Foundations for the Future:

a new delivery model for social housing

Volterra

RIBA Architecture.com

Contents

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Foreword

The scale and complexity of England's housing crisis is stark, and the need for social homes is greater than ever.

Almost 1.3 million households are currently waiting for a home. In the meantime, local authorities across England spent £1.24 billion in the year up to March 2023 on reducing homelessness, including temporary accommodation.

For the vast majority of people experiencing housing insecurity, social housing is the only route through which an affordable, secure home can be accessible.

There is a clear financial and moral imperative to drive change forward.

Public sector provision is the only way to build social housing at the scale we need to meet the challenge we are facing. Historically, the private sector has not delivered the numbers we need under its own volition, and this is unlikely to change in the future. There is also no guarantee that the homes it did build would be high-quality, sustainable and affordable for those who need them most.

This report examines how the cost of social housing can be driven down using an innovative model. We propose using land which is free at the point of use to build mixed-tenure developments of social and market homes. As the land cost is eliminated or substantially reduced, the cost of delivery is driven down. When a proportion of the homes are sold on the open market, and all revenue is retained and reinvested, we can build more social homes at a lower net cost. While at some stage the amount of suitable publicly-owned land will be exhausted, this is some way off yet.

This model is based on several key assumptions. The first of these is that public land is used and valued at zero. The second is that mixed tenure developments are desirable, and lastly, that the sales receipts from the market homes are recycled to be used in the next tranche of development.

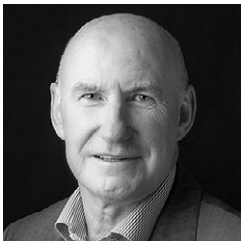
Our analysis shows that there is potential for the model to become partially self-sustaining in every region of the country. In addition, in creating both social and market homes, this mixed-tenure approach to development will foster integrated communities.

Housing delivery must be accompanied by the amenities and infrastructure communities across the country need to thrive – public transport links, green space, and access to retail, community, and civic life. Achieving this on a broad scale requires an overhaul of how we think about, resource, and understand the creation of the built environment.

This model is just one piece of the puzzle. We also know that issues such as remediation costs, build costs and regional variations will affect viability, and remain aware of the challenges that these factors pose. But through this model and this report, we show how we can reallocate resources to help to create a new generation of social homes, all while cutting costs elsewhere.

We also know that there is a lot of flexibility in how this model could be applied. We hope that by demonstrating a different approach to housing delivery, we can encourage others to imagine and bring to life new methods of delivery – whether by building on our model or through complementary initiatives.

This is a time of huge opportunity for our sector to work with the Government and meet the challenges we face head on.



Jack Pringle
Chair of the Board of Trustees
RIBA

Agar Grove Phase 1b © Jim Stephenson

Executive summary

There is a housing crisis

For years, we have failed to meet our housebuilding targets. Over the last decade, **average delivery has been 28% below the target of 300,000 new homes per year.**[1]

This is particularly critical for social homes

The need for social homes is greater than ever.[2] With **almost 1.3 million households on local authority waiting lists, nearly 5% of all households in England are waiting for a home**. This is the highest it has been since 2014.[3] Research has identified that 145,000 new affordable homes are needed per year.[4] On average, 52,200 affordable homes have been built each year over the last decade, totalling just 36% of identified need.[5]

Existing models aren't working

Existing models to fund new social housing are not working. Right to Buy has led to the sale of approximately 118,000 homes between 2012/13 and 2022/23, but it has only funded the delivery of 41,000 new homes over the same time – considerably below a one-for-one replacement.[6] Without increasing the number of social homes, stock will continue to fall.

We need a new model of delivery

This report proposes a new model to build high-quality homes on sites which are free to the public purse at the point of use. The model assumes that land used is owned by local authorities or otherwise free to build on, so is provided at zero cost. Therefore, the only cost is the construction cost of building new homes. By building **mixed-tenure developments** made up of **both social and market homes**, when the market homes are sold, **all revenue is retained and reinvested to build more homes**.

The model can vary depending on the sites available and market factors, but analysis conducted for this report suggests that it **becomes almost self-sustaining**.

Build 200 homes initially, reinvest all proceeds, and deliver up to 2,045 homes by year 10 with no additional capital expenditure

Here follows an indicative example of how the model would work. Central government funds are allocated in the South West of England **as an initial investment to cover the cost of building 200 homes.** 50% of these are sold to the market, with all revenue reinvested to build more homes.

As further homes are built, 50% are sold to the market to retain an income stream. Based on this, **after 10 years a total of 2,045 new homes will have been built, of which half are social homes**. These numbers vary depending on the region of interest, but this example shows how this model could be trialled and then replicated elsewhere.

We spend £1.24 billion a year on reducing homelessness – which could deliver 23,105 new homes over 30 years

Between April 2022 and March 2023, local authorities in England spent £1.24 billion on reducing homelessness, including temporary accommodation.[7]

To illustrate how else this could be spent, this example assumes a one-off investment of £1.24 billion by central government. This initial expenditure is split by region to deliver an equal number of homes. All profits from the sale of homes on the open market are then reinvested by the local authorities to build more housing stock.

