

Ending Expensive Social Tenancies



Fairness, higher growth
and more homes

Alex Morton

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Alex Morton was Secretary to the Conservative Party's Globalisation and Global Poverty Policy Group under the Rt Hon Peter Lilley MP. Following this he worked in the Civil Service Graduate Fast Stream before leaving to join Policy Exchange.

He is the author of the 2010 report *Making Housing Affordable*, which won the Prospect magazine's Think Tank Publication of the Year and highlighted the cost of current housing policies. Its central proposition was that house price stability should be a major government priority. He also co-authored *More Homes: Fewer Empty Buildings*, which argued for easier conversion from commercial to residential property, a policy picked up in the 2011 Budget. He also authored 2011's *Cities for Growth*, which warned that our existing house building sector was broken and unable to build the homes we need due to a combination of planning constraints and the warped development industry that our planning system has created.

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Contents

	Acknowledgements	4
	Introduction	5
	Executive Summary	6
1	A Need For More Social Housing and One Potential Solution	12
2	The Public Oppose Expensive Social Housing and Want More Homes	14
3	Defining ‘Expensive Social Housing’ as Above a Regional Median	19
4	20% of Social Housing is Expensive and its Value is £159 Billion	24
5	Expensive Social Properties Being Sold When Vacant is the Best Option	29
6	Ending Expensive Social Tenancies Will Not Have Negative Effects	32
7	This Could Build 80,000–170,000 New, Good Quality Social Homes a Year	37
8	Wider Economic Effects are Positive But Ministers Must Push Reform	44
	Annex: Poll Data and Employment Data	47

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Introduction

This report sets out how government could deliver at no cost:

- A fairer welfare system
- More homes
- Lower council waiting lists
- Higher growth

The time for delivering this change is now.

Four of the country's most expensive council houses (see Chapter 4).



Executive Summary

All figures in the Executive Summary are referenced in the main document.

Chapter 1: A Need for More Social Housing and One Potential Solution

- When an expensive social property becomes vacant, it can go to a single fortunate household, or be sold to fund the building of multiple less expensive properties. This report argues the second option is a cost free way to fund building more homes.
- The country is in the grip of a housing crisis. Housing construction is falling. The government's plan to build 170,000 social homes by 2015 is welcome but the annual total of this plan is slightly less than the last government's average of 47,000 new social homes a year.
- Social housing waiting lists hit an all time high of 1.83 million in 2011.
- Higher rents are part of a 'cost of living' worry that tops voters' concerns. The housing shortage accelerates these rising rents.
- Private rents rose 4% during 2011. Shelter has shown that in half of all local authorities private rents now take up at least 35% of household disposable income.
- Despite low interest rates, 14% of households cannot meet their mortgage terms. The long-term house price: rent ratio is 30% higher than its "historic" average. Rents may rise as house prices fall and owner-occupiers default; pushing up need for social housing.
- The 2010 spending review cut housing capital spending 47% to £4.5 billion over four years. Government needs to make even more cuts in future. Housing cannot realistically expect more money.
- As our report *Making Housing Affordable* shows, we need more affordable market housing. Between 1979 and 1997, Right to Buy's heyday, social housing waiting lists fell from 1.2 to 1 million households as private housing was more affordable.
- As our *Cities for Growth* report argued, the situation requires major reform to prevent a worsening crisis. Planning must change from the 1940s top-down model of council control. Changes are also necessary to house builders' flawed development model, which has been directly and indirectly bailed out by government since 2008.
- We need more housing to boost growth and tackle problems but without supporting existing failed housing delivery systems. This report does this.

Chapter 2: The Public Oppose Expensive Social Housing and Want More Homes

- The housing benefit cap is similar to this report's proposal and was very popular: 73% support it, 17% oppose it.
- Tables ES1 and ES2 show YouGov polling on the public's view of expensive social housing.

Table ES1: Polling on question “People should not be offered council houses that are worth more than the average house in their local authority”

	All voters	Con	Lib Dem	Lab
Agree	73%	86%	75%	63%
Disagree	15%	7%	12%	24%
Net agreement	+58%	+79%	+63%	+39%

Table ES2: Polling on question “People should not be offered council housing in expensive areas”

	All voters	Con	Lib Dem	Lab
Agree	60%	84%	58%	48%
Disagree	28%	18%	27%	41%
Net agreement	+32%	+56%	+31%	+7%

- There was very strong net support for not offering council houses worth more than the local authority average across all classes, (ABC1 +63%, C2DE +53%), most tenures, (owners +70%, private renters +47%, mortgagees +62%), and all regions, (between +57% and +63%). Even social tenants’ support this policy with a net agreement of +27%.
- There is strong support for ending social tenancies in expensive areas, as Table ES2 shows. People support this policy two to one and it attracts majority support across all main parties. All demographic groups oppose new social housing in expensive areas. Almost all were at least two-to-one in favour (e.g. all social classes, most tenures, and most regions). Even for social tenants, net support is +4%.
- The proportions that strongly agree compared with strongly disagree are even higher, as shown in this report. (For instance, four people strongly agreed for every one who disagreed that council housing should no longer be offered in expensive areas).
- Reform also allows more new homes to be built. This is also a popular policy.
- MORI found 50% of people support new homes locally and 28% oppose them. Our polling found 53% supporting more homes and just 33% opposing them. 73% of people support well-designed new homes in line with the locality.

Chapter 3: Defining ‘Expensive Social Housing’ as Above a Regional Median

- To be able to sell off expensive social properties when they become vacant, a definition of expensive is necessary. We use the median. This is the ‘half-point’ of all properties, the ‘average’ property with half of properties being cheaper than this point and half more expensive.

- A national median (£177,000) keeps expensive housing for the North East (median £119,000), but sells almost all of London's stock (median £290,000). Local authority medians keep too much expensive stock (Kensington and Chelsea, median £791,000).
- We use a regional median – the North West or South East – to avoid both problems.
- Expensive areas are close to cheaper ones across the country. House price variation within regions is also limited. The South West, England's largest region, has a median local authority house price of £190,000, with a standard deviation of £31,000. 70% of properties are in one standard deviation of the median, in a narrow band round the average.
- This all suggests new tenants would be housed close to where they want – near friends and family. As a safeguard, if no social housing exists within 30 miles of a local authority with valuable stock, and replacement stock could not be built within 30 miles, stock should be retained. We believe no such cases should occur in reality.
- We can use the English Housing Survey (EHS) 2007/8 data to get an idea of how much stock this affects. The EHS contains 16,000 valuations, and prices today are similar to what they were then.
- We cap the value of social properties at four bedrooms, we do not use the median for 5+ bedrooms as these would be too expensive. There is a cap for housing benefit at four bedrooms, and it seems right to expand this principle.
- Expensive stock exists because in past decades councils believed a large social housing stock was needed everywhere for political reasons. Gentrification in areas has also contributed. Expensive stock is not a thought-through response to a real problem but a historical accident.

Chapter 4: 20% of Social Housing is Expensive and its Value is £159 Billion

- 17.6% of all English homes are social housing. We used EHS data to work out that 21.8% of social properties are above the relevant median (818,000 properties).
- Expensive social properties are distributed relatively evenly across England. London has the highest proportion (30.7% of stock), the North East the lowest (14.8%).
- The total value of this expensive social stock is £159 billion.
- The national turnover rate is 6–7% of social properties a year. But expensive (and so desirable) properties are likely to have lower turnover, more likely to be the London rate, for example, which is 3.5%.
- Turnover and sale of 3.5% of the expensive social housing stock would sell off 28,500 expensive properties yearly and raise £5.5 billion for new housing construction.
- We need to account for debt held against properties' future rents. Writing off an average debt of £35,000, which is likely to be an overestimate, still leaves £4.5 billion a year to spend on new homes.
- This annual total is equal to the current four year total from 2011–2015.
- Change will be limited, with 0.6% of all social properties and 0.1% of all properties sold each year. Yet the funds available for new social homes would rise sharply.

- Some £1 million council homes exist, as the houses in the introduction show. These are the ultimate result of ignoring the issue of expensive social housing and the unfairness that results.

Chapter 5: Expensive Social Properties Being Sold When Vacant is the Best Option

- Expensive social housing has a much larger rental subsidy than normal properties as only 30% of the rent is set by the property's value. A sensible estimate is that a property with a weekly £100 market rent has a weekly social rent of around £65, (£35 subsidy), but one with a weekly £300 market rent has a social rent of around £104, (£196 subsidy, five times higher).
- Full market rents for expensive properties would increase housing benefit (given around 60% of social rents are covered by housing benefit), be very difficult for low income workers in these properties to ever pay, and hurt work incentives.
- As rental subsidy is so high, borrowing against future rents raises relatively little for expensive properties.
- Right to Buy for expensive properties means large government losses. Only large discounts could work, but large discounts (e.g. 66%) are poor value. Raising £5.5 billion on a 66% discount means £16.5 billion in sales and £11 billion in discounts lost to government.

Chapter 6: Ending Expensive Social Tenancies Will Not Have Negative Effects

- Ending expensive social housing treats social tenants like everyone else. After reform, social tenants might not have their first choice of home – but neither do many others.
- Ending expensive social housing will have no real effect on employment. A letter from charities argued reduced housing support would hit households, “pushing them further away from job opportunities or from “mini jobs” they already have.”
- There is some correlation between more expensive areas and employment. But this is very weak. Nationally a £100,000 rise in house prices increases employment 4%. Even if this correlation is pure causality, ‘protecting’ a single job costs £2.5 million.
- This limited effect exists within regions. More expensive areas have slightly higher employment rates. In two regions there was no effect. In seven the average cost per job protected via expensive housing was £1.84 million. Adjusting for different factors (e.g. skills) changes very little. This cost per job compared with the Regional Growth Fund cost of £33,000 per job – 56 times less. Even this effect assumes all of the link is causal, which is very unlikely to be true.
- Ending expensive social housing will allow real mixed communities. This policy will mix the 17% of social housing with 33% of private properties in the lower half of each region's property distribution. This is 2:1 in favour of private homes.
- Right to Buy and good allocation policies are the best way to get mixed communities. The average Right to Buy tenant stays in their property for an average of sixteen years. Allocation policies can embed low income workers in social housing.

- Artificial ‘mixed communities’ of different tenures with large income or skill divides fail. One study found just 4% of people would ask someone of a different tenure for help finding work. Another study found higher unemployment for social tenants.
- *Ending expensive social housing cuts tenants’ living costs.* Within regions, cost of living varies. By placing tenants in expensive areas, this cuts their real income, particularly those reliant on benefits (which is the majority).

Chapter 7: This Could Build 80,000–170,000 New, Good Quality Social Homes a Year

- Future rents can be borrowed against new homes. Given cautious projections this could raise another £1.5 billion on top of the £4.5 billion raised, £6 billion in total.
- Recycling sales receipts to support high land prices supports a failing system. *This could mean this policy does more harm than good.* But this only would be the case if the government fails to use these receipts in a sensible manner. Our ‘market’ is the result of major market distortions as *Making Housing Affordable* and *Cities for Growth* detail.
- The government should use land auctions, as discussed in CentreForum publications, to avoid this.
- These operate by requiring those offering to sell land putting forward land within a ‘sealed bid’ auction, and the lowest offer among the bids being taken up.
- Using sensible estimates on land and construction the £6 billion this policy raises could build 80,000 homes. This is a net gain of 50,000 social homes a year, given 30,000 of this are replacing homes sold.
- Alternatively, the annual £4.5 billion this raises before borrowing against future rents is similar to the last spending review’s £4.5 billion capital spend on housing. This paid for 170,000 social homes, meaning a net annual gain of 140,000 homes.
- The most likely outcome seems between these two results, but even the lower end of just net gains is the largest social housing scheme since the 1970s.
- It would cut waiting lists by between 250,000 to 700,000 households in five years.
- The Homes and Communities Agency could handle this. Housing associations should keep receipts but lose them after a set period (e.g. 12 months) if not reinvested. Council receipts should be placed in a regional pool. New social homes should only be allowed where they take place over and above projected development.
- New homes must be built along lines local people prefer. Housing associations and councils must win referendums on new housing proposals through neighbourhood plans or the localised system our *Cities for Growth* report outlined. Redevelopment options should include streets as our future *Create Streets* report discusses.
- There should also be a ‘minimum’ value in terms of the value of new properties (e.g. the 30th percentile). We want attractive 1930s/post-war style council homes.
- Low quality properties in expensive areas push down the underlying value of the land they sit on. Redevelopment of sites could mean sales being required in future. This could cause political difficulties with redevelopment.

