How to implement Social Rent Convergence

G15 response

August 2025

About the G15

The G15 is made up of London's leading housing associations. The G15's members provide more than 880,000 homes across the country, including around one in ten homes for Londoners. The G15 represents the largest providers of new affordable homes in London and accounts for approximately 15% of all affordable homes built across England. Over the last few years, our members have funded and delivered more than 56,000 new homes in partnership with the Mayor of London. Delivering good quality safe homes for our residents is our number one priority. Last year our members invested almost £2bn in improvement works and repairs to people's homes, ensuring people can live well. Together, we are the largest providers of new affordable homes in London and a significant proportion of all affordable homes across England. It's what we were set up to do and what we're committed to achieving. We are independent, charitable organisations and all the money we make is reinvested in building more affordable homes and delivering services for our residents.

Find out more and see our latest updates on our website: www.g15.london

The G15 members are:

- A2Dominion
- Clarion Housing Group
- The Guinness Partnership
- Hyde
- L&Q
- MTVH
- Sovereign Network Group
- Notting Hill Genesis
- Peabody
- Riverside
- Southern Housing

For more information, please contact: G15@Peabody.org.uk

We welcome the Government's recognition of the importance of rent convergence in restoring the social housing sector's financial capacity and in addressing long-standing inequities in the rent system. Reintroducing rent convergence is essential to ensuring fairness for residents and stability for providers, which are critical in the face of growing regulatory requirements, inflationary pressures, and acute housing need.

Rental income is fundamental to the running of our organisations. It underpins our ability to manage, maintain, repair and improve existing social homes. It also largely determines how many new homes we can build, not only because it impacts our underlying finances, but also because the additional funding we can borrow from investors is intrinsically linked to our projected rental income. All this means that changes to rent policy have a direct impact on our ability to deliver for residents, both now and in the future.

G15 members currently have 225,000 homes where residents pay below target rent and in 2024/25 had a collective shortfall of £167,610,000 in rental income. The disparity between actual rents and formula rents, especially given the rising costs of operating in London, is unsustainable.

This ongoing shortfall impacts existing social housing residents, as the constraining effect of reduced rental income on our financial capacity forces us to make difficult investment decisions. It also impacts the millions of people in desperate housing need, including those who are homeless, in temporary accommodation or trapped in insecure private rented housing, due to our reduced capacity to build new social and affordable homes.

We acknowledge that any increases in rent will have an impact on some residents' disposable incomes, and all G15 members have robust support services in place for those residents who may struggle to cover increased costs. However, formula rent is an income-linked, regulator-set level designed to ensure long-term affordability. Converging to this level is both fair and necessary to ensure that existing homes are maintained to the standard residents deserve, and that new homes can be built for those currently in unsuitable or unaffordable accommodation.

The wider policy environment

The decision on rent convergence cannot be seen in isolation from other major policy changes facing the sector. The concurrent consultation on the updated Decent Homes Standard (DHS) and the introduction of new Minimum Energy Efficiency Standards (MEES) will both have a profound impact on our investment requirements, operating costs and long-term financial capacity.

At present, the final scope, timescales, and funding arrangements for both DHS and MEES remain unclear. This uncertainty makes it difficult for members to fully articulate the impact rent convergence will have on major programmes and long-term investment decisions.

Early indications from members suggest that the updated DHS will cost substantially more than Government estimates. The revised standard will accelerate investment, bringing forward large volumes of work currently assumed in long-term financial plans, and creating major unplanned pressures. While some MEES expenditure is already included in plans, the overall scale remains significant, and costs are continuing to rise.

This is in addition to the uncosted pressures from new regulations, such as Awaab's Law, that also aren't yet in our Long-Term Financial Plans (LTFPs). Based on portfolio size, projected repairs demand, and necessary changes to operational systems, we estimate the cost of meeting Phase 1 to be between £1m and £2m per member. The expansive nature of Phases 2 and 3 mean this cost is expected to be even higher.

Similarly, while the announcement of a £39bn investment in the new Social and Affordable Homes Programme (SAHP) is a major step forward, additional uncertainty around grant levels is likely to prevent us from confidently bidding in this round of allocations. Current grant levels in London typically only cover 30–40% of development costs, meaning providers must fund the majority of costs through other means. This makes a clear and reliable rental income absolutely essential if we are to commit to new supply at scale.

We therefore urge Government to view the sector's finances more holistically and provide clarity and certainty as soon as possible. Without this, providers cannot plan with confidence; meaning investment decisions on major programmes, de-carbonisation plans, regeneration and commitments to new homes, will be delayed or put on hold. There is also a real risk that increased delivery will not be at the pace required to tackle the housing emergency.

An acute issue in London

London is at the epicentre of the housing emergency. With over 300,000 children living in overcrowded homes and the number of families in temporary accommodation higher than anywhere else in the country, London's housing crisis is deep and growing.

This is in part due to how expensive and difficult it is to deliver new social and affordable homes in London. The capital's land values, construction costs, infrastructure demands, and planning requirements are significantly higher than in most other parts of the country. Recent analysis highlights how the upfront cost of building 88,000 new homes a year is roughly 43 times higher than meeting the equivalent target in the West Midlands[1]. Rent policy needs to account for such regional disparities.

Rent convergence also has the biggest impact on London, given the disproportionate number of homes currently below formula rent. In London, only 9.3% of homes are currently at formula, compared with a national average of 35.4%. In some regions, such as the South West and Yorkshire & the Humber, more than half of homes are already at formula (54.2% and 52.7% respectively). This highlights the particular challenge for London providers, who face significantly larger shortfalls in rental income while also operating in the highest-cost environment in the country. A £3 per week convergence mechanism from April 2026 would therefore represent an essential step in narrowing this gap and ensuring that rental income better reflects the cost pressures in the capital.

Our key recommendations are:

i. *Introduce a £3 per week convergence mechanism*
ii. *Implement the mechanism from April 2026*
iii. *Maintain the mechanism on a permanent basis, so it can respond to any future rent caps or inflationary spikes*

Question responses

Question 1: At what level should Social Rent convergence be permitted?

