



FLEXIBLE RIGHT TO BUY

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BRIEFING PAPER

EXECUTIVE SUMMARY

- UK has the second-largest social housing sector in the EU, and over half of tenants in the sector want to own their own home.
- The Right to Buy works for some, but some social tenants live in expensive properties which they cannot afford to buy.
- Almost 700,000 local authority owned homes are in areas where median house prices exceed £250,000. Over 200,000 of these are in areas where median house prices exceed £500,000.
- Social tenants eligible for the Right to Buy should be given a Flexible Right to Buy, entitling them to buy a new home, using the value of their Right to Buy discount.
- The tenant's previous home would then be sold, funding the discount and raising additional revenue.
- A conservative estimate of the impact would see 21,000 tenants take advantage of the scheme with £2 billion of discounts on £9 billion of stock and net receipts of £7 billion.
- An ambitious estimate of the impact would see 197,000 tenants benefit, with £83 billion of stock and £21 billion of discounts and net receipts of £62 billion.
- Housing stock would be better matched to people's circumstances, with a cooling effect on overheated local markets.
- Some friction would be removed from labour markets, resulting in improved productivity and wages.

TOO FEW PEOPLE OWN THEIR OWN HOME

Owner occupancy is low in the UK relative to other countries. In the EU, only Austria, Germany and Denmark have lower levels of owner-occupancy.¹ One reason is the UK's large social rented sector: only Slovenia has a higher rate than the UK's 18%, with the EU average at just 11%. But many people in social housing would like to own their own home. According to YouGov polling for Shelter, 59% of people renting in the social rented sector would like to own their own home.²

TOO MANY PEOPLE ARE TRAPPED IN COUNCIL HOUSING

Many council residents are happy with their tenancies, although the reasons appear driven by their immunity from the consequences of the housing crisis rather than anything else about social landlords per se. In local authority property tenancies, rents are low and stable while evictions for reasons unconnected with tenancies are highly unlikely. It might be difficult to acquire a tenancy from a social landlord, but once one has been won, tenants enjoy rent levels set as if there was no regulation-induced shortage of property. Most are lifetime tenancies (although since 2012 local authorities have had the option of granting fixed term and flexible tenancies) and in some cases are even hereditary as adult children can be eligible to inherit the right to the tenancy.

Renting from a social landlord has downsides, however. It can be difficult gaining permission to carry out alterations and improvement work usually cannot be transferred in the event of moving. There is a strong preference for owning a home, partly because of the prospect of being free of payments once a mortgage has been paid off but also partly for psychological reasons to do with security and stability, which are likely to be strengthened when no other party has a legal claim on it.

In the poll for Shelter, 17% of people placed owning their own home as the single most important priority, above living near friends and family, feeling safe in their neighbourhoods or being close to local services. A further 22% placed it in second or third place.³

MISALLOCATION OF HOUSING

The social housing sector appears to misallocate housing stock, both by tenure and by characteristics of the stock itself. Too many social housing tenants would prefer to be owner occupiers but are prevented from this because the homes they live in are not suited to their financial circumstances even after a Right to Buy discount. The corollary of this is that too many people are stuck in the home they live in even though a better match might be available. In oth-

¹ http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_statistics

² https://england.shelter.org.uk/__data/assets/pdf_file/0006/66435/Housing_aspirations_final.pdf

³ https://england.shelter.org.uk/__data/assets/pdf_file/0006/66435/Housing_aspirations_final.pdf

er words, a home currently occupied by a social housing tenant might offer another potential occupant benefits that would better suit their circumstances.

Tenants might value the location of their homes but not be able to buy while still wishing to be able to own a home somewhere. At the moment, tenants have to first move within the social housing sector to a property that's within their reach and then buy it. But doing so limits the choice of properties available and it also might diminish the discount available, making buying harder. A tenant might be eligible for the maximum discount of £108,000 on a London home on a small discount. (Discounts start at 50% on flats and 35% on houses after three years of being a tenant, and then rise by 2% a year and 1% a year after being a tenant for five years.) A tenant of a council house in London will be eligible for a 40% discount 10 years into his tenancy. Many of these are likely to be capped by the £108,000 limit due to high prices in the capital. But a tenant 10 years into a tenancy in a London council house worth, say, £650,000 might not be able to access credit for the remaining £542,000. A cheaper property, however, might be more financially manageable if the £108,000 discount could be used on that property instead.

By restricting social tenants to their current properties, the system removes the ability of the current tenants to move to a property which better suits their preferences, and in turn prevents whoever would move into the tenant's current property from doing so.

