Rent convergence analysis update
Resume

Chartered Institute of Housing

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Rent Consultation analysis: resume and summary

Introduction

The analysis work has been undertaken by Savills Affordable Housing for the Chartered Institute of Housing (CIH) working in association with trade body partners: the National Housing Federation, the Local Government Association, the Association of Retained Council Housing, the National Federation of ALMOs and the Councils with ALMOs Group.

The Government published a consultation on the future of Social Housing Rent Policy alongside the Budget on 30th October 2024, subsequently confirming in the spending review announcement on 11th June 2025 that rent increase policy would be amended to reflect maximum rent increases up to CPI+1% for 10 years from 2026 to 2036. Within the spending review announcement, the Government also confirmed that it was committed to a policy in which providers would be allowed to increase social housing rents to converge to formula rent levels over a specific period of time. A follow-up consultation was therefore issued on 2nd July setting out convergence options at £1 a week and at £2 a week. The consultation has a closing date of 27th August 2025.

When we undertook our previous work last year, we highlighted the impact that a convergence policy might have in addition to a policy of CPI+1% for 5-10 years. The various partners have commissioned this follow-up analysis in order to support their submissions to the latest consultation on convergence.

The work has been undertaken in July and August 2025. To adopt our previous approach, a detailed analysis is annexed to this summary setting out the bases, inputs, assumptions and outputs, with a detailed view on the potential implications of the convergence options discussed within the consultation document. This is supported by what we have analysed to be the key factors that affect the decision-making for the Government and for providers (both local authorities and housing associations).

This resume provides an overview of the key findings of the analysis.

The key proposal within the consultation is, where the actual rent for any property is currently below formula rent, to permit all providers to increase the rent by a set amount above CPI+1% annually until the rent reaches formula.

As most of the key issues relating to rent policy were addressed in the previous consultation process, the convergence options are limited to two: £1 a week or £2 a week. The Government has requested feedback from the sector on the potential additional investment in new homes that each of these convergence factors might produce, alongside any other factors felt relevant to the decision, particularly around what additional resources might be utilised for, and the affordability of rent increases to tenants.

The summary below covers an analysis for each of the two convergence options plus a third at £3 / week as proposed in the response to the previous consultation.

We have again framed the detailed rent analysis in the context of the wider financial position and sustainability of each sector, taking the opportunity to update our national projections for the Local Authority (LA) Housing Revenue Account (HRA) and Housing Association (HA) sectors respectively.

These updates have moved as follows from the previous iteration (in the response to the rent policy consultation):

- For HRAs: as a result of differential inflation applying to the early years with a slightly lower rate applying to revenue costs but adding an additional inflationary amount to future capital investment to take account of recent stock condition survey outputs, the current forecast is broadly in line with the previous forecast, a little weaker over the 10 year period but not materially so – only £2 or £3 convergence on top of CPI+1% rent increases for 10 years returns the sector to overall cumulative surplus; as a recap, there are no new build additions to the baseline sector forecast.

- For HAs: the base has been updated to the Global Accounts for 2023.24, then also updated to reflect a higher long-term cost of capital asset management per recent surveys, as well as an increase of 0.5% over CPI for operating costs; additional new build assumptions have been amended to reflect 60% social rent, 10% intermediate rent and 30% shared ownership; the forecast is therefore slightly weaker with an interest cover forecast of 123% by 2036 (compared to c131% in the previous iteration).

The work is intended to exemplify the additional income and therefore additional investment capacity arising from the application of a convergence policy on top of a stabilised rent policy of CPI+1% for 10 years.

A high level assessment of affordability is also made.

The analysis provides the basis for assessing the movement in average rents for both housing associations and local authorities under the different scenarios, which can then be converted into additional rent income that might arise from the implementation of different convergence policies, which in turn is applied against expenditure within each sector in order to derive the amount of additional headroom for new investment into new supply taking into account the likelihood that each sector would reserve some of the additional revenues for asset management of their existing stocks.

It should be noted that we have updated our treatment of future rent increases in relation to the wide-ranging policy of providers to relet voids at formula rents, in the following respect: our estimate of property combinations at the HA provider and local authority level suggests that a proportion of properties are above formula rent in 2025.26; these have now been modelled as receiving rent increases of CPI+1% (i.e. to stay above formula rent) irrespective of the convergence factor applied.