G15 members welcome the proposal to reintroduce rent convergence, but the levels proposed (£1 or £2 per week) are too low to restore financial capacity at the pace required to meet both immediate and long-term challenges. We therefore strongly recommend a £3 per week mechanism.

A £3 per week mechanism would allow us to:

- **Respond to new regulations and maintain the necessary level of investment in existing homes:** £3 per week accelerates the pace at which our rental income recovers to the correct levels, giving us the ability to respond to investment needs from upcoming regulations sooner and more comprehensively.
- **Achieve rent fairness more quickly:** because of the sheer number of homes below formula, a £3 per week mechanism would mean that 95% of our homes would reach target rent within 10 years, compared with far fewer under lower mechanisms.
- **Unlock new supply:** the sooner we restore our financial capacity, the more confidently we can access the private investment required to support the development of new social and affordable homes.

The table below sets out the difference each convergence settlement would make to our additional income.

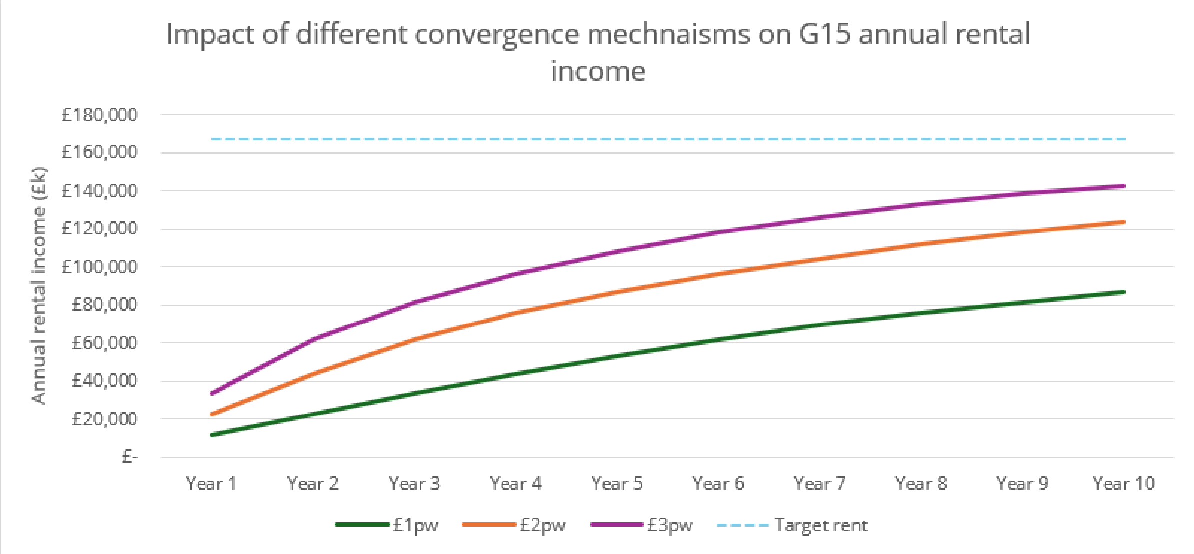

Figure 1: Additional annual rental income under different convergence mechanisms (£1, £2, £3 per week) between 2026 and 2036. Source: G15 analysis.

At £1 per week, the additional income generated is too limited to restore capacity at the pace required. It prolongs the period in which we are constrained in our investment programme or able to commit to new supply. At £2 per week, the impact is more meaningful, bringing forward income in the early years and helping to fund larger investment programmes sooner.

However, only a £3 per week mechanism provides the scale of income needed to deliver across all fronts. It restores financial capacity at the pace required to meet new regulatory requirements, supports timely and sustained investment in existing homes, and enables the delivery of new affordable homes where there is capacity. Crucially, it also ensures that the vast majority of homes - around 95% - reach formula rent within a decade, finally addressing long-standing inequities in rent levels.

Members feel this rate is fair, particularly given that the original convergence mechanism introduced in the early 2000s was set at £2 per week, and inflation and cost pressures have increased substantially since then.

Rent flexibility

Rent flexibility, also known as tolerance, is a mechanism permitted by the Regulator which allows landlords to account for notably high operating and maintenance costs, and issue general need rents at 5% above formula (105%) and supported housing rents up to 10% above (110%).

For G15 members, who collectively house 1 in 10 Londoners, this allowance is a critical permission to ensure our rental income stays in line with our investment and expenditure on homes.

Allowing landlords rent convergence up to this level would improve fairness, restore capacity faster and better reflect actual costs – especially for those operating in London.

Creating a convergence mechanism that factors in rent flexibility generates significant uplifts. By year 10, convergence with rent flexibility generates around 80–85% more additional rental income than convergence without it – almost doubling capacity. At £3 per week, this equates to £261.5m in additional annual income by 2036, compared with £143m without flexibility.

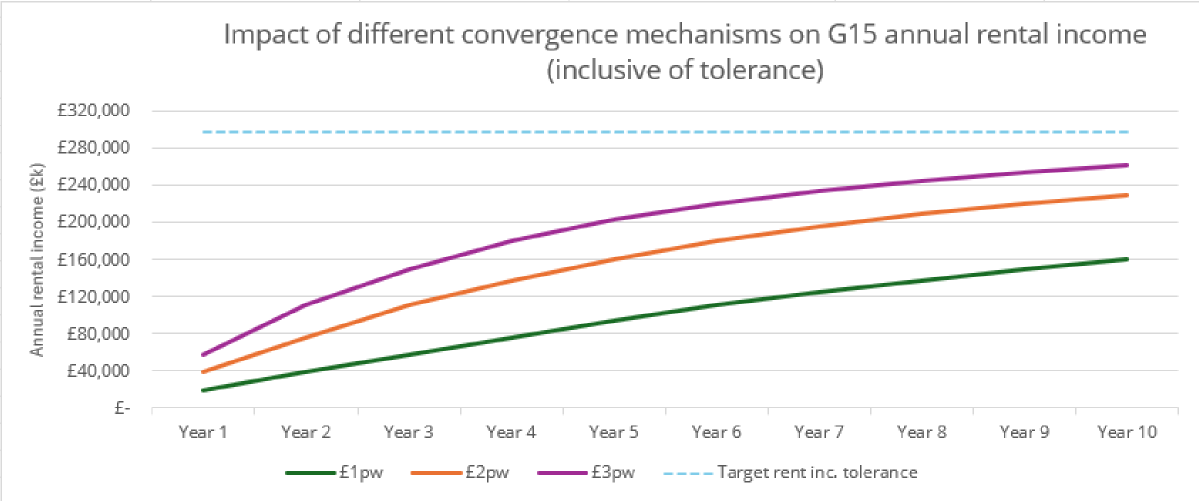

Figure 2: Additional annual rental income at Year 10 under different convergence mechanisms (£1, £2, £3 per week), with and without rent flexibility. Source: G15 analysis.

