



Extending Right to Buy: risks and uncertainties

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Daniel Chandler
Richard Disney

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Series editors
Rowena Crawford
Carl Emmerson
Paul Johnson
Luke Sibieta

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Daniel Chandler and Richard Disney¹

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Executive summary

- The flagship announcement in the Conservative Party manifesto last week was a major extension of Right to Buy (in England) to cover 1.3 million housing association (HA) tenants. The Conservatives also announced a second, distinct policy of requiring councils (or local authorities, LAs) to sell their most expensive properties as they become vacant, which they estimate would raise £4.5 billion per year.
- The two policies are related because part of the revenue raised from sales of expensive LA properties will be used to compensate HAs for having to sell their assets below market value – with the rest funding a commitment to replace properties sold and to create a £1 billion ‘Brownfield Regeneration Fund’.
- Extending Right to Buy to HA tenants would bring about equal treatment of HA and LA tenants, and additional sales would increase homeownership rates. It would also represent a significant giveaway to HA tenants – potentially billions of pounds over the next parliament – paid for by selling public assets (expensive LA properties). This would worsen the UK’s underlying public finance position.
- Sales of expensive LA properties would reduce the availability of social housing in the most expensive areas, thereby creating clearer divisions between areas where richer and poorer households are located – though it might also facilitate an increase in social housing construction.
- There are considerable uncertainties surrounding the revenues that can be raised from sales of expensive properties, the costs of Right to Buy discounts and the cost of replacing sold properties. These reflect both genuine difficulties in predicting the effect of the policies and a lack of detail in the Conservative Party’s announcement.
- Given this uncertainty, and the coalition’s less-than-impressive record in delivering replacement social housing under the existing Right to Buy, there is a risk that these policies will lead to a further depletion of the social housing stock – something the proposal explicitly seeks to avoid.

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1. Introduction

The flagship new announcement in the Conservative Party manifesto² last week was a major extension of Right to Buy (in England) to cover 1.3 million housing association (HA) tenants. The Conservatives also announced a second, distinct policy of requiring councils (referred to here as local authorities, or LAs) to sell their most expensive properties as they become vacant, which they estimate would raise £4.5 billion per year. The two policies are related because part of the revenue raised from sales of expensive LA properties will be used to pay for the extension of Right to Buy – with the rest funding a commitment to replace properties sold on a ‘one-for-one’ basis and to create a £1 billion ‘Brownfield Regeneration Fund’.³

This briefing note, which is part of IFS’s election analysis funded by the Nuffield Foundation, sets out what we know about these two policies. We start in Section 2 by providing some context in terms of the impact of Right to Buy on the social housing sector over time and how housing associations have been (largely) exempt from Right to Buy. In Section 3, we describe the detail of the two Conservative Party proposals. Section 4 attempts to shed light on some of the questions left open by this announcement: the cost of the Right to Buy discounts, the amount that can be raised from sales of expensive LA properties, and the likely cost of funding the proposed ‘one-for-one’ replacement of sold social housing. Section 5 concludes.

2. Background – Right to Buy and housing associations

The Right to Buy was introduced in 1980 and gave tenants of LA (council) properties the right to purchase their home at substantial discounts. Since 1980, almost 1.9 million LA properties have been sold through Right to Buy in England (see Figure 2.1).⁴ A further 1.3 million properties have been transferred to housing associations (not-for-profit bodies that provide housing at sub-market rents, in much the same way as LA housing).⁵ Construction of new social housing did not keep pace with sales: the total size of the social housing sector has fallen by around 1.4 million (26%) since 1981, while the proportion of dwellings in the social sector has fallen from 31% to 18%.⁶ The decline in social housing has meant that housing benefit has picked up an increasing portion of the bill for supporting low-income households with the cost of housing.

² <https://www.conservatives.com/manifesto>. Further details of the policy are contained in a separate press release, which can be accessed at <http://www.24dash.com/news/housing/2015-04-14-Tory-Party-manifesto-in-their-own-words>.

