SPOTLIGHT
Savills Research

Equity Investment in Affordable Housing

A Diversifying Sector ● Opportunities for Growth ● Pressure on Housing Associations

The role of equity investment in affordable housing

For-Profit Registered Providers have continued to grow their portfolios in recent years. They now own an estimated 43,100 homes and this could exceed 150,000 homes by 2030.

Alongside continued expansion, the sector is maturing, with increasing interest from a variety of investors and sources of capital. There are a range of approaches emerging amongst investors. Some are choosing to register new FPRPs, some are purchasing existing entities and others are lodging funds with investment managers who already have a platform in the sector.

There is a clear ambition from investors to scale up their portfolios within the sector and create secure, long-term income streams. At a time where housing associations are increasingly looking inwards and allocating resources to their existing homes, this investment could be really beneficial in helping to meet demand for affordable housing. This could either be by investing directly in new homes or by taking on investment into existing homes and releasing capacity for housing associations, or as we are finding, both of these.

But there are barriers to reaching these ambitions, largest among them the level of funding subsidy available from Government to help build affordable homes. Alongside this, a lack of clarity on some policy issues as well as on the ability of landlords to increase their rents at least in line with inflation appear to be the main reasons for caution from investors.

If the Government is to meet its target of delivering 1.5 million homes over this parliament, there will need to be a significant increase in affordable housing delivery. It will be essential to put in place a policy framework within which fund managers and investors have the confidence to invest over the long-term.

Equity investment and housing association funding models are not, and have never been, mutually exclusive. The two groups have already begun to develop meaningful partnerships to support the delivery of new homes. Our research suggests that the range of funding and delivery models will continue to develop and diversify, and a key impact for the traditional housing association sector will be diversification in the range of partnerships and partnership models.

Contents

We surveyed FPRPs between the 20th March and the 16th April 2025 to understand their views on the market, preferences on stock they will invest in, and ambitions for growth. Our respondents represented ownership of an estimated 80% of the homes in the FPRP sector. We also conducted a series of interviews with FPRPs and HAs. We would like to thank all our respondents and interviewees for their time in helping us put this paper together.

A growing and diversifying sector

Who are the investors and what do they want?

For-Profit Registered Providers (FPRPs) now own at least 43,100 affordable homes, according to our analysis, 1.0% of all affordable homes. Existing FPRPs and their owners have ambitions to reach 150,000 homes by 2030.

There are currently 80 FPRPs, with 11 new registrations in the last year. Ownership within the sector remains concentrated amongst larger players: seven of these registrations were by two parent organisations, L&G and Sage, who now own nine and five FPRPs respectively. And alongside Heylo, these three organisations own 72% of stock in the sector. There are a number of large investors and developers currently going through the registration process. The ambition of these new players suggests the sector could grow beyond 150,000 homes by 2030.

