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From **Right to Buy** to **Buy to Let**

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FOREWORD

In October 1980 Margaret Thatcher's first Housing Act as Prime Minister introduced the Right to Buy. As a policy, Right to Buy is possibly unrivalled in representing such poor value for money to both taxpayers and local authorities.

For taxpayers, they not only funded the initial building of the council home, they then subsidised the substantial discounts offered to tenants and then – once the homes were sold – missed out on the rental income that would have covered the build costs.

To add insult to injury, the evidence uncovered in this report highlights that at least 36% of all homes sold by councils across London are now let by private landlords. We also know that substantial numbers of these are being let to tenants who are now supported by Housing Benefit, while many would-be council tenants have now been forced into the private rented sector due to the dwindling supply of council homes. The consequence of both phenomena has been that taxpayers are again charged more to subsidise higher private rents. In some London boroughs, the average Housing Benefit claim in the private sector is as much as £100 a week – £5,200 a year – higher than equivalent claims by council tenants.

But for local authorities too, Right to Buy has been a disaster. Not only did they lose significant amount of their housing stock for far less than market value along with a guaranteed revenue stream, the Thatcher Government's decision to prevent them from building new council homes left a shortfall in supply that private sector house builders have never filled. To a great extent, the causes of London's housing shortage can be directly traced to this decision.

So, rather than Whitehall robbing taxpayers and local authorities for what many consider a cynical electioneering tool aimed at winning over a small band of swing voters, reforms are needed to make Right to Buy socially, financially and politically sustainable in the long-term. We must also ensure that a policy ostensibly aimed at helping people into home ownership does just that and doesn't end up lining the pockets of under-regulated private landlords.

Most notably, it should be mandatory for covenants to be placed on Right to Buy properties to ensure they are never let privately. Instead, the local authority should retain an equity stake in the property equal to the discount that it chooses to offer its sitting tenants. Similarly, councils should have a 'right not to sell' if they deem it to be damaging to their housing operations or their ability to manage their council housing waiting list.

Housing is now the greatest challenge facing London government and is a significant threat to the economic competitiveness of the capital. London cannot afford for so many council homes to be lost to the private rented sector, with its poorer housing standards, worsening landlord practices and unregulated and excessive rent levels.

If there is insufficient housing for those on low-incomes – the key workers that keep the city ticking – it will undermine London's long-term economic competitiveness.

This report follows a national investigation by the Daily Mirror.ⁱ



INTRODUCTION

In October 1980 the Right to Buy passed into law as part of the Thatcher Government's first Housing Act. Over thirty years later, a policy intended to unleash a wave of owner occupation among Britain's working classes has helped to facilitate the transfer of thousands of former council homes into the hands of private landlords.

The data compiled for this study, through a series of Freedom of Information requests, shows that across London more than 36% of all the homes sold by councils now appear to be let through the private rented sector. In some boroughs, this figure is as much as half of all the homes that were sold. This reality stands in stark contrast to the claims made at the time by the Housing Minister Michael Heseltine that:

"No single piece of legislation has enabled the transfer of so much capital wealth from the state to the people."ⁱⁱ

In reality, council housing sales have to a large degree helped to accumulate wealth in the hands of private sector landlords.

In the decade between 2001 and 2011 the proportion of privately rented households with dependent children increased from 19% to 29%, highlighting a growing reliance on the sector by families.ⁱⁱⁱ Many of these families (a significant proportion of whom will be claiming Housing Benefit) will find themselves in the absurd position of renting a former council home at extortionate and unregulated rent levels from under-regulated and increasingly rogue landlords^{iv} while they languish on a waiting list for a council home that may never become available.

Right to Buy has also resulted in the situation where councils now rent back homes that they once owned from private landlords at much higher rents in order to fulfil their statutory duties.^v The increased rental costs are then usually met by the benefits system.

Even the figure of 36% is probably an underestimate. The data in this report is drawn from records of leaseholders who have registered an "away" address with their local council (i.e. those owners who do not live in the property). However, landlords are not required to register an 'away' address and many do not, meaning that they appear to live in the property they in fact rent out.