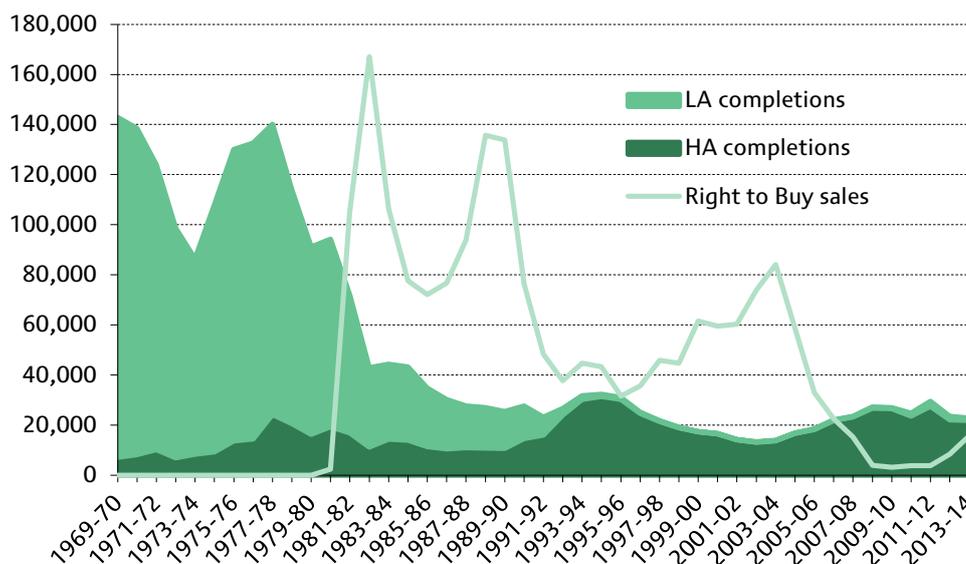
³ This note refers to England because housing is a devolved issue. The Right to Buy will be abolished in Scotland from 2016, and discounts remain at much lower levels in Wales. The term ‘social housing’ refers to rented housing provided by local authorities and housing associations (also known as Registered Social Landlords).

⁴ For a brief overview of the history of Right to Buy, including reforms introduced by the coalition government, see D. Chandler and R. Disney, ‘Housing market trends and recent policies’, in C. Emmerson, P. Johnson and H. Miller (eds), *The IFS Green Budget: February 2014*, http://www.ifs.org.uk/budgets/gb2014/gb2014_ch5.pdf.

⁵ Page 16 of A. Heywood, *Investing in Social Housing: A Guide to the Development of the Affordable Housing Sector*, The Housing Finance Corporation, London, 2013, <http://www.thfcorp.com/investing/investing-in-social-housing.pdf>.

⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285015/LT_104.xls.

Figure 2.1. Right to Buy sales and social housing completions in England



Note: Right to Buy sales include sales of HA properties under the ‘preserved’ Right to Buy.
 Source: DCLG, table 678 ‘Social housing sales: annual sales by scheme for England: 1980-81 to 2013-14’ and table 209 ‘House building: permanent dwellings completed, by tenure and country’, <https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales> and <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building>.

HA properties have, for the most part, been exempt from Right to Buy (indeed, this was one reason why some LAs transferred properties to HAs in the first place). However, there are two important exceptions. First, tenants who were living in a property when it was transferred to an HA maintain a ‘preserved’ Right to Buy. Second, since 1996, certain HA tenants have been granted a ‘Right to Acquire’ their home, allowing them to purchase their home at a discount, albeit with discounts that are significantly lower than under the traditional Right to Buy.

3. What has been announced?

3.1 Extending Right to Buy

The Conservative Party proposes to extend the Right to Buy to HA tenants.⁷ The motivation for this policy seems to be twofold: first, to end the ‘unfairness’ whereby social tenants in LA and HA properties have different rights to purchase their homes; and second, to increase homeownership by offering large discounts on the price of purchasing social housing. The policy would create equity of treatment between LA and HA tenants. Whether Right to Buy discounts are the best way of promoting homeownership is less clear. Equity loan and mortgage guarantee schemes (as through Help to Buy) would seem to be more direct ways of addressing credit market failures. One might also ask why discounts on purchasing a property should be limited to those in receipt of social housing.

The proposed extension of Right to Buy would give around 500,000 HA tenants the right to purchase their home for the first time and also increase the discounts available on HA properties. Under existing Right to Acquire, the maximum discount available ranges from

⁷ <http://www.24dash.com/news/housing/2015-04-14-Tory-Party-manifesto-in-their-own-words>.

£9,000 to £16,000 across localities; this would be increased to match those offered under Right to Buy (currently capped at £77,900 outside London and £103,900 in London, and linked to CPI inflation). There is an up-front cost associated with this policy (discussed further in Section 4.1), because the government would compensate HAs for having to sell their assets at a discount so they receive the full market price. In principle, this compensation should allow HAs to replace these properties on a like-for-like basis.

An increase in Right to Buy sales would amount to a substantial giveaway to a relatively small number of households. While the up-front cost of the policy may be covered by sales of expensive LA properties (see discussion in Section 3.2), by selling public assets to fund a giveaway the policy would ultimately represent a deterioration of the long-run state of the UK public finances.

