RESEARCH

BRIEFING NOTE

Affordable Housing Investment Market in Minutes

Research – Residential – July 2026

RPs grow more positive, but conditions for investment remain challenging

Registered Providers are feeling more positive in 2026, despite challenging market conditions. Land-led development has been strong, supported by grant funding left over from the previous Affordable Homes Programme and greater clarity on future growth for social and affordable rents. Housebuilders have been happy to develop on behalf of RPs and in many cases, bids for sites on this basis have been very competitive. Clarity around the future of the Strategic Partnerships programme is needed to support this activity going forwards.

Section 106 demand has improved, with some major RPs re-entering the market over the last year. But the pool of demand for most packages is shallow and our network of surveyors reports that pricing has weakened in the last six months. High supply relative to demand means RPs can be more selective in the packages they look at, and delays in planning and rapidly changing market conditions are leading to renegotiations on price in some cases. Deals are increasingly relationship-driven, where RPs and housebuilders choose to work mainly with a few trusted parties.

But challenges remain across both funding and development. The conflict in the Middle East has increased the cost of debt and is expected to further increase build costs at a time when viability is already stretched. And the need to invest in existing stock remains for most RPs.

The Affordable Housing market continues to demonstrate resilience. Well-funded Registered Providers continue to have ambitious growth targets, evidenced by the latest Affordable Homes Programme being over subscribed.

Registered Providers in some areas are selectively re-entering the s106 market and are also beginning to bid for existing newer build operational portfolios, as first generation FPRP portfolios start to be traded, creating a body of transactional evidence.

Increasing interest from new capital looking to access the sector will also present alternative options to housebuilders with unfulfilled s106 affordable obligations.

Gilt yields do present a challenge for some bidders, creating viability issues. Downward movement will be beneficial to wider sector activity and sentiment.

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The information in this report is compiled using Savills' network of Affordable Housing professionals and development surveyors in offices across the UK.

Survey of Savills' national surveyor network: net balance of opinion

-6%	+50%	-29%	+24%
Overall market sentiment	Land-led activity by RPs	Section 106 activity by RPs	Change in Section 106 activity by RPs in the last six months

Market conditions remain challenging for investment into affordable housing. Existing stock obligations, high gilt yields, stretched viability and planning delays are all major challenges for RPs. But strong grant funding and a lack of competing demand present opportunities for RPs who are active in acquiring new stock.

Financial capacity is improving, but remains constrained. Spending on repairs and maintenance rose to a record £9.5bn in the year to March 2026, 5% above 2024/25, and is forecast by the Regulator to rise a further 12.6% this year. Average interest cover is forecast to fall from the current level of 78.9% to 67.3% in March 2027. But the combination of a CPI+1% rent settlement, rent convergence and stronger grant rates will rebuild capacity.

In this context, RPs are bidding competitively for sites supported by grant, facilitated by unspent funding from the previous 2021-26 AHP (more than £2bn outside London). Developing themselves gives RPs greater control over the build quality and energy performance of the finished product, reducing the need for near-term investment.

Partnerships with housebuilders are underpinning bids in markets where private sales rates have reduced sharply. Several of our agents noted that in some secondary markets, where the gap between private and affordable values is slightly narrower, a majority of land bids are backed by RPs using grant. RPs are particularly competitive on grey belt sites, where Affordable requirements are higher.

Future grant funding will continue to support the demand for land. A £39bn programme over the decade to 2036 should enable RPs to plan their investment over the long term. The funding arrangements agreed under the Strategic Partnerships programme will be crucial in driving further land-led activity, something we are expecting greater clarity on in the Autumn.

Sentiment around S106 is weak but improving, as supply is outweighing cautiously growing demand. A net balance of +29% of our surveyors reported an increase in S106 activity over the last six months. But the number of bids and the pricing of those bids is weaker than developers are used to. In many areas, the market is weighted to a few larger RPs, with smaller players less active. Interest in the sector from new entrant insurance and pension funds is increasing, but is currently being held back by high gilt yields and the perception that weak demand will lead to a lack of liquidity for aggregated portfolios.

Active RPs can afford to be selective, given the thin profile of competing demand. Interest in stock in secondary locations or with lower energy efficiency standards is particularly low, as is interest in high-rise stock. Often, RPs will bid for S106 packages subject to also taking grant-funded additional homes alongside, enabling them to drive management efficiencies.

Delays in planning are threatening deals where market conditions are changing rapidly. Rising costs and a host of alternative options mean RPs push to renegotiate S106 terms between initial agreement and detailed planning being achieved. When set against their own rising costs and sticky land values, this compounds viability challenges for housebuilders. This has been mitigated in some cases by strong partnerships, where RPs are brought in earlier on and given some control over stock specification.