Whilst convergence up to flexibility builds in an additional buffer to cover rising costs, members urge Government to give greater thought to the underlying rent formula.

Simply uplifting 1999 rates may no longer provide an adequate reflection of cost pressures, particularly given the significant changes in operating, construction, and land costs over the last two decades. There is a need for a more holistic assessment of the rent formula to ensure it remains fair, transparent, and sustainable. This is why G15 members support the case for a more fundamental review of rent setting across the sector, recognising that this would be a long-term project requiring careful consideration and resident engagement.

Question 2: How would the benefits for the supply and quality of social and affordable housing differ depending on whether convergence was permitted at £1 or £2?

Rent convergence is a fundamental enabler of our ability to maintain and improve homes to the standards our residents rightly expect. We are wholly committed to investing in the quality of our existing homes, but we are operating in an environment of rapidly escalating costs. Since 2020, G15 members have collectively seen a 50%

increase in the average maintenance and major repairs cost per unit (£3,382 in 2024 vs £2,258 in 2020).

At the same time, our rents remain unsustainably low. Such constraints on our rental income ultimately dictate the scale of investment we are able to deliver.

This is not about arbitrarily raising rents but enabling landlords to charge the correct rent - as set by the Regulator - and ensuring that our homes are financially sustainable to manage in the long term.

This chart below illustrates this divergence in investment and rental income. It shows the net present value (NPV) of a single property in London – which compares rental income against projected investment over a 60- year period.

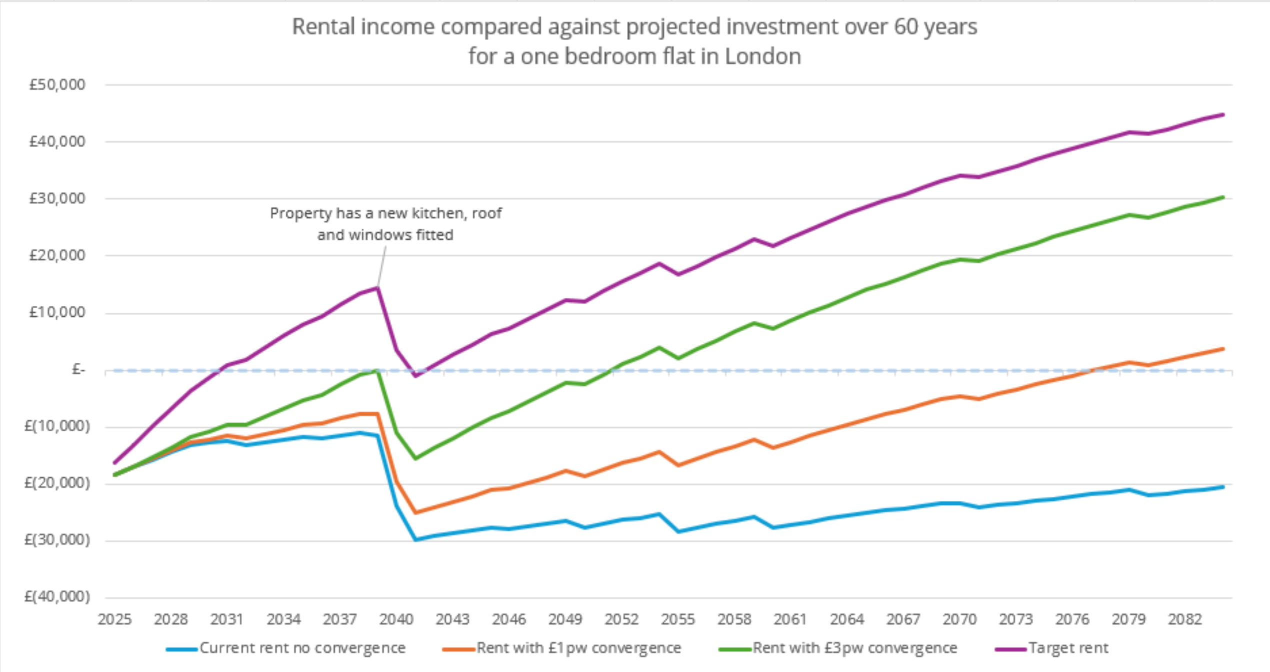

Figure 3: Net present value (NPV) of a London property over 60 years under different rent settlements. Source: G15 member analysis.

The blue line represents the property's current rent, (£116 a week), which is around £2,000 per annum below target rent. At this rate, over 60 years, there is a long-term net loss of around £23,000.

The green line shows the impact of applying rent convergence at £3 per week. With this, the property stops being loss-making and over the 60 years, the property's NPV shifts from -£23,000 to +£23,000.

This also illustrates how a £3 per week convergence mechanism delivers the most meaningful improvement and enables properties to become sustainable much earlier. For example, this property would remain loss-making throughout the 60 years with no convergence but would move into a positive NPV in 2052 with a £3 per week convergence. Under a £1 per week mechanism, it would not achieve this until 2078 (visible with the orange line).

The purple line demonstrates the position if the property was re-let at target rent. Over 60 years, this generates an additional £44,000 in income, all of which would be reinvested into improving existing homes, meeting decarbonisation targets and building new social homes for those in need.

As not-for-profit organisations, every additional pound of rental income is reinvested. Yet as this example shows, the current rent settlement prevents us from doing so effectively. In such cases, our rents do not cover the investment required to maintain homes, forcing us to scale back programmes or delay works.