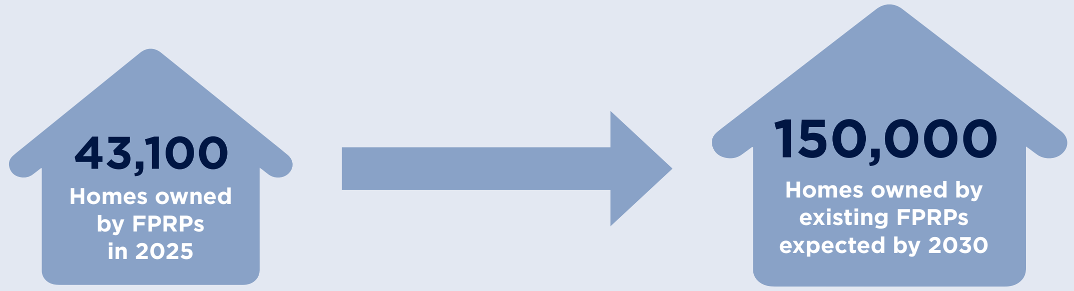
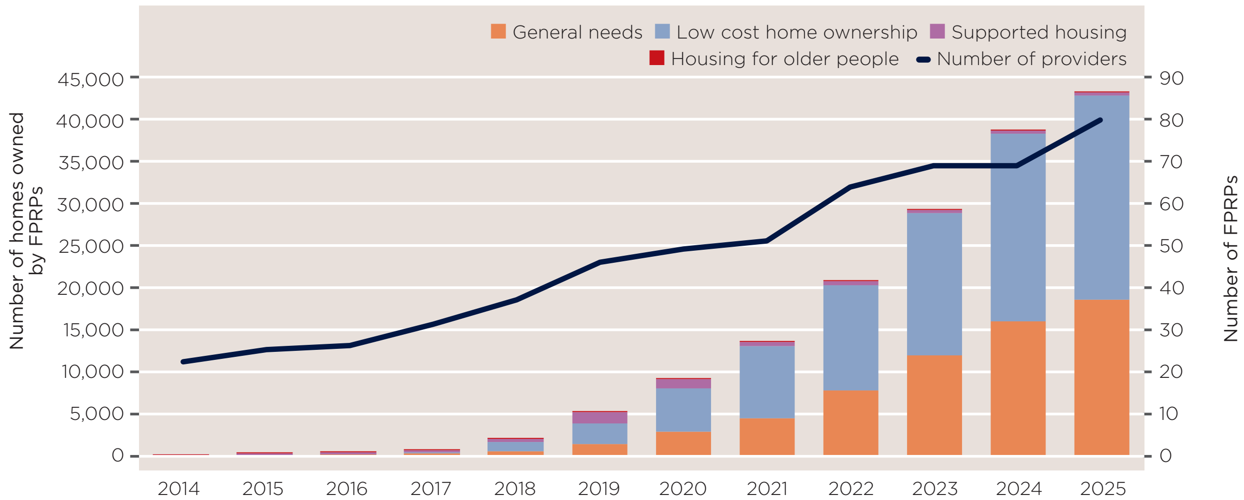


Figure 1: Growth in FPRP registrations and stock



Source: Savills Research, RSH, MHCLG

Why affordable housing?

The trade-off between risk and return is the most important driver of investment in affordable housing, according to our survey. With rent increases generally tied to CPI, affordable housing can provide long term, index-linked returns, which 50% of investors suggested is their main motivation for investing in the sector. Alongside the fundamental imbalance between supply and demand for affordable housing, this means that rental income is considered to be very secure, something which 75% of respondents suggested was in their top three reasons for investing.

Several others said the fact that the returns profile could be made to match liabilities was also an important factor – returns generated from affordable housing are heavily weighted towards income rather than capital growth. This works well for investors that need cash on hand to pay out to clients over long periods of time, for example pension funds.

Most investors plan to hold affordable housing for the long term, with 77% of respondents stating that they have no plans to sell homes, suggesting the reliability of future income streams is vital for them. But this is also vital for funds whose strategies involve platform or bulk asset sales after stabilisation – their exit strategy will often involve selling to those same long-term investors that are seeking steady index-linked cashflows.

Social value is also clearly important to investors. Every respondent suggested it is one of their top three reasons for investing in the sector. But just 25% ranked it number one, perhaps showing that social value cannot come at the expense of returns for most investors.

Flight to quality

Like most housing associations (HAs), FPRPs are looking to futureproof the stock they acquire. 67% report that they will only purchase new stock. This is whilst 60% have a minimum EPC threshold of B, suggesting that FPRPs are looking to futureproof their stock beyond the current Government target of EPC C by 2030.

The desire for long-term ownership means these organisations will likely be responsible for future repairs and maintenance on their homes and meeting associated regulatory requirements. Even providers that may sell their stock on are keen to futureproof homes to maintain capital values for their exit.

Some players in the sector are increasingly considering acquiring older homes to retrofit. But with no way to capitalise on the retrofit spending by increasing rents, the returns are more challenging for investors. This marks a shift from six years ago when players were seeking to acquire only brand new homes, primarily through Section 106 agreements.