- Therefore, in such areas redevelopment should begin now, borrowing against future sales receipts. Existing tenants should have new homes on redeveloped estates on their existing contracts.

Chapter 8: Wider Economic Effects Are Positive But Ministers Must Push Reform

- Policies to drive growth are urgent. Falling construction helped create our double-dip recession. Yet a near doubling of construction helped us out of the Great Depression.
- Construction of new housing fell 4% in 2011 to 98,000, close to a record low. The construction of 80,000–170,000 homes a year would boost growth. The government believes that for every home built a year, two jobs are created, so this creates 160,000–340,000 jobs.
- These reforms would build homes but not prop up the existing failing development system, which we have been warning against for some time (e.g. *Cities for Growth*).
- Councils can discharge people outside their borough but other councils can refuse to accept new claimants from outside the borough. This area needs a review already, which this policy should hasten.
- There is a strong case charitable status requires housing association participation. A windfall levy should be created for housing associations founded on council transfer but not participating. Government subsidy should be cut off from non-participants.
- We believe changes could come in rapidly, within 2012, and so spur growth in the short-term.
- Options for expensive social housing could be investigated to expand this scheme (e.g. borrowing against future sales, higher payment for mobility).
- But even as they are, these reforms are popular, make the welfare state fairer, boost growth, construction and social housing numbers, and cut waiting lists.
- The biggest question is why DCLG civil servants have not proposed this policy before.

1

A Need For More Social Housing and One Potential Solution

Reform to help alleviate a crisis in social housing provision and boost growth

The country is experiencing a major housing crisis. Construction is falling and family budgets and living standards are being squeezed by rising rents. A shortage in social housing provision is an important part of this housing crisis. The government has committed to build a total of 170,000 new affordable homes by 2015.¹ This is welcome, but not enough. The annual average of 42,500 new homes a year is slightly less than the 47,165 managed under the last government;² and comes when waiting lists for social housing stand at 1,838,000 households, having risen by 80,000 over 2010/2011.³ Some councils have declared an intention to ensure that those on social housing waiting lists are realistic about their chance of being housed.⁴ This could reduce waiting lists by moving those who have no hope of being housed off the waiting list, but this hides rather than tackles growing problems.

The demand for social housing is growing not just due to the recession but because of difficulties in the private sector. In 2011 private rents rose 4%.⁵ Shelter has shown in around half of all local authorities, private rents now take up over 35% of disposable income.⁶ At this level, when combined with other basic necessities such as food, transport, and utilities, it is almost impossible for household budgets to cope. Higher rents are a key part of a rising cost of living and increased frustration among the public. In Policy Exchange's polling report on public attitudes to politics, *Northern Lights*, we found people put 'cost of living' issues and halting rising costs of living at the top of their agenda. Yet people believed politicians are out of touch on living costs, insulated by good salaries and substantial expenses.

Meanwhile, despite historically low interest rates, 14% of UK households with mortgages are in forbearance or delinquent (unable to meet the terms of their mortgage payments), meaning that the total level of mortgages in difficulty is the same in the UK as it is in the US.⁷ Given a backdrop of rising private rents and home owners in difficulty, social housing need is likely to rise in the coming years, even if people are taken off the waiting list by councils.

Even falling house prices would be unlikely to reduce demand, since it would not necessarily lower rents. House prices in 2011 were nearly 30% higher than the long-term rent to house price ratio would suggest seems likely.⁸ Because of the inherently dysfunctional way land, housing and mortgage markets overlap,

1 *Laying the Foundations: A Housing Strategy for England* Department of Communities and Local Government (DCLG) (November 2011)

2 Table 1000: Additional affordable homes provided by type of scheme, England and its Regions, years 1997/8 to 2009/10, available at the DCLG website

3 Table 600; rents, lettings and tenancies, numbers of households on local authorities waiting lists, Ibid

4 *Allocations overhaul to reward long term residents*, Inside Housing (1st February 2011)

5 *Buy-to-let index* Property Services plc (January 2012)

6 Report one: *Analysis of local rent levels and affordability*, Shelter Policy Library (October 2011)

7 *Working out of Debt*, McKinsey Quarterly (January 2012)

8 *House of Horrors, Part 2*, The Economist (26th November 2011)

as our *Cities for Growth* report sets out, it is unlikely housing construction will rise substantially. *Cities for Growth* argued we are likely to see rising rents with stagnant or falling house prices.

This all means that housing need and pressure for more social housing will grow. The Treasury is considering how to pump money into house building to kick start the economy, but as our report *Looking to the Future of Growth* noted, the government has no money. The current spending review cut the amount to be spent on housing during the spending review period from £8.4 billion to £4.5 billion, or 47%.⁹ The OBR believes even with strong growth by 2013, government needs to cut spending or raise revenue by an additional £35 billion by 2014–15.¹⁰ This is on top of existing cuts (most of which have not yet been identified). Combined with pressure in other areas (e.g. debt payments, ageing-related health costs), housing capital budgets are at best likely to stabilise, and may even reduce.

Ultimately, as our report *Making Housing Affordable* set out, we need affordable private housing to cut social housing waiting lists, which fell from 1.2 million to 1 million between 1979–1997 as market housing was cheaper.¹¹ Government must reform planning and create functioning markets that stop relying on short-term debt. It should not support ailing asset price bubbles. But it must also make better use of existing social housing stock, an asset worth hundreds of billions of pounds.

Expensive social properties are key to making better use of this stock. When an expensive property becomes free social landlords have a choice. They can give the property to a single family, or sell it off and reinvest the proceeds to build multiple properties elsewhere. We would argue that giving expensive social housing to a single lucky household is unfair to the more than 1.8 million households languishing on the waiting list. People are being forced to wait, often in unsuitable or temporary accommodation, so that one lucky family is given a property (at huge expense to taxpayers) that costs hundreds of thousands of pounds.

This report argues expensive social housing should be sold off once it becomes vacant and the proceeds used to finance the construction of multiple new and quality social homes. It shows this policy is both fair and popular with the public; that the value of housing involved and the associated economic impacts are significant; and that arguments against this policy are misplaced. It is a straightforward, workable policy that could boost house building and tackle the housing crisis while also driving growth, without increasing government debt or propping up a model of development that has failed for decades.

“This report argues expensive social housing should be sold off once it becomes vacant and the proceeds used to finance the construction of multiple new and quality social homes”

⁹ *Affordable Rent Model*, House of Commons Library (November 2011)

¹⁰ *Autumn Statement (Annex C)*, HM Treasury (November 2011)

¹¹ *Op. Cit.*, Table 600; rents, lettings and tenancies, numbers of house holds on local authorities waiting lists & Short, R, *Housing in Britain: The Post-War Experience*, (Routledge 1982) p.69,

2

The Public Oppose Expensive Social Housing and Want More Homes

The public have clear views on expensive social housing

It is ultimately the public who pay for expensive social housing. With this in mind, it is important to consider what the public think about the matter. Polling evidence suggests that the public are relatively united in their opposition to expensive social housing.

The public supported the housing benefit caps

Expensive social housing is similar in principle to the housing benefit caps. These capped the rents that people could claim on housing benefit, adjusted by the size of bedroom. The maximum set for the largest properties was £400 a week. After the housing benefit caps were introduced some housing professionals objected, but the caps were popular with the public, as Table 2.1 shows. With average support of 73% and just 17% opposed the policy attracts widespread public support. Detailed figures show supporters outnumber those opposed in each demographic group (e.g. age, voting intention). Some groups are almost united in support (e.g. Conservative voters), but all groups strongly support the policy.

Table 2.1: Support for the housing benefit cap

Poll and specific question	Support	Oppose	Net support
YouGov, "Do you support or oppose ... limit housing benefit to £400 a week?" ¹²	78%	10%	+68%
YouGov, August 2010, "Putting a limit on housing benefit?" ¹³	72%	17%	+55%
ICM, June 2010, "Do you support or oppose ... imposing a maximum weekly limit of £400 on housing benefit?" ¹⁴	68%	23%	+45%
Average	73%	17%	+66%

¹² YouGov/The Sun Post-Budget Survey (June 2011)

¹³ Ibid, YouGov/The Sun Survey Results (August, 2010)

¹⁴ ICM Poll for The Sunday Telegraph (June 2010)

¹⁵ Details of how these tables were compiled by YouGov are given in the Annex at the end of this report.

Most people strongly oppose giving new tenancies in expensive social housing

Policy Exchange asked YouGov to undertake polling on this issue.¹⁵ The results were unambiguous; the public are strongly against expensive social housing. Firstly, we asked if people should not be given council houses worth more than the average in their local authority. People strongly agreed with limiting expensive

social housing tenancies. Support was 73% in favour to just 15% opposed, a ratio of nearly seven-to-one support to opposition and net agreement of +58%. There is strong opposition to expensive social housing across the political spectrum. Among Liberal Democrat and Conservative voters around only one in ten voters disagreed with the statement. For every Labour voter who disagreed, two and a half agreed. Nearly ten times as many voters strongly agreed as strongly disagreed.

Table 2.2: Polling on question “People should not be offered council houses that are worth more than the average house in their local authority”

	Voting intention			
	<i>All voters</i>	<i>Con</i>	<i>Lib Dem</i>	<i>Lab</i>
Strongly agree	47%	63%	40%	36%
Tend to agree	26%	23%	35%	27%
Tend to disagree	10%	5%	10%	16%
Strongly disagree	5%	2%	2%	8%
Don't know	12%	7%	13%	13%
Net	+58%	+79%	+63%	+39%

Across a range of social and economic variables, large or very large majorities in every group agreed that giving people more expensive social properties than the average property in their area was wrong. Amongst social tenants, opposition to such a policy ran at a factor of 2:1, giving a net positive of +27%. Even if parts of the social housing sector support expensive social housing, the tenants that they house disagree. For almost all groups net agreement was over 60%, very strong majorities against current policy.

Table 2.3: Polling on question “People should not be offered council houses that are worth more than the average house in their local authority”

	Social class		Housing tenure			
	<i>ABC1</i>	<i>C2DE</i>	<i>Own outright</i>	<i>Social rent</i>	<i>Private rent</i>	<i>Mortgage</i>
Agree	76%	69%	83%	53%	67%	76%
Disagree	13%	16%	10%	26%	20%	14%
Net agree	+63%	+53%	+70%	+27%	+47%	+62%

	Region			
	<i>London</i>	<i>South</i>	<i>Midlands</i>	<i>North</i>
Agree	75%	75%	75%	72%
Disagree	15%	12%	13%	15%
Net agree	+60%	+63%	+62%	+57%

However, this question does not cover all expensive social housing. Some local authorities are expensive in general. So we also asked if people should be offered council housing in expensive areas. This means new tenancies might not be available in particular areas within cities or regions. Kensington for instance might not have social housing available in future.

The polling found strong opposition to council housing in expensive areas. Four times as many strongly agreed there should not be council housing in expensive areas as strongly disagreed. Twice as many agreed as disagreed that there should not be council housing in expensive areas. More Labour voters agreed than disagreed. Nearly twice as many Labour voters strongly agreed than strongly disagreed. There is an overwhelming majority against council housing in expensive areas.

Table 2.4: Polling on question “People should not be offered council housing in expensive areas”

	Voting intention			
	<i>All voters</i>	<i>Con</i>	<i>Lib Dem</i>	<i>Lab</i>
Strongly agree	38%	51%	29%	28%
Tend to agree	22%	23%	29%	20%
Tend to disagree	19%	14%	23%	26%
Strongly disagree	9%	4%	4%	15%
Don’t know	13%	8%	15%	11%
Net	+32%	+56%	+31%	+7%

Breaking this down, within most groups at least twice as many people agree as disagree with ending new social tenancies in expensive areas. Even social tenants agreed with the proposition. No region, class, or tenure disagreed with this statement. Supporters of council housing in expensive areas are substantively out of line with public opinion.

