Understanding the likely poverty impacts of the extension of Right to Buy to housing association tenants

by Anna Clarke, Michael Jones, Michael Oxley and Chihiro Udagawa

This report explores the impact of Right to Buy (RTB) on housing association tenants in need of low-cost rented homes. It also explores the likely impact on housing supply.

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INSPIRING SOCIAL CHANGE

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This report examines the impact of the extension of the Right to Buy to housing association tenants, and the sale of higher value local authority dwellings, which will provide the funding for the Right to Buy. The analysis first estimates the likely scale of uptake of the Right to Buy and sale of local authority dwellings, and then looks at the impact on lettings, rents, poverty and welfare costs.

The analysis has concluded that the tenure of housing built to replace that which is sold has a critical effect on poverty. Only if the replacement housing is at similar rent levels to that which is sold can a negative impact on poverty be avoided.

The report shows:

- around 1.3 million housing association tenants will gain the Right to Buy, but only around 180,000 of these are eligible and able to afford to exercise it;
- total uptake of the Right to Buy over the first five years of operation is estimated at 128,000;
- around 10 per cent of local authority housing nationally is high value for its size and region. The proportions vary dramatically between authorities, and the worst affected areas will see a reduction in over 50 per cent in social housing available for letting, at least until replacement stock is built;
- if stock is replaced like-for-like in terms of tenure, the Right to Buy and local authority sales will eventually have a positive impact on the availability of low-cost housing and on poverty;
- if social rented homes are replaced with Affordable Rented ones, rent levels, poverty and housing benefit costs will all increase;
- if social rented homes are replaced with shared ownership or Starter Homes these will not be affordable to households who would otherwise have accessed the social rented homes. This will increase the number of poorer households renting in the private rented sector, which will increase poverty and housing benefit costs.

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Summary

The July 2015 Budget of the new Conservative Government confirmed that the government wished to introduce Right to Buy (RTB) for housing association tenants in England. The funding to compensate housing associations for selling off their properties at discounted rates would be made available from the sale of higher value local authority properties when they become vacant. It has since become apparent that this will operate in practice via a charge passed on to stockholding local authorities, based on projections of likely sales of higher value stock. The detail of these charges, or how they would be worked out, was not available at the time of this analysis.

This analysis explores the impact of policies that the government intends to introduce:

- the extension of Right to Buy (RTB) discounts to housing association tenants;
- the forced sale of higher value local authority dwellings.

The Joseph Rowntree Foundation (JRF) commissioned this research to explore the implications of these two policies over the first five years of operation. The analysis draws on information about how the two policies will work that was available at October 2015, and available data on the current operation of the social housing sector in order to estimate:

- the number of homes likely to be sold through the RTB for housing association tenants, and through the sale of higher value local authority stock;
- the impact of these two policies on the number of social housing lettings, and on the rents paid by households affected;
- the likely impact of rent levels on poverty and the housing benefit bill.

The government has indicated that it intends that the stock sold off will be replaced on a one-for-one basis, but the replacement stock will not necessarily be of the same tenure as the housing it replaces. The impact of the two policies was therefore explored under three possible scenarios:

- Scenario 1: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built within three years and is let at the same rents as the stock it replaced.
- Scenario 2: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built within three years and is let at Affordable Rents
- Scenario 3: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built for sale as shared ownership.

It should be noted that all of these scenarios assume that one-for- one replacement – of some sort – is achieved. Concerns have been expressed that financial pressures and land availability may make this difficult in practice. When the existing Right to Buy discounts for local authority tenants were increased in 2012, a similar commitment was made. RTB sales increased from 2,638 in 2011/12 to 12,304 in 2014/15 but by the end of the first quarter of 2015/16 the number of dwellings started on site or acquired since 2012/13 was 3,644 (Wilson and Bates, 2015). If one-for-one replacements are not built, the impact on the availability of housing and on the poverty of low-income households is likely to be worse than modelled here.

Key findings

Uptake of the Right to Buy for housing association tenants

- An estimated 1.3 million housing association tenants are likely to gain the Right to Buy under current proposals, of whom 970,000 have held tenancies long enough to be initially eligible.
- Only around 180,000 of these appear to be able to afford to exercise their Right to Buy.

- The newly proposed Pay to Stay rents are likely to affect around half of households who are able to afford to exercise the RTB, and the higher rents they have to pay are likely to encourage them to buy their homes if possible.
- Between 17,000 and 58,000 are estimated to exercise the RTB during the first year depending on the extent to which the Pay to Stay policy motivates tenants to exercise their RTB. Using a mid-point of estimated uptake, our projections give a total uptake over the first five years estimated at **128,000.**

The scale and profile of local authority sales

- Our projections suggest that around 10 percent of all local authority stock would be classed as high value, using the threshold values that the Conservative Party has published, which are roughly the top third of all property values, by size and region.
- The proportion of high value properties varies between regions and is highest in the East of England (18 per cent) and lowest in the North West (4 per cent). There is greater variation between local authorities, with some authorities likely to have more than half their stock classed as high value.
- The areas which face the biggest loss of social rented lettings, as a result of these high value sales are Welwyn Hatfield, Dacorum, Tandridge, St Albans and Epping Forest, all of which will see a reduction of more than 50 per cent in available lettings – including any lets to housing associations, at least until replacement stock can be built. In contrast, some other stockholding local authorities have no high value stock at all.
- One-bedroom homes are the most likely to be classed as high value for their size. Bungalows are more than twice as likely as other dwellings to be classed as high value and could comprise over a quarter of all sales.
- The current proposals for the forced sale of higher value local authority vacant stock would produce around an estimated **12,000** sales a year, assuming all higher value stock was sold whenever it became vacant, and that local authorities find this sufficient to repay the charges they are issued with.

The impact on lettings, rents, welfare costs and poverty

- Both policies result in an initial reduction of social housing lets for the first few years while replacement stock is being built, under all three scenarios.
- Once the replacement stock is built, scenarios 1 and 2 result by year five in a net annual gain of up to 29,000 additional lets in year 4, falling after that, reflecting the projected tailing off of RTB sales after the first year. This is because the dwellings sold under the RTB would not all have become available for letting for many years, but the replacement dwellings all would be available for letting.
- Scenario 1 therefore has a positive impact on poverty levels once the replacement stock is built, and an annual reduction to the housing benefit bill because more people would be able to access low rent housing.
- Affordable Rents are considerably higher than social rents, meaning that these benefits are not seen to the same extent under scenario 2 and instead poverty increases under this scenario where the replacement stock is built at Affordable Rents.
- Scenario 3 sees the replacement stock being built as shared ownership. Our projections suggest that only around three per cent of households currently accessing social rented housing could afford to buy shared ownership instead, and fewer still could afford Starter Homes Initiative homes. Many households will therefore be diverted to the private rented sector (PRS) instead under this scenario, therefore increasing poverty. Different (non-poor) households will access the new shared ownership housing.
- The estimated increase to the housing benefit bill over the first five years of operation is £15.6 million under Scenario 1; 23.2 million under Scenario 2 and £30.7 million under Scenario 3, reflecting the higher rents that low-income households would be paying with either Affordable Rent or private sector rents.

Table 1 shows the impact on the availability of new lets of social rented housing, and on the availability in particular of housing at social rent levels, under each of the three scenarios.

Table 1: Summary of impact on availability of social rented housing over first five years under scenarios 1–3

	Scenario 1	Scenario 2	Scenario 3
Total sales under RTB	127,946		
Total sales of LA dwellings	61,205		
Total sales	189,151		
Lettings lost from RTB	-33,360		
Lettings lost from LA sales	-61,205		
Total lettings lost	-94,565		
Net impact on social rented lettings (Affordable or social rent)	1,540 loss	1,540 loss	75,184 loss
Net impact on lettings at *social rent*	1,540 loss	86,054 loss	75,184 loss

Table 2 summarises the differences in rents paid and housing benefit costs under the three scenarios, over the five-year period.

Table 2: Summary of changes to rents and housing benefit costs under Scenarios 1–3 by the end of year 5

		Scenario 1	Scenario 2	Scenario 3
Tenure of replacement housing		91% social rent; 9% Affordable Rent	Affordable Rent	Shared ownership
Extra households in the PRS	Total number at end of year 5	1,264	1,264	61,739
	Number paying own rent	411	411	20,083
	Average monthly extra rent paid	£139	£139	£139
Extra households in homeless accommodation	Total number at end of year 5	275	275	13,445
	Number paying own rent	19	19	906
	Average extra rent	£326	£326	£326
Extra households in Affordable Rent	Total number at end of year 5	0	84,653	0
	Number paying own rent	0	22,497	0
	Average extra monthly rent paid		£81	
Total made poorer by higher rents		430	22,927	20,988
Of whom are in poverty		189	10,088	9,235
Total HB costs over 5 years (million)		£15.6	£23.2	£30.7

Overall, the first five years of operation of the two policies are projected to see a loss of nearly 200,000 dwellings from the social sector, with a resultant loss of around 100,000 lettings. After five years, the replacement stock has started to compensate for the stock sold under scenarios 1 and 2. The higher rents associated with Affordable Rent replacement stock, however, mean that at the end of five years, scenario 2 and 3 both see more than 20,000 working households ineligible for housing benefit who are having to pay higher rents – most likely within the private rented sector – as a result. Just under half of these would be classed as in poverty on the basis of their incomes and would be pushed into more severe poverty as a result of the higher rents.

Housing benefit costs would also rise as households are diverted into the private rented sector, Affordable Rented housing, or remain in homeless accommodation for longer instead of being able to access housing at social rents.

Conclusions

A key conclusion from this project is that the tenure of the replacement housing is critical in determining the longer term poverty impact of the two policies. If it is possible to build one-for-one replacement housing for that lost under both policies, and to build it at similar rent levels to the housing it replaces, then over the medium term (five to ten years), there could be a net positive impact on the availability of low rent housing.

Building back Affordable Rent housing also has a net positive impact on the supply of social rented housing, but tenants would be paying higher rents than at present.

If the replacement housing is built as shared ownership then more low-income households will be diverted into the private rented sector, or have to remain for longer in homeless accommodation, both of which result in higher rents for tenants and higher costs for housing benefit.

The other key aspect to note is that the impact of the local authority sales in particular is very localised and likely to present enormous challenges to local authorities through large bills resulting from sale of stock. Such local authorities typically already face difficulties in meeting housing need and accommodating homeless households and a sudden and dramatic reduction in lettings is likely to cause severe difficulties. This impact will only be fully mitigated if they are able to replace social housing within their local authority boundaries, or on sites where they can legally and reasonably expect housing applicants to live. The Right to Buy, in contrast, is slower to reduce the number of available lettings and will impact somewhat more evenly across the country.

The research has not explored the financial feasibility of building one-for-one replacement by either housing associations or local authorities. It remains uncertain whether this actually occurs in practice. The experience of the post-2012 Right to Buy within the local authority sector also suggests that it may be hard for many authorities to replace lost stock on a one-for-one basis, as issues such as land availability, initial costs of development and discrepancies between costs and revenue still remain.

The replacement stock may also be of a different size or in a different location to that which is lost, both of which will have an impact on the availability of housing for different groups, and the resultant rents paid and impact on poverty; however the high level of uncertainty as to how this will play out has meant these effects have not been explored here. Building replacement stock in cheaper areas does have the potential to reduce the rents paid by tenants, though this may come at the expense of access to job opportunities.

Overall, the analysis suggests that the tenure and rent levels of the replacement stock is the most critical factor in determining the impact of the policies on poverty. One-for-one replacement of stock at similar rent levels to that which it replaces could have a positive impact on the availability of low-cost housing and on poverty. Building more expensive tenures, or failing to replace the stock which is sold, are likely to increase rents, poverty and welfare costs.

In the longer term, the subsidy for RTB discounts cannot be found from selling off local authority housing without a continual stretching of the definition of high value, meaning that local authorities may be forced to sell increasing numbers of lower valued dwellings.

1 Introduction

The July 2015 Budget of the new Conservative Government confirmed that the government wished to introduce Right-to-Buy (RTB) level discounts for housing association tenants. The funding to compensate housing associations for selling off their properties at sub-market values would be made available by the forced sale of higher value local authority properties when they become vacant. It has since become apparent that this will operate in practice via a charge passed on to stock-holding local authorities, based on projections of likely sales of higher value stock. The detail of these charges, or how they would be worked out, was not available at the time of this analysis.

