Chartered Institute of Housing

Rent consultation analysis
Convergence update
Annex

August 2025

1.1 Introduction - contents

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- Government consultation on rent convergence in the social housing sector published 2nd July 2025
- Consultation follows Spending Review June 2025 confirming 10-year settlement for rent increases at CPI+1%
- Revised baseline projections CPI+1% for 10 years from 2026 to 2036
- Analysis focused on what extra resources from faster convergence to formula rents would be able to deliver for both the HA and LA sectors
- Since the previous analysis in December 2024, Global Accounts for HAs published and Savills analysis of HRAs updated for 2023.24 – we have therefore "rolled forward" both national projections
- For information and cross-reference, we have therefore retained previous baseline projection of CPI-only on rents – this allows us to isolate the impact of the change in year on the projection
- All other baseline assumptions are unchanged (in this update) re modelling for consultation responses
- Convergence modelled at £1 £2 £3 / week
- Previous caveats apply: convergence modelling as granular as the SDR/LADR will allow – property numbers actual vs formula
- Updated SDR/LADR not published until October 2025, therefore rent analysis fundamentally rooted in the same base data

- Analysis and research undertaken for the Chartered Institute of Housing working in partnership with the NHF, LGA, ARCH, NFA and CWAG
- Covering the following overall areas

1. Projected impact of CPI+1% for local authorities (LAs) and housing associations (HAs) 10 years compared to a revised original baseline of CPI-only rent increases
2. Projected impact of convergence to formula rent: modelled separately for HAs and LAs, undertaken at £1, £2 and £3 per week
3. For local authority Housing Revenue Accounts (HRAs) specifically, forecast of the "national HRA" deficit/surplus
4. For housing associations specifically, analyse via conversion into capacity for investment using interest cover ratio as key metric
5. Potential for convergence to encourage greater investment from providers in new supply, with comparison to MHCLG Impact Assessment published with the consultation
6. An updated high-level assessment on affordability for tenants

2.1 Technical inputs

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- We have established national forecasting models for the HA sector (excl FPRPs) and the local authority (HRA) sector
- The models are controlled to previous work undertaken by Savills in 2024
  - Work undertaken for LGA/ARCH/NFA published October 2024 and updated in early 2025
  - Work undertaken for the National Housing Federation (unpublished)
- The control models excluded changes such as the impact of additional NI costs and April 2025 rent increase was 2.7%; also for local authorities lower Right to Buy sales now expected; these have now been rolled forward to reflect the 2023.24 financial year as baseline with HA new build based on revised estimated SAHP split of tenures
- Core data sources
  - LADR 2023.24 and SDR 2023.24
  - Global accounts 2023.24
  - Savills HRA accounts analysis

Key assumptions applying to both HA and LA projections

- CPI rates
  - September 2024 – 1.7% driving rent increases 2025.26
  - September 2025 – 2.7% driving rent increases 2026.27
  - September 2026 – 2.3% driving rent increases 2027.28
  - September 2027 – 2.1% driving rent increases 2028.29 then all years CPI at 2.0%
- Interest rates reduce in line with Bank of England forecasts
- Employers NI costs added all years: 2.25% on 65% of management and 15-20% of repairs (assumed that service costs recoverable from service charges)

Key assumptions applying to HA sector specifically

- Property additions as per an assumed reduction from totals in 2023.24
- Grants rates weighted £140k (social rent) / £85k (affordable rent) / £65k (shared ownership) (ratio broadly 20:40:40); delivery of 60:10:30 for future new build
- Asset investment £40,000 p/u over 30 years
- Capacity to invest in additional new homes whilst interest cover recovers to 150%

Key assumptions applying to LA sector specifically

- RTB sales 0.42% pa to 2025.26 with a “spike” assumed for the end of 2024.25 then 0.10% pa all years
- Asset investment £69,000 p/u over 30 years – with significant additional borrowing implied up-front to address backlogs

2.2 Rent modelling scenarios

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For each sector… scenarios run as follows:

1. Baseline projection
   - CPI+1% rent increase to 2025.26
   - NI additions
   - Property additions (HAs) and reduction (LAs) per core inputs
   - For both sectors, the rolling forward of the baseline projection is more or less stabilised compared to the projections made in December 2024 (having deteriorated from previous iterations up to December 2024)
2. Update baseline projection CPI+1% for 10 years
3. Convergence at £1/week on top of CPI+1% for 10 years, quoted including and excluding relet convergence
4. Convergence at £2/week on top of CPI+1% for 10 years, quoted including and excluding relet convergence
5. Convergence at £3/week on top of CPI+1% for 10 years, quoted including and excluding relet convergence

Outputs: estimates of…

- The trajectory of average rents for each sector under each of the scenarios
- Additional rent income able to be raised cumulatively through the scenarios
- Impact on the financial viability of each sector arising from the addition of rent income via the scenarios
- For HAs, this is expressed at projected sector interest cover – driving potential additional capacity – "converted" into capacity for additional delivery
- For LAs, this is expressed as a projection of the "national HRA" – with each successive scenarios adding resources into the projection to generate surpluses - which can be "converted" into capacity for additional delivery

