

*The Pilot Programme for the
Voluntary Right to Buy for
Housing Associations: An
Action-Learning Approach*



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Contents

1. Introduction	1
1.1. Background	1
1.2. The VRTB scheme	2
1.3. Structure of the report	4
2. About the Research	5
3. The Design of the Pilot VRTB Programme	7
3.1. The VRTB agreement	7
3.2. The pilot housing associations	7
3.3. Differences between the pilot programme and the Statutory RTB scheme	12
3.4. The Governance Structure of the VRTB Programme	14
4. Delivering the VRTB pilot Programme	16
4.1. The Process of Applying for the VRTB pilot	16
4.2. Differences in approach between the pilots	18
4.3. Variability in the Pilot Programme: the Case of Exclusions	19
4.4. Stakeholder Views about the Operation of the Pilot Programme	23
5. Tenant Experiences of the VRTB Process	30
5.1. Tenant experiences of administrative processes	30
5.2. Tenant views and experiences of marketing and communication	32
5.3. Issues raised about the process	34
6. Why do tenants want to buy their home?	40
7. What was the level of demand for VRTB in the pilot programme?	45
7.1. Expressions of interest and applications in the pilot programme	45
7.2. Factors affecting apparent demand for the VRTB in the pilot programme	47
8. Can tenants afford to buy their homes through the VRTB?	51
8.1. The Financial Circumstances of Applicants	51
8.2. Awareness and Understanding of the Viability of Purchasing	54
8.3. Valuations in the Pilot Areas	58

8.4.	Affordability and expected completions	59
8.5.	Plugging the 'affordability gap'.....	61
9.	Profiling the VRTB: which tenants are buying, and what stock is being bought?	64
9.1.	Profiling demand for the Voluntary Right to Buy.....	64
9.2.	Demand compared to characteristics of pilot areas.....	67
9.3.	Profile of demand for VRTB compared with Statutory Right to Buy.	70
10.	Key Lessons and Messages.....	72
10.1.	Eligibility for the VRTB.....	73
10.2.	Applying for the VRTB.....	74
10.3.	Impact on Housing Associations.....	74
10.4.	Outcomes of VRTB	75
	References	76
	Appendix 1: The Governance Structure of the VRTB Programme	77
	Appendix 2: Schemes to support access to owner occupation	78
	Statutory Right to Buy.....	78
	Right to Acquire.....	78
	Preserved Right to Buy.....	79
	Voluntary Right to Buy	79

Introduction

1.1. Background

This research report assesses the aims, operation and outcomes so far of the pilot programme for the *voluntary* Right to Buy (VRTB) for housing association tenants in England. The introduction of the right to buy (RTB) for eligible tenants in specified housing association dwellings was a manifesto commitment by the Conservative party for the 2015 general election and was reiterated in the Queen's Speech in May 2015, when the Government made a commitment to introduce legislation to '*support home ownership and give housing association tenants the chance to own their own home*' (Cabinet Office, 2015). In October 2015, the government accepted a proposal by the National Housing Federation (NHF) on behalf of its members to deliver this commitment by way of voluntary agreement rather than legislation. In November 2015 the VRTB pilot scheme was set up by the Department for Communities and Local Government (DCLG). This has now been followed by the announcement of an expanded regional pilot VRTB programme.

Certain aspects for the financing of the full VRTB scheme formed part of the Housing and Planning Bill, which received Royal Assent on 12 May 2016 after extensive discussion in both Houses of Parliament. The financial regulations which have been enacted so far concern the granting of discounts on sales by the Secretary of State to housing associations. Other terms for funding the programme, including the use of proceeds from the sale of 'high value' council homes, require statutory instruments which have yet to be laid. Apart from the discounts, all other funding for the initial *pilot* VRTB programme was provided by DCLG.¹ The Chancellor recently announced the launch of the large scale regional pilot of the VRTB scheme in the Autumn Statement on November 23rd 2016. It is not known at this stage how this might differ in detail from the pilot programme discussed here, but it will test out the issues of the portable discount and one-for-one replacements not included in this pilot scheme.

This research was designed as an action-learning project, examining issues as they arose during the evolution of the pilot programme and focusing on the lessons that could be learned for the nationwide scheme. The research was never intended as a formal evaluation of the pilot programme. Instead, the aims of research (discussed in more detail in Chapter 2) were to identify lessons from the pilot programme, to

¹ This did not include funding for the action research study, which was provided by the National Housing Federation and the five pilot housing associations.

assess the implications for the operation of the national roll-out of the scheme and to estimate future take-up and demand for VRTB through statistical modelling.

This report is concerned with the first two of these three aims. It is too early to undertake a robust assessment of the implications of VRTB for future demand, taking account of local housing markets, the demographic profile of households, the size and type of stock and the cost consequences for discounts and replacements. At the time of writing (November 2016) there had been 81 completions through the pilot programme. We estimate that any modelling about the future impact nationally of the VRTB programme should be undertaken once several hundred completions have occurred. This figure is likely to be reached in early 2017. There will, therefore, be a supplementary report from the research team on the issues of take-up and demand when there have been sufficient completions in the pilot programme.

1.2. The VRTB scheme

National schemes to give local authority tenants the RTB go back to the early 1980s but housing association tenants were not included² at this stage.³ The intention to extend the right to buy to such a diverse sector raised a host of complex practical and operational issues. There are more than 1500 housing associations, each with their own Board, and ranging in size from the many small associations with less than ten properties to the large associations with more than 40,000 properties. After extensive debate and negotiation, in early October 2015 the government accepted the proposal by the National Housing Federation to introduce a voluntary right to buy scheme. This followed a consultation undertaken by NHF of its 584 members. Fifty five per cent of associations (owning over 90 per cent of the total housing stock in the sector) accepted the invitation to sign up, six per cent declined and 39 per cent abstained or did not respond.

The VRTB proposal that the government accepted was based on four key principles.

- Right to buy discounts for housing association tenants: housing association tenants would have the right to purchase a home at Right to Buy level discounts – subject to funding for the scheme.
- Board control over which homes to sell: housing associations will have the final decision about whether to sell an individual property, with the presumption that they will sell a tenant their current home where they can.
- Full compensation: housing associations will get the full market value of the properties sold, with the value of the discount funded by the Government.
- Flexible one for one replacement: nationally, for every home sold under the agreement a new affordable property would be built, thereby increasing overall supply. Some housing associations may not be able to build at a ratio of one for one, or in limited circumstances have to rely on acquisitions or bringing empty

² with the exception of secure tenant in non-charitable housing associations. Those tenants who were formerly qualifying tenants of local authorities that have since transferred their stock to housing associations also remain eligible, under the Preserved Right to Buy (PRTB)

³ For a full history of RTB, see sources such as: Murie, A. (2016).

homes back into use, but it is expected that this will be balanced by others delivering to a higher ratio and that, nationally, the target will be met. The type and location of replacements will be flexible, according to their needs.

In summary, the VRTB is seeking to extend the existing RTB scheme to housing association tenants. However, the terms of eligibility are different and, as seen above, under the full scheme associations have the discretion not to sell a particular property but instead offer an alternative home to buy. In the national scheme, the costs to the government of funding the discounts given to tenants exercising the VRTB are to be met from the proceeds from the sale of high value council homes. The provisions of the Housing and Planning Act 2016 enabled the Secretary of State to pay the discounts arising from VRTB sales. All the detailed provisions of the scheme were delegated to the Secretary of State to determine at a future date.

DCLG launched the pilot scheme of the VRTB with five housing associations in late November 2015, in order to test out the policy in advance of its implementation. The pilot programme diverges from both the existing statutory RTB and the forthcoming national VRTB scheme in some important ways (see Chapter 3 for more detail). The most important difference from the existing scheme is that tenants are required to have at least ten years' experience as a tenant in the social housing sector to qualify for VRTB. This compares to a minimum of three years for tenants in the local authority RTB. The other significant difference between the pilot programme and the forthcoming national VRTB programme is that it does not involve a portable discount for tenants who live in excluded properties.

For the pilot programme, a portal was established on the DCLG website where tenants in the pilot associations could register an interest to take up the VRTB. If their eligibility was confirmed at this stage, the individual housing associations then managed their application from that point onward. Successful applicants were able to progress their application up to the point of a *provisional* offer being made, but no contractual commitment could be entered into at this stage. The applicant could only continue through to purchase once the Housing and Planning Bill was enacted in May 2016. The scope and funding of the pilot programme was limited to a maximum of 600 completed sales. The pilots started accepting applications in January 2016 from those who had registered an interest in VRTB. The research team started the action-learning project in February 2016.