JRF commissioned this research in order to explore the implications of these two policies on poverty, based on information currently available. The two issues are inter-related, as the government has indicated that sale of stock is intended to provide the funds to reimburse housing associations (which are not public bodies) for the full market value of stock sold at a discount to tenants under the RTB. This research therefore explores the likely uptake of the RTB by housing association tenants, the likely level (and where possible the location) of sales of local authority properties, and the impact – both immediate and longer term – that these two policies will have on lettings to people seeking social housing, and the resultant impact on poverty. The focus of the paper is on England only.

The new Right to Buy for housing association tenants

Around half of the housing association stock in England was previously owned by local authorities. Tenants who were resident at the time of the transfer to housings associations already have the RTB, known as the 'preserved' RTB, but new tenants moving into stock-transferred properties do not, though some do have the less generous Right to Acquire.

The proposal to extend the RTB to housing association tenants in a similar way to that which currently operates for council tenants was first set out in January 2012 (Davis and Field, 2012) by the IPPR. They argued that it would:

> "…encourage the development of mixed tenure housing areas containing privately owned, private rented and social housing. This is a far better outcome than huge, homogenous, monolithic council estates, which have come to be stigmatised as hotbeds of crime and social problems…"

although their proposal related to housing association properties, not to council ones. They proposed that:

> "To provide more homes for the most vulnerable, housing associations need to receive all the proceeds from properties sold through the right to buy scheme….it would mean the Treasury recouping less money from each sale under right to buy than is currently the case."

A key issue that may affect the uptake of the RTB is the compulsory Pay to Stay that is proposed for introduction in 2017/18 (Wilson, 2015). Housing associations are currently permitted (but not forced) to charge market rents to tenants with household incomes over £60,000. The government has not collected any figures on uptake of this scheme, though research by Inside Housing suggested that most landlords thought the costs of administering the scheme would outweigh any additional income they would receive (Inside Housing, 2013). The new proposed scheme, however, is compulsory and would charge market or near to market rents for tenants with incomes of more than £40,000 a year in London or £30,000 elsewhere.

Selling higher value council dwellings

This idea was first floated in a Policy Exchange document of 2012. This proposed selling off any vacant local authority dwelling that fell in the most expensive half of all dwelling values for the region. The *regional* median price was suggested because a national median would mean 'selling off almost all social housing in London and the South East, yet (would be) well above the median in areas like the North East and North West, reducing receipts and perpetuating unfairness', but a local authority based median would enable social tenants to be housed in (say) Harrogate (median house price £224,500) rather than in York, Leeds or Bradford, or in Kensington and Chelsea (median house price £791,000), whereas the public think that social tenants should not have the right to live in expensive areas'.

The threshold median price would be adjusted for bedroom size, but capped at four bedrooms, on the grounds that social tenants should not expect to 'expand their family and look to the government to resolve any problems this creates'.

The government has indicated that they expect that 15,000 local authority homes a year will be sold, and that the policy will raise £4.5 billion a year (Conservative Party, 2015). The basis for these figures is not given, and it is hard to know how an annual figure would last long into the future when the stock of high value homes will be gradually depleted – if the definition of high value remains unchanged (relative to average prices) it would be expected that the number of these that become vacant will gradually diminish over time. This analysis has therefore looked at just the first five years of the policy, though note that the funding of the RTB for housing association tenants could not be funded in the longer term through selling off high value stock, unless the thresholds for what is defined as high value are continually reduced.

A Conservative Party press release earlier this year gave indicative thresholds. This appears to be no longer available online, but was replicated in several other documents and has been set out here (Table 3).

Table 3: Proposed thresholds for identifying higher value properties

	1 bedroom	**2 bedrooms**	**3 bedrooms**	**4 bedrooms**	**5+ bedrooms**
North East	£80,000	£125,000	£155,000	£250,000	£310,000
North West	£90,000	£130,000	£160,000	£270,000	£430,000
Yorkshire & Humber	£85,000	£130,000	£165,000	£265,000	£375,000
East Midlands	£105,000	£145,000	£175,000	£320,000	£430,000
West Midlands	£100,000	£145,000	£180,000	£305,000	£415,000
East of England	£155,000	£220,000	£265,000	£440,000	£635,000
London	£340,000	£400,000	£490,000	£790,000	£1,205,000
South East	£165,000	£240,000	£320,000	£495,000	£755,000
South West	£135,000	£200,000	£260,000	£375,000	£535,000

Source: Calkin, 2015

This suggests that the government intends to define 'high value' as being dwellings in roughly the top third of market values, by region and size.

2 Existing analysis

The six months that have elapsed since the proposals (in the Conservative Party Election Manifesto) for the extension of the Right to Buy to housing association tenants, to be funded by the forced sale of 'high value' vacant council stock, have seen a wide range of comment and analysis. Since many of these pieces of analysis have referred to their immediate predecessors, this review is laid out in approximate chronological sequence so that the developing situation, and its understanding, may be clearer.

It should be noted that many of these reviews have questioned the financial viability of the proposal, raising concerns that the proceeds of the council housing sales will be insufficient to fund the RTB discounts, the brownfield development fund and also allow one-for-one replacement. The focus of this review, however, is on projections of uptake, sales and the impact on lettings and poverty, rather than the financial viability – though it should be noted that were one-for-one replacement impossible, this would have an additional negative impact on the availability of low-cost housing for poorer households.

The original **Policy Exchange** paper (Morton, 2012) estimated that 21.8 per cent of the social housing stock, or 818,600 homes, were above the median value in their region, ranging from 30.9 per cent in London (229,130 homes) to 14.8 per cent in the North East (40,600 homes). The median values that define a 'high value' dwelling are set regionally in the Policy Exchange paper, but the proportions vary because local authority dwellings are closer to private sector prices in some regions than in others.

The paper then estimated a probable turnover rate for expensive social housing at 3.5 per cent per annum, on the grounds that expensive properties probably turn over more slowly than the national average rate of 6–7 per cent (although the paper does not state whether this is an overall turnover figure, including transfers, or a 'net' turnover counting only lets to tenants moving into the sector). Using this 3.5 per cent turnover rate, the proposed policy would result in the sale of 28,500 properties per annum, raising £5.5 billion per annum.

The **Conservative Party Manifesto** for the May 2015 election stated:

> "We will extend the Right to Buy to tenants in Housing Associations to enable more people to buy a home of their own. It is unfair that they should miss out on a right enjoyed by tenants in local authority homes. We will fund the replacement of properties sold under the extended Right to Buy by requiring local authorities to manage their housing assets more efficiently, with the most expensive properties sold off and replaced as they fall vacant. We will also create a Brownfield Fund to unlock homes on brownfield land for additional housing."

Some background detail on both the Right to Buy and the enforced sale of council property was given in the official **Conservative Party press release** that accompanied the manifesto launch (Conservative Party, 2015).

The key commitments in the press release were:

- 'Government will fund the extension of the right to buy, allowing the replacement of stock bought by tenants with new affordable housing on a one for one basis'.
- 'Local authority properties that rank among the most expensive third of all properties of that type in their area – including private housing – will be sold off and replaced in the same area with normal affordable housing as they fall vacant'.
- 'This will lead to the sale and replacement of around 15,000 homes a year'.

It should be noted that there is no commitment to replace homes sold by housing associations under the Right to Buy in the same area: a property sold in one local area could be replaced by another property at the far end of the country.

Assuming the government takes a similar approach to that of the new housing replacing stock sold under the RTB, 'normal affordable housing' will include both Affordable Rent (the specific product managed by social housing providers and regulated by the Homes and Communities Agency) and low-cost home ownership properties.

The week after the issue of the Conservative Party manifesto, the **Institute for Fiscal Studies** (IFS) published a briefing note *Extending Right to Buy: risks and uncertainties* (IFS, 2015). The paper noted that 'defining "expensive" properties on a regional basis, but requiring replacement at the LA level could create difficulties', since local authorities in expensive areas would struggle to build replacements locally at less than the regional threshold.

The paper referred to the Conservative Party estimate that sales of expensive properties would raise £4.5 billion per annum net of debt repayments, and to the National Housing Federation (NHF) analysis that the cost of RTB discounts to housing association tenants could be as high as £11.6 billion for 221,000 sales. Since the NHF documents from which these estimates came are no longer available, it is now no longer possible to analyse any underlying basis of calculation. However, the IFS did note that the estimate of £4.5 billion per annum implied a net receipt per sale of twice that of the 2012 proposal by Policy Exchange, and commented that it was not clear why the expected revenue per property should be so much higher.

An early reaction to the proposals on the forced sale of council homes was a report by **Liverpool Economics** (2015), commissioned by the four London boroughs, Camden, Enfield, Haringey and Islington. This used the original Conservative proposal of regional thresholds, which would result in little or no loss of stock in Enfield and Haringey, but would result in losses of 34 per cent in Islington and 38 per cent in Camden. The report noted that if a local authority based threshold were instead to apply, then the proportions would rise in Enfield and Haringey and fall in Islington and Camden.

The report calculates that lettings to new tenants might fall by 25 per cent in the first years, with many of these applicants faced initially with homelessness and temporary accommodation, and then with a 28 per cent rent increase to take up an Affordable Rent tenancy in replacement stock as this is built.
Savills published a Housing Market Note (Savills, 2015) in June. Their analysis drew on data from the 2008/9 English Housing Survey. This data is particularly useful because it is the most recent data available which has estimates of market value for social housing stock. Their analysis of the data suggested that 10 per cent of the social housing stock was above the 70th percentile for all housing. The paper referred to the local authority housing stock as 2.2 million homes, based on the 2011 Census, so concluded that 220,000 homes would be 'high value'. (The local authority housing stock subsequently shrank, because of stock transfers and the RTB, to 1.67 million by 2014, implying that less than 167,000 would now be counted as 'high value' on the same basis.)

The analysis went on to explore the location of properties above the regional thresholds and suggested that while some inner London boroughs might have 50 per cent of their stock ranked as 'high value', most areas of the country would have less than 10 per cent, with very little stock in the East Midlands, and none in the South West, above the regional threshold. This distribution results in a reduction in the number of properties above the threshold to only 78,000: the paper does not explain how this reduction is arrived at.

The report also analysed turnover rates by value, showing that lower turnover rates were associated with high property values, though this analysis was undertaken on a local authority basis, rather than comparing the turnover rates of individual high- and low-value properties.

Another early response to the Conservative manifesto and the June Budget announcements (Osborne, 2015) was a blog (6 July 2015) by Chris Walker, Head of Housing, Planning and Urban Policy at **Policy Exchange** (Walker, 2015). This noted that the policy actually announced by the Conservatives would require councils to sell fewer homes than the Policy Exchange had proposed – the 210,000 in the top third of the house price distribution in their area, rather than those in the top half as they had suggested. The Conservative proposals also assumed that 15,000 properties would be sold per annum, implying an 'optimistic' 7 per cent vacancy rate, which was 'clearly challenging'. Walker concludes that 'Upholding a commitment to full replacement within a local authority is more challenging still, though there is usually some scope for building in a cheaper part of the local authority'.

Inside Housing conducted a Freedom of Information survey of 100 councils with retained stock to establish what data they held on the proportion that was high value (Inside Housing, 2015). Detailed information was provided by 59. Twenty-nine of these had no high value stock, and 30 had high value stock, ranging from 0.1 per cent in Reading to 58.7 per cent in Harrogate.
The *Inside Housing* survey reported that 46 per cent of the high value stock of the 12 councils that were able to supply data on turnover rates had changed tenants since 2005, and concluded that this would imply a 3.85 per cent turnover rate, though it takes no account of whether properties turn over more than once in a ten-year period, so is likely to be an underestimate. The survey also found that across all 30 councils, 80 per cent of high value stock is either one- or two-bedroom dwellings, a proportion heavily dominated by bungalows, which comprise 45 per cent of the high value one- and two-bedroom stock (and 38 per cent of all high value stock). It is possible that some of this may be sheltered housing, exempt from the RTB. It is unclear whether such stock would also be exempt from the forced sale of high value stock, or the basis on which the charges passed to local authorities are calculated.

In September 2015, **Shelter** published a report (Shelter, 2015) which attempted a broader assessment not only of the forced sales proposals, but of their broader implications for lettings, mobility and affordability.

The analysis of forced sales concluded that around 113,000 homes were likely to be above the thresholds, and that 3,875 were likely to be sold on average each year – a figure substantially lower than the proposed 15,000. The analysis highlighted the very localised nature of these sales; 70 per cent of sales were concentrated in 20 local authorities, of which 10 were in London. On average, 23 per cent of the stock in these 20 areas would be 'high value', ranging from 76 per cent in Westminster to 6.1 per cent in Leeds. Unfortunately, it is not possible to follow the calculations that lay behind these conclusions. The report refers to 'the full methodology underpinning each of the estimates used in this calculation' as being in an appendix, but this in turn refers to a previous Shelter report which is no longer publicly available.