New social and affordable homes

While any additional income generated through convergence will first and foremost be directed towards maintaining, repairing and improving existing homes, a robust, long-term mechanism will also strengthen providers' ability to deliver new supply. Restoring financial capacity in this way ensures we can meet rising regulatory requirements and residents' expectations for quality, while also giving us the confidence to borrow and invest in the new social and affordable homes London urgently needs.

However, any scope for new development depends on our ability to first cover the costs of new, unfunded regulatory requirements now facing social landlords. Members' ongoing assessments of the updated standards indicate that the Government's impact assessment significantly underestimates the true cost. For example, modelling by one member shows that, based on only a small number of additional components, the annual cost increase will be £4.8 million. By comparison, the additional rental income generated in the first year from convergence would be £2.9 million under a £1 mechanism, £5.8 million under a £2 mechanism, and £8.9 million under a £3 mechanism.

The Government must therefore give serious consideration to a convergence rate of £3 per week if they want providers to deliver new homes within this Parliament. Although the updated DHS will not be regulated against until 2035/37, work to meet the standard must begin immediately, meaning that in practice, the income generated from a £1/£2 per week mechanism will be entirely consumed by new regulations.

Without adequate grant, this will inevitably limit the ability of providers to support supply. By contrast, if Government provided grant funding for DHS in the same way as it did for the first programme, the additional income from convergence could be channelled more directly into new supply ambitions.

Modelling from the National Housing Federation illustrates that across all housing associations, convergence could deliver at least 32,244 homes at £1, 44,321 homes at £2 and 51,144 homes at £3.

They also found that a £2/3 uplift could deliver significantly more new homes before 2030 than a £1 uplift (where the increase is limited and more gradual). The modelling shows that higher uplifts could deliver significantly more new homes before 2030. Between 2026/27 and 2030/31, overall delivery would rise by 4.2% with a £1 uplift, 6.5% with £2, and 7.9% with £3.

For some members, convergence will primarily restore baseline viability rather than create surplus for additionality. However, this strengthened position is essential if providers are to realistically meet supply ambitions, given the scale of new unfunded regulatory requirements. For others, with the right conditions and convergence at the necessary levels, it holds the potential to uplift delivery.

We want to work with the Government to achieve the aim of building 1.5 million homes, and as social housing providers, we understand the necessity of building the right homes in the right places.

New supply would not just support the lives of those currently in temporary accommodation or without a home but would also address the needs of existing social residents who are currently living in overcrowded homes.

In London, there is a pressing demand for more family-sized homes. Analysis by Centre for London found that households in London can wait over six years (2,304 days) for a four-bedroom social home, compared to over two years (844 days) for a one-bedroom property[2]. This stark disparity highlights the urgent need for larger homes, which are more expensive to build and have comparatively lower rental income.

The sector's financial health, speed of recovery and necessity of low-cost loans

The increase in rental income from convergence will significantly strengthen members' financial position by improving the EBITDA-MRI ratio, which has declined in recent years due to higher repairs and maintenance costs. A strong EBITDA-MRI is fundamental to unlocking new supply, as it gives providers the confidence and capacity to take on additional debt for new development.

Currently, all but one member now has a ratio below 100%, meaning that - once investment in existing homes is factored in (MRI) – interest costs will outstrip income.

In the model, you can see the positive impact of convergence at £3 per week on one member's rating. The change takes it from below 100%, up to a percentage of 180% in 2035. More importantly, it reaches 120% (a rating judged by external investors as financially strong) by the end of the Parliamentary term. Without convergence, it would still be below 120% in 2035.

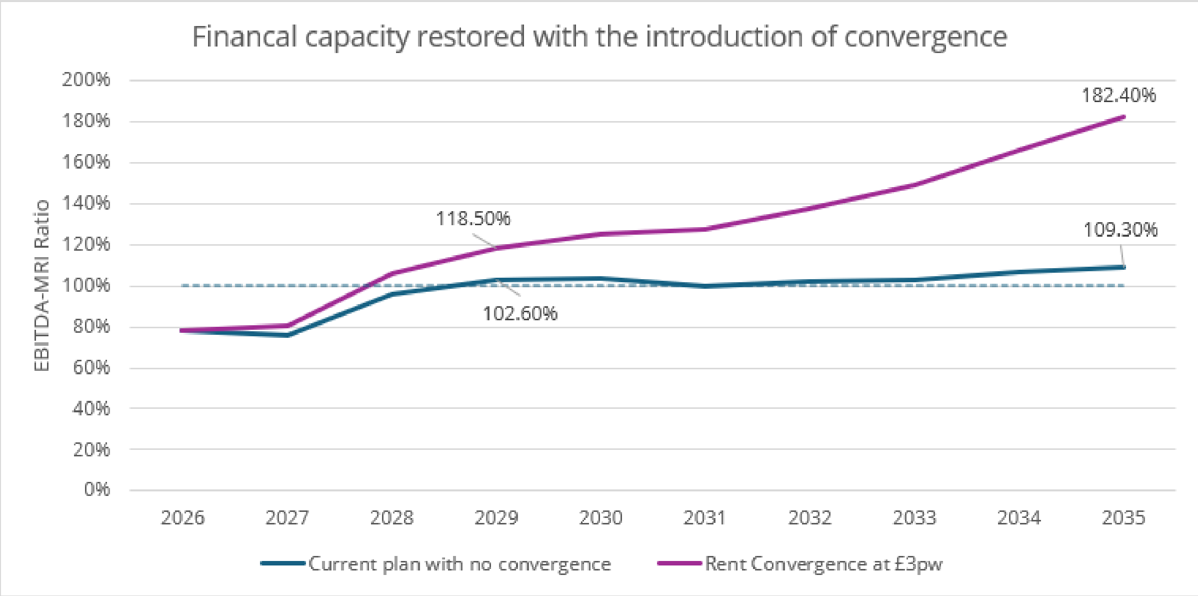

Figure 4: EBITDA-MRI ratio over time under different convergence mechanisms. Source: G15 member analysis.

Convergence is key to improving our EBITDA-MRI ratios and ultimately enabling us to more confidently take on additional debt to fund new social and affordable homes.

The addition of no/low interest loans would help us to boost development in the more immediate term until our rating surpasses 120%.