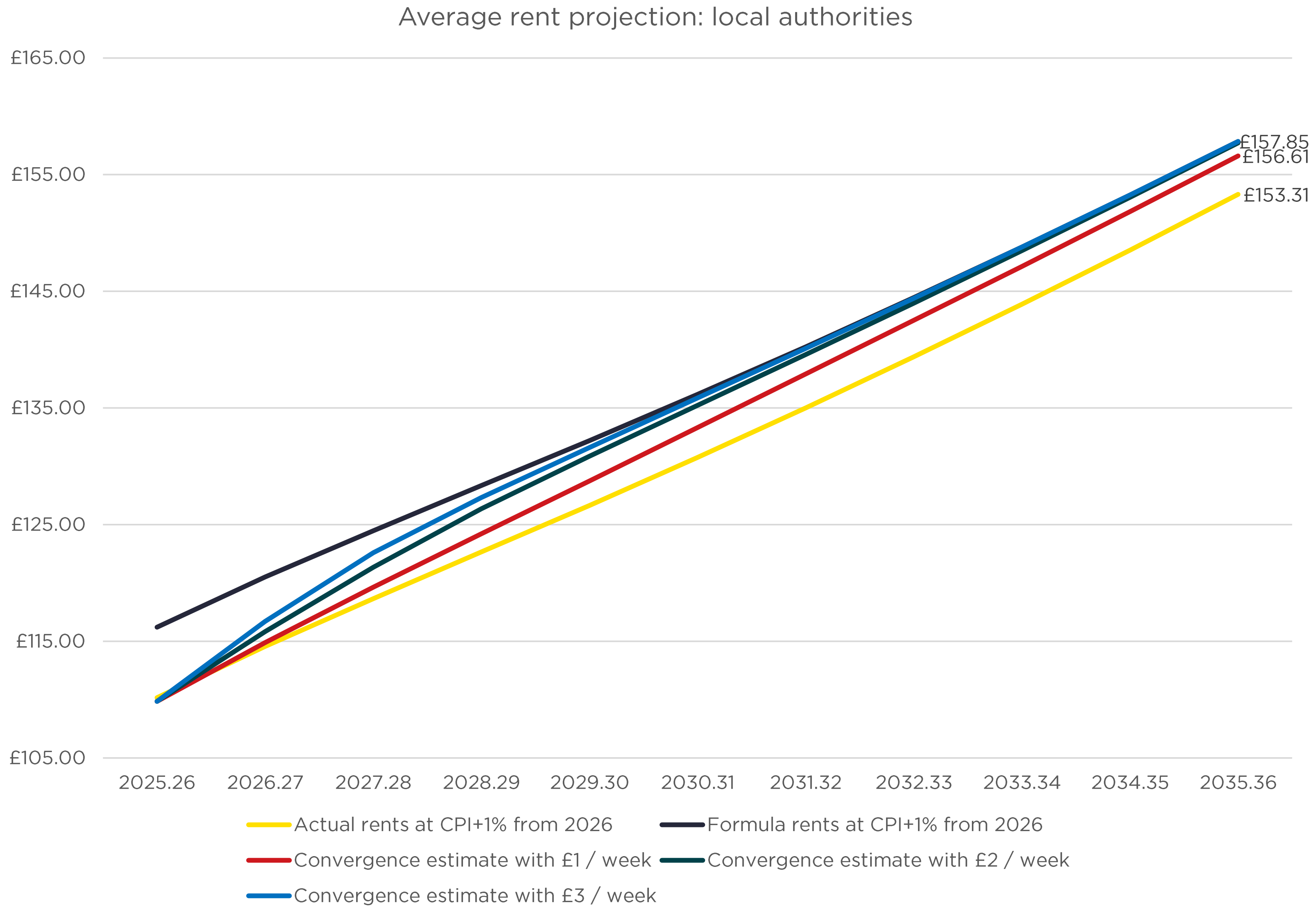
Additional technical notes on rent convergence scenarios

- £2 was the historic approach to convergence from the introduction of the rent formula in 2000 to suspension of convergence in 2016; £3 tests the extra income derived by going "faster"; £1 tests one of the options set out in the consultation
- No tolerances have been assumed to be added to general needs homes in our scenarios – it is recognised that many housing associations and some local authorities add up to an additional 5% tolerance to formula rents on reletting properties; however, the addition of tolerances risks distorting the analysis around convergence, as providers take their own decisions, and practices vary (see exception to this below)
- It should be noted that 100% accuracy for convergence projections can only be achieved at the individual property level – however the granularity of forecasts at HA by LA and LA by LA level for property sizes (bedsit to 6+ beds) level reduces the error-spread to a minimum
- For housing associations, around one third of combinations of LA areas/property sizes and HAs have actual rents above formula (in 2023.24); in line with NHF advice, we have assumed rents above formula rise with CPI+1% until they reach a tolerance of 5% above formula rent – this leads to forecast average rents slightly above formula towards the end of the 10-year period *(note no such combinations are above formula for local authorities)*

3.1 Average rent forecasts – local authorities

Headlines

- Average rent in 2023.24 was £99.32
- Average formula rent in 2023.24 was £105.06
- Average “gap” between actual and formula rent was £5.74 or 5.47%
- CPI+1% for rents over 10 years with no convergence would result in average rents of £149.21
- Average formula rents increasing with CPI+1% would be £157.85 by 2035.36
- £3/week would result in convergence with average formula rents in 2035.36
- £2/week convergence would result in rents within 13p/week of convergence with average formula rents by 2035.36
- £1/week convergence would result in rents within 84p/week short of convergence with average formula rents by 2035.36



LA RENT CONVERGENCE

3.2 Average rent forecasts – housing associations

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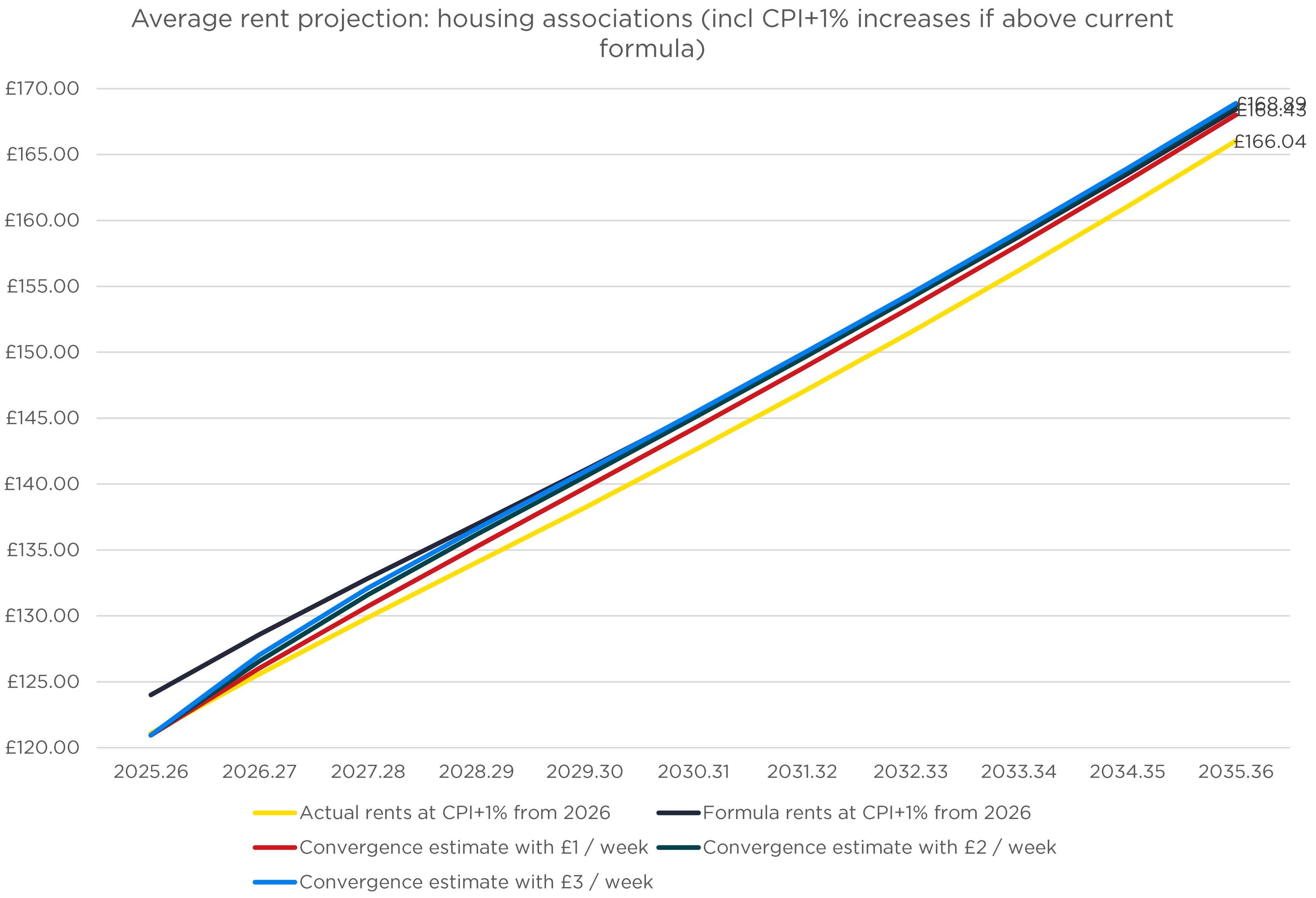
Headlines