The **Chartered Institute of Public Finance and Accountancy** (CIPFA) published a briefing in October 2015 (CIPFA, 2015) reviewing the extension of the RTB to housing associations. This analysed the extent of the variation in average stock values for local authorities, showing that the national average value is over eight times the average value in the lowest authority, and that of the ten highest average values, six are in London boroughs and the rest are all in the South East. At the local level, the average open market value of a four-bedroom house in Hackney was just over £1 million, but individual values ranged from £600,000 to over £2.2 million, depending upon the part of the borough.

Analysis has also explored the likely uptake and impact of the new RTB for housing association tenants. The **London Government Association** published a press release on 5 October 2015 (LGA, 2015) reporting analysis commissioned from Savills, which estimated that around 377,000 housing association tenants, or 20 per cent, would be able to afford to buy their own home, and that 24,000 per annum would do so.

In October 2015 the **Chartered Institute for Housing** (CIH) produced a brief paper (CIH, 2015) offering an interim analysis of the proposals to fund the extension of the RTB through the sale of high value council homes, based on previous national studies and the Conservative Party manifesto. This estimated that an initial 1.07m housing associations tenants will be eligible to buy, with a further 125,000 becoming eligible each year, and that 10 per cent of these will exercise their RTB (similar to the first five years take-up of the original RTB introduced for local authority tenants in 1980), leading to 145,000 sales over the first five years.

All of these analyses were carried out before the publication of the **Housing and Planning Bill 2015** on 13 October 2015 (DCLG, 2015). The Bill, however, is drafted to provide for virtually all of the important details of these policies to be specified later by the Secretary of State through regulations so does not provide much further information around the details of operation of either policy.

The key information in the Bill, which had not previously been known, is that the money from the sale of higher value local authority dwellings will be charged to local authorities as a fixed sum, which local authorities must pay, rather than expecting them to hand over actual receipts from sales. The amount of the payment will be determined by an estimation of the value of high value stock that is likely to become vacant during a year, which the government has yet to make. The Bill states that local authorities must consider selling any high value stock that becomes vacant, and must take account of any guidance given to them by the Secretary of State (as yet unpublished). This means that local authorities could – if they chose – avoid selling higher value stock, or avoid selling specific high value dwellings that for some reason they wished to retain. However, for most local authorities, the only means of making the payment will be by selling properties.

It is unclear how this system would deal with the issue of declining sales over time as the high value stock is diminished. Maintaining fixed annual charges would place local authorities in a position of needing to reduce the thresholds (in real terms) in order to be able to maintain the flow of income needed to make the payments.

It is clearly possible that the amount to be paid each year may not be met by the number of high value properties becoming vacant. S65(2) of the Bill allows for a determination to be varied in-year, but there is no automatic trigger for the pre-determined amount to be reconsidered. The possibility exists that local authorities may be forced to sell additional properties, including lower valued ones, in order to meet cash payments.

The Bill does not define high value, but states that the Secretary of State must define it.

The Bill also sets out the legislation needed to allow for Pay to Stay to be introduced, including giving landlords the right to require tenants to supply income details (or pay market rent). Precisely which tenants will be classed as high income and have to pay higher rents is not set out. Again, local authorities will have to make a payment based on estimated gains from the Pay to Stay, rather than handing over actual rental income.

3 Methods

There are several components to the methods required to undertake this analysis.

Part 1: Uptake of the RTB for housing association tenants

- Identifying how many housing association tenants currently do not have the preserved RTB.
- Identifying how many housing association tenants are potentially able to afford to buy the home they live in.
- Estimating how many tenants who could afford to buy who would choose to do so.
- Estimating the impact of the new Pay to Stay rents on RTB uptake.

Part 2: The sale of higher value local authority dwellings when vacant

There are two elements to this analysis:

- Establishing the proportion of local authority dwellings which are likely to be classed as high value, by region and local authority.
- Establishing how many homes and of what type would be sold off over the first five years of the policy.

Part 3: The impact on lettings, rents, welfare costs and poverty

This part consists of:

- Establishing the net impact on available lets. This was estimated under three separate scenarios (as identified by JRF):
  - Scenario 1: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built within three years and is let at the same rents as the stock it replaced.
  - Scenario 2: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built within three years and is let at Affordable Rent.
  - Scenario 3: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built for sale as shared ownership.
- Estimating the impact of both policies on the tenure of low-income households.
- Estimating the resultant impact on rents, welfare costs and poverty.

Methods, assumptions and data sources are explained in the course of the analysis.

4 Estimating uptake of the Right to Buy

Identifying how many housing association tenants currently do not have the preserved Right to Buy

Around half the housing association stock in England used to belong to local authorities. Tenants whose homes were transferred who already had the right to buy as council tenants were given the *Preserved Right to Buy* (PRTB). This allowed them to buy their homes with the same discounts as would have been available had they remained as council tenants.

Between 1980 and 2014, 1.5 million local authority homes were transferred to housing associations, and the large majority of their tenants would have had the PRTB. However, if the tenant moves out, a new tenant moving into a stock-transferred property does not have the PRTB. The precise number of tenants who have the PRTB is not known, but in 2011 the Department for Communities and Local Government (DCLG) estimated it at 620,000.

Since 2010/11 there have been 76,444 properties transferred from local authority to housing association ownership, though the scale of stock transfers has declined sharply since 2012. Drawing on data from CORE (COntinuous REcording of Lettings and Sales in Social Housing in England) and the statistical data return (SDR) from the last three years, the average turnover rate (excluding transfers within the housing association sector) is 5.6 per cent per annum. Using this turnover rate, it is then possible to estimate the number of housing association tenants in 2015 who have the PRTB (Table 4).

Table 4: Estimating the number of housing association tenants in 2015 who have the PRTB[1]

Date stock transferred	Number of tenants with PRTB	Estimated proportion resident in 2015	Estimated number resident in 2015
1980 - 2010	620,000 (in 2010)*	75% (of the 620,000 resident in 2010)	464,785
2010/11	52,229	79%	38,622
2011/12	23,944	84%	18,757
2012/13	242	89%	201
2013/14	29	94%	25
Total	1,494,421	-	522,390

Source: DCLG live table 678 own calculations, except * which is from DCLG, 2011

522,390 housing association tenants in 2015 are therefore estimated to have the PRTB. This is somewhat lower than the proportion that DCLG estimated in 2011, but that is to be expected because the rate of stock transfers has dropped steeply in the last few years. The NHF has estimated a broadly similar figure of 550,000.[2]

The most recent figures show that there are a total of 1,823,772 general needs rented dwellings owned by housing associations in England (Statistical Data Return dataset, 2014). This analysis would suggest that **1,301,382** housing association tenants do not currently have the PRTB and would gain it under the proposed changes, once they have held a tenancy long enough to be eligible. The government's announcement states that '1.3 million more families' will benefit from the Right to Buy, which is very close to the figure calculated here. For the purposes of this analysis it has been assumed that tenants with the PRTB will be unaffected by the proposed changes. The impact of purchases under the PRTB on the size of the housing association sector and subsequent re-lets has not been included in the analysis.

Identifying how many of these tenants are potentially able to afford to exercise the RTB

This analysis was carried out using the English Housing Survey (EHS) 2008 and 2009. Data from both years was pooled to give a larger sample. The 2008–9 EHS data was drawn on here, because there was a one-off exercise in these two years only to value dwellings of all tenures. An estimate of current market value of properties included in the survey was made by drawing on regional Land Registry data to inflate the 2008/9 values to current values. Household incomes were also inflated to estimated 2015 levels by using ONS data on average wage increases.

The Right to Buy price was calculated by applying rules on discounts (available to local authority tenants currently) based on region and length of tenancy[3] to the estimated current value of the property. It was then calculated whether households could afford to buy under the current RTB scheme given their household income (also inflated to current values).

Assumptions made were:

- households where the household reference person (HRP) is aged under 40 can obtain a mortgage for up to four times the annual gross income of the HRP and their partner (if they have one);
- households where the HRP is aged over 65 cannot obtain a mortgage and cannot buy;
- households where the HRP is aged between 40 and 65 can obtain a mortgage which decreases in proportion to the number of years they are older than 40, from a maximum of four times income at age 40;
- households require a 100 per cent mortgage and have no savings or family support to assist them with buying;
- households can buy their existing home with the discount available to them based on the number of years they have been in their home using current RTB rules and caps in operation for the RTB for local authority tenants.

In reality mortgage lending is more nuanced than this – some tenants who meet these criteria may not in fact be eligible for a mortgage (for instance because their income is insecure), while others may in fact be able to buy with the use of savings, family assistance, or mortgages of more than four times income, or continuing beyond the age of 65. There is therefore some uncertainty around these estimations.

Table 5 shows the estimated proportion of tenants who can afford to purchase their current home.

Table 5: Estimated proportion of housing association tenants who stand to gain the RTB and can afford to do so

	Number	Proportion
All housing association tenants	1,823,772	100%
Eligible	1,495,906	82%
Already had PRTB	522,390	29%
Gaining the RTB under new policy	973,516	53%
Gaining the RTB and can afford to buy	184,513	10%

Source: Own calculations based on SDR 2014 and 2008 and 2009 EHS with incomes and house prices inflated to current values. Tenants who had moved within the social sector were estimated to have held their previous tenancies for an average of five years.

Table 6 shows the estimated proportion of tenants who can afford to buy their current home by region.

Table 6: Estimate of proportion of housing association tenants eligible, gaining the RTB for the first time and able to afford to buy under proposed rules

Region	Proportion
North East	10%
North West	15%
Yorkshire & Humber	13%
East Midlands	13%
West Midlands	11%
East England	6%
London	5%
South East	7%
South West	6%
England	**10%**

Overall, despite the higher maximum discounts in London, it is in the cheaper parts of the country where the highest proportions of tenants appear able to afford to buy their homes.

Estimating how many eligible tenants who can afford to buy will do so

The uptake of the RTB following the increase in discounts in 2012 was considered to be the most useful indication of likely uptake of the RTB for housing association tenants. As 2012 was relatively recent, the profile of the sector is unlikely to have changed significantly since 2012 (unlike differences that have occurred since 1980 when the RTB was first introduced), and the income profiles of the housing association and local authority sectors are very similar.

Local authority tenants in 2008 were eligible for lower levels of discounts which were capped at regional levels of between £16,000 and £38,000. Using the same approach to that outlined above for housing association tenants, the EHS data can also be used to estimate the proportion of tenants who could have afforded to purchase under the 2008 rules, i.e. whether they could have afforded to buy a few years prior to the 2012 rules being implemented.

Table 7: Estimated proportion of local authority and housing association tenants who were eligible and could afford to buy with current and pre-2012 rules

		Number
All local authority tenants		1,689,404
Current rules	Eligible (resident 3+ years)	1,490,033
	Of whom can afford to buy	275,776
Pre-2012 rules	Eligible (resident 5+ years)	1,238,179
	Of whom could afford to buy	187,665
Became eligible and able to afford when rules changed in 2012		88,112

Source: Own calculations based on 2008 and 2009 EHS with incomes and house prices inflated to current values. Tenants who had moved within the social sector were estimated to have held their previous tenancies for an average of five years

The overall number of local authority tenants estimated to have *become* eligible and able to afford to buy by the 2012 rules is estimated at **88,112**. To establish the proportion who actually did buy in response to the newly increased discounts, we have looked at data on the uptake of the RTB over recent years, as shown in Table 8.

Table 8: Uptake of the RTB in England 2005-2015

Year	Number of sales
2005-06	26,654
2006-07	17,684
2007-08	12,043
2008-09	2,869
2009-10	2,375
2010-11	2,758
2011-12	2,638
2012-13	5,944
2013-14	11,261
2014-15	12,304

Source: DCLG Tables 674 and 678

This data suggests that there was an increase in uptake of around **9,000** per annum after the introduction of the 2012 discounts, which suggests that around **10.2 per cent** of tenants who are eligible and appear able to afford to buy actually did so each year.

The analysis above suggested that of local authority tenants who could afford to buy only a small proportion did. It is possible that many of these tenants could not in fact afford to buy – most mortgage companies require a deposit, even if the loan to value ratio is substantially under 100 per cent, as a means of ensuring prospective borrowers can manage their finances well. It is also possible that some tenants' incomes, as reported in the English Housing Survey, would not be permissible as security on a mortgage – they may be from insecure sources of income. Or tenants may simply not want to buy.

Applying these figures to the number of eligible tenants in the housing association sector can give an estimate of likely uptake (see Table 9).