The current development model requires us to take on more debt to fund new development, but the marginal net income from social housing development is insufficient to cover the marginal interest cost from the additional debt required.

Current grant rates in London cover between 30 and 40% of the cost of building and renting each home, meaning at least 60% still has to be funded by not-for-profit housing associations borrowing from investors, or from the sale of private homes.

G15 members have been talking to the government about how interest-free loans could supplement social housing grant to facilitate development activity. It would reduce the level of third-party debt per new home and in turn the associated interest cost. This new mechanism would allow us to start development in the short term, while protecting our EBITDA-MRI ratings until the impact of rent convergence is fully realised.

Front-loading capacity (via a £3-per-week rent convergence mechanism that begins in April 2026) and rolling out no/low-interest loans would strengthen members' financial positions and enable many to begin developing before the end of this Parliamentary term.

Question 3: How would the impacts on households differ depending on whether convergence was permitted at £1 or £2?

Understanding resident affordability

Members recognise the impact that any increase in rent can have on residents, particularly those on the lowest incomes or whose rent rises wouldn't be covered by social welfare. We know that around one third of social rented sector households are not in receipt of Housing Benefits (HB) or the housing element of Universal Credit (UC(HE)). There are also a group of residents who may be entitled to HB or UC(HE) but are subject to the benefit cap or removal of spare room subsidy (RSRS), and are therefore still impacted by increases in rent.

Operational and maintenance costs continue to rise, while many members have significant numbers of homes below target rent. In this context, we believe an additional uplift of £3 per week is reasonable. This would mean a maximum annual increase of £156 on top of the fixed CPI+1%, for residents below the regulator-set formula rent, and the case for this is clear.

Members have also been working to understand the specific impact this will have on residents and how we can help support them. One member has undertaken analysis to understand whether any specific groups of residents are more likely to be impacted by the reintroduction of rent convergence and how they can best tailor their support services and communications to support them.

The average weekly rent for a G15 home remains at £128, and analysis of weekly mean rents shows how they've increased at a much slower rate than private rents and remain significantly lower.

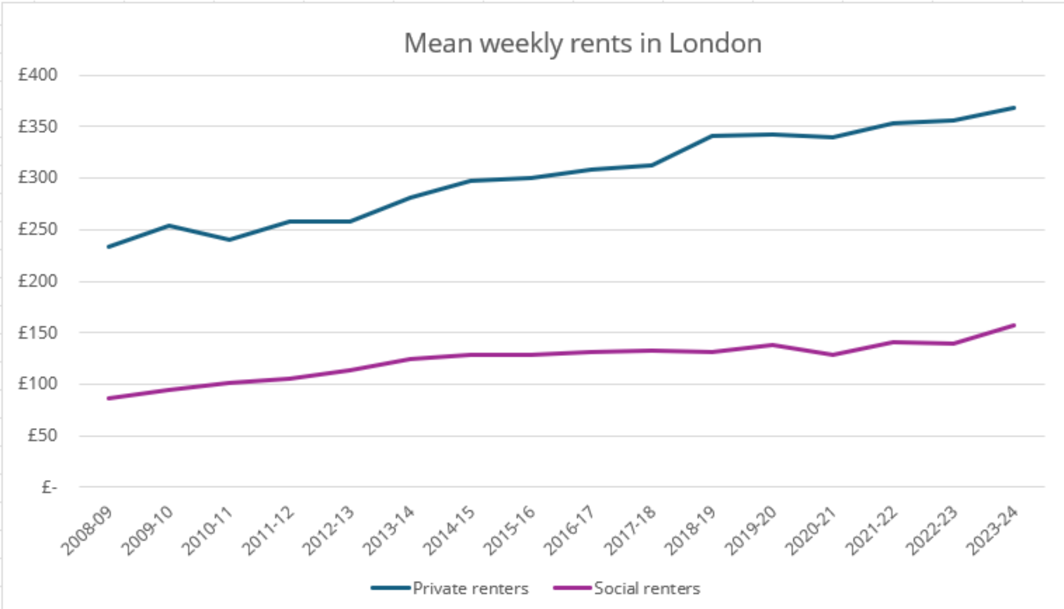

Figure 5: Mean weekly rents in the social and private rented sectors. Source: English Housing Survey 2023–24 Headline Report, Chapter 2: Housing Costs and Affordability

Also, based on the Department's modelling of a £2 per week convergence, rents for working households (not in receipt of housing support) are forecast to peak at 17.1% of income nationally and 20.4% in London.

Government data from the 2023/24 English Housing Survey shows that, on average, 72% of those renting homes from housing associations found it '*very or fairly easy*' to afford their rent.

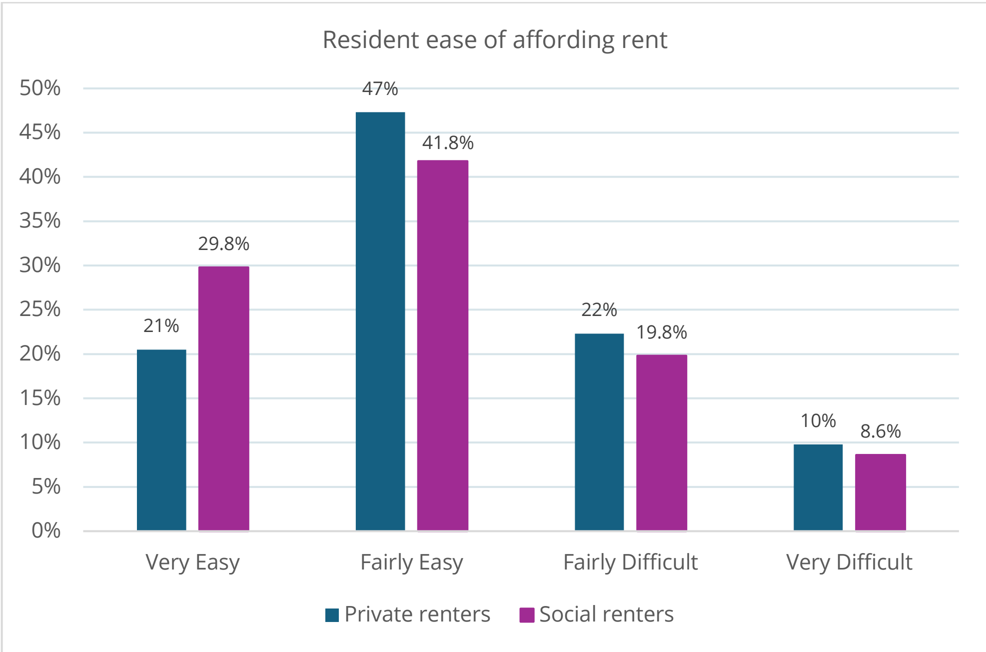

Figure 6: Proportion of households reporting difficulty affording rent in the social rented sector. Source: English Housing Survey 2023–24 Headline Report, Chapter 2: Housing Costs and Affordability, Annex tables 2.9.