While there was considerable speculation about the potential impact of extending the RTB to the housing association sector, the most substantial appraisal was undertaken by the Communities and Local Government (CLG) (select) Committee. The Committee undertook its inquiry during Autumn 2015 and published its report in February 2016 (CLG Committee, 2016). The Committee report recognised that the voluntary deal was a way of delivering a key policy from the Government's manifesto whilst maintaining the independence of housing associations. This report raised questions about various aspects of the policy: the extent of the discretion for housing associations to decline sales; the protection of affordable housing in rural areas and how portable discounts would operate; funding of RTB discounts from the proceeds from the sale of high value council homes; how the objective of one-to-one replacements for sold homes would be met. However, most of these issues lie outside the scope of the pilot programme.

1.3. Structure of the report

In the following chapter we outline the research team's action-learning approach in more detail. Chapter 3 discusses the design of the pilot programme and the characteristics of the five pilot housing associations. Chapter 4 outlines the delivery of the programme and the progress that has been made so far in processing applications, from the initial expression of interest through to assessment of eligibility, valuation, offer and completion. The following four chapters (5 to 8) draw on both online surveys and qualitative interviews with applicants to assess, in turn: applicants' experience of the VRTB process, their motivations for wanting to buy their homes, the level of demand for VRTB in different pilots and whether interested tenants could afford to buy. Chapter 9 profiles the tenants involved in the pilot programme and compares them to other tenants within their housing associations. Finally, in Chapter 10, we reflect on the main lessons and messages to emerge from the pilot programme so far.

About the Research

The research team from Sheffield Hallam University and the University of Sheffield started work in February 2016, two months after the pilot programme had been announced. As stated earlier, the project was based on an action-learning approach and focused on providing useful lessons about the policy from an independent standpoint. This approach was considered appropriate to maximise the opportunity to inform the progress of the pilots and the development of the wider VRTB programme. To this end, the team produced a series of Learning Bulletins on various issues of policy and practice. These bulletins were supplemented by ongoing contact with the NHF, with each of the pilots and participation in the regular meetings of the Pilot Project Operational Working Group (see Chapter 3).

The action learning during the pilot programme used a range of sources to collect data. These included:

- **Stakeholder interviews with officers in the pilot associations.** A range of officers in each of the pilot housing associations were contacted at regular interviews to record their experiences of the process and identify emerging trends. These issues included the use of management data, marketing and communications, managing exclusions, and variations in the process used to progress applications through the system to completion.
- **Management information.** The housing associations recorded a range of data during the pilot programme. This included progress data on Expressions of Interest, applications, valuations and completions.
- **Online survey to tenants.** 3,450 tenants who expressed an interest in VRTB were contacted with an online survey. The survey collected a range of data about tenants and their experience of the VRTB pilot. A different set of questions were asked to three sub-groups: those who made an application, those who had not made an application but might do so later in the programme, and those who did not intend to apply. The survey was sent out in two waves during April and August 2016. In total there were 668 responses to the survey which could be included in the analysis. This represented a strong overall response rate (19 per cent) and included 29 per cent of all applicants.⁴ The number of survey responses from each pilot was largely in line with the number of Expressions of Interest they had received.

⁴ Based on the number of applicants and expressions of interest in August 2016, including rejected applicants.

- **Follow-up survey to tenants.** A follow-up survey was sent out to 409 tenants who had responded to the first wave of the online tenant survey. This survey investigated the progress of tenants through the application process. It led to 126 responses, which represented a response rate of 31 per cent of those contacted.
- **Qualitative interviews with tenants.** A selection of tenants who responded to the online survey were contacted for in-depth follow-up telephone interviews. This allowed more detailed exploration of certain issues, such as their main motivations for applying for VRTB, their experience of the process and their financial position to enable purchase. Thirty four interviews were undertaken, across the pilots: twenty four of these covered households from either L&Q or Riverside, as these two associations had generated the largest response from tenants and accounted for more than 80 percent of all applications processed by the pilots (see Table 4.1).
- **Analysis of application forms.** Initial application forms submitted by tenants were analysed to assess the characteristics of households and the stock being purchased. Analysis was undertaken of the application forms received up to mid-April 2016. Sovereign used an online only process for applications whilst tenants in the other pilots completed paper forms. A total of 428 application forms were included in the analysis with a small number excluded due to issues with data quality.

The results from the different data sources were used to triangulate findings. This meant that it was possible to gain more detailed understanding of the pilot process. It was also possible to combine data from the different sources to undertake additional analysis. For example, the affordability of VRTB for tenants was assessed using data from management information, the online survey and application forms.

In addition, the research team kept in touch with the ongoing development of the pilot programme through visits to each of the pilots, discussions with lead officers and, in some cases, with front-line staff. These staff members were responsible for interviewing applicants and processing applications. The research team attended a marketing event held by one of the pilots to offer advice to applicants and promote awareness of the VRTB scheme. Research team members also attended and participated in meetings of the Pilot Projects Operations Working Group. The pilot associations had responsibility for agreeing on the design of the programme (over such issues as property exclusions, terms of sales, conditions for agreeing the 'ten years eligibility rule' and commissioning the action research). The Working Group met regularly to monitor progress and discuss any issues that had arisen in the course of the pilot programme. Draft findings from the research (learning bulletins and an interim research report in May 2016) were presented at various junctures to the Working Group. An interim research report and a presentation based on this report were also presented to a meeting of the Sounding Board, which had been set up to contribute to the development of the national VRTB scheme (see Chapter 3).

The Design of the Pilot VRTB Programme

3.1. The VRTB agreement

The VRTB was agreed between the National Housing Federation and the Government in October 2015. It was designed to allow housing associations to meet the Government's manifesto commitment to extend Right to Buy discounts to their tenants by way of a voluntary agreement rather than through legislation.

The voluntary agreement and the selection of the five pilot associations were secured against a very tight timetable so the arrangements could be confirmed in advance of the 2015 Autumn Statement.

3.2. The pilot housing associations

DCLG invited five housing associations covering a range of different markets and operating environments to take part in testing the scheme. The five pilot housing associations then selected certain areas for inclusion in the VRTB pilot programme (see Table 3.1 below). The selection of the pilot associations was made to cover reasonable geographical spread across the country and to include both large and relatively small associations. The eventual choice of the five Associations also relied on personal contacts in bringing together a 'coalition of the willing' who were prepared to test out the VRTB programme. The pilot associations then selected certain local authority areas in which they operated (see Table 3.1 below) rather than covering every area where they owned stock. Overlaps in geographical coverage between associations were avoided. For example, the areas covered by the Thames Valley pilot were different to areas covered by L&Q and Sovereign, even though these associations held stock in many of the same locations. The remainder of this section outlines the characteristics of the five pilot associations. This highlights the differences in geography, size of organisation and reasons for their involvement in the pilot.⁵

⁵ Quotes are from interviews with officers within the pilot housing associations.

Table 3.1: The Pilot Housing Associations

Housing Association	Location of stock (by local authority area)
L&Q	London Boroughs (LB) LB Croydon LB Enfield LB Greenwich LB Haringey LB Lambeth LB Lewisham LB Newham LB Southwark
The Riverside Group Ltd.	Liverpool City Region Combined Authority Area Liverpool City Council Halton Borough Council Knowsley Metropolitan Borough Council Sefton Metropolitan Borough Council St Helens Metropolitan Borough Council Wirral Metropolitan Borough Council
Saffron Housing Association	South Norfolk District Council
Sovereign Housing Association	Cherwell District Council West Oxfordshire District Council Vale of White Horse District Council South Oxfordshire District Council
Thames Valley Housing Association	Guildford Borough Council Hart District Council Runnymede Borough Council Rushmoor Borough Council Woking Borough Council

L&Q (London and Quadrant) housing association has a stock of over 70,000 properties across London and the South East and is the largest social landlord in London. Its origins date back to the formation of Quadrant housing association in October 1963, based in Greenwich. Quadrant joined with London Housing Trust in 1973 and L&Q was formed. By the late 1980s L&Q owned more than 10,000 homes and continued to develop in the 1990s and 2000s through acquisitions, mergers and new schemes. In 2016 its stock of 70,000 properties included 54,000 social tenancies. Forty thousand of these tenancies are based in London. In Lewisham, for example, L&Q has 6,000 properties. L&Q continues to develop its portfolio, exemplified by the recently announced Barking Riverside development of 11,000 properties, and its joint venture to develop homes in partnership with Trafford Housing Trust in the North West.

The decision to select L&Q for the pilot programme stemmed in part from the role of L&Q's Chief Executive, David Montague, as a member of the NHF Board. Although NHF were not involved in the selection process, he had been closely involved in the rapid development of the VRTB idea through this role on the NHF Board. L&Q's Board supported the idea of becoming involved in the pilot to *'be involved in shaping the (eventual) policy and the process'*. Their pilot area covers eight local authorities in London. L&Q dedicated additional staffing to the pilot in order to be able to manage an anticipated high level of demand effectively. L&Q also concentrated on

investing resource in engaging with and updating local authorities, particularly given the critical reaction of many London Boroughs to the idea of extending RTB to housing associations when it was announced. L&Q's involvement in the pilot was also supported by the G15 group of major London housing associations (which was being chaired by L&Q at the time of the launch of the pilot).