Details of these and all other technical inputs and assumptions are set out in the annex.

Summary of results: rent forecasts

By way of recap, for local authorities, the average rent in 2023.24 was £99.32 whilst the average formula rent was £105.06. The 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 compared to average formula rents increasing with CPI+1% at £157.85 by 2035.36.

Rent increases at CPI+1% + various convergence factors combined with reletting voids at formula rent would result in the following:

- £1 / week – c84p short of full convergence by 2035.36
- £2 / week – c13p short of full convergence by 2035.36
- £3 / week – broadly full convergence by 2035.36, within c31p by 2030.31.

For housing associations, the average rent in 2023.24 was £109.34 whilst the average formula rent was £112.11. The average "gap" between actual and formula rent was 2.47% (with no tolerances[1] added).

CPI+1% for rents over 10 years with no convergence would result in average rents of £164.28 compared to average formula rents increasing with CPI+1% at £168.43 by 2035.36 (excluding any tolerances).

- £1 / week – c43p short of full convergence by 2035.36
- £2 and £3 / week – full convergence by 2035.36, within a few pence by 2030.31 (though this implies as many below as above formula by that date).

It is noted that despite being closer to formula in overall terms, the number of properties within the HA sector that are well below formula is higher.

Summary of results: additional rent income

For both sectors, the total additional rent income over 10 years from convergence at the three various factors are set out in the tables below, the first line comparing the additional impact when providers are already reletting voids at formula rents, the second compared to a "no relet at formula" policy.

The term "no relet at formula" reflects a theoretical approach in which providers do not relet voids at formula rent, therefore allowing to draw out a comparison that shows the different convergence scenarios at £1, £2 and £3; the comparison is included for completeness as, in practice, all housing associations and most local authorities adopt a policy of reletting voids at formula rent, especially since the capped rent increases of April 2023.

[1] Tolerance refers to the ability to be able to relet properties at formula rent plus a tolerance up to a further 5%

Table 1: additional income from rent convergence LAs

Additional rent income from convergence scenarios	£1 / week convergence	£2 / week convergence	£3/ week convergence
Cumulative additional rent income 10 years	£1.863bn	£3.107bn	£3.587bn
Cumulative additional rent income 10 years – against a “no relet at formula” policy	£3.590bn	£4.934bn	£5.414bn

Table 2: additional income from rent convergence HAs

Additional rent income from convergence scenarios	£1 / week convergence	£2 / week convergence	£3/ week convergence
Cumulative additional rent income 10 years	£1.441bn	£2.163bn	£2.499bn
Cumulative additional rent income 10 years – against a “no relet at formula” policy	£2.317bn	£3.039bn	£3.375bn

Summary of updated national projections

CPI+1% rent increases for 10 years stabilise net rent income by 2035.36 (i.e. the national HRA position is no longer in annual deficit), though cumulative deficits to that point remain nearly £5billion.

If rent convergence applied for local authorities in which voids are relet at formula rent on top of CPI+1% increases and convergence for existing tenants applies at £3/week, this shows the potential for cumulative *surpluses* of up to £0.9billion by 2036.37, £2/week leading to *surpluses* of £0.4billion, potentially enabling all existing stock pressures to be addressed with some capacity for additional development.

These are the only scenarios in which the national HRA returns to surplus over the modelling period and de facto means that all additional income is committed to investment in the existing stock and service. However, the projected move to surplus takes effect from 2034 (or 2035), implying that deficits will need to be addressed by resources other than additional rent in the medium-term.

With convergence provided for, local authorities would return to surplus earlier with additional subsidy and support to address pressures on the existing stock. The injection of additional resources to address immediate and short-term deficits would release further capacity for investment into new supply at an earlier year.

For housing associations, CPI+1% rent increases for 10 years improves interest cover to 123% by 2035.36.

If rent convergence applied for housing associations in which voids are relet at formula rent on top of CPI+1% increases and convergence for existing tenants applies at £1/week, this lifts projected interest cover by 11% by 2035.36, a further 3% for £2/week and a further 1% for £3/week.

Summary of results: potential additional capacity

The estimates of additional rent income from the various convergence scenarios are relatively stable, though as set out above, do vary according to the underlying assumptions made in respect of reletting voids at formula rent.

