REPORT HOUSING

Bringing private homes into social ownership can rewire the housing system

This report looks at 3 scenarios where buying private homes for social ownership can play a role in shaping the housing market and growing new, more equitable housing models.

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Executive summary

Our homes should be the foundations for our lives. However, all too prevalent are forms of renting that are high cost, insecure and poor quality, and which therefore hinder our economic security, health and well-being.

It is in this context that socialisation, where councils and housing associations buy already existing homes and convert them to social housing, has become a growing part of the housing debate in recent years.

For proponents of this practice, acquisition offers a chance to rapidly expand social housing supply in the face of unmet housing needs, growing spending on housing benefits, and in economic conditions that make solving these problems by increasing social housing supply more challenging.

However, critics have argued that acquisition programmes risk diverting investment from the building of new homes and, in doing so, worsen access to housing for some private renters.

These are valid concerns. Just 15% of new social housing lettings go to those moving from the private rented sector, with the majority of new social lets allocated to those moving from within social housing, from homelessness, or from living with their friends or family. This means that there is a material risk that acquisition programmes diminish the private rented supply for those reliant on it, without offering a reasonable chance for these households to access this new supply of social housing.

Despite this, we should not dismiss the potential of acquisition and instead must move beyond seeing acquisition as just an alternative to building new homes, but instead as a strategic tool, enabling us to address specific housing issues and actively shape a more equitable and functional housing market. Thereby moving from a system where much housing subsidy has a passive role, to one where it has an active role.

This report offers 3 distinct scenarios in which acquisition can play a role in shaping the housing market and growing new, more equitable housing delivery models.

Reducing cost and raising standards of temporary accommodation

Demand for temporary accommodation (TA) has grown significantly in the last decade, placing significant pressure on local authorities. The number of households in TA almost doubled between Q2 2013 and Q3 2023 (55,840 to 105,840), with significant consequences for homeless households who face spending too long in insecure, poor quality and often inappropriate temporary homes.

Rising costs have been driven by demand, but this has been exacerbated by how the TA sector has changed, particularly the growth of high-cost, low-quality private provision. The use of nightly TA, for example, where private landlords, often working via intermediary companies, rent homes to local councils by the night (at a price premium), has grown significantly in the last decade (rising from a 14% share of TA provision to a 23% share between Q2 2013 and Q2 2023).

This is a dysfunctional situation. Not only are these nightly providers capitalising on the homelessness crisis, nightly TA rates are 5 times more expensive than local authority-owned provision, but they are prolonging the crisis by diverting homes to the social sector that would otherwise be providing long-term housing in the private rented sector.

Acquisition can address this by allocating funds to buy homes to let as TA. This would out-compete these providers, driving down costs for local authorities, and push homes back into the 'traditional' housing market as nightly providers either re-let or sell them. It can also act as an anchor to drive up standards in the sector more widely.

This could be achieved by:

- central and local governments working together to establish local housing companies in TA 'hotspots', which can purchase, retrofit and then let out homes for use as TA at more affordable rents, this would build on the model of Capital Letters, a local authority-owned social lettings agent that works with private landlords to provide homes for those in housing need

- central government endowing these companies with capital investment to enable homes to be let affordably, with this representing an equity stake in the fund (with the local authorities owning the remaining share), this equity stake could be ‘cashed out’ at a future point, ideally as demand for TA reduces, repaying this initial investment
- the local authority housing companies raising finance either by striking deals with institutional investors such as pension funds, who could provide lower-cost lending in return for long-term, stable returns, or by borrowing through the Public Works Loan Board (PWLB).

This approach would create significant savings for central and local governments. An equity stake of £750 million (the current size of the Local Authority Housing Fund, which is supporting councils to buy homes for those on resettlement schemes) could reduce demand for expensive nightly providers by 33–50%, and achieve annual savings to the benefit system of between £26.4 million and £52.8 million.

Growing a community rented sector in lower-cost housing markets

The private rented sector in lower-cost housing markets such as those in coastal and ex-industrial towns in the North and Midlands has grown considerably in the last few decades. This growth has been underpinned by an extractive model of buy-to-let landlordism, where absentee investors from outside the local area have been attracted to buy investment homes, enticed by lower entry costs and higher yields, and problems of poor quality and poor management are rife.

This is despite these markets being underpinned by significant amounts of public subsidy through the housing benefit system. JRF analysis finds that £3 in every £10 of private rent paid in Blackpool and Hartlepool is paid for with Housing Benefit, as is over £1 in every £4 paid in places including Hull, Great Yarmouth, Hastings, Oldham, Wolverhampton, Bradford and Sunderland.

Community organisations are already showing that there is an alternative to this extractive, poor-quality model. Groups such as East Marsh United and Giroscope are buying homes, retrofitting them and letting them out to local households, using the rent received to maintain these homes and reinvest in the local community.

Acquisition is a route to further supporting these organisations and growing this more regenerative form of landlordism, particularly as the relatively low cost of housing in these areas means that bringing homes into community ownership can often be achieved without subsidy.

This would be achieved by:

- central government providing a new fund that would provide revenue support for existing community groups where they exist – this would enable them to scale up or to support local authorities or other local anchor institutions in establishing new community-led rental organisations where they are needed, but do not currently exist; this funding would also include support for professional fees, staffing and project development of schemes to support organisations in delivering new homes
- addressing the high borrowing costs for community institutions through central government working with social lenders to provide a lower-cost form of borrowing, enabling the acquisition of homes in many lower-cost housing markets without the need for additional grants
- leveraging existing government schemes like Help-to-Heat and the Energy Company Obligation to target capital grants to support community-led housing groups in retrofitting homes for energy efficiency, this would be achieved through partnerships with local authorities and energy companies that could release funding into community-led housing companies.

Reforming the Right to Buy scheme

We have lost and continue to lose a significant number of social homes to the Right to Buy, as homes are bought by sitting tenants and issues in the policy design mean that local councils struggle to replace these homes. JRF analysis in this report shows that there were 23,000 fewer social rented homes in 2021–22 than there were in 2012–13.

Acquisition has often been framed as a way of rebuilding this social stock. While this has strong rhetorical value, we argue that this may not be the best means of addressing this problem. Not least because without reforming the Right to Buy system, central and local governments risk playing catch-up with a diminishing social stock.

The issues with Right to Buy are twofold. First, the rules around discount levels and how receipts are used have meant councils have struggled to recycle receipts into new construction. Second, the system sees the subsidy, the discount offered to the sitting tenant to support them in buying their home, leak out from the system when the home is eventually sold, when it could be captured to support greater low-cost home-ownership and renting. JRF analysis finds that around £35 billion in subsidies has been lost since 1998–99, which could have otherwise been used to provide social homes.

We therefore propose that Right to Buy should be reformed by:

- making permanent reforms that allow councils to keep 100% of Right to Buy receipts, giving them greater resources with which to build new social homes
- capping the Right to Buy discount at 30%, therefore making it more viable for councils to use receipts to rebuild the home or, failing this, to allow councils the ability to set discounted rates to reflect local market conditions
- placing a covenant on Right to Buy homes to prevent their use as private rented accommodation in the future
- making the Right to Buy discount a subsidy in perpetuity.

In practice, making the Right to Buy discount a subsidy in perpetuity would mean that when an ex-Right to Buy home is sold, a council could:

- buy the property back from the resident, using the discount to enable it to be rented back out as a social home
- require a home to be sold as a ‘first home’, with the 30% discount applied to someone eligible for an affordable home-ownership product
- allow the home to be sold on the open market, requiring that the 30% discount is paid back from the sale receipts in perpetuity.

Were this policy in effect since 1998–99, we estimate that 465,000 homes sold under the Right to Buy scheme could have been brought back in-house by local councils for use as social homes for rent or to own.[1] This would mean the social rented sector would be 10% bigger than it is today.

These 3 scenarios are not the only ways in which acquisition may play a role in the housing system. Rather, they are 3 illustrations of where acquisition can act to rewire dysfunctional aspects of the housing market and grow new models of housing provision.

Nonetheless, they show the power that focusing public spending could have in challenging expensive, poor-quality models of housing provision, building towards a housing system where everyone has access to a decent, secure, affordable home.

Socialisation could transform our housing market

The socialisation of homes, where councils or housing associations buy already existing homes to provide social housing – has become a larger part of the housing debate in recent years.

Mayors in London and Manchester, several councils, and the Westminster and Scottish Governments have invested, or plan to invest, in funds to acquire homes from the open market (Mayor of London, 2023a; Burnham, 2023; Scottish Government, 2023).

Recent policy reports, including those from the New Economics Foundation (Diner, 2023), the Smith Institute (Affordable Housing Commission, 2020) and the Fabian Society (Commission on Poverty and Regional Inequality, 2023), have made the case for more comprehensive support for schemes to acquire homes from the secondary market to provide social housing.

This greater focus on our existing housing stock, and who it is owed by, is welcome. As set out in JRF's recent report Making a house a home, the shifting balance of tenure has played a key role in myriad housing problems, from unaffordability and poor conditions to insecurity, and a plan for building a more equitable housing market must reckon with who owns our housing stock (Baxter et al, 2022).