- Average rent in 2023.24 was £109.34
- Average formula rent in 2023.24 was £112.11 (excluding tolerances)
- The average “gap” between actual and formula rent was £3.76 or 2.47%
- CPI+1% for rents over 10 years with no convergence would results in average rents of £164.28
- Average formula rents increasing with CPI+1% would be £168.43 by 2035.36
- Following advice from NHF, this chart now reflects rent increases of CPI+1% if rents are above formula up to 5% tolerance
- In overall terms for the HA sector, average rents would in aggregate be at formula rents by 2036 under the £2 and £3 scenarios, and short by 43p/week under the £1 scenario



3.3 Additional convergence income – local authorities

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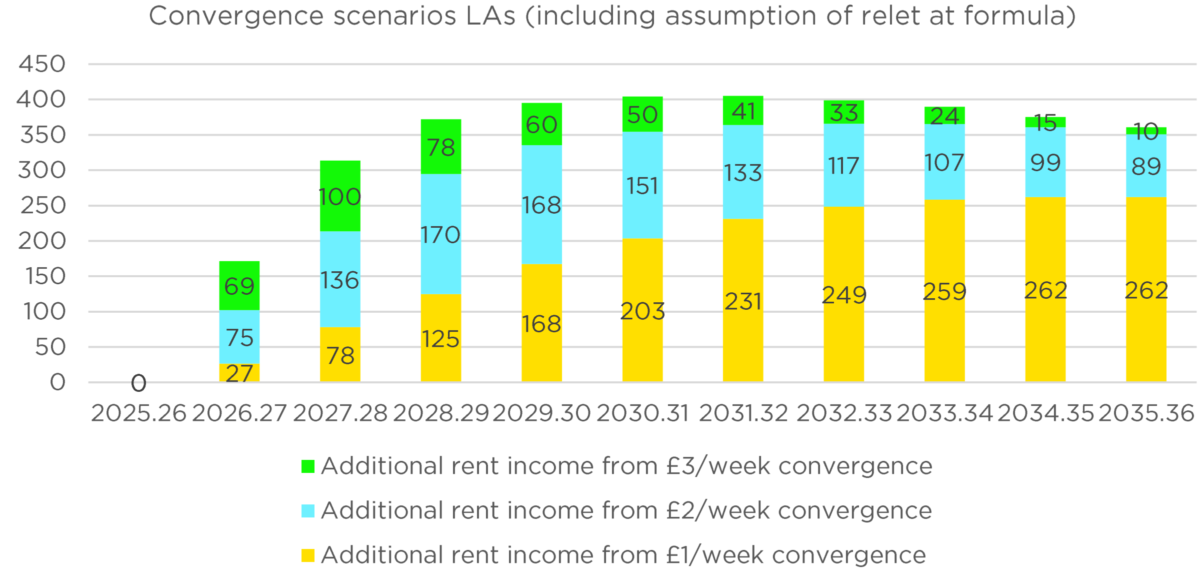
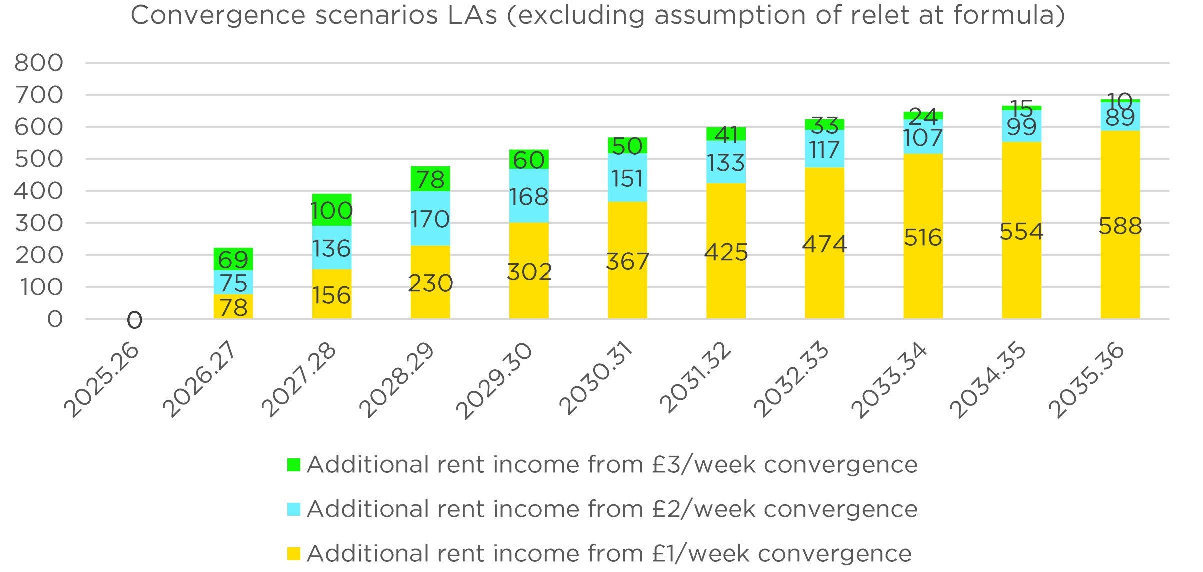
Additional rent income from convergence scenarios	£1 / week convergence	£2 / week convergence	£3/ week convergence
In year impact by 2035.36	£262m	£351m	£361m
Cumulative additional rent income 10 years	£1.863bn	£3,107bn	£3.587bn

