

The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations

Headline Findings from the Evidence Review

Ian Cole, Stephen Green, Lindsey McCarthy, Ben Pattison
Centre for Regional Economic and Social Research, Sheffield Hallam University

Aims

The CRESR research team was asked to:

- undertake a review of literature and data on the operation of the existing Right to Buy.
- undertake a comparison between the characteristics of the stock sold and tenants who bought homes under the existing RTB policy, and the stock and tenants within the scope of the proposed extension of RTB to housing associations.

The team has produced a detailed Evidence Review and a 20 page Summary which provides the core narrative.

The Impact of the Existing Right to Buy

- 1.8 million properties in England were purchased under RTB between 1980/81 and 2013/14. The number of dwellings owned by local authorities in England declined from 5.1 million in 1980 to 1.7 million in 2014. The total capital receipts from RTB sales up to 2010/11 amounted to around £45 billion.
- Sales were highest in the early years of the RTB in smaller, rural district councils and new towns. The rate of sales was lower in large, urban authorities, in particular in inner London, the north-west of England and more deprived urban areas.
- RTB sales were highest in areas where owner occupation was already at high levels and where the initial stock of council housing was relatively small. The rate of resale of RTB property has been higher in London and in areas of higher quality and more popular council stock.
- At first, a relatively high proportion of RTB purchasers were older, reflecting pent up demand and the larger discounts for longer term tenants. During the 1990s the most common household type was a two parent family with children at school. The incomes of RTB purchasers were generally below average and most were from lower middle class or skilled working class backgrounds.
- The benefits for most RTB purchasers were considerable, but varied widely according to property type, location and local housing market dynamics. For many purchasers the gap between rents and mortgage payments on discounted properties was often small, especially in periods of real rises in rents.

The Unintended or Unexpected Consequences of the Existing Right to Buy

- A considerable proportion of RTB stock has now been 'recycled' into the private rented sector, especially in recent years. The pace of growth of private renting in the RTB resale sector may affect the demographics, dynamics and stability of some neighbourhoods.
- The resale of RTB property into private renting results in higher Housing Benefit expenditure. One study calculated that the higher cost of accommodation in the private rented sector in a local authority led to an additional cost of £3.2 million per annum compared to the equivalent in social renting.
- RTB can bring unexpected repair costs for owners some years after initial purchase. Those purchasing a leasehold property became liable for service charges, which many had not fully appreciated when they first bought.
- A proportion of RTB purchasers experienced major difficulties paying their mortgage. However, for many, the often substantial discounts provided ample scope for rescheduling payments or re-mortgaging to avert the threat of repossession.
- RTB may reduce rather than increase social mix, especially on less popular estates. RTB left a larger concentration of poorer households in a smaller council housing sector. The established hierarchy of popularity among different areas remains generally unchanged by RTB.
- The spread of asset ownership due to RTB has been very uneven geographically and demographically. Only RTB purchasers who bought at the right time and in the right place have been able to unlock substantial equity by 'trading up'. Gains have been something of a lottery. Marked geographical variations in house prices have led to an uneven distribution of the longer term benefits of reselling RTB property.
- Lack of replacement of the rented stock that has been bought over the years has intensified problems of housing affordability. Relets in the local authority sector have declined from 221,000 lettings to new tenants in 2000/01 to 83,000 lettings in 2013/14. Some properties resold to private landlords or at low prices continue to serve the same types of household as would have qualified for a tenancy in the social rented sector - but many do not.
- RTB has had a mixed impact on the condition of the housing stock. RTB properties that are now in the private market have both higher than average standards of repair and a greater likelihood of neglect of repair: the range is wider.

Tenant and Housing Stock Characteristics in the Housing Association Sector affected by the Extension of RTB

- It is very difficult to predict the proportion of housing association households who will exercise the RTB. In the Evidence Review we provide a preliminary indication of the proportion of housing association households who might be able to exercise the RTB. This analysis suggests that between nine per cent and 20 per cent of households might be able to afford the RTB without additional financial help from family or friends, creating a range of between 76,500 to 170,000 households.

- The decision by eligible housing association tenants about whether to exercise the RTB will be influenced by a host of factors. For example, the persistence of low interest rates may attract more tenants to take on a mortgage in order to fund purchase. On the other hand, the availability of mortgages for 'marginal' purchasers has tightened considerably, not least since the new requirements of Mortgage Conduct of Business (MCOB) rules.
- It is also difficult to predict without further research and modelling how much pent up demand there is from existing tenants that will result in a high level of RTB activity in the first one or two years.
- Even if one takes the higher rates of expected RTB activity among housing association households in the first five years, this would increase the proportion of owner occupation in England by less than one per cent.
- The RTB is likely to be higher in some types of stock (such as houses with gardens, larger flats and dwellings in more popular locations) than others. The rate of take-up of RTB will depend, in part, on the relationship between house prices, employment levels and the availability of desirable stock.
- RTB sales is likely to be higher than average in some areas, such as Halton, Salford and Newcastle-under-Lyme, which have considerable levels of housing association stock, relatively low house prices and tenant employment levels close to the national average.

RTB Policy in Scotland and Wales

- The over-riding reason for first the restriction (and then abolition) of RTB in Scotland and Wales has been the desire to protect the supply of social housing from sale, in light of the reality that it was not being replaced.

Conclusion

- On the basis of the available evidence it would be extremely hazardous to attempt even a broad estimate of the likely take-up of the extension of RTB to the housing association sector in the next five years. One would imagine that many tenants on the margins of purchase will be tempted to take it up if they can access the finance to do so, whether through formal mortgages or additional support from families or friends. But such judgements must remain speculative for now. There is an urgent need for some high level modelling about possible scenarios for the future pattern of RTB activity in the housing association sector.
- The effects of extending RTB are very unpredictable and likely to be locally differentiated to a greater extent than the RTB in council housing. The extension of the RTB to the housing association sector will certainly temper the relative decline of owner occupation in the English housing market that has taken place in recent years. But it will not, on its own, reverse it.

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Summary Report

Summary of the Evidence Review for the CLG Select Committee Inquiry into the Viability and Sustainability of Housing Associations

**Ian Cole
Stephen Green
Lindsey McCarthy
Ben Pattison**

**Centre for Regional Economic and Social Research
Sheffield Hallam University**

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Ian Cole
Stephen Green
Lindsey McCarthy
Ben Pattison

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1. Introduction

This summary discusses the main themes and issues to arise from the full Evidence Review undertaken for the Select Committee. The Evidence Review (ref.) had two main aims.

A. To undertake a review of literature and data on the operation of the existing Right to Buy.

We were also asked to identify from the literature the key unintended consequences of the Right to Buy (RTB) and the lessons that might be learned from this. Reference was also made to outlining the experience of RTB in Scotland and Wales.

B. To undertake a comparison between the characteristics of the stock sold and tenants who bought homes under the existing policy, and those of stock and tenants within the scope of the proposed extension.

This part of the Evidence Review involved an analysis of available data and literature on about housing association stock and tenants who would be eligible for the RTB if it were extended.

In this Summary we concentrate on the main findings from the literature and the data analysis. To keep the report concise and accessible we have not included references to the source material, or how the data analysis was undertaken. That can be found in the full Evidence Review. The review was organised around a series of statements or questions, developed from the remit we were given by the Select Committee.

2. The Impact of the existing Right to Buy

What was the impact of Right to Buy on the growth of home ownership and the decline of council housing?

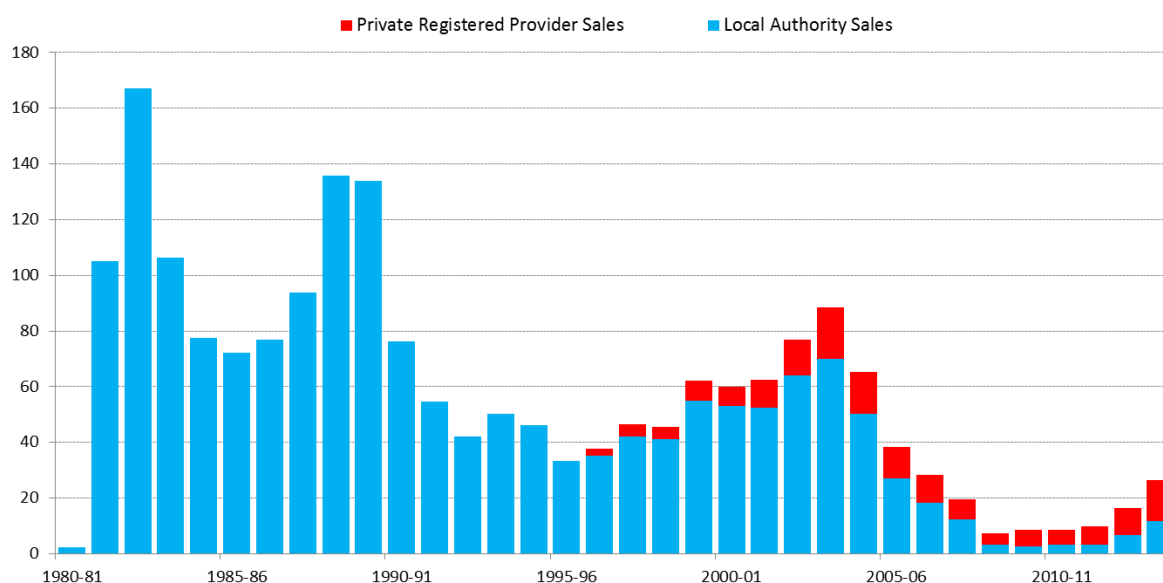
The Right to Buy (RTB) was introduced in England and Wales in the 1980 Housing Act and made a substantial impact on accelerating the increase in home ownership in the 1980s and 1990s, accounting for about a third of the growth in home ownership in this period. .

- 1.8 million properties in England were purchased under RTB between 1980/81 and 2013/14
- The number of dwellings owned by local authorities in England declined from 5.1 million in 1980 to 1.7 million in 2014. This decline was due both to the RTB and the transfer of stock from the local authority to the housing association sector.
- The total capital receipts from RTB sales up to 2010/11 amounted to around £45 billion, making it the largest of the 'privatisation' programmes of the era.

How did the pattern of sales change over time since the introduction of RTB nationally in 1980?

- During the first phase of the mandatory RTB, sales rose to a peak of over 200,000 dwellings in 1981. After the initial surge, sales began to fall away (Figure 1) - partly because pent-up demand had been met and partly due to economic factors, including rising unemployment and high interest rates.
- The government responded by increasing discounts in 1984. The maximum discount of 50 per cent on all properties was raised to 60 per cent for houses and 70 per cent for flats (where rates of sales had been substantially lower). This resulted in higher level of sales between 1988 and 1990.
- Overall sales increased again between 1999 and 2003, although a considerable proportion of sales was from properties that had been transferred from councils to private registered providers/housing associations and other bodies (where tenants had a preserved RTB).
- RTB sales declined as maximum discounts were reduced and were at very low levels before the impact of the Global Financial Crisis. They began to increase again after 2010, especially after discounts were increased by the Coalition Government in 2012 and in 2013 (for London only).

Figure 1: Right to Buy Sales, England, 1980/81 to 2013/14¹



How did the rate of RTB sales differ from place to place?

- The rate of RTB sales varied between different regions. In the first five years, the proportion of properties sold in the North of England lagged behind sales in the more prosperous South-East and South-West, but these differences then levelled off.
- Sales were highest in the early years of the RTB in smaller, rural district councils and new towns. The rate of sales was lower in large, urban authorities, in particular in inner London, the north-west of England and more deprived urban areas. This gap closed a little when higher discounts were introduced in the mid 1980s.
- RTB sales were highest in areas where owner occupation was already at high levels and where the initial stock of council housing was relatively small.
- A number of local authorities have now sold around half of their housing stock. These areas are distributed across England.
- The rate of resale of RTB property by sitting tenants has been higher in London and in areas of higher quality and more popular council stock. There are substantial local variations in the rate of RTB sales. For example, one study in Edinburgh found that eighty per cent of stock in the most popular areas had been sold by 2002, compared to just three per cent in larger and more deprived council estates in the city.

Who was most and least likely to exercise the Right to Buy?

- The type of households who exercised the RTB has changed over the 35 years that the policy has been operating at national level. In the first phase, a relatively high proportion of RTB purchasers were older, reflecting pent up demand and the larger discounts for longer term tenants. During the 1990s the most common household

¹ Chart 678b from: DCLG (2015) Live Table 678: Annual Social Housing Sales for England, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406317/LT_678.xlsx

type was a two parent family with children at school. The incomes of RTB purchasers were generally below average and most purchasers were drawn from lower middle class or skilled working class backgrounds.

- Certain groups of households – the very young, the elderly, lone parents, the unemployed – were under-represented among early RTB purchasers and this trend has continued. Only a minority of RTB purchasers had incomes in the lowest quintile of the income distribution.
- Not all tenants who did not buy were unable to do so. Some had previously been home owners and had experienced problems of credit rating or other issues which deterred them from buying. Others did not want to buy the property they were in – whether it was because of its size, type or condition – and were seeking to move away rather than be tied down by purchase
- Studies have found that around one in eight households had exercised the RTB with external funding support - mainly older people with savings or receiving additional help from their children. In some cases 'rogue' companies may offer special deals to some sitting tenants, especially those receiving Housing Benefit, to purchase outside the formal mortgage market.

What were the financial benefits for those who exercised the Right to Buy?

- The benefits for purchasers were considerable, but varied widely according to property type, location and local housing market dynamics. For many purchasers the gap between rents and mortgage payments on discounted properties was often small, especially in periods of real rises in rents. For those who purchased this meant diminishing payments, and ultimately no mortgage payments at all, instead of continuing to pay rents for the rest of their lives.
- RTB for council tenants has been a very important direct policy to encourage wealth ownership. Accumulated discounts on purchases accounted for equity of £150-200 billion, representing three to four per cent of total wealth. However, some RTB purchasers bought very low value properties which generated no realisable wealth and some have subsequently experienced financial difficulties which have cancelled out initial gains.

How much has been spent on RTB discounts compared to investment in affordable housing?

- By the late 1990s, RTB discounts represented a major source of expenditure, compared to affordable housing investment. The value of discounts was greater than investment for each year between 1998/99 to 2002/03. For example, in 2002/03 the value of RTB discounts was worth £1.5 billion, compared to £0.9 billion invested in the Affordable Housing programme in that year. However, the value of RTB discounts then declined steadily from 2003/04 onwards to just £72 million by 2010/11, compared to affordable housing investment of around £2.6 billion in that year.

3: Unintended or Unexpected Consequences of the Existing Right to Buy

A considerable proportion of RTB stock has now been 'recycled' into the private rented sector

- The evidence base on the transfer of RTB stock to private landlords is patchy, but there is an established trend that the resale of properties into the private rented sector has increased in recent years, reflecting the ageing cohort of tenant purchasers and wider housing market processes..
- A study in the early 1990s found that eight per cent of households living in ex- council homes were renting from a private landlord. A survey undertaken in 2003 found that 21 per cent of properties in Lambeth and 31 per cent in Camden bought under the RTB three years earlier were no longer owner occupied, though the figure was much lower elsewhere. .By 2011, a study in Birmingham made a 'cautious' estimate that between 20 per cent and 30 per cent of RTB properties had become privately rented by 2011, and that this figure was likely to increase.
- Research by *Inside Housing* in 2015 estimated that nearly 40 per cent of ex-council leasehold properties sold under the RTB were now in the private rented sector.
- The pace of growth of private renting in the RTB resale sector may affect the demographics, dynamics and stability of neighbourhoods. There are also implications for incomes, household budgets and benefits associated with generally higher housing costs in private renting.
- One potentially positive consequence of the transfer of ex-RTB stock into the private rented sector is that it may lead to a higher rate of occupancy in the properties (and thereby a more efficient use of the housing stock) than if they remain in the home ownership sector. There is, however, also the risk of more overcrowding in some areas as landlords seek to maximise rates of occupancy.

The resale of RTB property into private renting results in higher Housing Benefit expenditure

- Housing Benefit expenditure for private tenants has risen sharply - increasing from £3.0 billion in 2003/04 to £9.2 billion by 2011/12. Average weekly awards in the private rented sector in 2015 are over £20 per week higher than in the social rented sector. This equates to over £1,000 per annum for each claim.
- Detailed research conducted in Renfrewshire, Scotland in 2012 found that 43 per cent of Housing Benefit claimants in the private rented sector were living in properties purchased under RTB. The authors calculated that the higher cost of accommodation in the private rented sector led to an additional cost of £3.2 million per annum compared to the equivalent in social renting. If this pattern were to be broadly replicated in local authority areas in England, this would clearly result in a major increase in annual HB expenditure at the national level.

- It is not evident that the Government's estimates of the plans for future expenditure on Housing Benefit have taken any account of continued transfers of ex RTB stock to the private rented sector.

Right to Buy can bring unexpected repair costs for owners some years after initial purchase

- The implications for the future management of leasehold properties were overlooked in the early phases of the existing RTB. Those purchasing a leasehold property became liable for service charges, which many had not fully appreciated. This was a particular problem for RTB purchases of flats. Purchasers, local councils and central government all lacked an understanding of the legal and financial complexities associated with managing leasehold property. Some home owners who had bought because the prices were low found that the high service charges and charges for major essential repairs caused real financial difficulties
- The defects in some RTB properties were addressed by the Housing Defects Act 1983 under which funds were made available for modifications to specified design types. However more general problems have emerged and not all properties with defects were covered by this legislation. Lenders are also reluctant to lend on some property types which can become difficult to sell. In addition, purchasers of some flats became liable for the very high cost of refurbishing blocks. Government intervention sought to reduce such risks incumbent on the purchaser, but courts have expressed sympathy for local authorities in decisions on such issues, and emphasised instead the responsibilities of purchasers for adequate maintenance.

A proportion of RTB purchasers experienced major difficulties paying the mortgage

- The extent of mortgage problems will naturally vary over time, depending on factors such as the interplay between borrowers' financial circumstances, the level of interest rates and the extent of lender caution. An examination of the arrears rates of RTB mortgages and standard mortgages, derived from the DCLG Survey of English Housing, showed that borrowers who bought from a council or housing association were two to three times more likely to fall into arrears than someone with a standard mortgage
- Nevertheless, the overall picture is that the majority of RTB purchasers have not experienced difficulties over mortgage repayments. In the event of a change of status, such as relationship breakdown or job loss, the often substantial discounts provided ample scope for rescheduling payments or re-mortgaging to avert the threat of repossession.

RTB may reduce rather than increase social mix, especially on less popular estates

- By definition, RTB policy increased tenure mix on those estates that were previously dominated by council housing. This does not, however, necessarily increase social mix in these neighbourhoods. What happened on the resale of the properties is crucial here and this varied according to the type of property and the local housing

market. RTB rates were generally higher in areas which already had a larger proportion of home owners and this process left a larger concentration of poorer households in a smaller council housing sector. Social mix has been altered rather than necessarily enhanced by RTB.

- As the social base of council housing has narrowed over time, due to a range of social and economic factors, the social mix on some council estates has reduced. RTB appears to have confirmed and consolidated, rather than changed, the status, reputation and social role of these neighbourhoods. The established hierarchy of popularity among different areas remains generally unchanged by RTB. There are other issues often associated with less popular areas of housing, such as the increasing proportion of ethnic minorities, new migrants and newly forming households as they often have the least capacity to choose where they live.
- Tenure change raises questions about the capacity of social landlords to undertake effective housing and neighbourhood management or regeneration in mixed tenure, high turnover, low status areas. Problems have arisen, for example, over selective demolitions as part of estate renewal, when RTB purchasers find that purchase of their property at open market value is insufficient to enable them to buy an equivalent replacement property on the market.

The spread of asset ownership due to RTB has been very uneven

- For most tenants who exercised their Right to Buy there were significant and measurable benefits. Very few failed to benefit and the risk was no greater than among home owners in general. RTB has also been an important factor in the changing distribution of housing wealth over recent decades. However, this increase of wealth is unevenly distributed geographically and demographically. The greatest gains were received by people who entered council housing in the post-war period which meant that they were at the stage in their housing career and family cycle when they could take maximum advantage of the RTB
- Only RTB purchasers who bought at the right time and in the right place have been able to unlock substantial equity by 'trading up'. Gains have therefore been something of a lottery. The relatively high percentage of ex-RTB accommodation now in the private rented sector in some areas suggests a trend towards the concentration of these assets in the hands of residential landlords alongside individual owner-occupiers.
- Marked geographical variations in house prices have led to an uneven distribution of the longer term benefits of reselling RTB property. A household who had purchased in Newham in 1997 could have gained £65,000 more in equity by 2014 than a household who had purchased a property of a similar value in Stockport in 1997. This underlines the importance of local housing market dynamics in shaping the differential effects of RTB.