This should take the form of efforts to shift tenure over time, and doing that directly through socialisation could play an important role. However, there are criticisms of this approach, and there needs to be a consideration of how acquisition may be best used within the housing system.

This briefing explores these criticisms, how they may be best overcome, and proposes the best way of deploying socialisation, arguing for a focus on:

- reducing the cost of providing temporary accommodation (TA), while supporting efforts to drive up standards in the sector
- growing a community rented sector in lower-cost housing markets that are otherwise plagued by poor conditions, poor management, and where rental payments are not benefiting local communities
- a wider plan to reform the Right to Buy scheme to arrest the decline of social housing and to keep subsidies in the system.

Support for acquisition grows with housing problems

The growing interest in acquisition has been driven in large part by the growing housing crisis, itself underpinned by the dysfunctional ways in which we support households with their housing costs.

Social security support is not working

Acquisition has often been seen as a tool that could rapidly address the consequences of high housing costs that have led to significant financial pressure for renters and driven homelessness.

Across the UK, the financial pressure on renters has escalated. In the last year, private rents have increased by 9.7%, on top of an 11.9% increase the previous year (Donnell, 2023). Exposure to these high costs means that low-income private renters have struggled disproportionately throughout the cost-of-living crisis.

Research conducted by JRF in October 2023 found that the significant majority of low-income private renters (83%) were going without essentials (skipping a meal, going without a shower or a bath to conserve energy, or lacking clothing appropriate for the weather), up from 79% in

May 2023 (Stirling et al, 2023).

These financial pressures have also contributed to a growing homelessness crisis. Between the second quarters of 2022 and 2023, the number of households owed a main housing duty by their council grew by 19%. Over the same period, the number of households with dependent children living in temporary bed and breakfast accommodation, generally regarded to be the worst form of homeless accommodation, grew by 93.1% (Department for Levelling Up, Housing and Communities, 2023e).

This situation has been created as access to social housing – which offers more affordable rents for low-income renters – remains constrained, as supply is mismatched with demand (Earwaker and Baxter, 2020). This is the result of inadequate building and a net loss of homes sold to sitting tenants through the Right to Buy scheme.[2]

These problems are further exacerbated by limited social security coverage. Local housing allowance, which should support low-income private renters to pay their rent, has been frozen in cash terms in 6 of the last 10 years (Waters and Wernham, 2023), meaning that support has typically lagged behind the cost of renting. This has been a significant driver of the affordability challenge facing private renters (Stirling et al, 2023).

In this context, the acquisition of homes from the private market to be let at social rents has been framed as a means of rapidly, and relatively more cheaply, expanding the supply of social housing to stabilise and grow the social housing stock.

Public money is paying for poor-quality homes

Shifting homes from private to social ownership has also been seen as a way of confronting the problems of quality and management that are rife in the private rented sector. This is despite significant public expenditure flowing into the private rented sector through Housing Benefit.

Housing Benefit, despite its historic insufficiency, comes with a significant price tag. At present, it costs approximately £10 billion every year (Department for Work and Pensions, 2024). This means that each year, the Government currently spends around 4 times more on housing benefits for private tenants than on subsidies to build new homes through the Affordable Homes Programme.

This figure will grow further still following the welcome move in the Autumn Statement to uprate Local Housing Allowance (LHA) to reflect current rents, with the Treasury forecasting spending on housing benefits to increase by to £1.7 billion more a year from 2028–29 (assuming it is refrozen in cash terms)(HM Treasury, 2023).

Housing Benefit plays an important role in the housing system, enabling lower-income renters to access housing. However, the increased reliance on the private market raises questions about value for money.

First, unlike with subsidies for social house-building, the state is not securing an asset on which they can charge rent, or which they can utilise or borrow against to invest in new or existing stock. Second, the quality of privately rented homes being lower than other tenures means that a significant amount of public spending is directed at homes that fail to meet basic, decent standards.

A fifth of homes (21%) in the private rented sector fail to meet the Decent Homes Standard, a government minimum standard for housing that means the home meets a statutory minimum safety standard, is in a reasonable state of repair, has reasonably modern facilities and services, and provides a reasonable degree of thermal comfort.

This compares to just 10% of the social rented homes and 14% of the owner-occupied housing stock. One in 10 (12%) privately rented homes contain Category 1 hazards, making them statutorily unfit housing (Department for Levelling Up, Housing and Communities, 2023a). Despite this, landlords in England who rent out homes that fall below the Decent Homes Standard receive around £1.6 billion in Housing Benefit per year according to an analysis by the Mayor of London's office (Mayor of London, 2023b). This equates to around £1 in every £5 of Housing Benefit being spent on a non-decent home.

This has led to calls for a more interventionist approach to driving up standards, both of individual properties (Diner, 2023) and of wider neighbourhoods (Create Streets Foundation, 2023), through buying up and retrofitting homes, particularly in lower-cost areas such as seaside communities and towns in the North of England and the Midlands, where these issues are most profound (Create Streets Foundation, 2023; Diner, 2023).

Current market conditions have focused attention on acquisition

Current market conditions have also spurred a renewed focus on acquisition. This is driven by 2 interrelated factors.

First, current market conditions, largely shaped by the recent rise in inflation and interest rates, are placing downward pressure on house-building, including the supply of social and affordable homes. Social and private housing supplies are increasingly linked as social housing providers rely on the sale of private homes to fund social house-building, and on developer contributions, through Section 106, to acquire a significant proportion of the new homes they deliver. Higher interest rates have led to the rate of new private supply falling as higher borrowing costs have constrained buyers' budgets, reducing demand, and because housebuilders are averse to selling into a falling market where they would have to accept lower prices (Lloyd et al, 2023).

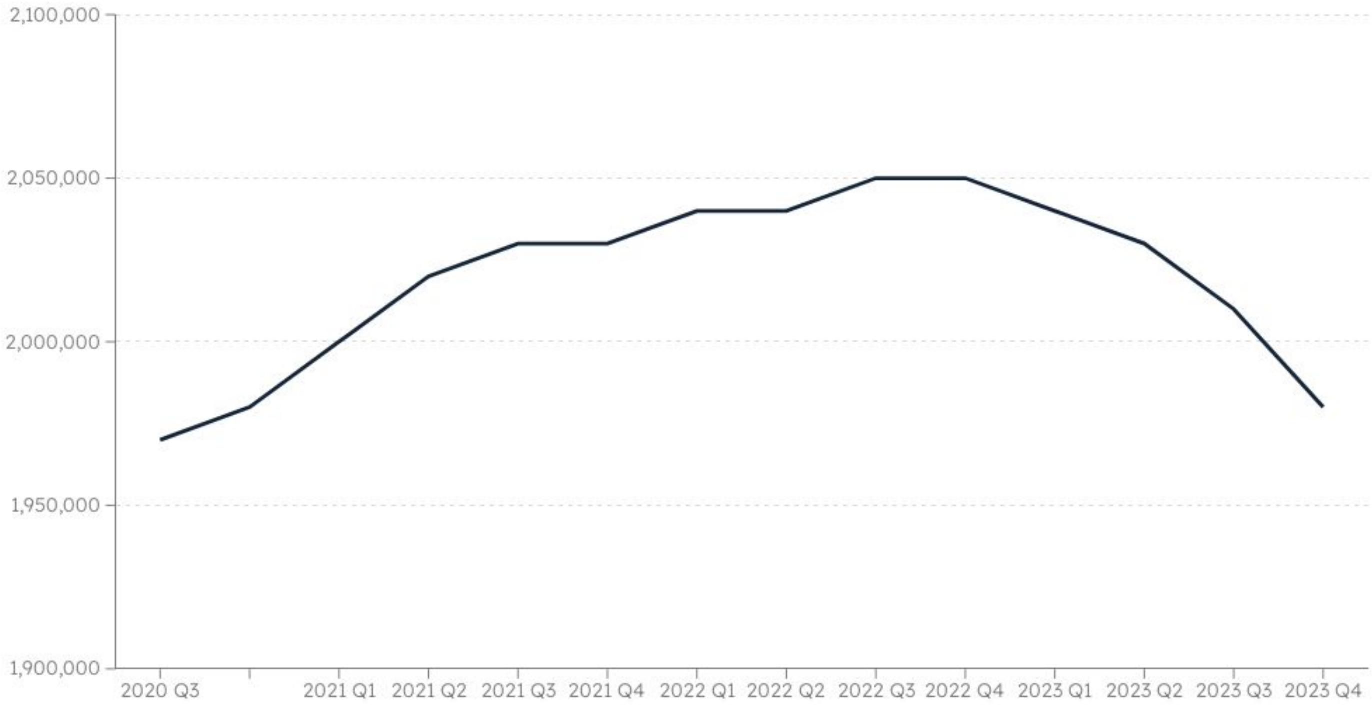
At the same time, housing providers are struggling to directly deliver new homes, and play the counter-cyclical role that social housing has historically played, as higher inflation has increased housing providers' costs (salary costs, maintenance and construction costs, and so on), while a below-inflation rent cap has reduced their income (Lloyd et al, 2023). This, in combination with an increased need to invest in their existing stock, to improve its quality and energy efficiency in response to government targets, has led providers to cut back on building programmes (Lloyd et al, 2023). This means that, for at least the next few years, solving housing market issues through additional supply will become more challenging.