Headlines for rent convergence scenarios

- Table and top chart show comparison of additional income over 10 years 2026-2036 made against a baseline scenario of CPI+1% rent increases and in which LAs relet voids at formula rent on the basis of 5% relets pa
- Additional income added annually therefore reduces in cash terms
- By 2036, annual impact of convergence up to £361m pa if assuming relet at formula and up to £687m when no relet convergence assumed
- For completeness, the bottom chart comparison shows impact of convergence scenarios if LAs were not reletting voids at formula rents – this is higher and continues to increase each year = £3 - £5.414bn // £2 - £4.934bn // £1 - £3.690bn





LA CONVERGENCE PROJECTION

3.4 Additional convergence income – housing associations

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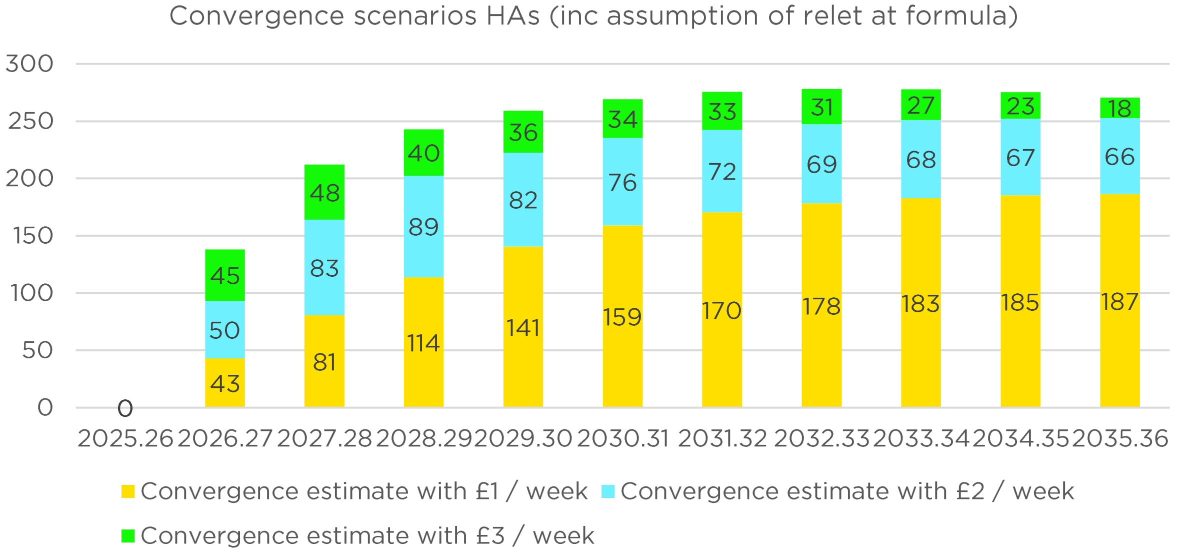
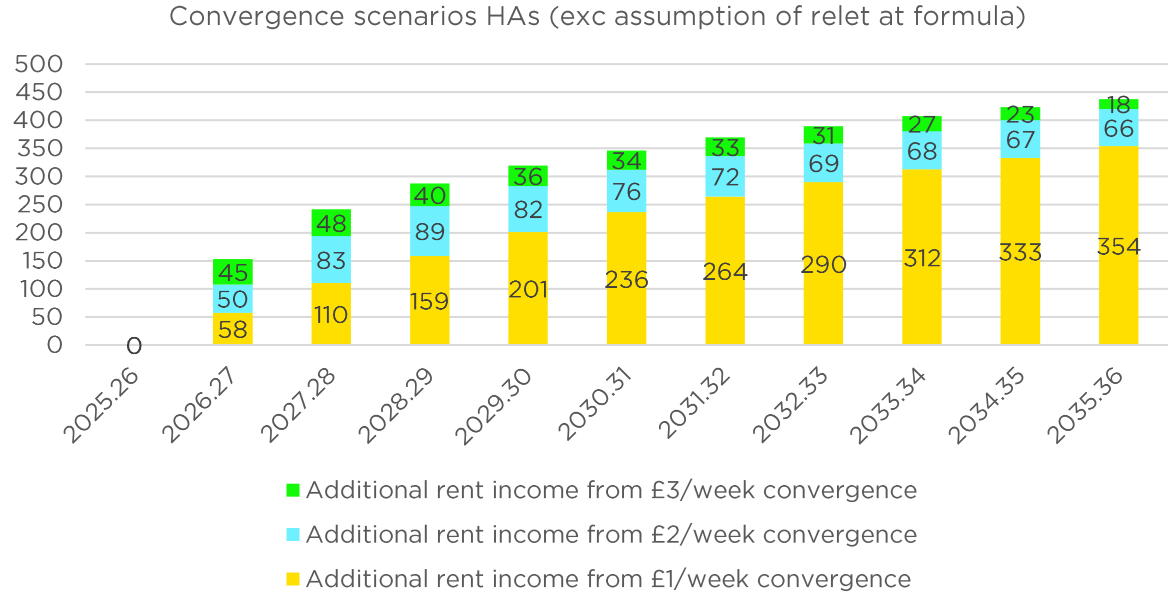
Additional rent income from convergence scenarios	£1 / week convergence	£2 / week convergence	£3/ week convergence
In year impact by 2035.36	£187m	£253m	£271m
Cumulative additional rent income 10 years	£1.441bn	£2.163bn	£2.499bn



Headlines for rent convergence scenarios

- Table and top chart show comparison of additional income over 10 years 2026-2036 made against a baseline scenario of CPI+1% rent increases and in which HAs relet voids at formula rent on the basis of 5% relets pa
- Additional income added annually therefore reduces in cash terms
- By 2036, annual impact of convergence up to £271m pa if assuming relet at formula and up to £438m when no relet convergence assumed
- For completeness, the bottom chart comparison shows impact of convergence scenarios if HAs were not reletting voids at formula rents – this is higher and continues to increase each year = £3 - £3.375bn // £2 - £3.039bn // £1 - £2.317bn