1%
FPRPs own 1% of all affordable housing in England in 2025

13%
FPRPs accounted for 13% of all new affordable delivery in the three years to March 2024

26%
FPRPs forecast that 26% of their homes will be Social Rent by 2030

60%
Of FPRPs suggest they have a minimum EPC threshold of B

Shifting tenure preferences

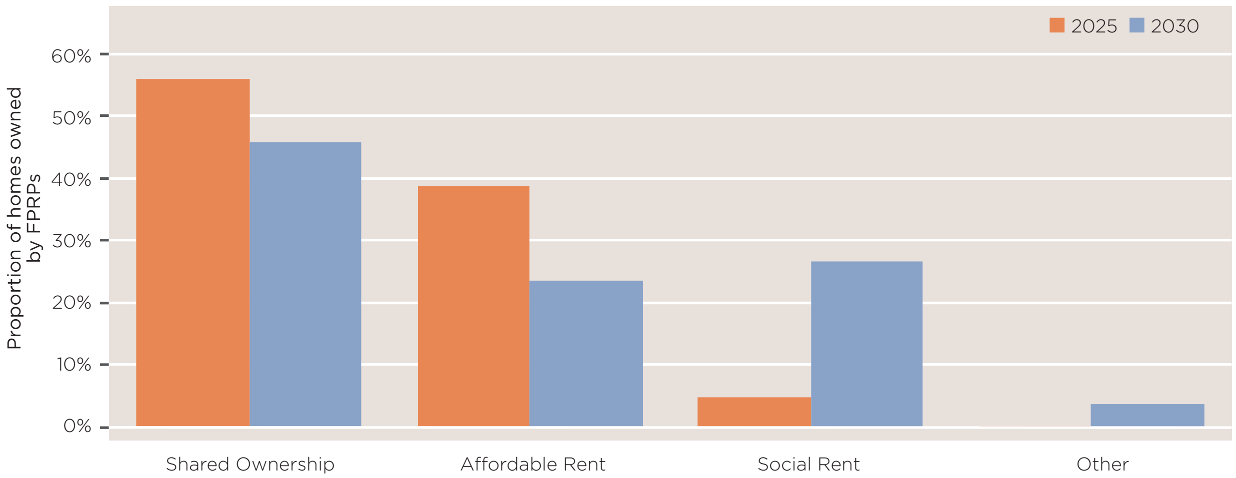
In the early years of equity investment into affordable housing, Shared Ownership (SO) was the most popular tenure. SO homes are seen as lower risk than general needs homes, with an index-linked income return, exposure to house price inflation and lighter touch management responsibility. It remains the most common tenure in 2025: FPRPs own 24,190 Low Cost Home Ownership homes, 56% of the total stock owned by FPRPs. All of the FPRPs we surveyed suggested they would consider acquiring SO homes, and 23% suggested they had grown more interested in the last year.

But increasingly, FPRPs are also looking to build up mixed tenure portfolios and are focusing more on rented tenures. They currently hold 18,540 General Needs (GN) homes, 43% of stock. 89% of these are Affordable Rent and the remainder are Social Rent. These homes benefit from an entirely index-linked pattern of rental income (subject to policy), and the lack of staircasing means the provider has certainty of ownership and income in perpetuity.

There is also a growing view amongst FPRPs and their financial backers that rented tenures, particularly social rented homes, offer greater social value, being let to households in the greatest need of housing. While SO does fulfil a clear need, providing the benefits of access to home ownership to those struggling to save for a deposit, according to our analysis, shared owners tend to be middle-income households. But the need for different tenures varies based on local circumstances: in some areas, SO can fill the majority of sub-market housing need, while in others (particularly in London) more social rented homes are needed. More on that here.

Our survey suggests that FPRPs will further diversify their tenure mix in the next five years. By 2030, 26% of homes owned by our respondents will be Social Rent, a significant increase on the current proportion. This aligns with the direction of travel for Government policy. Current guidance from Homes England describes social rented homes as a 'priority' under the current AHP. SO will still make up a large share, at around 46% of the stock in the sector, and Affordable Rent will make up 24%, meaning general needs homes will slightly outnumber SO homes in the FPRP sector by 2030.

Figure 2: FPRP stock by tenure



Source: Savills Research

> "The major players have already shown a clear ambition to continue investing in the sector. Most smaller players are also looking to expand."

