

## Affordable Housing Need in Scotland Post-2026

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### 1. Executive Summary

This report presents the findings from research on projected affordable housing need in Scotland for the next Scottish Parliament 2026-31. It is the third iteration of similar research conducted in 2015 (Powell et al., 2015) and 2020 (Dunning et al., 2020). The aim of this iteration was to *identify how many affordable homes must be delivered between 2026-2031 to meet housing need in Scotland, and the associated cost*. Below we outline our definition of affordable housing need, research approach and key findings.

The projected gross affordable housing requirement for Scotland 2026-31 is **15,693 homes annually**. This is nearly a 50% increase in estimated need relative to the 2020 report and would necessitate a significant increase in the nominal Scottish affordable housing delivery target of 10,000 homes per annum. The drivers of need include increased homelessness, higher numbers of households inadequately housed in private tenures, recent spikes in rental inflation, persistent affordability pressure and a decline in the number of properties becoming vacant within the housing stock. Given the composition and drivers of need, the predominant focus of affordable housing supply should remain social rented housing.

The increased level of affordable housing need is, therefore, reflective of several acute challenges converging within the Scottish housing system. But these challenges have also emerged at a time when new housing supply - both private and social - is falling. A consensus has formed that the Affordable Housing Supply Programme (AHSP) needs urgent investment. We provide an indicative AHSP budget to meet affordable housing need, which we estimate to be **£1.64bn annually, and £8.20bn over the next Scottish Parliament** in today's prices. This represents a central projection, and the past five years have underlined the need to build resilience within AHSP. Consequently, by modelling a set of plausible inflationary scenarios we estimate that the funding should be within the region of £8-9.2bn.

Defining affordable housing need

We define and use the term ‘affordable housing need’ in two respects. Firstly, a household is regarded as *in need of affordable housing* if their housing situation falls below normative standards of adequacy and decency, and they are unable to meet these needs in the market. Housing need is a multi-dimensional concept and therefore we rely upon multiple indicators of need including homelessness, insecurity, overcrowding, extensive disrepair, or the unsuitability of a home for a household’s circumstances. Secondly, societally there is a need for an aggregate amount of affordable homes to meet the household needs outlined above. To operationalise and quantify this societal need we estimate Scotland’s *gross affordable housing requirement* i.e. the overall number of additional affordable homes required to meet aggregate need.

## Research approach

The research proceeded through five stages:

1. **Stage one - Policy and evidence review.** A review of key policy documents and existing research. Stage one sought to contextualise the research and inform our modelling by highlighting the probable drivers of housing need in Scotland.
2. **Stage two - Housing Needs and Demand Assessment (HNDA) review.** The research involved a desktop review of existing HNDAs conducted by local planning authorities to understand housing requirements in their locality. In total, thirteen HNDAs were reviewed, covering most of the geography of Scotland. The purpose of the HNDA review was to understand current practice in housing needs assessment.
3. **Stage three - Key stakeholder interviews.** Interviews were conducted with twenty stakeholders with experience of needs assessment and affordable housing delivery. The interviews sought to understand local practice, inform the analysis in stage four, and sensitise the research to a changing local context.
4. **Stage four - Modelling gross affordable housing requirement.** To quantify Scotland’s affordable housing requirement we developed a desk-based model of housing demand and need at the national scale. The model produces a gross affordable housing requirement by estimating affordable housing need – the sum of households currently in need of affordable housing and new households expected to need affordable housing over the five-year period – and subtracting the expected supply of affordable housing lettings.
5. **Stage five - Analysis and funding requirements.** The final stage involved estimating an indicative AHSP budget for 2026-31 to meet the gross affordable housing requirement.

## Findings

Housing policy developments in Scotland since 2020

The past five years can be summarised as a period of significant ambition in Scottish housing policy but with gaps in implementation and acute challenges emerging in the past few years. There have been some notable achievements in housing policy, including a period in which the AHSP budget increased and focused predominantly on social rented housing. There are also long-term focused policy agendas that are yet to be implemented that may affect affordable housing delivery. Yet the past five years have highlighted the need for resilience in the housing system. The AHSP budget has fluctuated which will affect delivery. Homelessness applications have continued the upwards trajectory that began in 2017/18, notwithstanding a short dip during the pandemic. And temporary accommodation usage has risen sharply since 2020. There is increasingly a recognition that the Scottish Government's ambitious *Housing to 2040* strategy is in "*significant difficulty*" (Gibb et al., 2024: 4). In this context thirteen of Scotland's thirty-two local authorities, and the Scottish Parliament, have declared a housing emergency.