Lack of replacement of rented stock that has been bought has intensified problems of housing affordability

- RTB has contributed to a substantial reduction of the social housing stock, which - in the absence of countervailing new build programmes - has caused supply problems. RTB represents the transfer of property from one tenure to another, with no net impact on the size of the housing stock overall. In the longer term, however, there is a loss of relets – the flow of properties available for letting, given that resales of RTB property would often be available to a different market with different needs and resources - unless there is an equivalent programme of investment in affordable and accessible housing, to balance this outcome. The scale of the decline in LA relets in recent years is marked, and declined from 221,000 lettings to new tenants in 2000/01 to 83,000 lettings in 2013/14.
- Some properties resold to private landlords or at low prices would continue to serve the same types of household as would have qualified for a tenancy in the social rented sector - but many would not.
- The capital receipts from RTB sales were not in large measure devoted to reinvestment, and this intensified the shortage of affordable housing options for many of those with least resources, unable to meet their needs in the private market.
- The proportion of households who are home owners has fallen from 70 per cent in 2002 to 64 per cent in 2013. Extending RTB would initially help to slow this decline, but at a price. It would be likely to make longer-term problems of housing affordability more acute.

RTB has had a mixed impact on the condition of the housing stock

- Would RTB property be better maintained because the new owners would spend more on maintenance and repair, reflecting the greater pride they now might take in their homes? The evidence is mixed. The discount formula devised for RTB particularly encouraged households on lower or variable income to purchase properties. At the time of purchase these properties may have been well maintained but in many cases an accumulation of repair requirements had then built up, ten years on.
- The initial investment by households in purchased council properties was often cosmetic, and not necessarily of long-term value or utility. More structural and routine repairs and maintenance were often not undertaken, at least until the property changed hands on resale.
- RTB properties that are now in the private market have both higher than average standards of repair and a greater likelihood of neglect of repair: the range is wider.
- The recent tendency for RTB properties to be sold on into the private rented sector also brings with it a risk of a decline in standards. Private rented homes are more likely to fail basic health and safety tests and fall below the Decent Homes standard used in the social rented sector. Furthermore, landlords may decide to cut back on maintenance expenditure where they have a large number of tenants on full or partial Housing Benefit, due to a potential decline in rental income over time.

Policies designed to exempt certain property types or local areas from RTB have had mixed results.

- Concerns were expressed about the effect of the existing RTB on the supply of purpose built sheltered housing and housing for people with disabilities. Measures in the legislation were designed to address this problem. While these measures appear to have worked for purpose built properties they seem to have been less effective for properties with adaptations. Other details of the legislation were designed to protect the limited supplies of affordable housing in rural areas, but these have proved largely ineffective.

4 Tenant and Housing Stock Characteristics in the Housing Association Sector affected by the Extension of RTB

It is very difficult to predict the proportion of housing association households who will exercise the RTB

- The government has not yet specified the terms under which the extension of RTB will be introduced. Issues such as the level of discounts, the cap on the maximum amount of discount and minimum length of tenancy to qualify have not been confirmed. However, it is likely that the terms of an extension will be broadly similar to earlier schemes. The demographic and economic characteristics of housing association households suggest that only a minority will be in a position to buy under any probable scenario. Set against this, there are also countervailing factors that may increase the level of RTB activity to a higher than expected level, especially in the early stages.
- On the basis of the experience of the existing RTB, a higher proportion of purchasers will be of working age and in full-time employment. In the 2011 Census, nearly a quarter of housing association households comprised people aged 65 years and older, and just over half were headed by a person who was economically inactive. Just over a quarter of all households in the sector included a head of household who was working full-time. These overall figures also mask marked geographical variations.
- In the fuller Evidence Review we bring together the characteristics of age, affordability, income and length of tenancy to provide a preliminary indication of the proportion of housing association households who might be able to exercise the RTB. This analysis suggests that between nine per cent and 20 per cent of households might be able to afford the RTB, creating a range of between 76,500 to 170,000 existing housing association households who might be able to exercise the RTB from their own resources. The figures represent a similar proportion to a recent Chartered Institute of Housing (CIH) estimate but are below the National Housing Federation (NHF) estimate that 221,000 of the 850,000 existing households would be eligible for the RTB.
- It is very difficult to arrive at even a broad proportion of those eligible housing association tenants who might exercise the RTB. For example, the persistence of low interest rates may attract more tenants to take on a mortgage in order to fund purchase. On the other hand, the availability of mortgages for 'marginal' purchasers has tightened considerably, not least since the new requirements of Mortgage Conduct of Business (MCOB) rules that might exclude tenants from purchasing under RTB.
- It is also difficult to predict without further research and modelling how much pent up demand there is from existing tenants that will result in a high level of RTB activity in the first one or two years. It is, however, worth bearing in mind that the number of sales completed under RTB in the LA sector, when discounts ranged between 33 to

50 per cent, was significantly greater than had been expected at the time. The same could happen again.

- In terms of overall impact, even if one takes the higher rates of expected RTB activity among housing association households in the first five years, it is worth pointing out that this would increase the proportion of owner occupation in England by less than one per cent.

There are marked differences at the local level in stock type and in the proportion of housing association stock in the market

- Housing association stock is not as spatially concentrated as other tenures. Housing association tenants accounted for less than a quarter of households in every local authority in England and Wales. Stock type also varies widely by area. For example, the proportion of flats or maisonettes in the housing association sector varied from 15 per cent in South Holland to 95 per cent in Westminster, while the proportion of detached or semi-detached houses and bungalows varied from two per cent in Kensington and Chelsea to 62 per cent in Broadland (Norfolk).
- High rates of purchase of flats may result from the extension of RTB in spite of problems associated with leasehold and resales and this may result in problems later on unless remedial measures are taken.
- The RTB is likely to be higher in some types of stock (such as houses with gardens, larger flats and dwellings in more popular locations) than others and this will limit the 'offer' that can be made by housing associations to their existing tenants and to new applicants, at least until a replacement programme on a one to one basis starts to produce outputs.

In order to assess the possible local impacts of extending RTB to the housing association sector, the research team undertook data analysis at local authority level on four key variables likely to influence the scale of future activity:

- the proportion of housing stock in the local area which is owned by housing associations;
- the proportion of housing association tenants working full-time;
- lower quartile house prices;
- the proportion of housing stock at the local level which is a whole house or bungalow.

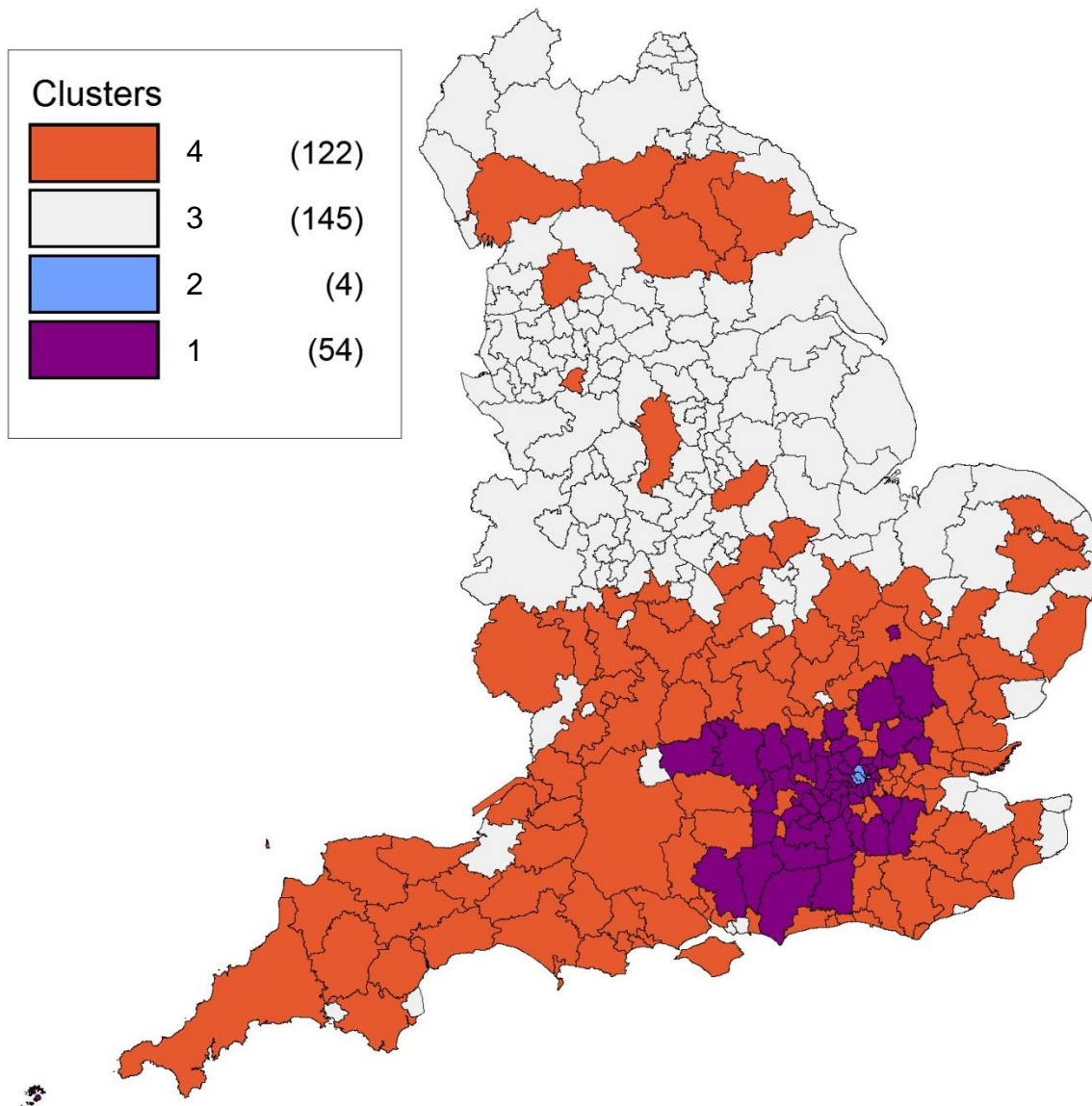
A cluster analysis was used to assess the possible interaction between all four of the variables, and the strongest model identified four clusters of local authority areas. The geographic distribution of these clusters is shown in Figure 2.

- **Cluster 1** represents 54 local authorities where house prices are high and the proportion of working tenants is also high. We might expect housing association tenants to struggle to afford to exercise the RTB in these areas, despite the high proportion of full-time employees. Local authorities in this cluster are situated in London and the South East.
- **Cluster 2** represents four local authorities where house prices are very high. It is unlikely that many tenants will be able to exercise the RTB in these areas. They are

four boroughs in central London (Camden, City of London, Kensington and Chelsea, and Westminster).

- **Cluster 3** represents 145 local authorities with lower than average house prices. These areas also have high proportions of whole houses and low proportions of tenants who are working full-time. They tend to be areas with a lower than average proportion of housing association stock. The impact of the RTB in these areas is difficult to predict. House prices are more likely to be affordable but there are fewer tenants who are working full-time. The future health of the local labour market could be the key factor here affecting RTB take-up. Local authorities in this cluster can be found across the northern half of England.
- **Cluster 4** represents 122 local authorities with average house prices and proportions of tenants working full time. The majority of these LAs can be found across the South Midlands, South West and parts of the South East. There is also a small band of this cluster across Northern England. As with cluster 3 the impact of the RTB in these areas is uncertain, and these areas could be the barometer for how far households will extend themselves financially to sustain mortgages to permit purchase. A crucial factor here will be the number of employed households who are able to access mortgages that are affordable for them, given local house prices.
- This cluster analysis suggests that the extension of the RTB will have quite diverse impacts. The rate of take-up of RTB will depend, in part, on the relationship between house prices, employment levels and the availability of desirable stock. Differential local impacts will pose particular planning challenges for those housing associations which are regionally or nationally based. It is likely that RTB sales will be much higher than average in some areas, and these will not necessarily be areas that can be readily categorised according to standard area classifications. For example, Halton, Salford and Newcastle-under-Lyme are areas which have considerable levels of housing stock, relatively low house prices and tenant employment levels which are close to the national average. Any housing association based in these areas may experience particularly high levels of stock sales, especially where this is reinforced by a high level of pent up demand.

Figure 2: Cluster analysis of Housing Association tenants and stock



Interest in exercising the RTB will be influenced by the region in which stock is based and the size of mortgage required

- It is possible to analyse sales of housing association stock to tenants who had the preserved Right to Buy following stock transfer to gain some insight into what may happen with the extension to RTB. Data analysis by the research team suggests that purchases have been higher than average in the North East and North West, which accounted for 43 per cent of all such sales in England, compared to London and the South East, which together only accounted for 7.6 per cent of sales
- This regional variation in sales may be partly explained by the house prices of these properties. About half the sales involved properties which were valued at £90,000 or less and almost 90 per cent of sales were for properties which were valued at £150,000 or less. Over two-thirds of purchases were made with a mortgage of

£30,000 or less. More than 90 per cent of purchases were made with a mortgage of £60,000 or less.

- A major increase in the house prices of low cost properties would therefore be required in order for those who have bought under the preserved RTB to gain a large amount of equity.

The generally good condition of housing association stock may encourage eligible tenants to exercise the RTB

- Overall, housing association properties are better condition than properties in other tenure categories. Fourteen per cent of housing association property failed to meet the Decent Homes standard in 2013. This compared to 16 per cent of dwellings in the LA sector, 19 per cent in owner occupation and 30 per cent in private renting.
- There is a risk that extending RTB might lead to a decline in the quality of stock in the medium term if some recipients are unable to afford ongoing repairs and improvements. This may also be the case for some of the stock that will be subsequently resold into the private rented sector.

5 The Experience of RTB in Scotland and Wales

Why has the RTB now been abolished in Scotland and Wales?

The over-riding reason for first the restriction (and then abolition) of RTB in Scotland and Wales has been the desire to protect the supply of social housing from sale, in light of the reality that it was not being replaced. For example, the Equality Impact Assessment for the 2014 Act, which set out the plans to abolish RTB in Scotland, outlined the intended outcomes of the policy as follows:

- Up to 15,500 houses will be kept in the social rented sector that would otherwise have been sold. These will now be available to tenants for rent over the lifetime of the properties;
- This will contribute to increasing housing supply and choice and reducing waiting lists;
- The asset base of social landlords will cease to be eroded and this will assist their forward planning;
- By not being marginalised, social housing will play a vital role in building sustainable mixed communities;
- Entitlements will be easier to understand and the system will be easier to administer.

Although it was acknowledged that the abolition of RTB would be detrimental for qualifying tenants, the Scottish Government argued that there was now a range of schemes in place to support tenants in becoming home owners which did not exist a number of years ago.

In Wales, the arguments for first restricting, and now ending, RTB have been similar to Scotland. In the Welsh Government's Consultation Document, the protection of social housing stock for those who cannot afford to buy or rent in the private rented sector was given as the principal justification.

6 Conclusion

Right to Buy (RTB) brings with it immediate financial benefits for most purchasers, due to the operation of the discounts. For those exercising the existing RTB in the local authority sector, there was often little difference between the rent they had been paying and the mortgage payments needed following purchase. RTB purchasers will also acquire the asset once the mortgage is fully paid, unlike tenants paying rent. RTB has therefore been an important factor in the changing distribution of housing wealth over recent decades. This increase in wealth has, however, been unevenly distributed geographically and demographically, due to significant differences between local housing markets across the country. Some of the less tangible benefits that have been proclaimed for RTB, such as instilling a stronger sense of pride and 'ownership', are more difficult to assess and are contested issues in the literature.

There is fairly robust evidence on some of the 'unintended' or 'unexpected' consequences of the existing RTB:

- a considerable proportion of existing RTB property has been transferred into the private rented sector on resale (or in subsequent transactions). The evidence base is not very robust but it is likely that these properties will be rented out in many areas at higher prices than equivalent properties in the social rented sector. This will in turn have consequences for the level of Housing Benefit expenditure, which is very difficult to predict, at least until a pattern of early sales becomes evident. Standards of management and maintenance in private rented sector properties in lower value or lower demand areas are often below those in the social housing sector. Set against this, this transfer to private renting may lead to a more efficient use of the stock, reducing the level of under-occupancy often characteristic of RTB properties when originally purchased;
- the stock 'lost' to RTB has not been replaced on a like-to-like basis at any time since 1980 and this has contributed to an overall reduction in social housing reduction and, it has interacted with other factors to intensify the residualisation of council housing;
- while many sitting tenants have reaped considerable personal and financial benefits from RTB, a minority have struggled when exposed to greater financial risk or have been unable to invest adequately in their homes;
- RTB has led to greater tenure diversity in some locations, but there is less clear-cut evidence about its impact on social mix, and the continuum of housing stock condition is wider among RTB properties some time after purchase than among retained council stock.

There has therefore been no standard or universal set of impacts caused by the existing RTB on local neighbourhoods, not least because it can set in process a period of dynamic tenure change over time, and lead to **divergent** outcomes, related to the rate of initial sale and the pattern of subsequent sale. Some estates have remained predominantly in council ownership or home ownership; others have become dominated by either council or private renting with declining levels of home ownership, and others have a mix of three tenures. At present there is a lack of solid research evidence, but it is plausible to suggest that, rather

than reducing concentrations of deprivation by introducing tenure mix, RTB has resulted in some council estates with greater concentrations of deprivation, greater insecurity and less stability than before.

The recent decisions made by two of the devolved administrations, in Scotland and Wales, offer an interesting counterpoint to the proposed policy in England. RTB is being abandoned there, rather than extended. A decision has been taken by these two governments that the longer term interests of those households struggling to access affordable housing should be given priority over the immediate interests of those sitting tenants who might wish to buy their homes, given the chance.

On the basis of the available evidence it would be extremely hazardous to attempt even a broad estimate of the likely take-up of the extension of RTB to the housing association sector in the next five years. A comparison of the characteristics of housing association tenants and stock in 2015 with council tenants and council stock in 1980 might suggest that a smaller proportion of households will be able to buy now than they were thirty five years ago. But one should not underestimate the level of pent-up demand, the chance for tenants to seize an opportunity to take advantage of discounts and the 'optimism bias' that may prevail, even if some potential purchasers are warned about the future risks that exercising purchase may entail further down the road. One would imagine that many tenants on the margins of purchase will be tempted to take it up if they can access the finance to do so, whether through formal mortgages or additional support from families or friends. But such judgements at this stage must remain speculative. There is an urgent need for some high level modelling about possible scenarios for the future pattern of RTB activity in the housing association sector.

The effects of extending RTB are therefore very unpredictable and likely to be locally differentiated to a greater extent than the early impacts of the existing RTB. The detailed regulations about the extension of RTB have yet to be confirmed - but, even when they are, it will not be straightforward to assess what difference they will make to the overall scale of take-up and the consequent impact of the measure. It is how these regulations will be mediated at the local level, and incorporated into local housing market processes, that will count for more.

The extension of RTB will allow a proportion of households in the sector an excellent opportunity to access owner occupation. This benefit will be unequally distributed in geographic and demographic terms. The extension of the RTB to the housing association sector may also temper the relative decline of owner occupation in the English housing market that has taken place in recent years. But it will not, on its own, reverse it.

* * * * *

The Voluntary Agreement on the Extension of the Right to Buy

As this report was being finalised, the Secretary of State for Communities and Local Government, Greg Clark, made an announcement in both Houses on 12th October that the Government had reached an agreement with the National Housing Federation, to extend Right to Buy discounts to at least 1.3 million households in the housing association sector. Under the agreement the Minister confirmed that all homes sold to tenants would be replaced on a one for one basis. The opportunity to purchase would be subject to the overall

availability of funding for the scheme and the eligibility requirements. The Government will compensate housing associations for the discount offered to the tenant, and housing associations will retain the sales receipt to enable them to reinvest in the delivery of new homes. Housing associations will use the sales proceeds to deliver new supply and will have the flexibility, but not the obligation, to replace rented homes with other tenures such as shared ownership. The Government will also implement deregulatory measures which will support housing associations in their objectives to help support tenants into home ownership and deliver additional supply of new homes.

Questions About the Proposals to Extend the Right to Buy

Finally, a series of broad questions about the proposed measure arise from this Evidence Review and, while some of them will be clarified once more detailed proposals are confirmed, others may remain pertinent to the deliberations of the Select Committee during the course of its Inquiry. Such questions include:

Level of Take-up

- Has the government made any estimate of the likely take-up of the extended RTB?
- Does the government intend to respond if the take-up of voluntary RTB (VRTB) scheme is very high? Is there a maximum amount of subsidy set aside for this scheme?
- What will be the cap on RTB discounts and will it apply nationally across all housing associations?

Stakeholder Responses

- How will mortgage lenders view the proposed VRTB? Will they view the discounts as 'equity' which is already held by the tenants?
- Will rating agencies respond positively or negatively to the voluntary nature of RTB?

Potential Impacts

- Does the government consider it necessary to introduce specific safeguards to prevent fraud or the exploitation of vulnerable tenants?
- What impact is the VRTB likely to have on any planned major programmes of reinvestment and neighbourhood regeneration, given the more mixed tenure profile that will emerge in these areas?
- What will be the potential equalities impact of extending RTB?
- What happens if collectively housing associations do not manage to replace on a one-for-one basis or in the specified period?
- What 'solutions and flexibilities' will be put in place to help mitigate the impact of receipts that do not cover replacement costs?

