The Voluntary Right to Buy pilot: Additional analysis of completions

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Acknowledgements

This brief report should be read as an addendum to our main research report on the Voluntary Right to Buy pilot programme, published in January.[1] It tracks the progress of the Right to Buy sales through to completion and assesses the level of take-up in the programme against previous estimates and predictions. As with the main research report, this report could not have been completed without the help of the pilot Housing Associations. As before, they have been extremely helpful in providing data and responding to our questions. In particular we would like to thank John Barry at TVHA, Sam Codling, Gary Cross, Shanie Lau and Steve Moseley at L&Q, Vicky Corner, Carol Lavender and Hugh Owen at Riverside, Clare Powell, Tony Quigley and Nathan Bumstead at Sovereign and Sally Anderson at Saffron. Ruth Jacob at NHF has also provided constant advice and support throughout this project.

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[1] The report can be accessed here: http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/vrtb-pilot-research-main-report.pdf

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Introduction

1

This report builds on detailed analysis of the lessons from the pilot programme for the Voluntary Right to Buy (VRTB). The introduction of the right to buy (RTB) for eligible tenants in specified housing association dwellings was a manifesto commitment by the Conservative party for the 2015 general election. In October 2015, the government accepted a proposal by the National Housing Federation (NHF) on behalf of its members to deliver this commitment by way of voluntary agreement rather than legislation. The VRTB pilot scheme was set up by the Department for Communities and Local Government (DCLG) the following month.

The research team was commissioned in January 2016 by the National Housing Federation (NHF) and the five pilot housing associations to investigate the programme using an action learning approach. Findings from this research were published in January 2017.[2] Some of the key findings were that:

- there was a fairly strong level of interest in VRTB as a proportion of those tenants who were living in eligible properties to apply (although this varied across the pilot areas);
- the majority of those tenants expressing an interest in VRTB found the process of applying relatively straightforward;
- VRTB is providing the opportunity for home ownership to many tenants who would not otherwise have been able to buy their own home;
- those who had applied were very strongly motivated to go through with the purchase;
- when making applications for VRTB, there was widespread lack of knowledge among tenants about the eventual discounted price;
- the average valuations of VRTB properties varied widely, reflecting marked local housing market differentials between the pilot areas;
- by treating the discount as a deposit, lenders were prepared to offer mortgages at relatively high multiples of household income, raising concerns about future financial risk for some applicants.

These findings were published before the end of the pilot programme. The overwhelming majority of the purchases from the pilot housing associations have now completed. This short follow-up report provides an update on the progress of the pilot during its final months. Particular reference is made to the characteristics of the

[2] The full report was: Cole, I. Pattison, B., Reeve, K. and While, A. (2017) The Pilot Programme for the Voluntary Right to Buy for Housing Associations: An Action-Learning Approach, http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/vrtb-pilot-research-main-report.pdf

completed purchasers.

This report analyses data recorded by the pilot housing associations about the completed purchases through the VRTB scheme. The findings are presented as follows:

- progress through the application process
- completed sales - prices, mortgages and affordability

A small number of interviews were conducted with households who had purchased their property. The findings from these interviews are reported separately.