Table 9: Estimated uptake of RTB from the housing association sector

Element	Calculation
Number gaining the RTB, and able to afford	184,513
Estimate of year 1 uptake, based on past trends of local authority uptake	18,847

Source: Table 6 and own calculation based on 10.2 per cent of eligible households who can afford to do so buying in first year

The impact of the Pay to Stay on Right to Buy uptake

A key issue that has not been factored in here is the possible impact of the new Pay to Stay rules. These will also come into effect next year and it is proposed that tenants whose household income is over £30,000 (or £40,000 in London) will have to pay market rents. There has been speculation that Pay to Stay would operate on a sliding scale, to prevent tenants suffering a dramatic rent increase if their income tipped over the threshold. However, the way in which this might operate has not yet been established, so the analysis here simply models the effect of market rents being charged to all tenants with a household income above the £30,000 and £40,000 thresholds.

The overall proportion of tenants who would be affected by the Pay to Stay is small, but those able to afford the RTB will be the better off tenants, who are therefore also much more likely to be affected by the Pay-to-Stay.

We have used the EHS data again here to estimate the proportion of tenants who could afford the RTB who would be affected by the Pay to Stay and the possible impact it would have on their rent levels (Table 10).

Table 10: The impact of the Pay to Stay on housing costs of housing association tenants who are eligible and able to afford the RTB

	Number gaining RTB and able to afford	Proportion of these affected by Pay to Stay	Median social rents paid currently	Estimate rent due under Pay to Stay	Increased rent under Pay to Stay	Monthly mortgage repayments if purchased under RTB
North East	9,657	15%	£374	£402	£27	£345
North West	44,334	34%	£390	£459	£69	£398
Yorkshire & Humber	16,003	24%	£392	£431	£39	£415
East Midlands	13,007	16%	£432	£463	£30	£481
West Midlands	20,427	29%	£414	£484	£70	£432
East of England	11,567	58%	£456	£529	£73	£609
London	21,641	74%	£581	£1,120	£539	£996
South East	23,965	67%	£511	£675	£164	£677
South West	11,842	56%	£442	£572	£130	£596
England	172,443	39%	£450	£597	£147	£570

Source: Own calculations based on EHS 2007–8 and 2008–9. Monthly mortgage repayments based on £570 per month per £100,000 borrowed using Barclay's online calculator and post-discount RTB prices of tenants' current homes, inflated to 2015 values. Rents were inflated to current values based on average social rent increases. Rent due under the Pay to Stay has been estimated as the lower quartile of private rental costs by region and number of bedrooms, from the Valuation Office Agency.

Overall around four in ten tenants who are eligible and able to afford the RTB would also probably be affected by Pay to Stay. The impact of Pay to Stay is, however, much greater in London, where a large proportion of tenants see substantial rent increases.
As can be seen here, in some regions – such as London – the cost of a repayment mortgage could be substantially lower than rent under the proposed Pay to Stay rent levels, and could therefore be a major incentive for affected tenants to exercise their RTB. In other regions, such as the North East, Pay to Stay is likely to have a minimal impact on rent levels and hence is unlikely to affect demand for the RTB.

Affordable Rents are likely also to have some impact on the financial incentives to exercise the RTB (for those not already affected by Pay to Stay) though this will be minimal during the early years of the RTB policy because only tenants who have been resident in the sector for three or more years are eligible and very few of them will be paying Affordable Rents. The impact of Affordable Rents has therefore not been modelled here, though it should be noted that it is likely to provide a similar incentive to Pay to Stay to exercise the RTB for those who can afford to do so, and will be of growing significance over time.

Whether or not Pay to Stay increases demand for the RTB is hard to know – it is an entirely new policy, so there are no past trends on which to estimate the impact. As discussed above, it is unclear whether tenants who appear able to afford the RTB at present are actually unable to do so (due to difficulties in obtaining a mortgage), whether they do not want to become home-owners, or whether they might do so if their rents were increased.

We have therefore made some upper and lower estimates, based on three different assumptions:

Lower projection – that Pay to Stay does not have a significant impact on levels of uptake of the Right to Buy (for instance because tenants who do not buy are in fact unable to raise a mortgage).

Mid projection –that Pay to Stay increases the propensity of eligible tenants affected by Pay to Stay who can afford the RTB to exercise it at a rate of 10 per cent for each additional £50 in monthly rent, capped at the number of tenants who can afford to buy purchasing.

Upper projection – that Pay to Stay increases the propensity of eligible tenants affected by Pay to Stay who can afford the RTB to exercise it at a rate of 20 per cent for each additional £50 in monthly rent, capped at the number of tenants who can afford to buy purchasing.
Applying these rates by region gives the following possible uptake in the first year of operation (Table 11).

Table 11: The impact of Pay to Stay on housing costs of housing association tenants who are eligible and able to afford the RTB, year 1

	RTB uptake		
	Lower projection	Mid projection	Upper projection
North East	986	1,057	1,128
North West	4,528	6,403	8,278
Yorkshire & Humber	1,635	1,901	2,167
East Midlands	1,329	1,445	1,561
West Midlands	2,087	2,834	3,581
East of England	1,181	2,064	2,947
London	2,210	11,926	21,641
South East	2,448	7,154	11,860
South West	1,210	2,763	4,317
England	17,614	37,547	57,478

Source: Own calculations

The lower and upper projections give an indication of the level of uncertainty of the impact of Pay to Stay, and a greater impact than the 'upper projection' is not impossible. Table 11 also shows the extent to which Pay to Stay may have a much greater effect in some regions than in others, potentially increasing uptake in London by up to fivefold.

The *mid-projections* have been used in what follows to explore the operation of the policy over time. Over the first five years of the policy, it would be expected that the number of sales per year would reduce slightly as better-off tenants leave the sector and fewer of the remaining tenants can afford to buy. On this basis, we have modelled the impact of re-lets of the loss of stock sold under the RTB over the next five years (Table 12).

Table 12: Estimated number of sales under the RTB to housing association tenants by size and region

Region	Year 1	Year 2	Year 3	Year 4	Year 5	Total sales
North East	1,057	999	953	918	892	4,820
North West	6,403	5,710	5,147	4,695	4,338	26,294
Yorkshire & Humber	1,901	1,760	1,645	1,553	1,481	8,340
East Midlands	1,445	1,367	1,306	1,260	1,228	6,606
West Midlands	2,834	2,568	2,355	2,187	2,057	12,000
East of England	2,064	1,909	1,816	1,773	1,771	9,334
London	11,926	5,893	3,451	2,607	2,465	26,342
South East	7,154	5,357	4,188	3,455	3,027	23,180
South West	2,763	2,356	2,094	1,942	1,873	11,029
England	37,547	27,920	22,956	20,391	19,132	127,946

Source: Own calculations

This estimation is based on likely uptake in the current financial climate including access to mortgage finance. This is very different from previously when the RTB for council tenants was at its height. At its peak in 1982–3, the Right to Buy for council tenants saw 3.4 per cent of stock sold in a year in England, and the proportion averaged at 2.3 per cent per year over the period 1981–1991. If these kinds of rates were seen in the housing association sector, the number of sales could be in the region of 40,000 to 60,000 a year.

Letting an increased proportion of social housing to working households could also increase RTB sales in the housing association sector, especially if they are of Affordable Rented properties or to tenants subject to the Pay to Stay rules.

5 Estimating the scale and profile of local authority sales

The government has indicated that it will pass on to local authorities an annual charge, which they may recoup by selling off higher value stock whenever it becomes vacant. Local authorities will have discretion over whether to sell any one property, but in reality are likely to be forced to sell higher value stock in order to pay the charge. The details of the policy have not been announced yet, but for the purposes of analysis it is assumed that the details will be close to those proposed by the Policy Exchange, namely:

- thresholds will be set for defining a high value property which include the top third of all dwellings (of all tenures), and are in line with those set out in a recent press release (see Table 3);
- this threshold will be set at regional levels and by number of bedrooms;
- local authority dwellings with an open market value above the thresholds which become vacant will be sold on the market. No other local authority dwellings will be sold.

It has been suggested (CIH, 2015) that there may be exemptions for transfers within the sector, in order to promote tenant mobility. It is, however, hard to see how this could work in practice when vacant stock is usually advertised on CBL systems open to existing tenants and prospective tenants alike. In addition the government has indicated that it intends to see around 15,000 homes a year sold, and we therefore assume that the charges levied on local authorities will be based on an annual rate of sales close to this target, a figure which would be difficult to reach without including all vacant high value stock. We have therefore modelled on the assumption that all higher value stock would be sold, when the existing tenants leave. If a local authority chose not to sell a particular high value dwelling that they wanted to use for a transfer, they would need to sell another dwelling of similar value instead.

Selling off stock that would otherwise have become available for letting would, however, reduce mobility within the sector and hence reduce the number of dwellings that become available for letting as a result of tenants transferring within the sector.[4] An allowance for this reduction in lettings has therefore been included.

Estimating the proportion of local authority stock which is high value

The analysis, as above, drew on the 2008 and 2009 English Housing Survey data because it includes a market valuation. Using this data, the proportion of local authority stock which is valued at above the thresholds is shown in Table 13.

Table 13: Proportion of local authority stock falling above thresholds

	1 bedroom	2 bedrooms	3+ bedrooms	All sizes
North East	14%	13%	0%	8%
North West	6%	2%	3%	4%
Yorkshire & Humber	13%	9%	3%	7%
East Midlands	18%	5%	3%	8%
West Midlands	13%	4%	5%	6%
East of England	27%	18%	14%	18%
London	23%	11%	9%	14%

South East	14%	11%	4%	9%
South West	13%	14%	0%	6%
England	17%	9%	5%	10%

Source: Own analysis based on English Housing Survey 2008 and 2009.

The analysis above has included properties with four or more bedrooms in with the three-bedroom stock, because very few local authority dwellings have four or more bedrooms meaning the sample size in the English Housing Survey is too small for analysis of four or five or more bedroom homes by region. Nationally, the analysis suggests that just three per cent of homes with four bedrooms would be over the thresholds.

As can be seen, despite the fact that the thresholds are set regionally, the impact varies substantially between regions with much higher proportions of local authority stock likely to be sold off in the East Midlands, East of England and London than elsewhere. This is because the distribution of stock values is different in the different regions. In the North West house prices do not vary so much between different parts of the region, and only a very small proportion of local authority stock is in the most expensive third of dwellings for its size. In London, the South East and the East of England, there are bigger variations between different parts of the region and some of the more expensive authorities are those that retain their housing stock.

Analysis of the English Housing Survey (2008/9) data on the profile of higher value local authority dwellings also reveals types of property that are most likely to be classed as high value, by size and region, and which turn over most often (Table 14).

Table 14: Dwelling type of high value local authority dwellings, by average length of residency and estimated proportion of vacancies

	Proportion of all LA stock	**Proportion which are high value**	**Proportion of all high value dwellings**	**Average length of residency (years)**	**Estimated proportion of high value vacancies**
Bungalow	9%	17%	20%	9.0	25%
Flat	47%	8%	47%	9.3	54%
Detached house	0.3%	0%	0%	16.5	0.0%
Semi-detached house	20%	5%	14%	17.7	8%
Terraced house	23%	6%	19%	15.0	13%

Source: Own analysis based on English Housing Survey 2009.

This table highlights that the dwellings affected are not what might be expected from the term 'high value dwelling'. They are not large detached houses.

Around 20 per cent are bungalows. Despite their popularity, bungalows also become vacant more frequently than other dwelling types which will increase the proportion of bungalows which could potentially be sold to an estimated 25 per cent. The other main property type that is affected is flats. Flats comprise nearly half of all local authority stock, and also nearly half of all high value dwellings; however their faster turnover rate will mean they become vacant more often, so are estimated to comprise more than half of high value sales.

Supported housing – unless excepted – is also likely to comprise a high proportion of higher value sales, because it turns over more often and is mainly comprised of bungalows and flats. Analysis of English Housing Survey data here suggests that sheltered housing comprises eight per cent of the local authority housing stock, but 20 per cent of higher value dwellings and (based on its higher turnover rate) 28 per cent of all higher value sales.

If bungalows and sheltered housing are particularly likely to be sold under the policy, this may create difficulties for older people and households including disabled people who need single-storey accommodation.

The localised impact of the forced sale of local authority housing

The figures explored so far look at the impact of the forced sale of local authority housing on a regional and national level. A key aspect of the forced sale of local authority housing is that there will be no direct impact at all in more than half the local authorities in England because they do not own their own housing stock. The impact will be felt only in areas where stock is retained, and even within this group some local authorities will be affected much more severely than others.

This is because we are assuming that the thresholds for high value stock will be set regionally. Some authorities are in relatively expensive parts of their region and therefore have a high proportion of their dwellings above these thresholds, while others have none at all.