RIGHT TO BUY

Since the introduction of Right to Buy in 1980, over 271,438 council homes have been lost from the local authority housing stock in London.^{vi} Shamefully, very few of these homes have been replaced by governments of all political colours. Between 1998 and 2011 alone, 880 council homes were completed in London^{vii} compared to the 85,254 that were sold.^{viii} This is a ratio of almost 100 sales for every new home built. When combined with stock transfers, there were 285,000 fewer council homes in London in 2011 compared with 1991.^{ix}

In March 2012, the current government announced it would ‘reinvigorate’ the Right to Buy by offering discounts to sitting tenants of up to £100,000 on council homes in London (£75,000 elsewhere in the country) – discounts funded by taxpayers. At the time, the government stressed that they had learned the lessons of the past and would ensure that for every home lost another would be built. However, for two reasons, this is not happening.

- Firstly, evidence submitted to the House of Commons Communities and Local Government Committee in 2012 suggests that in London it actually takes 1.6 Right to Buy sales to fund each new council home, meaning that it is not possible to replace every home lost.^x Recent government figures also show that, nationally, only one new home is being built for every seven sold under the government’s policy. According to Inside Housing, “in 2012/13 and in the year to date, 10,954 council homes have been sold through the right to buy scheme, but only 1,662 replacements were started in the same period.”^{xi}
- Secondly, there is no requirement for replacement homes to be the same as those lost, meaning a four-bed social rented home charged at 40% of market rent can be replaced by a single room ‘Affordable Rent’ property charged at 80% of market rent.

BOROUGH FIGURES

	Number of properties where council owns the freehold	Number of leasehold properties	Number where leaseholder registered an away address	Number of leasehold properties with an away address owned by Housing Associations	Number of leasehold properties with an away address owned by companies and individuals	Percentage of homes sold through Right to Buy now likely to be privately let
Camden	30,467	8,909	3,311	78	3,233	36.29%
City of London	4,856	2,818	976	0	976	34.63%
Greenwich	26,704	4,081	1,402	11	1,391	34.08%
Hackney				Information not available		
Hammersmith & Fulham	16,634	4,492	1,651	8	1,643	36.57%
Islington	35,370	9,348	3,694	7	3,687	39.44%
Kensington & Chelsea	9,484	2,485	1,076	74	1,002	40.32%
Lambeth	34,348	8,863	2,331	22	2,309	26.05%
Lewisham	20,466	5,365	1,731	0	1,731	32.26%
Southwark	37,817	13,171	4,495	24	4,471	33.95%
Tower Hamlets	21,371	8,697	4,430	36	4,394	50.52%
Wandsworth	33,170	15,874	6,180	0	6,180	38.93%
Westminster	21,204	8,910	3,412	650	2,762	31.00%
Inner-London	291,891	93,013	34,689	910	33,779	36.32%
Barking & Dagenham	20,277	3,321	1,367	0	1,367	41.16%
Barnet	14,430	3,672	1,459	90	1,369	37.28%
Bexley*	4,662	482	134	0	134	27.80%
Brent	12,500	3,488	975	105	870	24.94%
Bromley*	13,363	1,728	561	6	555	32.19%
Croydon				Information not available		
Ealing	12,893	4,695	1,976	31	1,945	41.42%
Enfield	15,508	4,539	2,313	49	2,264	49.87%
Haringey	20,461	4,469	1,800	81	1,719	38.46%
Harrow	6,086	1,143	419	15	404	35.35%
Havering	11,944	2,269	867	15	852	37.55%
Hillingdon	13,211	2,961	1,209	298	910	30.73%
Hounslow	15,784	2,479	950	10	940	37.92%
Kingston upon Thames	5,156	1,442	659	1	658	45.63%
Merton*	8,850	2,534	845	11	834	32.91%
Newham	17,396	5,741	1,694	190	1,504	26.20%
Redbridge	7,038	2,384	665	20	645	27.06%
Richmond upon Thames*	8,104	1,896	693	24	669	35.28%
Sutton	7,629	1,379	370	1	369	26.75%
Waltham Forest	12,233	1,871	738	47	691	36.93%
Outer-London	227,525	52,493	19,694	994	18,699	35.62%
London	519,416	145,506	54,383	1904	52,478	36.07%

* local authorities that have undertaken stock transfers (data provided by relevant housing associations)