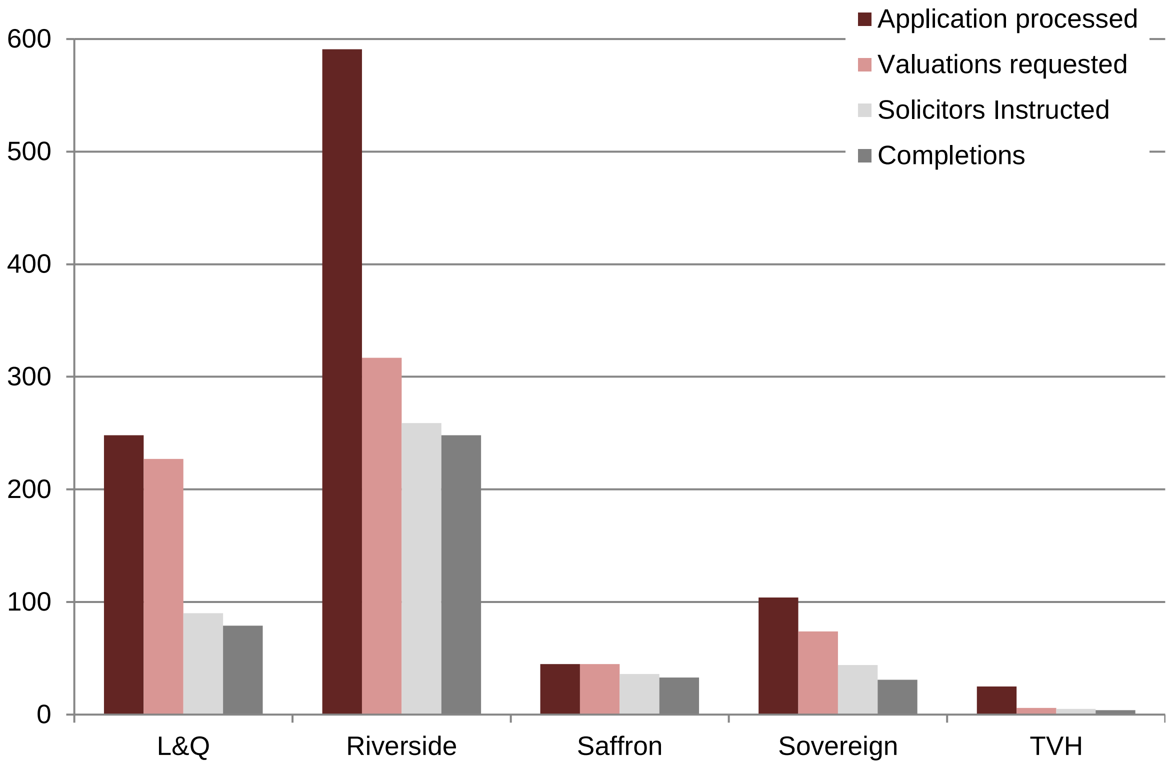
Progress through the VRTB application process

2

The main research report published in January 2017 highlighted the progress of tenants through the application process.[3] At the time there were only a small number of completed purchases. This chapter updates the analysis to incorporate all completions up to 1st July 2017.

In total the five housing associations in the pilot programme received 1013 applications, made 669 requests for valuations, instructed solicitors in 434 cases and finished with 395 completions. Figure 2.1 outlines how these applications were split between the pilots. It is notable that Riverside accounted for more than half (58 per cent) of applications and a similar proportion (62 per cent) of completions. Riverside was also notable for the high numbers of applicants dropping out between submitting an application form and receiving a valuation.