Second, financial pressure from higher borrowing costs is impacting the private rented sector. Higher interest rates, and therefore borrowing costs, have eaten into the profitability of the buy-to-let model, and may lead to increased supply into the market. Modelling by the estate agency Hamptons suggests that interest rates will have made between 14% and 24%of the current mortgaged buy-to-let landlord market unviable (Hamptons, 2023). This has led to some panicked predictions of an exodus of landlords from the market (Phillips, 2023).

Data on the size of the buy-to-let sector from UK Finance does show that the private rented sector has been shrinking. Since a peak in the latter half of 2022, the number of outstanding buy-to-let mortgages has fallen by around 70,000, or around 3% of the market at its peak (UK Finance, 2023).

Figure 1: Since a peak in the latter half of 2022, the number of outstanding buy-to-let mortgages has fallen slightly, but not collapsed

Number of buy-to-let mortgages outstanding in the UK



Source: JRF analysis of UK Finance 2023

This combination of a market in which new supply may be stunted for some time, where private landlords may be leaving the market at higher rates than previously and, owing to lower affordability, wider transactions may be lower, has repositioned programmes of socialisation as potentially both necessary to correct for lower rates of supply, and opportune, given the likely flow of new homes for sale from landlords (Diner, 2023).

Effective acquisition is part of wider reform

A growing interest in acquisition, and the various ways in which its proponents have argued for it to be deployed, should prompt us to step back and consider how best it is used in the housing market. This is important as large-scale, private-to-social programmes of acquisition have garnered criticism.

Growing criticism of calls for increased spending to buy existing homes

There are 2 primary concerns regarding the use of acquisition to increase the availability of social housing. The first objection is that directing funds towards existing housing stock may divert investment from increasing the supply of new social housing.

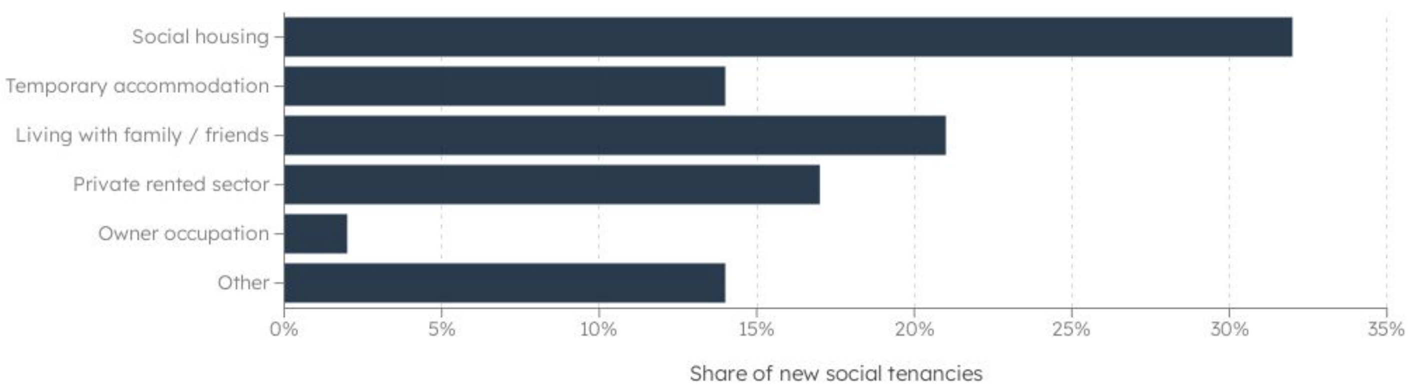
This is a valid concern. Rates of both private and social house-building have fallen short of the demand for homes for decades (Earwaker and Baxter, 2020), worsening the problems that a programme of acquisition would seek to address. In a world where it is widely regarded that capital budgets for social house-building are inadequate (Earwaker and Baxter, 2020), there is a clear opportunity cost in expanding budgets that target existing stock.

The second objection is that converting private homes into social housing can pit groups of renters against each other. As social housing has become scarcer, those who are allocated it tend to either be those already in social housing and subject to overcrowding, or those who are in the most extreme housing need and moving into social housing from homelessness.

This is demonstrated in Figure 2, which shows that just 17% of new social renting households come from the private rented sector. Just under half (46%) move from within the social rented sector (32%) or from temporary accommodation (14%), and a fifth are new households formerly living with family or friends (21%).

Figure 2: Fewer than 1 in 5 new social rented sector tenants moved into social housing from the private rented sector

Previous housing situation of lead tenant for new social housing lettings, England 2021-22



Source: JRF analysis of CORE lettings data, Table 3G

This is particularly pronounced in larger cities where demand for housing is even greater. In London, Birmingham, Bristol and Brighton, for example, typically fewer than 1 in 10 moves to social housing are from the private rented sector.

As such, private-to-social conversions may make housing access harder for long-term private renters, by reducing the available private rented stock without realistically giving them a feasible chance of accessing these new social homes. This is a particular concern in the current market, where analysis shows that the number of rental listings has been falling in major cities such as London, making access to housing more challenging for renters (Ashton, 2023).

This is, of course, linked closely to the overall supply of social homes. Increasing social supply would at some point ensure that these distributional risks are mitigated, and that the flow from private to social homes would increase. Put plainly, were the stock of social housing large enough to meet the needs of homeless people and to address overcrowding, in private and social tenures, then any additional new social homes would contribute to moving low-income private renters into social housing.

However, this would require a significant increase in the supply of social homes over several years, risking a prolonged period of disruption before yielding these results.

Acquisition can be an effective approach if focused well

These criticisms highlight the potential limitations of large-scale, grant-intensive programmes of private-to-social acquisition, particularly when there is pressure on the private rented sector in higher-demand markets, and where focusing efforts on new building is likely to offer a less risky route to expanding social supply. However, this risks an oversimplification, and perhaps too 'snapshot' a view, of how the housing system works, and therefore ignores the constructive role that acquisition can play.

The housing market is dynamic and the balance of tenures is not fixed at any point in time. We are adding to the stock of homes, both social and private, all the time, through new construction and because the supply of homes to rent and the balance of tenures is constantly changing.

As discussed previously, this is particularly true in the current moment as the mortgage-backed buy-to-let sector is, or at least has been, contracting. Where these homes end up, whether bought by residential buyers, taken on by wealthier landlords or cash investors, or flipped into short-term lets or other forms of more profitable private provision, will have important consequences for which groups are squeezed in the housing system. Ultimately, the full scale of the opportunity cost from socialising homes for general needs social housing is unclear when certainty on the future size of the private rented sector is unclear.

Nonetheless, these observations should lead to 2 key considerations for the future role that acquisition can play.

First, moving homes from the private sector into subsidised social housing is not the only way in which we might frame shifts in ownership. As noted in previous JRF work, the ownership model that underpins our private rental market, a collection of largely small-scale amateur landlords, is a core reason for the sector's dysfunction, driving insecurity and the low investment that leads to poor conditions (Baxter et al, 2022).

This is not the case in every housing market. Across Europe, for example in Germany and Scandinavian countries, there are more pluralistic rental markets, where a greater share of homes are owned by non-profit or cooperatively owned entities, providing homes more akin to affordable housing in the UK (Davies et al, 2017).

The acquisition of homes should not just be about level of subsidy, but should also focus on the different ownership models that underpin our housing market, particularly if the model that has underpinned the private rental market to date is showing signs of fraying.

Second, where the private rental market goes next will be shaped, or is available to be shaped, by policy choices, including regulation and the nature and level of public expenditure. As noted previously, public spending on the existing stock of homes far outweighs that spent on new construction, and this spending can have market-shaping and distorting effects, including supporting, however inadvertently, extractive and dysfunctional business models.

Accordingly, instead of viewing the role of acquisition as an alternative (or worse, as a competitor) to investment in the new supply of social homes, we should position it as a tool for shaping markets and challenging harmful business models. This would mean moving from a largely passive system of subsidy, where cash transfers fund access to private provision, to one where public spending is used as an anchor for reform.

With this in mind, we propose that acquisition has a particular value when used in 3 particular areas:

- to reduce the cost of providing TA by replacing expensive forms of private provision that have emerged in response to the higher returns they can get by providing TA
- to challenge an extractive model of landlordism in lower-cost rental markets in which poor conditions and poor management are rife, and where rental payments are not benefiting local communities, by growing a community rental sector
- as part of a wider plan to reform the Right to Buy scheme, to arrest the decline of social housing and to keep subsidies in the system.

This is not an exclusive list of the uses of acquisition, not least as here we focus intentionally on models that focus on homes from the secondary market. Separately, JRF has published work calling for greater support for housing providers to buy up a greater share of new-build homes for use as social housing, using such a programme to keep rates of new constructions up in a market where lower demand is leading housebuilders to stall sites (Lloyd et al, 2023).

