



England's £79 Billion Housing Subsidy

By Ben Hopkinson

When Keir Starmer came to power, his position on housing was clear: he would 'back the builders, not the blockers', with a target of delivering 1.5 million homes across the parliament.

Andy Burnham, as he prepares to enter Downing Street, has been equally clear. His priority when it comes to housing will be to oversee 'the biggest council house building programme since the post-war period'. He argues that Britain has lost almost 1.5 million council homes since the 1980s, that the state is forced to chase rents in the private rental sector through the benefits system, and that this is having 'a ruinous impact' on the public finances. Refocusing on council homes again, he argues, 'will represent a decisive shift to a more preventative and productive state'.

This briefing argues that this view is deeply misguided. It shows that the housing crisis is definitely having a ruinous impact on the public finances – indeed, once you add together the implicit and explicit subsidies for public housing, it is costing the country an astonishing £79 billion a year in England alone.

However, it also shows that the economics of council housing mean that building more of it will just make the losses worse. For example, a social rent home in London does not charge enough rent to even cover its operation and maintenance, let alone repay the money used to build it. That means each additional social rent home adds to an ever-growing liability. A London-based tenant who receives that social home at age 25 and lives to the average UK life expectancy of [81](#) receives a lifetime subsidy of over £1 million.

The UK does not have a shortage of social housing, but it does have a shortage of [6.5 million](#) homes. Speeding up the planning system, removing expensive regulation, and allowing permission for more land to be developed are all free and will do more for housing affordability than more subsidies.

How many social homes do we have, and how much do they cost to build?

Listening to the rhetoric around a social housing shortage, one would assume that the UK barely had any social homes. Yet this is far from the truth. The UK has the [fourth highest](#) percentage of social housing stock of any OECD country. At 16.4%, the UK has more than double the EU average of 8% social homes. Only the Netherlands, Austria, and Denmark have a higher proportion of social homes than the UK.



The UK has the fourth highest percentage of social rental dwellings in the OECD

Share of social rental dwellings to total number of dwellings, 2022 or latest year available

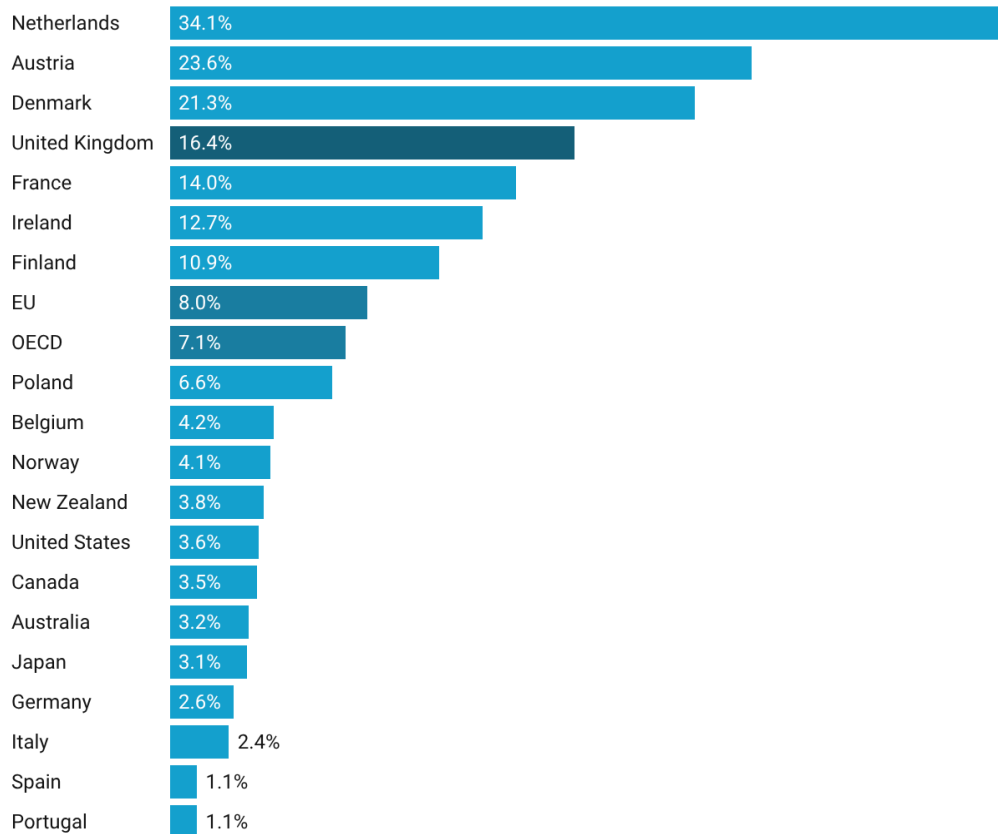


Chart: Centre for Policy Studies • Source: OECD PH4.2.1 • Created with Datawrapper