The analysis here therefore draws on data from various sources to model the likely proportion of local authority dwellings which would be classed as high value in each area. Data sources comprise:

- the English Housing Survey 2008/9;
- ONS quarterly house price index at regional level;
- Statistical Data Return 2014/15;
- DCLG Local Authority Housing Statistics dataset, England 2013/14;
- Census 2011 at Lower Super Output Area (LSOA) level;
- the Index of Multiple Deprivation at LSOA level;
- dwelling stock by Council Tax band at LSOA level;
- dwelling stock by construction year band at LSOA level.

Information on local authority stock house prices and their distribution by size is fairly limited. Property values in the housing association sector, however, are easier to estimate because information related to property values, such as target rents, are available at local authority area level. Thus the method firstly drew on the most recent data on market house prices (Q2 2015) and estimated the distribution of housing association stock values by size within each local authority area, drawing on variables related to price variations at micro level.

The profile of local authority stock values was then estimated by adjusting for average house price differences between the two sub-sectors, and size.

Table 15 shows the 24 local authorities which are estimated to have more than half their stock classified as high value. The full data is given in Appendix 1. Many of these authorities own and manage the large majority of the social rented housing stock in their area, meaning that the immediate reduction in social rented lettings is over a third.

Table 15: Estimated proportion of high value stock, and resultant reduction in social lettings, by local authority: Local authorities with more than 50 per cent high value stock

Authority	Proportion of stock estimated to be high value	Reduction in lettings (as proportion of all social rented lettings)
Welwyn Hatfield	90%	67%
Dacorum	82%	64%

Guildford	80%	53%
St Albans	80%	54%
Tandridge	79%	55%
Brentwood	74%	52%
Kensington and Chelsea	71%	23%
Epping Forest	69%	54%
Runnymede	68%	46%
Westminster	67%	27%
Waverley	67%	52%
Wokingham	66%	42%
Camden	66%	44%
Woking	64%	45%
Cambridge	62%	37%
Stevenage	62%	49%
City of London	59%	51%
Winchester	58%	38%
Slough	57%	34%
Hammersmith and Fulham	56%	27%
Harrogate	56%	33%
Warwick	53%	35%
Cheshire West and Chester	53%	13%
Reading	52%	31%
Wandsworth	51%	31%

Source: Own analysis, see text

The maps on the following pages show how local authorities across England are affected.

Figure 1: Proportion of local authority stock which is high value: England

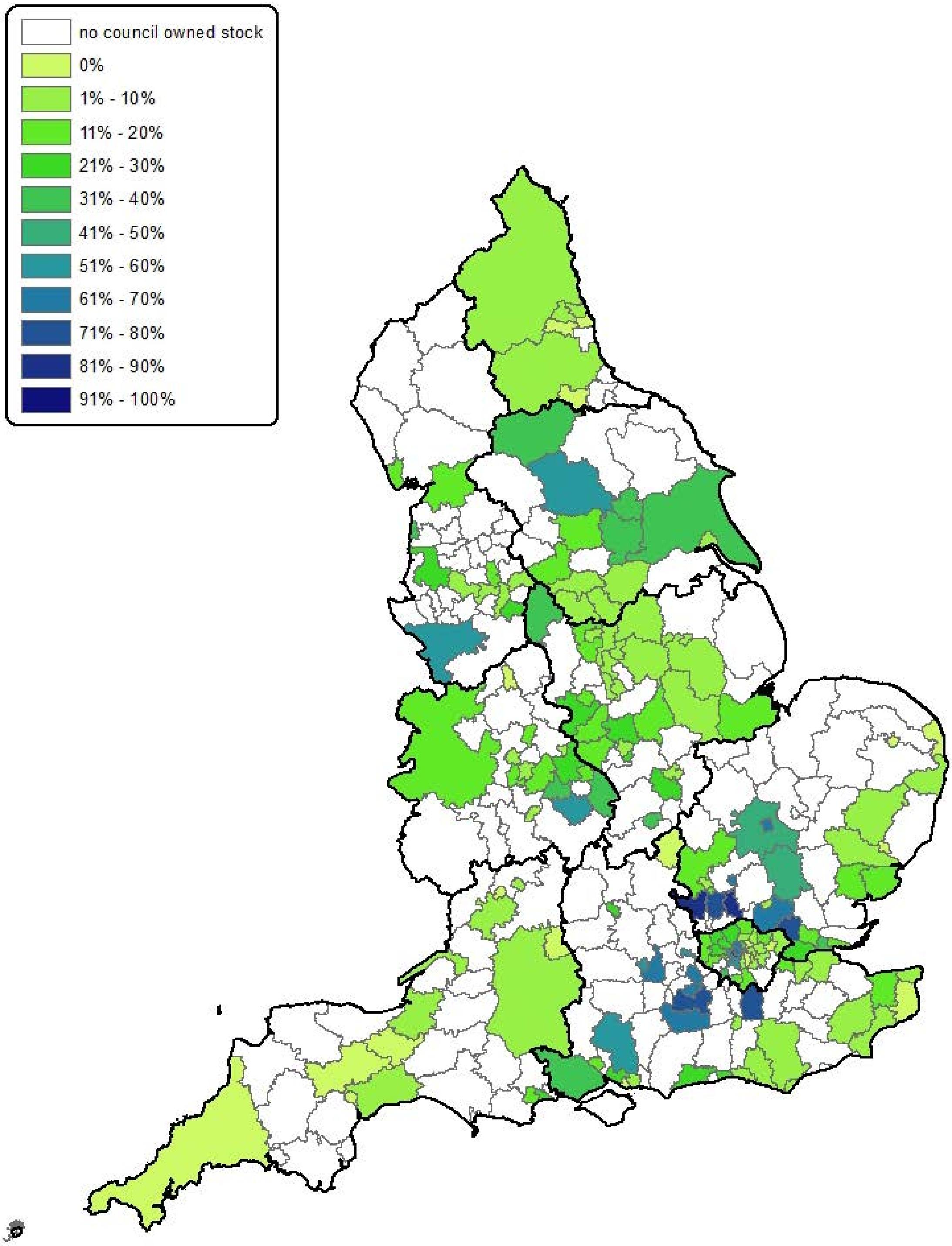
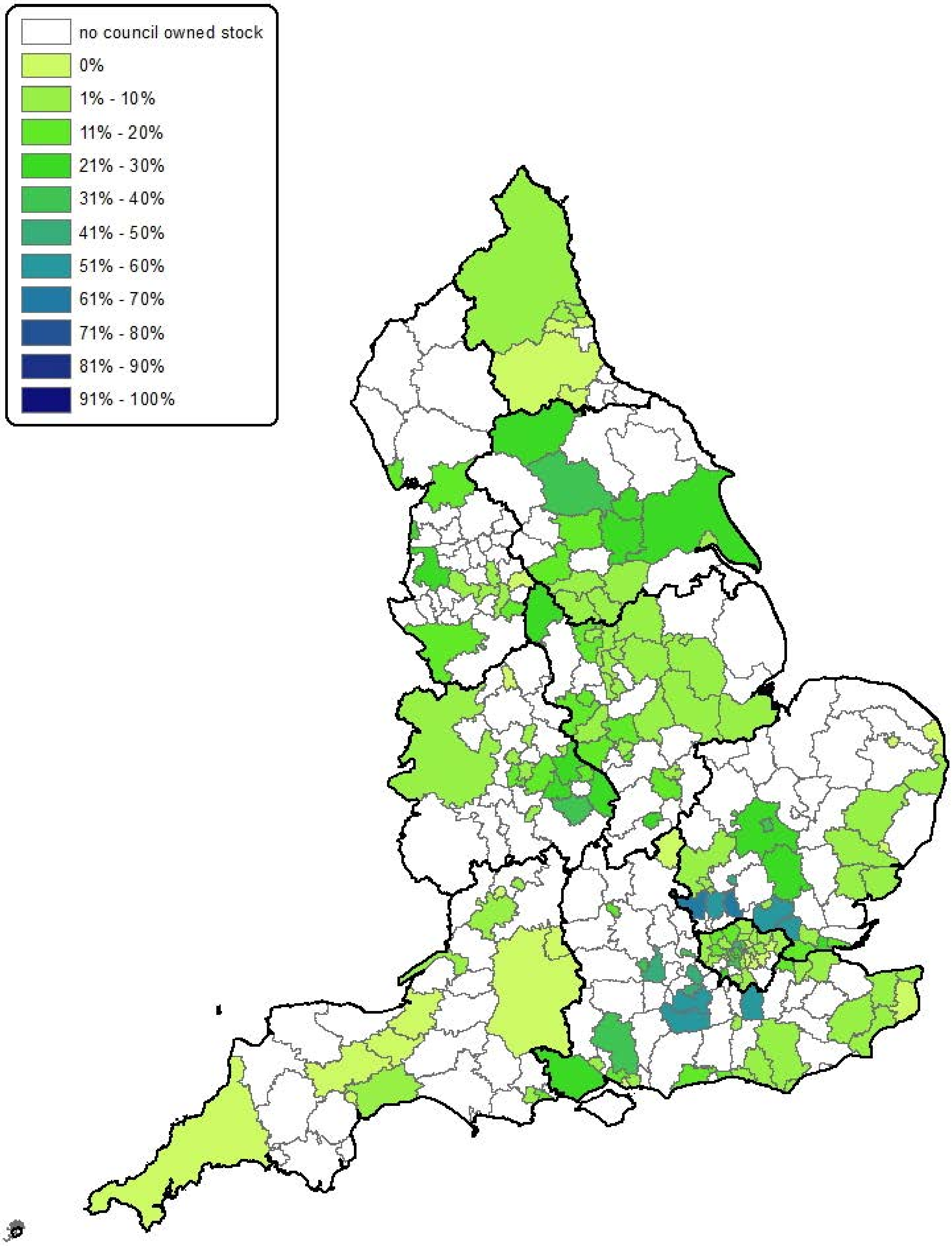


Figure 2: Overall projected reduction in social lets resulting from sales of LA dwellings: England



The impact of regional boundaries can be seen on these maps, especially around London. Outer London authorities have only moderate proportions of their stock which is high value for London, whereas those that lie across the boundaries of the East and South East regions have very high proportions of 'high value' stock when compared with their regional averages. The varied nature of social sector stock ownership is also apparent from the maps, with large areas in Norfolk, Devon and Cumbria virtually without council housing in contrast to London where the large majority of councils still own stock.

The impact also varies between sizes of properties. Two authorities (Welwyn Hatfield and Winchester) are both estimated to have 100 per cent of their one-bedroom homes classed as high value.

In contrast there are 18 stock-owning local authorities that our calculations suggest do not have any high value stock and a further 41 with under five per cent of their stock being high value (see Appendix 1 for details).

This will mean that the impact on the availability of lettings will be felt very differently in some authorities to others. In the areas shown in Table 15, a large proportion of housing which would otherwise become available for letting will be sold off, leaving in some cases less than half the usual supply of housing becoming available to let to other households. This is likely to have an immediate and severe impact on the housing affordability in these areas.

The areas where the highest proportion of dwellings are sold off are also the areas that are likely to find it hardest to replace that housing. This is largely because they are high priced areas so building new housing that is not itself high value will be difficult. Building smaller units does not help, because the thresholds are set relative to size. Building shared ownership would be one way of replacing stock without the replacement being also at risk of being sold as high value. An alternative, were it allowed, could be to build some distance away.

It is also worth noting that most of the authorities with the highest proportion of high value stock are urban areas where suitable land for building new housing may be difficult to find. Urban areas also tend to have less variation in house prices within them, because they are smaller geographically, also making it hard to replace the high value stock with anything that is not itself high value.

Estimating the number of sales of local authority stock

To estimate the number of sales of stock that are likely we need to know the number of local authority dwellings that become vacant each year. Table 16 shows the number of lets in local authority housing, averaged over the last three years.

Table 16: Estimated number of local authority lets by region and size

	1 bedroom	2 bedrooms	3+ bedrooms	Total lets
North East	3,013	4,159	2,583	9,755
North West	3,121	2,804	2,128	8,052
Yorkshire & Humber	7,991	7,555	4,875	20,421
East Midlands	4,726	4,149	3,330	12,206
West Midlands	6,009	6,145	4,469	16,623
East of England	2,926	2,964	2,036	7,926
London	6,991	5,351	3,558	15,900
South East	3,590	3,177	2,126	8,892
South West	2,076	2,500	1,300	5,877
England	40,445	38,805	26,406	105,652

Source: CORE 2012–2015, averaged (general needs social rented and Affordable Rented lets)

We can then estimate the number of dwellings which will be sold in the first year (Table 17).