With this initial investment, and a 50% initial sell off and 25% ongoing sell off to the market, 23,105 homes are delivered over 30 years (15,550 social rent homes and 7,555 sold to the market).

Delivering £2.23 of social value for every £1 invested

Calculated using findings from the Centre for Economics and Business Research (CEBR)[8] on the wider benefits of getting households into social housing, and guidance from the Green Book,[9] we estimate these wider benefits would deliver a 30-year Net Present Value (NPV) of £2.76 billion.

This gives a social return on investment (SROI) of £2.23, meaning for every £1 invested, £2.23 worth of social benefits are delivered. This figure only includes the wider benefits of delivering social homes: including wider economic benefits would further increase this return.

Recommendations

RIBA recommends that the Government:

1. Commits to piloting the model outlined in this report to deliver new, urgently-needed housing for social rent and for market sale.
2. Works with the housing sector to examine how this model could be adapted to facilitate the further delivery of social homes.
3. Ensures that architects are involved in the delivery of social housing to deliver high-quality, sustainable homes.
4. Comprehensively resources local planning authorities so that all local authority housing delivery benefits from qualified design expertise.
5. Examines how local authorities can retain and reinvest all proceeds from the sale of local authority-owned stock.
6. Ensures that the delivery of new homes is accompanied by the necessary amenities and infrastructure to create well-connected, healthy and well-designed places.
7. Introduces post occupancy evaluation (POE) as a mandatory requirement to support the continuous improvement of new homes.
8. Ensures that publicly-owned land is used for delivering public good.

Eddington Lot 1 North West Cambridge © Jack Hobhouse

Introduction

This report sets out a vision to create a pipeline of new social housing, reducing the need for continuous central government funding.

By using land which is free at the point of use, such as local authority-owned land, and an initial upfront investment from central government, the model becomes almost self-financing.

The model suggests building mixed-tenure developments where a proportion of homes built are sold at market price. Receipts from these sales are then used to build subsequent tranches of social rent and market sale homes. As market sale homes are delivered by the public rather than private sector, all profits on their sale can be reinvested into a further pipeline of new homes.

Purpose of this report

In recent months, several other reports have been published on the topic of housing delivery and the benefits of social housing. This report does not seek to replicate findings which have been presented within those reports. Instead, it adds further value by presenting an indicative model for how local authority-led housing delivery may be delivered in a financially sustainable way, reducing the need for long-term centralised funding for social housing and other costs associated with acute housing need.

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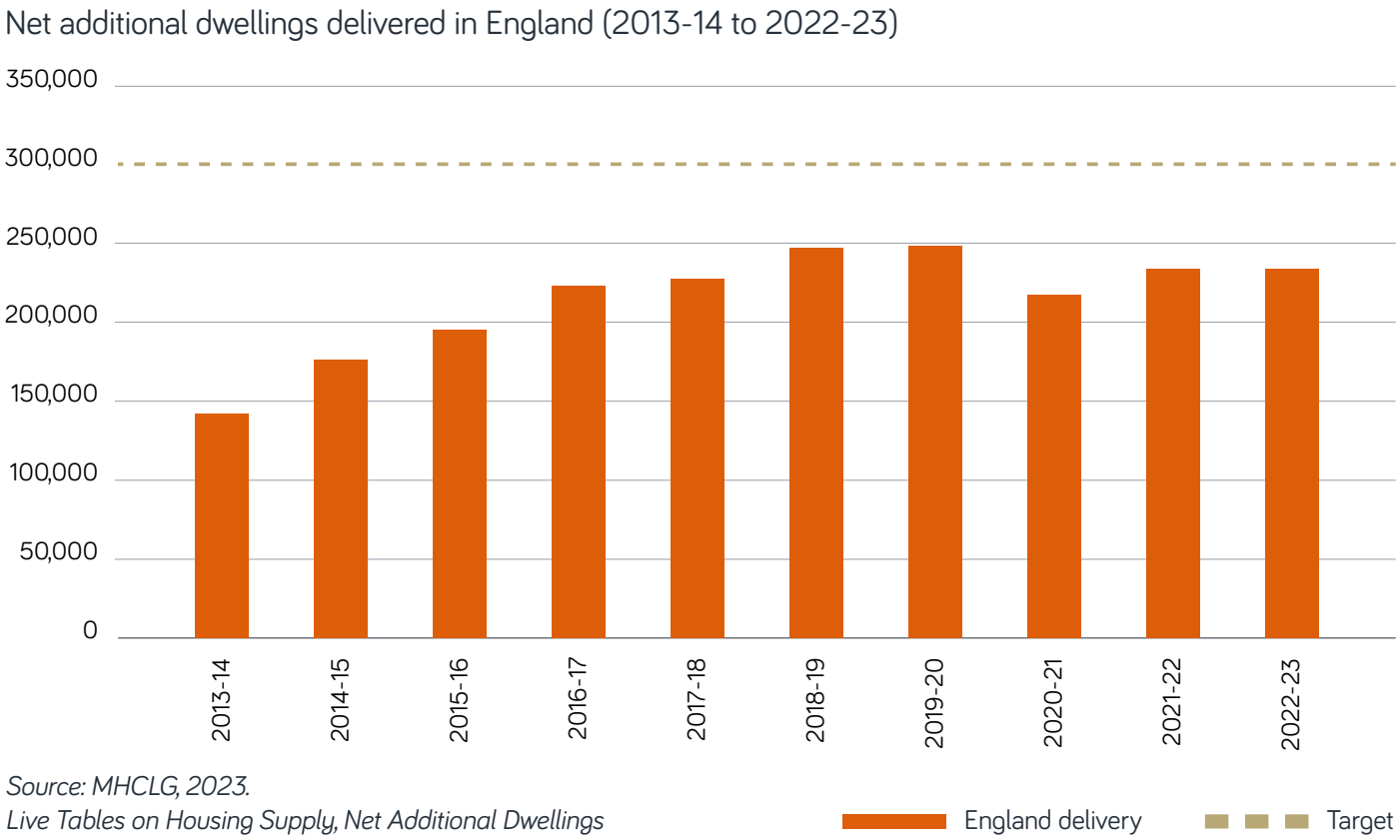
The need for new housing