This does not mean that rental increases will be affordable for everyone and we acknowledge the impact of any rental increase can have on residents, especially those with fixed and low incomes. However, we cannot continue to operate successfully with rents unsustainably and unfairly low for some residents. We are well placed to help those who may struggle to cover the rent increase with robust and well-established support packages.

Additional support provided to residents

Residents are our top priority. We actively offer support to those who face financial hardship in a variety of ways, including:

- Hardship funds
- Money advice and guidance services
- Support for local foodbanks, community pantries and social supermarkets
- Community grants and capacity building initiatives

In 2024, the G15 collectively supported 23,358 residents to manage their cost of living and improve their finances. Members assisted 20,353 residents with food provision and sustained 1,600 tenancies.

Members have also indicated that when this policy is implemented, services and support will be reviewed to ensure they are adequate. In some cases, this may result in expanded budgets and teams.

Assessing the impact on public finances

We also acknowledge that increases in rent will have an impact on public finances, given that almost two-thirds of rents are either fully or partially covered by HB or UC(HE). However, this expenditure carries clear long-term benefits for both residents and the government. For example, analysis by HACT highlights how each social home generates £23k in wider fiscal benefits[3].

Enabling additional investment in the quality of existing homes also improves residents' health and wellbeing and reduces stigma associated with poor housing conditions – all of which carry savings for the public purse. At the same time, unlocking the delivery of new social homes will ultimately move people out of expensive temporary accommodation (TA) and the private rented sector into safe and secure affordable homes. Where a household is in receipt of social security payments, this would result in significant savings on HB expenditure.

Social rents set within the UK's inflationary environment

Social rents, in real terms, have fallen by 13% since 2014/15. Analysis by the Housing Forum demonstrates how average rents in 2014 were £92.30 a week, and that if they had kept up with inflation, they would be £123.73, or if they'd kept up with earnings, they'd be £129.70. Instead, they're £109.44[4].

When considering resident affordability, it's important to look beyond rents and to the wider costs affecting disposable income. Since 2013–14, the average social rent in London has grown at a slightly slower rate than inflation (CPIH). However, from 2020 onwards, as inflation rose sharply, many of the goods and services residents rely on - particularly energy, insurance, food, and transport - have increased far more quickly than social rents.

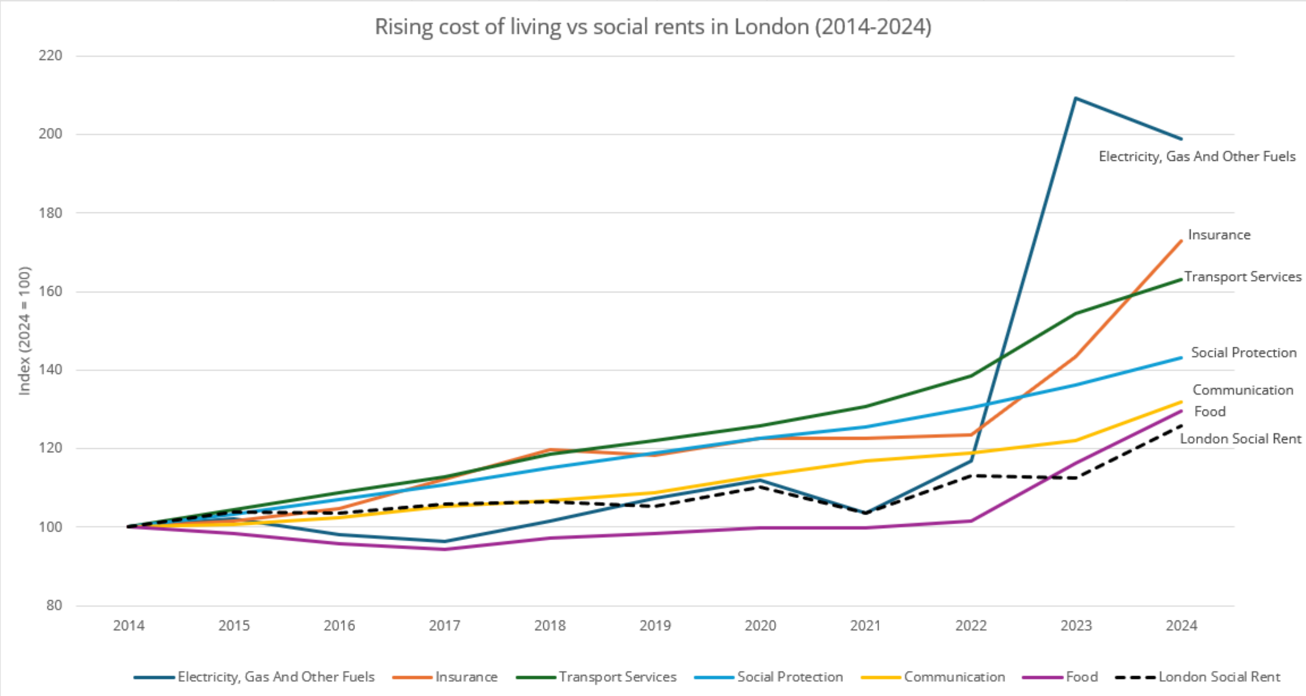

Figure 7: Inflationary rates compared with London mean social rents. Sources: ONS, Consumer Price Inflation time series dataset (CPIH), July 2025; English Housing Survey 2023–24, Annex Tables 2.4 and 2.5.