Table 2.5: Polling on question “People should not be offered council housing in expensive areas”

	Social class			Housing tenure		
	<i>ABC1</i>	<i>C2DE</i>	<i>Own</i>	<i>Social rent</i>	<i>Private rent</i>	<i>Mortgage</i>
Agree	61%	57%	66%	43%	52%	64%
Disagree	28%	28%	23%	39%	33%	27%
Net	+33%	+29%	+43%	+4%	+19%	+37%

	Region			
	<i>London</i>	<i>South</i>	<i>Midlands</i>	<i>North</i>
Agree	59%	60%	64%	62%
Disagree	32%	25%	27%	27%
Net	+27%	+35%	+37%	+35%

Most people actually support forcing people to move from expensive properties

Most people support reducing housing support even if it means those relying on the state are forced out of expensive areas, and even if this means forcing them out of their existing homes. A poll by IPSOS MORI in 2011 found that by 56% to 29%, voters agreed with the statement “People who receive higher housing benefit because they live in expensive areas should be forced to move into cheaper housing to bring down the benefit bill”.¹⁶

Changing future social tenancies is fairer than altering existing contracts

This level of support for forcing people to move raises an interesting question of fairness. Would it be fair to push out existing tenants who live in expensive social properties sell these off and reinvest the proceeds, building multiples homes for those on the waiting list?

This would not be fair. Existing tenants have been given the promise of lifetime security as set out in the 1980 Housing Act. The concept of the rule of law and contract would mean that only exceptional circumstances would justify throwing people out of their homes. It is unfair to suddenly uproot people who have looked after their property and ‘done the right thing’. It sets a bad precedent and could have behavioural consequences in future.

Forcing large numbers of people to move will also be much less popular in reality than theory. But given most people think requiring others to move is right, merely stopping new expensive social tenancies is actually less hardline than the view of the general public.

Are the public in favour of building more homes?

This report has a two point argument; we should sell the more expensive social homes off as they become vacant; we should then use the proceeds to build more homes. This second point is important. Polls show that people support more new homes in their area as well as supporting ending expensive social tenancies.

An Ipsos-MORI poll last year showed a net of +22% of people in favour of building more homes in their community.¹⁷ In another poll, 55% of people were prepared to accept semi-detached or detached homes, and 47% were prepared to accept (quality) terraced housing.¹⁸ Our Northern Lights polling report asked if people thought we needed to build more homes and found 53% agreed and 33% disagreed, a net agreement of +20%.¹⁹ A YouGov poll from 2004 found that 40% of those polled support new homes in their suburb, town or village and 29% were opposed, while 72% thought the UK needed more homes.²⁰

Support for new homes is even higher if development safeguards are proposed, though people want to have a say in what is built nearby. Government polling found 73% of people supported new homes if these were well designed and in keeping with the local area.²¹ YouGov found 82% of people thought the support of the local community was important in developing new homes.²²

However, there is often a vocal minority opposed to development. There are also understandable fears around quality and lack of green space with new

16 *Future State of Welfare Study*, Ipsos-Mori, 2011, available on their website

17 *Collision Course*, Inside Housing, (17th June 2011)

18 *Housing Futures; Informed Public Opinion*, Joseph Rowntree Foundation, 2004

19 *Northern Lights: Public policy and the geography of political attitudes*, Policy Exchange, 2012

20 *YouGov/HBF Survey Results*, YouGov, 2004, available on the HBF website

21 *Public Attitudes to Housing 2010*, DCLG, July 2011

22 *Public Attitudes to Housing 2010*, Ibid

homes, and we discuss this in our *Cities for Growth* report and further on in this report. By giving local people direct say over design we can eliminate these fears, drive up the quality of housing, and avoid repeating the errors of the past.

3

Defining ‘Expensive Social Housing’ as Above a Regional Median

Defining ‘expensive social housing’ as above a regional median

If we are to sell off expensive social housing in order to re-invest the proceeds into new homes, we need a workable definition of social housing.

The polling discussed in Chapter 2 uses the concepts of ‘above average’ value housing in an area and housing in ‘expensive areas’ (areas above the average). Expensive social housing is properties more expensive than the ‘average house’, including those in expensive areas.

This concept of the average house could use the mean or median average house price. The mean is the average of all house prices summed and divided by the number of houses. The median is the mid-point of all individual house prices, ranged from the cheapest to most expensive. In this case the median is preferable to the mean, because it is the point at which half of all properties are more expensive and half are less expensive. Anything more expensive than a median house is a more expensive house than half of households live in.

The median average will have to be adjusted for size of property and area

We also need to amend this concept of the ‘average house’ for different sized families. The median price for a four bedroom house and the median price for a one bedroom flat will be very different. Adjusting for bedroom size is relatively uncontroversial. A family of four or five will need a multi-bedroom property while a single person can live in a one bedroom flat.

The median price varies by area. It could be argued that there should be no adjustment for area, and we should create a national cap for social housing. Regional house price variation makes this unworkable. In 2011, the median English average price was £177,000. As a benchmark for the ‘average property’ this is both too high and too low. The table below sets out the median house price by region. £177,000 would mean selling off almost all social housing in London and the South East yet is well above the median in areas like the North East and North West, reducing receipts and perpetuating unfairness.

Table 3.1: Median house price by region and English average in 2nd quarter 2011²³

Region	Median house price
North East	£119,950
North West	£126,725
Yorkshire and the Humber	£130,000
East Midlands	£136,950
West Midlands	£143,000
England average	£177,000
South West	£184,995
East	£187,500
South East	£220,126
London	£290,000

Another alternative is a cap set by borough or local district. An applicant in Harrogate could argue they should stay in that district (median house price £224,500), rather than be placed nearby (in York, Leeds, or Bradford). An applicant in Kensington and Chelsea (median house price £791,000) might want to stay there.²⁴ If the median was set at local authority district level then social tenants could live in the exact area they want. But most people do not get to live exactly where they want but in an area they can afford, often not their first choice. The public think new social tenants should not have the right to live in expensive areas. So using a local authority median is unfair, as it assumes that people have the right to social housing in expensive areas.

Given that national or local authority medians are flawed, we are left with the idea of a regional median, (e.g. the West Midlands or London). Creating this might mean people living in cheaper areas within a region. It may be that they live half an hour or more from their ideal location. But this is no different from the vast majority of people. This reform would mean treating social tenants the same as everybody else.

In almost all regions there will be a wide range of properties across almost all areas. For example, in the third quarter of 2011 the South West, the largest region in England in terms of its land size (at 9,000 square miles)²⁵ had a median house price of £190,000. But most local authority median house prices in the South West were not that far from this median. The standard deviation (the average distance from the mean average, a way of showing how close together figures are) for local authority median house prices in the South West was £31,676. Across all properties in the South West over 70% were within one standard deviation of the £190,000 figure.²⁶ In simple terms, property prices across the region are quite tightly bunched together. The chances of having no social housing across large areas would be minimal.

The biggest gap between median local authority house prices in the South West was £279,500 for the Cotswolds and £154,000 for Swindon, two local authorities next to each other.²⁷ This shows how expensive areas and cheaper

²³ Table 582, Housing market: median house prices based on Land Registry data, by district, from 1996, Op. Cit.

²⁴ DCLG Table 582, Op. Cit.

²⁵ The Region and Country Profiles – Key Statistics Tables – February 2012, Office of National Statistics (ONS), available at the ONS website

²⁶ DCLG Table 582, Op. Cit., Standard Deviation calculation on relevant local authorities

²⁷ DCLG Table 582, Ibid

areas are often close, even outside urban areas. The Cotswolds local authority is also less than twenty miles from Worcester, West Oxfordshire, and Gloucester, which all have much lower average house prices. So even if new tenants are not housed in the Cotswolds, they would still be housed nearby.

Further, even in the Cotswolds the median lower quartile price (the price at which 75% of properties are more expensive and 25% less expensive) is £205,750, meaning that one in four properties were less expensive than this figure, which is close to the South West median.²⁸ So even in the Cotswolds it is likely some properties and areas would have social housing valued below the South West median. So if those on the waiting list in the Cotswolds did not want to wait for those particular properties they could be housed in cheaper areas nearby (e.g. Swindon or Gloucester).

As a further safeguard to guarantee that people will not have to move too far, sale of specific social properties could be halted if it could be shown that it was impossible to procure land and build social housing within 30 miles that would fall under the cap. Given the reasons set out above, we do not believe any cases will exist, as there will always be such sites within such a radius.

Calculating the median house price adjusted by size and area

We now know what we are looking for when defining an expensive social property. It is one above the regional median adjusted for bedroom size. This data can be calculated from the English Household Survey.²⁹ This survey gives physical valuations and comprises 16,150 occupied or vacant dwellings where physical inspection was carried out, so is a reasonably accurate gauge of how housing value is distributed. 2008/9 is the most recent survey with the value of all properties in different regions.³⁰ Table 3.2 below sets out the relevant data.

Table 3.2: Median value of all properties by region and number of bedrooms

Region	Number of bedrooms			
	1	2	3	4
North East	£70,000	£92,000	£115,000	£180,000
Yorkshire and the Humber	£69,800	£100,000	£128,000	£205,000
North West	£75,000	£95,000	£125,000	£200,000
East Midlands	£70,000	£110,000	£130,000	£205,000
West Midlands	£75,000	£110,000	£133,000	£220,000
South West	£90,000	£143,500	£175,000	£250,000
East of England	£110,000	£149,500	£175,000	£280,000
South East	£118,000	£165,000	£210,000	£320,000
London	£170,000	£215,000	£250,000	£390,000

There is wide variation in the data. A one bedroom property in Yorkshire and Humberside costs £69,800 and a four bedroom London property costs £390,000. Since this data was collected prices have fallen and risen again to

²⁸ DCLG Table 582, Ibid

²⁹ English Housing Survey, 2009: Housing Stock Data [computer file], Department for Communities and Local Government, Colchester, Essex: UK Data Archive [distributor], July 2011. SN: 6804, <http://dx.doi.org/10.5255/UKDA-SN-6804-1>

³⁰ English Housing Survey 2008/9. Results which relate to the physical dwelling are presented for '2009' and are based on fieldwork carried out between April 2008 and March 2010 (a mid-point of April 2009).

where they were before. The difference between the third quarter of 2008/9 as a reference point for this data and the third quarter of 2011 is minimal according to DCLG figures.³¹ In all regions changes are within a +/-5% range bar London, which saw a stronger rise (more were slightly up than slightly down). But the median averages are likely to be broadly the same now as they were then.

If the median value for some of these seems a little low, it must be remembered that the *open market* median value and the *overall* median value of properties in an area will differ. The 17.6% of properties that are social properties are on average worth less than the open market median that excludes them. But the overall median value includes these cheaper properties. So the *overall* median value will be lower than the *open market* median value.

This is illustrated in Table 3.3 with a hypothetical example. If the 60% of the stock in an area on the open market has a median price of £600,000, £600,000 is the average median market value. But if the remaining 40% are social properties with an average median value of £200,000 the overall median value of the stock is £420,000, $(0.4 \times £200,000 + 0.6 \times £600,000)$. This is nearly a third lower than the value of the properties on the open market.

Table 3.3: How open market and overall median property values in an area could diverge

	Median value of stock	Proportion of stock	Overall median value of all properties
Open market properties	£600,000	60%	£420,000
All social properties	£200,000	40%	

Expensive social housing exists, as this paper discusses, but generally the more social housing in an area the larger the gap between the open market median value and the overall median value will be. Social housing is less valuable on average than market housing.

London, with a total of 23.5% of its stock as social housing, will have a larger gap between the overall median value and the open market value compared to the South East, where just 13.1% of its properties are social housing.³² Within London, areas like Islington which have 43% of their properties as social housing will have a gap between the open market median and the overall median much larger than areas like Harrow which have just 10% of their housing stock as social properties.³³ This explains why the overall median value for all homes in some regions is lower than might be expected given market prices – because it reflects the effect of including social properties within the mix, properties which are largely lower in value than market properties and are excluded from market calculations.

The strength of this policy is that as property prices change then the value of the median will also change. If prices rise, so will the median. If prices fall, so will the median. The cap will adjust as the price of properties changes so that the cut off point is always the ‘average’ median property, insulating the system from house price volatility by ensuring it only requires sale of vacant social properties in the top 50% of the housing stock, which adjusts as prices change.

³¹ DCLG Table 582, Op. Cit.