Despite government ambitions, the past decade has not seen housing supply meet desired levels.[10] Over the last 10 years, total housing delivery has averaged approximately 215,000 net additional homes per year. This is 28% below the target delivery of 300,000 net additional homes set out in the 2019 to 2024 Parliament. Delivery peaked in 2019-20 at 249,000 net additional homes (**Figure 1**).

Figure 1: Progress has been made towards the target of 300,000 new homes per year, but it has not been met

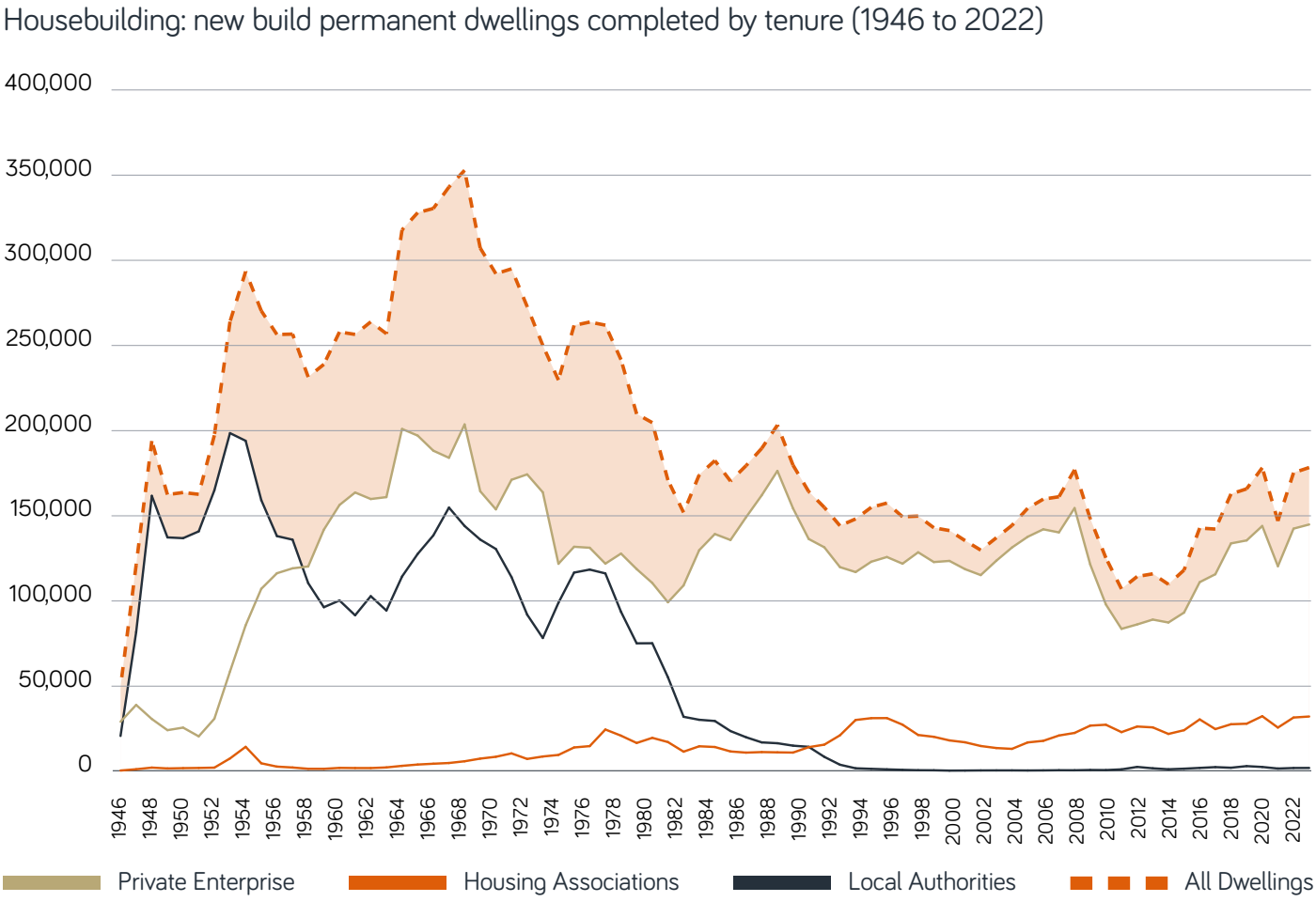


Source: MHCLG, 2023.
Live Tables on Housing Supply, Net Additional Dwellings

Historically, housing need has been met by local authorities, private enterprises and, more recently, housing associations. Local authority housing delivery peaked at just under 200,000 completions in 1953. This delivery had fallen to 115,000 completions by 1977, before a sharp and continued decrease down to 1,420 completions in 1993. Delivery of social housing by local authorities has been negligible since the mid-90s (**Figure 2**).

Completions by local authorities have remained roughly at this level (ranging from 50 to 2,690) in the subsequent decades. The proportion of homes provided by housing associations has been unable to offset the loss of local authority homes.