SCALE

There are approximately 1.7 million local authority homes in England and Wales, of which almost a million are in the 196 local authorities where the median house price is under £250,000.⁴ Approximately 216,000 homes are in 16 local authorities where the median house price is over £500,000. Of these, around 211,000 are in 13 London authorities.

TABLE 1: NUMBERS OF LOCAL AUTHORITY OWNED HOUSING STOCK BY BAND OF MEDIAN RESIDENTIAL PROPERTY PRICE

MEDIAN RESIDENTIAL PROPERTY PRICE IN LOCAL AUTHORITY AREA	NUMBER OF LOCAL AUTHORITIES	LOCAL AUTHORITY HOUSING STOCK
>£1m	2	18,720
£750,000-£999,999	3	35,820
£500,000-£749,999	14	161,370
£250,000-£499,999	133	483,380
<£250,000	196	989,612
Total	348	1,688,902

⁴ 'House price' in this section refers to prices of all dwellings, including flats.

Because ex-local authority homes tend to be cheaper than otherwise similar homes which were not previously owned by a local authority, it is unlikely that the problem of people being unable to gain a mortgage is as widespread in areas where median house prices are under £250,000 in London or £210,000 elsewhere. This is based on the assumption that a tenant in the third lowest income decile with a gross income of approximately £22,000 can access a mortgage finance of around £88,000 and then assuming that values of properties are one fifth cheaper than median property prices to account for an ex-local authority discount in the market.

However, in authorities where prices are higher than this level, tenants with a gross income of £22,000 would struggle to find a mortgage to buy their properties. There may, therefore, be as many as 700,000 tenants who would like to be able to buy a home of their own but are prevented from doing so because the Right to Buy discount on their homes is not substantial enough for them to afford to finance the purchase. The discount would, however, be enough to make home ownership affordable in another home.

THE SOLUTION

EXTEND THE BENEFITS OF RIGHT TO BUY WITH A FLEXIBLE RIGHT TO BUY POLICY

Tenants who can't afford their existing home but would like to own another home should be allowed to transfer their Right to Buy to a property of their choice. Tenants should be able to immediately access the Flexible Right to Buy discount subject to a discount on valuation (to cover the risk of overvaluation). The discount would be paid on the purchase of a property of the tenant's choice funded by the sale of the tenant's local authority home once the tenant has moved into the home bought under the scheme.

FLEXIBLE RIGHT TO BUY

Tenants who are eligible for the Right to Buy should also be made eligible for the Immediate Flexible Right to Buy. This would allow tenants to be able to buy a new home immediately using the amount they would be eligible for under the standard Right to Buy together with any additional financial resources contributed by the tenant such as savings or a mortgage. This could take the form of a subordinated mortgage on the selected home, or the Ministry might wish to make finance available to help approved providers assist the tenants with costs of moving, such as solicitors' fees and removals.

However, to protect the Exchequer from overly optimistic valuations, a discount of perhaps 25% should be applied to the valuation of the tenant's rental property when assessing the Immediate Flexible Right to Buy Deposit Award. Tenants in more valuable properties (or those who qualify for a larger percentage discount due to having been a tenant for longer) would be unaffected by this because their Deposit Award would still exceed the cap even after a valuation discount. For those tenants whose Deposit Award is lower than the cap

and whose rental property sells for more than the valuation should be eligible to receive the remainder of the Deposit Award (though still subject to the cap).

TAXPAYER PROTECTION

To ensure taxpayers are protected from the possibility of beneficiaries selling their newly acquired property and then becoming eligible for taxpayer-funded housing again once the value of the discount has been spent, the Ministry should retain a charge on property bought equal to the discount provided. This financing would bear no interest and expire upon the tenant's death, but would be repayable if the property was sold before death.

The tenant should also be able to transfer that financing to any other UK residential property subsequently bought in the tenant's name, so long as the property meets the tenant's assessed needs under eligibility for welfare rules and the combined value of all financing does not exceed the value of the property. In this way, as long as the tenant owned a UK residential property, it would effectively operate as the current Right to Buy scheme does. This protection should also be extended to all new sales under the existing Right to Buy.

CASE STUDIES

COUPLE IN CAMBRIDGE WHO WOULD LIKE TO MOVE TO THE COAST

Rachel and Paul live with their daughter Chloe in a 2-bedroom flat in Cherry Hinton, Cambridge, owned by Cambridge City Council. The rent is £115.59 a week.⁵ Other two bedroom flats in the same postcode and of a similar build were on sale in July for an average of £257,500.⁶ Having lived in the property for ten years, the couple are eligible for a 60% discount, which would equate to £154,500 but exceeds the £80,900 cap, leaving them with £176,600 to find, even before the £2,875 bill for Stamp Duty Land Tax. As Paul earns £22,000 a year and Rachel works part time, earning £11,000 a year, with a 30-year mortgage the couple can borrow only £113,000. With only £10,000 in savings, they are unable to find the money to buy their home under the Right to Buy policy.