³² Calculated from DCLG Table 109: By tenure and region, from 1991, Op Cit

³³ DCLG Table 100, Op. Cit.

The absolute median cap should be set at a maximum of four bedrooms to maintain fairness

Families need a larger home than single people. This principle is reflected in housing benefit and social housing allocation. But beyond a certain point, a house of any size is 'expensive'. Taking the median regional average for a six or seven bedroom social property, for example, would allow quite expensive properties to be kept as social properties. Most people do not, however, simply expand their family and look to the government to resolve any problems this creates. They have to adjust to what they can afford. Giving out very large properties (which will always be expensive above a set size) is simply unfair.

There therefore should be a maximum cap on the size of properties paid for by taxpayers. From April 2011 the Local Housing Allowance (LHA) used to calculate private housing benefit claims has been capped at four bedrooms in order to prevent unfairly high individual claims for housing benefit.

For this reason, we used four bedrooms as the maximum median. The value of properties should be capped at four bedrooms, just as housing benefit is capped at four bedrooms. Social properties with five or six bedrooms might remain, but only if their value was less than the median four bedroom property in that region. If social tenants want larger properties that are less valuable than the median four bedroom property in their region (either due to their area or property itself) this would be permissible.

Box 3.1: Why do expensive social properties exist?

The existence of expensive social property is in some ways surprising. Some councils now have large amounts of such stock. Camden has about 6,500 street properties.³⁴ These will be very valuable. Two reasons explain why this expensive stock exists.

Firstly, it was due to the politics of the post war period. Radical Labour councils ruled many areas throughout the post-war period. These councils aimed to create as much social housing as possible as part of a campaign against private ownership. Many areas saw exceptionally high council ownership. Tower Hamlets saw council ownership peak at over 80% in the mid-1980s.³⁵ But Tory councils also believed that they needed large levels of council housing in their area due to the prevailing socialist ethos of the time. The politics of the day was the main reason such stock was created.

Secondly, as demographics have shifted, some areas have ended up with large amounts of expensive council housing because the demand has increased for homes. The rise of dual income households shifted commuting priorities (as dual earners prioritise being closer to work). Inner city areas close to central business districts have become more expensive. These shifts have left many councils with substantial amounts of valuable stock scattered throughout the country. Just how much this stock is worth is the subject of the next chapter.

Expensive social properties are not a well thought out response to a real problem. They are instead a historical accident, which are maintained largely due to political inertia rather than any real evidence base supporting them, as discussed later.

³⁴ Camden Association of Street Properties, www.camdenassociationofstreetproperties.com accessed in July 2012

³⁵ Tower Hamlets Final Local Implementation Plan for Approval, 2005/6 – 2010/11, Main Volume, London Borough of Tower Hamlets, 2005

4

20% of All Social Housing is Expensive and its Value is £159 Billion

Social housing made up 17.6% of all properties in England in 2011.³⁶ To calculate the value of expensive stock we need to know how many social properties are above the median value of housing in their region (adjusted by bedroom size) and what the aggregate market value of these properties is.³⁷ We asked the Department for Communities and Local Government (DCLG) for figures giving the distribution and value of the existing social housing stock, but they replied that this information was not held centrally. This failure is interesting given the social housing sector owns nearly one in five properties in this country, a huge asset base.

As an alternative we used data from the English Housing Survey. This data allowed us to obtain relatively accurate figures for the number and proportion of social homes valued above the median, (adjusted for bedroom size and region) in terms of the size and value of this stock. The proportion of expensive social properties was 21.8% of the social housing stock, 818,000 properties from a total of 3.78 million.³⁸

Table 4.1: Total number of social properties above the regional median value (adjusted by bedroom size)

	Number of properties	Percentage of social properties
Local authorities	339,000	18.7%
Housing association	479,000	24.3%
All social housing	818,600	21.8%

Expensive social properties are found in all regions of the England. In no region do they make up more than a third of properties. London has the highest total of expensive social properties and the North East the least. This is both as a percentage (30.7% as opposed to 14.8%), and the absolute level of stock (227,794 as opposed to 40,552).

³⁶ Housing; Social Trends 41, Office for National Statistics, 2011

³⁷ DCLG Table 104, Op. Cit.

³⁸ English Housing Survey 2008/9: Housing Stock Data, Op. Cit. Calculations based on overall data. Not all properties can be broken down into the relevant category, but 93% can be, and those that cannot do not appear to be systemically different from those that have more data available. Therefore the percentages have then been rebased on the assumption that this 7% is similar to the 93% to give a more complete picture.

Table 4.2: Number of social properties above median value in their region (adjusted by bedroom size)

Region	Number of properties	Percentage of social properties
North East	40,600	14.8%
East Midlands	43,900	15.8%
West Midlands	70,300	16.5%
North West	103,100	18.6%
Yorkshire and the Humber	79,500	19.3%
South West	56,700	20.1%
South East	97,600	22.2%
East of England	97,500	26.0%
London	229,130	30.9%
Total	818,600	21.8%

Table 4.3 shows the value locked up in expensive social properties by region, obtained by crunching the English Housing Survey 2008/9 data. This gives the total value of expensive social properties as around £159 billion. Unlocking even part of this large sum at a time of limited budgets would allow a major increase in development. As discussed in the previous section these figures are likely to be broadly accurate as a nominal valuation of expensive social housing because the housing market has not moved far from when they were obtained.

Table 4.3: Value of above-median social properties in 2008/9

Region	Value of properties above median (£ bn)
North East	4.4
Yorkshire and the Humber	9.2
North West	11.8
East Midlands	5.4
West Midlands	9.7
South West	8.8
East of England	17.8
South East	19.8
London	71.9
England	159.3

How much would be raised each year by selling off expensive stock as it becomes empty?

We would only access this £159 billion slowly over time, as we are proposing that this stock is sold off as it becomes vacant. Since 2005/6 the social housing stock has had a vacancy rate of between 6–7% a year across England (the rate at which stock ‘turnover’ occurs).³⁹ This rate includes both voluntary moves and deaths. However, expensive social housing is likely to have a lower turnover rate. Tenants are less likely to leave desirable properties or properties in desirable areas, because the private sector in these areas will be relatively expensive. For example, London, where private housing is very expensive, had a turnover of 3.5% a year from 2005/6 onward.⁴⁰ Both London and the UK had higher social housing turnover rates between 1990 and 2005/6. London’s annual turnover rate ran at 5–6% for these years.

Given this, it seems more realistic to assume the future turnover rate for expensive social properties is lower than the national turnover rate. It is more likely to be in line with London’s low turnover (where tenants often only vacate properties if they need to or pass away). Assuming a 3.5% turnover rate in line with London’s rate is not that far from the 2% turnover rate due to social tenants passing away each year.⁴¹ 3.5% is also cautious given for most of the past two decades London turnover rates were much higher than this. If we assume annual turnover and sale of 3.5% of the 818,000 expensive social properties, and the sale profile reflects the profile of expensive social properties, this would raise 3.5% of £159 billion every year. It would mean selling 28,500 properties on the open market and would raise £5.5 billion a year for building more social homes and boosting construction.

Dealing with the existing debt borrowed against these properties

Both councils and housing associations can borrow against future rents (though councils are more restricted in how this operates). Levels of debt have risen steadily in recent years. Aggregate housing association sector debt is now £43 billion.⁴² The aggregate debt held by local authorities after the Housing Revenue Account was transferred to them was £21.5 billion.⁴³ Taken together, debt held against social housing assets is worth some £64.5 billion.

Each property sold will have seen borrowing against its future rents. Selling the property will lose the future rents for that property. So each property sold must make a contribution to reduce the sector’s debt levels. The level of debt per council house across England is £18,679.⁴⁴ The maximum is South Cambridgeshire at £37,500. Just 15 councils, around 5%, have debt exceeding £30,000 per house and only three have debt exceeding £35,000 per house. As the housing association sector and local authority sector are roughly the same size and the debt held by the housing association sector is twice as large, housing association debt per property is twice as high, roughly £37,000.⁴⁵

To be cautious and assuming higher borrowing against more expensive properties, we will assume an average debt of £35,000 is repaid on behalf of councils and local authorities for each of the 28,500 expensive properties sold. This means annual debt repayments of around £1 billion. It leaves £4.5 billion a year for new social properties.

39 *The Case for Investing in London’s Affordable Housing*, London School of Economics (LSE) (June 2011)

40 *The Case for Investing in London’s Affordable Housing*, Ibid

41 *Using the British Housing Panel Survey to explore changes in housing tenure in England*, LSE, February 2007

42 *2010 Global accounts of housing providers*, The Social Housing Regulator, March, 2011

43 *Implementing self-financing for council housing*, DCLG, February 2011

44 *Implementing self-financing for council housing*, Ibid

45 *Implementing self-financing for council housing*, Ibid

This is just an average; the exact level of debt per house would have to take account of the social rent charged for that specific property, (as the future rental stream for this property will no longer exist). Government would have to consult on how to apply this fairly to those who had borrowed prudently without leading to unsustainable losses for over-extended borrowers. But debt repayment can easily be incorporated within reform. We should do this so we can then borrow against future rents for properties built with sales receipts – and not end up ‘double counting’ the figures.

The annual total of £4.5 billion a year this reform could raise is roughly equal to the figure of £4.5 billion spent on capital investment on housing during the period of the current spending review.⁴⁶ This is as much spending each year as the current four years of the spending review combined and will pay for hundreds of thousands of new social properties.

The scale of ‘disruption’ will be low

This reform will lead to minimal disruption. It will only affect around one in every two hundred social properties each year. Expensive social properties only make up 21.5% of the social housing stock, and only 3.5% of these properties would be sold in any one year, and so this would affect roughly 0.6% of all social properties a year, around 0.1% of all properties. Even over time, this would only affect 21.5% of social properties in the UK and around 3.5% of all properties in the UK. It would affect regions slightly differently, but no region would see massive changes.

This reform would not make major changes to the issue of the Housing Revenue Account (HRA) surplus. Social rents have risen to the point that the HRA system is in a surplus, with a 2009/10 balance of £113 million more being paid in rent than needed to go to maintenance and other costs.⁴⁷ This amount is very small compared to a sector worth hundreds of billions. While this means a loss of rents from sold properties, there would also be gains on new properties, and given more will be built than sold, this should have a small positive effect. The result of this minimal change to the existing stock will be a massive increase in social housing, and the biggest social housing building scheme since the 1970s.

Historic grant could be transferred to new properties

The term ‘historic grant’ refers to a debt that many housing association properties owe to the government. Historic grant is the capital grant government put into building social properties. Where this stock was transferred to housing associations, this ‘historic grant’ transferred across with it. It reflects the government’s initial investment. The grant is tied up in the existing stock, but when stock is sold there is no reason this ‘historic grant’ could not be transferred (if necessary split) across to new social properties and be retained on the housing association’s balance sheet, or be transferred if the funding moves from one housing association to another. This report does not therefore recommend or create any substantial change to the nature of historic grant.

46 Written response to question from Lord Kennedy Southwark, They Work for You (January 2011) Hansard citation: (HL Deb, 24 January 2011, c111W)

47 The Reform of Housing Revenue Account Subsidy, Parliamentary Standard Note SN/SP/4341, The House of Commons Library, August 2011

Box 4.1: Million pound council houses

In expensive social housing, there exists a small but significant minority of incredibly expensive social houses. These “million pound council houses” that the press find so fascinating represent the extreme of a system which argues that social housing should not be bound by consideration of cost.

In the last few months, two examples emerged in Islington council via The Sun newspaper, which pointed out the cost of these properties is such that they could house multiple families. Pictures of the two homes are shown below top left and top right.⁴⁸ Other cases, including a million pound social property in Haringey,⁴⁹ and a million pound social property in Wandsworth,⁵⁰ have also come to light – though only because the tenants who lived in them were involved in anti-social behaviour.

The cost of continuing the social tenancies within these properties is astronomical. For example, Camden own perhaps the most expensive social property, valued at over £2 million (bottom left). The Camden council owned gatehouse is so far removed from the average taxpayer’s house as to beggar belief.⁵¹ It is absurd this is social housing. Another example would be a council owned £1.2 million Chelsea mews house (bottom right) that caused headlines when the press discovered it.⁵² The media seemed unaware this is normal practice.