Implementation

- How will exemptions (for example for rural areas and 'supported housing') be monitored?
- Will measures be undertaken to prevent the subsequent transfer of RTB stock into the private rented sector?
- How will the issue of VRTB and charity be resolved?
- Will there be any provisions in the Housing Bill compelling housing associations to comply with the scheme?
- Will there be a new Regulatory Standard to comply with?
- Will landlords be expected to offer other home ownership opportunities to offer to tenants alongside RTB
- What will the up-front fee for tenants exercising their VRTB be?
- How will the VRTB scheme enable landlords to rely on current statutory measures (e.g. ASB suspension orders, demolition notices etc).?

The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations

An Evidence Review for the CLG Select Committee Inquiry into the Viability and Sustainability of Housing Associations

**Ian Cole
Stephen Green
Lindsey McCarthy
Ben Pattison**

**Centre for Regional Economic and Social Research
Sheffield Hallam University**

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Ian Cole
Stephen Green
Lindsey McCarthy
Ben Pattison

Sheffield, October 2015

1. Introduction

The aims of this report are twofold.

A. To undertake a review of literature and data on the operation of the existing Right to Buy.

We were commissioned by the Select Committee to consider issues such as:

- the type of stock sold under the Right to Buy (RTB) (e.g. family homes, flats);
- the location of the properties sold (including the extent to which they were in areas with a high concentration of social housing);
- how many properties ultimately ended up in the private rented sector and the difference this made in terms of Housing Benefit (HB) costs;
- the characteristics of the tenants who bought their homes;
- the number of reposessions and foreclosures.

We were also asked to identify from the literature the key unintended consequences of the Right to Buy (RTB) and the lessons that might be learned from this. Reference is also made to the experience of RTB in Scotland and Wales.

B. To undertake a comparison between the characteristics of the stock sold and tenants who bought homes under the existing policy, and those of stock and tenants within the scope of the proposed extension of RTB.

As well as using information from a literature review, the report has involved an analysis of available information about housing association stock and tenants who would be eligible for the RTB if it were extended².

We thought this evidence review might be best expressed through responses to a series of statements and questions. Chapter 2 considers the evidence on the impact of the existing RTB. Chapter 3 reviews some of the unintended consequences of the existing RTB in the local authority (LA) sector. Chapter 4 comprises data analysis to examine the different characteristics of housing association stock, and tenants, compared to the local authority (LA) sector. Chapter 5 reviews the experience of RTB in Scotland and Wales. This leads on to the conclusion in Chapter 6.

² Some housing association tenants are currently eligible under the preserved RTB, following the transfer of housing stock out of the local authority sector to housing associations.

2. The Impact of the existing Right to Buy

What was the impact of Right to Buy on the growth of home ownership and the decline of council housing?

The Right to Buy (RTB) was introduced in England and Wales in the 1980 Housing Act. Sitting tenants of at least three years standing were given the opportunity to buy their house or flat at a 33 per cent discount of its market value, with the level of discount rising according to length of tenancy to a maximum of 50 per cent for those who had been tenants for twenty years or more. This policy added significant momentum to a process of tenure restructuring which was already underway. The policy made a substantial impact on accelerating the increase in home ownership in the 1980s and 90s. RTB has been linked to the 'residualisation' of council housing, although this process was well under way before 1980 (Mullins and Murie, 2006).

- 1.8 million properties in England were purchased under RTB between 1980/81 and 2013/14³
- Between 1980 and 1991 around a third of the increase in the owner occupied stock in England (from 10.2 million to 13.5 million dwellings) could be attributed to the RTB (Forrest, Murie and Gordon, 1995)
- The number of dwellings owned by local authorities in England declined from 5.1 million in 1980 to 1.7 million in 2014.⁴
- It has been suggested that *"without Right to Buy the tenure balance in England would be much closer to that of 1981"* (Heywood, 2011: 8).
- By 2000, home-owner households who initially purchased as sitting tenants from social landlords constituted about a fifth of all lower income home-owner households in England⁵ (Burrows, Ford and Wilcox, 2000)
- The total receipts for sales up to 2000 amounted to over £30 billion (Burrows, Ford and Wilcox, 2000). Capital receipts from RTB between 2000/01 and 2010/11 in England amounted to a further £14.9 billion.⁶

How did the pattern of sales change over time since the introduction of RTB nationally in 1980?

- During the first phase of the mandatory RTB, sales rose to a peak of over 200,000 dwellings in 1981. After the initial surge, sales began to fall away (Figure 1) - partly because pent-up demand had been met and partly due to economic factors, including rising unemployment and high interest rates.

³ DCLG (2015) Live Table 678: Annual Social Housing Sales for England, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406317/LT_678.xlsx

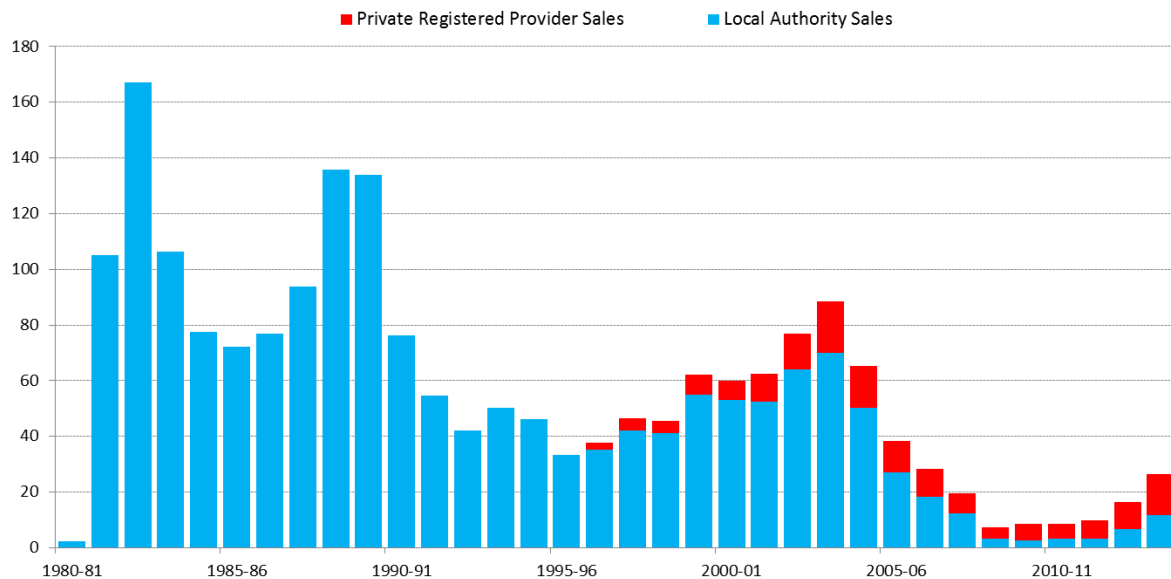
⁴ Figures from: DCLG (2015) Live Table 104: Dwellings by tenure, England, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/423176/LT_104.xls

⁵ Defined as the lowest quintile of households by income, unequivalised and before housing costs

⁶ DCLG (2011) Table 643: Social housing sales - Financial data on local authority homes sold through Right to Buy, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80772/Table_643_final.xls

- The government responded by increasing discounts in 1984. The maximum discount of 50 per cent on all properties was raised to 60 per cent for houses and 70 per cent for flats (where rates of sales had been substantially lower) (Mullins and Murie, 2006). This resulted in higher levels of sales between 1988 and 1990.
- Overall sales increased again between 1999 and 2003 although a considerable proportion of sales were from housing stock that had been transferred from councils to housing associations and other bodies (where tenants had a preserved RTB).

Figure 2: Right to Buy Sales, England, 1980/81 to 2013/14⁷



- RTB sales declined after 2005 as maximum discounts were reduced, but perhaps also because there was less attractive stock less to purchase. They fell to very low levels before the impact of the Global Financial Crisis but began to increase again after 2010, especially after discounts were increased by the Coalition Government in 2012 and in 2013 (for London only).

How did the rate of RTB sales differ from place to place?

- The rate of RTB sales varied between the different parts of the UK. In the first five years, the proportion of properties sold in the North of England lagged behind sales in the more prosperous South-East and South-West, but these differences then levelled off (see Table 1) (Jones and Murie, 2006).
- Sales were highest in the early years of the RTB in smaller, rural district councils. There were strong rates of sale in new towns and in shire districts in all regions except for Yorkshire and Humberside (ibid).
- The rate of sales was lower in large, urban authorities, in particular in inner London and the north-west of England (Forrest and Murie, 1984a; 1984b; 1990a)⁸. The

⁷ Chart 678b from: DCLG (2015) Live Table 678: Annual Social Housing Sales for England, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406317/LT_678.xlsx

⁸ Although the data in London may have understated sales as this was in the midst of transfer of stock from GLC to London boroughs.

lowest rate of sales took place in more deprived urban areas - the 'M62 corridor' from Liverpool to Hull, the West Midlands and Tyneside (Jones and Murie, 2006). This gap closed a little when higher discounts were introduced.

- RTB sales were highest in areas where owner occupation was already at high levels and where the initial stock of council housing was relatively small (Dunn, Forrest and Murie, 1987).

Table 1: RTB sales as a proportion of the original stock

Region	RTB sales 1979 to 2004	% of 1979 stock
East	179,000	34.2
East Midlands	153,000	36.0
London	271,000	30.6
North East	143,000	35.8
North West	192,000	27.6
South East	198,000	32.0
South West	136,000	35.2
West Midlands	202,000	33.5
Yorkshire and Humberside	185,000	32.0

source: Jones and Murie (2006): 60

- By March 2004 there were a number of local authorities who had sold around half of their stock. These areas were distributed across England. The highest rate for a local authority in each of the regions is shown in Table A1 (in Annex 1).
- The rate of turnover among RTB purchasers also varies by locality. In a study published in 2003, 85 per cent of purchasers in England still occupied the original dwelling they purchased as a sitting tenant, while 15 per cent had moved on to other owner-occupied dwellings. In inner London, by contrast, only 74 per cent of households living in former council housing after three years were still the original owner occupiers (Jones, 2003).
- Several studies have indicated extensive variation in RTB sales at the local level. This local unevenness in RTB sales was evident prior to the 1980 Housing Act, as Forrest and Murie (1976) showed in Birmingham. Subsequently, a study of RTB sales in Edinburgh showed that the most affluent council estates experienced most tenure change due to RTB. Less popular areas and tower blocks in the city, on the other hand, experienced high and increasing concentrations of deprivation (Murie, 1998). Jones and Murie (1999) found that the proportion of properties sold in Glasgow between 1980 and 1995 varied from 33 per cent in Anniesland, an area of good quality, mainly family housing, to just four per cent in the large peripheral estate of Castlemilk. Pawson et al (2002) found even starker differences in Edinburgh - with RTB sales ranging from 82 per cent of the 1980 stock in the most popular areas to just three per cent in larger and more deprived council estates in the city.

Who was most and least likely to exercise the Right to Buy?

- The type of households who exercised the RTB has changed over the 35 years that the policy has been operating at national level. In the first phase, a relatively high proportion of RTB purchasers were older, reflecting pent up demand and the larger discounts for longer term tenants. During the 1990s the most common household type was a two parent family with children at school. The incomes of RTB purchasers were generally below average and most purchasers were drawn from lower middle class or skilled working class backgrounds (Jones and Murie, 2006).
- The 'typical' open market purchasers were: an affluent employed young household; or a single person in her or his thirties or forties; or a married couple in the same age group, starting, or already having, a family (Forrest and Murie, 1990b).
- Chaney and Sherwood (2000) examined the processes of migration and social change associated with *the resale of former LA dwellings* in a rural part of the East Midlands. The purchasers who were moving into the properties included: i) a predominance of households in the 25-44 years age group, largely couples with younger children; ii) a much smaller proportion of older households; iii) a negligible proportion of household heads in the youngest age band (18-24). This suggested that the resale of former council houses was not yet providing an alternative means of access for a cohort of younger people in this group who have been increasingly unable to compete in the owner-occupied sector of rural housing markets.
- Certain groups of households – the very young, the elderly, lone parents, the unemployed – were under-represented among early RTB purchasers (Forrest and Murie, 1990b) and this trend has continued. Only a minority of RTB purchasers had low⁹ incomes (Burrows, Ford and Wilcox, 2000).
- Not all tenants who did not buy were unable to do so. Some had previously been home owners and had experienced problems of credit rating or other issues which deterred them from buying. Others did not want to buy the property they were in – whether it was because of its size, type or condition – and were seeking to move away rather than be tied down by purchase (Murie, 2015).
- A review by Burrows, Ford and Wilcox (2000) found that 13 per cent of RTB sales were funded with external financial support. This kind of financial assistance from families or other sources allowed some households with lower incomes (such as pensioners) to purchase their property. In some cases 'rogue' companies may offer special deals to sitting tenants, especially those receiving Housing Benefit, to purchase outside the formal mortgage market.
- More recently, analysis of CoRE data for 2013/14 suggests that a sizeable minority of those undertaking the RTB and Preserved RTB are older people. It appears that somewhere between five and 20 per cent of purchases had been made by households aged over 65 years.¹⁰

⁹ Lowest quintile of household incomes

¹⁰ Authors' calculations based on CoRE data. A large number of respondents to the CoRE survey in 2013/14 had no age recorded. Therefore it is only possible to provide a broad estimate of the age profile of purchasers.

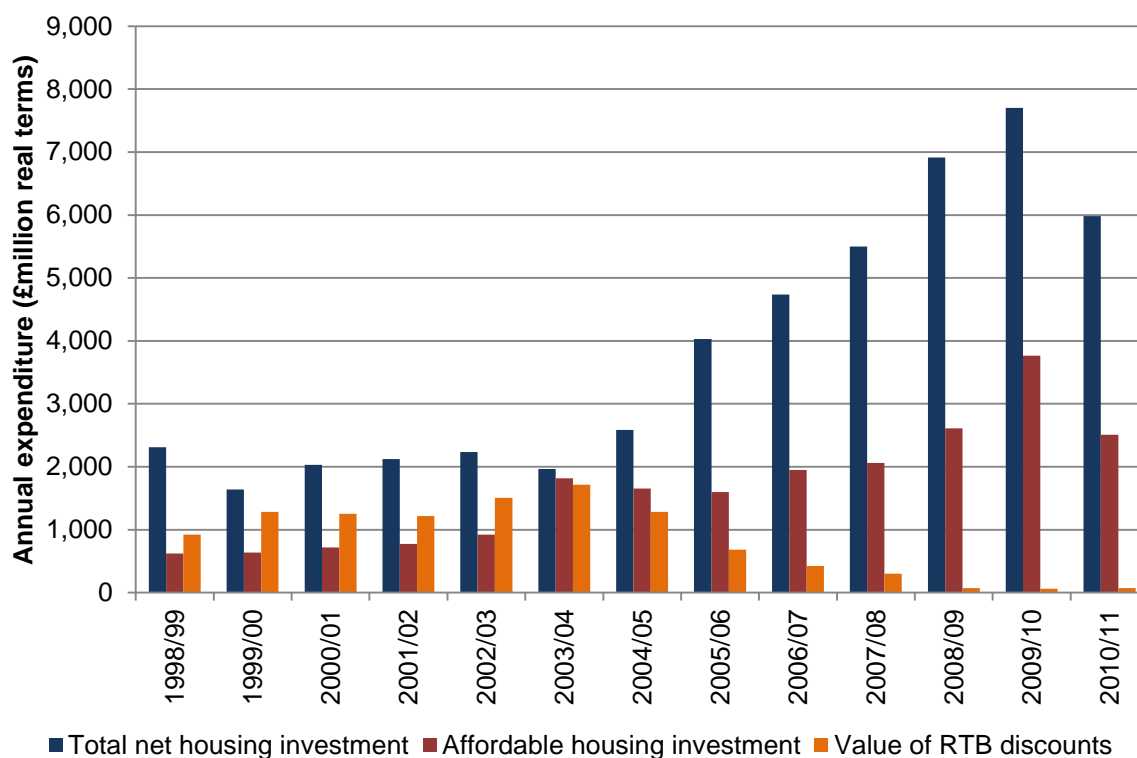
What were the financial benefits for those who exercised the Right to Buy?

- The benefits for purchasers were often considerable, but varied widely according to property type, location and local housing market dynamics. For many who bought, the gap between rents and mortgage payments on discounted properties was often small, especially in periods of real rises in rents. For those who purchased this meant diminishing payments, and ultimately no mortgage payments at all, instead of continuing to pay rents for the rest of their lives (Murie, 2015)
- One of the original arguments in favour of the Right to Buy was a redistribution of wealth from the state directly to sitting tenants, increasing the proportion of the population who would now be asset-holders (Whitehead, 1984). Sales of public sector dwellings under the RTB had generated £36.8 billion by the end of 2002/03 (Jones and Murie, 2006).
- There is a general consensus about the benefits for most of those who exercised RTB, and it has helped to spread wealth among most, but not all, former council tenants. Indeed, RTB for council tenants has been a very important direct policy to encourage wealth ownership. Accumulated discounts on purchases accounted for equity of £150-200 billion, representing 3-4 per cent of total wealth (Hills et al., 2013). However, some RTB purchasers bought very low value properties which generated no realisable wealth and some have subsequently experienced financial difficulties which have cancelled out initial gains, and this is discussed in the next chapter.

How much has been spent on RTB discounts compared to investment in affordable housing?

- By the late 1990s, RTB discounts represented a major source of expenditure, compared to affordable housing investment (see Figure 2). The value of RTB discounts was greater than investment for each year between 1998/99 to 2002/03. For example, in 2002/03 the value of RTB discounts was worth £1.5 billion, compared to £0.9 billion invested in the Affordable Housing programme during the same year. However, the value of RTB discounts then declined steadily from 2003/04, as a result of lower maximum discounts from 2005 onwards as well as fewer sales, falling to £72 million in 2010/11, compared to affordable housing investment of around £2.6 billion in that year.

Figure 2: Housing expenditure, England, 1998/99 to 2010/11¹¹



¹¹ Total net housing investment refers to total net investment in housing. Affordable housing investment relates to HCA/Housing Corporation affordable housing investment programmes. Both are sourced from: Wilcox (2015) UK Housing Review, Table 62a, <http://www.york.ac.uk/res/ukhr/ukhr15/tables&figures/pdf/15-062ab.pdf>. Value of RTB discounts relates to local authority stock sales and is sourced from: DCLG (2011) Live Table 643 Social housing sales: Financial data on local authority homes sold through Right to Buy, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80772/Table_643_final.xls

3: Unintended or Unexpected Consequences of the Existing Right to Buy

A considerable proportion of RTB stock has now been 'recycled' into the private rented sector

- The evidence base on the transfer of RTB stock to private landlords is patchy, but there is an established trend that the resale of properties into the private rented sector has increased in recent years, reflecting the ageing cohort of tenant purchasers and wider housing market processes..
- RTB may have temporarily inflated the level of home ownership as substantial subsidies (discounted prices) are likely to have increased effective demand for house purchase. This represented a one-off subsidy to council tenants. For subsequent transactions, at market prices, putative owner-occupiers have no equivalent subsidy. Initial evidence of RTB sold properties subsequently transferring to private renting emerged in the 1990s (Forrest, Murie and Gordon, 1995). This found that former council houses were being priced some ten per cent lower than owner-occupied properties of an equivalent size, age and type. While this often made them accessible to first-time buyers it also made them attractive to private landlords.
- In their study of ex-council homes Forrest, Murie and Gordon (1995) found that eight per cent of households were renting from a private landlord. Seventeen per cent of those who were privately renting lived in flats, compared with four per cent of owners. Households who were renting former council homes from private landlords were more likely to be single, living in large adult households and under 25. The resale of RTB stock tends to alter the demographic profile of the area (not least due to age differences between sellers and purchasers), but the configuration by age, status and household type is likely to be altered again if the stock is recycled into the private rented sector.
- The picture varies considerably from one local authority to the next. A survey undertaken in 2003 found that twenty one per cent of properties in Lambeth and 31 per cent in Camden bought under the RTB three years earlier were no longer owner-occupied. This figure was much lower outside inner London: seven per cent in Birmingham, six per cent in Havering and three per cent in Leeds (Jones, 2003).
- Similarly, the degree to which transfers take place from RTB to the private rented sector can vary widely among estates within the same city. Transfers are generally higher in less popular estates. A study of changing tenure in Birmingham between 1981 and 2001 found that the private rented sector had increased on the Ladywood estate by 43 per cent solely as the result of transfers from RTB property, compared to just 16 per cent on another estate, Falcon Wood (Murie, 2008)
- The situation had changed further by 2011, although the evidence base is not extensive. A study in Birmingham referring across leasehold and freehold sales resulted in a 'cautious' estimate that between 20 per cent and 30 per cent of RTB properties had become privately rented by 2011, and that this figure was likely to

increase. Private renting had expanded in council estates that had previously only had council or owner-occupied properties (Bentley et al, 2014).