The initial indicative allocation of properties in the pilot programme for L&Q was 100, later increased to 150 because of the very high level of interest from tenants (see Section 4.1). One of the reasons for L&Q joining the pilot scheme was to road test more efficient procedures for managing VRTB including progressing applications, securing valuations and undertaking fraud checks. Processing a preserved RTB⁶ application had taken L&Q around 42 weeks in the past. One of the aims of VRTB was to lower transaction costs and speed up the application process, if possible to just 12 weeks. Limits had to be placed as a result on the number of applicants active in the system at any one time.

The Riverside Group Ltd. Owns and manages nearly 52,640 properties (of which 36,000 are general needs rented stock). Riverside operates across 160 local authorities from Kent to the Isle of Arran. Riverside started out as Liverpool Improved Houses in 1928 and became Merseyside Improved Houses in 1973 and was then renamed Riverside Housing Association in 1996. Riverside has expanded considerably since the 1990s, through a combination of mergers and take-overs, and expansion through development and stock transfer. It created a group structure in the early 2000s under a parent association, The Riverside Group Ltd. It has an active development programme of around 700 properties per year, which includes rented properties, shared ownership and low cost home ownership schemes and properties for outright sale. Riverside has preserved RTB tenants and also sells properties as part of their asset management strategy '*where it is strategic to do so*'. To some extent the incorporation of VRTB within the association's portfolio of activities was seen as '*business as usual*'. The organisation had the processes in place and the staff expertise from other sales activity to deal with this additional strand of work.

The pilot area covers 21,000 Riverside properties across six local authority areas. Of these, 6,519 properties were deemed eligible for VRTB in the pilot and inhabited by tenants likely to be eligible (i.e. with the requisite length of tenancy). Around half the properties in the pilot area are in the 10 per cent most deprived neighbourhoods in England, and average property values are low (see section 8.4). Riverside agreed to take part because, according to one stakeholder, it was an opportunity 'to get ahead of the game', providing an opportunity to learn and be prepared for the main scheme. The terms of sale under the pilot programme were likely to be slightly more advantageous than arrangements for a national scheme and this was also cited as a reason for taking part.

Senior officers in Riverside initially contemplated linking the pilot scheme directly to their asset management strategy by targeting the offer to specific areas and properties, but they subsequently opted for general coverage in order to generate a more realistic estimate of demand. There is no rural stock in the Riverside pilot

⁶ See Appendix 2

areas. A small number of properties were excluded where regeneration work is imminent, along with a further 900 properties that were part of a particular funding portfolio with legal complexities over their covenants. It was decided to select local authorities that lay within the Liverpool City Region for the pilot - partly because of the concentration of housing stock in that area and the range of local housing market conditions it covered. The selection also enabled Riverside to undertake a more strategic conversation with the local authorities involved, in the light of emerging 'Combined Authority' structures.

A letter about the pilot scheme was sent to the 19,299 properties in scope. Riverside has not undertaken much further publicity or marketing, other than contacting those who had originally expressed an interest but had not followed up with an application. The association was 'inundated' with expressions of interest from tenants and nearly 600 applications had been processed by November 2016 - far more than any of the other pilots. Riverside had agreed to an allocation of 200 completed sales in the pilot programme, but this was later increased to 250. Additional staff were taken on to help process applications. Officers provided relatively limited advice and support to applicants going through the process. This was partly a pragmatic decision, in terms of capacity and cost. A conscious decision had also been taken to provide limited advice and support to applicants in order to place responsibility for taking the purchase forward with the applicant – to make it a *'proper market experience'* for them. A similar approach to applicants has been undertaken by other pilots, such as Sovereign.

Saffron Housing Association was formed in 2004 as a result of a large-scale voluntary transfer from South Norfolk District Council. The association has housing stock across East Anglia (5,600 dwellings in total) but only included their stock in the South Norfolk local authority area for the pilot. Saffron's housing stock includes former council estates in market towns, dispersed settlements and some individual houses. About 10-15 tenants a year exercise the Preserved Right to Buy. At the time of the pilot programme launch Saffron had an active development programme (490 units on a range of sites), with a high proportion of section 106 properties, as well as infill properties and schemes on rural exceptions sites. Around 1,000 of the 4,800 properties in the pilot area are S106 properties.

Saffron was included in the pilot programme relatively late in the process and was partly selected because of the rural context in which it operates. Officers from Saffron were enthusiastic about piloting VRTB and it was seen as a chance to invest in housing stock as part of active asset management planning and to ensure that their housing stock was better aligned with local demand (for example on issues such as the availability of one bed properties and dwellings for assisted living). Saffron contacted the 1600 households who were eligible for the pilot by letter. There was little further marketing undertaken by the housing association. Saffron agreed to an initial allocation of 50 completed sales in the programme, later reduced to 40.

Sovereign Housing Association began life as West Berkshire Housing Association in 1989 following a stock transfer from the then Newbury District Council. From the outset, Sovereign was an active developer; it was renamed Sovereign in 1994, and the association continued to grow through acquisitions, transfers and new developments. During the period covered by this report, Sovereign's stock of 37,000

properties was mainly distributed across small-scale development in market towns and rural areas. Around 20 per cent of Sovereign's current activity was concerned with home ownership and shared ownership, and the remaining eighty per cent with affordable/social rent. Sovereign's housing stock includes four stock transfers from local authorities, of which the largest is Newbury, where the head office is based. Sovereign currently has an active development programme and its involvement with the VRTB pilot formed part of its wider strategy of diversification and supporting sustainable and affordable home ownership. In early November 2016 a merger was completed between Sovereign and Spectrum Housing Group, bringing the total combined stock to 55,000.

Sovereign's Chief Executive Officer welcomed the organisation being part of the pilot. While she recognised involvement in the pilot would place additional pressures on employees, she believed the experience would be invaluable in preparing for the national scheme. Sovereign placed great emphasis on developing an innovative digital housing service and its involvement in the pilot programme was an opportunity to demonstrate the value of a digitally based approach for communicating, processing and advancing VRTB applications.

Sovereign's housing stock in Oxfordshire (other than Oxford city, where it only has a few properties) was selected for the pilot programme. The development programme included a number of Oxfordshire schemes, which meant that the area was seen as a potential area for strategic development, and could be the focus of any new provision from reinvested receipts. This stock did not differ markedly in terms of prices and rent levels from their provision elsewhere. A total of 7,988 households lived in the Sovereign pilot area, but, once allowances were made for exclusions and PRTB, just 1,601 properties qualified for VRTB. Sovereign agreed to an initial allocation of 200 completed sales in the pilot programme, later reduced to 100.

Thames Valley Housing Association (TVHA) was set up 50 years ago and currently has 14,500 homes (of which 5,700 are rental units) and 26,000 residents. The housing stock tends to be distributed across smaller developments of 10 to 15 units in London, Berkshire, Surrey, Hampshire, Oxfordshire, Wiltshire and Sussex. TVHA has established a joint venture subsidiary, Fizzy Living, for its market rent activity. Seventy per cent of its 2014/15 development programme was earmarked for shared ownership, and 30 per cent for affordable rent. During the course of the pilot programme in 2016, TVHA had been involved in detailed discussions about a proposed merger with Genesis Housing Group, but the proposed deal was called off in September 2016.

In determining the geographical area to be covered by the TVHA pilot, overlaps were avoided with any areas also covered by Sovereign or L&Q. The TVHA pilot is based in Woking, Guildford, Rushmore, Runnymede and Hart. This covers only 1,500 households, of whom 954 are eligible for VRTB, once exclusions were taken into account. The TVHA housing stock in the pilot therefore represents markets on the London fringe, with values below those in central London but still very high by national standards (see section 8.4).

TVHA was keen to be involved in the pilot to help anticipate the likely impact of a national scheme. Extra resources were committed to managing and processing

applications and refining data analysis systems. TVHA has undertaken modelling to estimate future impacts of VRTB on both the stock and the housing service. At the start of the pilot programme, letters were sent to the 954 households who might be eligible for VRTB. Aside from follow-up letters, no further promotional work was undertaken. Unlike in the other pilots, applicants did not have to pay the administration fee of £250 until they were ready to secure a valuation and were then deemed 'firm' applications. The publicity material that was sent out to tenants emphasised the financial commitment that would be required if they were to go ahead with the purchase, reflecting concerns about high property values and affordability in the local market. TVHA agreed to an initial allocation of 50 completed sales in the pilot programme, later reduced to 15.