In an age of austerity it seems ridiculous that new tenancies for million pound council houses are even an option. Creating expensive new tenancies in such properties does not represent good value and fairness to the taxpayer, or fairness to those on waiting lists.



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48 *Welfare Status*, The Sun (3rd June 2012) and *Ibid*, *Dole Family No.2 in a Posh House* (7th June 2012)

49 *Gypsy in £1.2 million home ‘addicted to having babies’*, The Sun (8th February 2011)

50 *Accused rioter’s mother bans son from £1 million council house rather than get evicted*, The Telegraph (19th August 2011)

51 *Britain’s most expensive council house is a £2 million gatekeeper’s lodge*, The Telegraph (13th Oct 2008)

52 *Anger as the ‘smartest house in Britain’ is left empty*, The London Evening Standard (3rd April 2009)

5

Expensive Social Properties Being Sold When Vacant is the Best Option

More expensive social properties receive much higher subsidy

There are various options for expensive stock. None are as popular or raise as much as our proposal, and all come with major problems. Much of this is because expensive stock is more heavily subsidised than other properties. All social rents are sub-market. How these rents are calculated is somewhat haphazard for historical reasons.⁵³ In 2000 the Labour government set out a plan to rationalise rents as set out in the green paper *Quality and Choice; A Decent Home for All*. Reform was duly enacted and all social rents are steadily moving toward a ‘target’ rent calculated by the formula below.⁵⁴

Target weekly rent is equal to:	70% of average sector (LA or RSL) Multiplied by relative county earnings Multiplied by bedroom weight
Plus:	30% of the average rent for the sector Multiplied by relative property value

The value of the property is thus only a small part of any social rent. A property worth £110,000 has a market rent of £100 a week given current 4.8% yields⁵⁵ (the current annual rental rate set against the value of the property) meaning that you can charge £5,200 a year for a property worth £110,000. An expensive property worth three times that, £330,000, will have a market rent of £330 a week. The market difference is £230 a week. Social rents will differ much less. Given the sector’s average rent is 65% of the market rent, the social rent for a £100 market property is £65 a week ($£100 \times 0.65 \times 0.3$) + ($£65 \times 0.7$). The more expensive property’s social rent is £135.50 a week, ($£300 \times 0.65 \times 0.3$) + ($£65 \times 0.7$). Weekly subsidy (the gap between market and social rents) for a property worth three times the average is £196 a week, over five times the subsidy on an average property, and a subsidy worth £10,000 a year. Because 70% of the rent is set without reference to the property’s value, subsidy increases as a social property’s value increases.

⁵³ This largely reflects the discretion given to housing associations and councils when setting their own sub-market rents. As housing historians point out, during some periods and areas the average social rent was higher than average market rents, but they were lower for the value of equivalent property, particularly those offered to the ‘respectable’ working class as an incentive.

⁵⁴ *Guide to Social Rent Reforms*, Department of Environment, Transport and the Regions (DETR), March 2011

⁵⁵ *Rental Index Q2 Find a Property website*, July 2011, available online at FindaProperty website.

Table 5.1: Difference in subsidy between ordinary property and expensive property

Property	Weekly market rent	Weekly social rent	Weekly difference	Annual rent subsidy
Ordinary property	£100	£65	£35	£1,820
Expensive property	£300	£104	£196	£10,192

For more expensive properties the gap is even larger; a £660,000 property would have a weekly social rent of £162.50 ($£600 \times 0.65 \times 0.3$) + ($£65 \times 0.7$) versus a market rent of £600. This £437.50 weekly gap is worth £22,750 a year. Twenty-five years' subsidy is worth £568,750, a huge amount for a single household and dwarfing likely benefits received in this time. This colossal subsidy is why expensive social tenancies are so deeply unfair.

Other options (e.g. borrowing more, higher rents and Right to Buy) don't work for expensive social properties

This high subsidy for expensive properties could be ended, which could bring in money to pay for the construction of new social properties. But this would mean a very sharp and rapid rise in rents. This rise would largely be absorbed by housing benefit. It would be a typical example of government cutting one budget but increasing spending somewhere else. Around 62% of social tenants receive housing benefit, and this covers an average of just over 90% of their rent.⁵⁶ As around 57% of social tenants' rent is paid by housing benefit, then higher rents simply move expenditure around.

Much higher rents would also be difficult for tenants to cope with. The proportion of social households with incomes greater than £30,000 a year is just 7%, or 20% of social tenants in work. Only 9% of social tenants in work have household incomes greater than £40,000. 52% of social tenants in work

have household incomes of less than £20,000 a year.⁵⁷ In addition, rent rises are already running quite high (at RPI + 0.5% + £2), putting a strain on tenants.

Much higher rents will also hurt incentives for low income households. Housing benefit is paid to working households but it is withdrawn past a

relatively low threshold at the rate of 65p in every £1 earned. When Universal Credit replaces the current system of working age benefits, support for housing costs will be incorporated into the Universal Credit. Higher rents will mean higher awards of Universal Credit and claimants facing clawback of income higher up the pay scale. This creates worse incentives around work and career progression.

For expensive properties, rapid rent rises will breach the £26,000 household benefit cap. A family of five receiving benefits of just £4,500 to live on per person a year excluding rent, or around £85 a week, (e.g. JSA or ESA, Income Support for the children, and council tax benefit), would be left with £3,500 to pay

“For expensive properties, 25 years' subsidy is worth £568,750, a huge amount for a single household ... This colossal subsidy is why expensive social tenancies are so deeply unfair”

⁵⁶ English Housing Survey: Headline Report 2009–10, Op. Cit.

⁵⁷ DCLG Table 808: Gross income of Household Reference Person (HRP) and partner, by tenure and whether HRP is in work, Op. Cit.

rent, around £67 a week. Given average social rent for Registered Providers in London in 2011–12 was £97.50 and in the South East is already £90,⁵⁸ expensive properties can never change anything like market rents.

Another option is to increase borrowing against the value of expensive social properties. It is sensible for social housing providers to borrow against the future rents of their properties, called the EUV-SH value of future rents, (the Existing-Use-Value of Social-Housing). The EUV-SH valuation takes account of legal obligations inherent with social property, (e.g. life tenancies at sub-market rents). It does not correspond to the market valuation of the property but the future rental stream. For less expensive social housing, the gap between social housing rents and market rents is small, so borrowing against the EUV-SH rental stream is not that different from borrowing against the property's market value. But for more expensive social properties, the gap is larger because rental subsidy is greater. So the level of sensible additional borrowing possible is very limited.

The only way that borrowing against the full market value of these properties would make sense is if they were then sold on the open market – exactly the policy that we propose. For normal properties there are other ways to get to this locked up value (e.g. 'equitisation', where a stake is sold or created based on future rents). But they do not work for expensive social properties due to the large rental subsidy that exists on such properties.

Another option is the Right to Buy which the government has sensibly resurrected. The new Right to Buy maximum cap of £75,000 and policy of recycling receipts to build new social homes should deliver extra social housing.⁵⁹ Right to Buy's discount is no different in principle from the discounted rent tenants receive. But Right to Buy does not work for more expensive properties without huge discounts. For a social household in a property worth £500,000 in London the proposed discount of £75,000 is far too small. Even tenants in a property worth £250,000 would need a mortgage worth £175,000 – far more than most social tenants could sensibly or realistically afford. Larger discounts would be needed.

Large discounts reduce the receipts available for new properties. If we sold the expensive social housing stock at a 66% discount, which would begin to make properties affordable to social tenants (so that a £450,000 property would be sold for £150,000), then in order to raise the £5.5 billion this does, you would have to sell £16.5 billion worth of properties each year. This gives a deadweight cost to government of £11 billion. It can quickly be seen why this is a sub-optimal policy response.

This report will not go into the general options to make better use of existing stock. All of these policies; raising rents, Right to Buy, or greater borrowing against future rent may be good for the majority of the social housing stock, but do not work for expensive social housing. Only sale at market value can unlock the value of such properties.

⁵⁸ DCLG Table 703: Private Registered Provider average weekly rents, by region, Op. Cit.

⁵⁹ Housing; Right to Buy Background, available at the DCLG website at <http://www.communities.gov.uk/housing/homeownership/righttobuy/>

6

Ending Expensive Social Tenancies Will Not Have Negative Effects

This chapter addresses the potential concerns around ending expensive social tenancies. It shows concerns that could be raised have very limited evidence behind them.

Ending expensive social housing treats social tenants like everyone else

Some may argue ending expensive social tenancies is unfair. But our report *Just Deserts?* showed that the public believe fairness is about getting what is deserved.⁶⁰ Many people would like to live in expensive properties or in expensive areas but cannot afford to. Social tenants deserve a good home, but not a better one than most other people. Expensive social housing means fewer social homes and longer waiting lists, benefitting one household but harming many others. This is not about being in or out of work. Not all social tenants are on benefits. And neither are all of those on out of work benefits ‘scroungers’. The point is most people do not expect that the government should pay for them to live exactly where they want. They must fit with what is affordable. Social tenants should not be any different.

Ending expensive social housing will have no real effect on employment

One argument used to justify maintaining expensive social housing is that it keeps social tenants in work. More expensive social housing is located in more expensive areas. In the context of the housing benefit cap, which – just as this policy would – meant that government would no longer support people in expensive areas, the heads of Shelter, the National Housing Federation (NHF), Oxfam, the Chartered Institute of Housing (CIH), and others wrote that this would negatively impact employment. They argued reducing housing support would mean people “will be priced out of areas in London and the South East where rents are highest, potentially pushing them further away from job opportunities or from ‘mini jobs’ they already have”.⁶¹

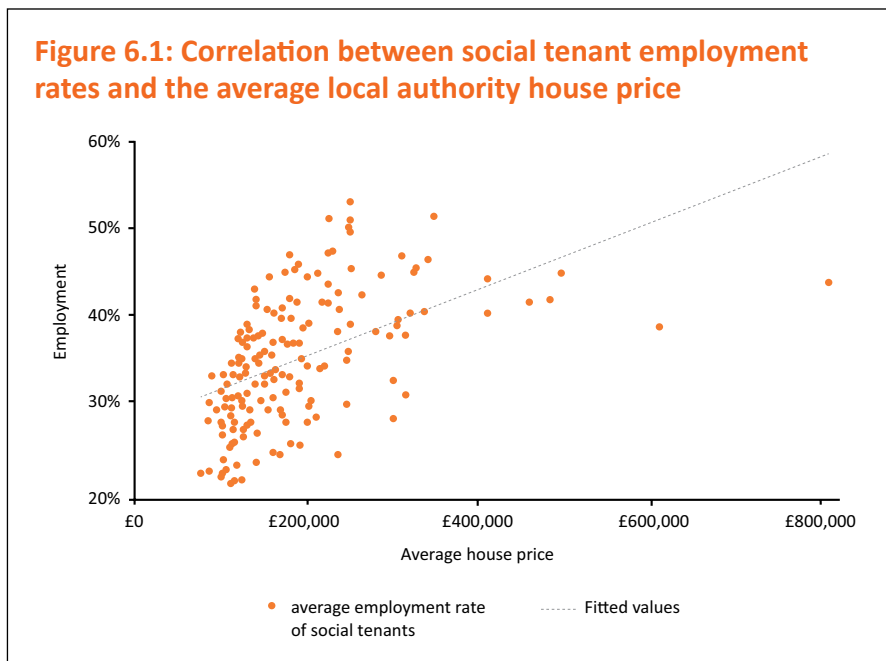
The argument that supporting people in expensive areas is critical to maintain employment is wrong. More expensive areas do have slightly higher employment rates. But these differences are very small, particularly within regions. This is

⁶⁰ *Just Deserts? Attitudes to Fairness, Poverty and Welfare Reform*, Policy Exchange, 2011

⁶¹ *Think again on housing benefit cap*, The Guardian, November 2011

unsurprising. Most people commute to work; either by public transport or car, so the only effect of moving tenancies is shifting time spent travelling and travel costs, hardly a major driver of employment.

A simple regression analysis between the average property value and an area's social tenants' employment rate⁶² illustrates that there is a correlation (it is important to note this does not necessarily mean causation) between social tenants living in more expensive areas and the employment rate. It is however quite weak. If the average house price rises £100,000 the average increase in the employment rate is around 4%.



