Ministry of Housing, Communities and Local Government consultation on how to implement social rent convergence

Southern Housing is one of the largest housing providers in the UK with around 80,000 homes across London, the South East, the Isle of Wight and the Midlands, giving over 167,000 people somewhere affordable to call their own.

We're pleased to respond to this consultation on rent convergence. Convergence is designed to ensure that residents in similar sized homes in similar locations pay similar rents. It addresses inconsistencies in social rents that are unfair on residents and harm the sector's finances. Convergence will enable us to invest in both new and existing homes. The key recommendations made in our response are that:

1. Rent convergence should be at £3 per week
2. Convergence should begin as soon as possible
3. Convergence should be applied until target rents are met.

Response to questions

1. At what level should Social Rent convergence be permitted? £1 per week / £2 per week

Our vision is to create communities where everyone has a safe home in a place where they're proud to live. We reinvest every penny we receive from rent, service charges and sales into delivering services to our residents, maintaining our existing homes, and building new ones. Rents are our key source of income. They fund investment in our existing homes and finance our development programme. The better our finances, the quicker we can play our part in efforts to build the Government's target of 1.5 million homes. For this reason, we recommend social rent convergence should be £3 per week.

Along with the sector we've called on the Government to introduce a long-term, index-linked rent settlement and to reintroduce rent convergence. Rents across homes vary significantly, even between neighbouring properties with the same number of bedrooms. New tenants nominated by local authorities – amongst the most disadvantaged in society – pay target rent from day one. Convergence is designed to ensure that residents in similar sized homes in similar locations pay similar rents. In 2002, the Government introduced a rent convergence process to align rents based on factors like property values, local income levels, and property size. But this was discontinued in 2015 before many homes reached their formula rent.

Currently, a fifth of our homes (around 20,000) are below target rent. In 2026 we forecast this to lead to a shortfall of £12.5 million. As target rents move further away each year, this will result in a staggering £151.5 million shortfall over 10 years without a convergence policy.

The social housing sector's rents have diminished as a fraction of private rents. In London, at the start of the rent reduction in April 2016 we were at 35% of average private rents. As of April 2025, social rents are now estimated at only 31% of private rents. Monthly private rents here have increased by £570, a 34% increase. Social rent has seen only an increase of £117 (20%).

The same is seen in the South East; we were 48% of the average private rent market in 2016, versus 42% in 2025. Total monthly private rentals have increased by £410 here - a 42% increase. Meanwhile social rents have increased only by £94 a month (20%). We need to see a return to rent convergence so we can standardise rents and reinvest the additional income in new and existing homes.

Over recent years, government policy decisions have meant rents tracked well below inflation, falling by one percent annually for four years from 2016/17 and then being subject to a cap in 2023/24 when inflation was especially high. Not only has this eroded boards' and lenders' confidence in our key source of income, but it also means our rental income is 15% lower in real terms than it was in 2015. This, in combination with increased costs, means we're already operating outside of our financial risk appetite, with our EBITDA MRI (earnings before interest, tax, depreciation and amortisation inclusive of capitalised major repairs) cash interest cover at 40%.

Accordingly, we were relieved to see the Government listen to the concerns of the social housing sector and announce a long-term rent settlement, and to launch this consultation on rent convergence. Rent convergence at £3 per week would significantly strengthen our financial capacity, enabling us to invest in safe, decent homes and accelerate development. In response to this consultation, we conducted analysis using normal business plan inflation assumptions. The result is that our shortfall will be higher than just looking at today's values since the target rents will increase above convergent rents (until they converge) in accordance with the rent settlement.

At £3 p/w convergence the number of properties below target rent falls to 2,434 (3%) at the end of 10 years. The shortfall in rent over 10 years is reduced from £151.5 million to £52.5 million. We recommend government proceed with this option.

At £2 p/w convergence the number of properties below target rent falls to 3,666 (5%) at the end of 10 years. The shortfall in rent over 10 years is reduced from £151.5 million to £69 million. We don't recommend this option.

At £1 p/w convergence the number of properties below target rent falls to 9,894 (13%) at the end of 10 years. The shortfall in rent over 10 years is reduced from £151.5 million to £98 million. We don't recommend this option.

The above three paragraphs consider convergence without the ability to flex rents within the 5%/10% tolerance above target rents.

Current rules allow landlords to increase new tenancies inclusive of a tolerance above target rent, +5% for social rent and +10% for supported. This tolerance is a required mechanism aiming to maintain our rental income as a percentage of the faster appreciating private market, and in line with our stock investment expectations.