It is sometimes argued by those on the left that building still more social homes is a win-win, because it creates productive assets for the nation. But this ignores the economics of the housing market.

There are explicit subsidies for the construction of new social homes. The Social and Affordable Homes Programme is spending £39 billion over the course of a decade on the construction of new subsidised housing. Burnham has indicated that he wants to switch all affordable rent funding to social rent housing, which is the heaviest subsidised tenancy.

That £39 billion may seem like a lot of money. But it is over a 10-year period. So, the actual funding is only £3.9 billion a year. Burnham has said that he will cut the costs of development by using public land for the projects. But the state does not own many empty green fields, apart from those over which the Army drives its tanks. Even if provided at cost, brownfield land – land which is already being used – will require expensive remediation before it is fit to build on.



Indeed, while there is huge variability in the cost of constructing different kinds of housing, The Housing Forum [recently estimated](#) that given construction prices and housing regulations, the cost of building an average-size, three-bedroom, semi-detached house now comes to £251,700, even if the land is provided for free. This would imply that Burnham's £3.9 billion will cover just 15,494 houses a year. That's only 5% of the Government's annual housing target for England.

But in fact, even that may be an overestimate. The £4.06 billion 2021-26 London Affordable Homes Programme had a target of 35,000 housing starts. Sadiq Khan then lowered the target twice, to 17,800-19,000 starts. But it looks likely that even this watered-down target will not be met. According to [GLA figures](#), only 14,335 houses were started under the 2021-6 programme during the relevant period. Assuming the full amount of grant funding was deployed, this represents a cost of £283,223 per home, not including the private housebuilding cross-subsidy.

Supporters of social housing will argue that, while the costs are unfortunately high, this does not ultimately matter, as no public money has actually been spent in the long run: instead, an asset of equivalent value has been created. But again, this misunderstands the economics.

The average English social house (weighted average of affordable rent and social rent) charges a rent of [£6,227](#) a year and costs [£6,280](#) a year in maintenance and management costs. So while rent effectively covers operational costs, it will never cover – or even begin to chip into – the cost of building the house in the first place. The only way to recover even part of the construction subsidy is to let it out closer to market rates or to sell the property, something that the Labour Government has made harder to do by curtailing Right to Buy.

And in fact, Burnham wants to make this imbalance worse by shifting the percentage of social homes towards social rent, which has a larger subsidy than other 'affordable' rents. The average English social rent home has a rent of only £5,942 a year, compared to the average affordable rent of £8,748. Because social rent homes do not even cover the average maintenance cost, the entire money spent on building the home is not recouped, and an ongoing liability of over £300 a year is created.

In some places, like London, the figures are even worse. The average London social rent home has a rent of £7,380 a year but costs £8,720 a year to maintain. That means that each London social rent home will never recover the initial capital investment, instead creating an ongoing liability of £1,340 a year.

We can therefore safely conclude that the £3.9 billion spent on social and affordable housing is not an 'investment', but is an outright cost to the taxpayer, as well as creating an ongoing liability. Switching from affordable rent to social rent housing, and building more of it, will make the costs even higher. But that is only the tip of the iceberg.



How much are we spending on housing benefit?

In the section above, we mentioned that the typical social or affordable home has extremely discounted rents. But most people in those homes do not even have to pay these discounted rents themselves, and private renters can also benefit from these allowances to pay their rent.

In 2024/25, the UK spent [£36 billion](#) on housing benefit and the Universal Credit Housing Element. England accounted for £32 billion of this housing subsidy. As the chart below shows, the UK spends the highest percentage of GDP on housing benefit of any of the OECD countries. France benefits from having [120](#) more homes per 1,000 people than England. If we built the homes England needs and brought housing allowances to French levels as a percentage of GDP, the government would save £18 billion a year.