Figure 0.1: Progress through the application process, 1st July 2017

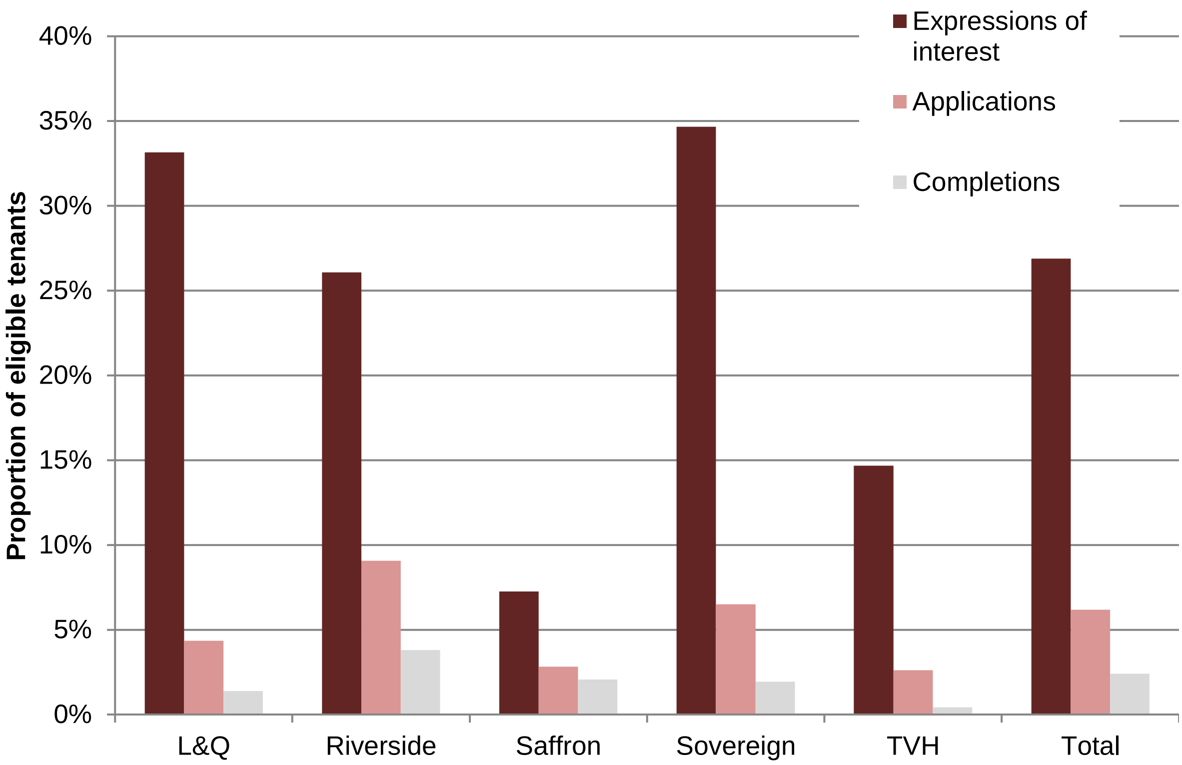


[3] See Figure 4.1 of the main findings report.

The overall number of applications and completions needs to be compared to the number of tenants who might have been able to access the scheme. Figure 2.2 highlights the proportion of tenants living in eligible (i.e. not exempt) properties who reached different stages of the application process.[4]

The most notable finding from this graph is the high proportion of tenants dropping out during the application process. Across all of the pilot associations **one quarter (27 per cent) of eligible tenants[5] expressed an interest but only one in twenty (6 per cent) completed an application.** A further drop-off during the application process meant that **the proportion of eligible tenants completing a purchase was 2.4 per cent across the pilot areas. This ranged from 0.4 per cent in TVH to to 3.8 per cent in Riverside.**

Figure 0.2: Take-up rates - Proportion of eligible tenants reaching different stages of the application process



Whilst all of the pilots experienced considerable rates of drop-out, the stage at which this occurred varied across the programme. This trend was discussed in detail in Chapter Four of the main report. Key reasons for dropping out were:

- tenants waiting for the national roll-out.
- exclusion policies, which prevented some applicants from taking their application forward.
- the lack of any portable discount in the pilot programme.
- rationing of access to the scheme where there were high levels of demand.

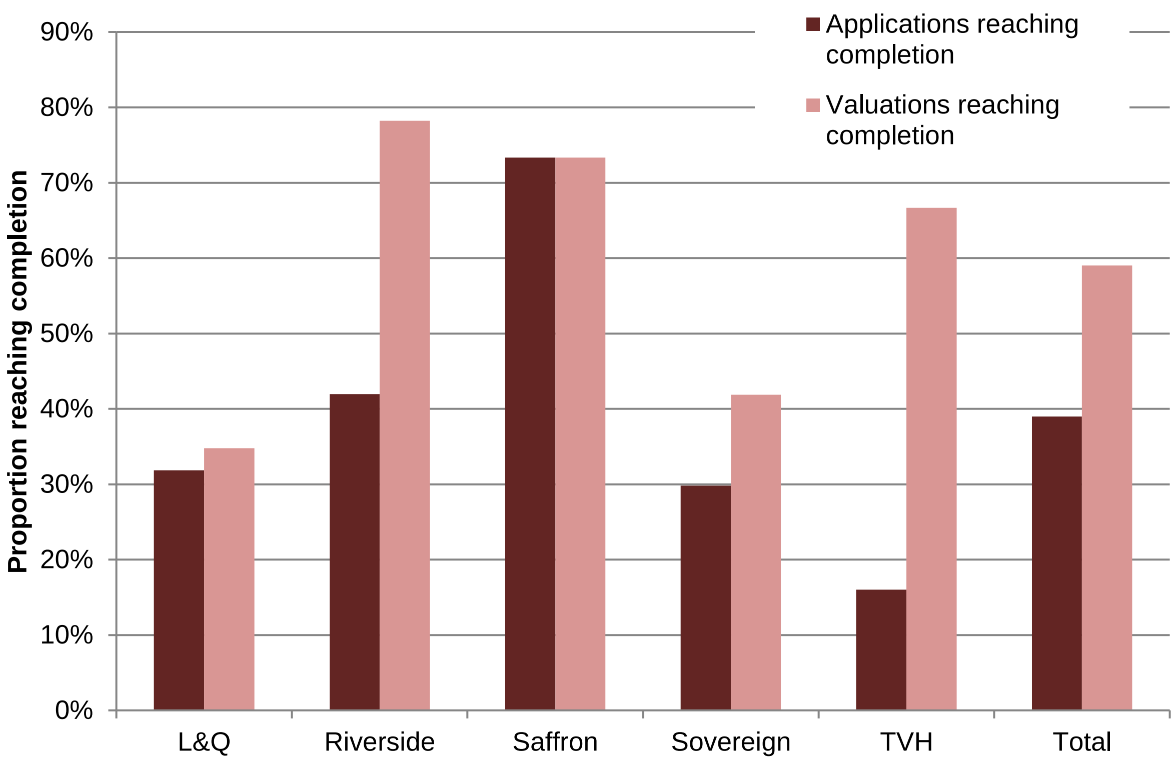
[4] See section 3.3 of the main report for more detailed information on the approach taken in each pilot to property exemptions. See Appendix 1 for more detail on levels of demand at November 2016. This highlights both the total number of households in the pilot area and tenants living in eligible properties. Analysis here focuses on tenants in eligible properties only.
[5] 'Eligible tenants' refers to tenants living in eligible properties in the pilot areas.