REASONS TO KEEP COUNCIL HOMES OUT OF THE PRIVATE RENTED SECTOR

Council housing creates an asset for local authorities and provides stable rents, better physical conditions and offers tenants higher management standards than the private rented sector:

- **Expensive rents**

Median private sector rents in London are out of control, increasing by 12% in 2011 and 9% in 2012.^{xii} As a consequence, as of the beginning of 2013, average rents in London were a staggering £1,196 per month,^{xiii} more than double the English average. Yet this masks more extreme localised rent increases. In 2012 rents increased by 39% in parts of Newham, 28% in Redbridge and by 19% in Tower Hamlets.^{xiv} This has exacerbated the cost of living crisis experienced by many Londoners and resulted in a situation where, in some inner-London boroughs, average private sector rents were as much as £550 a week more expensive than local council rents (appendix 2).

- **Rogue practices by private sector landlords**

Private landlord and lettings agent practices are getting worse in London. Shelter reports that the number of complaints made by private sector tenants has increased by 47% in the last five years.^{xv} Similarly, Citizens Advice records that in the year to April 2012, its London offices dealt with 18,539 enquiries about the 'private rented sector' (issues such as disrepair, possession actions, harassment, problems with letting agents and deposits).^{xvi}

However, these figures are likely to be an underestimate of the problem in London given that a large proportion of rogue practices are never reported. The Chartered Institute of Environmental Health has said that many tenants' concerns, particularly about housing quality, go unreported for fear of retaliatory eviction, something the London Borough of Hounslow has said "*enforcement officers in Hounslow see... with alarming frequency*".^{xvii}

- **The welfare bill**

Because private sector rents are higher than council rents, taxpayer contributions to house people increase significantly as council houses shift into the private sector. Figures published by the Department for Work and Pensions show that the average Housing Benefit claim of those living in the private rented sector can be as much as £100 per week – £5,200 a year – more than that claimed by council tenants in the same area (appendix 1). With the average annual Housing Benefit claim by a private rented tenant in London currently £9,131 a year, this is enough to fund the average construction cost of a new affordable home (standing at £162,449 in London, excluding acquisition costs) every 18 years.^{xviii}

The consequences for taxpayers of losing council housing to the private rented sector, and of a greater reliance on the private rented sector to meet housing need, is higher long-run welfare expenditure. Figures 1 and 2 highlight the extent to which, across Great Britain, the private rented sector now accounts for the largest proportion of Housing Benefit expenditure, despite not being the largest tenure by claimant count. This contrast is likely to be starker in the capital where the difference between council and private sector rents is larger.

REASONS TO KEEP COUNCIL HOMES OUT OF THE PRIVATE RENTED SECTOR

- Poor physical standards**

While local authority housing tends to carry a stigma for poor conditions, privately rented homes are actually more likely to fail even the most basic health and safety tests. One-third of London's stock of private rented housing, more than 250,000 homes, currently falls below the Decent Homes standard used in the social rented sector. This is the largest proportion of any housing tenure in London.^{xix} Furthermore, local authorities have reported that 49% (356,465) of all London's private rented homes had Housing Health and Safety Rating System Category 1 hazards in 2011/12.^{xx}

