RESEARCH

BRIEFING NOTE

The impact of the new rent settlement

Research – Residential – August 2026

Rent settlement will see social rents stay under market rents in all parts of England over the next decade

The Government has set out its plan for social housing rents over the next decade in the Rent Standard 2026. Under the Standard, registered providers (RPs) will be able to raise rents by CPI inflation + 1% each year for the next ten years. Our analysis of Housing Association (HA) rents suggests that this would leave general needs rents slightly below their 2015/16 level on an inflation-adjusted basis, but would go some way to rebuilding HA finances following below-inflation rent caps in five of the past ten years. Rent convergence on top of this will allow HAs to bring existing tenancies up to formula rent over the next decade. We think that by 2036, 96% of 1-3 beds in the HA sector would reach formula rent, with 80% of those remaining below formula rent in 2036 being in London.

HAs have faced significant financial pressure over the last decade. The need to retrofit existing stock, including to decarbonise, has come with a sizeable bill, with HAs increasing their repairs and maintenance spend by 38% in the last three years. Higher interest rates and rising development costs have also made it more expensive to acquire new homes.

At the same time, rents in social housing have fallen in real terms. Rent increases in the social housing sector are capped by Government. In the last decade, rental growth has been capped at less than the headline rate of CPI inflation in five years, including four years (2016-20) where rents had to decrease by -1% a year in nominal terms. In all, general needs rents have fallen by -13% in real terms over the last decade, while rents are -17% lower than they would have been had a CPI+1% increase been in place throughout.

While this might have helped tenants with affordability, it has limited income for HAs and **contributed to financial pressure in the sector.** EBITDA MRI interest cover fell to a sector average of 87% in 2025, according to the Global Accounts, meaning HAs are not generating enough in a year to pay their debt interest costs. Some organisations, particularly those with greater obligations to retrofit existing high-rise stock, are under greater pressure still. In the last few years, HAs have reacted to these challenges by prioritising existing stock and scaling back their investment in new homes, particularly through Section 106.

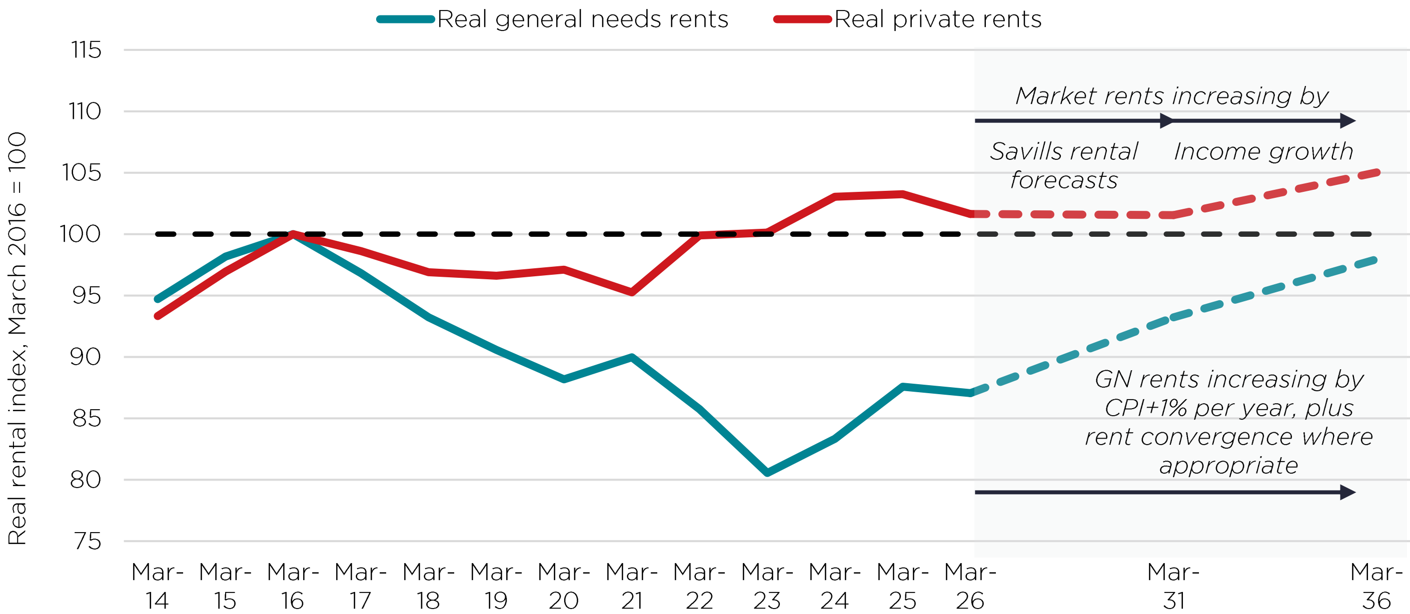
In comparison, rents in the private sector have risen slightly in real terms, outpacing inflation by 1.6% on aggregate in the last decade. Together, this means the gap between general needs (GN) and private market rents has widened. Under these circumstances, households in social housing find it increasingly challenging to move out into the private rented sector, increasing reliance on social housing for the long term.