- differences in the administrative processes used by the pilots may also have contributed to the trend.

However, none of these reasons is likely to be sufficient to explain the full scale of the drop-outs during the application process. It is also worth noting that many applicants were still awaiting valuations when the main study was completed.

Differences between the drop-out rates for pilots are shown in Figure 2.3. **Across all of the pilots around one-third of applications (39 per cent) completed their purchase.** This increases to 59 per cent of tenants who reached the stage of receiving a valuation for their property. The difference between L&Q and Riverside is particularly worth noting. Drop-out for L&Q tenants was particularly high after the point where they received a valuation for their property. **Almost two-thirds of L&Q applicants (65 per cent) dropped out after the point of receiving a valuation. In contrast, less than a quarter (22 per cent) of Riverside tenants dropped out after receiving a valuation.** This contrast underlines the extent to which take-up of the VRTB reflects variations in the position of local housing markets. Mean valuations for L&Q properties were four times those for Riverside properties (Figure 3.1), and yet the average household income of L&Q applicants was only slightly higher than for Riverside applicants.[6] It is therefore misleading to refer to a national rate of take-up - an aggregation of different local rates of take-up is a more accurate expression of this measure.

Figure 0.3: Drop-out rates during the application process



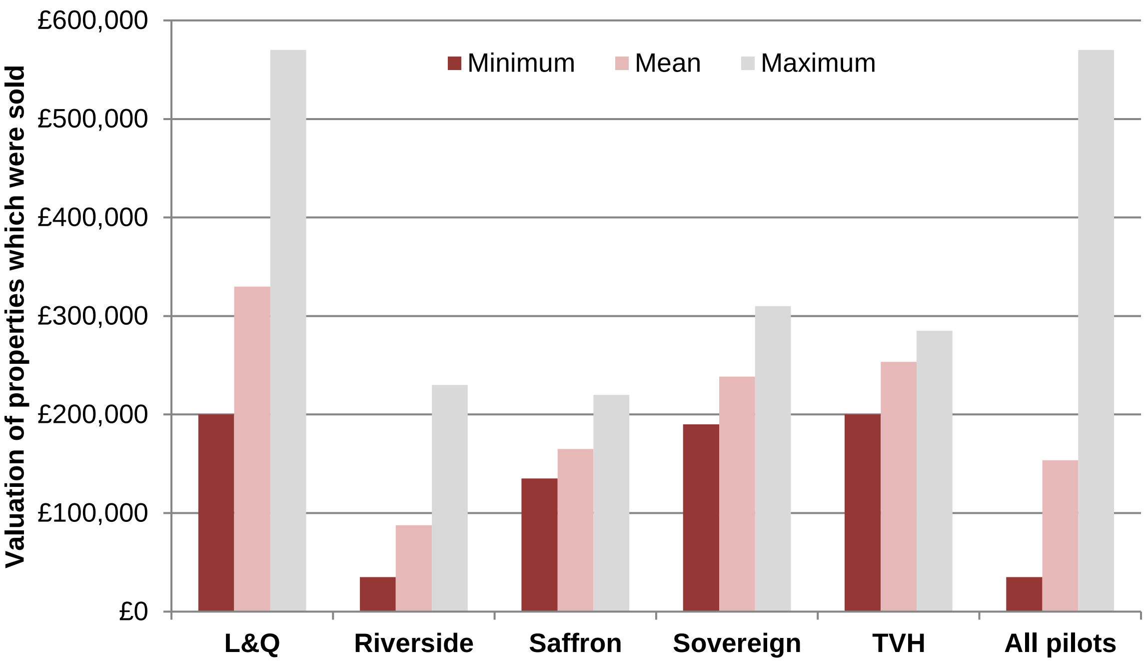
[6] Relates to household income and is based on data from the online survey to tenants.