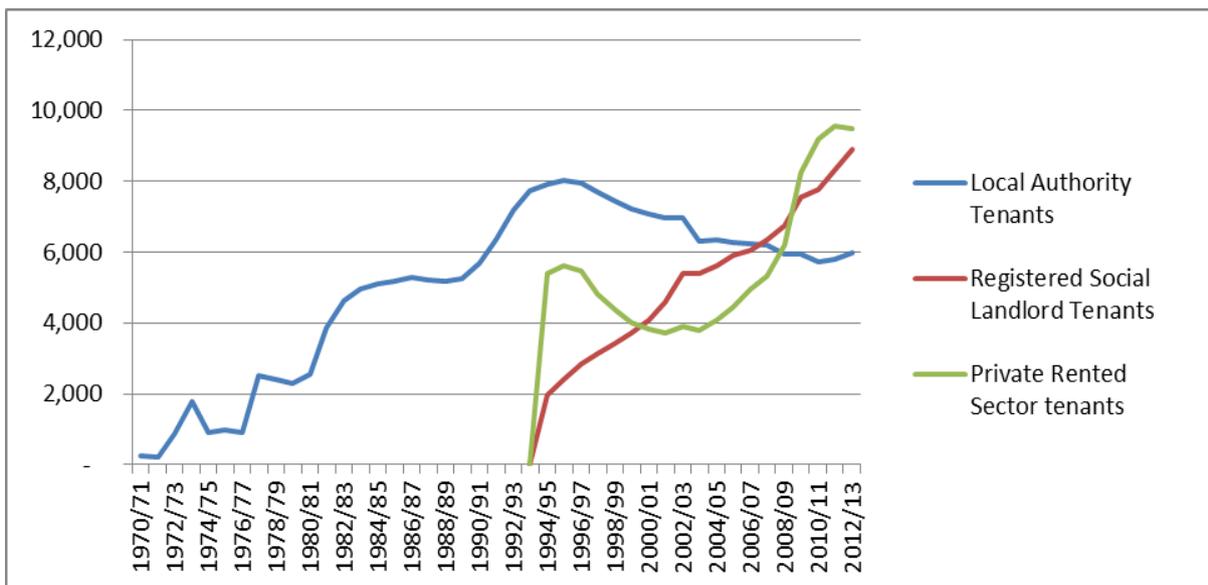


Figure 1: Real-terms Housing Benefit expenditure by housing tenure, Great Britain, 1970-2013 (£m, 2012/13 prices)^{xxi}

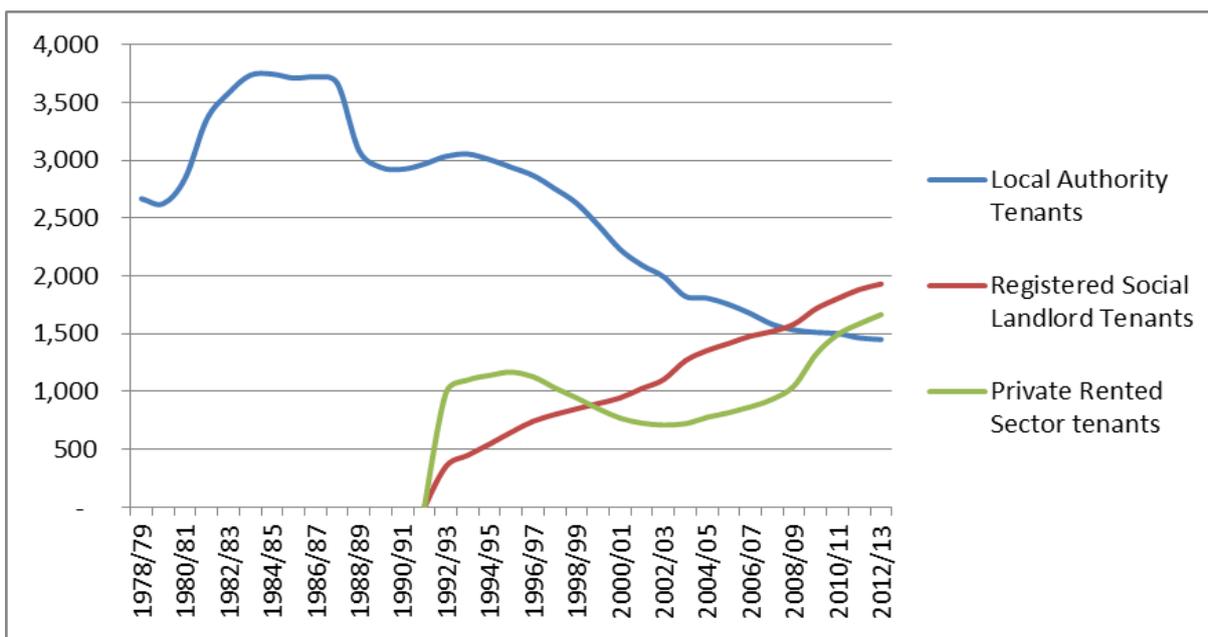


Figure 2: Housing Benefit caseloads by tenure, Great Britain, 1978-2013 (thousands)^{xxii}

NECESSARY REFORMS

It is clear that the Right to Buy needs serious reform to make it work for tenants, local authorities and, importantly, taxpayers – neither of whom, as groups, can be said to benefit from the policy. Some suggestions for reform are set out below:

- It is obscene that a policy developed to promote home ownership has resulted in thousands of former council homes being let through the private rented sector. As a consequence, taxpayer subsidised housing is inadvertently being used to line the pockets of private sector landlords. This also frequently adds additional cost for taxpayers through the welfare bill as these properties are often let to those who require assistance in paying the higher rent levels demanded in the private rented sector.