A CPI+1% rent settlement will be crucial in helping to rebuild sector financial capacity over time. Our analysis, shown in Figure 1 below, suggests that this would result in GN formula rents rising by 39% in nominal terms and 12.5% in real terms in the next decade. This would keep rents below their 2015/16 level in real terms (vs CPI inflation) by 2035/36. The gap between social and private rents will also still be larger by 2036 than it was before the pandemic.

Rent convergence on top of this will provide further financial support for HAs, narrowing the gap between actual and formula rents. While some HA properties were already below formula rent, the gap widened in 2023/24, when growth in actual rents was capped at 7%, but formula rents increased by 11.1%. This policy may be particularly impactful for the Local Authority housing sector, where homes are generally rented at slightly lower rates than HA stock, and are further from formula rent†.

The rent settlement and rent convergence are therefore welcome and necessary steps in ensuring HAs have the financial capacity to support current residents and deliver new homes over the next decade. Challenges remain, however, most obviously that of development viability – freeing up financial capacity can only lead to higher development volumes if scheme-level funding stacks up. And existing stock will remain a priority, with providers facing growing obligations around the Decent Homes Standard and Minimum Energy Efficiency Standards. The rent settlement may bring formula rent back to roughly the same real level as 2016, but repairs and maintenance spending will have outpaced inflation significantly over the same period.

FIGURE 1 Under a CPI+1% rent settlement, general needs* rents will remain below their 2015/16 level in real terms by 2036



Source: Savills using RSH, Zoopla – powered by Hometrack, Oxford Economics

*General needs housing covers the majority of affordable housing stock for rent. It refers to stock that is not designated for specific client groups.

†Council housing rents are lower than HA rents in all areas, so the discounts to market rents will be higher in Local Authority-owned stock than those shown in this document.

We have modelled future rental growth across the HA and private rented sectors to look at how rent policy will change the dynamics between the two. We find that, by 2036, the average general needs rent charged by HAs remains lower than the average private sector asking rent in all parts of England under a CPI+1% rent settlement and rent convergence. In some areas, the gap will become relatively small, but in most, HA homes will continue to provide a very significant discount compared to the private rented sector. This shows there is capacity for rents to increase by CPI+1% over the next decade, and for rent convergence to be applied.

The relationship between rents paid in the two sectors varies significantly by location and property size. Average GN rents in HA properties will range from just 8% of the average private rent to 96% in 2036, although around three quarters of local authorities will have GN rents at between 40% and 70% of the average private rent.

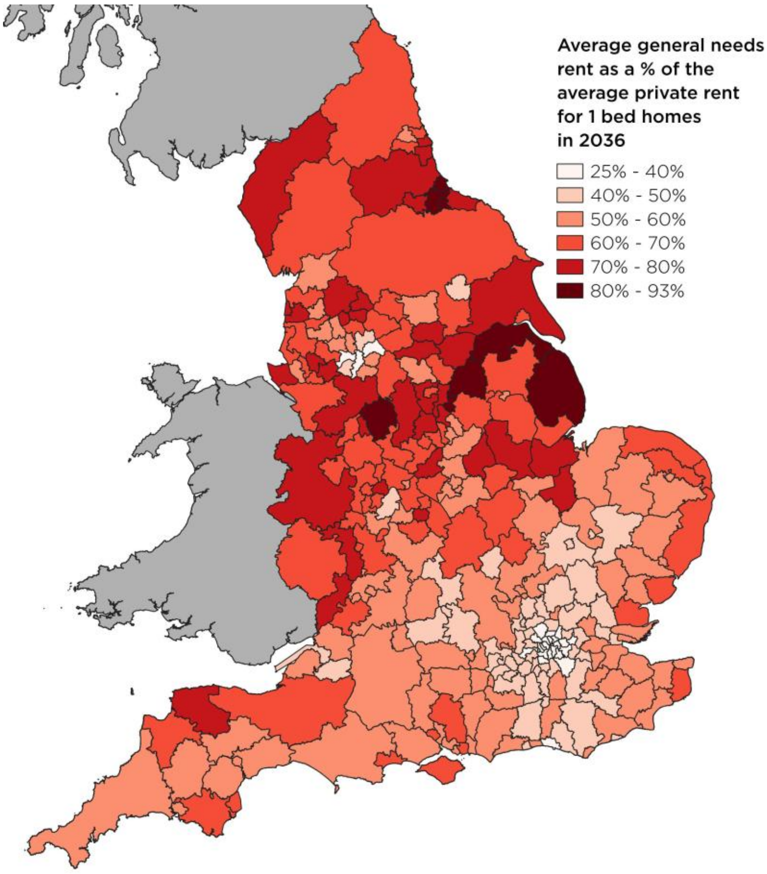
Social housing consistently provides a larger discount to private rents in the south of England where market housing is more expensive. Using 2 beds as an example, in 2036, GN rents will be less than half of private rents in every London borough and in two thirds of local authorities in the wider south of England, compared to just 8% of LAs in the midlands and 17% of LAs in the north.