Figure 2: While new build housing delivery has grown in the last decade, it remains well below peak levels seen in the late 1960s. Local authorities' direct contribution to delivery has fallen from a peak of almost 200,000 homes per year in 1953 to fewer than 30,000 per year for the last 40 years.



Source: MHCLG, 2023. Table 244 Housebuilding: permanent dwellings started and completed by tenure, England, Historical Calendar Year Series

Key Worker Housing, Eddington, Cambridge © Jack Hobhouse

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The need for social homes

Research commissioned by the National Housing Federation (NHF) and the charity Crisis and produced by Heriot-Watt University identified a need for 145,000 new affordable homes per year. This is comprised of 90,000 homes for social rent, 30,000 for intermediate rent and 25,000 for shared ownership each year in England up to 2031.[11]

As illustrated in **Figure 3**, current delivery of affordable housing across England is falling significantly short of this need. Average annual affordable housing delivery (52,200 over the last decade) has only made up 36% of the annual identified need during this period.[12]

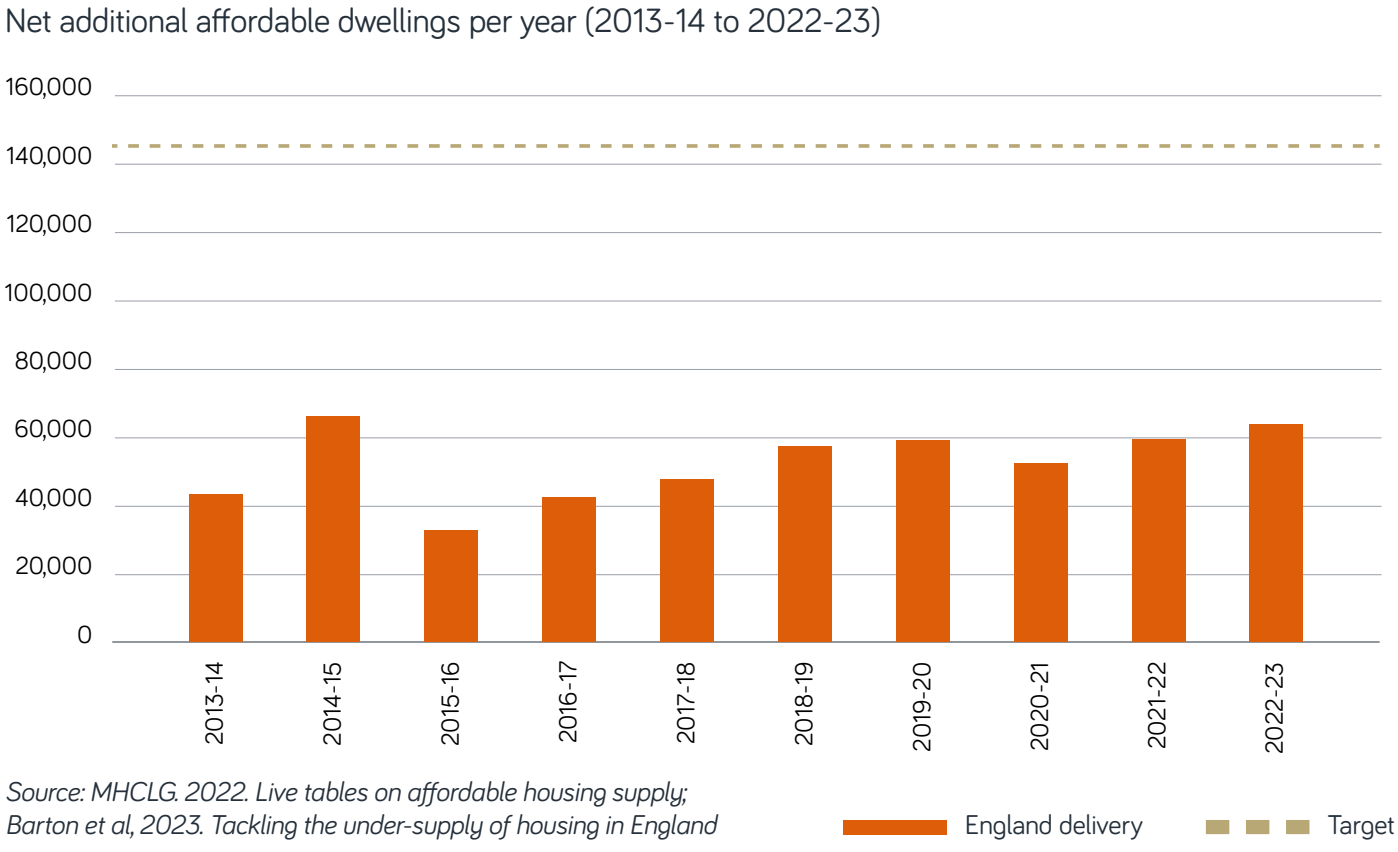
As of 2023, the total number of households on local authority waiting lists across England is 1,287,180. This is the highest level since 2014, with London in particular seeing a notable rise in recent years.[13] London now accounts for 25% of all those on housing waiting lists nationally, having risen from 19% in 2014.