Rather these 3 areas are chosen to offer some examples of where public spending is working in a dysfunctional way, either by supporting extractive business models or by yielding poor value for money, and where public procurement alongside wider policy reform could create impactful change. The following chapters outline how this can be achieved.

Reshaping the temporary accommodation market

In the context of growing homelessness, acquisition has been seen as a means of quickly growing the supply of social housing, either as permanent housing or as more affordable, higher-quality temporary provision, for those currently experiencing homelessness.

The Scottish Government has recently announced a £60 million National Acquisition Programme that will support local authorities in acquiring private-sector housing to meet the growing need for temporary accommodation (TA)(Scottish Government, 2023).

Meanwhile in England, the Government has allocated £750 million to the Local Authority Housing Fund (LAHF). The LAHF will acquire homes to provide permanent accommodation for those on the Ukrainian and Afghan resettlement schemes who are currently housed in TA, with any remaining funds used to ease wider homelessness pressures (Department for Levelling Up, Housing and Communities, 2023c).

This is easily understandable when looking at the social and financial pressures created by a growing demand for TA. This has been driven both by the growing demand for TA in general, and because of the growth of expensive private providers of TA, attracted by the returns they can make from providing emergency accommodation.

Acquisition can reduce the cost of providing TA for councils by replacing this expensive private provision with more cost-effective, publicly-owned accommodation, while at the same time being part of a plan to drive up quality by using acquisition as a backstop to more exacting standards. Achieving this most effectively means thinking about the best models to procure, own and manage these homes.

Acquisition can help rewire a dysfunctional TA system

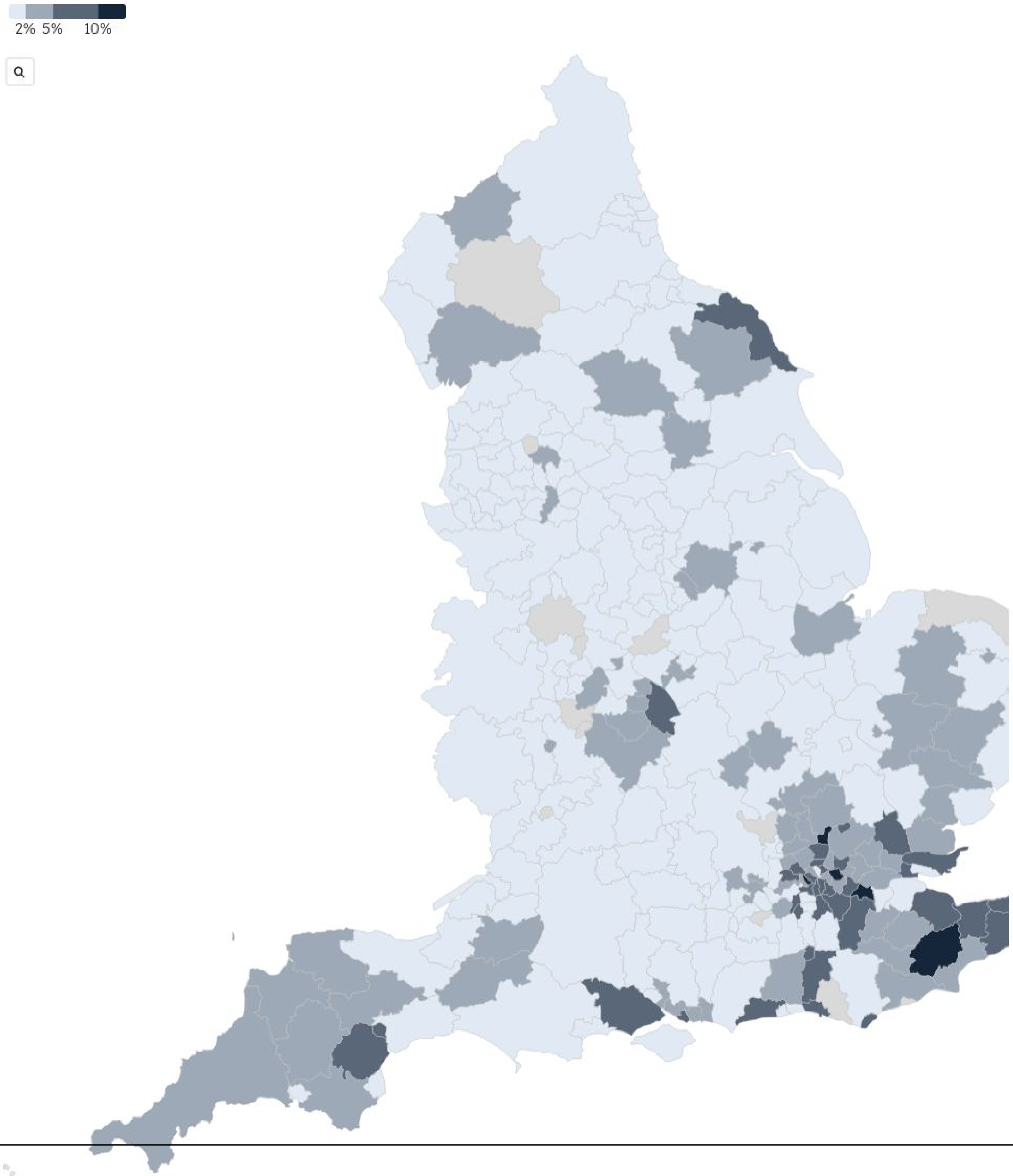
Too many households are living, and spending too long, in TA. The number of households in TA in England has grown significantly in the last 10 years, almost doubling from 55,840 in Q2 2013 to 105,840 in Q2 2023 (Department for Levelling Up, Housing and Communities, 2023e). The number of children in TA has grown by 75% over the same period.

This is exacerbated as TA also too often provides low-quality, inadequate housing. Three-quarters of those living in TA (75%) have experienced poor conditions, while two-thirds (68%) lack basic facilities for cooking and laundry (Garvie et al, 2023).

Despite being poor quality and inadequate, the cost of providing this accommodation is significant. Council TA spending has doubled from £790 million in 2012/13 to £1.59 billion by 2021/22, and JRF analysis finds that in over 1 in 10 local authorities, over £1 in every £20 spent by the council is spent on TA. In some cases, this is pushing councils to a financial breaking point (Butler and Goodier, 2023).

Figure 3: In over 1 in 10 local authorities, over £1 in every £20 of Local Authority spend is on temporary accommodation

Expenditure on Temporary Accommodation as a percentage of Local Authority Net Current Expenditure



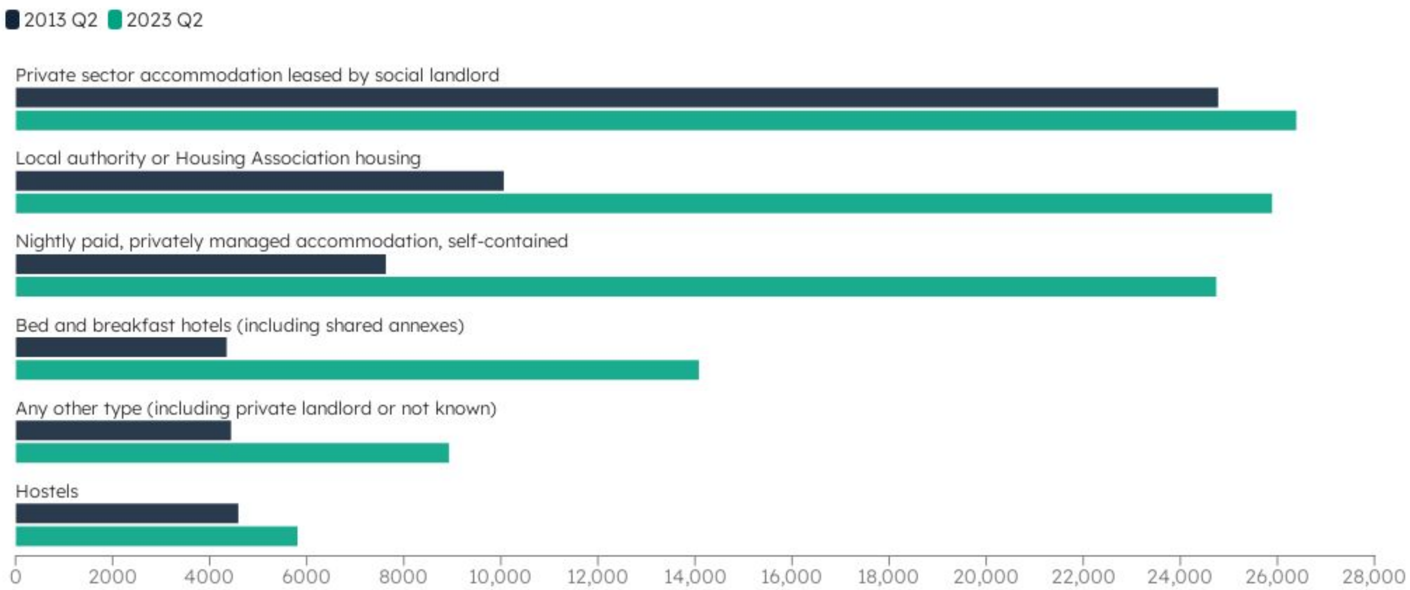
Out-competing the worst-quality, highest-cost TA providers

The cost of providing TA has increased because of higher demand, but this has been worsened by how the nature of provision has shifted, in dysfunctional ways, in recent years.