One reason for this is that formula rents are calculated with reference to local earnings, which have a much tighter distribution nationally than housing affordability, which is much more stretched in parts of London and the south than in most of the midlands and north. This drives a much greater difference between the social and private sectors in areas where affordability is most constrained. Alongside this, the earnings used in the formula rent calculation were set in 1999. Since then, earnings growth has been stronger in the south than the north. This has driven stronger private rental growth in the south, increasing the gap to social housing rents. Figure 6 on the next page looks at this relationship in more detail.

HA homes also offer larger discounts to market in major urban areas, where pressure in the private rented sector is greatest and affordability is therefore most stretched. Birmingham, Manchester, Leeds, Bristol and Newcastle all feature larger discounts in social housing than the more suburban and rural areas surrounding them.

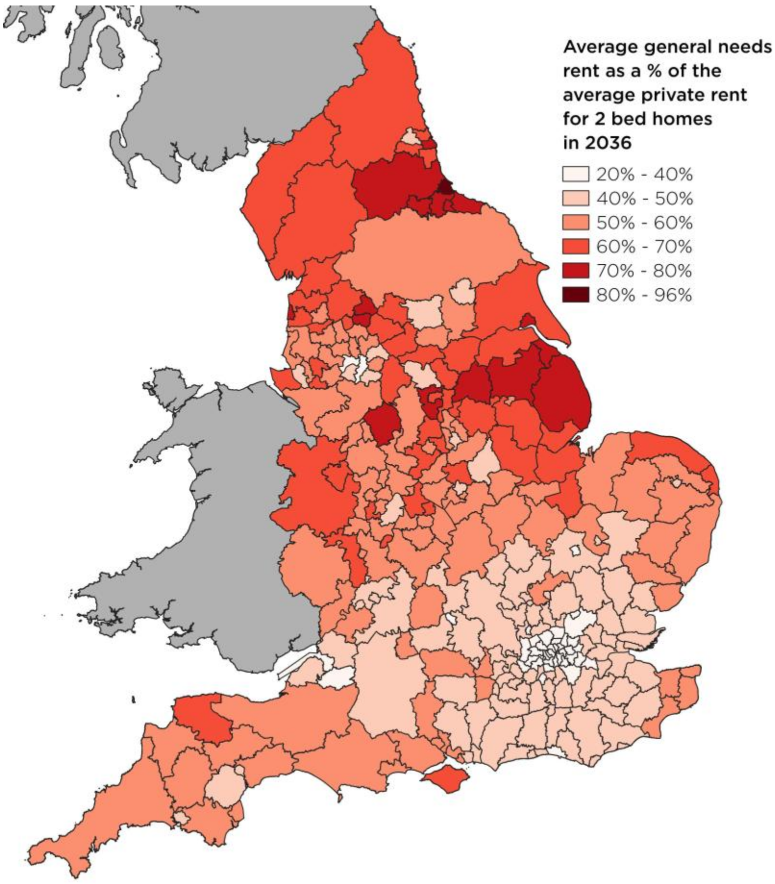
Larger properties also offer larger discounts to market rent. This ensures that families who may only have one earner can afford homes which are big enough for them. In the private rented sector, families may have to compete with groups of sharers who might have three or four incomes.