Were convergence allowed to the flex-increase level we start from a position of 47,203 units under target + flex rent. This is over 50% of our stock and creates a potential annual shortfall of £26.1m, £315.5m by 10 years. This would be a significant uplift on the above discussed and have an increased impact on our ability to invest in current and new stock.

At £3 p/w convergence with flex the number of properties below target rent falls to 3,426 at the end of 10 years. The shortfall in rent over 10 years is reduced from £315.5 million to £91.4 million. This would generate an extra £224m of revenue over 10 years for our business plan.

At £2 p/w convergence the number of properties below target rent falls to 7,867 at the end of 10 years. The shortfall in rent over 10 years is reduced from £315.5 million to £127.1 million. This would generate an extra £188m of revenue over 10 years for our business plan.

At £1 p/w convergence the number of properties below target rent falls to 18,448 at the end of 10 years. The shortfall in rent over 10 years is reduced from £315.5 million to £190.7 million. This would generate an extra £125m of revenue over 10 years for our business plan.

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?

Rental income is a key factor lenders consider when deciding how much organisations can borrow. When rents remain below formula levels, especially with negative EBITDA-MRI, borrowing capacity is reduced, limiting the ability to fund new development. Converging rents towards formula rent improves financial viability, strengthening borrowing capacity and allowing associations to plan sustainable growth. Without convergence, reliance on limited grant funding increases, and borrowing costs may rise due to higher perceived risk.

Whilst funding development is important, convergence is also needed to address the fact that many social rents do not cover management, maintenance and interest costs. It's why a number of landlords in London and South East, including Southern Housing, have negative EBITDA-MRI. Negative EBITDA-MRI means that rental income after operating costs and major repairs is insufficient to cover interest payments on debt, effectively resulting in a financial deficit from core social housing operations.

This isn't sustainable. Unless rents increase, Housing Associations will struggle to fund the costs of increased regulation and to maintain ageing homes. Rent convergence is critical not only to support new development but to stabilise and sustain the financial health of existing stock. By gradually bringing rents up to formula rent levels, housing associations can:

- Consider development once again
- Generate sustainable surpluses that fund maintenance, compliance, and service delivery
- Protect tenants by ensuring homes remain safe and fit for purpose.

Reintroducing rent convergence at £3 a week would make a significant impact to our financial capacity. We want to improve our interest cover metrics, so we can borrow more and develop more. However, competing regulatory pressures including costs from the Decent Homes Standard (DHS) and Minimum Energy Efficiency Standards contribute to a complex policy environment which we need to ensure we have fully considered before we can begin estimating development capacity. Government's own impact assessments estimate that DHS alone could cost £5,500 per home and MEES will cost an additional £1,000 per home. We continue to assess the impact of the proposals in the MEES and DHS consultations, as well as Awaab's Law and will respond to the former two consultations in more detail. The early modelling from the sector indicates a significant increase in costs.

While we can't commit to a specific amount of development activity based on an uplift of £1, £2, or £3 per week, a £2/3 uplift could deliver significantly more new homes before 2030 than £1 (where the increase is limited and more gradual). At Southern Housing, over ten years a £3 uplift would create an additional £99 million of resources that would be invested in existing homes, services and supporting the delivery of new social and affordable homes.

We'd have £99 million in additional income over ten years at £3 p/w convergence.

We'd have £82.5 million in additional income over ten years at £2 p/w convergence.

We'd have £53.5 million in additional income over ten years at £1 p/w convergence.

Modelling from the National Housing Federation shows that higher uplifts could support the sector to 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.

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

As of Q1 of 2025/26, we've a rate of around 4% arrears in our social housing tenants. That's the amount of rent outstanding that's been charged but not paid, currently on the balance sheet. 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. It's unlikely though, even with a £3 uplift, that an additional £156 per year would make a significant difference here.

Residents are our top priority, and we actively offer support to those who face financial hardship in a variety of ways, including a dedicated Tenancy Sustainment Team. We are well placed to help our residents with robust and well-established support packages.

Of course, we acknowledge that social housing rents do have a link beyond tenants and on the wider public purse. Our analysis indicates the burden on the welfare bill will be lower than government anticipates. The Government's impact assessment states that they are working on the basis that only around one third of social rented sector households are not in receipt of Housing Benefit or the housing element of Universal Credit (HB/UCHE) to help pay their rent.