- Recent research by *Inside Housing* (Apps, 2015) estimated that nearly 40 per cent of ex-council leasehold properties sold under the RTB were now in the private rented sector. A Freedom of Information Act request gained a response from 91 local authorities. This showed that of the 127,763 council flats and maisonettes sold under RTB since 1980, 47,994 leaseholders were registered as 'living away from the property'. This is a likely indication that the properties were now being privately rented. It would suggest that around 37 per cent of the council homes were now back in the private rented sector. These properties were sold at a discount and are now being let at higher rents than LA accommodation and with less tenure security.
- A recent study undertaken for the GLA (Copley, 2014) found that at least 36 per cent of all homes sold by councils across London are now let by private landlords. However, it would be unwise to extrapolate from these data to RTB sales generally. The London market has distinctive elements (such as difficulties in obtaining mortgages for some flats) which is likely to affect outcomes, and cause a higher rate of transfer into the private rented sector than elsewhere. This higher rate of transfer may also apply to certain property types (such as flats, especially those where it is difficult to secure a mortgage) (Murie, 2015).
- While the pace of growth of private renting in the RTB resale sector is likely to be uneven, there are implications for the demand and delivery of services. These impacts will be particularly pronounced where changes in tenure affect the demographics, dynamics and stability of neighbourhoods. There are also implications for incomes, household budgets and benefits associated with higher housing costs in the private rented sector (Murie, 2015).
- One potentially positive consequence of the transfer of ex-RTB stock into the private rented sector is that it may lead to a higher rate of occupancy in the properties (and thereby a more efficient use of the housing stock) than if they remain in the home ownership sector (Murie, 2015). There is, however, also the risk of more overcrowding in some areas as landlords seek to maximise rates of occupancy.

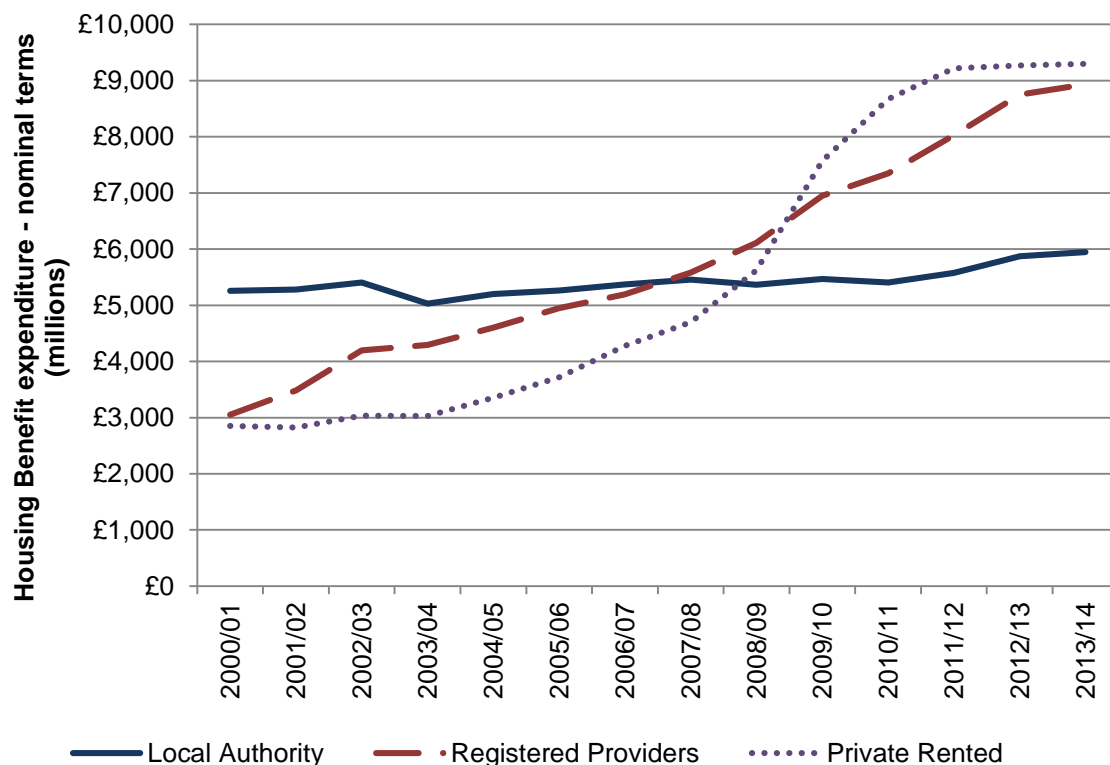
The resale of RTB property into private renting results in higher Housing Benefit expenditure

- The Office for Budget Responsibility has identified four key periods of change in Housing Benefit expenditure. During the first period from 1988/89 to 1995/96 the increase in expenditure was partially attributed to *“deregulation of the private-rented sector in 1988 [which] led to increased average awards”* (Office for Budget Responsibility, 2014:164). A subsequent decline in expenditure from 1995/96 to 2000/01 was partly due to policy changes restricting eligible rent levels for housing benefit. During the third period - from 2000/01 to 2007/08 - there was a small decrease in expenditure *“reflecting strength in the wider economy, partially offset by a shift in the caseload from the social rented to the private rented sector”* (ibid).
- The most recent growth in expenditure from 2007/08 to 2012/13 has been attributed to *“very weak nominal GDP growth, higher caseloads, and rising average awards relative to GDP-per-household. The proportion of households renting in the private*

sector increased further, continuing the shift in the caseload to the private rented sector” (OBR, 2014:164). All this demonstrates that overall patterns of Housing Benefit expenditure are closely associated with changes in the private rented sector.

- Changing trends in HB expenditure over time are shown in Figure 4 below. HB for private tenants, for example, cost £3.0 billion in 2003/04 but had increased to 9.2 billion by 2011/12. Weekly Housing Benefit awards in different tenures are shown in Figure A1 in Annex 2. Average weekly awards in the private rented sector are over £20 per week higher than in the social rented sector. This equates to over £1,000 per annum for each claim.
- Detailed research was conducted by Sprigings and Smith in Renfrewshire (2012). They found that 43 per cent of Housing Benefit claimants in the private rented sector were living in properties purchased under RTB. The authors calculated that the higher cost of accommodation within private renting led to an additional cost of £3.2 million per annum compared to the equivalent within social renting. If this pattern were to be replicated elsewhere, it would result in major increase in annual HB expenditure at the national level.
- A study for the Greater London Authority (Copley, 2014) found that substantial numbers of RTB properties now in the private rented sector were being let to tenants who were now supported by HB.
- It is not evident that the Government's estimates of the plans for future expenditure on HB have taken any account of continued transfers of ex RTB stock to the private rented sector.

Figure 4: Housing Benefit expenditure, Great Britain¹²



¹² Data from: DWP (2014) Benefit Expenditure: Outturn and Forecasts, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/402372/Outturn-and-forecast-AS-2014.xlsx

Right to Buy can bring unexpected repair costs for owners some years after initial purchase

- The implications for the future management of leasehold properties were overlooked in the early phases of RTB. Those purchasing a leasehold property became liable for service charges. This was a particular problem for RTB purchases of flats. Purchasers, local councils and central government all lacked an understanding of the legal and financial complexities associated with managing and living in leasehold property.
- Some home owners who had bought because the prices were low found that the high service charges and charges for major essential repairs were causing real financial difficulties (Mullins and Murie, 2006; Blandy and Hunter, 2012).
- Difficulties have therefore arisen for some owner-occupiers who purchased LA flats, notably when presented with large service charge demands generated as a result of repair and improvement work. For instance, the lessees of the Spa Green estate in North London unsuccessfully deployed arguments about historical neglect in an attempt to reduce service charge obligations of between £30,000 and £40,000, following Islington Council's renovation of their listed blocks of flats (Carr, 2011).
- The defects in some RTB properties were addressed by the Housing Defects Act 1983 under which funds were made available for modifications to specified design types. However more general problems have emerged and not all properties with defects were covered by this legislation. Lenders are also reluctant to lend on some property types which can become difficult to sell. In addition, purchasers of some flats became liable for the very high cost of refurbishing blocks. Government intervention has periodically sought to reduce such risks but this has had mixed results. It has not necessarily persuaded the courts to allocate risk away from individual purchasers. Instead, courts have expressed considerable sympathy for local authorities in decisions, and emphasised the responsibilities of RTB purchasers for adequate ongoing maintenance (Blandy and Hunter, 2012).

A proportion of RTB purchasers experienced major difficulties paying the mortgage

- The extent of mortgage problems will naturally vary over time, depending on factors such as the interplay between borrowers' financial circumstances, the level of interest rates and the extent of lender caution. An examination of the arrears rates of RTB mortgages and standard mortgages, derived from the DCLG Survey of English Housing, showed that borrowers who bought from a council or housing association were two to three times more likely to fall into arrears than someone with a standard mortgage (Financial Services Authority, 2009).
- In 2012, Shelter's Mortgage Debt Advice case workers reported that an unusually large number of clients who purchased under RTB were now in arrears or facing repossession. These clients were often older people or people with long term health issues, or those who have overcommitted to debt and had not realised or planned for the additional costs of repair and maintenance on their homes (Shelter, 2012).

- In an earlier study, Citizens' Advice Bureaux (CAB) evidence on people also found that borrowers were often in receipt of persistent low incomes, had little knowledge of financial products and were often also vulnerable because of their age, state of mental health, physical disability, literacy or language difficulties. Despite clients' circumstances, there was often no evidence of any thorough financial checks being made at any stage (Tutton and Edwards, 2007).
- Nevertheless, the overall picture is that the majority of RTB purchasers have not experienced difficulties over mortgage repayments. In the event of a change of status, such as relationship breakdown or job loss, the often substantial discounts provided ample scope for rescheduling payments or re-mortgaging to avert the threat of repossession (Murie, 2015).

RTB may reduce rather than increase social mix, especially on less popular estates

- The impact of RTB on the social mix of areas was a secondary rather than primary consideration when the policy was introduced nationally in 1980, but it was sometimes presented as a means of diversifying the social composition of particular neighbourhoods. By definition, RTB policy increased tenure mix on those estates that were previously dominated by council housing. Because nearly all tenants who exercised RTB remained in place for at least five years, there was no initial impact on social mix at the neighbourhood level. It is what happened on the resale of the properties that mattered and this varied according to the type of property and the local housing market (Murie, 2008). RTB has been higher in some neighbourhoods and property types and left a larger concentration of poorer households elsewhere in a smaller council housing sector. Social mix has been altered rather than necessarily enhanced by RTB.
- The Right to Buy was meant to reduce spatial segregation between tenures. In reality, *"the arguments in favour of the Right to Buy based on social mix are an act of faith. Increased residualisation caused by the Right to Buy means... greater instability and social exclusion not less"* (Jones and Murie, 2006: 214).
- A study of data for England of council house sales completed between 1979 and 1985 concluded that the sale of council houses had led to a greater unevenness in the national pattern of housing tenure (Dunn, Forrest and Murie, 1987). Notably, RTB was intensifying owner-occupation in areas where it was already high, producing an increased polarisation of tenure.
- As the social base of council housing has narrowed, due to a range of social and economic factors, the social mix on some council estates has reduced (Murie, 2012). RTB appears to have confirmed and consolidated, rather than changed, the status, reputation and social role of these neighbourhoods. The established hierarchy of popularity among different areas remains generally unchanged by RTB. There are other issues often associated with remaining areas of social housing, such as the increasing proportion of ethnic minorities, new migrants and newly forming households as they often have the least capacity to choose where they live (Murie, 2015).
- Changes in less popular estates may be compounded by higher than average rates of resale into the private rented sector. This in turn raises questions about the

capacity of social landlords to undertake effective housing and neighbourhood management or regeneration in mixed tenure, high turnover, low status areas. Problems have arisen, for example, over selective demolition, when RTB purchasers find that purchase of their property at open market value is insufficient to enable them to buy an equivalent replacement property on the market.

- Pearce and Vine (2014) devised an Index of Residualisation to chart the changes in the profile of households in social housing over the last 40 years. From being a fairly mixed-income tenure in 1970, the pace of residualisation increases after 1980 (partly linked to RTB), reaching a level of around 0.5 by 2010, more than three times its value in 1970.

The spread of asset ownership due to RTB has been very uneven

- For most tenants who exercised their RTB there were significant and measurable benefits. Very few failed to benefit and any risk was no greater than among home owners in general (Mullins and Murie, 2006: 101). RTB has been an important factor in the changing distribution of housing wealth over recent decades (e.g. Hills et al., 2013). However, a minority of tenants also lost wealth from the process, and any increase of wealth that has accrued is unevenly distributed geographically and demographically. The greatest gains were received by people who entered council housing in the post-war period which meant that they were *"at the stage in their housing career and family cycle when they could take maximum advantage"* of the RTB (Jones and Murie, 2006: 217).
- RTB led to a one-off transfer of assets to individuals, many of whom have subsequently sold and either entered the mainstream market or, particularly in London, rented them out to become small landlords (DCLG, 2010).
- Only RTB purchasers who bought at the right time and in the right place have been able to unlock substantial equity by 'trading up'. Gains have therefore been something of a lottery. More recently, the relatively high percentage of ex-RTB accommodation now in the private rented sector in some areas (Apps, 2015) now suggests a trend towards the concentration of these assets in the hands of residential landlords alongside individual owner-occupiers.
- Geographic variations in house prices have led to an uneven distribution of the longer term benefits of reselling RTB property. For example, the lower quartile house prices in Stockport, Bedford and Newham were all around the national average for England of £44,000 in 1997.¹³ By 2012, however, these prices were £115,000 in Stockport, £141,500 in Bedford and £180,000 in Newham. Households purchasing through Right to Buy in different areas in 1997 would therefore have considerable variation in the equity they held in their property by 2012. A household who had purchased in Newham at lower quartile levels could therefore have gained £65,000 more in equity alone than a household who had purchased in Stockport. This underlines the importance of local housing market dynamics in shaping the differential effects of RTB.

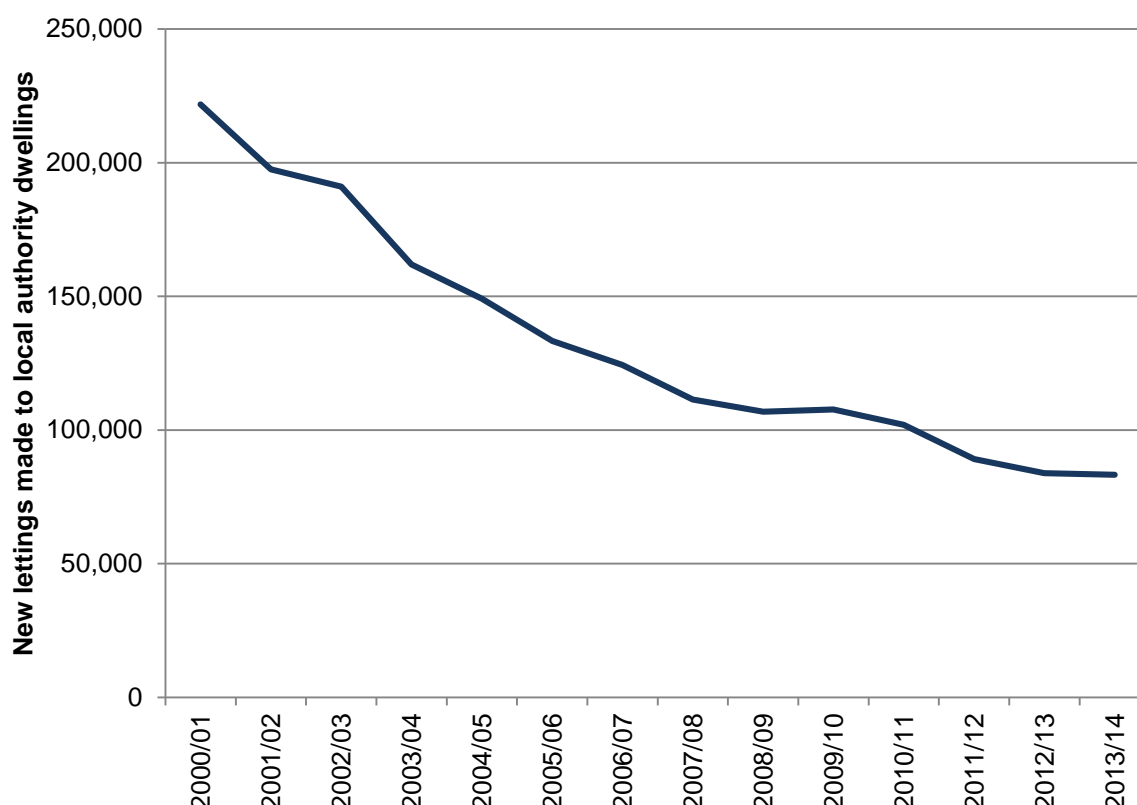
¹³ The lower quartile average prices in 1997 were £43,900 for England, £43,000 in Stockport, £47,000 in Daventry and £43,500 for Newham. Data from: DCLG Live Table 587, Housing market: lower quartile house prices based on Land Registry data, by district, from 1996, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305663/Table_587.xls

- Unskilled workers, those who were economically dependent of working age, and low-income council tenants were under-represented among RTB purchasers. Such groups did not share in wealth redistribution, but were left behind in a more unequal situation (Forrest and Murie, 1988).

Lack of replacement of rented stock that has been bought has intensified problems of housing affordability

- RTB has contributed to a substantial reduction of the social housing stock, which - in the absence of countervailing new build programmes - has caused supply problems. The sale of council houses had reduced choice for existing and potential tenants (Whitehead, 1984).
- In the short term there were no evident losers, as the same household continued to live in the same property – there was no displacement or lost opportunity for someone else to become a tenant. RTB represents the transfer of property from one tenure to another, with no net impact on the size of the housing stock overall. The only qualification to this position is the extent to which the RTB reduced mobility - some tenants would have moved away in order to buy (and released their tenancy for a household in housing need) if the opportunity afforded by the RTB had not existed (Murie, 2015).
- In the longer term, however, there is a loss of relets – the flow of properties available for letting, given that resales of RTB property would often be available to a different market with different needs and resources - unless there is an equivalent programme of investment in affordable and accessible housing, to balance this outcome. Some properties resold to private landlords or at low prices would continue to serve the same types of household as would have qualified for a tenancy in the social rented sector - but many would not (Murie, 2015). The capital receipts from RTB sales were not in large measure devoted to reinvestment, and this intensified the shortage of affordable housing options for many of those with least resources, unable to meet their needs in the private market.
- The scale of the decline in LA relets in recent years is marked. The number of lettings to new tenants in LA accommodation has declined sharply over the last ten years (see Figure 3). In 2000/01 there were 221,000 lettings to new tenants in LA accommodation. By 2013/14 there were 83,000 lettings to new tenants - just over one-third of the figure thirteen years earlier. This is likely to be linked to the net decline in amount of LA stock, partly due to RTB and also due to stock transfers. By contrast, the share of the housing market by the private rented sector increased from ten per cent to 19 per cent over the ten years to 2013/14, and from 21 per cent to 48 per cent of households aged 25 to 34 in the same period (DCLG, 2015: Figure 1, para 2.14).

Figure 3: Number of lettings to new tenants in local authority accommodation, England¹⁴



- In the past 40 years, house price growth in the UK has been faster than in any other OECD country and has far outstripped earnings growth. Furthermore, the proportion of home ownership has been in decline since the turn of the millennium, falling from 70 per cent in 2002 to 64 per cent in 2013.¹⁵ Extending RTB would initially help to slow this decline, but at a price. It would be likely to make longer-term problems of housing affordability and expansion of private renting more acute (Hilber, 2014).

RTB has had a mixed impact on the condition of the housing stock

- Would RTB property be better maintained because the new owners would spend more on maintenance and repair, reflecting the greater pride they now might take in their homes? The evidence is mixed. The discount formula devised for RTB particularly encouraged households on lower or variable income to purchase properties. At the time of purchase these properties may have been well maintained, but in many cases an accumulation of repair requirements had then built up, ten years on (Jones and Murie, 2006).

¹⁴ Figures from: DCLG (2011) Table 602: Local authority lettings made to local authority owned dwellings, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/385118/LT_602.xlsx

¹⁵ Department for Communities and Local Government (2015) Table 101: Dwelling stock: by tenure, United Kingdom (historical series), <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building>

- The initial investment by households in purchased council properties was often cosmetic, and not necessarily of long-term value or utility. One of the visible consequences of council house sales in a substantial number of cases was immediate investment in porches, fences, window replacement and wall finishings. More structural and routine repairs and maintenance were often not undertaken, at least until the property changed hands on resale (Forrest and Murie, 1990b).
- Decisions on repairs and maintenance in the private sector will, of course, reflect individual resources and inclination. In contrast, council house repairs and maintenance decisions are bureaucratically determined by planned maintenance or refurbishment programmes, as well as responding to demand. Properties now in the private market have both higher than average standards of repair and a greater likelihood of neglect of repair: the range is wider (Forrest and Murie, 1990b).
- Former council homes therefore exhibit a wider variation of condition than council homes. An exploratory house condition survey was carried out in Birmingham in 1989 on a sample of council homes sold between 1968 and 1974 (prior to mandatory RTB), and compared with results for properties still in LA ownership. (All dwellings built before 1919 and all flats were excluded.) Former council homes were generally in better condition, but there was a greater tendency for some RTB properties to lag behind and fall into a relatively high repair cost category. On average, RTB sales were higher in better quality stock in the most popular areas. RTB and related policies left a legacy of devalued neighbourhoods, a highly stigmatised tenure and a pattern of fragmented ownership that made estate and market renewal more difficult and costly (Mullins and Murie, 2006).
- The more recent tendency for RTB properties to be sold on into the private rented sector also brings with it a risk of a decline in standards. Private rented homes are more likely to fail basic health and safety tests. For example, one third of London's stock of private rented housing, more than 250,000 homes, currently falls below the Decent Homes standard used in the social rented sector. (Copley, 2014) Furthermore, landlords may decide to cut back on maintenance expenditure where they have a large number of tenants on full or partial HB, due to a potential decline in rental income over time (Cole et al, 2014).