Taken together, the five pilot housing associations offered a range of contrasts in relation to organisation type, geography, and housing markets. For this reason it is important to examine the distinctive experience of each association and their tenants, rather than just aggregate applicant responses and stock characteristics across the pilots. Of particular interest are the differences between the two largest pilot areas, Riverside and L&Q. Both organisations are large, expanding associations, but are operating in very different contexts. For example, the mean average value of a property in their pilot areas is £93,600 in Riverside, and £374,800 in L&Q.⁷ These differences have obvious ramifications for affordability, the cost of discounts and the eventual asset value of the property for applicants.

3.3. Differences between the pilot programme and the Statutory RTB scheme

The VRTB policy is often described as the 'extension' of the existing Right to Buy to the housing association sector. However, there are some important differences between the scheme used in the pilot programme and the existing statutory RTB scheme, concerning the eligibility of qualifying tenants and the exclusion of specific properties. Housing association tenants who were formerly local authority tenants (for example, prior to a stock transfer) remain eligible for the Preserved Right to Buy (PRTB) and are not eligible for the pilot VRTB scheme.⁸

Tenant Eligibility under the Pilot Programme

In order to ensure that the number of applicants to the pilot programme was manageable, the qualifying period was set at 10 years (not necessarily continuously) as a housing association or public sector tenant (including any probationary periods). This compares with a qualifying period of three years in the statutory RTB. Licensees are excluded from the scheme, although periods as a licensee are counted when calculating discounts. The onus was on the applicant to provide documentary evidence of their eligibility and tenants were not able to 'evidence' length of tenancy by undertaking a statutory declaration. No additional time was granted for any family members who may join in the purchase.

⁷ See chapter 8 for full details.

⁸ See Appendix 2 for a summary of the schemes to support access to owner occupation for social housing tenants.

Housing associations in the pilot were given a choice on whether to turn down any application from those in arrears (except for 'technical' arrears due to benefit payment delays), or to accept applications on the condition that the arrears were settled prior to completion. In fact, the five housing associations agreed a consistent policy on this. Applications were not accepted where there had been a material breach of tenancy. All family members must have lived at the property for at least 12 months to join in the application (to prevent 'carpet bagging'), and this restriction was consonant with the emphasis on VRTB being an 'opportunity', not a 'right' in comparison with the statutory scheme. If a joint application was made, the application process had to be restarted if one party dropped out prior to completion.

Given the time limited nature of the pilot, and the maximum number of completions set, all applications were dealt with on a first come, first served basis.

Property Exclusions

The approach to eligibility in the pilot programme, as discussed above, was consistent across the five housing associations even where there was room for variation (e.g. treatment of tenants in arrears). The framework for determining property exclusions, on the other hand, gave the pilot housing associations more latitude which produced a degree of variability.

Certain types of property were excluded from the pilot VRTB, including housing for older people, supported housing and housing for disabled people (as defined by the housing association concerned). Rural properties were excluded, based on an existing list of excluded parishes for Right to Acquire (RTA) purposes, or a special list drawn up by the association. In addition, properties were excluded where Section 106 or other planning agreements restricted the use of the property (e.g. to affordable housing). The reason for excluding such properties was partly pragmatic as it would not be possible to secure the consent of the local authorities to varying Section 106 conditions within the timetable of the pilot programme. In addition, other properties could be excluded from the process at the discretion of the housing association, for reasons such as asset management and redevelopment (for example, due to impending demolition, regeneration, change of use or disposal). This flexibility was allowed because including such properties might increase costs and delays on existing developments or require programmes to be revised.

There were also restrictions on the sale of properties below the Net Debt, or affected by the 'Cost Floor' rule. A sale could not take place where the net debt was greater than the market value of the property (as the sale would then cause a financial loss to the housing association) and it was prohibited for the net sale price to be lower than 15 years of cumulative investment in the property (this contrasts with 10 years for the statutory RTB, except for properties built after 2012). In the latter case, the property was not excluded but the discount could not reduce the net sale price below a certain amount.

Other exclusions included properties with shared facilities or services (as defined by the association) and where there were property covenants or other legal restrictions preventing sale. The practice of the pilot associations in terms of exclusions is considered more fully below in section 4.3.

A number of restrictions were also introduced in the pilot programme in an effort to address some common criticisms of the statutory Right to Buy scheme. This included an optional overage clause if tenants subsequently redevelop or sell for redevelopment, and restrictions on sub-letting. Purchasers were not able to sub-let for five years following purchase and there was an option for the housing association to restrict permanently sub-letting, even if the property has been sold on by the original purchaser.

3.4. The Governance Structure of the VRTB Programme

The unique status of the VRTB scheme as a voluntary agreement between the NHF, housing associations and the Government brought with it the need for a specific framework for policy development. At the centre of this process is the VRTB Sounding Board, which is responsible for the design of the overall programme. It is made up of housing associations selected to reflect the diversity of the sector,⁹ the DCLG and the Homes and Communities Agency (HCA), and chaired by NHF.

The Sounding Board receives proposals about different aspects of the scheme from two working groups made up of housing association representatives. One of these groups, chaired by DCLG, is concerned with applications and sales processes and looks at issues such as how the process can be supported and resourced, the customer experience, eligibility and fraud prevention. The other group, chaired by NHF, is concerned with the policy of one-for-one replacements, which looks at how to make the replacement process efficient and applicable to both developing and non-developing associations, and how housing associations might work in partnership with other organisations to deliver replacements. It is also considering how the discount should be paid to housing associations (see Appendix 1 for a diagram of these relationships).

A series of topic-specific workshops were held and any lessons or concerns from these discussions were communicated to NHF and DCLG. The workshops have covered the following topics: eligibility; portable discounts; legacy stock; charitable status; Section 106 and restrictive covenants; Large Scale Voluntary Transfer (LSVT) issues; rural issues; supported and sheltered housing; smaller housing association issues; and fraud.

The VRTB Sounding Board also receives recommendations and proposals from the pilot associations through the Pilot Operations Working Group run by the five pilots with NHF and DCLG representation, and a Marketing and Communications Working Group. The Sounding Board considers proposals from these groups and the workshops and, if it endorses them, makes recommendations accordingly to the Secretary of State. Recommendations from the Sounding Board are considered and will need to be agreed by ministers in order to be incorporated in the main scheme. This will occur in the form of a framework for associations to make decisions about how they operate specific aspects of the scheme, given its voluntary nature, to ensure that it can be tailored to fit local circumstances.

⁹ Accent Group, Amicus Horizon, Anchor, Aspire Group, Bromford, First Choice Oldham Homes, Home Group, Innisfree, Peabody, Places for People, Shropshire Housing, Sovereign, Town & Country, and L&Q.

Having set the framework for the pilot programme, in the next chapter we outline the progress that has been made in dealing with applications for the VRTB and the views of stakeholders about the process.

Delivering the VRTB pilot Programme

4.1. The Process of Applying for the VRTB pilot

Potential applicants for VRTB in the pilot areas had to register their interest through a central DCLG portal, while giving a preliminary indication that they met the ten year eligibility criterion. Their Expression of Interest was then passed on to the housing association concerned, and the association then processed the application from that point on. An initial assessment was made of the tenant's eligibility for the scheme, to be followed by a more detailed check once an application had been made. The landlord established whether or not the property was within the scope of the scheme. In four of the pilots, applicants then needed to pay a £250 administration fee (refunded if their property was subsequently excluded from the scheme, or if the sale completed successfully, but not if they just withdrew from the process). The administration fee was collected later in the process in the TVHA pilot. A few applicants received an indicative valuation of their property, but the vast majority did not. If they were still included in the scheme, their application was then paused until after Royal Assent was granted. Pilot associations received the written approval to go ahead with sales in June 2016. Applicants could then proceed with their application and needed to demonstrate that they had secured the necessary finances, and have that approved, then instruct their solicitor to complete the legal processes necessary to finalise the purchase.