In response to this consultation, we undertook analysis to understand if this assumption is correct for our homes below target rent. We found that 44% of the shortfall (homes below target rent) is in tenancies funded through housing benefit or universal credit to at least some extent. Therefore, in Southern Housing homes at least, it's likely that convergence will have a smaller impact on the public purse than the Government anticipates: over half are not in receipt of these benefits.

We believe this is due to geographical spread of our homes, in places where the average social renter is less likely to be in receipt of welfare support. Nearly 20,000 of our homes are under target formula rent, contributing a shortfall of £12.5m. This £12.5m shortfall is driven by London, where we've a shortfall of £9.6m, and the South East, where we've a £2.9m shortfall. There's an average shortfall of £16 per week in London and nearly £7 in the South East.

The impact on those households already at target rent of a £1, £2 or £3 convergence policy will be varying degrees of fairness, with the highest weekly additions meaning over time their neighbours' rent comes closer to their own. New tenants (who in order to be nominated by local authorities are by definition amongst the most disadvantaged in society) pay target rent from day one. Convergence is designed to ensure that residents in similar sized homes in similar locations pay similar rents. We currently have a two-tier system, with new tenants paying target rents and some existing tenants permanently paying lower rents, many of whom will have higher incomes than new tenants.

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?

We strongly support implementing rent convergence from 1 April 2026, rather than delaying to a later date due to inflationary pressures devaluing the uplifts over time. Delaying by even one year means that the same nominal increase delivers less value. In an inflationary environment, the real value of any permitted convergence uplift (e.g. £2 or £3 per week) declines the longer implementation is postponed.

Implementing convergence earlier has tangible financial benefits. For example, if convergence of £3 per week commenced in April 2026 and allowed us to generate additional rental income across our stock, this could be used immediately to reduce debt levels. Over a five-year period, that could result in estimated savings of £2.8m in interest payments, directly improving our financial sustainability and capacity to reinvest in services, stock improvements, or new housing delivery. Delaying by even one year would defer these benefits and effectively cost the organisation in both cash terms and opportunity.

In contrast, postponing convergence reduces our ability to respond to increasing cost pressures - including inflation-linked rises in repairs, compliance, and net-zero upgrades - while further entrenching historical rent disparities.

The earlier convergence begins, the more stable and equitable the rent framework becomes and the greater the alignment with long-term planning cycles for providers. Delayed implementation risks compounding the problem and eroding the intended impact of convergence before it has a chance to take effect.

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

The previous period of rent convergence spanned 13 years, during which time it was expected that registered providers would be able to bring their rents into line with formula rent. In practice, this wasn't fully achieved. As a housing association, we continue to see a significant and growing disparity between actual rents and formula rents across parts of our stock.

Given this persistent gap - which has ongoing financial capacity implications - we believe that housing associations should be able to use a convergence mechanism until homes meet target rents. It should be at housing associations' discretion to apply uplifts to below-formula-rent-homes. Once rents fully meet the target rent, the flexibility of +/- £x pw convergence ceases for that home. This would help ensure fairness and consistency between homes across the sector and enable us to manage our homes more effectively within a coherent rent framework.

At Southern Housing, in the South East, it would take on average eight, four, or three years to converge depending on if we had £1, £2, or £3 extra rent per week respectively

In the East of England, it would take on average 12, six, or four years for rents to converge depending on if we had £1, £2, or £3 extra rent per week respectively.

In London the situation is most stark, and it would take on average 16, ten, or seven years for rents to converge depending on if we had £1, £2, or £3 extra rent per week respectively.

Government's current proposals centre around very small increases in rent per week, and while this lessens the impact on residents, it is harder for rents to actually converge, and it lowers the positive effect on housing associations' finances. This situation is amplified by inflation. As inflation takes place, the real-terms impact of small nominal increases from £1-£3 would be relatively marginal for most households. And in higher inflationary environments, such increases are often absorbed more easily by tenant incomes, particularly when wage growth or benefit uprating reflects broader price movements.

But it also means the real financial benefit to housing associations diminishes. In effect, the value of each year's convergence step is reduced just as inflation drives up our operating and maintenance costs (particularly labour and materials which are becoming especially important for compliance-related expenditure). This, in turn, risks constraining our ability to invest in existing stock, meet building safety obligations, or deliver new affordable homes.

Therefore, the convergence mechanism should be able to be applied until homes converge. Without this, the sector risks falling further behind formula rent in real terms, even while nominal rents increase undermining both the original policy intention of convergence and the financial resilience of providers.