How these convert into capacity for additional new supply depends on a key factor around the extent to which any additional revenues are reserved for investment into the existing stock (and/or services).

Note on DHS and MEES
We should not underestimate the impact of the proposed update to the Decent Homes Standard (DHS) and introduction of Minimum Energy Efficiency Standards (MEES) as set out in consultation documents running at the same time as the rent convergence consultation. The requirement to enhance investment into the existing stock arising from a) the introduction of new elements of the DHS such as floor coverings and increased safety and b) for the confirmed requirement to meet EPC C for all stock by 2030, as well as increased repairs pressures arising from the implementation of Awaab's Law, these are all likely to mean that providers across both sectors will need to allocate additional rental income towards asset management programmes.

We have modelled this as a fixed amount under a range of scenarios applying based on 50% of additional £1/week convergence proceeds being reserved in local authorities and 25% by housing associations. These proportions reduce to 30% and 17% respectively of additional revenues from £2/week convergence; 26% and 14% respectively of additional revenues from £3/week convergence.

Our core assumptions on new build are based on grant rates applying to a 60:10:30 tenure mix for social rent : intermediate/affordable rent : shared ownership (as set out in the annex) equating to approximately 40% of costs across all tenures, with costs updated to an average £280k/property including land rising with inflation over the 10 year period at CPI+1% and borrowing rates reflecting current trends in the HA sector (weighted at 4.25%) and HRAs (5.0%), PWLB borrowing costs being higher at this time given gilt rates.

These inputs are applied to the additional revenue generated under the various convergence scenarios and shown in the table below.

We have shown, for completeness, what this might look like if all additional income was allocated to new supply, although we believe from our work with partners and providers that this would be unrealistic.

We have also shown, for completeness, what the extra investment might look like against a projection where providers were not reletting voids at formula rent.

Table 2: additional new supply potential from additional convergence income

		Increases against relet at formula			Increases against no relet at formula	
		% reserved for asset mgmt	With % reserved for asset mgmt	No reserve for asset mgmt	With % reserved for asset mgmt	No reserve for asset mgmt
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

In overall summary, the estimate from a central scenario with £2/week convergence where LAs reserve 30% for asset management and HAs reserve 17% for asset management, is c. 43,000 new homes against a core plan that provides for relets at formula rent. This reduces to c. 27,000 or increases to c. 50,000 for £1 and £2 respectively.

It is highlighted that £2/week convergence gives a materially higher potential to add to new supply than £1/week, but £3/week does not materially increase potential over £2/week.

This is exemplified further when comparing the annual additional potential over the early years post 2026. **If we assume that £2/week convergence delivers 100% of the new supply potential over the first 7 years (total 43,000 in the table above), some 90% of this additional supply would be deliverable in the first four years** (ref 3.8 in the annex).

Affordability

We have again compared rent increases implied by changes to rent policy to projections of wage inflation over the next 10 years in order to arrive at a view on the impact on affordability to tenants over time. We have drawn upon updated material from the CIH (re housing benefit) and the NHF (affordability scenarios for household typologies) in comparing potential future wage inflation projections with increases in average rents under convergence scenarios. We have then converted differential growth in wages against rent increases into an average £/week household pressure. This highlights how rent affordability might change if wage inflation diverges from CPI+1% plus convergence scenarios over the medium term.

Central wage inflation is projected based on updated OBR forecasts: 2.7% in 2025, 5.0% in 2026 falling to 2.0% pa thereafter – we have modelled this plus or minus 0.25% annually for “high and low” scenarios.

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 2.0% pa.

If wage growth is “stagnant” and is the equivalent of CPI, the implied additional affordability pressure is c£12/week by year 10. If wage growth keeps pace with the rate of rent increases, the implied additional affordability pressures is c£4/week by year 10.

However, higher convergence rents in the short-term are potentially able to be matched by higher than CPI wage inflation for wages in the period, indicating that affordability would not be fundamentally affected by convergence as the convergence-period is in the early years.

Therefore, the longer-term pressure on affordability arises from CPI+1% being higher than wage inflation.

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. For those paying partial rent, increases are likely to be covered by their HB/UC payments. For the minority of tenants paying full rent, the additional pressures arising from faster rent increases with convergence amount to less than £2/week by 2030.

Annex: detailed presentation of analysis

Attached under separate document – see power point slide deck.