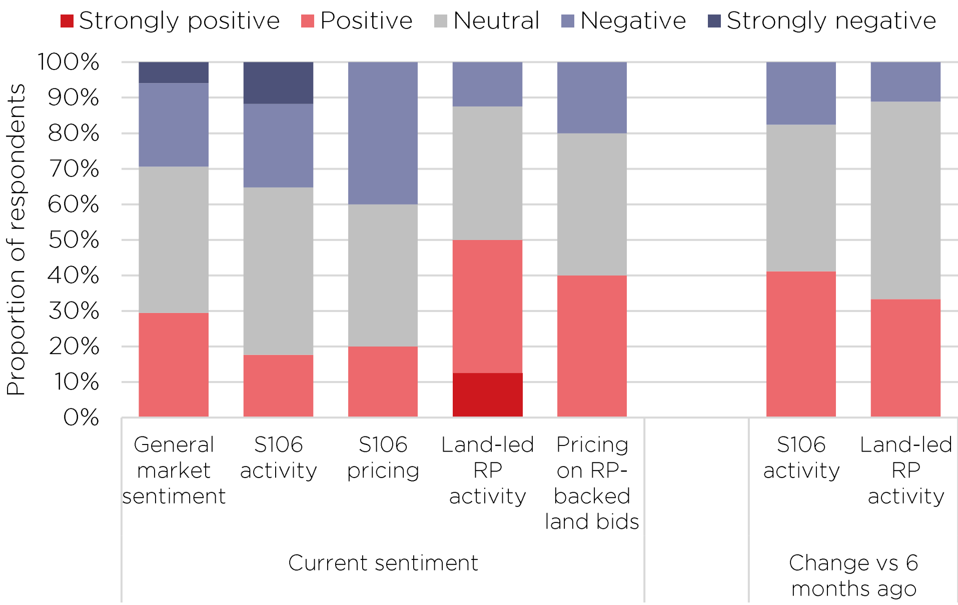
Pragmatism within councils is helping to unlock deals. In some areas, councils are willing to revisit S106 requirements to change tenure or number of units as market conditions change, particularly where RPs can commit to taking additional homes with grant instead. This is able to unlock significant housebuilding activity across both the private and affordable sectors.

To get the latest view on investment into affordable housing, we have surveyed our Affordable Housing professionals and Development Surveyors across England. In the chart on the right, red bars indicate positive sentiment and blue bars negative sentiment.

The results suggest that the market for Section 106 homes is relatively weak, with most surveyors reporting neutral or negative sentiment on activity and on pricing, resulting in a net balance of -29% and -20% respectively. However, they also reported that the market has improved over the last six months, at a net balance of +24%, suggesting RPs are returning to buying S106 after a period of very low interest. A drop in gilt yields would be particularly helpful in driving more demand for S106, particularly from new entrant capital, although this appears unlikely in the short term.

On the other hand, our surveyors are more positive about land-led development funded by grant, with a net balance of +50%. Bids for land backed by RPs are also reasonably strong.

FIGURE 1 Surveyors report improvement in S106 activity

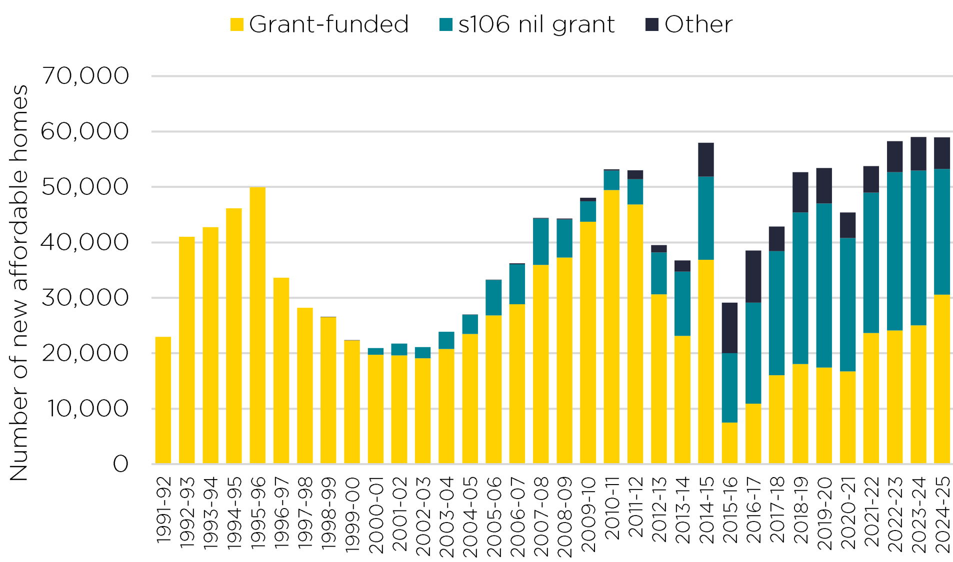


Source Savills

Government data supports this strength in land-led development. Grant-funded affordable completions reached 30,567 in 2024/25, up 76% in the last five years and by 22% in the last year alone. With a continued focus on using unspent grant funding through to the end of the 2021/26 AHP, we would expect that this figure remained high in the year to March 2026.

