

## New research from L&G and BPF finds new funding structure needed to meet 95,000 p.a. shortfall in affordable homes as well as billions of pounds in additional funding

- **Joint research published today by Legal & General (L&G) and the British Property Federation (BPF) highlights the need for a major change in the way affordable housing is funded to overcome the additional £34bn funding required every year to meet long-term societal requirements.**
- **With 1.2 million households on waiting lists in England, an estimated 145,000 affordable homes are needed each year to meet demand, 95,000 more than recent annual delivery**
- **The research calls upon Government to further support a level playing field between both housing associations and investors, to greatly scale the levels of institutional investment in affordable housing that are required to meet the deficit. These include targeted changes to the tax regime and the nature of capital grants provided**
- **The research additionally highlights the critical importance of rapidly providing a long-term rent settlement to help significantly decrease the subsidy burden on Government.**

England is facing a chronic undersupply of affordable housing, which will persist without a major increase in capital funding for the sector. L&G and the BPF's analysis puts the amount of additional capital funding needed to meet affordable housing demand at £34 billion per year.

The report, *'Delivering a step change in affordable housing supply'*, examines how the supply of affordable housing, including social rent, affordable rent, and shared ownership, can be increased to meet the nation's housing need.

Housing associations, who have driven affordable home delivery along with local authorities and central government, are near to borrowing limits and unable to raise new equity due to their not-for-profit status. The report finds that housing associations are currently delivering c.50,000 new homes a year and are realistically only able to deliver up to 65,000 new homes a year, given their funding structure constraints.

In addition, they are now facing major new financial headwinds due to costs associated with decarbonisation of their existing homes and fire remediation programmes. The NHF has estimated the impact of fire safety repairs for the sector as a whole would equate to a non-recoverable funding cost of over £10bn. Further to this net-zero carbon emissions on all homes must be achieved by 2050. A 2020 survey by Inside Housing estimated the total cost of retrofitting the c. 5 million affordable homes owned by RPs and LAs will be £104bn.

Only new capital injection from institutional investors, combined with an increase in grant levels from Government can overcome the sector's current financial limitations. To increase affordable housing delivery to 145,000 new homes per year, the research finds that c.£34bn of additional funding will be required each year which will need to

be made up of £10bn of equity from investors, the same from the debt markets and up to £14bn from government grant.

Alongside greatly increasing the provision of affordable housing grant, the report specifically calls upon Government to:

1. **Introduce a longer-term rent settlement**, providing confidence to housing associations and investors alike to increase output. Additionally, this creates a critical risk reduction, further reducing the amount of grant funding Government needs to provide per home.
2. **Create a level playing field between housing association and investors** through tax positions and grant agreements to remove the obstacles for closer collaboration between institutional investors and Housing Associations.
3. **Commission a review into subsidy provision** to understand the optimum means of targeting subsidies to increase the supply of affordable housing. This could be through increasing grant levels or supporting new models through co-investment.

**Simon Century, Managing Director of Housing at Legal & General, comments**, “Our research aims to shine a light on the reality of delivery in the affordable housing sector. The demand for Affordable housing is huge – at best an annual short-fall through time of some 95,000 homes a year. The main existing players – housing associations – can only do so much alone given the huge and increasing demands they face. The only way to overcome the challenges in the years ahead is through a new coming together between all players. Working together, we need to rapidly scale up the amount of long-term institutional investment into the sector, supported by further subsidy from Government. This is the only realistic way to deliver more homes at the scale the country so deeply needs.”

**Ian Fletcher, Director of Policy, British Property Federation comments**, “If there is one thing that unites most of the housing sector it is the need for more homes that are affordable. This analysis shows, however, that we cannot hope to meet that need through existing sources of funding alone. There is a funding gap, and if anything, it is getting bigger as other financial pressures increase on the affordable housing sector. We have seen that institutional investment can contribute to increasing affordable housing supply, but there is more that can be done to create the right policy environment to boost all forms of funding.”

The report includes a further set of recommendations for Housing Associations and institutional investors to increase the sector's overall capacity and address pressing societal needs.

**ENDS**

#### **Further information**

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#### **Notes to editors**

#### **Legal & General Capital**

Legal & General Capital (LGC) is Legal & General Group's alternative asset platform, creating assets for Legal & General Retirement and third-party clients in order to achieve improved risk-adjusted returns for our shareholders.

LGC has built its market leading capabilities in a range of alternative assets, delivering depth of resource, track record and intellectual property. Investing in the real economy and creating alternative assets that deliver a tangible societal impact, its purpose is to invest society's capital for society's benefit. LGC's investments have

been vertically integrated and include: residential property; specialist commercial real estate; clean energy (growth equity, assets and infrastructure); alternative credit; and venture capital.

As LGC's capability to create alternative assets continues to grow, it will not only continue to expand its balance sheet but also to create alternative assets for third party investors. Many of these investors have the same aims, namely to create assets to back pensions with an improved yield or to create assets with strong growth prospects but with low correlation to equities performance.

L&G has invested over £30bn in levelling-up regional economies, including through major regeneration schemes in Cardiff, Newcastle and Salford. Legal & General recently made a commitment to enable all new homes across its portfolio to operate at net zero carbon emissions by 2030, including Legal & General Modular Homes, CALA Group, Legal & General Affordable Homes, Build to Rent and Later Living. LGC also owns a 36% share in Kensa Heat Pumps, a UK manufacturer and installer of high efficiency networked heat pumps.

### **Legal & General Group**

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### **About the British Property Federation**

The British Property Federation is the membership organisation for, and the voice of, the UK real estate industry.

We represent and promote the interests of all those with a stake in real estate in the UK – owners, developers, funders (equity and debt), agents and advisers.

We work with government and regulatory bodies to help the real estate industry grow and thrive, to the benefit of our members and the economy as a whole. Because our membership is industry wide, we can provide government and regulators with the knowledge they need to make decisions.