3.2 Requiring LAs to sell expensive properties

The second policy announced on 14 April is to require LAs to sell their most expensive properties as they become vacant.⁸ In part, the motivation for this policy is to fund new Right to Buy discounts. In addition, though, the policy is motivated by a desire to require LAs to manage their housing assets ‘more efficiently’. The idea here seems to be that LAs could house more people in social housing if they cashed in the value of their most expensive properties and used this to fund new construction in cheaper areas. There is of course a trade-off here: while selling expensive properties might expand the social housing stock, it will reduce the availability of social housing in the most expensive areas, thereby creating clearer divisions between areas where richer and poorer households are located.

Turning to the detail, the Conservatives have proposed that properties that rank among the most expensive third of all properties with the same number of bedrooms in a given area (including private sector properties) would have to be sold. A Conservative government would consult on whether property value rankings would be assessed at a regional or more local level, though the party’s calculations assume regional cut-offs. These properties would be replaced by new properties with the same number of bedrooms within the same local authority. However, they would be let at the higher ‘affordable rent’ rate – typically 80% of market rents, compared with 50% in social housing – thereby accelerating the shift towards this more expensive tenure initiated by the coalition government. Defining ‘expensive’ properties on a regional basis but requiring replacement at the LA level could create difficulties. For example, LAs where housing is very expensive (say some London boroughs) may be required to sell much of their social housing, but then struggle to replace it with properties with the same number of bedrooms that fall below the regional threshold.

Overall, the Conservative Party estimates that sales of expensive properties will raise £4.5 billion per year (once debts on these properties have been repaid), which it envisages will be spent on three items: paying for the extension of Right to Buy to HAs, replacing sold stock, and creating a ‘Brownfield Regeneration Fund’ worth £1 billion over five years. A discussion of the Brownfield Regeneration Fund is beyond the scope of this note, but the intention is for LAs to make competitive bids for funding to bring forward additional brownfield land for housing – for example, through cleaning up derelict or contaminated land, or providing infrastructure to open up inaccessible sites. The

⁸ <http://www.24dash.com/news/housing/2015-04-14-Tory-Party-manifesto-in-their-own-words>.

Conservative Party believes this could ‘unlock’ the construction of 400,000 additional homes over five years.

4. Important questions remain

The Conservative Party announced these proposals without providing details on a number of important aspects. This leaves open a number of questions about whether and how the policy would be delivered.

4.1 How much will it cost to extend Right to Buy to HA tenants?

There is an up-front cost to extending Right to Buy because HAs need to be compensated for selling properties below their market value. However, there are no published estimates of the expected cost.

The cost will depend on the number of properties sold, which in turn depends on the number of HA tenants who are eligible, willing and able to afford to purchase the property and on the discounts on these properties. The discounts available depend on how long those exercising their Right to Buy have lived there. Analysis produced by the National Housing Federation (NHF)⁹ suggests that about 1.4 million HA tenant households will be eligible in principle – that is, they will have lived in their property for at least three years. Of this group, about 550,000 already have a ‘preserved’ Right to Buy, leaving 850,000 who could benefit from the new proposal. Based on analysis of the average value of HA properties, length of tenancies and average household incomes in different regions, the NHF estimates that about 221,000 households could afford to exercise their Right to Buy, at a total cost of £11.6 billion. This probably provides an upper bound on the total cost of Right to Buy discounts over the next parliament. The cost could be much less depending on actual choices made by tenants.

4.2 How much money will be raised by sales of expensive council properties?

The Conservatives estimate that there are about 210,000 LA properties that meet their criteria of ‘expensive’, and that about 15,000 will fall vacant each year, raising an estimated £4.5 billion per year, at least initially. However, they have not published any of the analysis underlying these figures.

The only published analysis on this issue is a report by the Policy Exchange think tank,¹⁰ which first proposed sales of expensive LA properties in 2012. This report proposed selling all LA properties whose value exceeded the median value for properties of the same size in the same region. The report estimated that 818,000 properties were above the relevant regional median and it predicted sales of 28,500 properties per year, raising £4.5 billion (after paying off debts attached to these properties) – the same as in the Conservative Party proposals.

Although the Conservative proposals happen to generate the same revenue, they are not identical to the proposals in that report. First, the Conservatives envisage selling properties in the top third of the value range, not all properties above the median. Their

⁹ <http://www.housing.org.uk/media/blog/right-to-buy-extension-estimated-to-cost-12-billion/>.