Continued investment appetite

The increasing diversity of funders amongst FPRPs means there are several routes through which the FPRP sector will continue to mature. The major players have already shown a clear ambition to continue investing in the sector. And 85% of our survey respondents plan on raising additional capital and registering additional entities, suggesting most smaller players are looking to expand, including those who are institutionally backed and will own and manage their stock for the long term.

Different investors will look to use their FPRPs in different ways. Long-term investors can use additional entities to vary their investments either in terms of the level of risk and stage of development they invest in or the tenure, type and geography of stock they choose. They may also seek to bring in external capital to supplement their own funds and can use different entities to match their investments to the demands of that ultimate capital. This is likely to be popular amongst investors with long-term liabilities, such as pension funds.

Alternatively, funds can act as aggregators of stock, taking on development risk, stabilising their assets and then disposing in order to recycle capital. Demand may therefore be strong for stabilised platforms which offer long-term income without needing to navigate the registration process.

Investment in the sector is set to grow, with a number of large investors and developers currently seeking registration. But the current challenges of delivering affordable housing (and housing more broadly) have deterred some investors. In our latest European Operational Real Estate Survey, the proportion of investors surveyed looking to target affordable housing has fallen from 38% in 2023 and 39% in 2024 to 22% in 2025. Still, this represents a sizeable pool of private capital which can be drawn into the sector.

Routes to expansion

	New entrants	Platform sales	Fund investment
Description	Investor, developer or HA registering a new FPRP	New investor purchasing an existing FPRP	New investor lodging funds with an existing FPRP
Example	Civitas setting up Quartz Housing	USS purchasing Sparrow SO from Sage	ACCESS Pool (LGPS) investing through an L&G-owned FPRP
Opportunities	Gives investor control over their stock and their strategy	Investor avoids registration process and gets a stabilised portfolio already generating income	No management responsibility and ability to pool funds with others for greater scale
Barriers	Registration process is complex and investor must aggregate stock themselves	Lack of such platforms available to purchase in the sector	Lack of direct control over stock and strategy
Who will this work best for?	Investors with Real Estate management experience or those seeking to take on development risk	Mature investor seeking stable, long-term returns with less active involvement in stock aggregation	Smaller investor or investor without in-house investment management capability

Opportunities for growth

How can private capital aid the Government's housebuilding expansion?

The Government has committed to delivering 1.5 million homes in England by the end of the parliament. If this is to be achieved, affordable housing delivery needs to form a large share of total delivery. The Housing Association (HA) sector and to a lesser extent local authorities, must rebuild long-term financial capacity before looking to lead a housebuilding expansion.

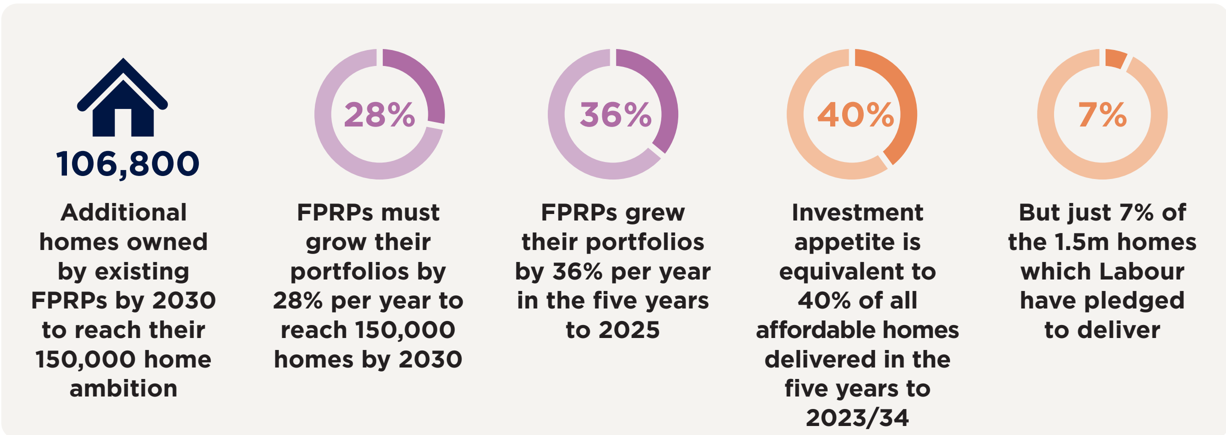
Within this context, FPRPs could provide an important source of funding, subject to the policy environment being conducive to investment, both to develop and acquire new homes and to acquire existing stock to release capacity.