3

Completed sales: Prices, mortgages and affordability

This chapter outlines the characteristics of completed sales. Figure 3.1 highlights the market valuations for each sale. These prices were determined by external valuations and do not include the discount. There was significant variation in the valuations of properties in the pilots - ranging from £35,000 to £570,000. Properties sold by Riverside were on average the cheapest, but there was notable variation in the valuations within pilot areas as well. For example, valuations for properties sold by L&Q varied from £200,000 to £570,000. **The mean average valuation for all properties sold in the pilot was £154,000.** It is worth noting that **the median average was £110,000**, which reflects the large number of cheaper properties sold by Riverside.

Figure 2.1: Market valuations for completed sales[7]



[7] Data for 387 completions was included in this analysis: L&Q n=76, Riverside n=248, Saffron n=33, Sovereign n=27, TVH n=3.

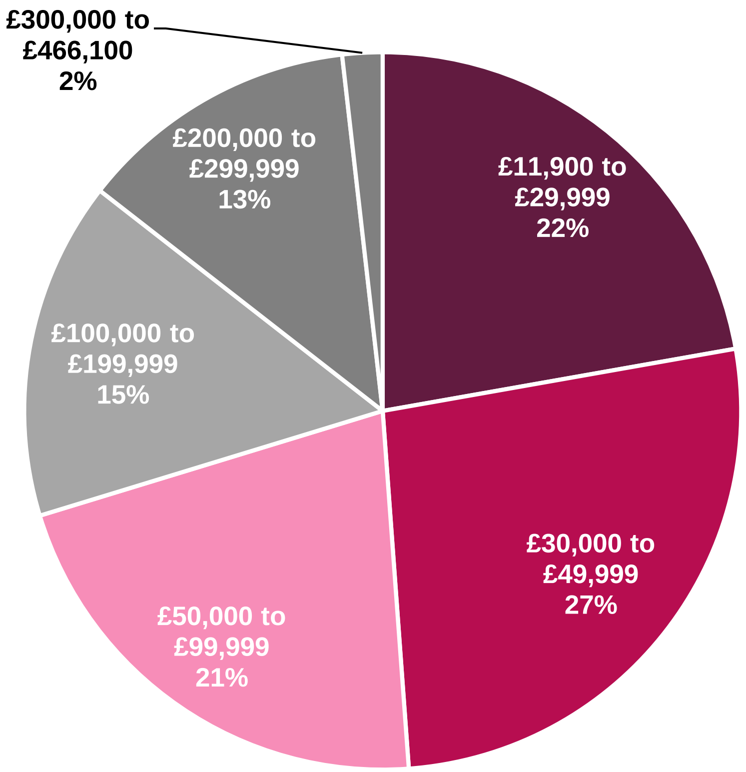
The average (mean) discount for completed sales is presented in Figure 3.2. All properties sold by L&Q had the maximum discount for London of £103,900. The average discounts were over £70,000 for Saffron, Sovereign and TVH which was close to the maximum discount outside of London at £77,900. Average discounts for Riverside were notably lower at £48,700. The average discount across all of the pilots was £63,600.

Figure 2.2: Average discount for completed sales[8]

Pilot	Average discount
L&Q	£103,900
Riverside	£48,700
Saffron	£70,100
Sovereign	£77,300
TVH	£77,900
All pilots	£63,600

Figure 3.3 shows the distribution of sales prices after discounts had been applied for completed purchases. This represents the purchase price for the tenants. **More than two-thirds (70 per cent) of sale prices were less than £100,000. Almost one quarter of sales prices (22 per cent) were less than £30,000.** However, all of the sale prices which were less than £100,000 were from the Riverside pilot area.