Rachel and Paul want to leave Cambridge, however, and move to the coast. Rachel is keen to quit her part-time job and start a business but the couple would be unable to afford to lose her income and she would need a separate room to manage her business, anyway. Under Flexible Right to Buy, however, the couple could buy a 3-bedroom house close to the beach in nearby Great Yarmouth for £89,995.⁷ Rachel and Paul are eligible for the full Deposit Award under the Immediate Flexible Right to Buy because even after a 25% discount is applied to its assessed value of £257,500, the adjusted value of £193,125 still produces a Right to Buy discount higher than the cap.

⁵ Representative data from Zoopla

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⁷ Representative data from Homeswapper

Under Immediate Flexible Right to Buy, Rachel and Paul could instruct the Ministry of Housing, Communities and Local Government to buy their chosen home in Great Yarmouth using the £80,900 Deposit Award and £9,095 of their own savings. They would own the property outright, and with an extra room and no more rent to pay, Rachel would be able to make a reality of starting her own business.

FAMILY IN CAMDEN WHO WOULD LIKE TO OWN, MOVE TO ENFIELD

Iqbal lives with his wife Suzie and their two children in a two-bedroom flat in inner London Camden and pays £105 a week rent. The couple both work, and each earn £18,000 and are able to borrow up to £167,000. But their flat is valued at £550,000 and their savings of £26,000 would not cover the shortfall. Under the standard Right to Buy, Suzie and Iqbal are not able to buy their home.

But the couple want to own a home and move closer to Suzie's family who live in Enfield, outer London. They have found a two-bedroom flat close to Suzie's parents on the market for £185,000. Their rented home would qualify for Immediate Flexible Right to Buy, meaning that they could instruct the Ministry of Housing to buy their chosen home in Enfield using the £108,000 Deposit Award available in London, together with a mortgage for the remaining £77,000. As first-time buyers they pay no Stamp Duty.

Flexible Right to Buy would enable Suzie and Iqbal to move closer to her parents, realise their dream of becoming homeowners, and reduce their monthly outgoings from £455 in rent to a mortgage repayment of approximately £265.

FINANCIAL IMPLICATIONS

In 2016-17, 13,416 properties were sold under the Right to Buy at an average market value of £144,000. Capital receipts averaged £82,000 and discounts averaged £62,000. Capital receipts totalled around £1.1 billion, shared between local authorities and the Treasury. Receipts from sales of homes under the Flexible Right to Buy should either be treated as current scheme receipts (partially provided to local authorities to build replacement homes subject to some restrictions), or alternatively sent entirely to the Treasury after making grant adjustments to ensure the local authority is not worse off.

The ten local authorities with the highest proportion of stock sold under Right to Buy between 2012-13 and 2016-17 sold 6.7 per cent of their 2017 stock levels. In authorities where median house prices were above £250,000, the rate was 3.6 per cent. Raising the average rate of sales in authorities with median prices over £250,000 to match the highest ten could have resulted in an additional 21,000 sales of stock worth £8.8 billion, involving £2.3 billion of Right to Buy discounts.

But the potential for tenants to benefit from this policy is much greater, and it is difficult to speculate as to what the level of take-up might be. Should we assume that half of the 59% of tenants who express a desire to own might exercise a Flexible Right to Buy in local authorities with median house prices over £250,000, then the numbers

could be 197,000 tenants with £83 billion of stock and £21 billion of Right to Buy discounts. Of these, 116,000 tenants with £49 billion of stock would be in London. This implies receipts, after discounts, worth £62 billion (of which, £36 billion in London).

ECONOMIC IMPLICATIONS

Introducing flexibility to the Right to Buy will widen home ownership in much the same way as when the right was first introduced in 1980.

ENTREPRENEURSHIP

Flexible Right to Buy will enable more social housing tenants to access the financial security that comes with home ownership. Some may choose to use part of their Flexible Right to Buy discount to invest in their own business, in cases where the discount available exceeds the tenant's financing required for their new property. Others may take advantage of the lower housing costs available by moving to a cheaper property to afford to fund the start-up or expansion of a new micro business. This could happen in the form of lower mortgage payments than the existing rental payments. In some circumstances, no mortgage at all may be required if the new property is bought entirely from the discount, perhaps topped up with the tenant's own savings. Alternatively, a new property might cost less than the Flexible Right to Buy discount, leaving the difference available for tenants to invest.