### Assessing affordable housing need at the local level

Local housing needs assessment demonstrates several aspects of best practice. HNDAs tend to be transparent, mostly reliant upon credible data sources (e.g. national statistics) and demonstrate understanding of the key drivers of change in local housing markets. Although the HNDA process is thought to be a source of consistency and clarity, there is a widely held view that Scottish Government measures of backlog housing need represent a lower bound and it is common for authorities to utilise local data to provide a higher estimate. Moreover, HNDAs can be time-intensive – many of the most recent HNDAs pre-date the 2022 cost-of-living crisis – and it is commonly suggested that the HNDA process underestimates need in rural areas.

### Demographic, economic and housing trends

Several demographic, economic and housing system trends suggest affordable housing need has risen since 2020. These trends include:

- Rising and persistent levels of homelessness and the cumulative shortfall of past AHSP delivery relative to estimated need, with both issues expected to be particularly acute in large urban areas with higher house prices.
- Inflation in house and rental prices over the past five years, especially private rental housing. While wage growth may have mitigated the pressure of price inflation to some extent, long-term affordability pressure is likely to continue.
- Continued growth in the number of households, especially in larger urban areas, and declining average household size as the population ages.

### Affordable housing need in Scotland

To estimate affordable housing need at the national scale we develop a bespoke stock-flow model for Scotland. A stock-flow model assumes there exists at any one point in time a 'stock' of households in need of affordable housing. Over time, households may flow into need due to a combination of changing circumstances (e.g. becoming homeless) and demographic changes (e.g. new households forming). Conversely, they may flow out of need by occupying affordable homes that become available to let.

Firstly, we estimate the stock of backlog need, which comprises a) homeless households and b) households inadequately housed in the private sector and in affordability stress. Indicators of inadequate housing include overcrowding, housing below government defined quality standards, and housing unsuitable for health needs. We utilise Scottish House Condition Survey data and the 2022 Census to estimate inadequate housing. Both sources of backlog need have increased significantly since 2020. And clearing backlog need over five years will require 13,917 homes annually, an increase of 40.33% relative to the 2020 report.

Secondly, we estimate newly arising need over the next five years. Newly arising need is a combination of a) newly forming households unable to afford the market and b) new homelessness cases. We estimate that 54.83% of newly forming households will be unable to afford the market, resulting in 7,721 newly formed households requiring affordable housing annually. Further, if current trends in homelessness continue we expect that 20,170 new homelessness cases will emerge annually. In total newly arising need is estimated to be 27,891 annually. This represents a 3.7% increase compared to the 2020 report and is driven primarily by rising homelessness. Annual housing need is, therefore, estimated to be 41,808 homes.

However, some of this need will be met through the flow of social housing lettings occurring annually. Consequently, we estimate the flow of general needs lettings and low-cost home ownership resales at 26,809 homes annually. We subtract this figure from annual housing need to calculate the final gross affordable housing requirement. The annual gross affordable housing requirement for Scotland is **15,693** homes.

### Funding requirement

The level of need in Scotland underlines the need for urgent, significant and sustained investment in AHSP. To inform the necessary investment, we calculated an indicative AHSP budget using our estimate of housing need and the current AHSP investment benchmarks uprated for inflation. We present multiple plausible budgetary scenarios that vary in two respects. Firstly, we present three contrasting tenure scenarios:

- 70% social rent, 30% mid-market rent (MMR);
- 75% social rent, 25% MMR;

- 100% social rent.

Secondly, we project these tenure scenarios under three different inflationary scenarios:

- 8.65% annually, which represents a continuation of recent increases in the average AHSP grant per home;
- 5.50% annually, which is the average annual construction inflation rate between Q4 2019 and Q4 2024 according to the Scottish Social Housing Tender Price Index (SSHTPI) reported by Scottish Government;
- 3.66% annually, which is the rate of construction inflation according to the SSHTPI for 2024.

Our central scenario is the 75:25 tenure split, with 5.50% inflation annually. Under our central scenario the AHSP budget would be **£1.64bn annually, and £8.20bn over five years**. In the majority of our scenarios the indicative budget falls within the range of £8-9.2bn over five years.