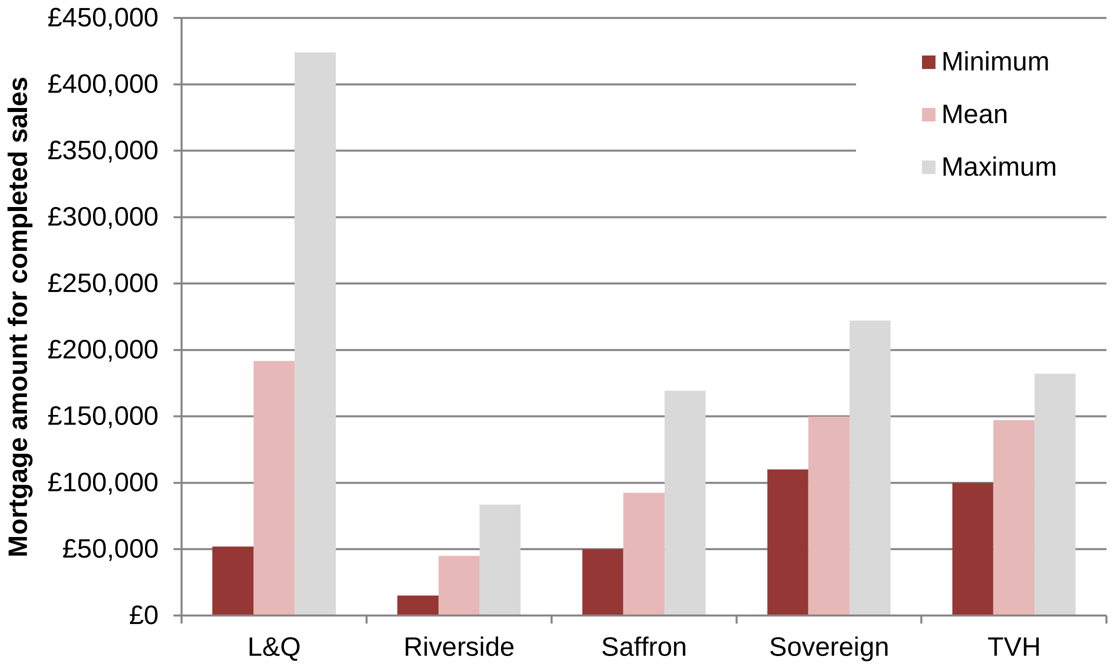
Figure 2.3: Sales price after discount for completed purchases[9]



[8] L&Q n=76, Riverside n=248, Saffron n=33, Sovereign n=27, TVH n=3, All pilots n=387.
[9] n=387

Data on mortgages was available for some of the completed purchases.[10] This showed that one quarter (24 per cent) of households did not require a mortgage - i.e. the tenants were cash buyers.[11] However, two-thirds (31 out of 48) of these cash purchases were by Riverside tenants. Figure 3.4 outlines the distribution of mortgage amounts across different pilot areas. **The mean mortgage ranged from £45,000 in Riverside to £192,000 in L&Q.** Mortgages taken out by L&Q purchasers were, on average, more than four times higher than for Riverside purchasers yet, as noted in Chapter 2, average household incomes were only slightly higher.[12]

Figure 2.4: Mortgage amount for completed sales (excluding cash buyers)[13]



The affordability of mortgages will depend on a range of different factors, particularly the income of the applicants. Mortgage affordability is assessed by lenders on an individual basis from the financial position of the applicant. In general terms, the Financial Policy Committee recommends a 'Loan to Income (LTI) flow limit' which "limits the number of mortgages extended at LTI ratios of 4.5 or higher to 15% of a lender's new mortgage lending".[14] The tenant survey reported in the main findings provides an indication of the self-reported household incomes of those expressing an interest in the VRTB. This suggests that:

- Four-fifths (81 per cent) had an income of more than £16,000, which would be sufficient for a mortgage of £72,000 at 4.5 LTI
- More than half (58 per cent) had an income of more than £26,000, which would be sufficient for a mortgage of £117,000 at 4.5 LTI
- One-quarter (23 per cent) had an income of more than £42,000 which would be sufficient for a mortgage of £189,000 at 4.5 LTI. This is similar to the mean mortgage value for L&Q - the most expensive pilot area.