HA CONVERGENCE PROJECTION

3.5 National projection: local authority HRAs

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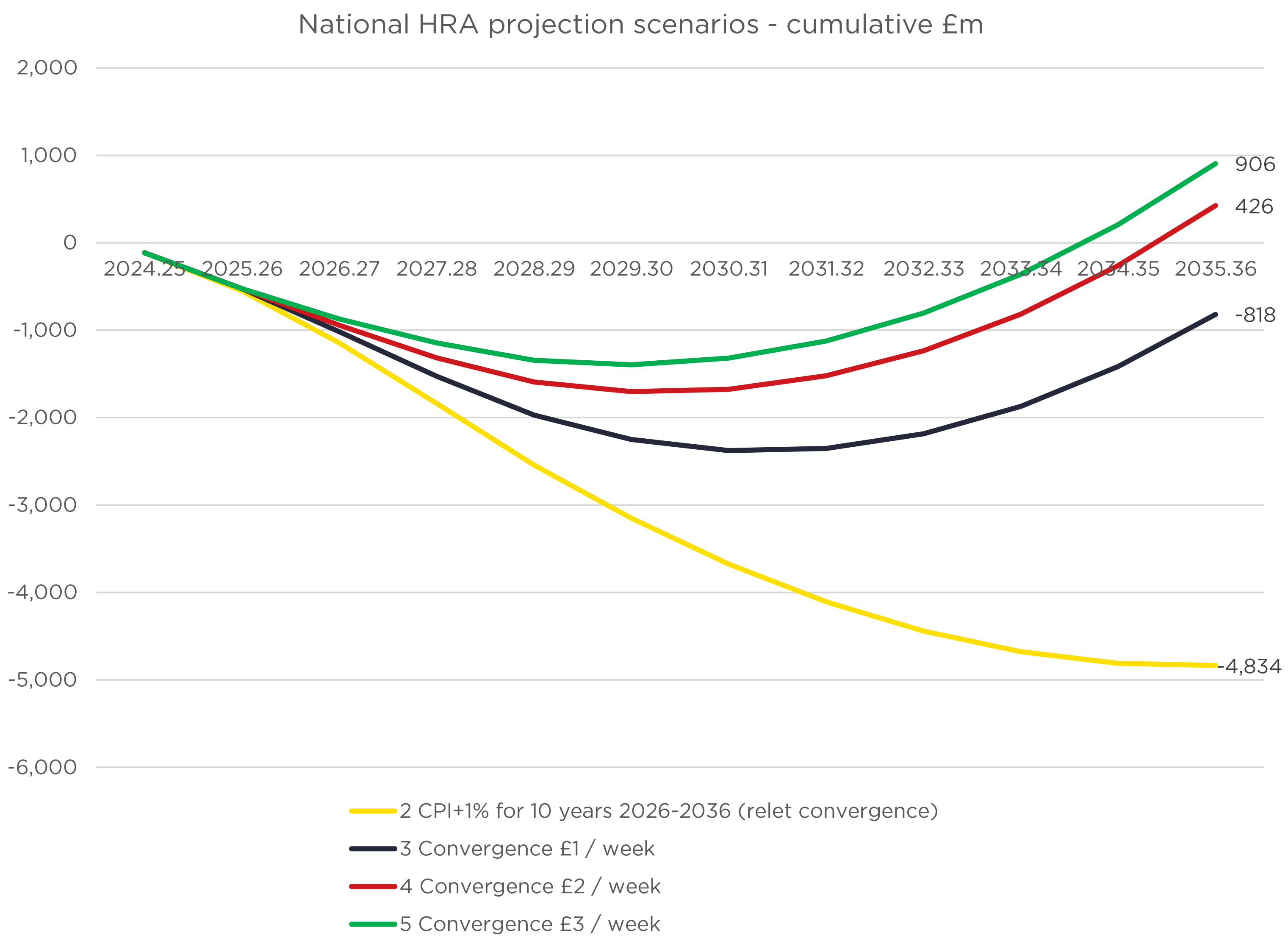
Key headlines

- CPI+1% for 10 years stabilises net rent income by 2036.37 – with an assumption of relet at formula rent (relet rate 5% pa)
- Rent convergence at following rates lead to rising in-year surpluses from around 2030-2032
- @ £1/week -> Remains in cumulative deficit in 10 years
- @ £2/week -> returns to cumulative surplus in 10 years with further income growth
- @ £3/week -> returns to cumulative surplus deficit in 10 years with further income growth
- Additional resource injection remains implied to cover immediate and short-term pressures and to unlock development capacity during the next decade