¹⁰ <http://www.policyexchange.org.uk/images/publications/ending%20expensive%20social%20tenancies.pdf>.

estimate of £4.5 billion in revenue per year is based on sales of just 15,000 properties – around half that envisaged by Policy Exchange. Put another way, the Policy Exchange report assumes revenues in the region of £160,000 per property, while the Conservative proposal is based on revenues of £300,000. It is not clear why the expected revenue per property is so much higher – it could reflect rising property prices, in conjunction with a higher sale price per property at the higher threshold (i.e. in the top third rather than the top half). In addition, the assumption that 15,000 properties will fall vacant each year assumes a natural turnover rate of 7% per year, in contrast to the 3.5% assumed in the Policy Exchange report. 7% is close to the national turnover rate for LA properties,¹¹ though the authors of the Policy Exchange report opted for a more cautious assumption on the basis that more expensive properties might turn over more slowly.

4.3 Will social housing be replaced?

Uncertainty around the proposal also stems from whether there will be sufficient funds to guarantee ‘one-for-one’ replacement of forced sales of expensive LA social housing within the same area.

LAs will receive only a fraction of the market value of any properties they sell – namely, what is left after paying for extended Right to Buy discounts in the HA sector and the Brownfield Regeneration Fund. LAs will have to build new properties with less up-front capital than the value of the properties they are replacing. There are two ways of financing this: first, by borrowing additional funds (secured against expected future rents) in order to finance new construction; and second, by building cheaper properties, which in practice is likely to be achieved by building in localities within the same LA where land and property prices are lower or building properties that are smaller or of lower quality. Given the tight restrictions that LAs face on their borrowing capacity, significant additional borrowing may be problematic. Alternatively, the remaining receipts from these sales might be handed over to HAs operating in the same LA, who may be better placed to borrow on the private market.

A sense of the total cost of replacing these properties can be obtained by looking at the breakdown of spending under the coalition government’s Affordable Homes Programme (AHP) 2011–15¹² (by which most capital grants for new affordable housing were allocated over the last parliament). The average land and construction cost of building a new home under this programme was £141,000. Financing 15,000 homes at this average cost would amount to £2.1 billion per year. In practice, we might expect a higher average cost per property because sales and therefore replacements will be concentrated in relatively expensive LAs. This total cost could be funded through up-front capital investment or through borrowing. In fact, a key goal of the AHP was to shift the balance of funding away from capital grants and towards borrowing. The average grant per home under the AHP was just £20,000 (14% of the total building cost), with £75,000 (53%) coming from borrowing and the remainder from ‘other funds’. On such a basis, a rough guide to the minimum up-front spending required to replace 15,000 homes annually would be around £300 million – though to achieve this would require significant additional borrowing by LAs or (more likely) HAs, over and above the borrowing they have taken on through the AHP.

¹¹ Table 1c of https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387421/2013-14_CORE_Summary_Tables.ods.

¹² <http://www.nao.org.uk/wp-content/uploads/2012/07/1213465.pdf>.

HA properties sold through Right to Buy will also have to be replaced, and HAs will receive the full market value of sold properties in order to achieve this. The market sale price may be more or less than the cost of replacing a property with a more or less identical property, though it will almost certainly be sufficient to ensure replacement on a looser 'one-for-one' basis – i.e. in the same LA and with the same number of bedrooms, but potentially in a cheaper area and of lower quality.

Finally, it is worth noting that in 2012 the coalition introduced a similar commitment to replace properties sold under Right to Buy on a one-for-one basis, though this commitment was somewhat looser, with replacement at a national level. The intention was to deliver replacement homes with receipts comprising just 30% of the total cost. However, the record on delivering this weaker commitment has been less than impressive: between April 2012 and December 2014 26,184 homes were sold under Right to Buy,¹³ but over the same period work had started on just 2,712 properties funded by the proceeds¹⁴ – a replacement rate of around one in ten. Of course, there may be more properties in the pipeline, but even so, the gap is a large one. This record provides some reason for scepticism about whether this more stringent, more expensive commitment will be delivered.

5. Conclusion

In contrast to the original policy, extending Right to Buy to HAs (who currently own around half of the social housing stock) has up-front costs because HAs need to be compensated for discounted sales. At the same time, the reduction in social housing since the 1980s has generated widespread agreement as to the desirability of (at least) maintaining the social housing stock by replacing properties sold through Right to Buy. The policy is to be paid for by requiring LAs to sell their most expensive properties, which will also be replaced.

There are considerable uncertainties over the costings of these proposals: uncertainties surrounding the revenues that can be raised from sales of expensive properties, the costs of Right to Buy discounts and the cost of replacing sold properties. These uncertainties underlie the risk that the policy could lead to a further reduction in the size of the social sector – something the Conservative Party's proposal explicitly seeks to avoid.

¹³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406192/LT_691.xlsx.

¹⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406195/LT_693.xlsx.