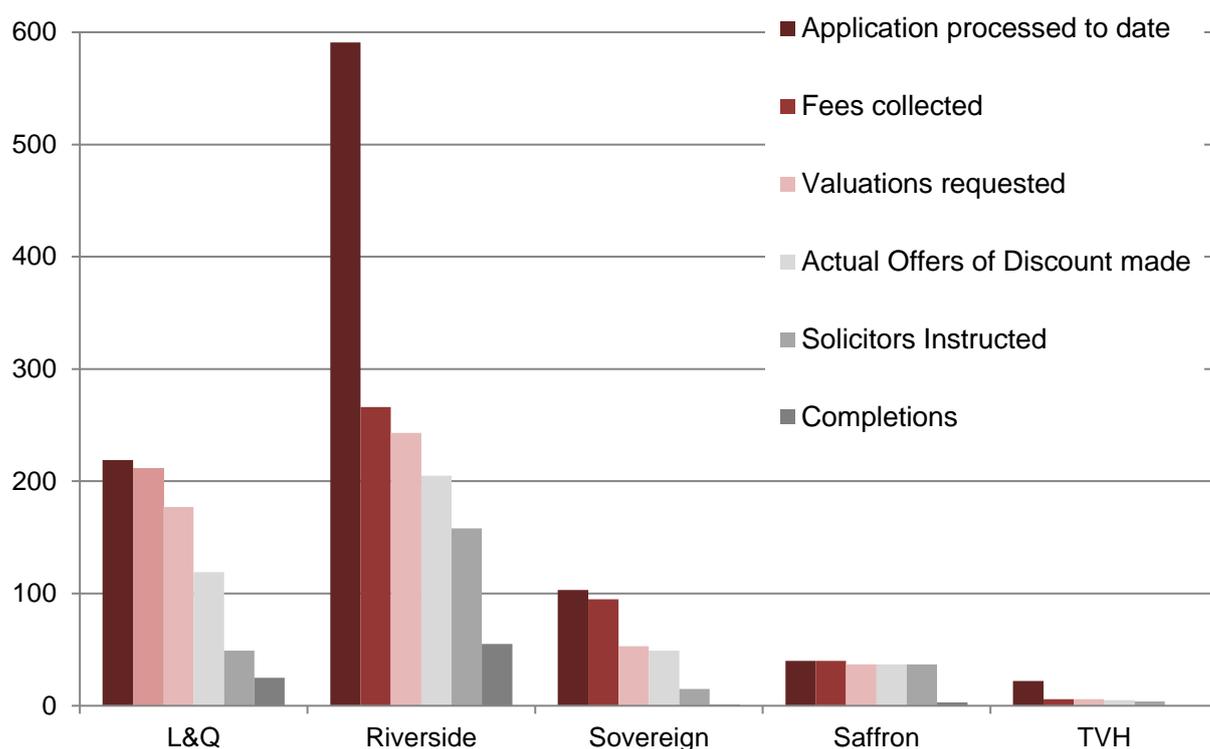
As had been anticipated, one of the pilots, L&Q, had a very large and potentially overwhelming response in terms of expressions of interest when the pilot was announced. Over 1,800 expressions of interest were made within two months. As a result of this tremendous level of interest, the decision was taken to pause the 'active' waiting list of those expressing interest, to make it manageable to process applications in a measured way and to avoid having to disappoint other applicants once they were even further down the line. As shown later, this decision to 'pause' caused considerable frustration among those being held back in the queue, as well as prompting speculation from tenants over the 'real reasons' behind the decision. L&Q then allowed others to move on to the application stage in tranches, according to date order. By November 2016 this meant that there were still a large number of tenants who had expressed an interest but had not moved forward to the application stage, such was the level of interest in the scheme.

Table 4.1 below shows how many tenants living in eligible properties had moved through the various stages to make an application to purchase their property by 3 November 2016. Figure 4.1 also highlights the progress with the application process across different pilot areas. At this point Riverside accounted for 591 of the 972 applications processed. Only a small number of new applications were processed between June and early September, but associations then had renewed contact with those who had expressed an interest prior to closing the scheme in early October. During this period, most of the change resulted from the progress of existing applications. As a result, the number of 'offers of discount' increased rapidly from 14 in early June to 415 by November 3rd. At this time the number of 'solicitors' instructions' had also passed 250 and had translated into 81 completions. The very first completions in the pilot programme, in L&Q and Riverside properties, were made in August 2016.

Table 4.1: Progress through to applications at 3 November 2016

	L&Q	Riverside	Saffron	Sovereign	TVH	Total
Total number of households in pilot area	18,667	21,000	4,800	7,988	1,500	53,955
Eligible households within the pilot area	5,712	6,519	1,600	1,601	954	16,386
Expressions of interest from eligible tenants	1,894	1,700	116	555	140	4,405
Applications processed	219	591	40	103	22	972
Valuations requested	177	243	37	53	6	516
Offers of Discount	119	205	37	49	5	415
Solicitors Instructed	49	158	37	15	4	263
Completions	25	55	3	1	0	81
Allocation	150	250	40	100	15	555

Figure 4.1: Progress with the VRTB application process, 3 November 2016



Several factors need to be considered when assessing procedure and progress in dealing with applications. First, the pilot associations had to pause the process during the period of application until Royal Assent was given to the Housing and Planning Bill in May 2016. Second, the time to process applications took longer than originally anticipated. This is understandable, given; i) the scale of the undertaking for the applicant, which requires them to give very careful thought to their circumstances before proceeding; ii) the novelty of the process; and iii) the need to engage others (for example, valuers and solicitors) over the sale of the housing association property for the first time. Third, there was also a longer time lag than expected between instructions to solicitors being issued and the completion of the sale. It is therefore hardly surprising that the number of completions achieved in the pilot programme by November 2016 fell below initial expectations of progress when the programme was first launched.

4.2. Differences in approach between the pilots

The pilot programme gave some opportunity to housing associations to customise their approach to dealing with applications. As we have seen, the pilots were operating in quite different housing markets. The housing associations were also given a degree of discretion on issues such as exclusions and approaches to marketing and progress checks with applicants. In initial interviews with the research team, officers from the pilots were very clear that a 'one size fits all' approach to marketing, processing and managing the VRTB programme would have been ineffective, and indeed counter-productive. This raises the wider question about how much discretion can be afforded to different practices (for example, over exclusions) in the regional pilot and the national programme, especially when different

associations will be operating in the same neighbourhood (which is not the case in the pilot programme). It remains to be seen how far the regional pilot and the national programme will strike a balance between flexibility and prescription, and between voluntarism and legalism.

As it turned out, different pilot associations specialised in different aspects of the application process. Sovereign, for example, placed great emphasis on digitising the application process and customer engagement, while encouraging applicants to take more responsibility in the course of the VRTB process. (In the words of one officer, treating VRTB as a '*commercial product*' rather than a '*service to tenants*'). All pilot associations had robust fraud prevention measures in place but L&Q focused on developing more far-reaching and intensive fraud protection methods which is understandable given the prices that VRTB properties have commanded, even after discount. Most associations required applicants to pay the £250 administration fee early in the process, as indicative of serious intent to buy. TVHA levied the fee just before a valuation was to be made. The level of interest from tenants in eligible properties in the scheme also varied from one pilot to another, as shown above. However, all associations referred to the demands on their time and resources of managing expectations once applications had been made.

The associations received a management allowance from DCLG to cover set-up costs and then an additional allowance of £2,000 per completed sale,¹⁰ to assist with coping with the additional workload of administering VRTB. Because exercising the VRTB is the most important financial transaction most applicant households will ever make, and because of the once-in-a-lifetime opportunity it offered to them, applicants could become very impatient with any delays, even though specified time periods were laid down for each phase of the application process.

4.3. Variability in the Pilot Programme: the Case of Exclusions

The extent to which the approach of pilot associations could vary is demonstrated by strategies for excluding properties. The pilot differed from plans for the full programme because the portable discount did not apply, and so there was no expectation that alternative purchase options would be offered. Furthermore, Section 106 (planning obligation) properties were automatically excluded from the pilot programme, not least because there was not time for associations to re-negotiate the terms and conditions of each scheme with the local authority or the original developer. A national programme with portable discount would add considerably to the complexity of decisions about whether to exclude properties with significant added workload in dealing with Section 106 agreements and legal covenants and making alternative properties available.

Determining exclusions and eligibility was a complex, sensitive and time consuming process even with the restricted scope of the pilot. Respondents expressed particular concern about assessing the status of S106 requirements as the data are not always up-to-date and readily accessible.

¹⁰ £3,500 per sale for properties in the Greater London area

Table 4.2 profiles exclusions across the five associations in the pilot programme. The proportion of excluded properties varies from 15 to 20 per cent in L&Q to 67 per cent in Saffron. The wide variation in the number of excluded homes will be an important part of the profile of VRTB as it maps out in the regional pilot and the national programme and that will feed into variation in the demand for portable discount across housing associations.

Pilot associations also excluded other properties with contractual obligations that were complicated to address within the pilot timescale. Some of the properties in scope had PRTB. Those 'enforced' exclusions account for the majority of exclusions from sale in the Saffron, Riverside, L&Q and Thames Valley pilot areas. The majority of exclusions in the Sovereign pilot area are rural properties in parishes exempt from the Right to Acquire (covering 28 per cent of properties).

Variations in the scale and type of exclusion reflect the nature of the housing stock in the different pilot areas. Taking property/funding conditions, PRTB and rural exclusions out of the equation, the proportion of discretionary exclusions is 12 per cent of the pilot housing stock in Riverside and Sovereign and less than five per cent in Saffron and Thames Valley. Discretionary exclusions are mainly specialised homes for older and disabled people and other forms of supported housing. Riverside is considering reducing its exclusions for some aspects of supported housing in the eventual national scheme. The challenge of delivering portable discounts in the national roll-out may further encourage associations to keep discretionary exclusions to a minimum.