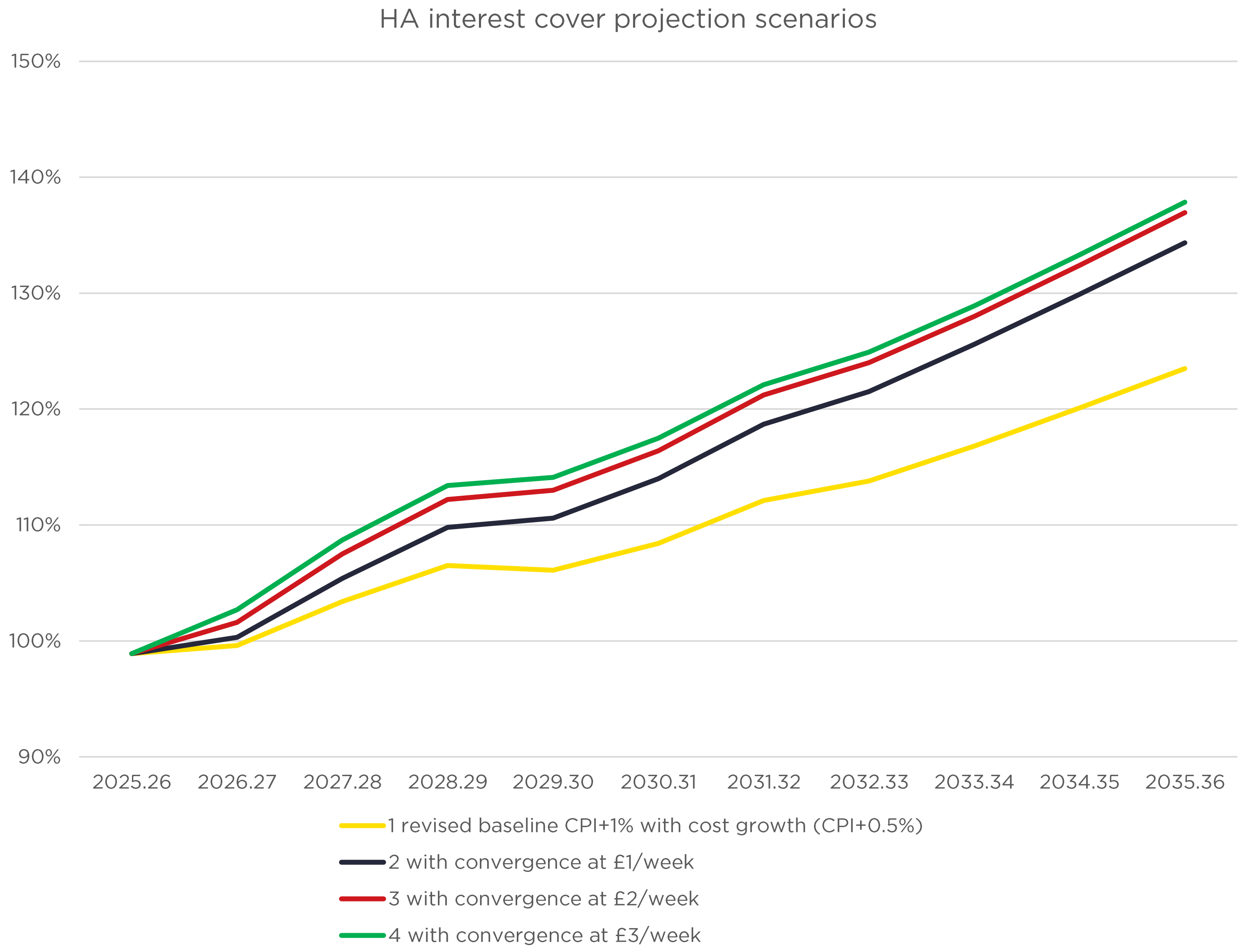


3.6 National projection: housing association sector

Key headlines

- Baseline forecast with no additional new supply over and above original CPI-only increase projection
- CPI+1% for 10 years improves cover to 123% by 2035.36 – inclusive of relet convergence
- This is lower than the previous forecast as we have assumed increased costs especially in relation to asset management

- @ £1/week -> improves 10-year ICR by 11bps; @ £2/week -> improves by further 3bps; £3/ week -> improves further by 1-2 bps
- Key differential in the early to middle period 2026-2030
- For example… in 2027/28
  - £1 convergence improves ICR by 2%
  - £2 convergence improves ICR by 5%



HA SECTOR PROJECTION

3.7 Capacity conversion

- The impact of convergence providing additional income has been measured in providing for the following.
- A proportion of additional income would be reserved for asset management and investment into the existing stock, particularly given that ongoing consultations from MHCLG covering Decent Homes Standard and Minimum Energy Efficiency Standards are likely to increase investment in the existing stock for all providers before and after 2030, especially towards properties meeting EPC C by 2030
- This proportion would likely differ between local authorities and housing associations given the relative sustainability of the national projections at CPI+1% rents excluding convergence
- Core capacity conversion assumptions are:
  - Gross new build costs £280k including land element
  - Tenure mix 60:10:30 social rent: affordable rent: shared ownership
  - Borrowing rates 4.25% HAs – 5.00% LAs (although noted that PWLB rates are higher at this time)
  - Average grant rate consolidated across tenures = 40%
  - Proportion of increased income allocated to asset management for the existing stock estimated at 25% / 50% for HAs / LAs
- Capacity measured by using proportion of additional income to borrow against and accompany with grant: shown as additional properties which could be delivered totalled over 10 years from 2026-2036
- Additional capacity arising from £2 convergence over £1 is particularly focused into the early period (43,000 for both sectors vs 27,000)

		Increases against relet at formula			Increases against no relet at formula	
		% reserved for AM	With % reserved for AM	No reserve for AM	With % reserved for AM	No reserve for AM
HAs	£1	25%	18,305	24,407	33,579	44,772
	£2	17%	25,405	33,874	40,680	54,239
	£3	14%	28,366	37,822	43,018	57,358
LAs	£1	50%	9,214	18,427	20,672	41,345
	£2	30%	17,764	25,371	28,310	45,221
	£3	26%	20,831	28,139	30,392	46,105
Total	£1		27,519	42,834	54,252	86,117
	£2		43,169	59,245	68,989	99,461
	£3		49,198	65,960	73,411	103,463

- Totals between 28,000 and 66,000 estimated depending on whether (and extent of) allocation of additional income to asset management
- Central £2 forecast c43,000-c60,000 compares to 15,000-40,000 estimate included in MHCLG Impact Assessment
- For completeness, when comparing against a baseline were providers do not relet voids at formula rents convergence scenarios provides potential increases of 54,000 up to over 100,000

3.8 Capacity conversion: over initial period

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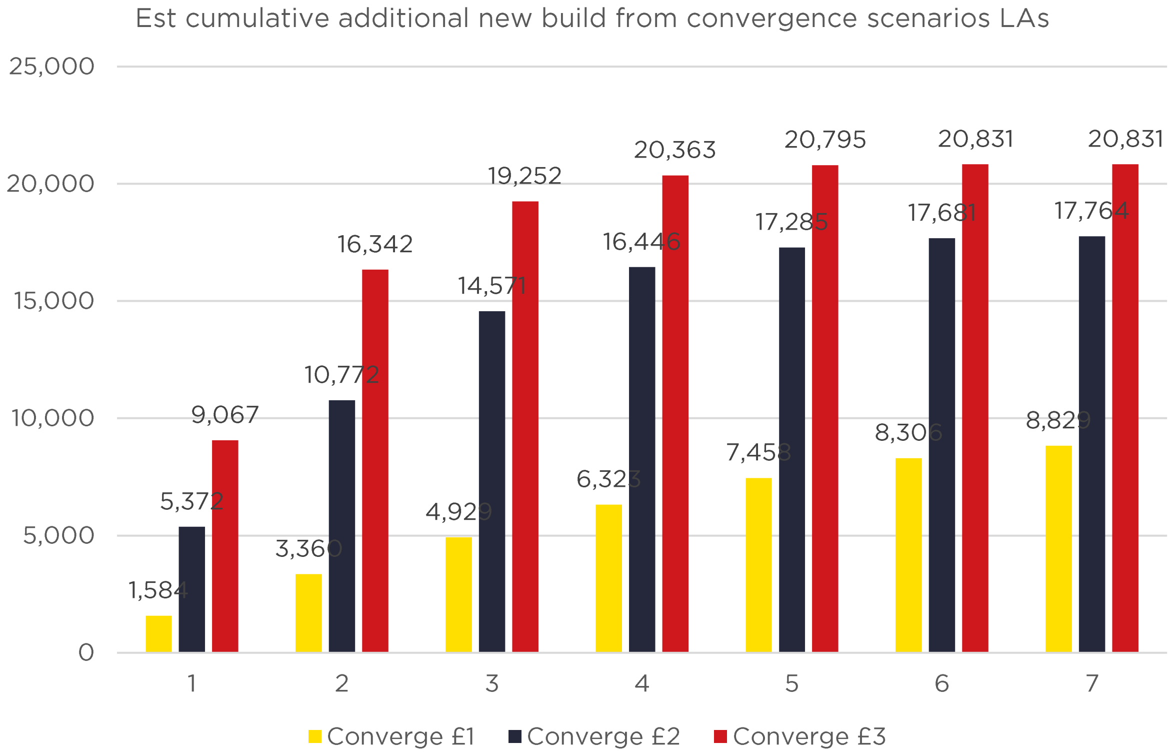