Policies designed to exempt certain property types or local areas from RTB have had mixed results.

Concerns were expressed about the effect of the RTB on the supply of purpose-built sheltered housing and housing for people with disabilities. Measures in the legislation were designed to address this problem. While these measures appear to have worked for purpose-built properties, they seem to have been less effective for properties with adaptations. Other details of the legislation were designed to protect the limited supplies of affordable housing in rural areas, but these have proved largely ineffective (Murie, 2015).

4 Tenant and Housing Stock Characteristics in the Housing Association Sector affected by the Extension of RTB

It is very difficult to predict the proportion of housing association households who will exercise the RTB

The government has not yet specified the terms under which the extension of RTB will be introduced. Issues such as the level of discounts, the cap on the maximum amount of discount and minimum length of tenancy to qualify have not been confirmed. However, it is likely that the terms of an extension will be broadly similar to earlier schemes. The demographic and economic characteristics of housing association households suggest that only a minority will be in a position to buy under any probable scenario. Set against this, there are also countervailing factors that may increase the level of RTB activity to a higher than expected level, especially in the early stages.

We have therefore undertaken our own preliminary analysis of likely take-up of RTB, based on an examination of the characteristics of housing association tenants.

On the basis of the experience of the RTB in the LA sector, it is probable that a higher proportion of purchasers among housing association households will be of working age and in full-time employment.¹⁶ According to the 2011 Census:

- Nearly a quarter (23 per cent) of housing association tenant households comprised people aged 65 years and older¹⁷
- Just over half (50 per cent) of households were headed by a person who was economically inactive:¹⁸
 - 30 per cent of household heads were retired
 - 5 per cent were looking after home or family
 - 13 per cent were long term sick or disabled
- Among economically active households:
 - 8 per cent of all housing association households were headed by a person who was unemployed
 - 15 per cent were headed by a person who was working part-time
 - 28 per cent were headed by a person who was working full-time

Just over a quarter of all households in the sector therefore included a head of household who was working full-time. However, these overall figures also mask marked geographical variations in these characteristics:

¹⁶ Data from DCLG suggests that: "43 per cent of private registered provider stock sales in 2013/14 were sold to single adults without children, the largest single group and an unchanged percentage from both 2011/12 and 2012/13. The average age of those buying private registered provider stock was 40 in 2013/14, two years older than 2012/13. 82 per cent of private registered provider stock sales in 2013/14 were sold to those in full time employment". DCLG, Social Housing Sales in England, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/363935/Social_housing_sales_in_England_2013_to_2014.pdf

¹⁷ Data from 2011 census table DC4101EW accessed via NOMIS.

¹⁸ Data from 2011 census table DC4601EW accessed via NOMIS.

- The proportion of households comprised of **people aged 65 years and older** varied from 8 per cent in South Derbyshire to 42 per cent in Tendring.¹⁹
- The proportion of households headed by **a person who was unemployed** varied from 3 per cent in East Dorset to 14 per cent in Nuneaton and Bedworth.²⁰
- The proportion of households headed by a person who was **long term sick or disabled** from 2 per cent in the Isles of Scilly to 22 per cent in Barrow-in-Furness.
- The rate of **full-time employment** amongst HA tenants ranged from 64 per cent in the Isles of Scilly to 15 per cent in Barrow-in-Furness.

The interaction between local housing and labour markets also needs to be taken into account. Those areas with high rates of full-time employment - which might be expected to generate a higher level of RTB activity, other things being equal - will also tend to be areas with higher than average housing costs.

In the Family Resources Survey 2013/14²¹

- Almost half of housing association tenants reported that housing costs were "a heavy burden or struggle". Only 16 per cent said that housing costs are "not a burden or struggle at all".
- 24 per cent of tenants had moved into the current property within the last three years. There was a relatively even split between these three years.

If the plans to extend RTB follow practice in the LA sector, only tenants who have been resident for at least three years will be eligible for RTB. We can therefore bring the characteristics of age, affordability, income and length of tenancy together to provide a preliminary indication of the proportion of households who might be able to exercise the RTB.

- **20 per cent of all HA tenants** had: a 'reference person' aged 16 to 64 years **and** reported that housing costs were "not a burden or struggle at all" or "a slight burden or struggle" **and** had lived at the current address for three years or longer;
- **16 per cent** of HA tenants had: a 'reference person' aged 16 to 64 years **and** a gross household income from employment of more than £250 per week (£13,000 per annum) **and** had lived at the current address for three years or longer
- **Nine per cent** of HA tenants had: a 'reference person' aged 16 to 64 years **and** reported that housing costs were "not a burden or struggle at all" or "a slight burden or struggle" **and** had a gross household income from employment of more than £250 per week (£13,000 per annum) **and** had lived at the current address for three years or longer.

This preliminary analysis would suggest that between nine per cent and 20 per cent of households might immediately be able to afford the RTB, creating a range of between 76,500 to 170,000 existing housing association households who might be able to exercise the extended RTB from their own resources. The figures represent a similar proportion to the recent Chartered Institute of Housing (CIH) analysis of the extension to the RTB which

¹⁹ Data from 2011 census table DC4101EW accessed via NOMIS.

²⁰ Data from 2011 census table DC4601EW accessed via NOMIS.

²¹ This survey provided a sample of 1340 Housing Association tenant households in England

estimated that about 1.45 million tenants would be eligible and that about ten per cent of this group would exercise the Right to Buy in the first five years. John Perry, CIH policy advisor, said: *"This is based on experience with local authority Right to Buy in the 1980s, taking into account that the proportion of housing association tenants in employment now is a lot lower than was the case with council tenants then. We expect most of these sales to be in years two and three."*²² However, interest rates are considerably lower now than they were in 1980, and the level of discounts is likely to be higher than they were when RTB was first introduced on a mandatory basis.

- The highest proportion in our range of estimates - 20 per cent - is still lower than the National Housing Federation (NHF) estimates that 850,000 existing households would be eligible for the RTB²³ and that 221,000 households (just under a quarter) might be able to afford a mortgage. The Institute of Fiscal Studies (IFS) has, however, suggested that the NHF estimates were likely to represent the upper point of the number of tenants who were able to exercise the Right to Buy (Chandler and Disney, 2015).
- In their evidence to the Select Committee Orbit Housing Group used household income data to estimate that 5,550 out of 39,000 households (14 per cent) would be likely to be able to access a mortgage (CLG select committee evidence: RTB 115).²⁴
- In their written evidence to the Select Committee inquiry, the G15 group of large housing associations in London stated that they were "estimating sales to 5-10% of our tenants based on what we know about their income and property values" (CLG select committee evidence: RTB 130).²⁵
- The persistence of low interest rates may attract more tenants to take on a mortgage in order to fund purchase. On the other hand, the availability of mortgages for 'marginal' purchasers has tightened considerably since the 1980s and 1990s. In their submission to the Select Committee, for example, the Council for Mortgage Lenders highlighted the *"difficulties in assessing accurately the extent to which the new mortgage affordability requirements under MCOB [Mortgage Conduct of Business] rules might exclude tenants from purchasing under RTB"* (CLG select committee evidence: RTB 067).²⁶
- One large housing association submitting written evidence to the Select Committee suggested that there could be a substantial gap between demand for RTB and the ability of tenants to access a mortgage. Radian (CLG select committee evidence: RTB 019)²⁷ used evidence from the Preserved Right to Buy amongst their tenants to suggest that *"only 50% of enquiries lead to applications and only 10% of these proceed to purchase"*.

²² Williams, C. (2015) RTB extension could see 145k association homes sold, Inside Housing, 2nd September, <http://www.insidehousing.co.uk/news/rtb-extension-could-see-145k-association-homes-sold/7011579.article>

²³ See page 16: Wilson, W. and Bate, A. (2015) Extending the Right to Buy (England), House of Commons Library Briefing Paper Number 07224, <http://researchbriefings.files.parliament.uk/documents/CBP-7224/CBP-7224.pdf>

²⁴ <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/communities-and-local-government-committee/the-housing-association-sector-and-the-right-to-buy/written/20053.pdf>

²⁵ <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/communities-and-local-government-committee/the-housing-association-sector-and-the-right-to-buy/written/20098.pdf>

²⁶ <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/communities-and-local-government-committee/the-housing-association-sector-and-the-right-to-buy/written/19947.pdf>

²⁷ <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/communities-and-local-government-committee/the-housing-association-sector-and-the-right-to-buy/written/19616.pdf>

- It is difficult to predict without further research and modelling how much pent up demand there is from existing tenants that will result in a high level of RTB activity in the first one or two years. It is, however, worth bearing in mind that the number of sales completed under RTB in the LA sector, when discounts ranged between 33 to 50 per cent, was significantly greater than had been expected by some commentators (Murie, 2015). The same could happen again.
- We have broadly estimated from 2013/14 figures that up to 20 per cent of those exercising the preserved RTB were purchased by households aged 65 and over. They will have been able to buy either by using their own savings or with additional help from others, not least their children. The size of this group who would exercise the RTB when it is extended to housing associations is very difficult to predict on the basis of our current knowledge.

In terms of overall impact, even if one takes the higher rates of expected RTB activity among housing association households in the first five years, it is worth pointing out that this would increase the proportion of owner occupation in England by less than one per cent.

There are marked differences at the local level in stock type and in the proportion of housing association stock in the market

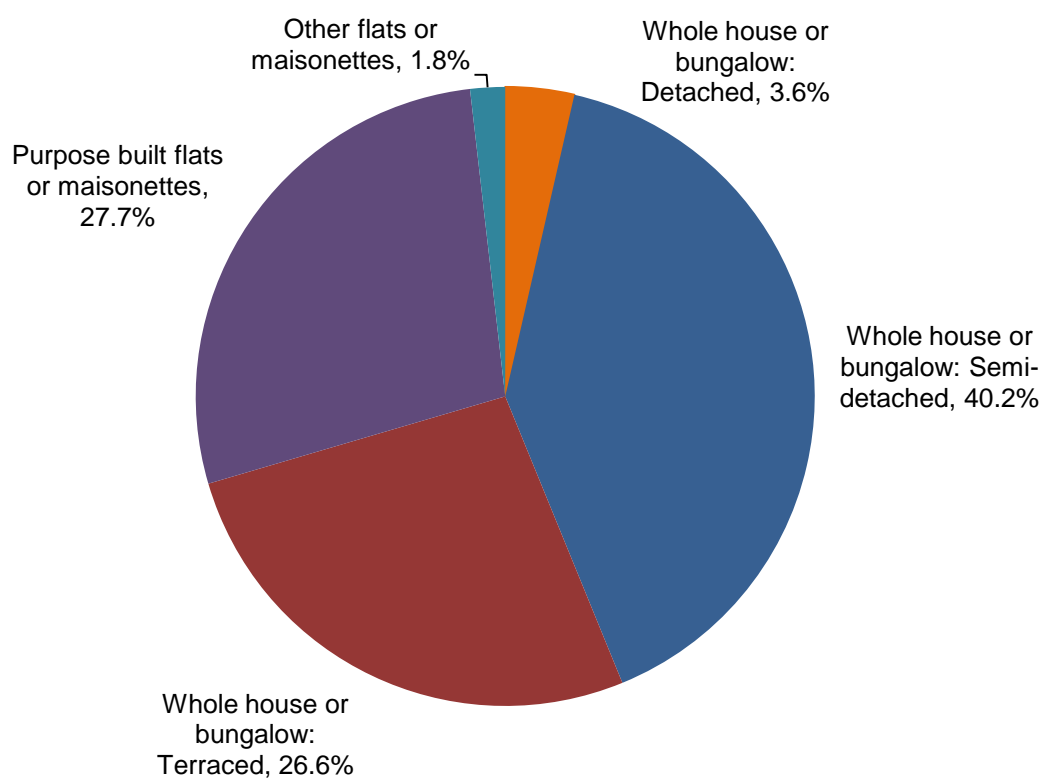
- Housing association stock is not as spatially concentrated as other tenures. Housing association tenants accounted for less than a quarter of households in every local authority (LA) in England and Wales. The highest percentage of tenants was found in Liverpool (23 per cent).²⁸ For a mix of historical, financial and institutional reasons, there is a wide variation in the type of stock held by housing associations across LA areas (see Figure 5 for the national classification of stock type and Figure 6 for the distribution by area type). In 2011, for example:
- The proportion of flats or maisonettes in the housing association sector varied from 15 per cent in South Holland to 95 per cent in Westminster.²⁹
- The proportion of detached or semi-detached houses and bungalows varied from two per cent in Kensington and Chelsea to 62 per cent in Broadland (Norfolk).
- High rates of purchase of flats may result from the extension of RTB in spite of problems associated with leasehold and resales and this may result in problems later on unless remedial measures are taken (Murie, 2015).
- The RTB is likely to be higher in some types of stock (such as houses with gardens, larger flats and dwellings in more popular locations) than others and this will limit the 'offer' that can be made by housing associations to their existing tenants and to new applicants, in the absence of a replacement programme of a similar scale to the losses. Under the voluntary RTB agreement now reached between the government

²⁸ In Birmingham, 2011 census data shows that 78 per cent of Lower Super Output Areas (LSOAs) have more than 75 per cent of households who are owner occupiers. This compares to 0.6 per cent of LSOAs where Housing Associations (social rented: other) account for more than 75 per cent of households. Housing association households are also less concentrated locally than those renting from local authorities (1.7 per cent of LSOAs).

²⁹ For ONS classification of 'Social Housing: other' at the time of the 2011 census. From KS402EW accessed via NOMIS.

and housing associations, homes sold to tenants will be replaced on a one to one basis³⁰.

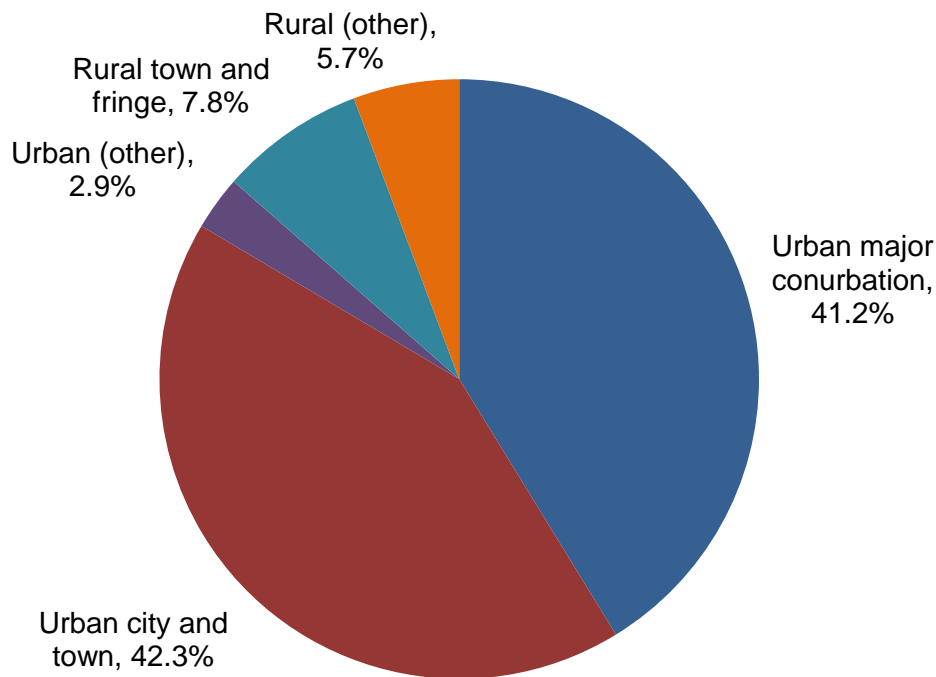
Figure 5: Type of stock held by Housing Associations, England, 2011³¹



³⁰ Announcement to the House of Commons and House of Lords by Greg Clark MP, Secretary of State for Communities and Local Government, 12 October 2015

³¹ ONS classification of 'Social Housing: other' at the time of the 2011 census. From KS4402EW accessed via NOMIS.

Figure 6: Type of location for Housing Association stock, England, 2011³²



In order to assess the possible local impacts of extending RTB to the housing association sector, the research team undertook data analysis at LA level on four key variables likely to influence the scale of activity:

- The proportion of housing stock in the LA which is owned by housing associations;
- The proportion of housing association tenants working full-time;
- Lower quartile house prices;
- The proportion of housing stock at LA level which is a whole house or bungalow.

Each of these variables had a different geographic pattern and associations between them were explored. Annex 3 contains a fuller discussion of the method of analysis. A cluster analysis was used to assess the possible interaction between all four of the variables, and the strongest model identified four clusters of LA areas³³. Characteristics for these clusters are outlined in Table 2 and their geographic distribution is shown in Figure 7 below.

- **Cluster 1** represents 54 local authorities where house prices are high and the proportion of working tenants is also high. We might expect housing association tenants to struggle to afford to exercise the RTB in these areas, despite the high proportion of full-time employees. Local authorities in this cluster are situated in London and the South East.
- **Cluster 2** represents four local authorities where house prices are very high. It is unlikely that many tenants will be able to exercise the RTB in these areas. They are four boroughs in central London (Camden, City of London, Kensington and Chelsea,

³² ONS classification of area type for 'Social Housing: other' at the time of the 2011 census. From KS402EW accessed via NOMIS.

³³ It is, however, worth bearing in mind that RTB valuations will perhaps be ten per cent lower than for equivalent owner-occupied property sold on the open market.

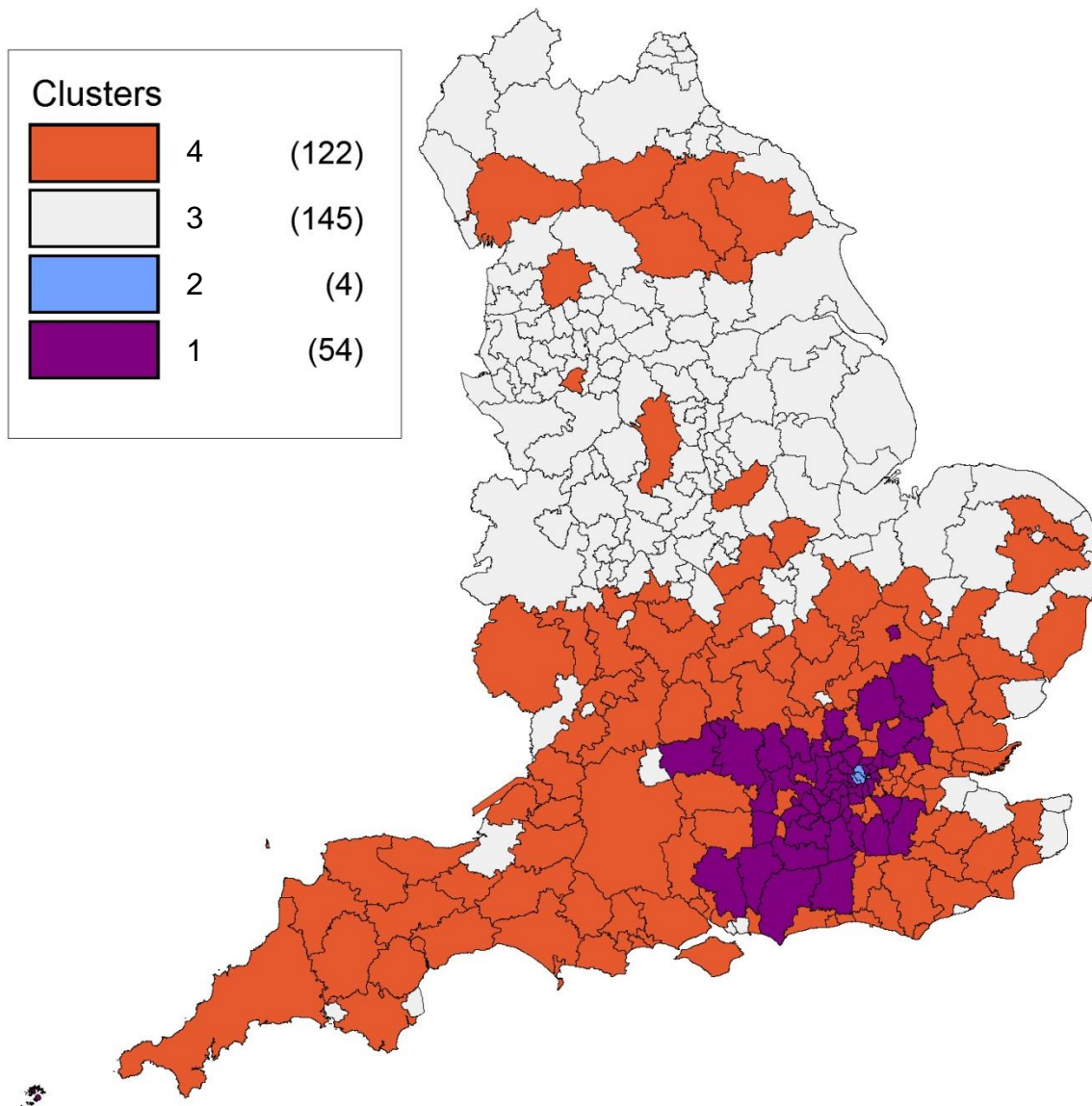
and Westminster). There may be a higher risk of abuse by third parties in clusters 1 and 2, if high maximum discounts still leave properties beyond the reach of tenants, but where some companies might attempt to attract marginal purchasers to buy.