Table 17: Year 1 sales by property size and region[5]

	1 bedroom	2 bedrooms	3+ bedrooms	Total sales
North East	173	66	0	239
North West	592	333	278	1,203
Yorkshire & Humber	1,077	265	484	1,827
East Midlands	604	78	505	1,187
West Midlands	1,225	374	470	2,069
East of England	595	404	810	1,809
London	835	502	967	2,303
South East	751	258	384	1,393
South West	164	48	0	212
England	6,017	2,327	3,898	12,241

Source: Own analysis based on Table 13 and Appendix 1

As discussed above, these calculations are based on the assumption that all high value properties which become vacant will be sold. The total number of sales estimated here is a little lower than the 15,000 figure given by the government, suggesting that thresholds may have to be set somewhat lower if this volume of sales is to be achieved, even in the first year of operation.

The rest of the analysis here, however, has been modelled on the assumption that 12,296 dwellings are sold (Table 18).

Table 18: Sales by region over first five years of policy

	Year 1	Year 2	Year 3	Year 4	Year 5	Total sales
North East	239	230	221	213	205	1,106
North West	1,203	756	494	333	229	3,014
Yorkshire and The Humber	1,827	1,579	1,372	1,198	1,052	7,027
East Midlands	1,187	1,017	883	776	690	4,553
West Midlands	2,069	1,764	1,505	1,285	1,098	7,721
East of England	1,809	1,691	1,582	1,481	1,387	7,951
London	2,303	2,177	2,061	1,953	1,852	10,347
South East	1,393	1,252	1,127	1,016	918	5,705
South West	212	205	197	191	184	989
England	12,241	10,670	9,443	8,446	7,614	48,414

These projections for sales are based on thresholds being reset annually to keep pace with house prices, but nevertheless show a gradual decline in sales as the higher value stock starts to diminish. If, conversely, the government charges local authorities a sum that requires 15,000 sales a year, or even if it requires maintaining 12,000 a year in subsequent years, the thresholds would have to fall each year so that increasing proportions of local authority dwellings were classed as high value and sold.

The analysis here has instead been based on the assumption that thresholds remain at the top one-third of all house prices, and that sales fall each year as a result. This means that the estimates of the impact may be somewhat conservative.

It has been suggested that the number could be lower because higher value stock turns over less often (Savills, 2015). However our analysis suggests that this is not a significant factor; the average length of occupancy for local authority tenants living in high value properties was 12.2 years, compared with 12.7 years for those in low value properties (EHS 2008 and 2009, own analysis). This may well be because the higher turnover of smaller properties (which are more likely to be classed as high value) offsets any impact of tenants choosing to stay longer in more desirable (and hence higher value) homes.

Assuming that the thresholds remain in line with house prices, the numbers of sales will gradually fall because the proportion of council stock left which is high value will gradually reduce. The impact on the loss of lettings to the sector, however, remains at 12,241 per year. This is because the high value stock sold off in previous years would also no longer become available for re-letting.

6 The impact of both policies on lettings, rents, welfare costs and poverty

Both the Right to Buy for housing association tenants and the forced sale of local authority dwellings reduce the availability of social housing for homeless households and those on the housing register as stock is sold off and thereby unavailable for letting to new households. There may also be an increase in new supply depending what tenure of housing is built as replacement stock. This section first estimates the loss of re-lets for new housing from each policy, and then considers the net impact (both losses and gains in lettings of replacement stock) under the three different possible scenarios:

- Scenario 1: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built within three years and is let at the same rents as the stock it replaced.
- Scenario 2: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built within three years and is let at Affordable Rents.
- Scenario 3: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built for sale as shared ownership.

To calculate the impact on lettings we need to know the turnover rates of housing association and local authority housing (Table 19).

Table 19: Re-lets (including transfers) as proportion of available stock (average over last three years)

Region	Average proportion available for letting per annum	
	Housing association	Local authority
North East	10%	10%
Yorkshire & Humber	8%	10%
North West	10%	10%
East Midlands	6%	8%
West Midlands	11%	10%
South West	11%	6%
East of England	5%	5%
South East	7%	6%
London	10%	6%
England	8%	7%

Sources: CORE 2012–15 average, SDR and LAHS

We can then draw on this data, and estimated rates of uptake (Table 12), to estimate the reduction in re-lets as a result of losing stock sold under the RTB for housing association tenants by region (Table 20).

Table 19: The reduction in re-lets resulting from loss of stock under the RTB, by region

	Year 1	Year 2	Year 3	Year 4	Year 5	First five years
North East	106	207	303	395	485	1,495
North West	605	1,130	1,593	2,006	2,383	7,716
Yorkshire & Humber	189	365	529	685	834	2,602
East Midlands	97	187	272	352	430	1,339
West Midlands	364	683	969	1,229	1,469	4,714
East of England	162	320	476	634	793	2,385
London	593	885	1,057	1,186	1,309	5,030
South East	602	1,001	1,285	1,508	1,702	6,098
South West	392	694	942	1,165	1,378	4,571
England	3,109	5,472	7,427	9,161	10,783	35,952

Source: Own calculations

There is also a possible gain to the size of the sector, from the replacement stock. However, the government has said that this does not have to be built in the same location as the original stock, and that it can be shared ownership, Affordable Rent or social rent.

The net impact on available lets under the three scenarios

The net impact on available lets differs between the three scenarios.

Scenario 1: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built within three years and is let at the same rents as the stock it replaced.

Under this scenario, it is assumed that the new replacement housing is available to the same client group as that which is sold off, and at the same rents.

Table 21 shows the estimated number of available lets of new social housing built to replace stock sold under the RTB or forced sale of local authority dwellings. It has been assumed that the replacement stock sold during year 1 becomes available for letting during year 4, i.e. that it becomes available for letting exactly three years after it is lost. The number of new lets in year 4 is therefore the number of dwellings sold during year 1. In year 5, it is the number sold during year 2, plus a small allowance for re-lets of the stock built in year 4, based on the turnover rates calculated previously (see Table 19).

Table 20: The net impact on available lets of the RTB on the number of housing association lettings under Scenario 1

	Impact of sale of stock	Impact of replacement stock	Net impact
Year 1	-2,787	0	-2,787
Year 2	-4,988	0	-4,988
Year 3	-6,865	0	-6,865
Year 4	-8,561	37,547	28,986

Year 5	-10,159	30,996	20,838
Total	-33,360	68,543	35,183

Source: Own calculations

As can be seen, the reduction in the number of re-lets arising from the sale of stock gradually builds up as the stock is depleted. Once new stock is built, however, there is potentially a gain to the total number of re-lets. This is because one-for-one stock replacement produces an increase in properties available for letting because all the new stock is available to let, whereas only a proportion of the stock sold under the RTB would otherwise have become available for letting each year. Under the projections modelled here, it would appear that the policy would start to have a peak net positive impact on lettings in year 4, which is when the stock built to replace the first year sales is projected to become available. Thereafter the number of replacement units is projected to tail off somewhat, because the number of RTB sales tails off gradually after the initial introduction of the policy and uptake by existing tenants already keen to exercise their RTB.

By the end of five years under this scenario there has been a sizable net increase of over 39,000 additional lettings.

With the forced sale of local authority dwellings, there is a zero net impact on the number of available lettings once replacement stock is built and available for letting (Table 22).

Table 21: The net impact on available lets of the forced sale of local authority dwellings under Scenario 1

	Impact of sale of stock	Impact of replacement stock	Net impact
Year 1	-12,241	0	-12,241
Year 2	-12,241	0	-12,241
Year 3	-12,241	0	-12,241
Year 4	-12,241	12,241	0
Year 5	-12,241	12,241	0
Total	-61,205	24,482	-36,723

Source: Own calculations

The long-term impact here is neutral in terms of the number of lettings, after an initial loss to the sector of nearly 37,000 during the first three years while replacement stock is constructed.

Looking at the impact of both polices together we can see their overall impact (Table 23).

Table 22: The combined impact on available lets of the RTB and forced sale of local authority dwellings under Scenario 1

	Net impact of RTB sales and replacement dwellings	Net impact of local authority sales and replacement dwellings	Overall impact
Year 1	-2,787	-12,241	-15,028
Year 2	-4,988	-12,241	-17,229
Year 3	-6,865	-12,241	-19,106
Year 4	28,986	0	28,986
Year 5	20,838	0	20,838
Total	35,183	-36,723	-1,540

Source: Own calculations

This table shows the very different ways in which the two policies impact. The forced sale of local authority dwellings has much the biggest impact in the first few years, but over time becomes less significant under Scenario 1, once replacement dwellings are built. The projection here suggests that the loss and gain of stock will have roughly balanced by the end of the first five years, and that in the longer term there is a net positive impact on available lets from year 4 onwards. However the subsidy for the process comes from the sale of higher value local authority stock, which is a finite supply, so this source of subsidy cannot continue indefinitely.

Scenario 2: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built within three years and is let at Affordable Rents

The net impact on the number of available lets is the same here as Scenario 1 (see Table 21). The impact of the higher rents is considered in the next section.

Scenario 3: Replacements for stock sold under the RTB and the forced sale of local authority dwellings is built for sale as shared ownership

Under this scenario there is more sustained loss of lettings available to households on the waiting list seeking rented housing, because much of the replacement stock would be unaffordable to low-income households seeking social housing.

To estimate the proportion of people currently accessing social rented housing who could afford to buy the replacement shared ownership properties, we have looked at the incomes of people currently buying shared ownership properties (Table 24).

Table 23: Median income of households buying shared ownership dwellings

	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms
Median income	£27,963	£26,000	£28,000	£29,834

Source: CORE 2013–14[6]

Comparing these figures with the incomes of new social tenants by the size of property they are renting indicates that **three per cent** of new social tenants could afford shared ownership instead[7], a total of 8,779 tenants a year. It has therefore been assumed that a **maximum of 8,779 tenants a year** can be diverted from social housing into shared ownership, as long as the total construction of new shared ownership exceeds this level. If more shared ownership than this is built in a year, it is assumed that the rest would be bought by other households who would not be a priority for social housing. The actual proportion would of course depend upon the price, location and percentage share sold as well as any allocation criteria imposed.

The new Starter Homes Initiative reduces the sales price of new-build homes by 20 per cent for first time buyers aged under 40. ONS data from 2014 on average incomes of first time buyers, along with an allowance for the premium attached to new-built dwellings, suggests that incomes of between £34,000 and £67,000 would be needed to afford these homes. It is not possible to work out exactly how many of those moving into social housing could afford these homes as the available CORE data ‘topcodes’ higher incomes (to preserve confidentiality of more easily identified households). However, given that these incomes are higher than those required to access shared ownership, the proportion likely to be able to afford homes under the Starter Homes Initiative is therefore likely to be lower than the three per cent able to afford shared ownership.

Table 25 shows the combined impact of the RTB and forced sale of local authority dwellings under this scenario.

Table 24: The combined impact on available lets of the RTB and forced sale of local authority dwellings under Scenario 3[8]

	Net impact of RTB sales and replacement dwellings	Net impact of local authority sales and replacement dwellings	Overall impact
Year 1	-2,787	-12,241	-15,028
Year 2	-4,988	-12,241	-17,229
Year 3	-6,865	-12,241	-19,106
Year 4	-2,092	-9,019	-11,111
Year 5	-3,690	-9,019	-12,709
Total	-20,422	-54,762	-75,184

Source: Own calculations

Under this scenario, the outcome is very different to scenarios 1 or 2. The same numbers of new dwellings are built, but only a small proportion of these are let to households who would otherwise access social rented housing, meaning there is a substantial and growing net reduction in social housing lets available for low-income groups.

Estimating the tenure impact of the RTB and forced sale of local authority dwellings

To examine how this affects poverty levels and the housing benefit bill, we have looked at the profile of households currently accessing social housing to explore where they are likely to live if there is a change in how easily they can access social housing.

Data from CORE (2014–15) shows that 18 per cent of households accessing social rented housing were previously living in homeless accommodation. For the purposes of analysis we have assumed that this same number of households would remain living in homeless accommodation if they were unable to access social housing, and that all other households would live instead in the private rented sector (PRS).

Where the projections show an increase in available lets, we have assumed similarly that these would be spread proportionately between households moving from homeless accommodation and other households.

Table 26 shows the estimated net increase in the numbers living in the PRS and in homeless accommodation under Scenario 1. It should be noted that the numbers here are cumulative, as people who have moved to the PRS because they cannot access social housing in year 1 will remain there in year 2 (or if they do access social housing it will be at the expense of other households who therefore add to the net numbers who cannot).