To prevent council homes sold through Right to Buy ending up in the private rented sector, the government should introduce mandatory covenants on all Right to Buy properties that stipulate that the home cannot be let through the private rented sector.

- The current system forces local authorities to essentially write off a huge proportion of the market value of a property through Whitehall's policy of offering substantial discounts to tenants. **This system of discounts should be abolished.**
- In order to guarantee that local authorities benefit from any capital uplift in the property, **a new system should be introduced whereby local authorities retain an equity stake in any home sold.** Funds raised through council housing sales should be ring-fenced for reinvestment in building new council homes.
- **In the spirit of localism, local authorities should have a 'right not to sell' council housing if it is deemed not to be in the community interest to do so or if doing so would undermine the council's ability to effectively respond to local housing needs.** As a part of this, councils should be able to designate specific zones or buildings where council housing can and cannot be sold to tenants through Right to Buy. For example, councils may wish to retain the ownership of accommodation for future regeneration purposes or in order to keep accommodation more easily available in specific locations – such as hospitals – for key workers.
- If council homes can be sold within a short period of their construction then this acts as a disincentive for councils to build them. Therefore, **newly built council housing should be exempted from the Right to Buy if the borough wishes them to be.**
- Although the rate of council housing sales through Right to Buy have not yet impacted on any council's overall housing operations, it is possible that the sale of too many council properties could eventually impact on the viability of a council's housing operations. **Councils should therefore have the right to suspend council housing sales in circumstances where 'Right to Buy' impacts on the right of tenants to a stable home.**

NECESSARY REFORMS

- To recognise the significant difficulty that councils face in acquiring new council stock, and the changing circumstances of local housing markets, **local authorities should have a right of first refusal to buy the former council property before the owner seeks to sell it on the open market.**
- The government has pledged that every home sold through Right to Buy would fund the building of another affordable home. However, under this policy the homes are not one-for-one replacements. This is because the properties are often charged at the higher rent levels charged through the so-called Affordable Rent tenure – affordable housing charged at up to 80% of market rent. Data presented by the London boroughs shows that in some parts of inner-London this could require an annual family income in excess of £100,000.^{xxiii} This is not affordable even to those earning the median income in London of £33,308.^{xxiv}

Furthermore, the replacement home will usually provide less security of tenure for the new tenant and there is no guarantee that family sized homes will not be replaced with smaller properties. **It should be the case that the replacement home is a genuine one-for-one replacement, and that all new homes built through Right to Buy receipts mirror the rent, size and tenure specifications of the home lost by the council through this policy.**

- In order to guarantee many of the recommendations of this report, the way properties are sold must also be reformed. **Local authorities should only be allowed to sell the leasehold of a property and not the freehold.**

METHODOLOGY

Exact data on the number of homes sold through 'Right to Buy' is difficult to establish due to a number of factors. Firstly, many local authorities will have sold the freehold of the property, meaning that they no longer have any connection to the property and as a consequence, definitive data cannot be acquired on these homes. Secondly, there is no requirement on any government agency to track the tenure status of former council homes once they are sold. Thirdly, local authorities do not need to be notified of the tenure status of their former home once it has been sold and nor are landlords required to provide the local authority with an 'away address' (which would indicate that the owner no longer resides in the property and that it is therefore being occupied by residents other than the owners).

To obtain an indicative guide to the proportion of homes sold under 'Right to Buy' and now privately rented, a series of Freedom of Information requests and follow up queries were issued to London boroughs between May and October 2013. The data showed:

- The number of properties where the council owns the freehold but not the leasehold, indicating that the property was once owned by the local authority but has subsequently been sold.
- The proportion of these homes where the leaseholder has subsequently registered an away address. Data was also secured to show how many of these homes are owned by Housing Associations and therefore not let privately.