- **Cluster 3** represents 145 local authorities with lower than average house prices. These areas also have high proportions of whole houses and low proportions of tenants who are working full-time. They tend to be areas with a lower than average proportion of housing association stock. The impact of the RTB in these areas is difficult to predict. House prices are more likely to be affordable but there are fewer tenants who are working full-time. The health of the local labour market could be the key factor here affecting RTB take-up. Local authorities in this cluster can be found across the northern half of England.
- **Cluster 4** represents 122 local authorities with average house prices and proportions of tenants working full time. The majority of these LAs can be found across the South Midlands, South West and parts of the South East. There is also a small band of this cluster across Northern England. As with cluster 3 the impact of the RTB in these areas is uncertain, and these areas could be the barometer for how far households will extend themselves financially to sustain mortgages to permit purchase. A crucial factor here will be the number of employed households who are able to access mortgages that are affordable for them, given local house prices.

Table 2: Cluster characteristics compared to average

	Cluster 1	Cluster 2	Cluster 3	Cluster 4
Proportion of Housing Association stock	Average	High	Low	Average
Proportion of tenants working full-time	High	High	Low	Average
Lower-quartile house prices	High	Very High	Low	Average
Proportion of stock which is a whole house or bungalow	Average	Very Low	High	High

Figure 7: Cluster analysis of Housing Association tenants and stock



This cluster analysis suggests that the extension of the RTB will have quite diverse impacts. The rate of take-up of RTB will depend, in part, on the relationship between house prices, employment levels and the availability of desirable stock. Differential local impacts will pose particular planning challenges for those housing associations which are regionally or nationally based. It is likely that RTB sales will be much higher than average in some areas, and these will not necessarily be areas that can be readily categorised according to standard area classifications. For example, Halton, Salford and Newcastle-under-Lyme are areas which have considerable levels of housing stock, relatively low house prices and tenant employment levels which are close to the national average. Any housing association based in these areas may experience particularly high levels of stock sales, especially if this is reinforced by a high level of pent up demand.

Interest in exercising the RTB will be influenced by the region in which the stock is based and by the size of the mortgage required

It is possible to analyse sales of housing association stock to tenants who had the preserved Right to Buy following stock transfer. Data from CoRE³⁴ can provide an indication of the type of tenants who might be able to purchase under an extended RTB and the type of stock they might acquire.³⁵ In 2013/14, sales under the preserved RTB indicated that:

- Whole houses and flats accounted for 88 per cent of purchases.
- Single adult households accounted for 72 per cent of purchases.
- The geographic location of sales varied widely (see Figure 8). Taken together, the North East and North West accounted for 43 per cent of sales.
- This regional variation in sales may be partly explained by the house prices of these properties. The value of sales can be found in Figure 9. About half the sales involved properties which were valued at £90,000 or less. Almost 90 per cent of sales were for properties which were valued at £150,000 or less.
- The size of the mortgages obtained to purchase these properties were also relatively small (see Figure 10). Over two-thirds of purchases were made with a mortgage of £30,000 or less. More than 90 per cent of purchases were made with a mortgage of £60,000 or less.
- A major increase in the house prices of low cost properties would therefore be required in order for those who have bought under the preserved RTB to gain a large amount of equity.

³⁴ Continuous Recording of Social Housing Lettings and Sales

³⁵ Data taken from CORE sales 2013/14 accessed via UK Data Archive 7603.

Figure 8: Proportion of Preserved Right to Buy sales by Region, 2013/14

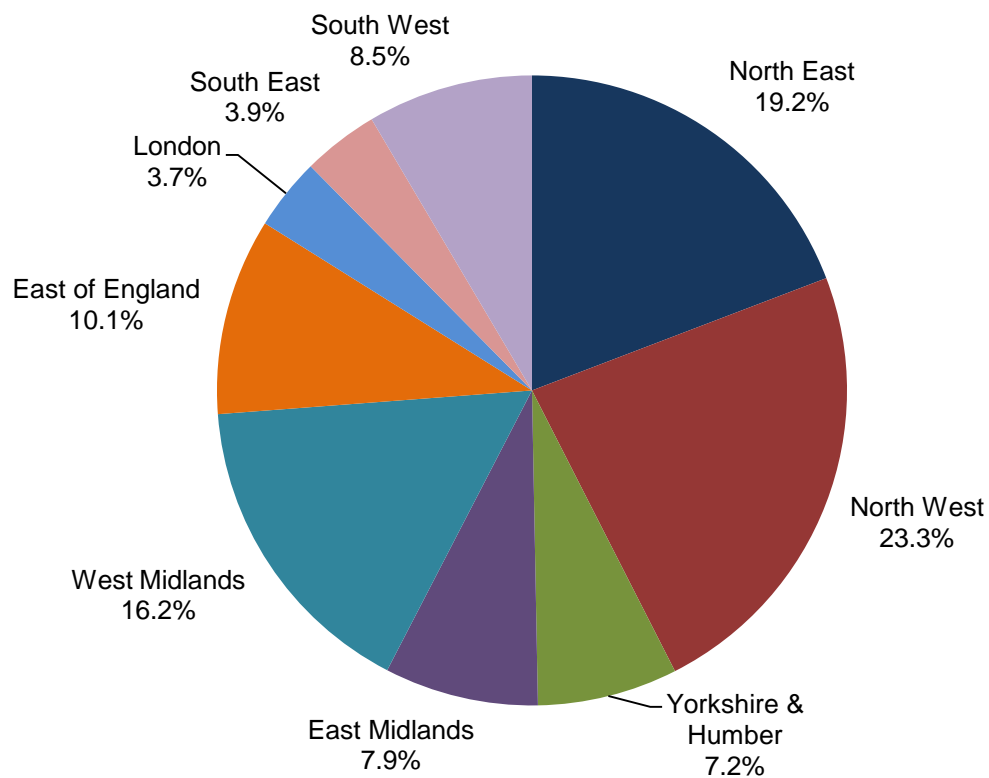


Figure 9: Value of sales through Preserved Right to Buy, 2013/14

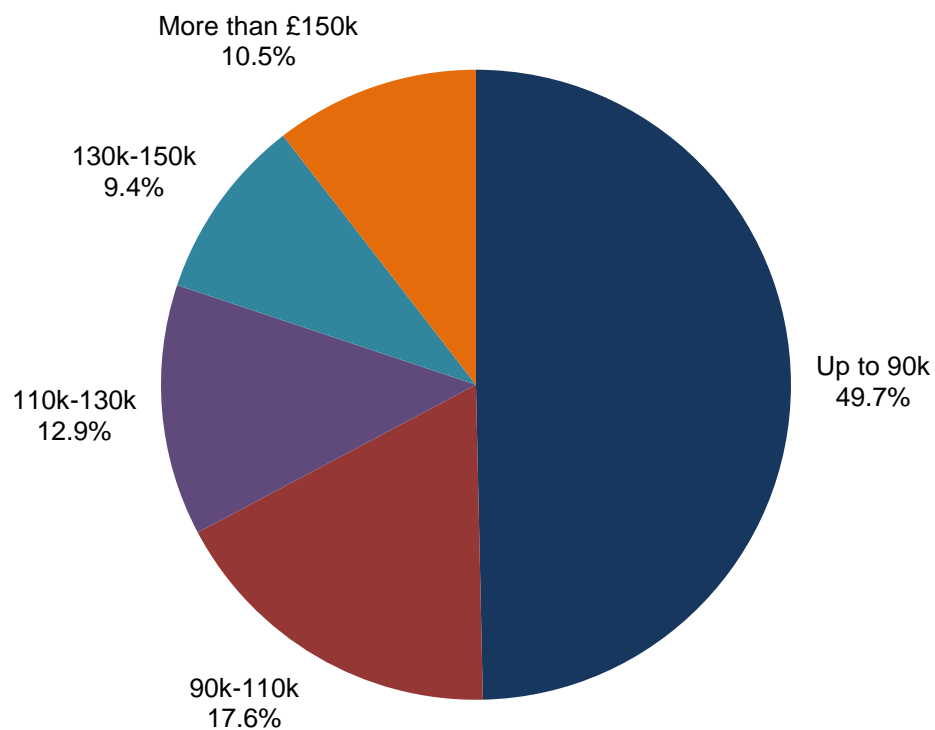
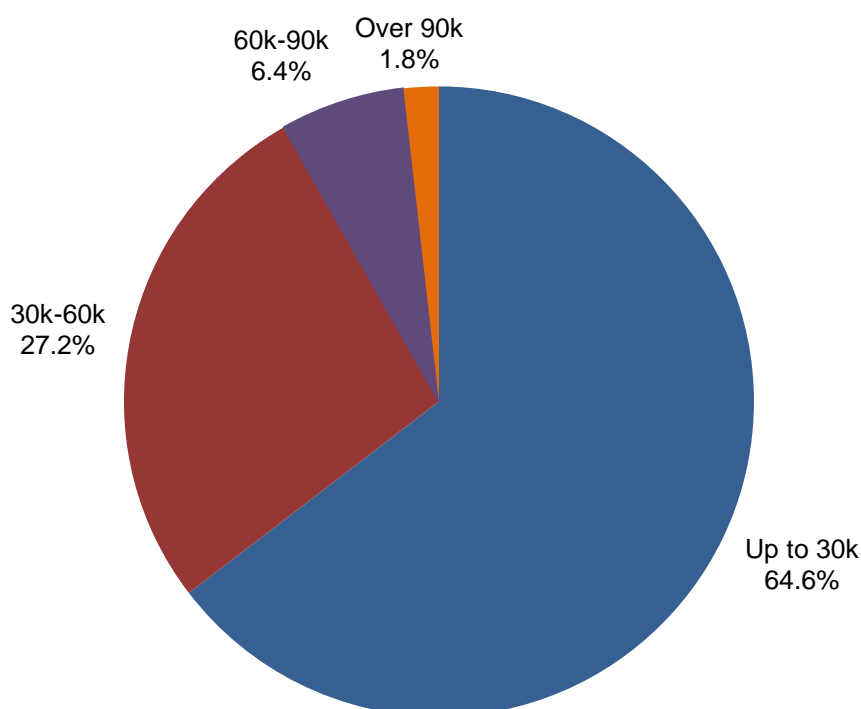


Figure 10: Mortgage amount, Preserved Right to Buy Sales, 2013/14



The generally good condition of housing association stock may encourage eligible tenants to exercise the RTB

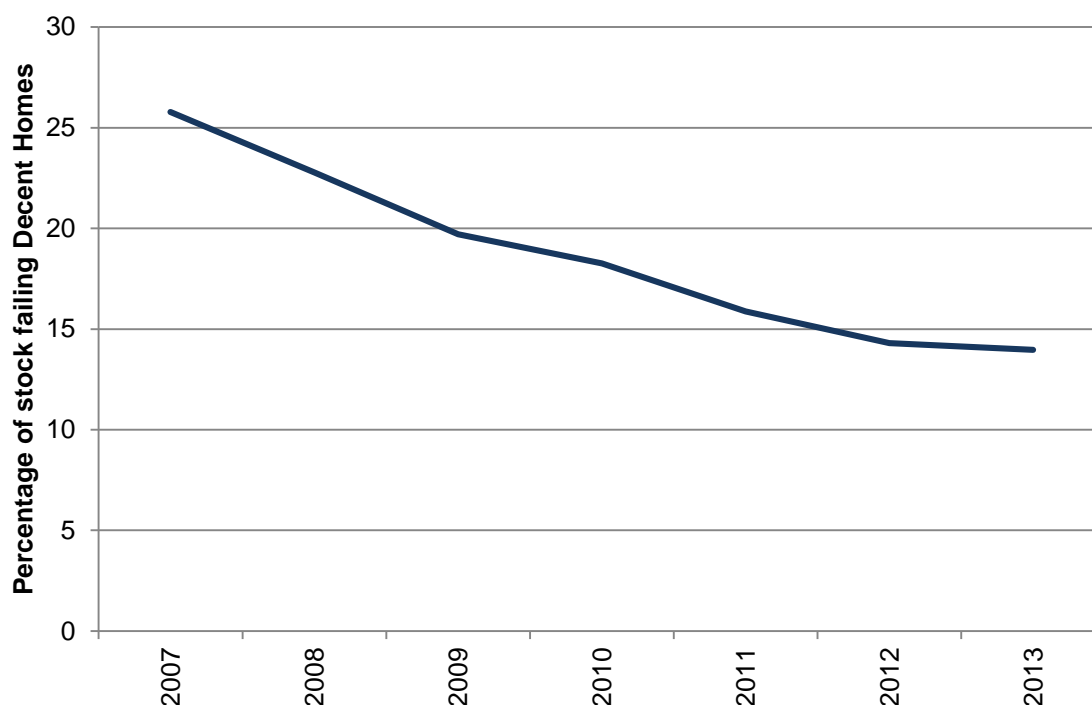
Overall, housing association properties are better condition than properties in other tenure categories.

- Fourteen per cent of housing association property failed to meet the Decent Homes standard in 2013. This compared to 16 per cent of dwellings in the LA sector, 19 per cent in owner occupation and 30 per cent in private renting.³⁶
- Just five per cent of housing association stock was deemed to have a Housing Health and Safety Rating System (HHSRS) Category 1 (serious) hazard. This compares to seven per cent in the local authority sector, 12 per cent in owner occupation and 17 per cent in private renting.³⁷
- The proportion of housing association stock failing to meet the Decent Homes standard has declined in recent years (see Figure 11).

³⁶ Taken from Table DA3201 of the English Housing Survey.

³⁷ Taken from Table DA4101 of the English Housing Survey.

Figure 11: Proportion of Housing Stock which fails to meet the Decent Homes Standard, England³⁸



- The main reason for housing association stock failing the Decent Homes standard was thermal comfort (see Figure A1 in Annex 2). The vast majority of dwellings were in a good state of repair, had modern facilities and were free from Health and Safety hazards.
- There is a risk that extending RTB might lead to a decline in the quality of stock in the medium term if some recipients are unable to afford ongoing repairs and improvements. This may also be the case for some of the stock that will be subsequently resold into the private rented sector.

Summary of the Implications of Extending the Right to Buy to the HA Sector

Analysis of the income and demographic characteristics of current housing association tenants suggests that a minority of tenants are likely to be able to purchase their homes immediately, at least without external financial support. There is not, however, a fixed and permanent division between a group of households who are capable of buying and a group who are not. Factors such as personal financial circumstances and household composition change over time and such changes may then lead to new potential purchasers coming on to the market. A number of factors suggest that demand from tenants may be high. Demand may be stronger due to the high quality of most of the dwellings, the location of some stock in high value or high demand areas, persistent low interest rates, an improving economic outlook in many local areas and the extent of pent up demand. All of these factors may support RTB purchases, especially in the early stages. Any estimates of the proportion of households who will exercise the RTB are therefore inevitably highly uncertain. This will inevitably pose major challenges for housing associations in terms of business planning and in stock portfolio management, particularly in the short-term. These difficulties will be

³⁸ CLG (2014) English Housing Survey, Table DA4101 (SST4.1): Health and safety - dwellings, 2013.

compounded for those associations where the stock is spread across quite different types of housing market.

Housing association stock is not spatially segregated when compared to other tenures. This suggests that the extension of the RTB will not necessarily lead to greater social mixing by tenure. The potential to gain a substantial source of wealth from RTB will depend on the future pattern of house prices amongst properties which are likely to be relatively low cost at the point of purchase. Those tenants who are able to exercise the RTB will be acquiring relatively good quality stock which has, in many cases, been subject to substantial improvement in recent years.

The extension of RTB will allow a proportion of households in the sector an excellent opportunity to access owner occupation. This benefit will be unequally distributed in geographic and demographic terms. The extension of the RTB to the housing association sector may also temper the relative decline of owner occupation in the English housing market that has taken place in recent years. But it will not, on its own, reverse it.

5 The Experience of RTB in Scotland and Wales

Why has the RTB now been abolished in Scotland and Wales?

Annex 2 provides some legislative background to the RTB changes in Scotland and Wales, and some indications of the impact of the sale of council housing in Scotland, which is along broadly similar lines to the evidence on impacts from England.

In both Scotland and Wales, the over-riding reason for the restriction (and then abolition) of RTB is the desire to protect the supply of social housing from sale, in light of the reality that it is not being replaced. The Equality Impact Assessment for the 2014 Act, which set out the plans to abolish RTB in Scotland, outlined the intended outcomes of the policy as follows:

- up to 15,500 houses will be kept in the social rented sector that would otherwise have been sold. These will now be available to tenants for rent over the lifetime of the properties;
- this will contribute to increasing housing supply and choice and reducing waiting lists;
- the asset base of social landlords will cease to be eroded and this will assist their forward planning;
- by not being marginalised, social housing will play a vital role in building sustainable mixed communities;
- Entitlements will be easier to understand and the system will be easier to administer.

The Scottish Government's consultation exercise (Scottish Government, 2012) had already noted that the main reasons given for supporting the abolition of RTB was to stem the perceived loss of affordable houses for rent from the social rented sector. It was argued that retaining properties in the social sector would help maintain future investment in new build housing and assist with attaining the Scottish Housing Quality Standard (similar to Decent Homes in England). Two secondary rationales were that it was the simplest option in order to remove the current complexities and create a "level playing field" for tenants and that it would allow social landlords to undertake better strategic stock management (The Research Shop, 2012).

Although the abolition of RTB would be detrimental for qualifying tenants, the Scottish Government argued that there was now a range of schemes in place to support tenants in becoming home owners, such as Help to Buy and the Low-cost Initiative for First Time Buyers (LIFT), which did not exist a number of years ago.³⁹

In July 2013, then Deputy First Minister Nicola Sturgeon announced the Scottish Government's intention to scrap the Right to Buy (Parkin, 2015), and commented:

³⁹ However, tenants are not guaranteed support from one of these initiatives, and the availability of housing under these schemes will, in some cases, be limited to specific geographical locations where property is available.

We can no longer afford to see badly needed homes lost to the social sector. That is why I am today announcing the final stage of the abolition of the right to buy – a decision that will safeguard Scotland's social housing stock for the benefit of citizens today and for our future generations.

In Wales, the arguments for first restricting, and now ending, RTB have been similar to Scotland. In the Welsh Government's Consultation Document (Welsh Government, 2015a: 7) the protection of social housing stock was given as the principal justification:

Over the last thirty years or so, the Right to Buy and Right to Acquire have allowed many tenants in social housing to buy their home from their Local Authority or Housing Association. As a result, there has been a significant reduction in our social housing stock. The reduced number of social rented homes available to help people who are on housing waiting lists is adding to the pressures on housing supply and on people's ability to find a home they can afford.....Some people cannot afford to buy a home, or to rent a home from a private landlord. They are dependent on social housing or some other form of subsidised provision. Social housing is a particularly important safety net.

After considering the consultation responses, Lesley Griffiths, Minister for Communities and Tackling Poverty, justified the future abolition of RTB as follows:

I believe this is the only way to protect our social housing stock from further reduction and, most importantly, to ensure as many people as possible have access to a home they can afford (Welsh Government, 2015b).

6 Conclusion

We have mainly confined this evidence review to the detailed impacts of Right to Buy - on those tenants who have benefited, on those who have not bought, and on neighbourhoods which had relatively large proportions of council housing back in the 1980s. We have not examined the impact on a broader canvas, in terms of effects on overall housing affordability, the mortgage market, the regulatory landscape and so on.

Right to Buy (RTB) brings with it immediate financial benefits for most purchasers due to the operation of the discounts. For those exercising the existing RTB in the local authority sector, there was often little difference between the rent they had been paying and the mortgage payments needed following purchase. RTB purchasers also acquire the asset once the mortgage is fully paid, unlike tenants paying rent. RTB has therefore been an important factor in the changing distribution of housing wealth over recent decades. This increase in wealth has, however, been unevenly distributed geographically and demographically, due to significant differences between local housing markets across the country. Some of the less tangible benefits that have been proclaimed for RTB, such as instilling a stronger sense of pride and 'ownership', are more difficult to assess and are contested issues in the literature.