In June 2023, the number of households in temporary accommodation was 105,750.[14] Between April 2022 and March 2023, reducing homelessness, including temporary accommodation, represented approximately £1.24 billion net expenditure across local authorities in England.[15]

As of 2023, **1.3 million households** in England were on local authority waiting lists

Reducing homelessness cost local authorities across England **£1.24 billion** between April 2022 and March 2023

Figure 3: Affordable housing delivery in England consistently falls short of need per year



Source: MHCLG. 2022. Live tables on affordable housing supply; Barton et al, 2023. Tackling the under-supply of housing in England

3

Key considerations

The model outlined in this paper is simple – it proposes that local authorities deliver new homes on land with no land cost attached, such as land that they own, sell some homes to the market to create an income stream, take no profits and reinvest all proceeds to deliver more homes. All homes not sold to the market are retained as social homes.

This section considers the key underlying assumptions required for this model to work. First, it looks at land cost and availability, then the cost of building new homes, and the likely market value of those homes once sold. The final subsection outlines the underlying principle that delivering social homes is a good thing. It illustrates the many benefits accrued to the Government, individual households and society as a result of having a sufficient supply of high-quality social housing.

Land costs and availability

A key assumption in the model is that the houses are built on land which is free at the point of use. This will be comprised of land such as that owned by local authorities, although there may be scope for other land to be used without an attached cost. There would clearly be an inherent opportunity cost of using land for this purpose, but no capital costs to purchase the required land.

Looking at the Ministry of Housing, Communities and Local Government's (MHCLG) brownfield land register as an example of some available land, there is sufficient land available across all regions for the model to be viable.

Cost of building new housing

As local authorities would deliver the housing stock, the proposed model does not account for profit, which is typically found in private building models, and the cost of land is also removed. This leaves solely the construction cost of delivering new homes.

This report uses the methodology outlined in a report by the NHF to estimate land cost, works cost, and on-costs for all regions of England except London.[16] For London, information from the London Assembly (uplifted to current prices) is used and then compared to the estimates for the other regions.

This approach results in estimated build costs per home ranging from £133,500 in the South West to £220,000 in London. Key to the model is the difference between the cost of building homes and the sale price of homes.

A particular advantage of this model is that depending on construction cost, selling a particular percentage of market sale homes from one tranche of delivery may fund the entirety of the next tranche, therefore reducing overall cost.

Build cost versus revenue from sales

In most instances, the market value of new homes is considerably higher than the build cost, because land and profits are excluded. Analysis shows that in each region, for every market home sold, more than one new home can be built.[17] **Table 1** (below) shows the number of new homes that can be built for every market home sold at the median market rate in the region, assuming all proceeds are reinvested.

The table shows that the difference between build cost and market sale value is lowest in the North West, where the proceeds from the sale of one market home would pay for the construction of 1.4 new homes. Conversely, the highest difference between build cost and market sale value is in the South West, where each home sold at market value pays enough to build 2.8 new homes.

Table 1: Number of new social homes which can be built for each market home sold at median market rate (by region)

Region	Number of new social homes built for every market home sold
East	1.8
East Midlands	1.8
London	2.7
North East	1.9
North West	1.4
South East	2.2
South West	2.8
West Midlands	1.9
Yorkshire and The Humber	1.7

Source: Volterra analysis

Benefits of social housing

A sufficient supply of high-quality social housing provides many benefits to the Government, individual households and society. Recent research by the CEBR on behalf of Shelter and the NHF estimates that a one-off immediate build of 90,000 social homes would generate an estimated £51.2 billion NPV of positive economic and social impact over a 30-year period.[18]

Of these benefits, 56% are economic benefits delivered through the construction and ongoing management of the social homes, 8% are direct benefits to the Exchequer, and 36% are indirect benefits to the Exchequer and wider society.