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[10] Mortgage data was available for only a proportion of properties sold in the Riverside pilot area.
[11] n=197
[12] See Section 8.1 of the main report for more detail on household income in the pilot areas.
[13] L&Q n=65, Riverside n=27, Saffron n=30, Sovereign n=24, TVH n=3.
[14] Bank of England (2017) Financial Stability Report: June 2017 http://www.bankofengland.co.uk/publications/Documents/fsr/2017/fsrjun17.pdf , p.8

These figures suggest a link between the mortgages which have been obtained by tenants and their incomes. There may also be a link between incomes and those applicants who have not completed a purchase. Income data was available for 133 L&Q applicants who had received valuations but not reached completion.[15] After allowing for the discount and the contribution made by their own savings, **almost nine out of ten (87 per cent) withdrawn applications would have required a LTI of greater than 4.5 times income.[16]** This suggests that affordability is likely to account for the vast majority of drop-outs after valuation for L&Q applications.

Some tenants requiring a LTI of greater than 4.5 times income did go on to complete their purchase. **Sixteen out of 70 L&Q applicants (23 per cent) who received a mortgage and completed their purchase needed a mortgage with a LTI of greater than 4.5 times income.** This figure is higher than the 15 per cent recommended by the Financial Policy Committee (although the sample is very small). These mortgages raise concerns about affordability for some purchasers. It raises questions about the ability of these buyers to manage financially if their circumstances were to change (e.g. a fall in house prices, an increase in interest rates or a drop in income).

Two other factors relating to affordability are interest rates and the length of the mortgage term. Interest rates on the mortgages ranged from 1.1 per cent to 7.4 per cent. Most interest rates were at the lower end of the range; nine out of ten mortgages were at an interest rate of less than 3 per cent.[17] However, there were a small number of mortgages at much higher rates. There were three mortgages (out of 119) at 5 per cent or above. It suggests that most of the purchasers were able to access mortgages at relatively low rates of interest.

There was some evidence of relatively long mortgage terms amongst VRTB pilot purchasers. One quarter (25 per cent) of recorded mortgages were for longer than 25 years.[18] For comparison, around 60 per cent of new lending in 2017 was for mortgages of longer than 25 years.[19] Longer mortgage terms clearly reduce the demands on monthly expenditure, but the age of the purchasers becomes relevant here. The tenant survey suggested that two-thirds of those tenants expressing an interest were aged 45 years or older. Mortgage repayments may become a cause of concern if the mortgage term continues past the age of retirement. Further information on how mortgage terms interacted with age of purchasers is needed in order to understand the implications of this more fully.

The name of mortgage lender was also available. The majority of the mortgages were provided by large, high-street lenders. Taken together, Halifax, Nationwide and NatWest accounted for more than two-thirds (64 per cent) of the recorded mortgages.[20]

Overall, the evidence from this (relatively small) group of purchasers is that a high proportion of potentially risky sales were terminated once the applicants attempted to secure mortgages for their purchase. However, nearly one quarter of L&Q purchasers still went ahead with mortgages that were more than 4.5 times their income.

[15] This related to the combined income of all mortgage applicants.
[16] n=130
[17] n=119
[18] n=119
[19] Bank of England (2017) Financial Stability Report: June 2017 http://www.bankofengland.co.uk/publications/Documents/fsr/2017/fsrjun17.pdf
[20] n=149

4

Conclusions

The pilot programme extended the Right to Buy to tenants of housing associations. This pilot had different criteria for eligibility and discount arrangements to the Right to Buy for local authority tenants introduced under the 1980 Housing Act. Since 1980, more than 1.9 million properties have been sold in England under the local authority Right to Buy. Aside from the differences in eligibility and funding for the housing association pilot RTB scheme, the starkest contrast affecting take-up (and scale of discounts) is local differentiation in property valuations.

The take-up of the local authority RTB varied by region, but not by a great deal. By 2004, 27.6 per cent of the 1979 stock had been sold in the North West (the lowest proportion by region), 30.6 per cent in London and 35.2 per cent in the South West (the highest). However, the extent of property price differentials between local housing markets has increased markedly in the past twenty years. For example, in January 1995, the ratio of average house prices in London compared to Liverpool was 2.0 (£74,436 compared to £36,591). By April 2017 the ratio was nearly twice that figure, at 3.9 (£482,779 compared to £123,811). This is a relatively crude overall indicator, but the direction of the trend is undeniable.