Nationally there has been discussion about the importance of exclusions for rural housing and the definition of 'rural' that might be used, given major differences across existing government programmes (Right to Acquire, PRTB etc.)¹¹. Decisions about rural housing exclusions in the pilot reflect settlement patterns and the extent to which properties can be replaced. Sovereign excluded 28 per cent of stock in the pilot using the 'parish exemptions' criteria of the Right to Acquire but Saffron and Thames Valley opted not to exclude any rural housing. In some cases VRTB was an opportunity to sell and replace isolated rural homes.

The five associations are not planning to exclude additional properties in the full programme. The preference is for S106 properties to be included if possible. In the pilot areas S106 accounted for 50-60 per cent of the properties in the Saffron pilot area and around 30 per cent of homes in the Thames Valley pilot area. Riverside has no S106 properties in its pilot area, but has a significant proportion of exclusions because of legal covenants and conditions of lending.

It is possible that planning agreements and other contractual conditions could be renegotiated with relevant organisations (local authorities, funders etc.), but that has not been tested in the pilot because S106 properties were automatically excluded. Associations in the pilot were not optimistic about the prospects for renegotiating S106 agreements. S106 agreements vary between local authority areas and often between properties within the same local authority area. Renegotiation of agreements will be time consuming and costly and the outcome will depend on the

¹¹¹¹ see Appendix 2

attitudes of local authorities. It is possible that some local authorities will see VRTB as an opportunity to support strategic housing objectives such as diversifying tenure. However it is also possible that many local authorities will defend S106 agreements and resist the loss of affordable housing, especially given recent national policies to relax affordable housing provision.

This example of exclusions, and the variable response of the five pilots, reinforces the fact that the 'story' of VRTB will play out differently from one association to another. It also means that programme-wide aggregations of the response of the pilot associations are perhaps of less value than more detailed scrutiny of how specific associations responded to the challenge of processing VRTB applications, and what they learned from this. We return to this issue in Chapter 10.

Table 4.2: Exclusions in the pilot areas

	L&Q	Saffron	Riverside	Sovereign	Thames Valley
Properties in scope	18,667	4,800	19,299	7,968	1,500
Properties excluded from sale	2,800 + supported housing (c.15-20%)	3,200 (67%)	6,325 (33%)	4,302 (54%)	506 (34%)
Reasons for exclusion	<ul style="list-style-type: none"> • Section 106 • Note that supported housing was excluded but was never 'in-scope', i.e. no supported housing was included in the 18,667 'properties in scope' 	<ul style="list-style-type: none"> • Mainly Section 106 some preserved RtB. 	<ul style="list-style-type: none"> • PRtB (3,081); housing for older people (1,989); • Restrictive conditions - not S106 (961); • Housing for disabled people (220); • Significant adaptations(40); • Tenanted houses due for disposal (34). • Note that supported housing was excluded but was never 'in-scope', i.e. no supported housing was included in the 19,299 'properties in scope' 	<ul style="list-style-type: none"> • Rural housing using the 'parish exemptions' criteria set out for the preserved RTB (28% of all stock); • Specialist housing for older people (12%); • LCHO/market rent status (10%); • Owned by Thames Valley (4%). 	<ul style="list-style-type: none"> • Mainly S106 with some existing PRtB. • Some sheltered housing exclusions • PFI homes excluded • Some restrictive conditions – not S106
Exclusions, apart from S106, PRTB, property/lending conditions	Minimal (less than 5% of properties in pilot)	Minimal (less than 5% of properties in pilot)	2283 (12%)	3,700 (40%)	Minimal (less than 5%)
Planned changes in the full programme	Inclusion of S106 where that is possible and jointly desired by L&Q and LA's. Will need to look at rural exclusions (rural area not part of the pilot).	Inclusion of S106 where that is possible.	Reduce exclusions for supported housing (if evidence that tenants could buy their own homes). Seek to renegotiate agreements on properties with restrictive conditions.	Possibly revisit the blanket rural exclusion but unlikely.	Possible inclusion of S106 where there is local authority agreement.

4.4. Stakeholder Views about the Operation of the Pilot Programme

Stakeholders in all five associations were interviewed at various stages in the course of the programme. Looking back, they all felt that involvement in the pilot was worthwhile and valuable. The experience of working together was universally seen as positive and each association was now better prepared for the main scheme:

Yeah absolutely, we're really glad that we got involved. We've had a very, very positive experience¹²

The pilots were able to test the impact of the VRTB, enabling associations to develop management systems and processes, test estimates of future demand, and identify gaps in information and knowledge related to the eligibility of tenants and properties:

All of the little wrinkles and nuances we could never had found out without the pilot.

The most interesting aspect we keep coming back to [...] is that we've kind of answered the questions that we had at the outset around affordability [...] to be able to undertake a proper pilot and understand that has been fantastic.

Certainly from my perspective, from the slightly more strategic perspective, absolutely glad [to have been involved]. I think we've learnt a huge amount, I think it's put us in a really strong position to prepare for whatever is to come ahead.

I think when we go to the conferences and meet our colleagues who are absolutely petrified of this voluntary right to buy coming, and I feel a certain calmness in the fact that we have already been through so many of the processes and experiences and we kind of understand what may come and what our potential issues would be when the scheme is rolled out. We've been able to test admin, systems, been able to resource it in a way that we can determine what we might need going forward. So I think it has been a good opportunity for us to take part, we have learnt loads and it's nice to be the lead and have that expertise amongst our peers.

Challenges

While involvement in the pilot was considered worthwhile, it was a challenging process for all the associations because of the tight time schedule and the uncertainty about the progress of the Housing and Planning Bill, which had an impact on the timescale for sales. There were difficulties in predicting demand and limited time to address challenging issues such as exclusions, gaps in information and data, and arrangements for valuation:

¹² In the interest of maintaining confidentiality we have not disclosed which housing association the stakeholder quoted worked for.

The timescales were incredibly challenging ... we had two months to get from announcement to inviting applications, [and] three months warning of the going live date.

In general pilots had to undertake a lot of learning in a short period of time and that required considerable staff time and resources:

In our experience the demand was higher than expected in terms of the data collection and the data checking, particularly if you've got fraud and fraud prevention, I think it's quite onerous ... and actually it does feel like it's been a lot of hard work.

However, the impact of additional workload varied across the pilots:

I wouldn't say it's stretched the service, there's been some pressures and reprioritisation for some parts of the business in terms of information but I don't think it's necessarily stretched in terms of costs when we did our cost calculation, we factored all the timing in and the same for that transactional fee, we were well within that.

Section 106 properties were automatically excluded because of the limited timescale, but pilots had to make quick decisions about whether to exclude other properties and the pilot programme exposed cases of 'hidden' legal agreements and covenants that needed investigation and in some cases prevented sales.

For example, we've got a whole estate in one area where there's a restriction that it remains social housing forever, so the whole estate is exempt. In advance we might have possibly known about that and been able to manage those expectations of those tenants as they came in instead of waiting until we got three, four, five of them checked and then realised there was an issue for the whole estate. So that assets and liabilities register stuff which we didn't put enough of a focus on at the beginning is possibly where I'm focusing more of my time going forward if we're going to look at this wider for the rollout.

In general some of the additional workload for the pilots was covered by the additional payment for set-up costs for involvement in the pilot and the fee paid on completion of each sale. These costs will not be covered in this way under the main scheme. In addition, these payments did not cover the wider support costs, including investment in information systems, additional fraud protection and answering queries or providing support and reassurance for tenants:

The point was made earlier about some of the more hidden costs probably across the wider organisation, I think that is probably where there is that significant knock on and when we're not being paid, whether it's [for] tenancy verification or getting asset management information for cost calculations.

In some cases [tenants] find it a bit daunting or are not really sure and need reassurance.

There was concern about the resource and administration costs for associations in the main scheme, including the need for specialist staff, and it was recognised that

the pilots had benefited from additional specialist input. There was also concern that associations would have to invest in administrative support without *'knowing the volumes they're going to be dealing with'*.

The additional resources that have to be given to fraud protection indicate some of the more indirect costs of taking on VRTB for housing associations. Clearly there is a risk of fraud, given the large discounts and property prices involved, especially in higher value areas. The pilot associations have therefore had to audit their existing measures to combat fraud. All pilot associations had robust fraud prevention measures in place but L&Q set the lead here through the following range of checks and evidence requirements:

- All applications have to be hand delivered, and applicants are subject to an interview to discuss their application.
- All parties to the purchase must attend the interview and provide ID. documentation.
- All tenants' signatures are compared to that on the tenancy agreement and any change of name requires proof of formal certificate such as marriage, divorce, deed poll etc.
- Original identification documentation is required for all parties to the purchase. This includes photographic ID. All official documents are security checked with tools such UV lights for the correct holograms and markings.
- Each party to the purchase to prove written evidence that they live at the property and have done so for at least 12 months, through council tax or voters role confirmation and supported by additional information such as utility bills, bank statements, doctors letter or mobile phone bill. Tenants were not able to 'evidence' length of tenancy by undertaking a statutory declaration.
- There is a declaration on the application form allowing us to contact any parties in connection with assessing the application and confirming their right to buy.
- If the applicant passes the interview stage, the documentation is passed over to a Tenancy Verification Team which undertakes checks with credit and data agencies.
- Any discrepancies that arise prompt a home visit from housing officers to carry out tenancy audits or gather further information.
- Anti-money laundering checks are carried out for cash purchases and declared savings are checked against any benefits being claimed.