There is strong evidence on some of the 'unintended' or 'unexpected' consequences:

- a considerable proportion of existing RTB property has been transferred into the private rented sector on resale (or in subsequent transactions). The evidence establishes that this is an important development but it does not enable confident estimates of the level of transfer involved. It is likely that these properties will be rented out in many areas at higher prices than equivalent properties in the social rented sector. This will in turn have consequences for the level of Housing Benefit expenditure, which is very difficult to predict. Standards of management and maintenance in private rented sector properties in lower value or lower demand areas are often below those in the social housing sector. Set against this, this transfer to private renting may lead to a more efficient use of the stock, reducing the level of under-occupancy often characteristic of RTB properties when originally purchased. However, there is also a risk of overcrowding in more pressurised private rented markets;
- the stock 'lost' to RTB has not been replaced on a like-to-like basis at any time since 1980 and this has contributed to an overall reduction in social housing and, it has interacted with other factors to intensify the residualisation of council housing and concentrations of deprivation;
- while many sitting tenants have reaped considerable personal and financial benefits from RTB, a minority have struggled when exposed to greater financial risk or have been unable to invest adequately in their homes or to move;
- RTB has led to greater tenure diversity in some locations, but there is less clear-cut evidence about its impact on social mix, and the continuum of housing stock condition is wider among RTB properties some time after purchase than among retained council stock.

There has therefore been no standard or universal set of impacts caused by the existing RTB on local neighbourhoods, not least because it can set in process a period of dynamic tenure change over time, and lead to **divergent** outcomes, related to the rate of initial and subsequent sale. Some estates have remained predominantly in council ownership or home ownership; others have become dominated by either council or private renting with declining levels of home ownership, and others have a mix of three tenures. At present there is a lack of solid research evidence, but it is plausible to suggest that, rather than reducing concentrations of deprivation by introducing tenure mix, RTB has resulted in some council estates with greater concentrations of deprivation, greater insecurity and less stability than before (Murie, 2015).

The recent decisions made by two of the devolved administrations, in Scotland and Wales, offer an interesting counterpoint to the proposed policy in England. RTB is being abandoned there, rather than extended. This is not because the evidence suggests that the effects have been any more deleterious in Scotland and Wales - broadly similar outcomes have been identified. However a decision has been taken by these two governments that the longer term interests of those households struggling to access affordable housing should be given priority over the immediate interests of those sitting tenants who might wish to buy their homes, given the chance.

On the basis of the available evidence it would be extremely hazardous to attempt even a broad estimate of the likely take-up of the extension of RTB to the housing association sector in the next five years. A comparison of the characteristics of housing association tenants and stock in 2015 with council tenants and council stock in 1980 might suggest that a smaller proportion of households will be able to buy now than they were thirty five years ago. But one should not underestimate the level of pent-up demand, the impact of changing household circumstances, the chance for tenants to seize an opportunity to take advantage of discounts and the 'optimism bias' that may prevail, even if some potential purchasers are warned about the future risks that exercising purchase may entail further down the road. One would imagine that many tenants on the margins of purchase will be tempted to take it up if they can access the finance to do so, whether through formal mortgages or additional support from families or friends. But such judgements at this stage must remain speculative. There is an urgent need for some high level modelling about possible scenarios for the future pattern of RTB activity in the housing association sector.

The effects of extending RTB are therefore very unpredictable and likely to be locally differentiated to a greater extent than the early impacts of the existing RTB. Some of the local impacts will depend on what policy decisions are taken about how the distribution of receipts from the sale of vacant council houses will be set at the local authority level, and whether any exemptions are introduced for the extension of RTB (for example, in some rural areas). The detailed regulations about the extension of RTB have yet to be confirmed - but, even when they are, it will not be straightforward to assess what difference they will make to the overall scale of take-up and the consequent impact of the measure- it is how these regulations will be mediated at the local level, and incorporated into local housing market processes, that will count for more (Murie, 2008).

* * * * *

The Voluntary Agreement on the Extension of the Right to Buy

As this report was being finalised, the Secretary of State for Communities and Local Government, Greg Clark, made an announcement in both Houses on 12th October that the Government had reached an agreement with the National Housing Federation, to extend Right to Buy discounts to at least 1.3 million households in the housing association sector. Under the agreement the Minister confirmed that all homes sold to tenants would be replaced on a one for one basis. The opportunity to purchase would be subject to the overall availability of funding for the scheme and the eligibility requirements. The Government will compensate housing associations for the discount offered to the tenant, and housing associations will retain the sales receipt to enable them to reinvest in the delivery of new homes. Housing associations will use the sales proceeds to deliver new supply and will have the flexibility, but not the obligation, to replace rented homes with other tenures such as shared ownership. The Government will also implement deregulatory measures which will support housing associations in their objectives to help support tenants into home ownership and deliver additional supply of new homes.

Questions About the Proposals to Extend the Right to Buy

Finally, a series of broad questions about the proposed measure arise from this evidence review and, while some of them will be clarified once more detailed proposals are confirmed, others may remain pertinent to the deliberations of the Select Committee during the course of its Inquiry. Such questions include:

Level of Take-up

- Has the government made any estimate of the likely take-up of the extended RTB?
- Does the government intend to respond if the take-up of voluntary RTB (VRTB) scheme is very high? Is there a maximum amount of subsidy set aside for this scheme?
- What will be the cap on RTB discounts and will it apply nationally across all housing associations?

Stakeholder Responses

- How will mortgage lenders view the proposed VRTB? Will they view the discounts as 'equity' which is already held by the tenants?
- Will rating agencies respond positively or negatively to the voluntary nature of RTB?

Potential Impacts

- Does the government consider it necessary to introduce specific safeguards to prevent fraud or the exploitation of vulnerable tenants?
- What impact is the VRTB likely to have on any planned major programmes of reinvestment and neighbourhood regeneration, given the more mixed tenure profile that will emerge in these areas?
- What will be the potential equalities impact of extending RTB?
- What happens if collectively housing associations do not manage to replace on a one-for-one basis or in the specified period?
- What 'solutions and flexibilities' will be put in place to help mitigate the impact of receipts that do not cover replacement costs?

Implementation

- How will exemptions (for example for rural areas and 'supported housing') be monitored?
- Will measures be undertaken to prevent the subsequent transfer of RTB stock into the private rented sector?
- How will the issue of VRTB and charity be resolved?
- Will there be any provisions in the Housing Bill compelling housing associations to comply with the scheme?
- Will there be a new Regulatory Standard to comply with?
- Will landlords be expected to offer other home ownership opportunities to offer to tenants alongside RTB
- What will the up-front fee for tenants exercising their VRTB be?
- How will the VRTB scheme enable landlords to rely on current statutory measures (e.g. ASB suspension orders, demolition notices etc).?

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Annex 1: Right to Buy policy in Scotland, Wales and Northern Ireland

Scotland

Changes to restrict RTB have been made in three main tranches.

Phase One. The Housing (Scotland) Act 2001 changed RTB in response to 'pressures that the Right to Buy was placing' on the social housing sector. The Act:

- lowered and capped the discount for new or transferring tenants and introduced a longer qualifying period (five years)
- existing tenants were unaffected
- introduced a Pressured Area Mechanism, implemented by LAs

Phase Two: The Housing (Scotland) Act 2010 made significant amendments to the way pressured areas were designated. The power to make, amend and revoke pressured area designations was transferred from the Scottish Government to local authorities with effect from 30 June 2011. The power to designate a pressured area could be exercised if the following two conditions were met:

- In the relevant part of the authority's area, the need for housing provided by the authority or by Registered Social Landlords substantially exceeded (or was likely to exceed substantially) the amount of housing which was (or was likely to be) available.
- The exercise of the RTB by tenants in the area was likely to worsen the situation.

The Act also provided that particular housing types could be designated as pressured for the first time. It also increased the maximum period for which a pressured area could be designated from five to ten years.

The Housing (Scotland) Act 2010 also contained provisions that ended the Right to Buy for first-time tenants to the social housing sector, whose tenancies began on, or after, 2 March 2011. The explanatory notes to the Act stated that: *'This is intended to ensure that tenants taking up a Scottish secure tenancy for the first time...and those returning to the social rented sector after a break will not have the right to buy over any property they rent from a social landlord.'*

The Housing (Scotland) Act 2010 also contained provisions that ended, from 1 March 2011, the Right to Buy for new supply houses (those built or acquired after 15 June 2008).

Phase Three - Nicola Sturgeon announced that the Scottish Government intended to scrap RTB altogether in order to protect up to 25,500 social houses from sale over a decade.

We can no longer afford to see badly needed homes lost to the social sector. That is why I am today announcing the final stage of the abolition of the right to buy – a decision that will safeguard Scotland's social housing stock for the benefit of citizens today and for our future generations.

The Right to Buy was abolished under Part 1 of the Housing (Scotland) Act 2014, which received Royal Assent on 1 August 2014. Any social housing tenant who still has the Right to Buy has until 31 July 2016 to exercise this right.

Evidence on the Impact of RTB in Scotland

- **Right to Buy has significantly widened access to owner-occupation -**
Just under half a million sales were made between 1980 and 2006. Over 67 per cent of Scottish households are owner-occupiers: nearly double the proportion since RTB was introduced. However, new house building has been more significant in increasing home ownership levels than the Right to Buy since 1995. RTB sales have mainly seen a downturn since their peak in 1989, and have declined by between 12 per cent and 14 per cent over the last two years (Scottish Executive, 2006)
- **A higher proportion of certain types of properties, such as larger family houses in high-demand areas, have been sold through Right to Buy,** leaving fewer properties of these types within the remaining stock (Scottish Executive, 2006) .
- **Right to Buy has had positive effects on purchasers.** RTB has given purchasers a strong sense of control over housing choices and shifting inherent cultural expectations from renting to owning (Scottish Executive, 2006).
- **Buyers and tenants recognise the impact of Right to Buy can have in reducing opportunities for future tenants.** (Scottish Executive, 2006)
- **The number of social housing lets did not fall as quickly as the reduction in stock, but more recently the number of lets nationally has fallen.** At the local level, RTB has had varying impacts on relets, and so planning locally –even at the level of small settlements – is more appropriate than a ‘one size fits all’ national approach (Scottish Executive, 2006).
- **The Right to Buy has had mixed effects on communities.** In some localities, concentrations of deprivation have increased. In others, increased levels of owner-occupation have been beneficial in creating stability (Scottish Executive, 2006).
- **RTB has contributed to changing the profile of tenants in social housing. ,** Tenants in social rented housing today are more likely to be elderly, single parents or long-term sick, as well as having a greater likelihood of being economically inactive (Scottish Executive, 2006).
- **Only a small proportion of resales of RTB properties have entered the private rented market.** Evidence is patchy, but estimates suggested that by 2002 just six per cent of RTB resales had entered the private rented market. Just over a third (37 per cent) of all RTB property had been resold by this date. (Scottish Executive, 2006)
- **Resales of Right to Buy properties widen choice at the lower end of the housing market, but are unlikely to be affordable to most current social rented sector tenants.** Resales of Right to Buy properties appeal to young, economically

active households, and are unlikely to widen access for those unable to buy housing in the private sector. (Scottish Executive, 2006)

Wales

Restrictions on RTB in Wales were implemented in 2003 when the maximum discount was reduced from £24k to £16k.

The Housing (Wales) Measure 2011 introduced the "housing pressure condition". Local authorities could apply for a suspension of the Right to Buy in areas where there was high pressure on housing for a period of up to five years, although local authorities could apply to extend this. The "housing pressure condition" may be met in relation to all social housing in a local authority area, to all social housing in a certain part or parts of an area, or in relation to a certain type or types of social housing.

- In 2015, Carmarthenshire Council was the first local authority to apply successfully for a suspension due to a particularly acute housing shortage.

The decision to abolish RTB in Wales was taken in May 2015. On 3 June 2015, the Minister for Communities and Tackling Poverty, Lesley Griffiths, announced that after considering responses to consultation, she decided to proceed with a proposal to reduce the maximum discount from £16,000 to £8,000 from 14 July 2015, and to put in place action to develop new primary legislation to end the Right to Buy.

Northern Ireland

The housing system in Northern Ireland is distinctive as the Northern Ireland Housing Executive (NIHE) is the major social landlord in the province, and rented housing is not owned or managed by local authorities. It is worth noting that the RTB is available to NIHE and housing association tenants.

- Eligible tenants must have been a tenant for five years to qualify. Tenants without the requisite five years qualifying tenancy may still be eligible to apply if they succeeded to or were assigned their tenancy from a spouse or parent.
- The amount of discount increases with the length of time the tenant has lived at the property, up to a maximum of £24,000. The discount starts at 20 per cent of the market value after five years of tenancy, plus an increase of 2 per cent for each additional year's tenancy, up to a maximum discount of 60 per cent of the valuation or £24,000.
- Tenants also have the option to buy a share in the property and pay rent on the remaining portion owned by the landlord.
- Certain types of properties are excluded from the scheme, including sheltered dwellings and a single storey or ground floor dwellings (other than a flat) with no more than two bedrooms.

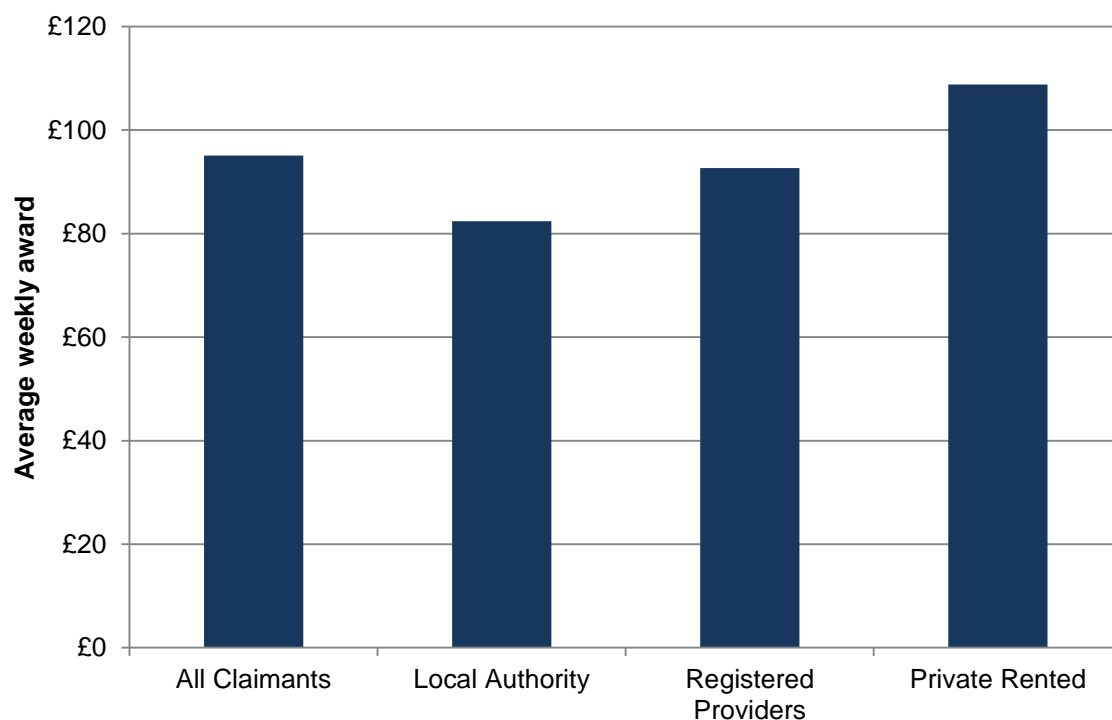
The Northern Ireland Executive has not indicated any planned changes to the Right to Buy.

Annex 2: Additional Figures and Tables

Table A1: Local Authorities with the highest proportion of RTB sales in each region, 1979-2004 ⁴⁰

Region	Highest within region
East	Forest Heath (48%)
East Midlands	Corby (50%)
London	City of London (59%)
North East	Berwick (47%)
North West	Eden (58%)
South East	Crawley (53%)
South West	Torridge (46%)
West Midlands	North Warwickshire (46%)
Yorkshire and Humberside	Richmondshire (48%)

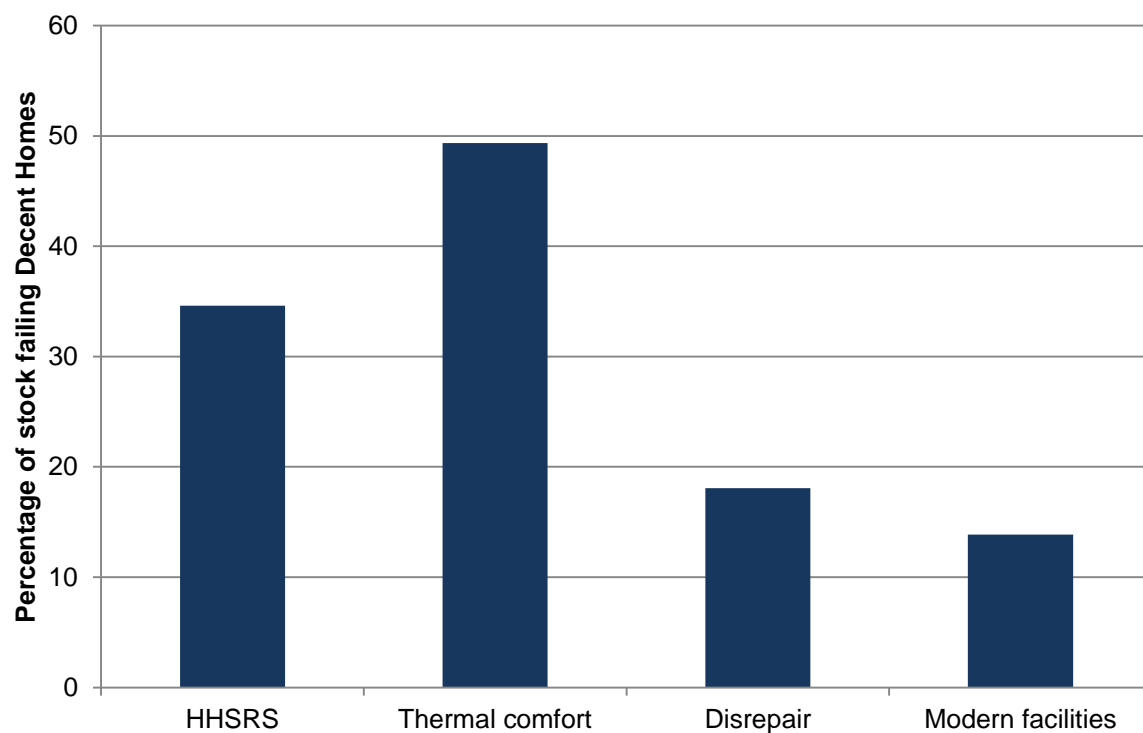
Figure A1: Average weekly Housing Benefit award, Great Britain, May 2015 ⁴¹



⁴⁰ Jones and Murie (2006) *The Right to Buy: Analysis and Evaluation of a Housing Policy*. Oxford, Blackwell Publishing: pp. 63

⁴¹ Taken from: DWP (2015) *Housing Benefit Caseload Statistics*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/452419/HB_Caseload_May15_Final_120815.xls

Figure A2: Reasons for failing the Decent Homes standard, housing association stock, 2013⁴²

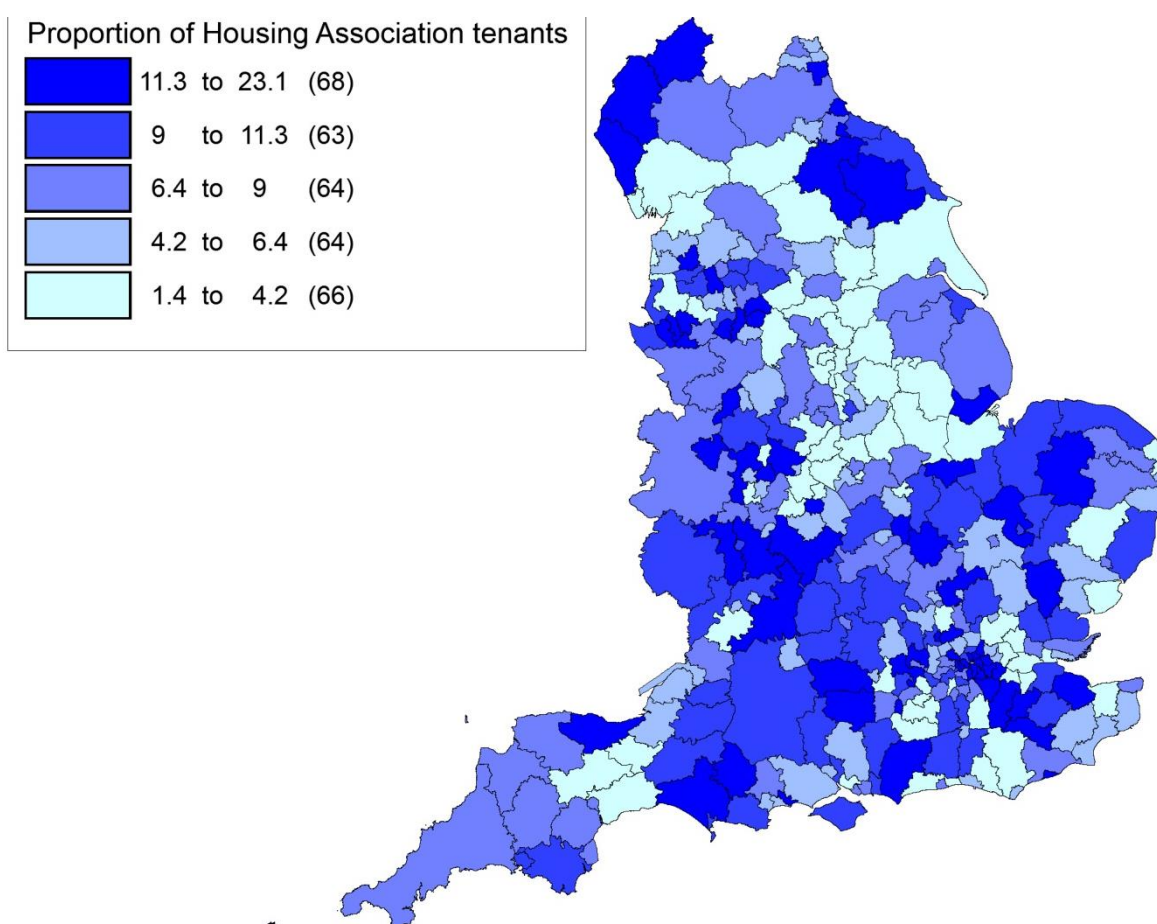


⁴² CLG (2014) English Housing Survey, Table DA4101 (SST4.1): Health and safety - dwellings, 2013.