The new Prime Minister instead prefers that we spend even more. One of Andy Burnham's most significant [interventions](#) on housing policy as Mayor of Greater Manchester was calling for the government to increase the Local Housing Allowance, which would have driven these record-high subsidy figures even higher.

The UK spends the most on housing benefits of any OECD country

Total spending on housing allowances, % of GDP, 2022 or latest year available

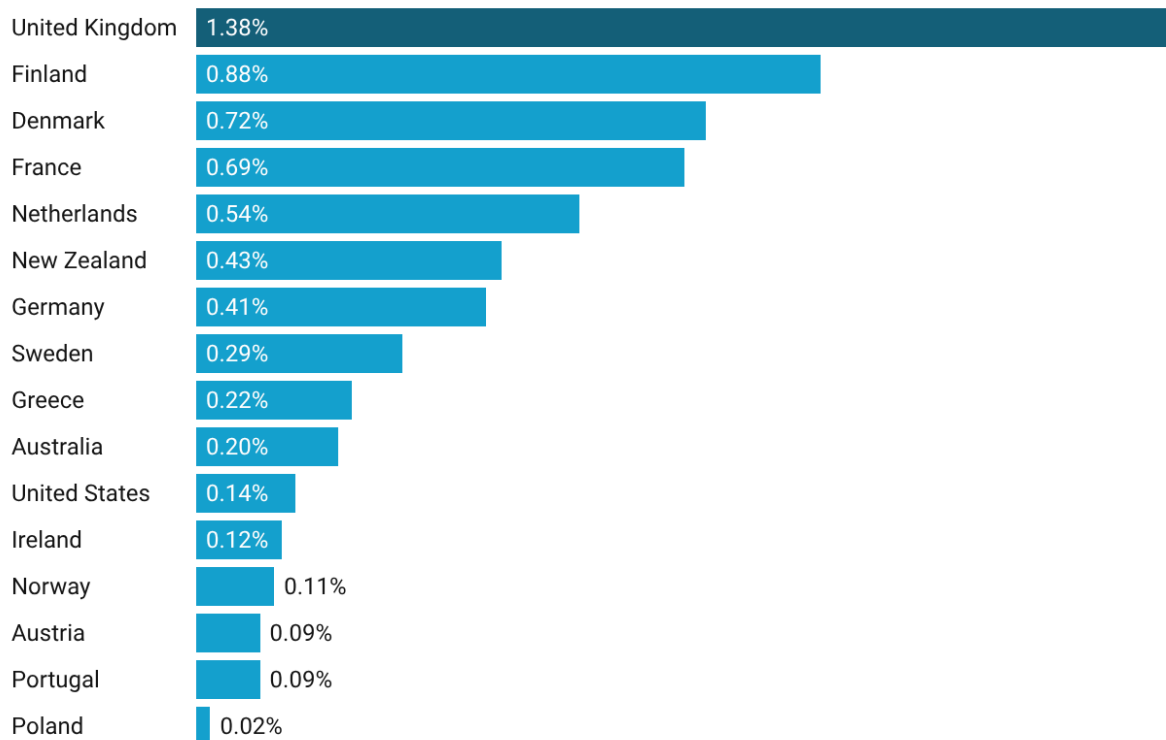


Chart: Centre for Policy Studies • Source: OECD PH.3.1 • Created with Datawrapper



Supporters of building more social housing will argue that one of the advantages of such a programme is that it cuts the housing benefit bill: it is cheaper to subsidise the rent for a house that the state owns and built than to cover the eye-watering costs of private renting.

This is true. But as we outlined above, building and operating those houses is still a significant financial negative. And in fact, most of the subsidy we deliver via housing benefit – £22 billion of the £36 billion – goes not to those in the private rented sector, but to those already benefiting from social housing's reduced rents.

The total housing allowances have also been rising in real terms. In 2018/19, £20.7 billion was spent on direct subsidies for housing. Adjusted for inflation, £10 billion extra is being spent on subsidies now compared to 2018/19.

And again, these housing allowances disproportionately benefit those in London. Despite only containing 13% of the UK's population, the capital accounted for 24% of housing benefit expenditure. This means that in 2024/25, an estimated £8.6 billion was spent subsidising people to rent in the most expensive housing market in the UK.