The challenge for Government

The delivery of 1.5 million homes over five years relies on there being demand to take on those homes, and in the absence of a major demand stimulus like Help to Buy, a large share of that demand must come from RPs, according to our research. This is incompatible with the drop in demand for new homes from HAs.

Encouraging FPRPs to continue growing and drawing more equity investment into the sector could also offer a route to increased housebuilding. With HAs less active in the market for Section 106 homes, schemes have experienced delays in the completion and sale of market homes, because the affordable homes in the scheme remain unsold.

While FPRPs still account for a relatively small share of new affordable homes, they could offer an outlet for some of these schemes, with 83% of our FPRP survey respondents saying they would consider acquiring Section 106 stock.



Are the ambitions of FPRPs achievable?

There is clear appetite for investment into affordable housing, but is the growth which FPRPs are targeting feasible in the current environment? Currently, existing FPRPs have ambitions to grow their portfolios to 150,000 homes by 2030. This represents an increase of 106,800 homes on their March 2025 level, according to our estimates using survey data.

The annual growth rate required to achieve this increase in homes appears to be well within the realms of possibility. FPRPs would have to grow their portfolios by 28% per year over the next five years to reach 150,000 homes. This is lower than the 36% growth per year seen over the last five years to 2025. In fact, if growth were to continue at 36% per year, the sector would reach 200,000 homes in five years time, allowing plenty of room for new entrants into the sector to scale up as well.

Another reference point is the share of new homes which this ambition represents, and on this basis, an additional 106,800 homes looks challenging but not impossible. FPRPs would have had to acquire 40% of all affordable homes delivered in the five years to March 2024 to reach this level. If affordable housing delivery remains steady or falls, then despite the challenges facing HAs, competition for new homes may be too fierce for this ambition to be achieved.

But a large increase in affordable housing delivery is required to meet the Government's 1.5 million homes target. This provides an opportunity for FPRPs to provide additionality and scale up, their 106,800 homes amounting to just 7% of this target. Of course, this would need to be supported by a sizeable increase in grant funding.

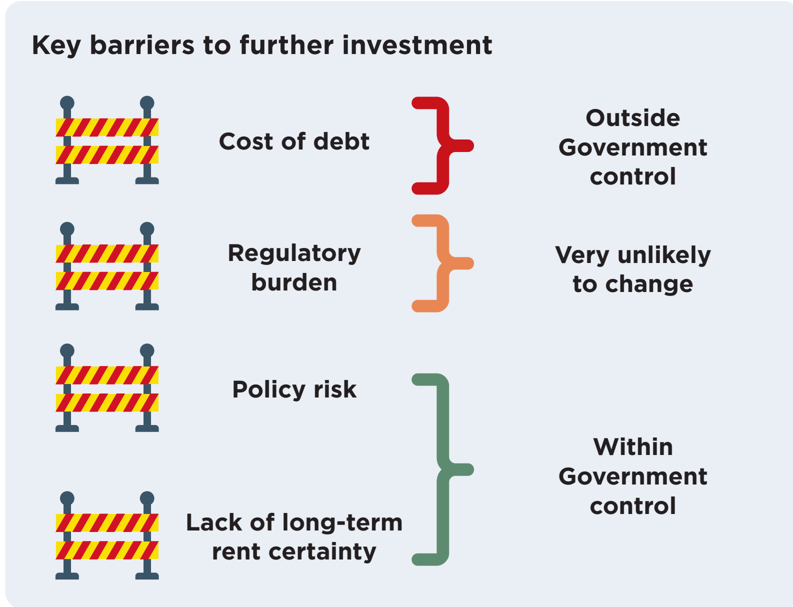
How can policy encourage investment?

Alongside the availability of grant funding, there are a number of barriers to entry for investors into affordable housing. Some are unavoidable: the higher cost of debt and the regulatory burden were rated the largest barrier by 45% and 27% of our survey respondents respectively.