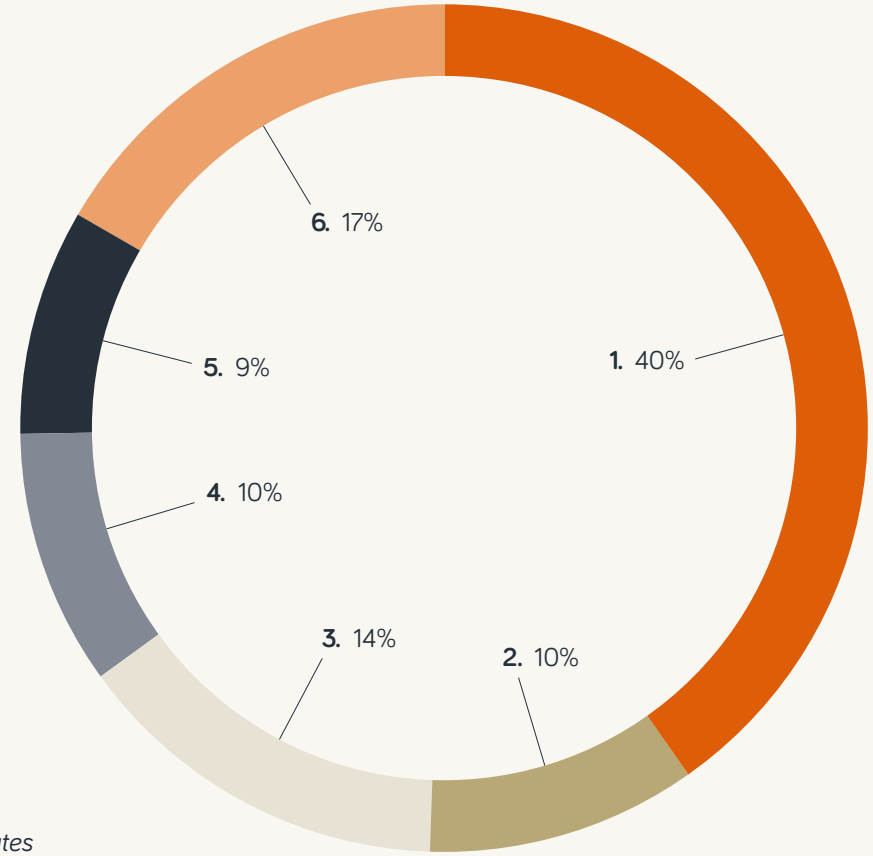
The study analyses the following indirect economic benefits to the Exchequer and wider society:

- increased employment and associated tax revenue
- reduction in homelessness and expenditure on temporary accommodation
- reduced universal credit expenditure
- reduced crime and reduced expenditure
- improved healthcare outcomes
- improved educational outcomes due to lower levels of disruption.

Figure 4: Moving households into social homes delivers wide-ranging benefits.

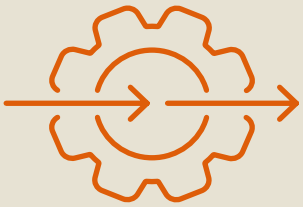
Distribution of the indirect economic benefits to the Exchequer and wider society from building 90,000 social homes.

1. Employment and tax revenues
2. Universal Credit
3. Reduced homelessness
4. Lower crime
5. Education
6. Healthcare



Source: Volterra analysis, based on CEBR estimates

The Colville Estate © Jack Hobhouse



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Modelling inputs and outputs

The following section presents various scenarios of the model, with each altering some of the key parameters. The input parameters are:

- **Region** – this impacts the build cost and revenue from the sale of each home.
- **Initial homes built out** – this impacts the initial funding required and the total number of homes deliverable over the period.
- **Appraisal period** – the number of years that the model is assessed over.
- **Initial sell off percentage** – percentage of initial homes that are sold to the open market to fund the next tranche of homes.
- **Annual sell off percentage of all subsequent homes built** – percentage of subsequent homes that are sold to the open market to fund the next tranche of homes.

Beyond these variables there are several fixed assumptions that are constant in underpinning the model:

- The land used is free at the point of use, so the costs for building a new home exclude land costs.
- Local authorities retain 100% of the capital receipts from sales of housing.
- Local authorities do not have a cap for what proportion of costs can be covered by retained receipts.
  - In fact, it is assumed they have no other access to funds (apart from the initial central government grant), and the receipts are used in their entirety to build more homes.
- Local authorities spend the capital receipts immediately, but there is a three-year lag between when money is received and when the new homes are delivered to the market.
- Social rent is affordable for prospective tenants.
- House price inflation will follow the historic regional trend for new homes; and
- Build costs/construction inflation will follow the historic national trend for new housing work.

The following are examples of how the model could work based on changes to the input parameters. By changing the region, how much is sold off immediately, and the ongoing sell off, the outputs are different. While at some stage, the amount of suitable land which is also free at the point of use will be exhausted, this will not be the case in the near future.

Example scenarios one and two show that with a relatively small upfront initial cost, using land which is free at the point of use and reinvesting profits can result in a significant number of new social homes and homes available for market sale.