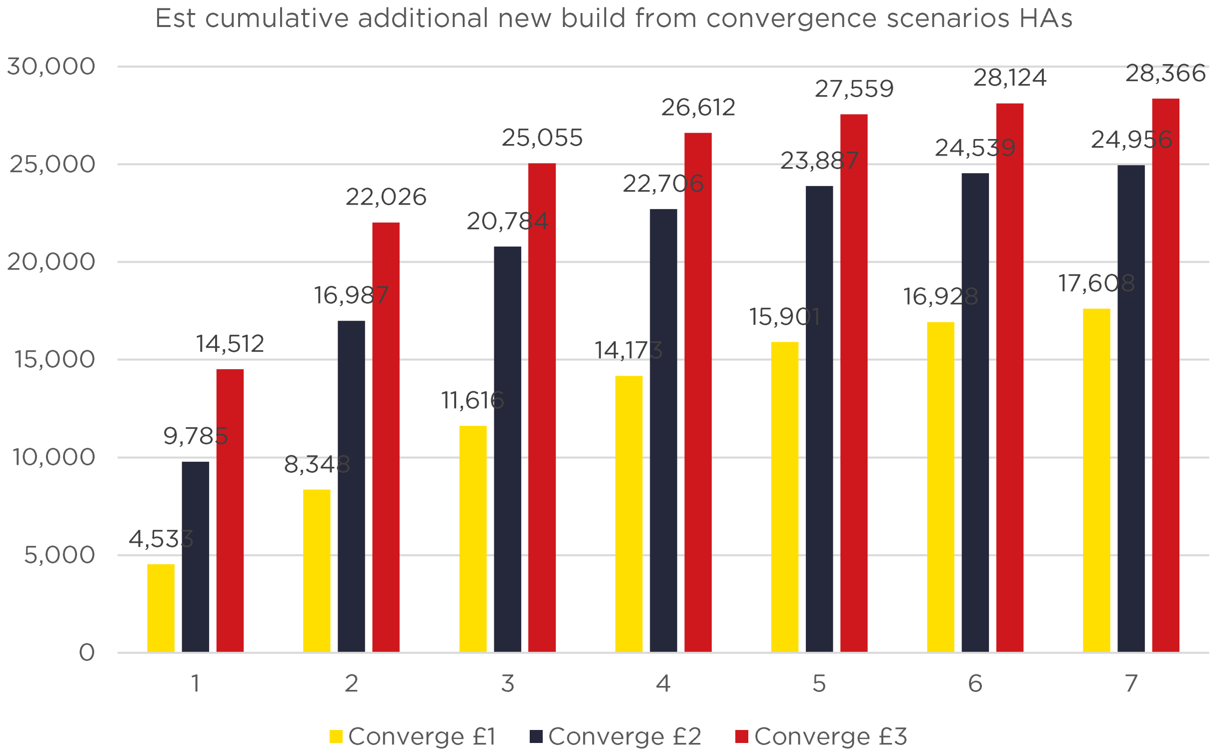

- The charts highlight the first seven years conversion of additional investment into new homes potential, based on the assumptions applied (referenced in the previous section 3.7)
- Projections represent a "central scenario" of £2 convergence on top of LAs and HAs reletting voids at formula rent, with local authorities reserving 30% of resources for asset management and housing associations reserving 17% of additional revenues for asset management
- Highlights the potential to significantly increase contribution to new homes in the early period (pre-2029/30) – for example for housing associations with £2 convergence, 91% of the 7-year total potential could be delivered in the first 4 years; for £3 convergence, this rises to 94% of the total additional potential homes deliverable in the first 4 years; consistent also for local authorities

4.1 Affordability: for tenants and residents

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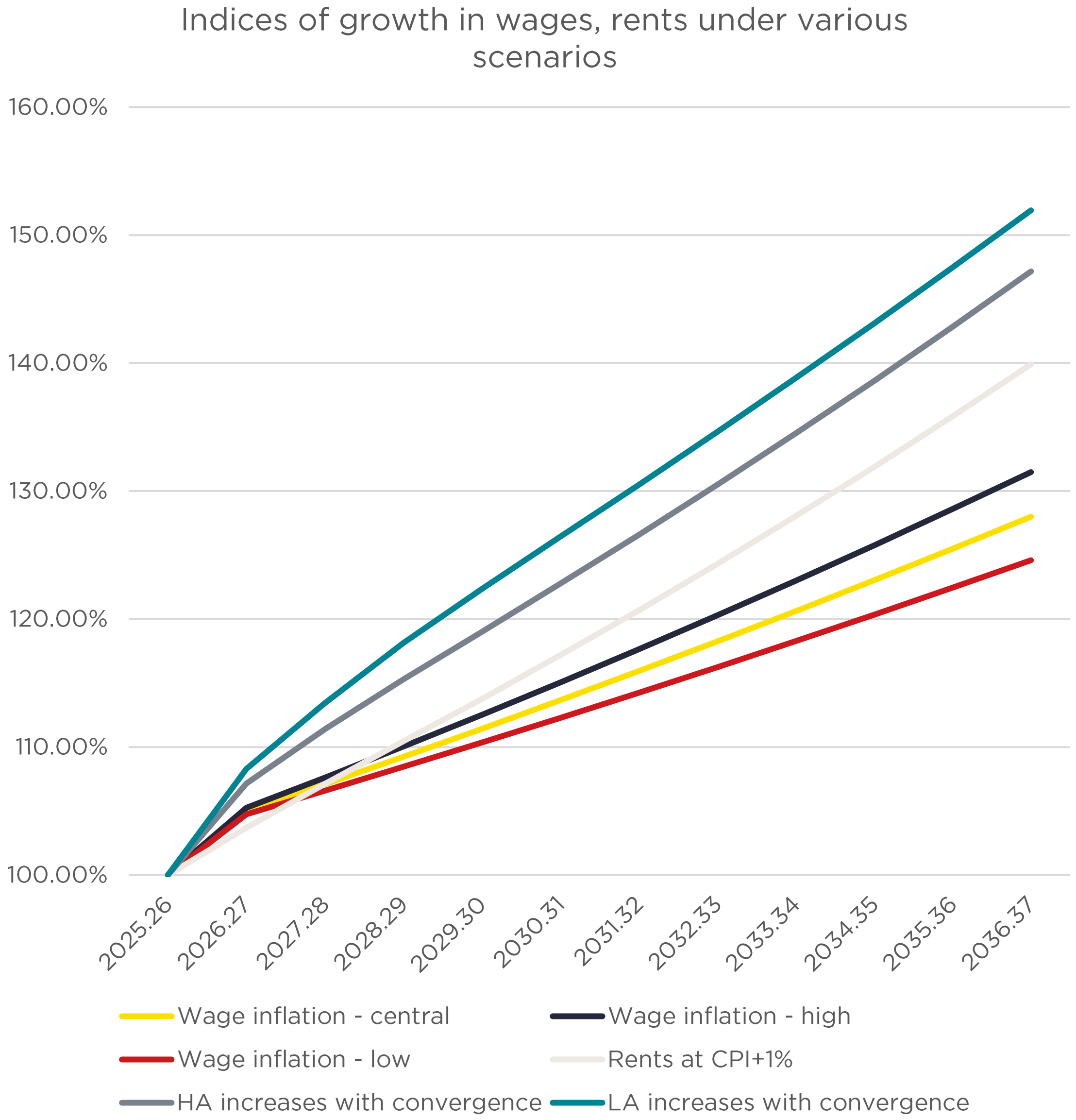
- Assessment of the affordability of rents increasing at a faster rate than wages inflation and/or housing benefit/UC thresholds
- As in previous iterations, drawing upon material from CIH (re HB) and NHF (affordability scenarios for household typologies)
- Comparing potential future wage inflation projections with increases in average rents under convergence scenarios
- Converting differential growth in wages vs rents into average £/week household pressure
- Highlights how rent affordability might change if wage inflation diverges from CPI+1% + convergence at different rates over the medium term