All these steps place additional demands on staff time and resources.

Difficulties in managing tenant expectations were compounded in the first few months because the timescale for sales was unclear. Associations were in a *'race to get people through in the timescale'* but were also wary about raising tenant expectations whilst waiting for Housing and Planning Bill to go through Parliament. There was some tenant frustration with delays in the process, but it was also felt that tenants understood the need for patience. One stakeholder felt that associations would come under more pressure in the full programme if tenants became concerned about 'losing their place' in the queue if there were any delays.

Officers from all pilot associations emphasised the need for as much certainty as possible when the main scheme is introduced.¹³ Associations will face considerable challenges in anticipating demand, managing tenant expectations, dealing with complications in the sales process and simply managing the programme. Any uncertainty around funding for sales would make it much more difficult for individual associations to manage the impact of the main scheme.

Relations between the pilots

The sharing of knowledge and expertise across the pilots was felt to be particularly valuable, reflecting a strong shared commitment to joint working. From the outset the relationship between the five pilots was 'constructive and collaborative':

Even though we've been very collegiate, that's not to say we haven't challenged each other. I can think of various things where we've had long and challenging discussions ... I think we almost adopted a cabinet collective responsibility approach, that's we've got to think we're all behind this and this is what we run for the pilot, even though the discussion people may have raised various queries or misgivings about things.

There's not a single decision that has stymied us as a group that we've been unable to follow through because it's just too difficult, and the more people you have in a room the more challenging that becomes ... we appointed a single set of solicitors, we've got a set of documents we all signed off, a property and individual eligibility grid that we all signed off and an application form that we all signed off, that is a really hard thing to do.

..overall the five seemed like a really good, tight knit bit of a teamwork, divvied up the jobs without anybody really taking a back seat or putting their feet up.

The experience with our peers was a very positive one ... it did seem to be a genuinely collaborative endeavour which is certainly not always the case.

For example, there was considerable discussion about exclusions 'because it impacted on people in different ways, but also that people had different organisation views' but it was possible to develop 'a framework everybody could live with'. There was a widespread feeling that all associations 'pulled their weight' in order to make the pilot programme work and that had involved considerable contribution to the management of the pilots over and above the processing of tenant interest and sales.

Joint working was helped because 'there was a lack of ego in the group' and 'we weren't trying to outdo each other'. There were 'ambivalent feelings about whether we wanted to be the poster boys or girls for voluntary right to buy ... none of us wanted to be perceived as the champion that's selling social housing assets'. It was also important that 'Chief Executives were on board and driving it and they knew each other'.

¹³ Many of the detailed arrangements for the main VRTB programme were not known at the time of these stakeholder interviews.

The mix of pilot areas

Inevitably the five pilot areas could not cover the full geographical diversity of England. The main gaps were felt to be the South West and Midlands:

You've got the Sovereign markets, the low value northern ones, I think maybe there is a miss of markets in between.

Perhaps something in the North East or the Midlands would have been sensible.

In terms of spread and variation I'd say yes, all you might have gone for is maybe gone into the far north, Carlisle or Newcastle or somewhere like that [...] The other thing is maybe we could have also included somebody from the South West because that's a different market with the holiday homes and that's an interesting market as well.

However, it was generally felt that the pilots represented a good sample of local market contexts and circumstances that might impact on the full programme, including a mix of areas in London, areas with a lot of Section 106 properties, specialist housing and rural property:

It has enabled us from that to test a lot of different housing markets and demand for it.

The key thing was to contrast the centre of London with other centres and with Sovereign, Riverside and Saffron in the picture I think we got a good spread.

The main problem about any attempt to increase the diversity of local housing markets to be included in the programme was that stakeholders felt that a larger number of associations would have been difficult to manage and have potentially undermined the coherence of the programme:

I think if we'd had more people round the table in those pilots meetings we would have quickly got to the stage where it was unmanageable and as it was, at the beginning, before we got involved, it was a lot thrashing around in the first meetings ... I think more of us would have made it more difficult.

I think there's challenge about whether you can deliver a pilot realistically with more than five organisations.

Governance of the pilot programme

All of the pilots were positive about the role of all partners in the pilot programme and the relative operational freedom given to the pilot associations. There was a feeling that the pilot 'belonged to' the associations and that was important in managing relationships with central government:

I think early days there was a little bit of a ownership tussle went on between us, that very soon went away and they've been really supportive [...] I can't fault the support we've had to be honest. When we said we thought we needed to be better represented on the Sounding Board we were. So generally speaking I've got no complaints.

I think the National Housing Federation have been in a really tricky position so I think they've been really excellent to work with. I just think the problems we have had are just a product of the way the government made these decisions in the first place. So in other words the decision to not link the pilot to the main scheme, decisions about timescale blah, blah, but no criticisms of Nat Fed at all, I think they've behaved really well and they've hosted really well, they've been very flexible.

With hindsight the pilots would have established closer links between the Operational Working Group and the Marketing and Communications Working Group. These groups were perhaps driven by different objectives: the operational discussions were often driven by shared and more immediate problems and concerns, and that could have been shared more within the communications team:

..if we could do this again I think right from the get go we should have a much stronger link with the Comms, so someone from Comms should come to those Ops meeting and someone from the Ops group should go to the Comms meetings. We connected up ok but not perfect and I think there were certain points where you could see where that juddered a little bit more than it maybe would have done if we'd made the connection at the start.

There was frustration with the limited opportunity for pilots to engage with the Sounding Board for the main scheme. The initial timetable for policy development and the determination of the national scheme was coterminous with the development of the pilot programme, which meant that there was less scope to communicate and digest lessons from the pilots in order to inform fully the national scheme:

If we have the luxury of a bit more time to plan this, we would have kind of set out the policy development for the main scheme in a way where the timetable could be met by the outcomes for the pilot, but we didn't have that option available.

The Sounding Board initially should have made a much stronger link to what the pilot was doing. I think that was a timetable issue, but I think they were separate because they were trying to set the scheme up as quickly as possible, the pilot was seen as being on a different track. I think the key thing for this exercise, in future I think you should make a pilot link very firmly to the main scheme Sounding Board and the staff groups for the Sounding Board as well.

Overall the process of planning for the main programme was felt to be disconnected from the experience of the pilots, especially in the earlier stages of the pilot, and stakeholders felt they had to 'work hard' to be represented in Sounding Board discussions, which did not make sufficient use of the knowledge and expertise that had been garnered during the first few months of the pilot scheme. Stakeholders did report, however, that the interaction between the pilot programme and the Sounding Board improved over time. The Sounding Board agreed, for example, for an additional representative from the pilots to sit on the group. A particular issue of contention was whether a 'portal' approach to applications was to be used in the national scheme whereby applications were made and then funding provided as and when it became available, rather than a 'programme' approach to a specified level of activity. Stakeholders from the pilot associations felt that a portal approach would make it much more difficult for associations to manage tenant expectations and plan for future sales:

But there'll be an incentive to us to drive costs down of admin, which loops back to...debates with DCLG about what the overall approach will be for the final scheme. The more certainty we've got which means we can plan, which is why we favour this programme approach, the more cost-efficient the admin will be. But if every housing association starts off not having a blind clue [about demand] it's going to be so difficult, particularly for small organisations.

The overriding feeling from those involved in the pilot is that they had worked well together in the spirit of providing meaningful insights into key aspects of VRTB in different geographical and housing market contexts. That reflected a shared commitment to testing the scheme and drawing out lessons for the main programme. In the following chapter, we compare these views about the operation of the pilot scheme with tenants' views and experiences of the application process.

Tenant Experiences of the VRTB Process

In Chapter 3 we described the process through which tenants expressed an interest in the VRTB, proceeded to an application and then to completion. In this chapter we consider tenants' experiences of this process, including their views of the Expression of Interest (EOI) and application forms, the provision of information, and communication with their landlord. Very few tenants had proceeded beyond valuation at the time the interviews were undertaken, so it is not possible to offer much insight, at this point, into the final stages of the process. Further interviews will be conducted with tenants who have completed their purchase and their experiences will be detailed in a subsequent research report.