As the table above shows, despite rising in recent years, social rent increases within London remain significantly below the increases in most goods and services social housing residents buy and access.

G15 landlords provide a number of services to address these rising costs and always want to ensure residents are financially stable. However, rises elsewhere should not detract from social providers being able to charge the correct level of social rent to enable us to effectively invest in our homes.

This is further evidenced by data from the English Housing Survey, which shows the proportion of household income spent on housing costs has remained fairly stable for social renters over the last 15 years.

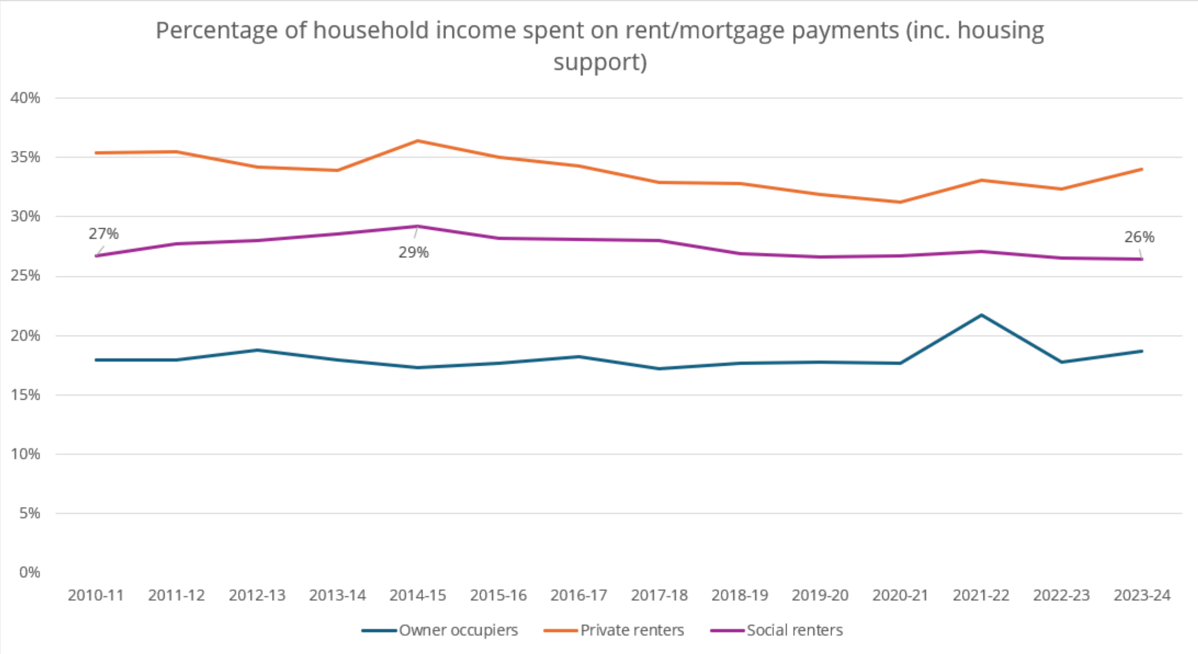

Figure 8: Percentage of household income spent on rent or mortgage payments (including housing support), by tenure, 2010–11 to 2023–24. Source: English Housing Survey 2023–24 Headline Report, Chapter 2: Housing Costs and Affordability.

Question 4: Should convergence be implemented from 1 April 2026 or from a later date, and what would be the implications of implementing it from a later date?

Convergence should be implemented from 1 April 2026. Any delay would unnecessarily extend the sector's financial vulnerability and defer vital investment in existing homes. Immediate implementation will restore financial capacity quicker, allowing landlords to plan with confidence, commit to programmes earlier, and strengthen the long-term sustainability of services.

Certainty that a long-term rent convergence mechanism will be in place from 2026 is also critical for governance. Our Boards need clarity on future income streams in order to reassess our risk appetite and approve major programmes of work. In practice, the decision to implement from 2026 could materially change investment strategies and accelerate delivery timescales.

The timing is even more critical given the recent DHS and MEES announcements. The updated decency standards will not be regulated against until 2037 (at the latest), but work will need to start immediately to ensure compliance across 880,000 G15 homes. This will require long-term planning and, crucially, funding certainty. In many cases, landlords will need to bring forward planned works to meet compliance requirements.

Implementation from 2026 also underpins providers' ability to bid in the first round of Social and Affordable Homes Programme (SAHP) allocations. Development requires long-term confidence in revenue streams and therefore landlords must understand what their income will be over the next decade before making multi-million-pound commitments to new supply.

Delaying implementation would push back these delivery commitments and undermine the shared goal of delivering new affordable homes within this Parliamentary term.

Question 5: How long should convergence be in place for, and what would be the implications of different durations of convergence?

Members urge the Government to implement rent convergence on an indefinite basis rather than limit it to the ten-year period set out in the consultation.

It is important to be clear that an indefinite convergence mechanism does not mean rents would continue to rise indefinitely. Rather, it ensures that rent convergence remains in place until all rents have reached formula level.

A 10-year convergence period is insufficient for this policy to achieve its aim, given the scale of rent shortfalls that exist for many homes. Even within the G15, not all homes currently below formula would have fully converged by 2036, leaving a significant number of homes permanently below target. We have already seen the consequences of prematurely ending the previous convergence policy, which left many rents, particularly in London, stuck below the formula. An issue which is then only exacerbated over time and further constraining our investment capacity.