In the last decade (Q2 2013 to Q2 2023), the proportion of TA provision delivered through nightly-provided accommodation has grown from 14% to 23% of total provision (see Figure 4), with almost 1 in 4 households in TA now in nightly-provided accommodation. These providers cost local councils 5 times as much as local authority-owned provision.

Figure 4: In the last decade the numbers of households provided temporary accommodation in nightly paid, privately managed accommodation or bed and breakfast hotels more than tripled

Number of households in temporary accommodation (TA) at the end of quarter by type of TA, England



Source: JRF analysis of DLUHC Statutory Homelessness Live Tables, TA1

The nightly accommodation model has largely been enabled by intermediaries who lease homes from private landlords who receive a higher rent than they would otherwise get from letting a home in the traditional rental market, and then let these at nightly rates to councils. Shelter research finds that these firms have some of the highest-value contracts with councils across England (Garvie, 2020).

This represents a dysfunctional situation, where it is far more lucrative for a landlord to provide short-term accommodation than it is to provide a decent, long-term home, and where landlords are not only capitalising on the homelessness crisis, but are also prolonging it by reducing the supply of homes that homeless families could otherwise move into.

This structure also means that driving these providers out of the market – through replacing them with publicly-owned provision – means these homes will end up back in the traditional private rented sector or will be sold, thereby mitigating some of the risk that acquisition will constrain private supply.

Reducing a council's reliance on these expensive nightly providers and replacing this with publicly-owned provision would create significant savings for both the Treasury and councils. For example, in London, a home let at LHA rates compared to TA rates would save £8,800 a year in Housing Benefit expenditure.[3]

In-housing TA as an anchor for deeper reform

Alongside cost savings, greater public ownership in the TA sector would also allow for a greater focus on conditions across the sector. This is both by increasing the supply of lower-cost, higher-quality options available to councils (through a greater pool of publicly-owned temporary options), meaning private providers would have greater competition; and also by creating a backstop for efforts to drive up standards through tougher regulation.

Increasing regulation in the current system has led to concerns about impacting the supply of landlords willing to let TA. Take for example London Council's experience of introducing a cost cap: this cap was agreed between London boroughs, and set a maximum amount that a council would pay for TA of different types (Garvie, 2020). This had the impact of reducing the amount councils were paying for accommodation, but also led to a rise in the use of bed and breakfast accommodation (generally accepted to be the most unsuitable form of TA) when supply became more constrained as landlords withdrew from the market.

Understandably, this leads some to have concerns that further tightening the regulation of TA providers at a time when they are facing increased demand could make it harder to house homeless households. The capacity for councils to socialise homes and use them to provide TA can and should be used to mitigate the risk of reduced supply.

This would mean that were landlords to pull out of providing TA by putting homes back into the general private rented sector or selling them, councils could replace this supply through their procurement, also giving them greater control over the quality and management of these homes.

Therefore, efforts to acquire more homes to provide TA should be paired with tough regulations. As set out in recent work by Shelter, which co-designed policy solutions with those with experience in TA, this should include, as a minimum:

- requiring providers of TA to be covered by a social housing regulator, and therefore subject to suitability standards that are proactively enforced
- instructing local authorities to inspect TA for quality before allocation

- introducing new national standards on facilities and services in TA to be implemented.

Going further than this could include placing greater downward pressure on temporary rents by further lowering the cost cap in London, and applying similar caps across other parts of England. Quality standards could be further raised by ensuring that when the Decent Homes Standard is applied to the private rented sector through the Renters Reform Bill (Department for Levelling Up, Housing and Communities, 2023b), this also applies to homes let as TA.

Supporting growth of publicly-owned temporary homes

Growing the stock of publicly-owned TA should be achieved by targeting support in areas where demand is highest. TA in England is highly concentrated in large cities – particularly London (24 out of the 30 areas with the highest proportion of households in TA per 1,000 households are in London[4]). Extending the LAHF by adding a third phase focused specifically on growing the pool of homes owned to provide TA would provide the necessary capital to achieve this.

The effectiveness of this funding for these purposes could be enhanced through central government working closely with TA hotspots to set up regional housing companies, owned by consortia of local councils or by combined authorities, to procure and manage these homes.

This could draw on the example of Capital Letters, an organisation owned by member councils across London and backed by the Government, which acts as a letting agency service and matches suitable tenants – who are currently homeless – with landlords who can offer a home (Capital Letters, 2024).

This would allow central government to issue the capital required to acquire homes as an equity loan, taking a stake in the company and meaning that money would be returned to the Treasury as homes are sold (ideally in response to reducing demand for TA).

The housing companies would then secure financing. Being owned by local government would allow the entity to benefit from the lower-cost borrowing facilities that its council owners have access to – through the Public Works Loan Board – while allowing it to have greater freedom over its accounting approach, reducing its grant requirement.

It would also be possible for housing companies to attract institutional investment, such as through pension funds who may offer lower-cost lending in return for stable, longer-term returns. This could be particularly attractive in the current fiscal environment, where concerns about the level and cost of government borrowing are present.

Such an approach could achieve significant savings. Were the central government to endow such an organisation with the equivalent to the LAHFs historic funding allocation (£750 million), we estimate that a scheme run in this way could replace between one-third and a half of the demand for nightly TA, saving between £26.4 million and £52.8 million a year in benefits expenditure.[5]

Growing a community-led rental model

Several organisations have made the case for acquisition to be used as a tool for raising the standard of housing in lower-cost housing market areas.

This was the case for a recent report from the New Economics Foundation, which called for an explicit focus on socialisation to be used in bringing housing stock up to the Decent Homes Standard and to higher energy efficiency levels, acknowledging the poor conditions that are rife in the private rented sector (Diner, 2023). The No Place Left Behind commission, led by the Create Streets Foundation, made similar recommendations, including a National Housing Conversion Fund to bring homes into non-profit ownership in lower-cost housing markets, as part of a wider set of proposals for driving up neighbourhood conditions (Create Streets Foundation, 2023).

These proposals are correct, but we ought to think ambitiously about how acquisition can be part of a wider strategy for shifting the nature of the rental market in lower-cost markets, by growing a community rental market.

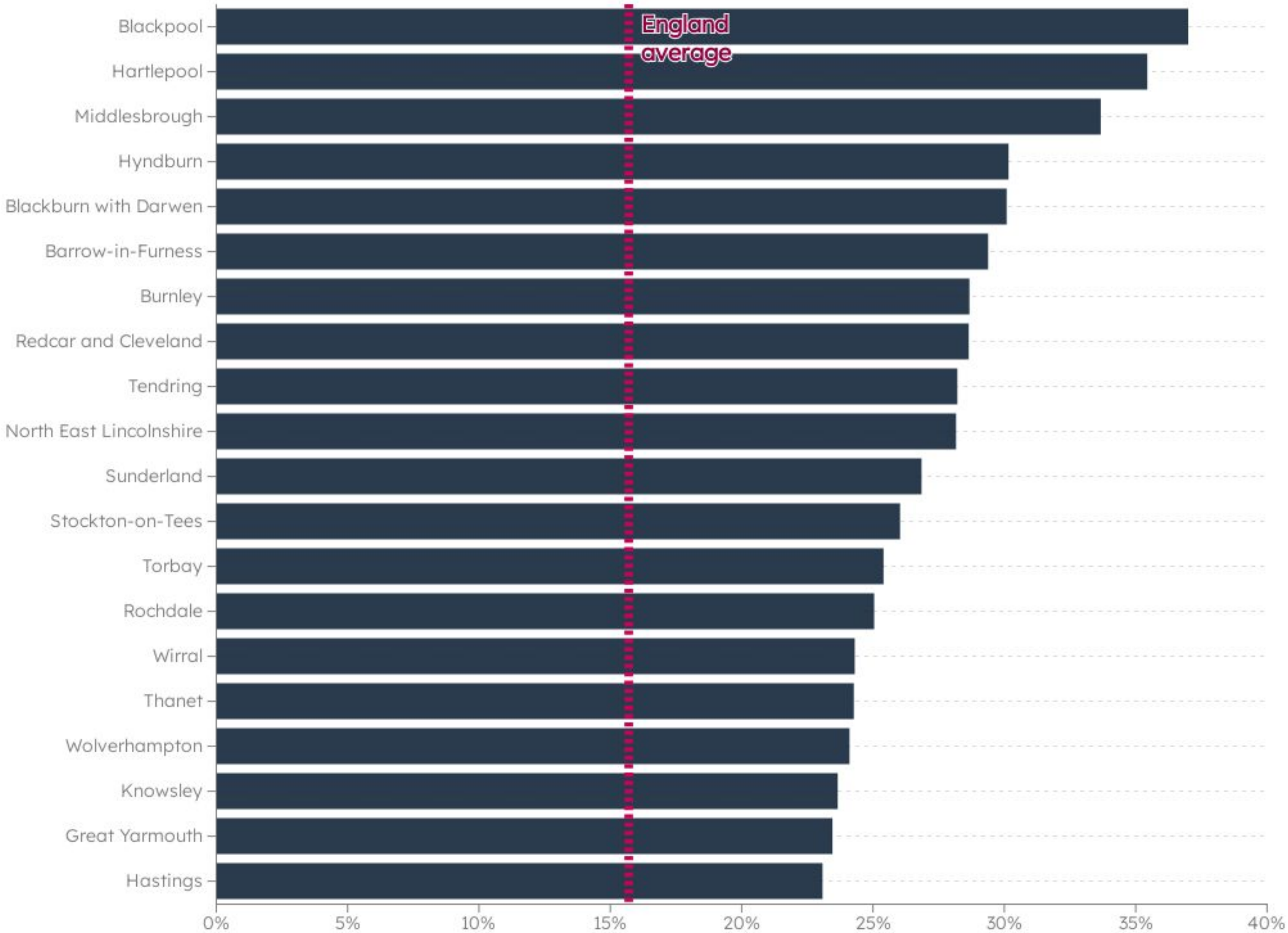
Rental markets in lower-cost housing markets are poor quality and extractive