FIGURE 2 GN rents as a proportion of private rents for 1 beds



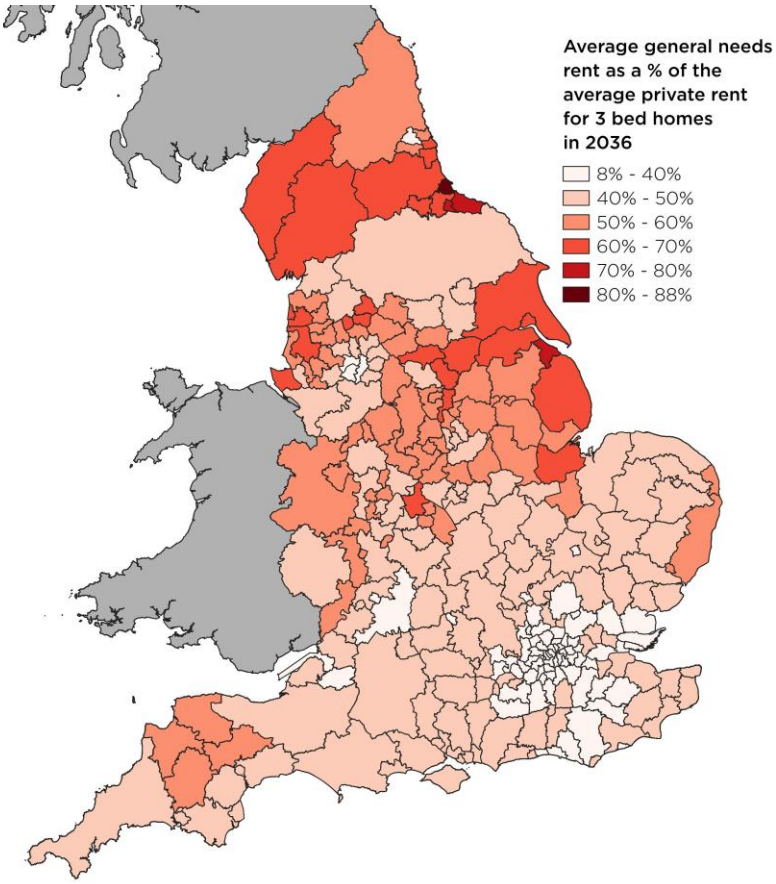
Source Savills using RSH, Zoopla – powered by Hometrack, Oxford Economics and portal listings data

FIGURE 3 GN rents as a proportion of private rents for 2 beds



Source Savills using RSH, Zoopla – powered by Hometrack, Oxford Economics and portal listings data

FIGURE 4 GN rents as a proportion of private rents for 3 beds



Source Savills using RSH, Zoopla – powered by Hometrack, Oxford Economics and portal listings data

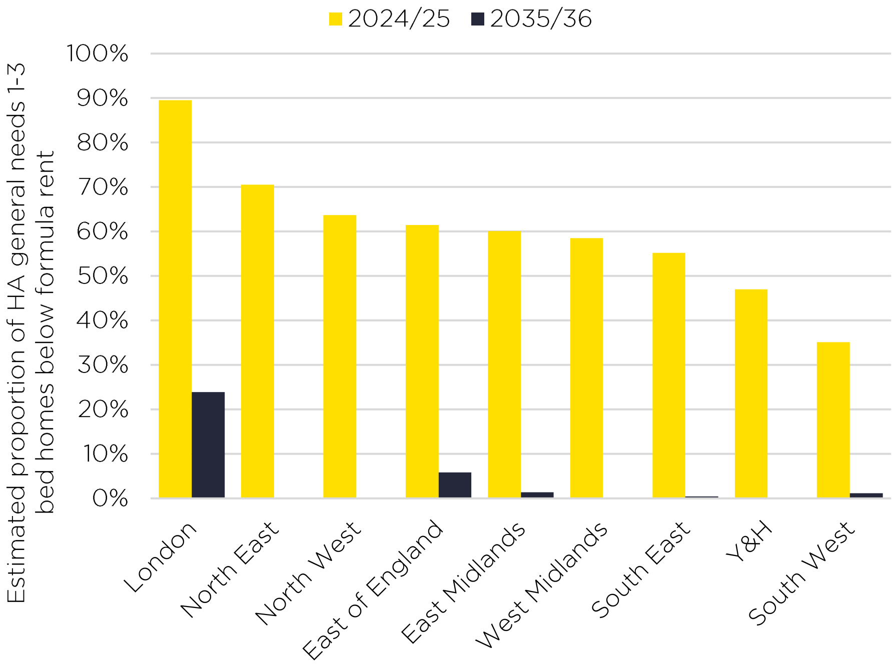
Around 62% of HA general needs homes of 1 to 3 beds are below formula rent, according to the SDR. The share is highest in London, at 90% of homes, while in most regions this figure is between 55% and 65%. This is partly a result of rent policy in 2023/24, where actual rent increases were capped at 7%, but formula rent rose by 11.1%. Some properties also had lower rents historically, which did not reach formula before the end of the previous rent convergence policy in 2015.