Housing benefit as a subsidy also distorts the housing market. One key study found that landlords, not the tenants, capture up to [two thirds](#) of the money paid into housing benefits by raising rents. That means more housing subsidies will price out people who are not in receipt of benefits because of increased private rents.

What about the implicit subsidies?

So far, we have dealt with the explicit costs of social housing: the numbers that show up on the Government's balance sheet. But it also comes with a vast implicit cost, in terms of the gap between the cost of renting those homes out at below-market rates and what the state would receive if those properties were rented on the open market.

In 2025, the average private rent in England was [£16,500](#) a year and in London it was £26,748 per year. A stark contrast with the average social housing figures of [£6,227](#) across England and £7,744 in London.¹

Comparing the size and quality of the average social home and the average privately rented home is difficult, but the [English Housing Survey](#) provides indicative figures. Private homes are generally slightly larger, 76m² versus 66m², but also tend to have more residents than social homes, 2.3 compared to 2.17. That means the average private home only has about 2.6m² more space per resident than the average social home. In London, social homes are actually [larger](#) per resident than private homes.

¹ CPS calculation using [Regulator of Social Housing Data](#) and breakdowns between Registered Providers and Local Authorities ([MHCLG Table 109](#)). Historical calculations use [Tables 702 and 704](#).



Social homes also tend to be newer than private homes, with 85% constructed after 1945, compared to only 53% of privately rented homes. About the same percentage are flats, 45.6% of social homes to 43.6% privately rented. And social homes are slightly more likely than privately rented homes to be found in the suburbs than either urban centres or rural areas. Broadly speaking, in other words, there is a reasonable level of similarity between the two tenure types.

Given the disparity in rents, the average English social home is let out for £10,250 less than the average privately rented property. Across England's roughly 4.2 million social homes, this amounts to an implicit subsidy of £43 billion a year in 2025. This has been growing, too. In 2014/15, the implicit subsidy across England was only £26.6 billion (£36.1 billion in 2025 GBP). The cause of this growth has mostly been in the capping of social housing rents while the private market rent has outpaced inflationary growth.

Social rents are lower in real terms than a decade ago, while private rents have shot up

Social and private market real terms rents in London and England indexed to 2013/14.