As the parameters change, the number of homes delivered changes. These examples are intended to demonstrate two situations where this model could be feasible and then scaled more widely.

Example scenario one – South West

This first scenario presents an example for the South West. Based on the availability of land and the relative affordability of market sale homes due to higher incomes, this is one of the regions most well-placed to support an initial trial of the model.

In this example, the Government provides funding for 200 homes to be built on land which is free at the point of use. Of these 200, 50% are sold off immediately to the market with all of the proceeds being reinvested to build more homes. Each time more homes are built, 50% are sold to the market to deliver a continual funding stream over a 10-year period.

Table 2 shows that with the exclusion of land costs, building 200 homes in the South West would cost £26.8 million. Using a 50/50 social rent and market sale split, over a 10-year period 2,045 homes could be built overall, with 1,020 homes each available for social rent and to be sold to the market. Over the 10-year period, the cost per home will reduce from £134,000 per home in year 1, to just over £13,000 per home in year 10.

IN THIS EXAMPLE

Initial funding - £26.8 million

Initial build out – 200

Initial sell off - 50%

Repeating sell off - 50%

Table 2:

Initial homes built out	200
Of which social homes available for rent	50% (100 homes)
Initial funding	£26,800,000

Year	1	3	5	10
Number of social homes available for rent	100	230	410	1,020
Number of market homes sold into the open market	100	230	410	1,020
Total homes available by the end of year X	**200**	**465**	**820**	**2,045**

Note: Figures may not sum due to rounding

- Total homes available
- Number of homes available for market sale
- Number of homes available for social rent

Example scenario two – North East

This second scenario presents an example for the North East. In this example, the Government provides funding for 200 homes to be built on land which is free at the point of use. Of these 200, 35% are sold off immediately to the market with all of the proceeds being reinvested to build more homes. Each time more homes are built, 50% are sold to the market to deliver a continual funding stream over a 10-year period.

Table 3 shows that building 200 homes in the North East, excluding land costs, would cost £31 million. By selling 35% off immediately to the market from the first tranche, then 50% of each subsequent tranche, over a 10-year period 640 homes could be built overall. This would be comprised of 350 homes available for social rent and 290 homes to be sold on the open market. Over the 10-year period, the cost per home will reduce from £155,000 per home in year 1, to just under £48,500 per home in year 10.

IN THIS EXAMPLE

Initial funding - £31 million

Initial build out – 200

Initial sell off - 35%

Repeating sell off - 50%

Table 3:

Initial homes built out	200
Of which social homes available for rent	65% (130 homes)
Initial funding	£31,000,000

Year	1	3	5	10
Number of social homes available for rent	130	190	245	350
Number of market homes sold into the open market	70	130	185	290
Total homes available by the end of year X	**200**	**325**	**435**	**640**

Note: Figures may not sum due to rounding

Example scenario three – investing in homes across the country

The third scenario tests a hypothetical example where a one-off investment of £1.24 billion in building new homes is made. This sum of money is chosen because it is the annual net expenditure spent on reducing homelessness, including temporary accommodation.

This scenario assumes that the funding is split so that the same number of initial homes are constructed in each of the regions, with a 50% initial sell off and 25% ongoing sell off to the market. **Table 4** (below) presents these results aggregated to the national level over 30 years.

In this scenario, over 10 years 13,475 homes available for social rent are delivered and over 30 years 23,105 homes are delivered (15,550 social rent homes and 7,555 sold to the market).

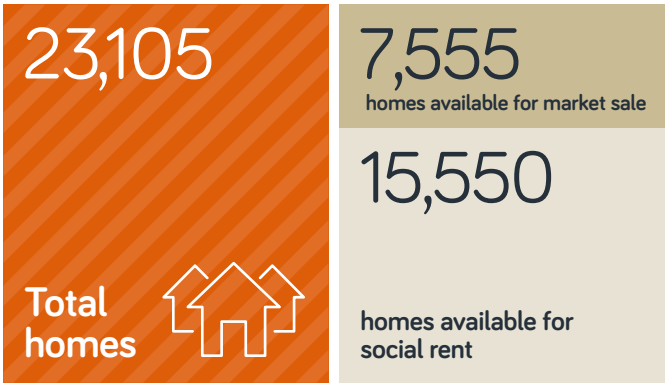
If the wider benefits estimated by the CEBR study for Shelter and the NHF are taken and attributed only to the social homes delivered, the benefits (30-year NPV) would be £2.76 billion. Converting the costs and benefits to the same base year and discounting appropriately, this would give a SROI of over £2.23 billion for the initial £1.24 billion investment. This means for every £1 invested, £2.23 of wider benefits would be delivered.

This deliberately only focuses on the wider benefits of creating new social homes. It excludes other benefits such as jobs and economic activity which would be supported by construction and increased return from delivering market sale homes.