SOCIAL HOUSING

By giving tenants the ability to take themselves out of the social housing sector and into the private housing sector, Flexible Right to Buy improves the social housing situation by reducing demand in the sector. In addition, some of the receipts from the sale of the homes sold under Flexible Right to Buy would be available and councils might choose to use these to build even more social housing. Viewed from the perspective of the social housing system, it loses one property and one household to the private sector, so there is no net change. But because some fraction of additional homes might be built or bought, the net change can be thought to expand the social housing sector, if viewed from the perspective of people rather than the size of an authority's property empire.

WIDER HOUSING MARKETS

Flexible Right to Buy gives social housing tenants the option to buy a property more suited to their circumstances than the one they currently rent from a local authority. This might be advantageous for many reasons to do with property configuration or exact locations, but moving from an area with higher property prices to one with lower prices is likely to be the reason most tenants will exercise their Flexible Right to Buy. Instead of having to first buy the existing rented home (which may itself be an insurmountable obstacle) to exploit the discount under Right to Buy and subsequently move again to take advantage of lower prices elsewhere, this proposal gives tenants the option to do both in one move, avoiding the hurdle of arranging finance on a more expensive home.

As well as allowing tenants to move into property that better suits their requirements and preferences, by selling the existing home it also frees up that property to be bought by someone for whom that property suits their own requirements and preferences. The policy is likely to have a balancing effect on local housing markets, raising demand in areas with depressed prices and reducing demand—and therefore rents and prices—in areas with overheated property markets.

LABOUR MARKETS

Flexible Right to Buy could also better match workers to jobs. The buyers, or their tenants if let, will likely be better able than the existing tenant to take advantage of the jobs in areas where property prices are higher. This might be because an existing tenant works in a sector where the wages do not vary as much from one area to another as in other sectors. Or it might be because the existing tenant has retired or has health problems which mean that local jobs markets are not relevant to their circumstances. By better matching housing markets to workers, the policy is likely to remove (some) friction from labour markets, too, resulting in higher wages.

CONCLUSION

Extending the Right to Buy to tenants who are unable to make use of the existing right due to the high market value of their homes could reap substantial benefits for social tenants, buyers and renters in the wider property market and the public finances. Many social housing tenants want to own a home more than any other housing priority. Many more place it in the top three. Making it easier for social housing tenants to achieve this ambition would not only satisfy this desire directly, it could also improve their quality of life by reducing their housing costs, increasing their financial independence and even enabling entrepreneurialism. The wider housing market and labour markets would also benefit, with more spatially balanced demand (and prices) and reduced friction (and increased wages) in labour markets.

The benefit to the public finances could be substantial. Assets would be sold at discounts to the homes' market values, but the income presently generated from the assets is itself already heavily discounted. While it is very difficult to estimate the take up under the proposed new right, it is likely that net receipts would amount to billions of pounds. If take up were to be as substantial as stated preferences for home ownership suggest, receipts could exceed £60 billion, around 3% of GDP. This could make a meaningful difference to public sector net debt.

These social and economic benefits are substantial. The party that adopts them could also reap substantial political benefits, too, just as the original Right to Buy proved to be so politically successful for the Thatcher government in the 1980s.

TABLE 2: LOCAL AUTHORITY HOUSING STOCK WHERE MEDIAN RESIDENTIAL PRICES EXCEED £500,000

LOCAL AUTHORITY AREA	MEDIAN PRICE	LOCAL AUTHORITY OWNED HOUSING STOCK
Kensington & Chelsea	1,315,000	6,830
Westminster	1,025,000	11,890
City of London	835,000	440
Hammersmith & Fulham	777,475	12,300
Camden	760,000	23,080
Wandsworth	654,000	16,800
Richmond upon Thames	650,000	0
Islington	615,000	25,290
Elmbridge	570,000	10
South Bucks.	555,000	0
Chiltern	545,000	0
Haringey	540,000	15,420
Barnet	533,500	10,020
Southwark	530,000	38,550
Hackney	530,000	21,780
St. Albans	524,500	4,900
Lambeth	518,110	23,720
Harrow	500,000	4,840
Mole Valley	500,000	40