Table 25: Estimated net increase in households living in the PRS or homeless accommodation under scenarios 1 and 2

	Cumulative reduction in available lets	Increased number living in the PRS	Increased number living in homeless accommodation
Year 1	15,028	12,341	2,688
Year 2	17,229	26,489	5,769
Year 3	19,106	42,178	9,185
Year 4	-28,986	18,375	4,002
Year 5	-20,838	1,264	275

Source: Own calculations based on Table 23

This table shows that there would be a reduction in the number of households accessing social housing from either the PRS or homeless accommodation during the first three years of the policy, followed by an increase from year 4 onwards, with the net impact being close to zero over the whole of the five-year period.

The numbers accessing social housing under Scenario 2 are the same as scenario 1.

Table 27 shows the same calculations for Scenario 3.

Table 26: Estimated net increase in households living in the PRS or homeless accommodation under Scenario 3

	Cumulative reduction in available lets	Increased number living in the PRS	Increased number living in homeless accommodation
Year 1	15,028	12,341	2,688
Year 2	17,229	26,489	5,769
Year 3	19,106	42,178	9,185
Year 4	11,111	51,302	11,172
Year 5	12,709	61,739	13,445

Source: Own calculations based on Table 23

As can be seen from comparing the above two tables, the tenure of the replacement stock has a critical impact on the availability of sub-market housing for low-income groups.

Estimating the impact on rents, welfare costs and poverty

Tables 28 to 30 show the current rent levels by size and region by tenure.

Table 27: Average social rents (monthly) by number of bedrooms and region, 2015

	1 bedroom	2 bedrooms	3 bedrooms	4+ bedrooms
North East	£345	£375	£403	£431
North West	£336	£377	£415	£450
Yorkshire & Humber	£335	£376	£396	£453
East Midlands	£351	£393	£421	£476
West Midlands	£364	£405	£434	£493
East	£394	£444	£487	£544
London	£504	£566	£614	£680
South East	£423	£484	£534	£596
South West	£363	£412	£452	£510
England	£391	£436	£467	£548

Source: SDR 2014–15

Table 28: Average Affordable Rents (monthly) by number of bedrooms and region, 2015

	1 bedroom	2 bedrooms	3 bedrooms	4+ bedrooms
North East	£385	£426	£472	£525
North West	£388	£447	£488	£532
Yorkshire & Humber	£376	£424	£456	£504
East Midlands	£362	£440	£494	£592
West Midlands	£389	£454	£504	£580
East	£463	£548	£622	£734
London	£693	£811	£868	£963
South East	£519	£627	£715	£861
South West	£430	£504	£592	£696
England	£523	£536	£563	£664

Source: SDR 2014–15

Table 29: Lower quartile private rents, by number of bedrooms and region, 2013–14

	1 bedroom	2 bedrooms	3 bedrooms	4+ bedrooms
North East	£350	£400	£450	£600
North West	£375	£425	£520	£695
Yorkshire & Humber	£350	£425	£475	£695
East Midlands	£368	£450	£525	£695
West Midlands	£390	£460	£550	£750
East	£425	£525	£600	£850
London	£875	£1,100	£1,300	£1,806
South East	£525	£650	£775	£1,200
South West	£450	£550	£670	£895
England	£415	£475	£550	£800

Source: VOA private rental market statistics 1 Apr 2013 to 31 Mar 2014

CORE data also shows that while more than half of new-built social housing was let at Affordable Rents, only nine per cent of re-lets were at Affordable Rents.

A proportion of any increase (or decrease) in average rents costs would be met by housing benefit. Table 31 shows the proportion of current tenants entering social housing who are receiving housing benefit.

Table 30: Housing benefit status of new entrants to social housing by previous tenure

	Private rented	New household	Homeless accommodation	Other	Total
Housing benefit or Universal Credit*	68%	68%	93%	74%	73%

Neither	33%	32%	7%	26%	27%

*This includes those in receipt of partial housing benefit. The cost of increased rents would be borne by housing benefit for those currently in receipt of partial housing benefit

Source: CORE 2014–15 Affordable Rent and social rent general needs lettings, excluding transfers within the sector, and excluding tenants for whom the housing benefit status was not known or not recorded

Establishing whether households are in poverty has been done by considering households to be in poverty when their equivalised household income is under 60 per cent of the median household income, i.e. when it is under £14,000 (Finch, 2015). Analysis of the incomes of new tenants entering social housing (social rent or Affordable Rent) in 2014–15 gives an indication of the proportion of tenants who are in poverty (Table 32).

Table 31: Poverty status of households entering social housing, who are not in receipt of housing benefit or Universal Credit

	Proportion
In poverty	44%
Not in poverty	56%

Source: CORE 2014–15 Affordable Rent and social rent general needs lettings, excluding transfers within the sector, and excluding tenants for whom the housing benefit status was not known or not record

Drawing on these figures, along with the analysis above, we have now explored the impact of each of the three scenarios on rents paid, and housing benefit (or Universal Credit) costs. The assumptions used here are that:

- a reduction in sub-market rented housing (either affordable or social rents) would result in a proportional increase in the number of households in homeless accommodation, as they compete for a more constrained stock;
- other households who are no longer able to access social rented housing would instead rent privately, paying rents which are at the lower quartile of private rents;
- these households are able to find accommodation which is within the Local Housing Allowance (LHA) levels and therefore are potentially eligible for full housing benefit.

The analysis that follows is a simple one modelling just the core information. No allowance has been made for:

- the impact on the housing benefit bill due to tenants with low earnings who become eligible for housing benefit because of the higher rents in the PRS;
- the impact on poverty of tenants being unable to find accommodation in the PRS at lower quartile prices, or within Local Housing Allowance limits;
- the impact of the benefit cap reductions, which are likely to reduce the impact of higher rents on the housing benefits bill, but increase the impact of higher rents on poverty.

Scenario 1

Under Scenario 1, those who access the new replacement housing would be paying the same rents as if they had accessed the housing which is sold off. The impact on rents paid therefore comes only from those who are unable to access social housing and instead rent in the private sector, or remain in homeless accommodation. Table 33 shows the estimated average increase in rents paid, and also identifies the extent to which these costs would be paid by tenants themselves or paid out in increased housing benefit (or Universal Credit) costs.[9]

Table 32: The estimated impact on rents and welfare costs: Scenario 1

Households in the PRS instead of social housing	Households	12,341	26,489	42,178	18,375	1,264
	Proportion on housing benefit	67%	67%	67%	67%	67%
	Average increased monthly rent per tenant	£116	£126	£136	£146	£139
	Total cost borne by housing benefit	£967,691	£2,252,274	£3,865,858	£1,806,305	£118,256
Households in homeless accommodation instead of social housing	Households	2,688	5,769	9,185	4,002	275
	Proportion on housing benefit	93%	93%	93%	93%	93%
	Average increased monthly rent per tenant	£304	£313	£323	£333	£326
	Total cost borne by housing benefits	£760,939	£1,686,045	£2,768,835	£1,243,031	£83,711
Total increased housing benefit		£1,728,630	£3,938,318	£6,634,694	£3,049,337	£201,968
Number paying more rent (i.e. not in receipt of housing benefit)		4,195	9,005	14,339	6,247	430
Of whom in poverty		1,846	3,962	6,309	2,749	189

Source: Own calculations based on SDR 2014–15 and VOA private rents and tables above. Estimates of the costs of homeless accommodation are taken from Wilson and Bates, 2015.Social rents inflation at -1 per cent for years 1–4 and 3.3 per cent for year 5. Private rents inflation at 1.1 per cent, as per average of last five years (ONS)

Under this scenario just over 15,000 tenants are paying higher rents by the end of year 1, rising to nearly 51,000 by the end of year 3, because they have to pay PRS rents, or rent instead in the PRS or remain in homeless accommodation rather than being able to access social housing.

Around a third of these are made poorer by the higher rents because they are not in receipt of housing benefit. It is estimated that just under half of these households (44 per cent, see Table 32) are in poverty and are likely to be pushed into more severe poverty by paying higher rents. By the end of year 5, however, there are more households living in social rented accommodation under this scenario and the two policies would have had a net positive impact on poverty levels.

Households on full housing benefits would not be directly made poorer by living in the PRS if they are able to find accommodation within LHA limits. They would, however, find it harder to move out of benefit dependency by increasing their earnings as the higher rents mean they would need to earn more in order to see their disposable incomes rise after paying rent.

Housing benefit costs go up to just under £6.6 million a year by year 3, but by year 5 there starts to be a reduction in annual housing benefit costs – because more replacement social housing has now been built and people are able to access it rather than paying the higher costs of the PRS. The total cost to housing benefit over the five year period under Scenario 1 is **£15.6 million**.

Scenario 2

Under Scenario 2, there is the same impact as Scenario 1 on the numbers accessing social housing rather than private rented housing or homeless accommodation. There is, however, an additional impact on the rents paid by those who do access the new replacement stock.

Table 34shows the same information as Table 24, under Scenario 2.

Table 33: The estimated impact on rents and welfare costs: Scenario 2

		Year 1	Year 2	Year 3	Year 4	Year 5
Households in the PRS instead of social housing	Households	12,341	26,489	42,178	18,375	1,264
	Proportion on HB	67%	67%	67%	67%	67%
	Average increased monthly rent per tenant	£116	£126	£136	£146	£139
	Total cost borne by HB	£967,691	£2,252,274	£3,865,858	£1,806,305	£118,256
Households in homeless accommodation instead of social housing	Households	2,688	5,769	9,185	4,002	275
	Proportion on HB	93%	93%	93%	93%	93%
	Average increased monthly rent per tenant	£304	£313	£323	£333	£326
	Total cost borne by HB	£760,939	£1,686,045	£2,768,835	£1,243,031	£83,711
Households paying Affordable rather than Social rents	Households	0	0	0	45,307	84,653
	Proportion on HB	73.4%	73.4%	73.4%	73.4%	73.4%
	Average increased monthly rent per tenant	£81	£80	£79	£78	£81
	Total cost borne by HB	£0	£0	£0	£2,606,982	£5,031,702
Total increased HB		£1,728,630	£3,938,318	£6,634,694	£5,656,318	£5,233,669
Number paying more rent (i.e. not in receipt of HB)		4,014	8,616	13,720	9,029	6,113
Of whom in poverty		1,766	3,791	6,037	3,973	2,690

Source: As above

Under this scenario the numbers of tenants unable to access social housing and the increased rents they pay are the same as in Scenario 1. In addition, there are around 50,000 tenants a year who will only be able to access Affordable Rented housing, rather than social rented housing, once the replacement stock is built. The costs associated with this form the largest component of the increased housing benefits costs under this scenario. Unlike Scenario 1, the housing benefit costs increase year on year under this scenario, and over the five year period total **£23.2 million.**

Scenario 3

The same calculations for Scenario 3 are shown in Table 35.

Table 34: The estimated impact on rents and welfare costs: Scenario 3

		Year 1	Year 2	Year 3	Year 4	Year 5
Households in the PRS instead of social housing	Households	12,341	26,489	42,178	51,302	61,739
	Proportion on HB	67%	67%	67%	67%	67%
	Average increased monthly rent per tenant	£116	£126	£136	£146	£139
	Total cost borne by HB	£967,691	£2,252,274	£3,865,858	£5,043,016	£5,774,773
Households in homeless accommodation instead of social housing	Households	2,688	5,769	9,185	11,172	13,445
	Proportion on HB	93%	93%	93%	93%	93%
	Average increased monthly rent per tenant	£304	£313	£323	£333	£326
	Total cost borne by HB	£760,939	£1,686,045	£2,768,835	£3,470,413	£4,087,857
Total increased HB		£1,728,630	£3,938,318	£6,634,694	£8,513,429	£9,862,631
Number paying more rent (i.e. not in receipt of HB)		4,195	9,005	14,339	17,440	20,988
Of whom in poverty		1,846	3,962	6,309	7,674	9,235

Source: As above

Under Scenario 3, the number of households diverted into the PRS or homeless accommodation is higher which leads to a higher housing benefits bill. As with Scenario 2, the costs rise year on year as greater number of households are unable to access social housing. The households diverted to the PRS pay an average of £116 extra in rent each month, rising to £146 by the end of the four year social rent freeze, and falling thereafter, assuming social rents resume their Consumer Prices Index plus one per cent annual rises, and private rents continue to rise at current rates.

Over the first five years the additional housing benefit cost is estimated at **£30.7 million.**

7 Conclusion

This analysis has explored the likely impact of the Right to Buy for housing association tenants and the forced sale of higher value local authority dwellings, which provides the cross-subsidy necessary to fund the Right to Buy discounts. Much is still uncertain about both policies, as the details of how they will operate are yet to be announced. The analysis has therefore been based on the information that is available at October 2015, and the authors' own views as to the most likely way in which the policies will be operated.