In lower-cost areas such as seaside communities and towns in the North and Midlands, the private rented sector has grown considerably in recent years. Private rental markets in these areas are generally smaller relative to other tenures than those in larger cities, such as London, Manchester and Birmingham, but a large share of private renters in these areas tend to be on low incomes (Elliott and Earwaker, 2021). This has been driven by similar factors to elsewhere in the country, principally the diminishing size of the social housing sector, alongside lower incomes from weak labour markets (Joseph Rowntree Foundation, 2023).

Accordingly, a significant share of housing costs in these markets is funded through Local Housing Allowance (LHA). As in Figure 5, we estimate that £3 in every £10 of private rents paid in Blackpool and Hartlepool is paid by the Government, as is over £1 in every £4 paid in places including Hull, Great Yarmouth, Hastings, Oldham, Wolverhampton, Bradford and Sunderland.

Figure 5: In many lower-cost areas well over £1 in every £4 in rent is paid through housing benefit

The share of private rents covered by housing benefits in relatively lower-cost local authorities (England, 2021)

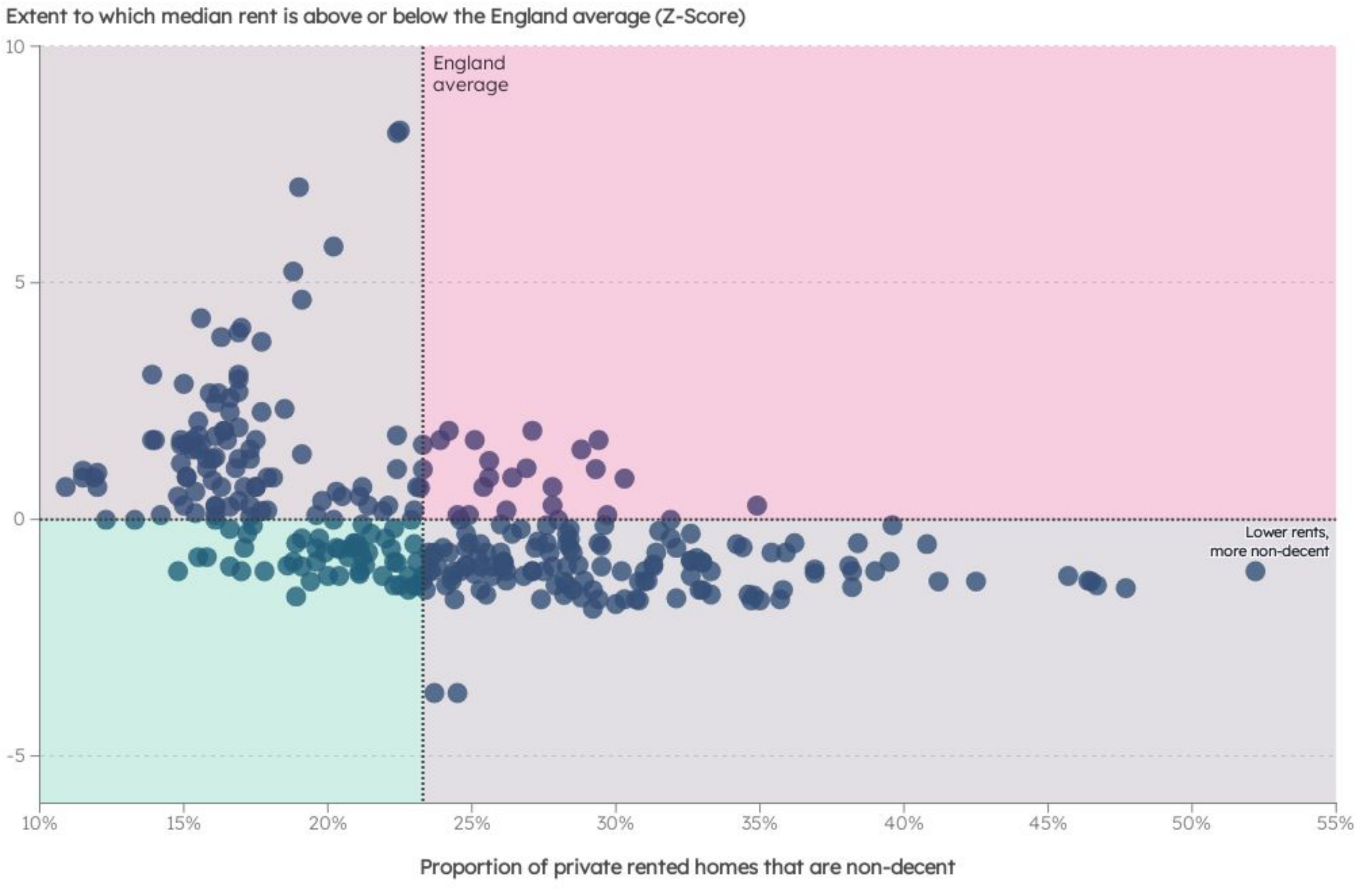


Source: JRF analysis of Census 2021, DWP Stat Xplore, ONS Private Rental Market Statistics and Benefit Expenditure Tables

This is a significant amount of public expenditure. Despite this, lower-cost markets face disproportionately high rates of poor-quality housing. As Figure 6 shows, local authorities where rents are below the English average are more likely to have a high proportion of homes which fail to meet the Decent Homes Standard.

Figure 6: In many local authorities where private rents are lower than average, a much greater share of private rental homes are of poorer quality

The proportion of privately rented homes which fail to meet the Decent Homes Standard compared to whether rents are above or below the English average (Z-Score) in English local authorities.



Source: JRF analysis of Department of Levelling Up, Housing and Communities, 2023b, and Office for National Statistics, 2023 • Graph excludes Isles of Scilly where 73% of private rented homes are non-decent.

This has been underpinned by a particularly extractive form of buy-to-let landlordism, where these regions have also been targeted by landlords from outside of the local area, attracted to lower house prices, stronger house price growth and higher rental yields that can make these properties an attractive investment opportunity (Pickford, 2021). This means that the rent paid in these areas, and the significant volumes of public spending that are part of this, flow out of the local area and economy, further perpetuating weak economies and undermining the building of community wealth.

Public spending can catalyse a better housing market

Under the current system, significant spending on Housing Benefit is a passive influence on local housing markets. Instead, we should utilise it to grow new models of housing provision wherein the public money flowing into the market and rent paid by tenants both contribute to higher-quality and more energy-efficient homes, and stay within local communities.

Lower-cost housing markets offer a particular opportunity for this approach. The lower cost of acquiring homes makes it viable to purchase, retrofit and rent out homes with little or no grant. And, as these homes would be a challenger to the existing private rented sector – not traditional social housing – this would not create the displacement risks of traditional private-to-social acquisition (enabled, as lower average rents would not require the deep subsidy brought by social housing). Schemes could even explicitly seek to acquire homes where landlords are selling up, ensuring sitting tenants are not displaced.

Several organisations are already taking approaches such as this, for example, East Marsh United in Grimsby and Giroscope in Hull. East Marsh United is a community group in the East Marsh area of Grimsby (East Marsh United, 2024). It is focused on improving the local area and does so through a range of activities, including arts programmes, street clean-ups, tree planting and time banking – a way of exchanging skills and services with neighbours, without money changing hands. It recently purchased a small number of homes in the area, which it is using to provide housing to local people and is utilising the revenue from this to fund their local activities.

Giroscope is a housing charity based in West Hull (Giroscope, 2024). It has been operating since the 1980s and currently owns and manages a significant number of homes in its area of Hull, renting to those in housing need. These homes are often in poor condition or empty when they are acquired by Giroscope, which renovates them and, in doing so, creates training opportunities for local people, supporting access to employment. These activities also anchor further projects locally, such as bike recycling schemes and programmes to give low-income households access to technology.