TABLE 3: LOCAL AUTHORITY HOUSING STOCK WHERE MEDIAN PRICES ARE OVER £250,000 BUT UNDER £500,000

LOCAL AUTHORITY AREA	MEDIAN PRICE	LOCAL AUTHORITY OWNED HOUSING STOCK
Brent	499,950	8,290
Tower Hamlets	490,000	11,690
Kingston upon Thames	487,250	4,690
Windsor & Maidenhead	485,000	0
Ealing	485,000	11,910
Merton	470,000	60
Epsom & Ewell	470,000	20
Three Rivers	460,000	0
Hertsmere	450,000	180
Waltham Forest	445,000	9,740
Epping Forest	442,500	6,460
Bromley	440,000	60
Waverley	435,000	4,800
Cambridge	430,000	6,930
Lewisham	430,000	14,420
Guildford	430,000	5,220
Wokingham	422,500	2,600
Redbridge	420,000	4,460
Greenwich	420,000	21,550
Tandridge	420,000	2,620
Winchester	418,000	5,000
Hillingdon	415,000	9,940
Brentwood	415,000	2,470
Woking	405,000	3,360
Surrey Heath	405,000	10
Enfield	402,500	10,080
Oxford	400,000	7,560
Runnymede	400,000	2,910

Hart	395,000	0
Houslow	395,000	12,920
Reigate & Banstead	395,000	20
Newham	390,500	15,810
Uttlesford	390,000	2,810
Sevenoaks	385,500	0
South Oxfordshire	385,000	0
Spelthorne	385,000	0
Dacorum	385,000	10,030
East Hertfordshire	385,000	20
Wycombe	375,000	10
Horsham	370,000	60
Welwyn Hatfield	369,500	8,960
East Hampshire	367,000	0
Sutton	367,000	5,980
Watford	367,000	30
South Cambridgeshire	366,495	5,270
Croydon	365,000	13,660
Mid Sussex	365,000	20
Tunbridge Wells	361,500	60
Chichester	359,995	80
East Dorset	350,000	0
Cotswold	350,000	0
Havering	350,000	9,730
Brighton & Hove	350,000	11,510
Broxbourne	345,000	350
Vale of White Horse	345,000	20
Tonbridge & Malling	343,400	0
Bexley	342,500	90
West Berkshire	340,000	30
Christchurch	339,475	0
North Hertfordshire	335,000	0

West Oxfordshire	335,000	0
Bracknell Forest	330,000	100
Chelmsford	330,000	40
Rochford	329,995	0
Aylesbury Vale	325,000	0
Isles of Scilly	325,000	120
New Forest	322,500	5,000
Maldon	320,000	0
Bath & N.E. Somerset	320,000	0
Slough	317,000	6,200
Lewes	315,000	3,210
Basingstoke & Deane	310,000	0
Wealden	310,000	2,930
Dartford	309,250	4,230
Rushmoor	305,000	0
Purbeck	305,000	0
Reading	304,975	6,880
Cherwell	301,000	200
Stratford-on-Avon	300,000	0
Barking & Dagenham	300,000	17,920
Central Bedfordshire	300,000	5,220
Adur	300,000	2,580
Test Valley	299,950	0
South Northamptonshire	295,000	0
Maidstone	295,000	40
Castle Point	294,000	1,520
Warwick	289,950	5,550
Canterbury	288,944	5,130
South Hams	286,150	0
Eastleigh	285,000	0
Crawley	285,000	7,780
Fareham	285,000	2,400

Basildon	281,000	10,990
Worthing	280,000	0
West Dorset	280,000	0
Harlow	280,000	9,430
Gravesham	280,000	5,680
Arun	279,950	3,320
Suffolk Coastal	278,000	10
Rother	277,500	0
Thurrock	275,000	10,040
Poole	275,000	4,590
East Cambridgeshire	275,000	10
Bedford	270,000	0
Stevenage	270,000	7,900
Ashford	270,000	4,950
Babergh	270,000	3,400
Milton Keynes	270,000	11,180
Daventry	269,950	0
Bromsgrove	268,000	0
Harrogate	267,000	3,850
Southend-on-Sea	267,000	6,000
Braintree	265,000	0
Wiltshire	265,000	5,260
East Devon	265,000	4,200
Solihull	265,000	10,150
St. Edmundsbury	265,000	10
Rushcliffe	264,995	0
Havant	261,725	4,770
Colchester	261,000	5,980
Harborough	260,000	0
Wychavon	260,000	0
Huntingdonshire	260,000	0
North Dorset	260,000	0

Bristol, City of	260,000	27,200
Cheltenham	260,000	4,480
South Gloucestershire	260,000	10
Mid Suffolk	259,995	3,260
Stroud	257,000	5,160
Malvern Hills	256,000	0
Tewkesbury	255,000	0
Trafford	250,000	0
Rutland	250,000	0