It is impossible to say how far this correlation links to causality. However, even with the strongest possible case, assuming that the value of the housing in an area entirely explains the lower rate of employment, (so this one fact explains 100% of the correlation), a 4% difference in employment is very small. It would mean that if 25 households were given properties worth £100,000 less, saving £2.5 million, there would be a net loss of one job. This increase in employment is negligible for practical purposes. A £2.5 million cost compares very unfavourably to jobs created by schemes such as the Enterprise Zones (£17,500 in 1995 prices),⁶³ and the Regional Growth Fund (RGF) (between £4,000 and £200,000 a job with an average cost of £33,000 in 2011 prices).⁶⁴ There are much better ways to help social tenants find and stay in work. We could help at least 56 people via the RGF for every one person we help by continuing expensive social tenancies.

Table 6.1 shows how the employment rate and average house prices are correlated between local authorities within each of England's nine regions. It is very weak.

62 The detail of how we undertook this analysis is discussed in the Annex.

63 *Final evaluation of enterprise zones*, PA Cambridge Economic Consultants, 1995, HMSO

64 *The Regional Growth Fund*, National Audit Office (NAO), May 2012

Table 6.1: Intra-regional relationship between employment and house prices⁶⁵

Region	Difference in employment rate between two areas with average house price £100,000 less	Cost of keeping one tenant in work if we assume movement entails loss of job
London	Mild negative effect	Negative correlation (*)
South West	No effect	No significant effect
East of England	2%	£5 million
South East	2%	£5 million
Yorkshire and the Humber	6%	£1.66 million
East Midlands	7%	£1.42 million
West Midlands	7%	£1.42 million
North West	9%	£1.1 million
North East	10%	£1 million
Mean average	4.7% (bar London/South West)	£1.84 million (bar London/South West)

(*) This negative correlation is quite possibly the result of a particularly large gap between private and social housing costs creating an exceptionally deep poverty trap. However, we cannot be sure of this effect. It is interesting that the more expensive regions of England have weaker effects than poorer ones, which might indicate that a larger social housing to private housing gap creates a higher poverty trap as tenants are trapped in social housing, something our report *Making Housing Affordable* also discussed as a possible explanation.

Again, even if we assume the entire employment-house price relationship is explained by the location effect (so amending new social tenancies will decrease employment) retaining employment for tenants this way is very expensive (at a minimum of nearly £2 million per job in seven regions, and with no effect no matter how much we spend in London and the South West). This weak location effect is unsurprising. Employment depends on many factors; skills and education, motivation, self-confidence, addiction status, family status, incentives, childcare and much more. The idea putting people in expensive areas slightly closer to work will have a major effect on employment through cutting travel times or costs is simply unrealistic.

Ending expensive social housing will allow real mixed communities

Even after reform, the mix of private to social homes will be 2:1 in the lower half of the housing stock. The net effect of these policies will be less expensive social housing in rich areas, but larger amounts of good quality social housing in other areas. In Chapter 7 we call for a minimum threshold for new build properties and local involvement on design, ensuring we build good quality new homes along the lines of the 1930s and 1950s not the 1960s and 1970s. We want decent new social properties mixed in with other tenure types.

The current model of supporting expensive social housing often creates parallel communities where deprived households and affluent income households live near each other but do not interact, sharing nothing but geographical proximity.

⁶⁵ This is based on a simple regression using the level of employment in different local authorities and house prices. More detail and source of data is provided in the Annex.

Bottom-up mixed communities where social tenants have work and can move to ownership are better than top-down mixed communities, where social housing is simply placed in expensive areas.

Changing allocation policies so that those in work are not always last in the queue for social housing will help create mixed communities. However, whether or not proposed changes being put through, without changes to the statutory definition of ‘reasonable preference’, will achieve this or not is as yet unclear. Right to Buy is another way to obtain real mixed communities. By allowing those who want and can afford to own to purchase their homes it allows social tenants to stay in their existing property. Contrary to the myth propagated that Right to Buy led to tenants immediately selling up and leaving the area, the median length of time that Right to Buy tenants remained in their property was 16 years.⁶⁶ Thus Right to Buy creates real mixed communities. It shows social tenants they can achieve ownership, which is important as around half of all social tenants want to own.⁶⁷

Such policies would help create real mixed communities. Social tenants are less likely to mix with those living in private accommodation and are very affluent than those who are living in private accommodation but in work and on a low income. The assumption that social tenants benefit from living near affluent private households is not true. In 1999 the Demos think tank surveyed some top-down created mixed tenure communities to find disappointing results.⁶⁸ Just four in ten residents from such estates knew at least one person from a different tenure. Just two in ten would ask for advice or support for someone from a different tenure. 64% in these communities knew more than five people who shared their tenure, while 17% knew at least five people from other tenure types. Just 4% said they would ask someone from another tenure type in help ‘finding a job’.

A study by Atkinson and Kintrea found that social tenants focused upon the estate in their social interaction while 75% of interactions by owners on mixed estates were made outside of the estate.⁶⁹ Even the argument that estates could have bad ‘reputation’ effects that lower employment is at least partially refuted by LSE work that found there appeared to be no evidence (at least in early stages of recruitment) of ‘postcode discrimination’ against applicants from ‘bad estates’.⁷⁰

An LSE review of a series of studies on ‘mixed communities’ concluded “The evidence base for the effects of mixed tenure and tenure mixing is weak. Available evidence suggests effects are not strong, and there are some negative effects.”⁷¹ It repeated one study which found that “despite significant tenure diversification in Niddrie in Edinburgh, and rising employment levels generally, the gaps between the area and the rest of the city remained large and joblessness amongst social sector tenants is, if anything, higher”. Another found those in work did not penetrate social networks, “those in work spent less time on the estates and knew fewer people than their counterparts ... newcomers, particularly those in work, often found it hard to ‘fit in’ to the estate”.

We all want to see mixed communities where social tenants mix with those in employment and where tenants who can move to long-term stable employment do so. But we should focus on helping existing social tenants into work and ownership. This would mean using existing social networks to create real mixed communities.

66 A Financial Evaluation of Right to Buy, The Welsh Assembly, January 2008

67 See *Making Housing Affordable*, Policy Exchange (2010), which cited polling work done for the Council for Mortgage lenders, work for Notting Hill Housing Trust, the Scottish Executive, and the 2007 John Hills report *Ends and Means* on social housing.

68 *Living Together, Community Life on Mixed Tenure Estates*, Demos, 1999

69 Atkins, R & Kintrea, K, *Reconnecting Excluded Communities: The neighbourhood impacts of owner-occupation*, 1998

70 Do people from neighbourhoods with poor reputations face “postcode discrimination” when looking for work?, Centre for Analysis of Social Exclusion, LSE, June 2012

71 Tunstall, R, *The promotion of mixed tenure: in search of the evidence base* (2001)

The data shows expensive social tenancies on their own do nothing. By contrast, allocation policy changes and Right to Buy with a spread of social housing across the bottom 50% of the housing stock are likely to create the realistic positive role models and support networks that those who argue in favour of mixed communities want. A large gap in income and wealth is likely to lead to limited mixing. A smaller gap is likely to be the best way to achieved mixed communities and better results for social tenants.

Ending expensive social housing will raise tenants' standards of living

Social housing in expensive areas cuts social tenants' living standards. As less than 25% of social tenants have someone in full time work and only 33% in any kind of work,⁷² the majority of social households are either totally or largely reliant on nationally set benefits. The more expensive the area, the less these households will purchase, increasing absolute deprivation. Within regions cost of living varies substantially. There are (crude) ways we can try to measure this. Private retailers, for example, pay different amounts in different areas. A UNISON study set out how retail pay in London varies, as Table 6.2 sets out.

Table 6.2: Difference in retailers' basic pay rates in London⁷³

Retailer	Pay (lowest London)	Pay (medium London)	Pay (highest London)	Difference
Marks and Spencer's	£7.43	£7.69	£8.24	11%
Waterstones	£6.69	£7.05	£7.66	14.5%
Next	N/A	£6.27	£7.26	15.7%

If we take this 10–15% as a rough and ready measure for different living costs: someone on benefits living in an expensive part of London will pay a 10–15% premium compared to living in a cheaper area in London. For benefit recipients, particularly those with children, a 10–15% fall in income is a big fall in living standards. If a three person household on benefits receives £10,000 for its living costs (after housing) and this is worth £1,500 less in real terms due to its location, this seriously cuts household income. Thus ending social tenancies in expensive areas would increase tenants' living standards.

⁷² *Making Housing Affordable*, Policy Exchange (2010)

⁷³ *Location-based pay differentiation: A research report for UNISON*, The Information Data Service (IDS), September 2011

7

This Could Build 80,000–170,000 New, Good Quality Social Homes a Year

Borrowing against future rents will increase the sum available for new homes

As discussed in Chapter 4, the sale of empty expensive social housing could raise a net £4.5 billion annually to fund a large scale social house building programme. This £4.5 billion could be added to by borrowing against the future rental streams created by new properties. As social housing has an average discount of 35%, the average rent is approximately 65% of the market rate in the first year, (so roughly for every £100 spent £65 could be charged.) Over 25 years, with a 6%⁷⁴ discount rate and cautiously assuming rents rise 2% a year gives an extra 34p in future rent for every £1 spent now. This increases the amount we could spend on new development from £4.5 billion to around £6 billion.⁷⁵ There are currently issues around local authorities being able to borrow against future rents, but we will assume funds go via housing associations selected by local councils if necessary.

Working out the cost per home according to different size and different region

Land prices are too high and need to move to a sustainable lower level. Recycling sales receipts to support a market that has suffered mispricing due to excess credit and overly restrictive planning is wrong. (A hectare of land costs £1.45 million for a suburban site in Leeds, £4 million in Oxford, and well over £5 million in London, with even the cheaper outer suburbs like Croydon costing £4.7–£4.8 million).⁷⁶ If we purchase land via the ‘open market’, a market that is the product of constant interference and distortion (as set out in the reports *Making Housing Affordable* and *Cities for Growth*), we may delay the inevitable move to a more sensible development model and land prices. There is increasing recognition of the problems created in this area. Should a sensible approach not be taken the benefits of this report will be more than outweighed by support for a failing housing delivery system that is in serious need of an overhaul.

So we must procure land outside of the existing system. Land should be delivered through a land auction process (with additional local oversight, as discussed below). Land auctions are discussed in detail in papers by the CentreForum think tank. Key points are set out below. (Most recently in *Community Land Auctions; Moving Toward Implementation*).⁷⁷

74 The discount rate is used when borrowing as the promise of £1 tomorrow is worth less than £1 today because of delayed gratification and fact that we assume we are likely to be richer in future, and so £1 more, even after inflation, is likely to be worth less to us.

75 This is the total amount over a 25 year period. So for example in year ten with an initial subsidy of 35% and a long-term discount rate of 6%, the social rent for that one year would be worth 40% of the market value now. The total amount that could be borrowed against the initial sum is the rent for all properties over the next 25 years, adjusted by the discount rate.

76 This is based on *Property Market Report 2011*, The Valuation Office Agency (2011). To quote Savills since 2010 the land market has been “stagnant”, *Savills Market in Minutes; UK Residential Development Land*, 2012

77 *Community Land Auctions; Moving Toward Implementation*, CentreForum, 2011

Box 7.1: Land auctions

In this process, the purchaser states they would like to buy a set level of land. Within an area landowners can come forward offering their land at a specific price in a 'sealed bid' auction. No one would know what others were offering. The lowest price offered 'wins'. However, in order to be able to develop the landowner would also have to win a local referendum, as discussed further below. If this referendum was not won then the land would revert to the next highest price. Of course, developers and landowners could put the referendum forward before they won a vote rather than after. Under this scheme, the area where land could come forward in would be the region.

England's undeveloped space is around 11.5 million hectares. To build 150,000 homes on 30 homes a hectare requires 5,000 hectares, or 0.0004% of England's land space a year.⁷⁸ Agricultural land is worth around £10,000 to £20,000 a hectare in most of England.⁷⁹ If we assume ten times this sum obtains land we can assume a rough cost of £225,000. In the more expensive areas, the South East, South West or East of England, £450,000 should be enough to obtain land. (Landowners in these areas might require more as planning permission through other routes is more valuable). We should double this to account for amenities for local people or compensation for those nearby, meaning land costs per hectare of £450,000 in most of the country and £900,000 in expensive regions.