Annex 3: Assessing Geographical Variations in the Potential Take Up of Right to Buy in the Housing Association Sector

A number of key variables were identified to assess the extent of geographical variation (at local authority level) influencing the potential take-up of RTB. The first variable to be considered was the relative availability of housing association stock, which varies widely from one locality to another. Figure A3 shows the proportion of households in each local authority who are housing association tenants. These households are not distributed evenly, and this is not necessarily related to differences between urban and rural areas. For example, there are areas of Gloucestershire with higher concentrations of housing association households and areas of Lincolnshire with lower concentrations.

Figure A3: Proportion of households who are Housing Association tenants (percentage), England, 2011⁴³

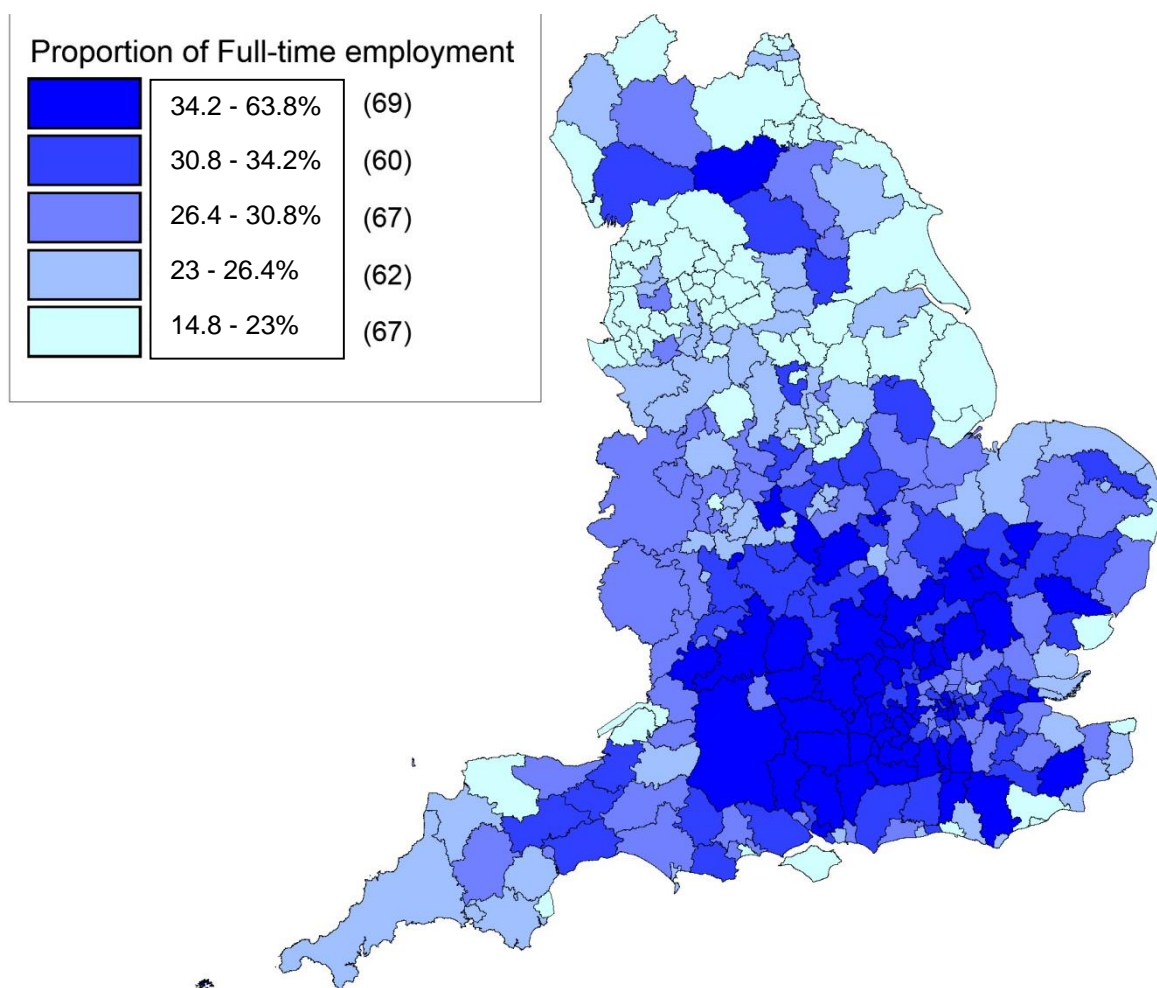


The second key variable identified was the proportion of housing association tenants who were working full-time, as this status is likely to be related to the ability to exercise RTB. The geographic pattern is shown in Figure A4. The highest rates of full-time work amongst housing association tenants were found in the South Midlands. A similar geographic distribution was found when examining the third key variable, lower quartile house prices.

⁴³ Data from 2011 census table KS402EW accessed via NOMIS. This relates to tenure category 'social housing: other' and refers to a slightly broader tenure category than Registered Providers of social housing.

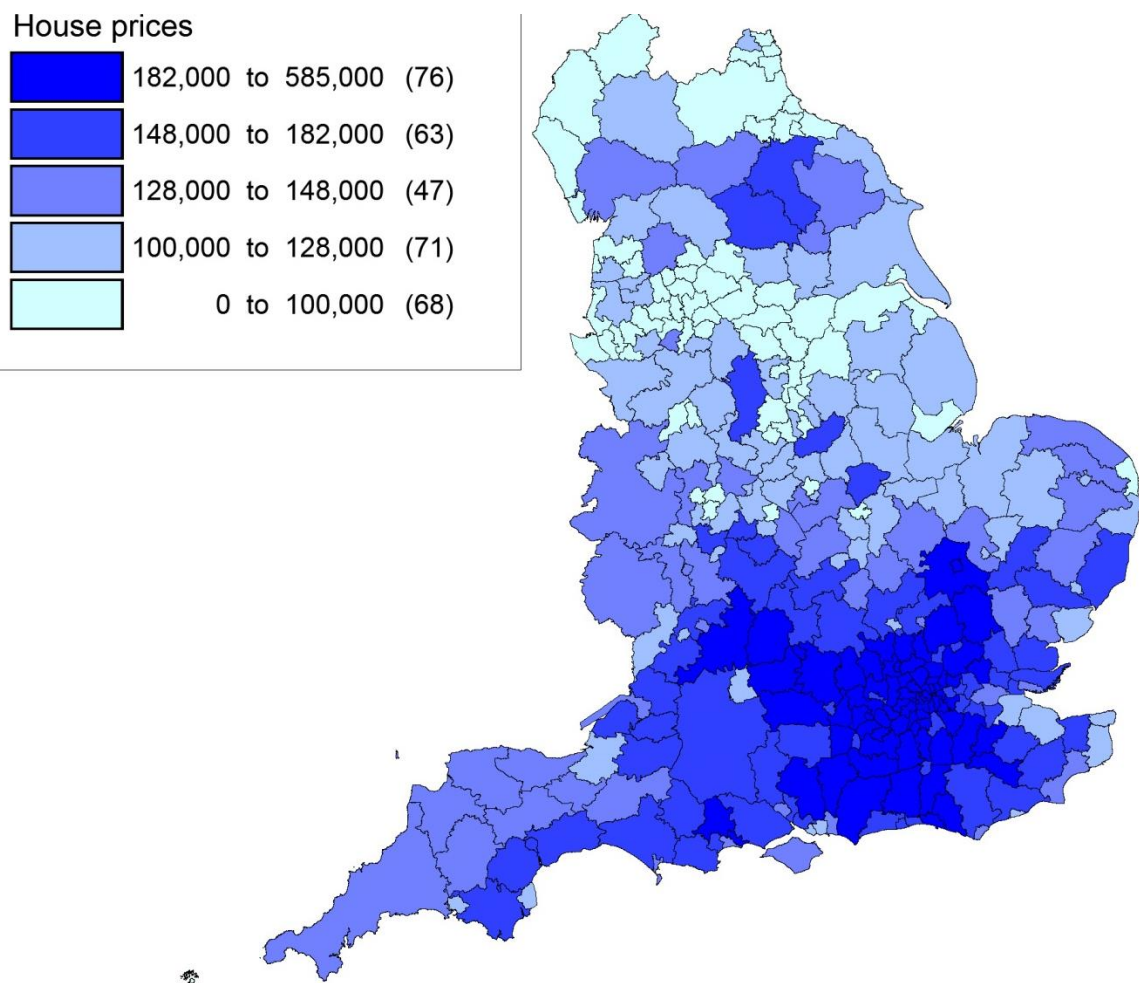
Figure A5 indicates that the highest house prices were found, as one would expect, in London and the South East. It is likely that Right to Buy sales would be more limited in areas where house prices are high. The fourth key variable was proportion of stock which is a whole house or bungalow. As shown earlier, this type of stock was disproportionately popular amongst tenants who exercised the RTB in the local authority sector. Figure A6 indicates that whole houses are more commonly found in housing association stock in the East of England.

Figure A4: Proportion of Housing Association tenants working full-time⁴⁴



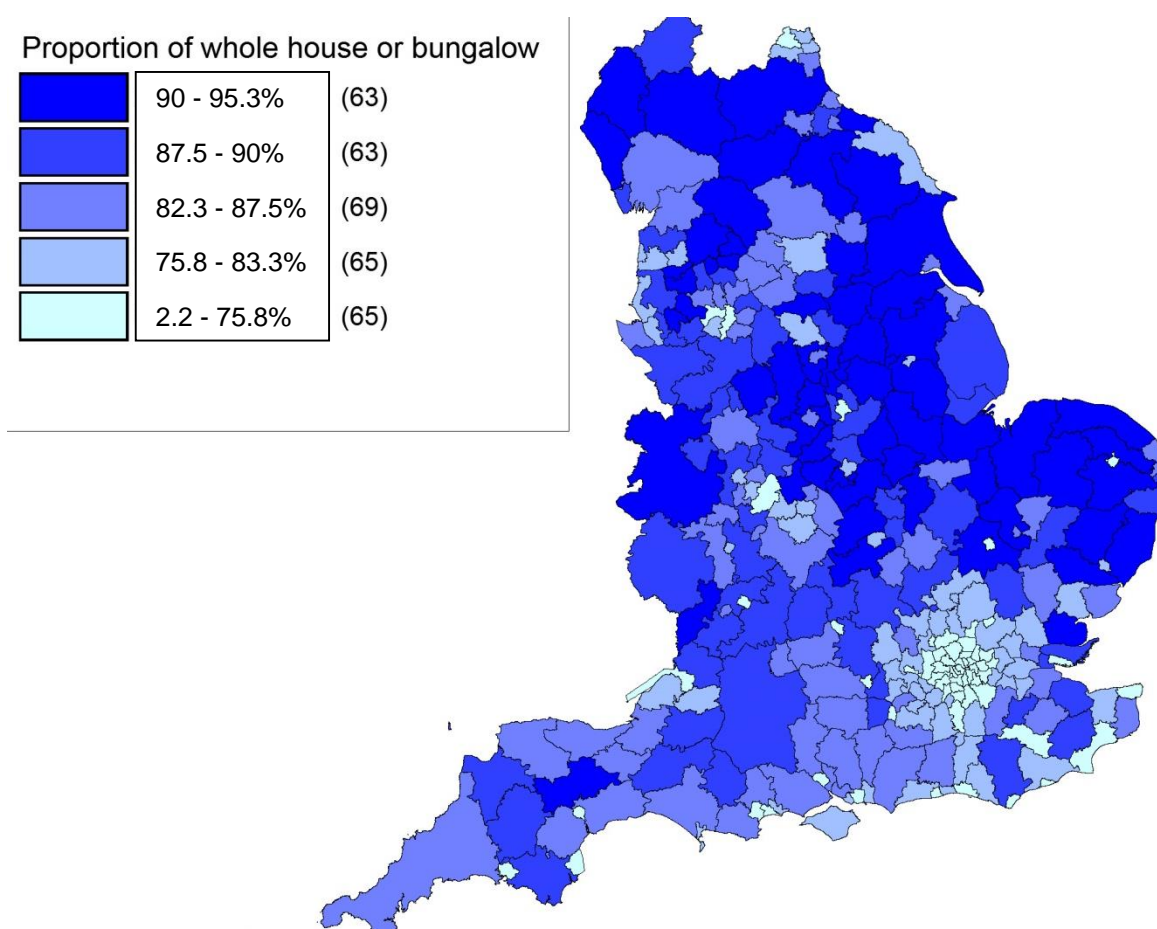
⁴⁴ Data from 2011 census table DC4601EW accessed via NOMIS. Household reference person for 'social housing: other'.

Figure A5: Lower Quartile House Prices (£), Quarter 2, 2013⁴⁵



⁴⁵ Data from: DCLG Live Table 587, Housing market: lower quartile house prices based on Land Registry data, by district, from 1996, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305663/Table_587.xls

Figure A6: Proportion of Housing Association stock which is a whole house or Bungalow⁴⁶



Relationships between the variables

The interaction between the geographic variations of these key variables was analysed further. A scatterplot of the relationship between house prices and full-time employment can be found in Figure 5. The correlation between these variables was found to be $r = 0.608$ ($n=326$ for a Pearson product moment correlation co-efficient). This suggests that house prices are higher in areas where rates of full-time employment are higher. There was also a strong negative association between house prices and the proportion of stock which was a whole house or bungalow. The correlation between these variables was found to be $r = -0.684$ ($n=326$ for a Pearson product moment correlation co-efficient). This suggests that there was a lower proportion of whole houses in areas with higher house prices.

⁴⁶ For ONS classification of 'Social Housing: other' at the time of the 2011 census. From KS402EW accessed via NOMIS.

Figure A7: Scatterplot of house prices and full-time employment amongst tenants

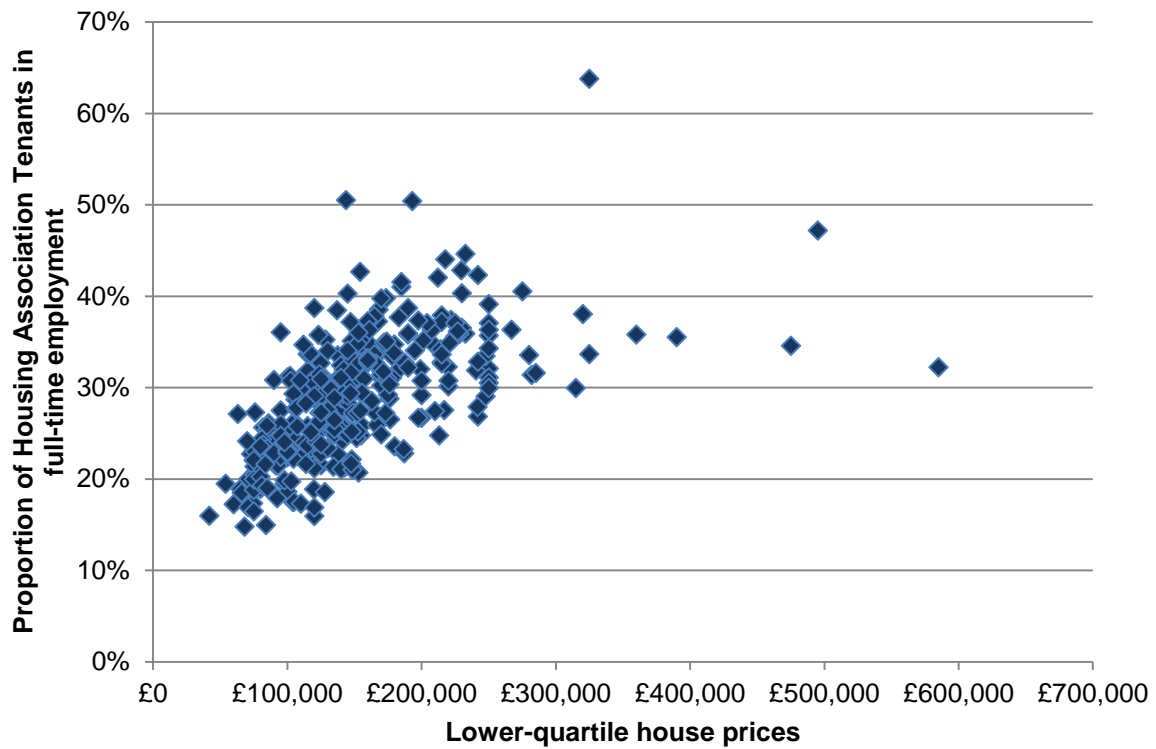
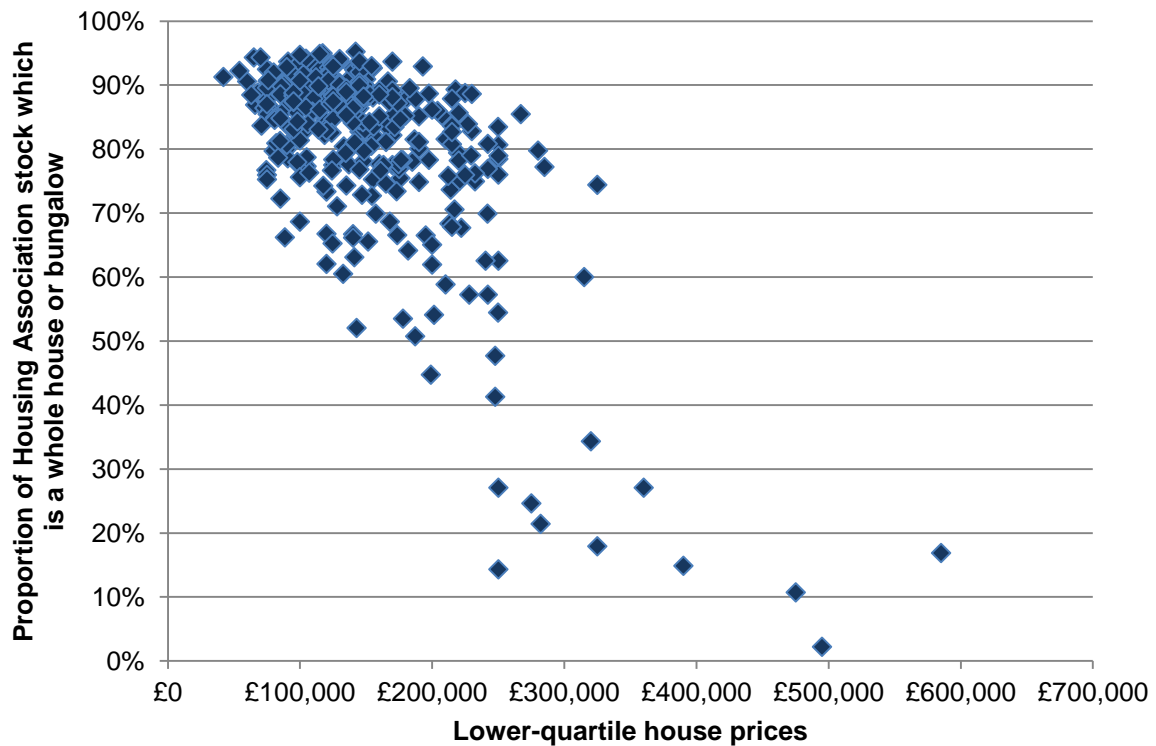


Figure A8: Scatterplot of house prices and proportion of stock which is a whole house





The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations

COLE, Ian <<http://orcid.org/0000-0002-9207-7528>>, GREEN, Stephen <<http://orcid.org/0000-0002-7813-0564>>, MCCARTHY, Lindsey <<http://orcid.org/0000-0002-5114-4288>> and PATTISON, Ben <<http://orcid.org/0000-0002-3672-0849>>

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