This report provides additional analysis of completed sales from the VRTB pilot scheme which occurred after the publication of the action learning findings in January 2017. The analysis in this report highlighted:

- high levels of drop-out during the application process. Across all of the pilots around one-third of applications (39 per cent) completed their purchase.
- wide variation in house prices across the pilot areas. However, completed sales were dominated by lower cost properties with more than two-thirds (70 per cent) of sale prices less than £100,000;
- substantial differences between levels of interest in the VRTB from tenants and those who have sufficient resources to complete a purchase.

In the pilot programme, housing market differentiation was reflected in the fact that the valuations for L&Q properties in the pilot programme were more than four times greater than for Riverside properties. The wide spectrum of property values across the pilot scheme was not, however, reflected in the spectrum of household income between different parts of the country: applicants for L&Q properties had on average only slightly higher incomes than applicants for Riverside properties, yet they required mortgages four times greater. The result is the geographically uneven take-up of the VRTB that we have seen in the pilot programme and which would surely be replicated in any national scheme. In the pilot programme, most sales were of lower value (under £100k) properties, and all of these were concentrated in just one pilot area. The best indicator of future take-up of the Right to Buy, should such a scheme ever be introduced for housing association tenants at the national level, would therefore be the valuations for the eligible properties, relative to the national profile of property prices.

The main findings raised concerns that lenders were prepared to offer mortgages at relatively high multiples of household income, raising concerns about future financial risk for some applicants. Additional analysis presented here might lead to some easing of these concerns. There was some evidence that potentially risky sales were terminated once the applicants attempted to secure mortgages for their purchase. However, this should be balanced with the need to carefully monitor long-term affordability, particularly as nearly one quarter of L&Q sales did go ahead with an LTI ratio of greater than 4.5.

More fundamentally, this analysis leads to questions about the scale of take up in a national scheme. Any wider scheme would need to differentiate between initial demand, applications and final completions. Certainly, expressions of interest in any future scheme cannot be taken as an indicator of effective demand, particularly in high value markets. The experience of L&Q shows that high levels of initial demand may not lead to large numbers of completions and that affordability may be the key to high drop-out rates. Affordability tests conducted relatively early in the process in high value areas might be one way of managing unrealistic demand and subsequent drop-out. There was also some discussion in the pilot programme about the value or otherwise of providing indicative valuations to potential applicants. Only one association opted to do so but the fact that two thirds of all applicants in L&Q withdrew after they had received their valuation might prompt a reconsideration of this policy. These responses have considerable resource implications, but may also avoid wasted time and effort of tenants and landlords as they complete and process applications that will not go ahead.

Conversely, in areas such as the Riverside pilot the VRTB could have a dramatic impact on business plans and stock portfolios. In these lower value areas, where effective demand is higher and where expressions of interest are a better indicator of eventual sales, measures to manage demand, such as annual allocations, may be needed. Regional or locally specific variation in VRTB policy might prove contentious in a national programme, but may also be necessary when such a programme plays out so differently in different parts of the country. More generally, it is clear that a regional or national roll-out would require strong leadership and an effective partnership of very active housing associations. The initial pilot has important lessons on how this could be achieved.

Appendix 1

A1

Table A1: Interest in and Demand for VRTB, at 3 November 2016

	L&Q	Riverside	Saffron	Sovereign	TVH	Total
Total number of households in pilot area	18,667	21,000	4,800	7,988	1,500	53,955
Households in eligible properties within the pilot area	5,712	6,519	1,600	1,601	954	16,386
Expressions of interest from eligible tenants	1,894	1,700[21]	116	555	140	4,405
Applications processed	219	591	37	103	22	972
Proportion of total households expressing an interest	10.1%	8.1%	2.4%	6.9%	9.3%	8.2%
Proportion of eligible households expressing an interest	33.2%	26.1%	7.2%	34.7%	14.7%	26.9%
Applications as a proportion of total households	1.1%	2.8%	0.8%	1.3%	1.5%	1.8%
Applications as a proportion of eligible households	**3.8%**	**9.1%**	**2.3%**	**6.4%**	**2.3%**	**5.9%**

[21] Approximate figure