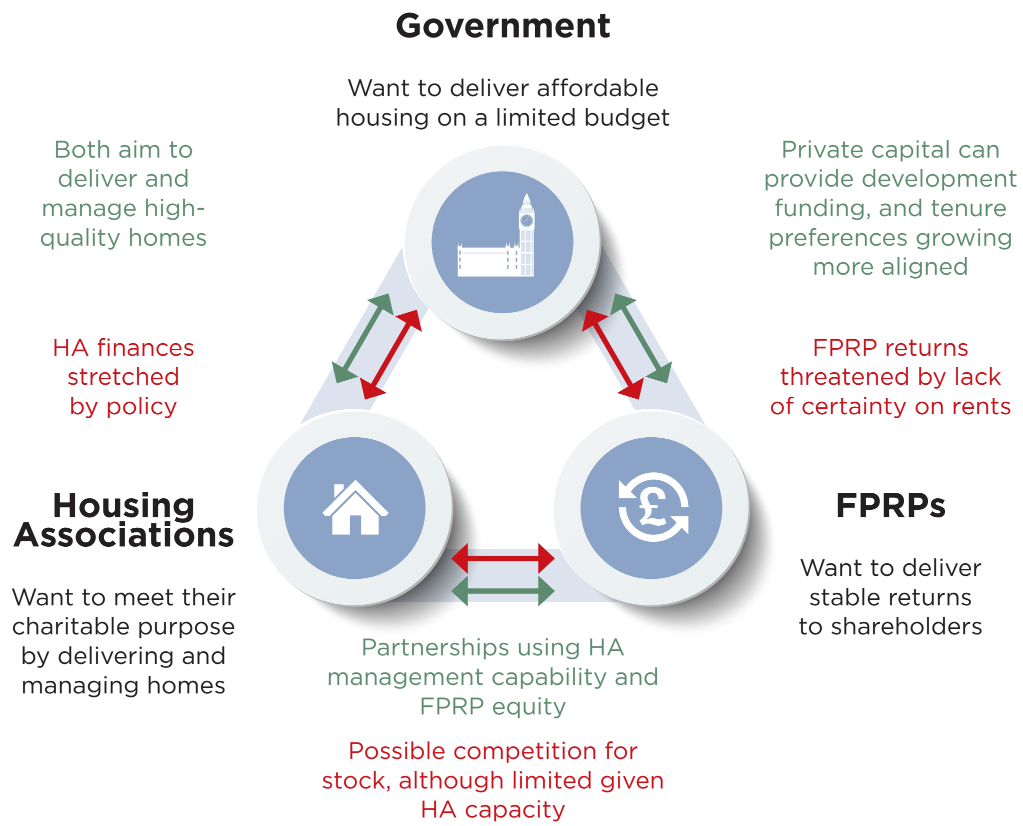
But other barriers can also be influenced by Government. Our survey and interviews showed that investors are primarily driven by the low risk, regular, index-linked income on offer, but various rent caps over the last decade have eroded confidence in the link between rents and inflation. A number of investors mentioned that a long-term rent settlement would give them more confidence in financial planning. HAs also mentioned that this is key for rebuilding their financial capacity, and is one step in bringing the HA sector back into the development market at scale.

Similarly, policy risk is cited as a key barrier to further investment, with investors looking for greater assurance that their efforts in creating long term income streams now will not be undone by future policy changes. Creating a level playing field in terms of policy between FPRPs and HAs would be beneficial to the sector. For example, rules currently vary around Stamp Duty depending on the status of the Registered Provider and the use of grant funding, which makes investment more costly for FPRPs and reduces confidence in their long-term footing within the sector. More generally, providing certainty around future standards, whether fire, building safety or core decent homes standards, would also be beneficial to FPRPs and HAs alike.

Both FPRPs and HAs emphasised a need for the Government to treat investment in affordable housing like they would any other form of social infrastructure. The more certainty investors and HAs have around their future income, the more likely they are to make significant investments into the sector.



Where are goals aligned and where are there challenges?