Use of grant helped maintain affordable completions at around 59,000 for the second consecutive year, the highest level in more than 30 years. But the difficulties in the wider new homes market have caused a decrease in Section 106 delivery, down -19% in the year to 2024/25 and -23% over five years. Overall housing completions have been broadly flat in the year to March 2026, but the squeeze on viability has resulted in a further decline in S106 completions, and the weakness in interest from RPs over the last year shown in our survey suggests S106 completions volumes may be impacted for a couple of years to come.

FIGURE 2 Delivery of new affordable homes is at its highest in 30 years

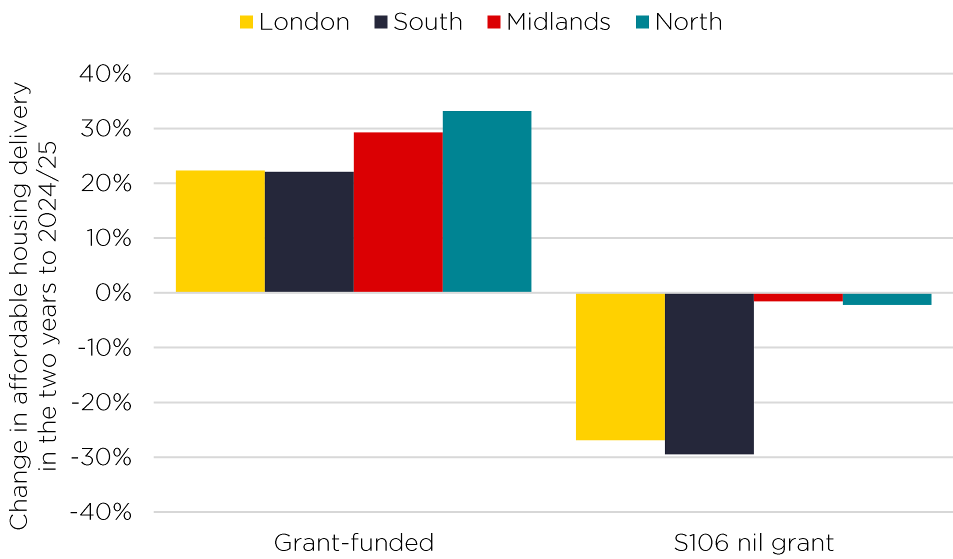


Source MHCLG

Affordable housing delivery has been more robust in the Midlands and North in the last two years than London and the South. This is partly driven by stronger overall completions, due to better performing housing markets. S106 completions have therefore held firm further north, but have dropped by more than -25% in London and the South. Our surveyors reported that S106 is especially tricky in London, where viability is further constrained by additional building and fire safety requirements, and there is less appetite from RPs because of their greater obligations to retrofit existing high-rise blocks.

Grant-funded completions have seen the greatest increase in the North and Midlands, where the gap between private sales values and rents in social housing is smaller and RP land bids are traditionally more competitive. With sales rates now lower in the South and housebuilders therefore slowing their land buying, our agents have suggested that RPs in these markets are seeing an opportunity to buy land, which may push grant-funded delivery higher in the South in the coming years.