The figure this report places on the number of homes now let through the private rented sector should be seen as indicative, having used data on properties where the council still retains the freehold as a data pool for the overall proportion of homes in the private rented sector.

In those London Boroughs that have undertaken large scale voluntary transfers of their council housing stock, data was provided by the relevant housing association. In the London Borough of Bexley, this was Orbit Group. In the London Borough of Bromley, this was Affinity Sutton. In the London Borough of Merton information was provided by Circle Housing Group on behalf of Merton Priory Homes. Data for the London Borough of Richmond upon Thames was provided by RHP Group.

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APPENDICES

Appendix 1: Mean of Weekly Award Amount of Housing Benefit (August 2013)^{xxv}

	Social Rented Sector	Private Rented Sector	Difference
Barking and Dagenham	£100.48	£159.13	£58.65
Barnet	£118.48	£189.58	£71.10
Bexley	£104.69	£149.90	£45.21
Brent	£151.72	£204.19	£52.47
Bromley	£113.70	£145.92	£32.22
Camden	£114.45	£204.81	£90.36
City of London	£100.61	£192.79	£92.18
Croydon	£107.09	£156.05	£48.96
Ealing	£131.11	£187.89	£56.78
Enfield	£118.79	£189.57	£70.78
Greenwich	£94.94	£143.00	£48.06
Hackney	£111.43	£206.72	£95.29
Hammersmith and Fulham	£120.06	£190.84	£70.78
Haringey	£118.80	£164.22	£45.42
Harrow	£119.71	£186.30	£66.59
Havering	£98.36	£149.44	£51.08
Hillingdon	£109.19	£164.26	£55.07
Hounslow	£108.79	£166.20	£57.41
Islington	£114.65	£190.35	£75.70
Kensington and Chelsea	£137.30	£213.15	£75.85
Kingston upon Thames	£116.02	£182.42	£66.40
Lambeth	£112.44	£159.45	£47.01
Lewisham	£101.33	£163.76	£62.43
Merton	£108.37	£142.45	£34.08
Newham	£117.27	£166.10	£48.83
Redbridge	£129.90	£163.91	£34.01
Richmond upon Thames	£112.59	£174.54	£61.95
Southwark	£102.77	£154.78	£52.01
Sutton	£99.60	£152.37	£52.77
Tower Hamlets	£121.30	£212.74	£91.44
Waltham Forest	£110.91	£150.55	£39.64
Wandsworth	£119.64	£204.94	£85.30
Westminster	£129.37	£232.28	£102.91
London	£114.85	£175.60	£60.80

APPENDICES

Appendix 2: Average weekly private rented^{xxvi} and council rents^{xxvii}, London

	Average weekly Council Rent (£)	Average weekly private rented sector rent (£)	Difference between weekly council and private rents (£)
Barking and Dagenham	79.30	191.30	112.00
Barnet	95.75	301.62	205.87
Bexley	LSVT^{xxviii}	196.84	N/A
Brent	95.08	302.30	207.22
Bromley	LSVT	245.54	N/A
Camden	91.54	430.38	338.84
City of London	83.00	406.62	323.62
Croydon	95.81	206.31	110.50
Ealing	86.14	275.31	189.17
Enfield	86.30	236.31	150.01
Greenwich	87.07	241.15	154.08
Hackney	88.83	306.69	217.86
Hammersmith and Fulham	92.19	411.69	319.50
Haringey	87.50	262.85	175.35
Harrow	95.70	267.23	171.53
Havering	75.03	201.69	126.66
Hillingdon	95.22	231.00	135.78
Hounslow	84.35	262.38	178.03
Islington	92.07	341.54	249.47
Kensington and Chelsea	96.99	651.69	554.70
Kingston upon Thames	96.62	229.15	132.53
Lambeth	98.18	317.08	218.90
Lewisham	81.67	223.85	142.18
Merton	LSVT	288.23	N/A
Newham	98.24	218.31	120.07
Redbridge	89.25	220.62	131.37
Richmond upon Thames	LSVT	306.46	N/A
Southwark	85.20	311.08	225.88
Sutton	87.20	208.15	120.95
Tower Hamlets	92.23	327.00	234.77
Waltham Forest	86.51	229.38	142.87
Wandsworth	112.49	345.92	233.43
Westminster	106.03	573.92	467.89

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