In London obtaining industrial or brownfield land for housing will need perhaps £3 million a hectare, more than commercial land (the only land available given the green belt).⁸⁰ However, given housing is usually preferred in such cases to other land uses there need not be amenities or compensation. Assuming medium density (30 homes a hectare) would give a relatively low cost for land. These are relatively arbitrary figures because they are attempts to assess the 'reserve price' at which only a tiny minority of landowners need to sell – a necessarily difficult task. We only need to obtain a tiny amount of land each year. If anything, these figures are likely to be an over-estimate. Table 7.1 gives figures for land cost per house.

Table 7.1: The cost of land per home in different regions (assuming 30 homes per hectare)

Area	Total per hectare	Total per home
London	£3,000,000	£100,000
South East/East/South West	£900,000	£30,000
Other regions	£450,000	£15,000

⁷⁸ Land Use Statistics, Generalised Land Use Database 2005 ONS, available at the ONS website

⁷⁹ Property Market Report 2011, Op Cit,

⁸⁰ Property Market Report 2011, Op Cit,

⁸¹ Land Use Statistics, Generalised Land Use Database 2005, Op. Cit.

⁸² Community Land Auctions: Working towards implementation, Centre Forum, November 2011

We need to add construction costs to this. We should build to Parker Morris standards (created in 1961, these set a minimum floor space for each property size). We should be able to live up to minimum standards from 50 years ago, especially as only 10% of England is developed.⁸¹ Assuming a cost of £100 per square foot, in line with market estimates from builders for an average private property,⁸² building costs are given in Table 7.2.

Table: 7.2 Cost of building new homes at Parker Morris standards⁸³

Occupants	Size (square footage)	Cost
1 person	320	£32,000
3 people (2 bedrooms)	610	£61,000
5 people (*) (3 bedrooms)	880	£88,000
6 people or above (4 bedrooms)	990	£99,000

(*) Size here for a 3 bedroom home is Parker Morris for a 2 storey semi. We are using semi-detached homes for three bedroom properties given people prefer houses to flats.

The two tables, land and construction, combine together to give the following cost for different sized properties across different regions. In reality, land costs will differ depending on the size of the property and exact location, but this is an acceptable approximation.

Table 7.3: Approximate cost of new social properties adjusted for bedroom size and region

	1 bed	2 bed	3 bed	4 bed
North East	£47,000	£76,000	£103,000	£114,000
Yorkshire and the Humber	£47,000	£76,000	£103,000	£114,000
North West	£47,000	£76,000	£103,000	£114,000
East Midlands	£47,000	£76,000	£103,000	£114,000
West Midlands	£47,000	£76,000	£103,000	£114,000
South West	£62,000	£91,000	£118,000	£129,000
East of England	£62,000	£91,000	£118,000	£129,000
South East	£62,000	£91,000	£118,000	£129,000
London	£132,000	£161,000	£188,000	£199,000

This low cost looks surprising, but as *Cities for Growth* discussed, it is a failed planning, development and credit bubble system that is responsible for our high house prices. The quality of these homes will be in line with the average private home. It is important to note that savings do not affect the quality of the new homes.

The total number of homes we can build for £6 billion under this scheme

Once we know the cost of building new homes in different regions and of different sizes, we can calculate how many homes we can build for £6 billion. Firstly, we will need new homes to replace the sold stock. Secondly, we want new homes to reduce the existing waiting list.

The 28,500 properties valued above the median and sold off will have to be replaced each year. These 28,500 properties are distributed as shown below.

⁸³ *Housing Space Standards*,
Greater London Authority, August
2006

Table 7.4: Distribution of expensive social properties by percentage share⁸⁴

	1 bed	2 bed	3 bed	4 bed+	Total
North East	1%	3%	1%	Minimal	5%
East Midlands	2%	2%	1%	Minimal	5%
South West	2%	3%	2%	Minimal	7%
West Midlands	2%	3%	4%	Minimal	9%
Yorkshire and the Humber	3%	5%	1%	Minimal	10%
East of England	3%	5%	4%	Minimal	12%
South East	3%	5%	4%	Minimal	12%
North West	4%	6%	3%	Minimal	13%
London	6%	13%	8%	1%	28%
Total	26%	45%	28%	1%	100%

Once we replaced the 28,500 homes sold off with identically sized properties in the same region, the remaining funds can be used to reduce the social housing waiting list. This would be achieved by building in line with the demand broken down by region and bedroom size needed. Table 7.5 shows the waiting list by region and room size needed in 2011.

Table 7.5: Distribution of housing need by bedroom size and waiting list⁸⁵

Region	1 bed (000s)		2 bed (000s)		3 bed (000s)		4 bed (000s)		Total
North East	28	1.6%	42	2.4%	12	0.7%	3	0.2%	4.9%
East Midlands	57	3.2%	33	1.9%	15	0.9%	3	0.2%	6.2%
East of England	85	4.8%	43	2.5%	22	1.3%	5	0.3%	8.9%
West Midlands	96	5.4%	53	3.0%	22	1.3%	8	0.5%	10.2%
South West	100	5.6%	53	3.0%	23	1.3%	6	0.4%	10.3%
North West	121	6.8%	63	3.5%	27	1.6%	6	0.3%	12.2%
South East	121	6.8%	62	3.5%	30	1.7%	7	0.4%	12.4%
Yorks and Humber	149	8.4%	69	3.9%	38	2.1%	5	0.3%	14.7%
London	183	10.3%	102	5.7%	56	3.2%	18	1.0%	20.2%
Total	944	53%	524	29%	250	14%	66	4%	100%

Table 7.5 tells us that once we have replaced the sold stock, then to reduce the waiting list for every 100 properties built we will need, for example, 1.6 one bedroom properties in the North East, or 3.2 three bedroom properties in London. To build in line with current need means some movement of funds between regions and building smaller properties.

⁸⁴ English Housing Survey
2008/9: Housing Stock Data,
Op. Cit.

⁸⁵ Housing Strategy Statistical
Appendix (HSSA): 2010–11, DCLG,
May 2011

The total of social homes built a year is likely to be in the 80,000–170,000 range

Since we know the size and region of the properties we will sell, we can calculate the average cost of a replacement property. This is the average cost for different house sizes and regions, weighted by the proportion of properties in each size and region. So if 2% of expensive social properties are two-bedroom properties in the East of England then 2% of the new builds will be, meaning that the cost of this, £76,000, should be multiplied by 0.02, and so on until we have worked out the average cost. This is done by adding all these figures together. This turns out to be £104,850. The replacement cost of the 28,500 homes is 28,500 multiplied by £104,850, which is £3 billion.

The remaining £3 billion from the £6 billion should build new homes in line with housing waiting lists. We can calculate the ‘average cost’ of a new property using the distribution of need and regional costs and multiplying each costing by the distribution of housing need. It comes to £57,280. So with £3 billion we can build 52,600 new homes a year (£3 billion divided by £57,280). This average cost is much lower as housing need is focused on smaller properties, although 18% will be three or four bedroom properties. This gives 80,000 social rent homes a year (28,500 replacements plus 52,600 new homes). Given that current construction volumes are just around 100,000 homes a year, this policy would nearly double the level of construction undertaken in the UK every year.

An alternative is that this government is spending £4.5 billion over the period of the comprehensive spending review to build 170,000 homes.⁸⁶ Given this, £4.5 billion a year provided by government could allow 170,000 homes a year. However, because housing association debt is rising on top of this £4.5 billion, pushing up current construction, and because the social rent to affordable rent ratio may differ in the future, the same funding may not permit the same level of development next time.

Given all this, it seems the most likely outcome may lie between 80,000 and 170,000 homes a year. This would mean a net gain of social properties of 50,000 to 140,000 homes a year. Even the lower end of this would be the largest social housing building scheme since the 1970s.⁸⁷ Unlike other revenue streams (e.g. Right to Buy) this funding would be relatively fixed. A certain number of social tenants pass away and family changes affect a certain amount of tenants each year. We assumed a turnover of 3.5% of social homes a year, less than half the national average. So we can be reasonably sure that a large amount of funding will come forward every year regardless of other factors (e.g. wider turmoil in the credit markets).

This house building programme would cut the number of people on the social housing waiting list by between 250,000 and 600,000. If housing need continues to grow and councils don’t simply throw people in need off their waiting lists, the waiting list may rise above 2 million in the next few years if this reform or something like it is not undertaken.

Of course, the net housing boost to England’s housing stock will include the 30,000 replacement homes a year, because the homes these replace are merely transferring to the private sector. 80,000 extra homes nearly doubles the UK’s current rate of house building.

⁸⁶ *Laying the Foundations: A housing strategy for England*, Op. Cit.

⁸⁷ Table 241; *House building: permanent dwellings completed, by tenure, United Kingdom historical calendar year series*, Op. Cit.

Ensuring new homes don't displace development and giving housing associations flexibility

The Homes and Communities Agency should control and distribute the funds raised by these reforms. This funding should be offered to councils and housing associations to build homes on top of each local plan's housing targets. Councils set out in their local plan the number of homes they think necessary each year. As our *Cities for Growth* report discussed, the local plan framework is structurally flawed and consistently underestimates housing need.⁸⁸ If funding from expensive property sales simply replaces development already planned this means no new additional housing. So homes built using funds from this reform should not count as part of delivering on the local plan's housing targets. This means new social housing could only be put forward in areas where a local plan is adopted. government should draw up guidance on how this could work.

To treat housing associations fairly, they should be able to keep the money they raise through sales receipts for a set period (e.g. a year) while they bring forward development sites. If they cannot find sites within this timeframe revenue should go into a general pool (as discussed below). This should be a relatively rare occurrence.

New social housing must be designed and built along lines local people support

It is essential that we do not repeat past mistakes. Ministers can be attracted to volume over quality. We need more homes, but if we simply repeat past (concrete) failures they will have to be replaced quickly and it will create a backlash against new social homes.

Housing associations and councils should put together their own proposals bidding for land procured through land auctions and specific proposals. They would have to win independently audited referendums of those living near proposed homes. This could occur either through a neighbourhood plan or else the system proposed in *Cities for Growth* (ultra-localised referendums). Local people should have a choice that involves streetscapes when they are asked to vote, as discussed in detail in our forthcoming *Create Streets* report.

This means that new homes will have a crucial quality check by needing to win over local people. There could also be compensation through the Community Infrastructure Levy to those in the neighbourhood plan, and we would argue direct compensation should be considered as well as discussed in *Cities for Growth*.

The value of properties should lie between lower quartile and median market value

As well as a maximum cap for existing social housing, a minimum floor should be brought in for new social properties. We should build decent, solid properties like those built in the 1930s or 1945–1951, with private green space attached, ensuring people will want to live in them for decades to come. Given the figures for construction given earlier, which are the average cost of construction in the private sector, then what we build should be indistinguishable from the average (but not expensive) private property.

Government should monitor the quality of new homes although this may not be necessary in every case since it should be possible to use random sampling

⁸⁸ *Cities for Growth*, Policy Exchange (2011), in particular Chapter 5

techniques to ensure a representative sample. Government should set a minimum threshold for these new properties, perhaps at the lower quartile for private properties in each region. This would show we are aiming for decent housing for council tenants; quality and quantity.

Areas with high land values are assessed and compulsory redevelopment begins now

There are some areas where the land values are very high (particularly central London) but the poor quality of what was built during the heyday of modernist architecture drastically pulls the value of the buildings down. This explains how in parts of London housing of the same density differs wildly in price – it reflects widespread aversion to unpopular styles.

There is a danger the scheme outlined in this report could slow redevelopment in unattractive areas. If redevelopment increases the value of a certain area's housing to above the regional median then an area's social housing would be sold off. This means politicians benefitting electorally from particular geographical layouts could oppose redevelopment for political reasons, to the wider detriment of the cityscape and built environment.

“Good quality housing with local support will help politically in the effort to build more social housing”

Therefore existing large estates should be assessed, and where the local land values are a set level above the median for a region (e.g. 10%), compulsory redevelopment should begin immediately. Existing tenancies should be honoured and decanting through usual methods should occur. Such redevelopment could be funded by borrowing against future sales receipts on a project by project basis. Given that the current land value is depressed by shoddy development, future uplift should pay for such redevelopment.