Under pressure

Development suffers as Housing Associations struggle financially

Bringing external capital into the sector provides a real opportunity to unlock greater development capacity at a time where it is desperately needed. Housing Associations (HAs) remain under significant financial pressure, as increased spending on existing stock has combined with higher build costs and a higher cost of debt. Many have scaled back their development programmes as a result.

Major repairs spending up 63% since 2021

Rent caps resulting in a -7% decrease in real GN rents since 2014

Build costs up by 35% since the pandemic

EBITDA MRI Interest Cover ratio down to 88% in 2024

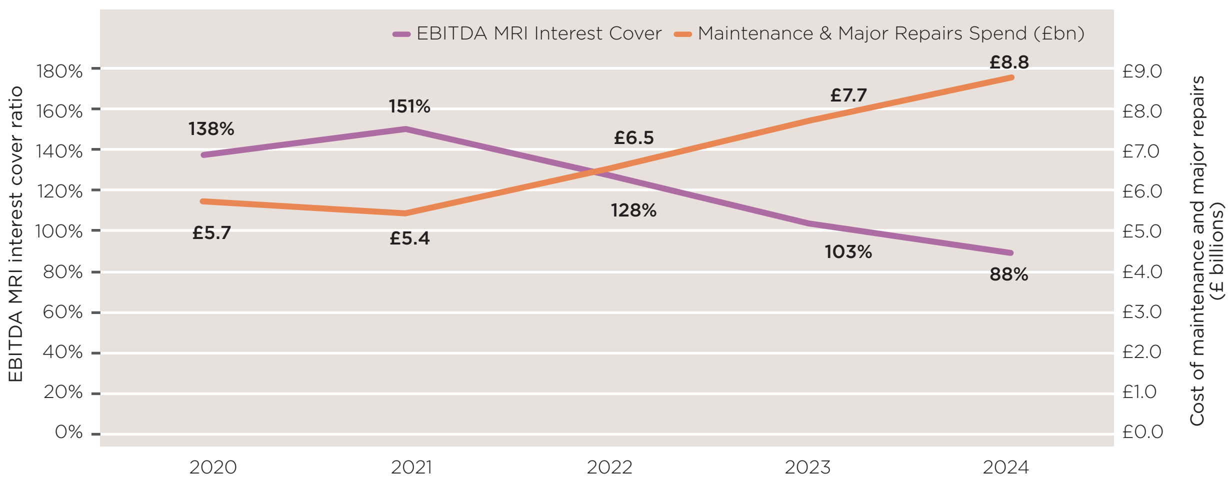
Affordable housing starts down by -39% year on year to 2023/24, and down -88% in London

Financial pressures

Two years ago, when we last wrote about equity investment into affordable housing, we spoke of a Housing Association sector which was shifting its priorities in the face of financial strain. In the last two years, that position has intensified, and the focus on existing stock over new development has become more evident.

EBITDA MRI interest cover ratios, the measure by which the financial health of HAs is usually assessed, have fallen sharply in the last three years to a sector average of just 88% in 2024, according to the RSH Global Accounts. This means that HAs did not bring in enough money in the year to pay the interest on their debts, for the first time since the 2007/08 Global Financial Crisis. While this position can be managed in the short term, it is ultimately unsustainable.

Figure 3: Financial strain within the sector



Source: RSH

Higher spending and lower real earnings

Sector spend on repairs and maintenance has increased by 63% since 2021, reaching £8.8bn in the year to March 2024, reflecting the growing investment requirements for existing homes. This is forecast to increase further and average £10bn per year over the next five years, according to the 2024 Global Accounts. This has been necessitated by the drive to improve energy efficiency, increasing standards on fire and building safety and a continued focus on damp and mould issues, among wider concerns about the quality of stock in the sector.