Table 4:

Year	1	3	5	10	20	30
Number of social homes available for rent	3,560	8,610	11,195	13,475	15,015	15,550
Number of market homes sold into the open market	3,560	5,240	6,105	6,865	7,380	7,555
Total homes available by the end of year X	**7,120**	**13,850**	**17,295**	**20,340**	**22,395**	**23,105**

Note: Figures may not sum due to rounding



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Further considerations

The purpose of this report is to demonstrate that a simple financial model kickstarted by an initial investment from central government can become almost self-sustaining. This would significantly contribute to the delivery of new homes, and particularly social homes, to address the housing crisis.

The model outlined in this report is indicative of what could be achieved within specific parameters and has the potential for flexibility. Other bodies, such as housing associations, may be able to take elements of the model and adapt them to allow for further delivery.

This theoretical model shows that a more sustainable approach to local authority-led housing delivery can be achieved. While outlining the financial model is the key aim of this report, this final section briefly sets out further areas of policy change that would help to make the model a success.

Policy considerations

Several new policy mechanisms and approaches would be required to enable this model to be reach its full potential.

For example, a mechanism would be required to allow local authorities to retain and fully reinvest all proceeds from the sale of homes on the open market. There is existing research from the Local Government Association which includes a similar ask: calling on the Government to allow local authorities to retain 100% of receipts from Right to Buy.[19]

The concerning financial situation being experienced by local authorities across the country may have implications for the viability of the model in some places. Significant reductions in spending power combined with additional demand for services has led to a funding gap estimated at £4 billion over the next two years.[20] As a result, some local authorities may prefer to maintain reserves of land to help "balance the books". Funding shortfalls also impact local authorities' ability to develop land in other ways – for example, most local authorities do not have the resources nor in-house expertise to directly deliver the construction and maintenance of major projects, including housing.

While this report does not have the scope to examine these issues in detail, local authorities must be allocated significant investment from central government to deliver the high-quality, sustainable homes and places we desperately need.

It is also worth considering the impact of political opposition to new development being brought forward. Where there is a high degree of opposition to development on a local level, this could create a challenge in terms of the willingness of local authorities to use the model. This may also result in further costs to facilitate community consultation to attempt to understand and mitigate opposition to development.

Structural considerations

Variability in the outputs of the model is dependent on several structural factors. While fully examining the implications of the below considerations is outside the scope of this report, central and local government would need to be aware of the potential for significant differences in outcome.

Affordability

For most social tenants, purchasing their homes under the Right to Buy scheme remains unaffordable. As such, the model does not explicitly assume any purchase of homes by tenants under the current Right to Buy policy. However, theoretically this could still occur if a tenant was able and interested in the purchase of their social home.

Viability

The model is presented at a high geographical level and all costings are averages. In practice, there will be site-specific nuances to take into consideration when looking at viability. While not exhaustive, some key viability considerations are:

- **Regional variation:** In areas where low sale value already impacts the viability of schemes, including reducing affordable housing delivery, similar viability challenges may impact delivery via this model.
- **Remediation:** The extent of land remediation needed to make a site suitable for development would impact viability. For sites that require extensive remediation, viability and as such, delivery, will be lower.
- **Build cost:** There may be areas where build cost remains higher than the final market value of the home, rendering viability challenging.

Appendix 1

Region	Cost of build per home	Revenue per home (True market rate median)	House price inflation	Construction inflation
East	£209,409	£384,998	6%	4%
East Midlands	£162,032	£294,995	6%	4%
London	£219,960	£602,000	5%	4%
North East	£155,003	£293,473	6%	4%
North West	£159,760	£218,000	6%	4%
South East	£215,192	£478,000	5%	4%
South West	£133,885	£380,000	5%	4%
West Midlands	£158,093	£302,498	6%	4%
Yorkshire and The Humber	£151,772	£262,995	6%	4%

References

1 Ministry of Housing, Communities and Local Government (MHCLG), 2023. Live Tables on Housing Supply, Net Additional Dwellings.

2 Social homes refers to accommodation at rents below market rates and let to people whose needs are not adequately served by the commercial housing market. This is typically owned and managed by local authorities or private registered providers for which target rents are determined through the national rent regime. MHCLG, 2019. Housing statistics and English Housing Survey glossary.

3 Office for National Statistics (ONS), 2023. Live Table 600: Local Authority Waiting Lists.

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5 Affordable housing includes Social Rent, London Affordable Rent, Affordable Rent, Intermediate Rent, Shared Ownership, Affordable Home Ownership, First Homes. MHCLG, 2023. Live tables on affordable housing supply.

6 MHCLG, 2023. Live Table 693a: replacements of Right to Buy sales, by local authority.

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14 MHCLG, 2023. Statutory homelessness in England: April to June 2023.

15 MHCLG, 2023. General Fund Revenue Account Outturn – RO4 Housing Services 2022-23.

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17 Based on the current system of Right to Buy it is estimated that there has been approximately a 3:1 ratio of social homes sold to social homes built – this means for every three social homes sold, only one is built. By definition this means that without further intervention, the stock of social homes will continue to decline. By contrast, Table 1 shows that in every region in the UK our model estimates that more than one new home could be built for every one sold, indicating a more sustainable long term approach to increasing the stock of social homes.

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