- Using 2025.26 as the base year, chart highlights growth in rents for HAs and LAs using £2/week convergence on top of CPI+1% increases compared to growth in wages on three measures: central, low and high
- Central wages projection based on OBR forecast: 5.0% in 2025 (July 2025) followed by 2.00% pa – high at 2.25% and low at 2.00%
- Since the last iteration, forecast wage inflation has reduced – from 2025-2029 at 2.0% (previously 2.25%)
- Over time, the combined impact of CPI+1% plus convergence on rent vs wage inflation at lower than CPI+1% implies rent growth faster than wage growth



AFFORDABILITY: TENANTS

4.2 Affordability: for tenants and residents

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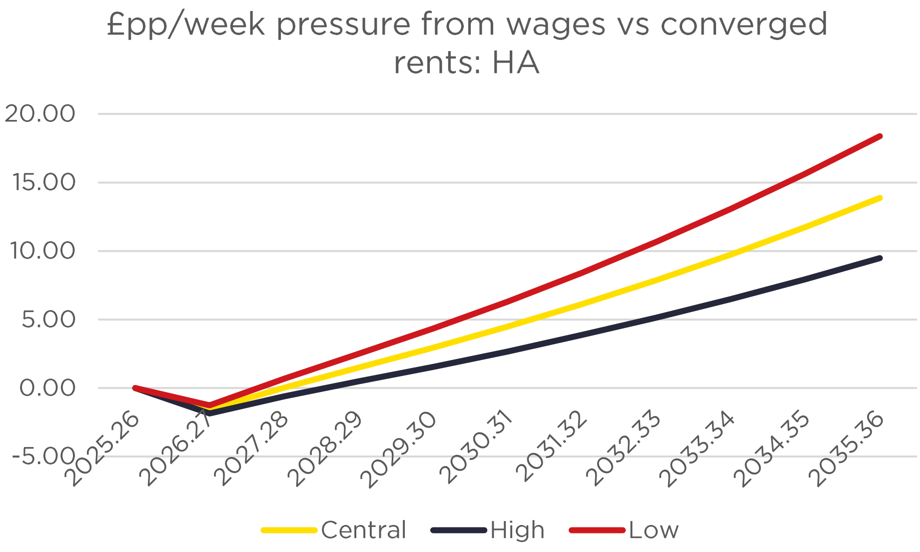
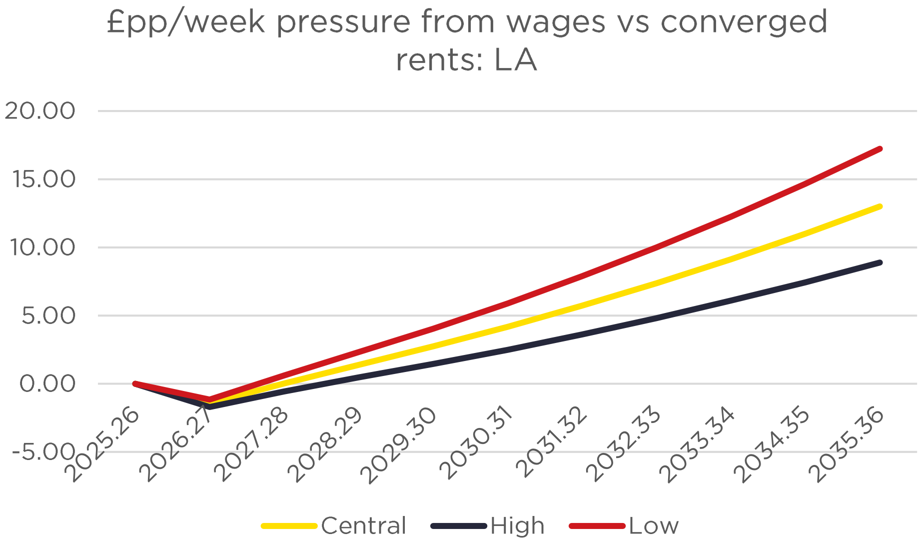
- Wage growth under central/low/high is compared to growth in rents with £2 convergence to estimate a £/week pressure
- The charts show that:
  - If convergence leads to rents rising at the rate set out, the central wage inflation forecast leads to approx. £10 / week additional income that needs to be found to meet higher average rents over time
  - This is principally driven by rents rising at CPI+1% (3% pa) and wages forecast at 2.00% pa
  - If wage growth is "stagnant" and is the equivalent of CPI, the implied additional affordability pressure is c£52/week by year 10; if wages increase at CPI+1%, the pressure is less than c£10/week
- However…
  - Higher convergence rents in the short-term are potentially able to be matched by higher than CPI wage inflation – indicating that affordability would not be fundamentally affected by convergence as the convergence-period is in the early years
  - The key driver for the longer-term pressure on affordability arises from CPI+1% being higher than wage inflation, not convergence





- The majority of social rents are covered by benefits of some kind
- On the basis that 65% of rents are covered by benefits and that 55% of tenants are fully covered…
- Affordability pressures are focused onto tenants paying some or all of their rent – partial payers will have rent increases covered by HB/UC
- For those paying their rent in full, the additional pressures arising from faster rent increases with convergence amount to less than £2/week by 2030 for less than half of tenants