but if — in the short term — government is concerned about the impact of this on its headroom it could more selectively move debt from HRAs in return for commitments to deliver additional house building and/or to take on S106 units. This would more explicitly target financial capacity to the goal of increasing housebuilding, potentially with HM Treasury and Homes England jointly striking deals which combined SAHP grant and targeting debt lifting on a scheme-by-scheme basis, where there are opportunities for new land-led delivery of Section 106 or off-plan acquisitions (for example from joint ventures with developers).

4. Conclusion

This paper has set out a series of targeted interventions which build on the Government's already welcome efforts to boost social house building. Recapitalising housing association balance sheets through debt guarantees and equity investments could unlock significant additional capacity for acquiring new builds. Similarly, lifting HRA debt onto central government balance sheets would enable councils to resume their historic role as major housing developers.

Of all competing demands on public spending, boosting housebuilding stands out as both pro-growth and pro-living standards. If the Government is serious about its mission to deliver 1.5 million homes, it must recognise that this requires doubling down on public investment to shore up demand. The proposals outlined here offer an approach for achieving this.

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