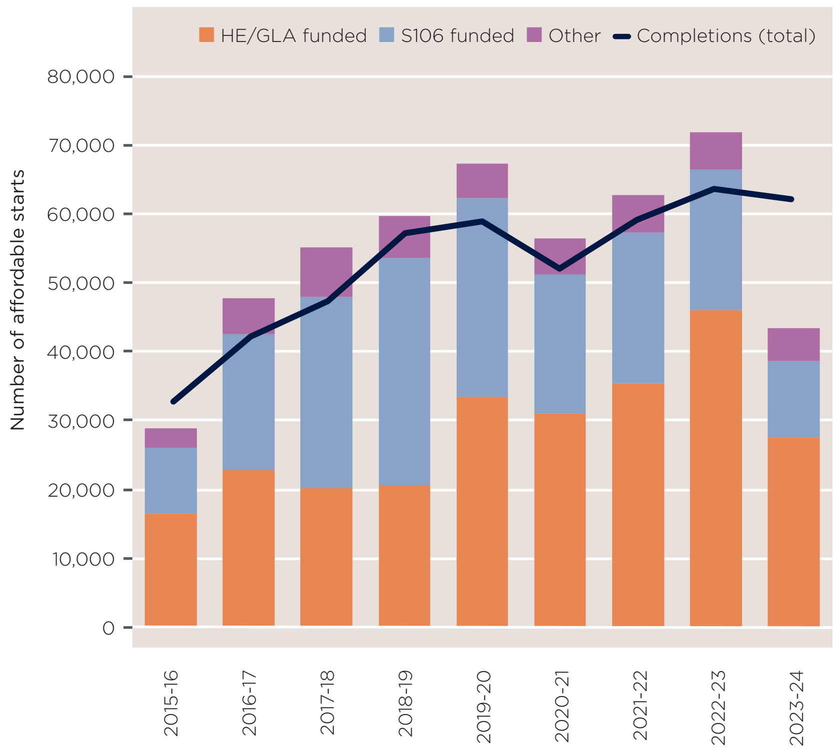
Almost all HAs will have seen maintenance costs rise to some degree, but those most exposed are providers with a larger share of high-rise buildings such as in London. Unlike private sector developers, HAs cannot access the Building Safety Fund to support their remediation works. While the sector average interest cover is 88%, amongst those organisations with more than 5% of their homes in high rise blocks, the median is 51%, compared to 128% for those with less exposure to high rise.

Development falls but with regional variation

No wonder then, that HAs are increasingly looking inwards to their existing stock rather than looking to expand their portfolios. Weaker appetite for development is now becoming clear in the data, with starts falling sharply and planned development by HAs reducing. Appetite also remains low for Section 106 homes amongst HAs with weaker financial capacity, alongside a mismatch between what developers are building and what all Registered Providers are looking to buy. More detail on the challenges around Section 106 can be found here.

But there is considerable geographical variation within this overall picture. Affordable housing starts in London have fallen by -88% in the last year as a result of viability challenges for high rise buildings, given fire and building safety regulations. Across the rest of England, viability is less stretched, and starts have not fallen off of a cliff edge in the same way. While all the HAs we spoke to are expecting to reduce their development output over the next five years, it is clear that each organisation's requirements for investment in existing stock are very different, depending on the type, age, geography and energy performance of their homes. This will mean some HAs can continue to bid for development opportunities, while others will remain absent.

Figure 4: Affordable housing starts by type of funding



Source: Savills Research, RSH, MHCLG

-39%
Drop in affordable starts, to 43,400 (Yr to Mar-24)

-88%
Drop in starts in London (Yr to Mar-24)

62,300
Affordable completions at third highest since 2000 (Yr to Mar-24)

-12%
Reduction in completions planned by RPs (2024/25 – 2029/30)

The opportunity for FPRPs

While HAs are facing mounting pressures, FPRPs are in a better position, in terms of both the demands of their existing stock and their finances. The majority of their homes will not need significant maintenance work for a number of years, because most of it is new. This puts them in a much stronger position to increase development and unlock capacity in the sector.

Our survey suggests that most FPRPs are open to acquiring stock in a range of ways, including purchasing Section 106 homes and developing grant-funded homes themselves. Already, despite accounting for just 1.0% of homes in the sector overall, FPRPs have been responsible for 13% of new affordable stock in the three years to March 2024. This share may rise in the coming years as the appetite from FPRPs grows and as HA development appetite takes time to recover.

We are already seeing a growing range of partnerships being explored by FPRPs, investors and traditional HAs, and our survey implies that with the trends in both sectors, we will only see more innovation in how the two parts of the sector can work together to bring forward investment and development.

Savills Research
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