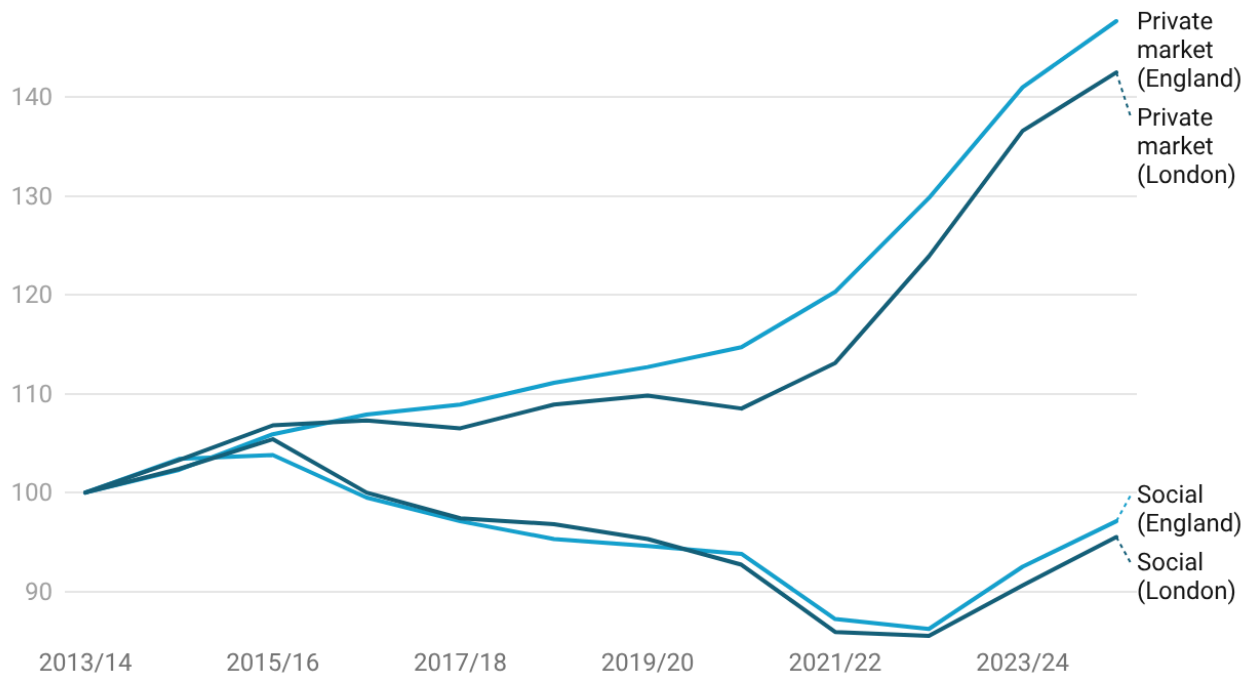


Chart: Centre for Policy Studies • Source: Trust for London • Created with Datawrapper

A left-wing critic may look at this chart and see it as a crystal-clear argument for rent control. Of course, social housing is already a form of rent control, given that the market has no bearing on how much the rent increases year to year. Yet the actual story of the rise of private market rent is more complicated and lends significantly different policy prescriptions than rent control, which has disastrous [second-order consequences](#), like fewer new homes and lower maintenance standards of existing properties.



There are several causes of the rise in private market rents. The most obvious is that we [have not built enough houses](#). The state has also introduced measures that encourage landlords to leave the market. Less favourable tax treatment on mortgage interest, requirements to meet higher energy efficiency standards, higher stamp duty on rental properties and the new Renters' Rights Act have discouraged landlords from letting out properties or from buying more. Between 2016 and 2023, landlords sold [300,000](#) more homes than they bought. This has only accelerated in the run-up to the Renters' Rights Act, which saw the number of rental homes for sale in the market rise by [30%](#) from 2023 to 2025.

At the same time as private rental properties were sold off, significant migration to the UK has increased the demand for rental property. One estimate put the impact of net migration on private rents at over [£1,500](#) extra a year in England and over £2,500 in London. Social tenancies, which are increasingly granted on a lifetime basis, are insulated from these trends. As a result, the burdens are borne by a smaller share of properties, making them significantly more expensive.

The levels of this implicit subsidy are – yet again – highest in London. The difference between the average private and social housing rent in London is £19,000 a year. Across London's 800,000 social homes, this equates to over £15 billion each year. That's rental money that local authorities or housing associations could have received that they have foregone. Indeed, given that London is one of the most expensive housing markets in the world, the implicit subsidy involved in removing 21% of the homes from the housing market is significant.

The shift towards lifetime tenancies locks in this subsidy. A London tenant who receives their social home at age 25 and lives to the average UK life expectancy of [81](#), receives a lifetime subsidy of over £1,000,000.² Again, we might decide as a country that this is a good way to spend money. But we at the very least need to be aware of it.

² Or around £500,000 in Net Present Value under the Treasury's Green Book



Conclusion

Taking all of the factors above together, the Government implicitly and explicitly subsidises housing in England alone by £79 billion a year. That combines the £43 billion in implicit subsidies for social housing by capping their rents well below the market rate, the £32 billion spent on housing benefit and Universal Credit housing allowance, and the £3.9 billion a year that is spent subsidising the construction of new social and affordable housing. In London alone, the implicit and explicit subsidies total £25 billion. And of course, the fact that many of these properties are occupied by those who were not born here – including, notoriously, [the first lady of Sierra Leone](#) – makes such costs all the more politically contentious.

But there is a bigger point to make here. The core problem facing UK housing is not a lack of social homes, or a lack of support for private renters. It is simply a lack of homes.

To get to the average Western European supply of housing for a country its size, the UK would need to build [6.5 million homes](#). The gap left by these missing 6.5 million homes is what underpins the housing crisis, and its consequences are felt in every housing-related issue.

Tinkering around with pots of money for social homes or housing allowances will not help resolve the problem. At best it is a distraction. At worst, switching the policy focus from unlocking private housebuilding to building additional social homes will actively harm the delivery of housing, as we have already seen when it comes to London's [record-low housing starts](#). Andy Burnham would do well to make the case for more housebuilding of all tenures, rather than doubling down on social housing – whose implicit and explicit subsidies are among the many, many costs of our wider failure to build.

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