As with any effort to project future impacts, there is much that is uncertain. The wider economic situation, and in particular mortgage lending conditions and house price inflation, are particularly significant here. If these change from current conditions, this could affect the uptake of the Right to Buy, and the rate of local authority sales. Changes to rent levels – both social and private – will also affect the impact of the policies in rents and hence on poverty.

It should also be remembered that both these policies are happening at a time of other significant changes to housing and welfare in the UK. The cuts to tax credits, housing benefit and the benefit cap reductions which are due to come into effect in April 2016 will all increase poverty levels of tenants. In contrast, the one per cent cut to social and Affordable Rents over the next four years will reduce poverty for tenants, but this effect has not been modelled, (though the impact of this policy on influencing uptake of the RTB has been included). The impact on the wider housing market and affordability of housing to buy of local authority sales has also not been explored here.
Table 36 shows the impact on the availability of new lets of social rented housing, and on the availability in particular of housing at social rent levels, under each of the three scenarios.

Table 35: Summary of impact on availability of social rented housing over first five years under scenarios 1–3

	Scenario 1	Scenario 2	Scenario 3
Total sales under RTB	127,946		
Total sales of LA dwellings	61,205		
Total sales	189,151		
Lettings lost from RTB	-33,360		
Lettings lost from LA sales	-61,205		
Total lettings lost	-94,565		
Net impact on social rented lettings (Affordable or social rent)	1,540 loss	1,540 loss	75,184 loss
Net impact on lettings at *social rent*	1,540 loss	86,054 loss	75,184 loss

Table 37 summarises the differences in rents paid and housing benefit costs under the three scenarios, over the five-year period.

Table 36: Summary of changes to rents and housing benefit costs under scenarios 1–3 by end of year five

		Scenario 1	Scenario 2	Scenario 3
Tenure of replacement housing		91% social rent; 9% Affordable Rent	Affordable Rent	Shared ownership
Extra households in the PRS	Total number at end of Year 5	1,264	1,264	61,739
	Number paying own rent	411	411	20,083
	Average monthly extra rent paid	£139	£139	£139
Extra households in homeless accommodation	Total number at end of Year 5	275	275	13,445
	Number paying own rent	19	19	906
	Average extra rent	£326	£326	£326
Extra households in Affordable Rent	Total number at end of Year 5	0	84,653	0
	Number paying own rent	0	22,497	0
	Average extra monthly rent paid		£81	
Total made poorer by higher rents		430	22,927	20,988
Of whom are in poverty		189	10,088	9,235
Total HB costs over 5 years (million)		£15.6	£23.2	£30.7

Source: See above

Overall, the first five years of operation of the two policies are projected to see a loss of nearly 200,000 dwellings from the social sector, with a resultant loss of around 100,000 lettings. A likely delay in building replacement stock means that between 30,000 and 70,000 working households ineligible for housing benefits would have to pay higher rents – most likely within the private rented sector – as a result. Around half of these would be classed as in poverty on the basis of their incomes and would be pushed into more severe poverty as a result of the higher rents.

Housing benefits costs would also rise as households are diverted into the private rented sector, Affordable Rented housing, or remain in homeless accommodation for longer instead of being able to access housing at social rents.

A key conclusion from this project is that the tenure of the replacement housing is critical in determining the longer term poverty impact of the two policies. If it is possible to build one-for-one replacement housing for that which is lost under both policies, and to build it at similar rent levels to the housing it replaces, then over the medium term (five to ten years), there could be a net positive impact on the availability of low rent housing.

Building back Affordable Rent housing also has a net positive impact on the supply of social rented housing, but tenants would be paying higher rents than now.
If the replacement housing is built as shared ownership then more low-income households will be diverted into the PRS, or have to remain for longer in homeless accommodation, both of which result in higher rents for tenants and higher housing benefits costs.

The other key aspect to note is that the impact of the local authority sales in particular is very localised and likely to present enormous challenges to local authorities that are presented with large bills to meet from sale of stock. Such local authorities typically already face difficulties in meeting housing need and accommodating homeless households and a sudden and dramatic reduction in lettings is likely to cause severe difficulties. This impact will only be fully mitigated if they are able to build back social housing within their local authority boundaries, or on sites where they can legally and reasonably expect housing applicants to live. The Right to Buy, in contrast, is slower to reduce the number of available lettings and will impact somewhat more evenly across the country.

The research has not explored the financial feasibility of building one-for-one replacement by either housing associations or local authorities. It remains uncertain whether this actually occurs in practice. The experience of the post-2012 Right to Buy within the local authority sector also suggests that it may be hard for many authorities to replace stock lost on a one-for-one basis, as issues such as land availability, initial costs of development and discrepancies between costs and revenue still remain.

The replacement stock may also be of a different size or in a different location to that which is lost, both of which will have an impact on the availability of housing for different groups, and the resultant rents paid and impact on poverty. However the high level of uncertainty as to how this will play out has meant these effects have not been explored here. Building replacement stock in cheaper areas does have the potential to reduce the rents paid by tenants, though this may come at the expense of access to job opportunities.
Overall, the analysis suggests that the tenure and rent levels of the replacement stock is the most critical factor in determining the impact of the policies on poverty. One-for-one replacement of stock at similar rent levels to that which it replaces could have a positive impact on the availability of low-cost housing and on poverty. Building more expensive tenures, or failing to replace the stock which is sold, is likely to increase rents, poverty and welfare costs.

In the longer term, the subsidy for RTB discounts cannot be found from selling off local authority housing without a continual stretching of the definition of high value, meaning that local authorities may be forced to sell increasing numbers of lower valued dwellings.

Notes

1 Percentages given in this and subsequent tables have been rounded to the nearest whole number, but the precise figure has been used for calculations. There may therefore appear to be slight rounding errors in the tables.
2 This was published online and has been widely cited by other sources (such as IFS, 2015) but has since been removed from the NHF's website.
3 The EHS records length of current residence, but not length of time within the social sector (which is what actually determines discounts). Households who had moved within the social sector were estimated to have held their previous tenancy for an average of five years.
4 For example, if last year a local authority let dwelling A to a tenant moving from dwelling B, and both A and B were high value, it is not possible that both dwellings could be sold under the new policy; if A was sold, it would not be available for the tenant to transfer to, so dwelling B would not become vacant and available to sell.
5 As noted above, this includes an allowance for a reduction in turnover resulting from reduced tenant mobility when dwellings are sold off rather than let to transfer tenants, using a formula of s=h(l-ht) where s=sales, h=proportion of stock that is high value, l=average lettings per annum and t=average transfers per annum. This is not the same as simply using a turnover rate that is net of transfers because it allows for the fact that where a transfer takes place there are two dwellings that become vacant, and both will potentially be assessed to establish whether they are high value. This was calculated on a local authority basis.
6 2014–15 sales data was not available from CORE in time for this analysis, so 2013–14 has been used here.
7 This analysis included only tenants aged 40 or under who would be eligible for full 25-year mortgages.
8 Note that the sales of shared ownership dwellings to social housing applicants who are able to afford them has been proportioned between RTB replacement dwellings and LA replacement dwellings.
9 The analysis throughout this chapter assumes that the replacement dwellings will be similar in terms of size and location to those they replace, but it should be noted that they are likely to differ, which means there may be a degree of error in these estimations.

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Appendix 1: Full estimation of the impact of higher value local authority sales by local authority

Table A1 shows the estimation of the proportion of local authority housing which is higher value by authority, and also the reduction in social housing lettings (housing association and local authority) that will result from its sale.

Table A1: Estimated proportion of high value stock, and resultant reduction in social lettings, by local authority

Local authority	Proportion of LA stock which is high value	Proportion of all social lets lost through sales of high value LA stock
Welwyn Hatfield	90%	67%
Dacorum	82%	64%
Guildford	80%	53%
St Albans	80%	54%
Tandridge	79%	55%
Brentwood	74%	52%
Kensington and Chelsea	71%	23%
Epping Forest	69%	54%
Runnymede	68%	46%
Westminster	67%	27%
Waverley	67%	52%
Wokingham	66%	42%
Camden	66%	44%
Woking	64%	45%
Cambridge	62%	37%
Stevenage	62%	49%
City of London	59%	51%
Winchester	58%	38%
Slough	57%	34%
Hammersmith and Fulham	56%	27%
Harrogate	56%	33%
Warwick	53%	35%
Cheshire West and Chester	53%	13%
Reading	52%	31%
Wandsworth	51%	31%
South Cambridgeshire	47%	28%

Uttlesford	42%	27%
Solihull	38%	30%
Northampton	37%	27%
Kingston upon Thames	37%	23%
Islington	37%	23%
New Forest	36%	22%
Richmondshire	36%	24%
Rugby	36%	22%
York	36%	22%
Selby	34%	23%
Blackpool	34%	23%
High Peak	32%	25%
Castle Point	32%	23%
East Riding of Yorkshire	32%	26%
North Warwickshire	30%	22%
Barnet	30%	17%
Bournemouth	30%	17%
Ealing	30%	16%
Stockport	29%	19%
West Lancashire	28%	24%
Brent	28%	9%
Harrow	26%	14%
Oadby and Wigston	25%	17%
Fareham	25%	14%
Kettering	24%	15%
Charnwood	23%	15%
Thurrock	23%	20%
Adur	22%	16%
Arun	21%	11%
Oxford	21%	13%
South Derbyshire	21%	16%
Lancaster	20%	12%
Kirklees	20%	16%
Birmingham	19%	12%
Hinckley and Bosworth	19%	12%
Derby	19%	12%
Southend-on-Sea	19%	12%
Nuneaton and Bedworth	18%	13%
Colchester	18%	10%

Sutton	18%	10%
Redbridge	18%	8%
Dartford	18%	13%
Poole	18%	11%
Tendring	17%	9%
Barrow-in-Furness	17%	13%
Shropshire	17%	4%
Central Bedfordshire	17%	6%
Enfield	16%	9%
Hillingdon	16%	9%
Hounslow	16%	10%
Bury	15%	10%
Dudley	14%	12%
Leeds	14%	11%
Melton	13%	10%
Southampton	13%	9%
North East Derbyshire	13%	11%
Croydon	13%	7%
North West Leicestershire	12%	9%
North Tyneside	12%	9%
Basildon	12%	8%
Canterbury	11%	8%
Cannock Chase	11%	8%
South Holland	11%	9%
Tower Hamlets	10%	3%
Luton	10%	7%
South Kesteven	10%	7%
Haringey	9%	5%
North Kesteven	9%	7%
Havering	9%	6%
Wealden	8%	5%
Cheltenham	8%	5%
Lambeth	8%	4%
Crawley	8%	6%
Brighton and Hove	7%	4%
Manchester	6%	2%
Broxtowe	6%	5%
Harlow	6%	5%
Corby	6%	5%

Waltham Forest	6%	3%
Newark and Sherwood	6%	4%
Gravesham	5%	4%
Bolsover	5%	4%
Nottingham	4%	3%
Wigan	4%	3%
Leicester	4%	3%
Newcastle upon Tyne	4%	3%
Bristol; City of	3%	2%
Oldham	3%	0%
East Devon	3%	2%
Bassetlaw	3%	3%
Mid Suffolk	3%	2%
Lewes	3%	2%
Barnsley	3%	3%
Shepway	3%	2%
Tamworth	3%	2%
Newham	3%	2%
Redditch	3%	2%
Wolverhampton	3%	2%
Lincoln	3%	2%
Portsmouth	3%	2%
Salford	2%	1%
Doncaster	2%	2%
Kingston upon Hull; City of	2%	2%
Thanet	2%	1%
Chesterfield	2%	2%
Medway	2%	1%
Ashfield	2%	2%
Stroud	2%	1%
Babergh	2%	1%
Wiltshire	2%	0%
Eastbourne	2%	1%
Ashford	1%	1%
Northumberland	1%	0%
Sandwell	1%	1%
Waveney	1%	1%
Sheffield	1%	1%
Mansfield	1%	1%

County Durham	1%	0%
Darlington	1%	1%
Rotherham	1%	1%
Lewisham	1%	0%
Sedgemoor	1%	0%
Greenwich	1%	0%
Hackney	0%	0%
Southwark	0%	0%
Gateshead	0%	0%
Taunton Deane	0%	0%
Exeter	0%	0%
Dover	0%	0%
Ipswich	0%	0%
Great Yarmouth	0%	0%
South Tyneside	0%	0%
Barking and Dagenham	0%	0%
Swindon	0%	0%
Gloucester	0%	0%
Stoke-on-Trent	0%	0%
Cornwall	0%	0%
Milton Keynes	0%	0%
Mid Devon	0%	0%
Norwich	0%	0%
Gosport	0%	0%

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