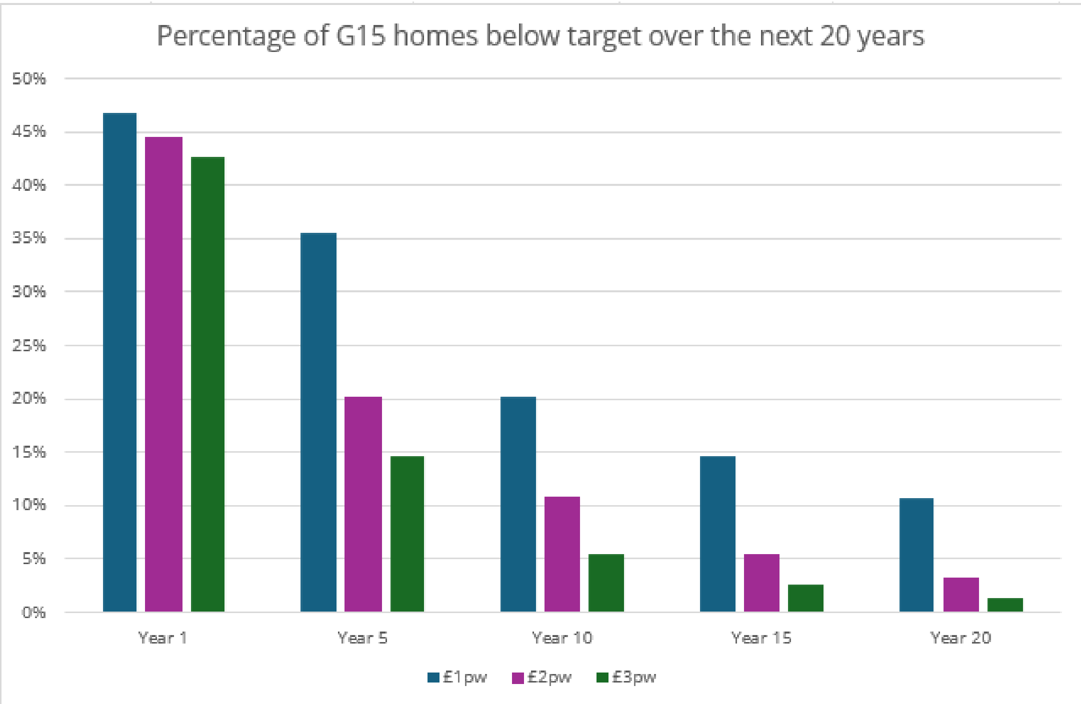

Figure 9: Percentage of G15 homes below target rent (2026-2036). Source: G15 analysis.

Our modelling of rent convergence over a 20-year period demonstrates clearly why a 10-year settlement is insufficient, particularly if a lower mechanism is applied. A £1 per week convergence would still leave around 20% of homes below formula rent after 10 years, and 10% below formula even after 20 years. By contrast, a £3 per week mechanism would reduce this to just 5% of homes below formula after 10 years.

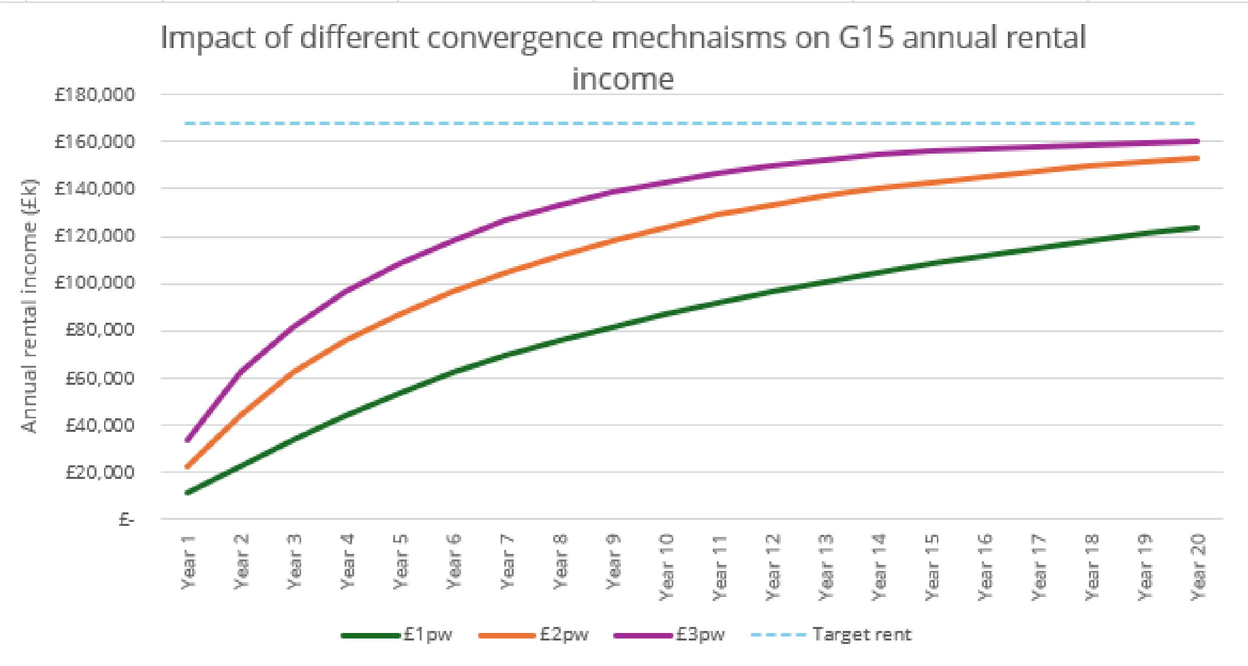

Figure 10: Additional annual rental income under different convergence mechanisms (£1, £2, £3 per week) between 2026 and 2046. Source: G15 analysis.

The financial impact is equally stark. At Year 10, a £1 per week mechanism would still result in over £80 million of lost annual rental income.

For these reasons, members strongly recommend that rent convergence be implemented indefinitely and at £3 per week. This would ensure that all rents can reach the target rent at the required pace, protect the sector from future shocks, and support the long-term financial stability needed to invest in both existing and new homes.

An indefinite mechanism would also allow reconvergence in the future if rent caps were introduced to protect residents against inflationary spikes, as in the case of 2022/23, without requiring new legislation or policy change. This flexibility would enable providers to protect residents when necessary while also ensuring that rent caps do not create permanent rental gaps that compound over time.

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[1] **Centre for London (n.d.)** *The state of London's housing crisis* [unpublished].
[2] **Centre for London (2024)** *London's Social Housing Waiting Times*, Centre for London.
[3] **HACT (2024)** *The Value of a Social Tenancy, The Hyde Group.*
[4] **The Housing Forum (2025)** *Recent trends in social rents and affordability*, The Housing Forum.