Homes let for less than formula rent can now be subject to rent convergence. This will mean HAs can increase rents by an additional £1 per week in 2027/28 and £2 per week from 2028/29, on top of CPI+1%, until these homes are back in line with formula rent or until 2035/36, the final year of the current settlement.

Our modelling suggests that by March 2036, 96% of all 1-3 bed homes in the HA sector will be at formula rent, with rent convergence allowing the vast majority of those currently below formula to reach that mark. This will ensure greater fairness in rents paid and affordability for similar properties. It will also provide HAs with additional income with which to invest in existing and new homes.

24% of 1-3 bed GN homes in London will remain below formula rent by 2035/36, accounting for 80% of all the homes which will remain below formula at this point. This suggests there may still be a role for rent convergence beyond 2036, given that RP financial capacity is particularly stretched in the capital.

FIGURE 5 Rent convergence to 2036 will bring 96% of 1-3 beds up to formula rent



Source Savills using RSH, Zoopla – powered by Hometrack, Oxford Economics and portal listings data

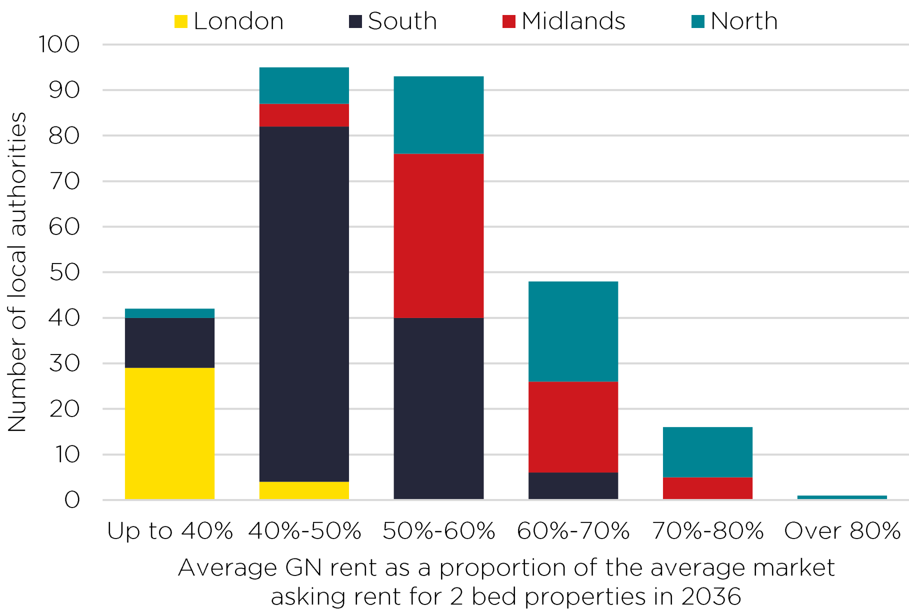
Methodology:

We have forecast Housing Association general needs rents and private rents over the ten years to 2036 and compared the two, to give an indication of the relative pressure on affordability in each market. In each case, we have looked at 1 to 3 bed homes.

GN rent data is from the SDR 2024/25. This provides an average rent for a particular HA in a particular area and for a particular property size. We have increased this rent by CPI+1% per year using a CPI inflation forecast from Oxford Economics. The SDR gives both current rents and formula rents, so we can apply rent convergence on top of CPI+1%. Data is not available at a unit level, so there is a small margin for error on convergence. As council housing rents are lower than HA rents in all areas, the discounts shown here will be higher in the Local Authority-owned stock sector.

We have forecast private rents using our Savills rental forecasts for the period 2026-2030. Private rents are closely correlated with incomes in the long run. Beyond 2030, we have therefore taken an Oxford Economics forecast for household income growth at a national level and varied it locally based on relative increases in GVA. This results in growth of around 3% on average, in line with historic trends.

FIGURE 6 Discounts to market will remain largest in London and the south



Source Savills using RSH, Zoopla – powered by Hometrack, Oxford Economics and portal listings data

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