Both of these organisations exemplify a form of community-based landlordism and stand in opposition to the dominant model of absent, extractive, buy-to-let landlordism that otherwise dominates in these areas. While they take different approaches, each is generating income and wealth which is reinvested back into its local community.

Acquisition can grow a community rented sector

Growing a community rented sector would mean local community-owned organisations taking on the dominant model of private landlordism and offering a more secure, high-quality alternative by buying up homes, retrofitting them and letting them out.

Where they exist, this should focus on providing the support to existing community-led housing organisations to enable them to scale up. Where these organisations do not exist, or do not wish to scale up, councils or other local ‘anchor’ institutions could play a role in incubating new organisations. For example, councils could establish new ‘arm’s length’ housing companies specialising in acquiring existing stock, which could later be spun out. Equally, these could be owned by other local anchor institutions such as major public institutions, local authority or public-sector pension providers, or collections of civil society organisations.

A criticism of community-led housing is often around scale, with organisations often having long lead times in delivering relatively small numbers of homes. Much of this reflects the difficulty of accessing land and the high cost of new builds, and the significant cost of grants needed to make it viable. Focusing such organisations on the existing stock and in lower-cost markets would overcome these issues. Lower entry costs would mean acquiring homes would be more affordable, while they would, in many ways, be replicating a version of the buy-to-let model, which has shown its potential to scale up.

Organisations would likely differ across the country, and this would be desirable as they respond to the characteristics and issues in local places. A more universal framework could support them to grow, but this would require the following 3 things:

Revenue funding to support growth

To support existing community groups growing in scale, or the establishment of new institutions where none currently exist, there is a need for revenue funding to support professional fees, staffing, and so on. This could be modelled on the first wave of the Community Housing Fund, which supported community-led housing organisations, both through seed-corn funding to see new institutions founded, and through getting projects from ideas through to planning applications (Homes England, 2021). A similar revenue fund could incubate and grow new community landlord models.

Guarantees to support low borrowing costs

A key barrier to the growth of the community-led landlord model would be the high cost of borrowing in the current higher-rate environment. Where local authorities are involved, they could draw on Public Works Loan Board (PWLB) lending, which has lower rates.

Where there is appetite locally, councils could pass on this lending on by setting up a Revolving Loan Fund for the purpose of growing a community rental sector, and there is precedent for similar, for example in Cornwall, where the local council set up a loan fund to support new-build community-led housing organisations (Community Led Homes, 2024b).

Outside of this local approach, central government could support access to lower-cost borrowing. Homes England, England's housing delivery agency, already has a track record in working with private sector lenders to support access to finance where the market alone may struggle to lend, and in using government guarantees that could keep borrowing costs down (Cooke and Baxter, 2023). The Government (via Homes England or separately) could work with the social lending sector, which has grown in recent years and has a track record of lending on community-led housing projects (Community Led Homes, 2024a), to guarantee or de-risk lending, thereby reducing borrowing costs.

Our modelling shows that in most low-cost housing markets, reduced borrowing rates are sufficient to make it viable to acquire, retrofit and re-let homes at Local Housing Allowance (LHA) levels without any additional grant.

Grants for retrofitting homes

In addition to borrowing, in some markets access to capital grants will be necessary to make some projects viable. A core cost input will be for the retrofitting of homes, and there are already several different schemes on offer to support the retrofitting of homes with energy-efficiency measures.

The Government has committed around £12 billion in funding through various Help to Heat schemes that include funding for decarbonising social housing, a boiler upgrade scheme and the Energy Company Obligation (ECO) scheme. A number of these schemes, including ECO, are devolved to local authorities and energy companies to administer, depending on local priority and need (Department for Energy Security and Net Zero, 2023). This offers an opportunity for local authorities, working with energy companies, to support community-led housing groups with funding by offering block grants to support the retrofitting of homes.

Collectively, these 3 areas could make significant inroads into growing the community rented model.

Reforming the Right to Buy

Acquisition has often been framed as a means of bringing homes previously lost through the Right to Buy scheme back into public ownership. This includes the framing of the Mayor of London's acquisition programme as a 'Right to Buy-back' scheme (Mayor of London, 2023a) and efforts by councils, such as Islington, to reacquire a significant amount of former Right to Buy homes (Delahunty, 2023).

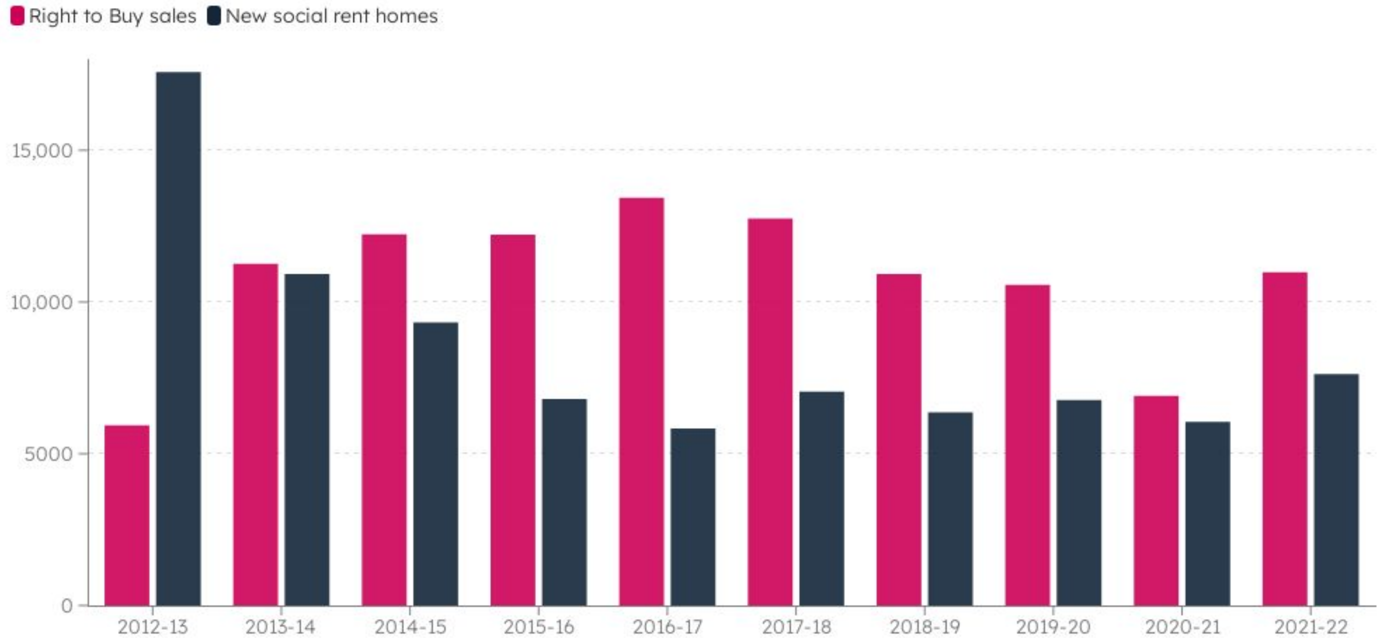
This is understandable given the decline of much-needed social homes, but efforts should look deeper at the flaws in the current model, and how it can be reformed so that subsidy stays in the system in the first place.

Right to Buy significantly impacts availability of social housing

The Right to Buy has had a significant impact on the supply of social housing, particularly the supply of homes for social rent. As Figure 7 shows, in the 10 years between 2012–13 and 2021–22, sales under the Right to Buy were greater than additions of social rent homes in all but 1 year (2012–13). This means that after this period, there were around 23,000 fewer social rent homes than at the outset.

Figure 7: In every year since 2013-14 the number of Right to Buy sales has exceeded the number of new social rent homes

Sales under the Right to Buy compared to additions of social rent homes, England, 2012-13 to 2021-22



Source: JRF analysis of Table 691 annual: Right to Buy sales, by the local authority, and Table 1000: additional affordable homes provided by type of scheme, England

This situation is driven by 2 issues with the way the Right to Buy operates. First, rules on how much of the receipts local authorities can keep and how they can be spent have made it hard for councils to recycle them into new supply (Local Government Association, 2023b). Second, the initial subsidy, the discount given to the sitting tenant to allow them to buy their home, is lost when they come to sell their home (partially after 1 year, and fully after 5 years), missing an opportunity for this to be recycled into the supply of social homes to rent or own. JRF analysis estimates that around £35 billion in subsidy has been lost since 1998–99, which could have otherwise been used to provide social homes for rent or ownership.[6]

Mechanics of Right to Buy need reforming

Despite these challenges, and the rhetorical value of resocialisation, in many cases, buying back Right to Buy homes will not be the best approach for acquisition funds, and even schemes such as the Mayor of London's Right to Buy-back scheme have shied away from focusing specifically on ex-Right to Buy homes. This is likely in part about practicality, and also because focusing grants on reacquiring homes would mean that the public sector would face resubsidising a home they had already subsidised twice before (on its construction and when sold to a sitting tenant).