FIGURE 3 Section 106 demand has held up better in the Midlands and North

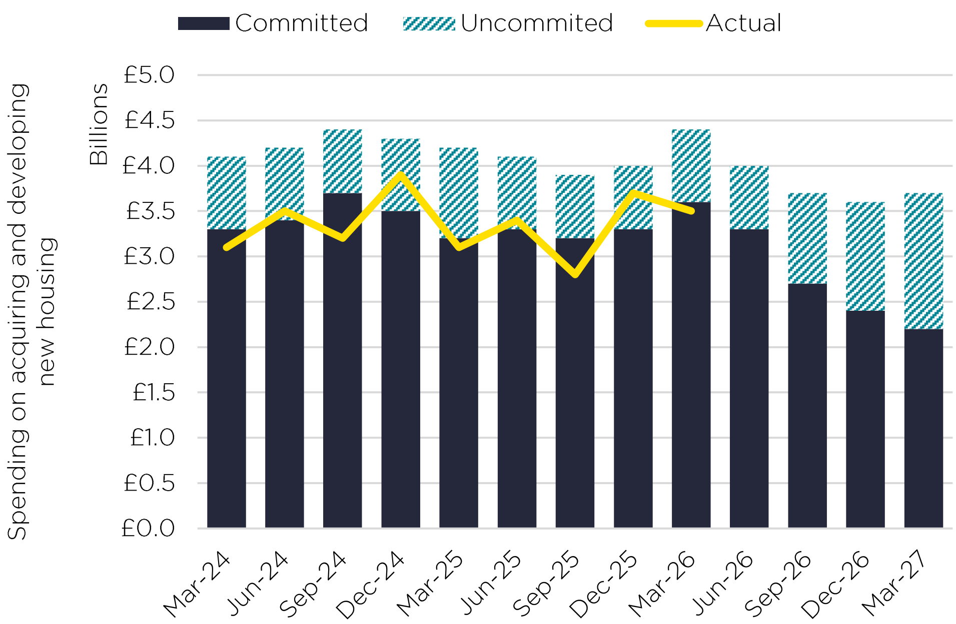


Source MHCLG

RP investment in new stock has remained roughly steady in monetary terms, despite challenging conditions, according to data from the RSH. The largest RPs spent £13.4bn on acquiring and developing new stock in the year to March 2026, roughly on par with the previous year. This was 9% below the total spend forecast, but 26% above the forecast for contractually committed schemes.

While the forecasts appear to show a decrease in investment, they exceed historical forecasts for the year to March 2026, suggesting actual investment may grow. Unlike previous forecasts, RPs are now expecting investment in Q1 next year will be higher than the second half of this year. We expect this reflects greater use of grant under the new programme, but also an expectation that Section 106 activity can improve as financial pressure slowly eases. The extent to which this can maintain affordable completions at recent highs in the coming years will depend on whether viability and planning challenges enable this investment to translate quickly into new homes.

FIGURE 4 RPs forecast investment in new stock will decline



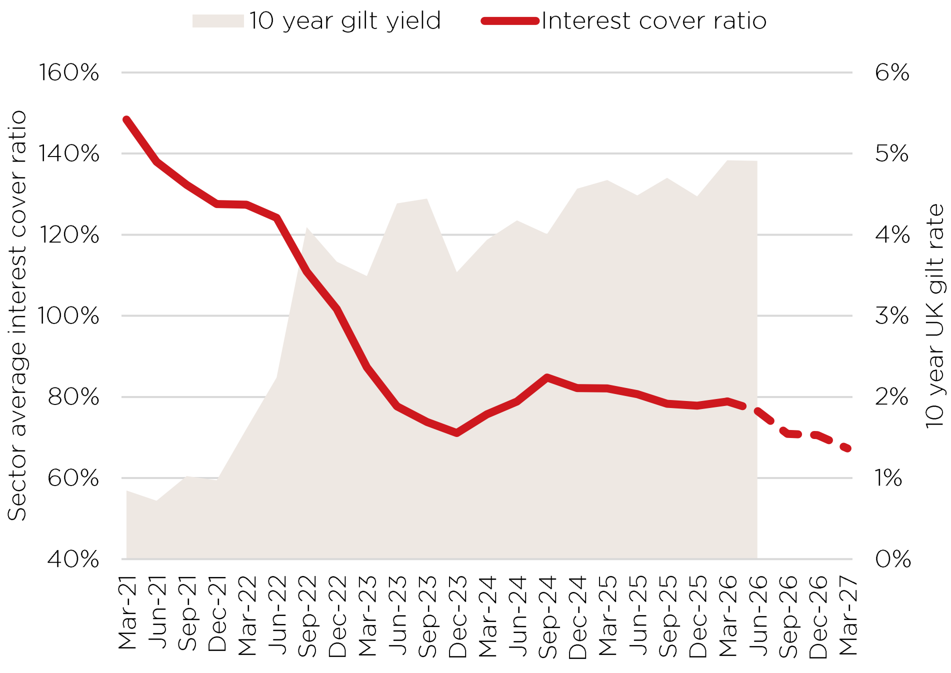
Source RSH

Higher interest rates are causing challenges across the board for affordable investment. For investors, this represents a higher cost of debt to fund development, but also a higher opportunity cost to allocating capital towards housing.

Recent events including the conflict in the Middle East and the uncertainty around the Labour Party leadership have caused 10-year gilts to rise to their highest since 2008, further stretching RP finances. But this will only impact activity gradually, since 76% of RP debt is at fixed rates for a year or more.

Interest cover ratios have declined since 2022 as interest rates and costs have both risen for RPs, which has placed pressure on business plans and has constrained additional spending on stock acquisition. In this context, strong state support through the grant programme is vital in enabling RPs to take on new homes. This burden is unequally spread – some RPs still have reasonable capacity, particularly those who aren't exposed to the higher cost of retrofitting high-rise blocks. At a sector level, both the 10-year rent settlement at CPI+1% and rent convergence should help rebuild financial capacity in the longer term but for now, interest cover is set to drop further over the next year.

FIGURE 5 Interest cover ratios decline further as pressure from gilt yields continues



Source RSH, Trading Economics

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