Those nearby must be given a direct say in what is built. As *Cities for Growth* pointed out, we've repeatedly tried and failed to improve design through regulation. Good quality housing with local support will help politically in the effort to build more social housing. Such major redevelopments will also help spur economic growth and raise confidence.

8

Wider Economic Effects Are Positive But Ministers Must Push Reform

Wider economic effects from reform

These reforms could build 80,000–170,000 new social homes every year. These reforms would have a major economic impact. The UK's relapse into recession follows weak growth since 2008. A major driver of the UK's return to recession has been falling construction output in the first half of the year. The construction industry has retrenched though house prices remain high. Government policies have not worked; new housing construction fell 4% in 2011 to 98,000. This was down from 102,000 in 2010, itself a level well below that which might be expected given the current housing crisis, and not far off the low of 78,000 in 2009.⁸⁹

This fits with our analysis of the UK housing market as set out in the *Cities for Growth* report – that despite high prices, output will not increase. The UK planning and development systems are seriously dysfunctional. Because of how land passes through the system there is unlikely to be a major rise in house building in the next few years. Rising turmoil in the credit markets or even small rises in interest rates could push down housing construction still further, even as rents rise. Attempts to build more homes must avoid propping up a system that is clearly not working. This report's recommendations manage to achieve this.

The government's Housing Strategy noted “the construction workforce has fallen from 2.35 million just before the credit crunch to 2.1 million today” and “for every new home built, up to two jobs are created for a year.”⁹⁰ Using these figures, building these new homes would increase employment by 160,000 to 340,000. In the 1930s, it was a construction boom that helped pull the UK out of the Great Depression, with housing construction rising from less than 200,000 in the 1920s to over 350,000 by the mid-1930s.⁹¹

Pushing reform through is essential

The Homes and Communities Agency has made it easier for housing associations that want to dispose of properties that were social housing to do so.⁹² Yet sale of more expensive social housing should be a mandatory policy. Local authorities and registered providers should be required to value their vacant stock and sell expensive properties. This would have to be incorporated into law (either via regulation or amendments to primary legislation). However, change could begin prior to this, with government sending out guidance on how to assess the value of

⁸⁹ DCLG Table 213, Op. Cit.

⁹⁰ *Laying the Foundations: A housing strategy for England* Op. Cit.

⁹¹ *A Century of Change: Trends in UK Statistics since 1900*, House of Commons Library Research Paper 99/111, December 1999)

⁹² *Revised guidance issued on disposal of social housing assets*, Home and Communities Agency, May 2012

vacant stock to begin the process. The costs of valuation will be tiny. Annual turnover of 6–7% of 3.78 million social properties⁹³ is 220,000 properties, but properties in areas with low or high property values would clearly be either expensive or not. Only the middle third of properties might need such an assessment. The total cost is likely to run into millions, or at most a few tens of millions every year.

There is a strong case that housing associations' charitable status carries a responsibility to use scarce resources appropriately. Charity trustees are legally obliged to invest sensibly, which this report's policies do. This policy will recycle assets to benefit housing association tenants, given the poor benefits and high costs of expensive social housing.⁹⁴ Thus housing associations that wish to retain charitable status should engage with this programme. Housing associations founded on the large scale transfer of state assets rejecting this scheme should be subject to a 'windfall levy' akin to the privatised utilities in 1997, adjusting for property rises since. This would be analogous to the windfall levy in 1997 and so not give rise to wider worries over property rights. This would help ensure compliance.

Government needs to commit to a swift plan of action. Plans for secondary legislation should be set in motion as soon as possible in the next few months. As sales on the open market occur already, this could be in place within months. Construction on new homes should be able to start within six months.

High demand and limited supply in more expensive areas already means many on the waiting list in such areas will not obtain a social property. For example, given the current waiting list and stock available with a 6% annual turnover in Purbeck (West Dorset) it would take 12.4 years to eliminate the current social housing waiting list even with no new entrants. This is likely to be an underestimate as more expensive areas tend to have slower stock turnover than the national average. Below are various cases (not the worst, but simply random examples) of where demand massively outstrips supply.

Table 8.1: Some examples of where waiting lists massively outstrip available stock⁹⁵

	Waiting list (households)	Stock available (6% turnover)	Time it would take to clear waiting list (if no new entrants)
Purbeck (West Dorset)	1,804	146	12.4 years
South Tyneside	15,961	1,367	11.5 years
Blackpool	6,221	439	14.2 years
Solihull	13,310	786	16.9 years
Eastleigh	5,737	385	14.8 years
Brentwood	2,514	229	10.9 years
Haringey	18,940	1,643	11.5 years

Local authorities are already discharging people out of their borough into the private sector outside their area under current legislation. 'Succession' allows a tenant in certain circumstances to transfer their tenancy to another person. For expensive social properties succession will be an attractive option if possible. However, succession is quite difficult and exists for couples living together or to

93 English Housing Survey 2008/9: Housing Stock Data, Op. Cit. Calculations based on overall data. Not all properties can be broken down into the relevant category, but 93% can be, and those that cannot do not appear to be systemically different from those that have more data available. Therefore the percentages have then been rebased on the assumption that this 7% is similar to the 93% to give a more complete picture.

94 In particular there is substantial case law following the *Cowan v Scargill* (1985) ruling.

95 DCLG Table 115; RSL stock by district, from 1997, DCLG Table 116; LA dwelling stock by district, England, 1994–2011, DCLG Table 600: Numbers of households on local authority housing waiting list by district England, 1997–2011 all available at their website

support family members who ‘reside’ in a property, usually to look after elderly relatives who then pass on. ‘Succession’ is only possible once.⁹⁶ It would be worth looking again at how succession operates for more expensive social properties but this is not a major issue.

These reforms do not require short-term changes to how waiting lists operate. You do not have to stay in the local authority that you are currently living in when you apply for social housing. Tenants can currently apply to multiple social housing waiting lists and this would remain. However, councils can now reject those from outside their area applying for their waiting list. In the long-term this area is inconsistent and needs review. These reforms add to this need for such a review.

Wider reform could build even more homes but in any case this will boost construction

There is of course the possibility of further reform extending the principles set out here. It would be possible (albeit slightly more risky) to borrow against future sales of expensive social housing. It would also be possible to look at ways to offer greater mobility to those living in more expensive social housing (on a voluntary basis) which would enable sales to occur sooner rather than later.

But even without further reform, this policy would:

- Be popular with the public
- Make the welfare state fairer
- Boost growth and construction
- Cut waiting lists substantially
- Allow the largest social house building programme since at least the 1970s

The only real question is why the civil service has not proposed this policy already.

⁹⁶ *Succession rights and social housing*; Parliamentary Note SN/SP/1998, House of Commons Library, April 2012

Annex: Poll Data and Employment Data

1. Polling Data

The polling data used in Chapter 2 was undertaken by the respected pollster YouGov for Policy Exchange in 2011, surveying people. The full data can be found online at <http://bit.ly/PXjustdesertspolls>. Total sample size was 2,407 adults. Fieldwork was undertaken between 10th–12th March 2011. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). YouGov is a member of the UK polling council and abides by their rules. The survey also broke this data down by different demographic groups, allowing us to explore how attitudes to expensive social housing differ between different types of people; different genders, classes, ages, political affiliations and so on.

2. Employment and house prices data

We took the data from the following sources:

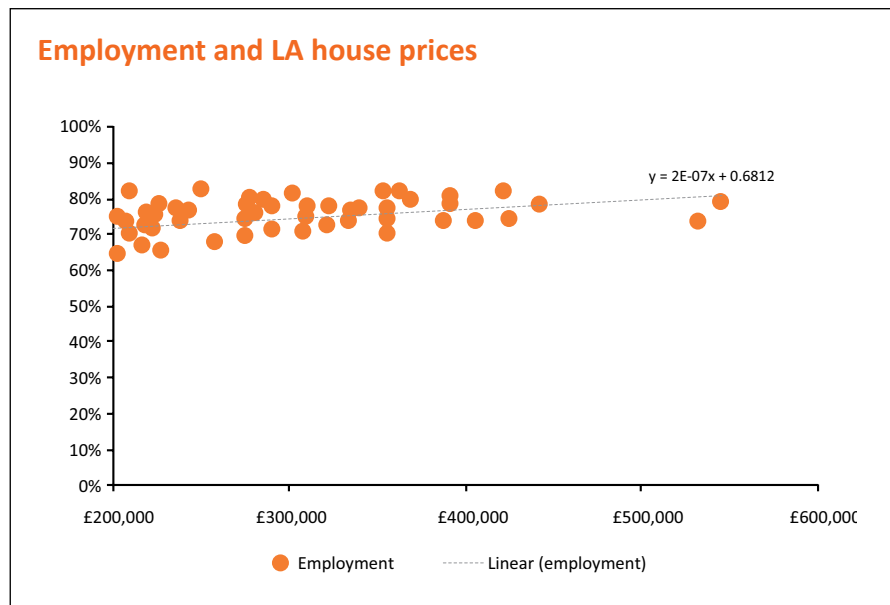
- **Employment from:** Office for National Statistics, NOMIS data, local authority level.
- **Average house prices from:** Table 581: Mean house prices based on Land Registry data, by district.
- **Social tenant's employment rate by local authority from:** Office for National Statistics. Social Survey Division, *Annual Population Survey, October 2010–September 2011* [computer file]. Colchester, Essex: UK Data Archive [distributor], February 2012. SN: 7004.

For the first basic analysis, we simply mapped the employment and average house price data against each other. Then we did a regression to see what link existed between the two variables (house prices and employment).

For the regional analysis we created tables as follows for each region:

Region (South East)		
Local authority	Employment rate	Average house price
Eastleigh	75.5	£222,489
Fareham	78.7	£225,991
Etc

Once we had created tables containing all employment rates for all local authorities we then created a graphical representation (example below) with a best fit trend and equation.



Using this equation we worked out the basic correlation between the value of an area's property and an area's employment. For example, in the South East, a local authority with housing that cost £150,000 had an employment rate of 71.1%, while a local authority with housing that cost £250,000 had an employment rate of 73.1%.

The difference between these rates (2%) and prices (£100,000) can then be used to estimate the costs and benefits from location-based policies. If we assume this correlation is causation this is the strongest possible case. Even assuming this, if 100 households were granted new tenancies in non-expensive properties, and this saved £100,000 per household, this could reduce employment by 2%, or just two households. To put it another way protecting these two jobs would be at a cost of £10 million, or around £5 million per job.

This is the source of the table in Chapter 6. We reproduced the methodology above for each of the regions to achieve the result outlined there. This is not a complex regression as the argument from those who support expensive social housing is not complex. The argument is that we should not sell off expensive social properties because this will have a major negative effect on employment, as tenants' location is a major factor in determining employment. The data shows this is not the case, and trying to use expensive social housing as a driver of employment is prohibitively expensive. We tried adjusting for various demographic variables but this did not have a major effect on this basic relationship. Therefore, we conclude selling expensive social properties will have a negligible effect on employment for future social tenants.



We are in the grip of a housing and economic crisis. Despite high house prices and high and rising rents, house building is falling, impacting economic growth. This is the result predicted in our report *Cities for Growth* because of the existing development model. The government urgently needs a popular policy to increase housing numbers without boosting a failing system that builds too few homes year after year.

This report offers just such a policy. At present, there is a great deal of valuable social housing. Around one in five social properties are worth more than the average for a similar size property in their region. Selling these expensive social properties off as they become vacant and putting the money toward new social homes could raise a total of £6 billion a year. The alternative is giving these valuable properties to a single lucky family.

This policy would pay for an estimated 80,000 to 170,000 new social homes per year. This is a huge boost to construction and growth, potentially creating 160,000 to 340,000 new jobs every year. The public support this policy by a huge margin. We find majorities of at least two to one in favour of ending expensive social tenancies. Every social class, tenure and region agrees with this policy. With local control over what is built we can ensure that the biggest house building scheme since the 1970s builds popular homes like the attractive council properties of the 1930s and 1940s.

The report also looks into potential arguments against this policy and concludes such arguments are unsupported by evidence. Given the positive impact on jobs, growth and reducing the waiting list for social housing, the time has come to end expensive social tenancies and start building more social homes.

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