Using acquisition in this way also dodges the more fundamental questions about the design of the Right to Buy, particularly in a world where both major parties are committed to keeping the policy. As such, we need to consider how the Right to Buy can be reformed to arrest the loss of social housing going forward; while acquisition can play a role in this, it should be designed into the model.

This means confronting 2 key challenges. First, how councils can be assured they can recycle receipts most effectively into building new homes. Second, how to ensure that the public subsidy put into building social homes and then discounting them for sale to sitting tenants is kept in perpetuity, so it can benefit more people over the life of the home.

Ensuring homes sold under Right to Buy can be replaced

In 2021, reforms were put in place that extended the time local authorities have to spend new and existing Right to Buy receipts, from 3 years to 5 years, and increased the percentage cost of a new home that local authorities can fund using Right to Buy receipts from 30% to 40%. In March 2023, it was announced that councils will be able to retain 100% of their Right to Buy receipts (with a proportion of these previously being returned to the Treasury) in 2022–23 and 2023–24 (Department for Levelling Up, Housing and Communities, 2023d).

These are welcome steps, and as the Local Government Association has long argued, necessary if councils are to have the financial capacity needed to replace homes sold under the Right to Buy like-for-like (Local Government Association, 2023a).

These reforms can be further built on by:

- being made permanent
- capping the Right to Buy discount at 30%, therefore making it more viable for councils to use receipts to rebuild the home; or failing this, to allow councils the ability to set discount rates to reflect local market conditions
- placing a covenant on Right to Buy homes to prevent their use as private rented accommodation in the future.

Public money spent on the Right to Buy must stay in the system

We should build on these reforms and ensure that the subsidy passed to the Right to Buy recipient is not lost when they come to sell the house – reform should ensure that this discount is kept in perpetuity by attaching a covenant to the house, so that the initial discount continues to be applied when it is sold. In practice, this would bring homes sold under the Right to Buy in line with wider affordable home-ownership products on offer, such as the First Homes scheme (HM Government, 2024).

This would build on and enhance the current system, in which those selling a Right to Buy home within ten years need to give their council or other social landlord first refusal in buying it back, and for the first 5 years have to pay back some of the discount (as in Table 1).

Table 1: The amount of the original discount on a Right to Buy home that needs to be repaid relevant to the number of years the seller has owned the home

Number of years home was owned	Percentage of discount that must be repaid to the council by the seller
1	100%
2	80%
3	60%

Number of years home was owned	Percentage of discount that must be repaid to the council by the seller
4	40%
5	20%
6 or more	0%

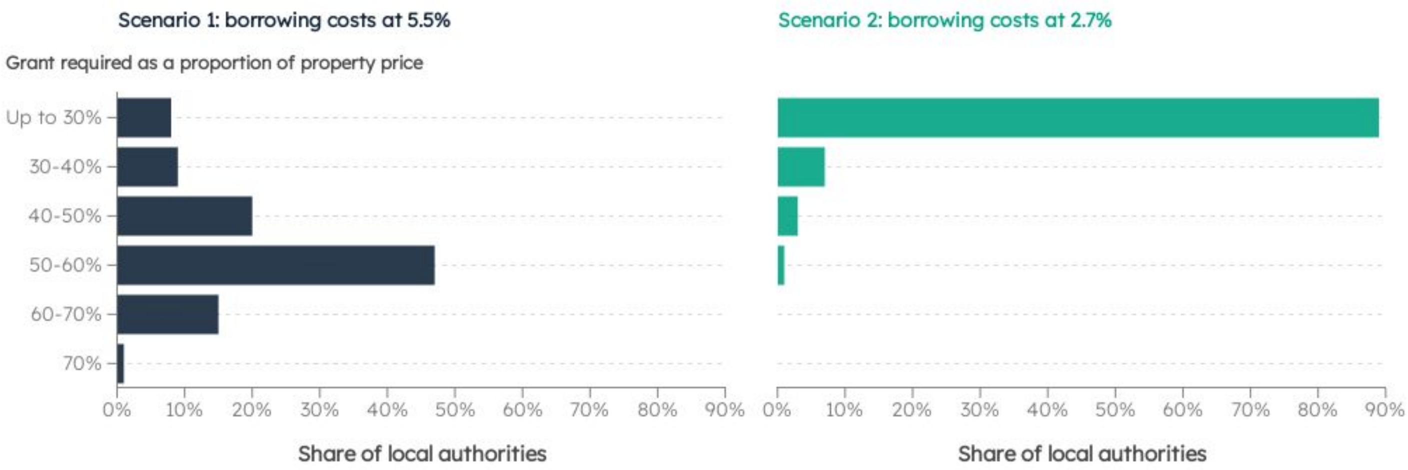
These reforms would extend this first-refusal right to councils in perpetuity, and would require 100% of the discount to be repaid at any point. Under this system councils would be given some flexibility as to how they reclaim this subsidy, with 3 options available to them:

- buying the property back from the resident, using the discount to enable it to be rented back out as a social home
- requiring a home to be sold as a First Home, with the 30% discount applied to someone eligible for an affordable home-ownership product
- the council allows the home to be sold on the open market, with the 30% discount paid back from the sale receipts.

This would allow for the Right to Buy-back option to work regardless of market conditions. For example, in the current high interest rate environment, JRF analysis shows it would be possible to buy back ex-Right to Buy properties to be let again at social rent levels with no additional grant in just under 1 in 10 local authorities. In this context, councils would find it more beneficial for these homes to be resold at a discount, or to claim back the discount in cash to be redeployed against building new social homes.

However, if borrowing rates drop to their recent levels, and in line with Bank of England interest rate targets, in the future, this would grow to around 9 in 10 local authorities. This shows that if these reforms were enacted, councils could see a cycling of stock of social homes helping to maintain levels of stock over time.

Figure 8: At borrowing rates of 2.7%, almost 9 in 10 local authorities could acquire properties at grant levels less than 30% of property prices
Share of local authorities where acquisition can be achieved at grant levels expressed as a percentage of total property prices



Source: JRF modelling of average grant requirements as a proportion of property prices, assuming property prices at the 10th percentile of local authority prices, at average social rent levels by local authority uprated annually at CPI +1%, with given acquisition costs and management, maintenance and repair costs (adjusted for inflation) and reasonable assumptions on vacancy rates. Analysis using the borrowing rate as the discount rate.

Were this policy in effect since 1998–99, we estimate that 465,000 homes sold under the Right to Buy could have been brought back in-house by local councils for use as social homes for rent or to own.[7] This would mean the social rented sector would be 10% bigger than it is today.

In combination, these reforms would move from a situation where councils struggle to replace homes lost under the Right to Buy, to a situation where, over time, 2 social homes are created for each home bought under the policy.

Conclusion

Solving the housing crisis will require action on many fronts. Acquisition can, in targeted ways, play an important role alongside regulation, increasing support for housing costs, and expanding the supply of all types of home.

As described in this paper, this means focusing on where acquisition can act to rewire dysfunctional aspects of the housing market and grow new models of housing provision.

We have argued this means focusing on using acquisition:

- to reduce the cost of providing TA by replacing expensive nightly landlords who have emerged in response to the higher returns they can get by providing TA
- to challenge an extractive model of landlordism in lower-cost rental markets in which poor conditions and poor management are rife, and where rental payments are not benefiting local communities, by growing a community rental sector
- as part of a wider plan to reform the Right to Buy, to arrest the decline of social housing and to keep subsidies in the system.

While not a comprehensive list of all the options for acquisition, we believe that support as described in this paper would make a significant impact in enhancing the effectiveness of how we subsidise homes for low to middle-income households.

Notes

1. JRF analysis of Table 692: Financial data on Right to Buy sales, England (https://assets.publishing.service.gov.uk/media/64ccf5199958270010c1e924/LT692.ods) .
2. JRF analysis of Table 691: Annual Right to Buy sales by the local authority (https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales); and Table 1000: additional affordable homes provided by type of scheme, England. (https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply)
3. JRF analysis of LHA rates and Local authority revenue expenditure and financing England: 2022 to 2023 individual local authority data – outturn (https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2022-to-2023-individual-local-authority-data-outturn).
4. JRF analysis of Statutory Homelessness Live Tables: Detailed local authority level tables. (https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness#statutory-homelessness-live-tables)
5. JRF analysis of LHA rates and Local authority revenue expenditure and financing England: 2022 to 2023 individual local authority data – outturn (https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2022-to-2023-individual-local-authority-data-outturn).

6. JRF analysis of Table 692: Financial data on Right to Buy sales, England (https://assets.publishing.service.gov.uk/media/64ccf5199958270010c1e924/LT692.ods) (https://assets.publishing.service.gov.uk/media/64ccf5199958270010c1e924/LT692.ods) .
7. JRF analysis of Table 692: Financial data on Right to Buy sales, England (https://assets.publishing.service.gov.uk/media/64ccf5199958270010c1e924/LT692.ods) .

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