

Update Report – Council House Sales under the Right to Buy Scheme

History

The right to buy was introduced in 1980 as a means for tenants of Local Authorities to purchase their properties. It offered generous discounts for tenants to buy their properties. It has proved a popular scheme with over 30,000 properties in Sheffield being sold.

Originally the scheme required tenants to have had a secure tenancy for two years to enable them to buy their property. The more years a tenant had the greater the discount they received, there were also greater discount for tenants purchasing leasehold properties.

For tenants purchasing freehold properties providing they qualified for the scheme they initially received a 30% discount and then gained an additional 1% for every year of tenancy they accrued. For leasehold properties the tenant started at 40% and gained 2% for every year.

The maximum percentage discount a tenant could receive was 60% for freehold (30 years tenancy) and 70% for leasehold (15 years tenancy), these maximum discounts remain the same today.

Due to the popularity of the right to buy a maximum cash discount was introduced in 1999 which limited the discount to £24,000 despite how many years tenancy they had accrued. This remained in place until 2012 when the discount limit was raised to £75,000.

The biggest changes came to the right to buy scheme in the Housing Act 2004, this changed the qualification period from two to five years tenancy. It also amended the discount repayment period from three to five years. This means where a tenant sells their property within the first five years a percentage of the discount they originally received when they purchased the property would have to be repaid to the former Landlord, it previously used to be three years

It also inserted a clause into the conveyance / lease where the property has to be offered back to the former landlord for repurchase if it is sold within the ten years after the sale.

Housing Market

In 2007 the general collapse in the housing market also had a dramatic effect on right to buy sales. In 2005 / 06 Sheffield sold 950 properties in 2007 /08 this had

reduced to 376 and the further decline in sales continued year on year to a low of 76 sales in 2009 / 10.

The subsequent years have seen gradual increases in sales until 2012 /13 where the increased discount limit saw a total of 149 sales. The upward trend has continued with sales for 2013/14 to date being 124 (as at end of quarter 2) with forecasted sales for the year predicted to be 243.

The table below shows the trend for RTB sales and applications over the past 10 years.

Year	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Apps	3508	3109	2968	1927	1866	904	371	275	339	339	561
Sales	1520	2252	1375	950	578	376	106	76	88	104	149

Future for the right to buy

The coalition Government still see the right to buy scheme as an important tool to increase home ownership and also with the retained additional receipts from sales as a means for local authorities to start building new social housing.

The Government is keen to increase right to buy sales to fund this new build programme and is actively promoting the right to buy. A general advertising mail out has been planned by DCLG focussing on a number of Sheffield postcodes where there are known Council properties. DCLG are also doing a targeted mail out to 55-65 year old who live within those postcodes as they see this group of people as the most likely to purchase their property.

To further boost the right to buy the Government are also planning changes to the qualification criteria. The proposals are for the current five year qualification to be reduced to three years to allow more tenants to access the scheme. The change in the reduction in qualifying years is likely to be introduced in autumn 2014.

Future sales predictions

Whilst there has been a gradual recovery in the general housing market it is difficult to predict the effect it will have on the right to buy. Historically mortgage providers were happy to lend on the basis that the discount a tenant received could be used as the deposit. Following the downturn in the housing market mortgage providers were less willing to lend on this basis and generally saw right to buy as a higher risk and restricted their lending to this market.

Modest rises in right to buy sales are predicted for the next few years providing there are no further changes to the scheme that we are not already aware of.

2013 / 14 – 243

2014 / 15 – 265

2015 / 16 – 290

Capital receipt

The introduction of higher the maximum discount of £75,000 in 2012 has meant that properties are being sold for less and therefore the capital receipt per sale has reduced however because the number of sales is increasing the level of receipt overall is increasing and will assist the building of new homes in the city.

The table below shows the total sales, total capital receipt (millions), average property price and average property discount for the past 10 years.

Year	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Sales	1520	2252	1375	950	578	376	106	76	88	104	149
Cap mill	25.2	46.6	37.9	35.8	25.6	18.7	5.3	4.4	4.2	4.5	5.6
Avg Sale price	16567	20703	27542	37731	44257	49604	50276	58212	47793	43080	37704
Avg Disc	14770	17623	19558	22553	23086	23634	21762	23650	23622	23415	37874

The projected capital receipt from the right to buy sales for the next 3 years is

2013 / 14 - £9.2m – based on 243 sales at £38,033

2014 / 15 - £10.6m – based on 265 sales at £39,950

2015 / 16 - £12.2m - based on 290 sales at £41,950

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