5.1. Tenant experiences of administrative processes

In general, tenants spoke very positively about the administrative processes involved in the pilot programme. Some glitches were reported - the odd application form going astray or website crashing - but the overall message was that the EOI online form (on the DCLG portal) and application forms were well-designed, easy to complete, and that bureaucratic requirements (for example, for certain documentation or information) were relatively easy to meet for most applicants.¹⁴ Tenants were required, as part of the application process, to provide proof of 10+ years of social housing tenancies as well as proof of income, information about their employment and other household members. No interview respondent reported significant problems completing the forms or providing the necessary information and none intimated that the process was onerous. Pilot landlords did report that some applicants struggled to prove tenancy eligibility, particularly where they had previously been tenants of a local authority housing department whose stock had subsequently been transferred. This did not, however, appear to be a widespread problem.

¹⁴ The research team identified a number of improvements that could be made to the application forms but from a data collection and analysis perspective rather than a user perspective.

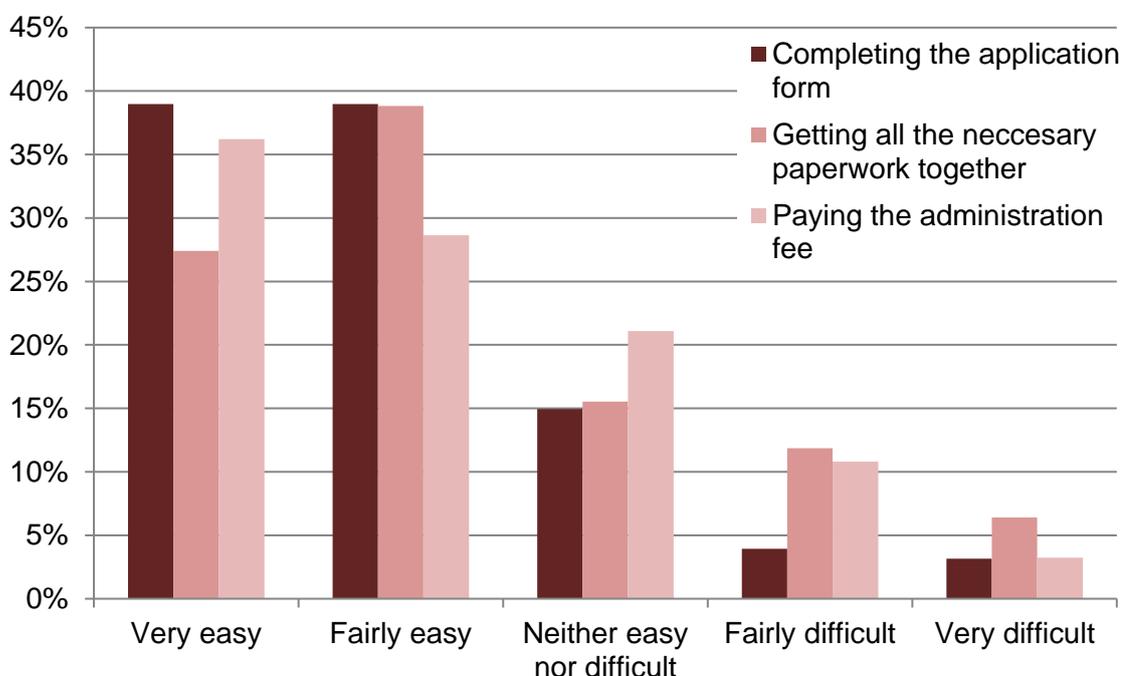
Figure 5.1 shows that only a small proportion (seven per cent) of online survey respondents who had applied for the VRTB found the application form 'fairly' or 'very' difficult to complete while 16 per cent found that 'getting all the necessary paperwork together' was 'fairly' or 'very' difficult. It is worth noting that the pilot landlords offered very little, if any, help and support to tenants with this part of the process. They answered queries but were clear that their role did not include assisting tenants to complete EOI or application forms, prove length of tenancy, or secure relevant documentation. It was part of the process of treating applicants like anyone else who was seeking to purchase a property in the private market. The majority (71 per cent) of online survey applicants reported not receiving any help with their application forms and, from discussion with interview respondents, few appeared to need it. The following comments are illustrative of the views of most of the tenants interviewed about the bureaucratic process.

I was a bit nervous about the form, cos it's buying a house, what are they going to want? But it was so easy, I couldn't believe how straight forward it was (Helen)

I think the process has been really good. I've found it really good, really simple, everybody I've spoken to has been really able to explain...yeah, everybody's been really informative, the application form was easy to fill out, the leaflets that came, everything's been quite informative, I haven't had a problem (Annabel)

No notable differences emerged between the experiences of tenants of the one pilot landlord providing a full digital application service and those relying on paper application forms.

Figure 5.1: Perceptions of application process, online tenant survey¹⁵

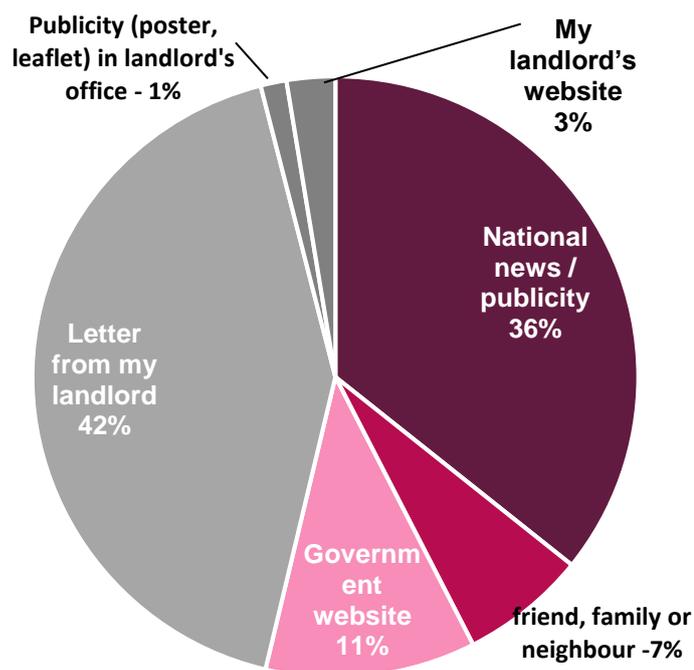


¹⁵ N = 252 to 274

5.2. Tenant views and experiences of marketing and communication

Pilot landlord *marketing* of the VRTB, mainly in the form of leaflets and letters, certainly reached tenants - those interviewed reported receiving a letter and most could recall the content¹⁶ - but many (36 per cent of online survey respondents) had already noted the introduction of VRTB from national media (see Figure 5.2). Some tenants, in fact, had been eagerly awaiting the time when the RTB would be extended to housing associations and had approached their landlord previously to enquire about purchasing their homes

Figure 5.2: How did you *first* hear about the right to buy? (online tenant survey)



Tenants were generally positive about the information and communication they received about the VRTB. For example, no interview respondent and few survey respondents had found written information (leaflets, letters from landlords, websites) difficult to comprehend. Figure 5.3 shows that the majority of survey respondents who had received written information (88 per cent) found it 'very easy' or 'fairly easy' to understand.¹⁷ In fact, some interview respondents - like Annabel quoted in Section 5.1 above - emphasised how informative written material had been and how easy it was to understand. Others agreed:

When I got the information pack it was all there. It was all pretty clear and straight forward. (Phil)

When questioned, tenants did seem reasonably well-informed. For example many (particularly those who had made a full application) knew about, and could explain,

¹⁶ Tenants participating in the research, via the survey or interviews, had all expressed an interest in the right to buy and so we would expect to find relatively high levels of general awareness of initial marketing.

¹⁷ 92% of respondents stated that they had received written information (N = 619)

restrictions on resale and subletting, the eligibility criteria, and the discount cap. The majority of survey respondents (84 per cent) reported being aware of restrictions on resale. This suggests that the pilot communication strategy was effective, particularly in the context of having to convey sometimes rather technical (and perhaps less than interesting) information. Again, no notable differences emerged between tenants of different pilot landlords and some information (for example, that on the DCLG website through which tenants expressed an interest) was the same across the pilot programme.

Satisfaction was slightly lower, and experiences more varied, with regard to verbal communication, although the majority of respondents (survey and interview) did report positive experiences and informative communication. Thus, 80 per cent of tenants who received verbal information said it was 'very' or 'fairly' easy to understand (see Figure 5.3).

This does leave an important minority who found verbal information more difficult to comprehend. Drawing on the experiences of interview respondents, we suggest this may reflect experiences of thwarted attempts to reach a relevant or knowledgeable staff member, or difficulties in accessing information *promptly* rather than the quality or clarity of the verbal information eventually received. No interview respondent reported difficulties comprehending verbal information from landlords, or confusion about their response to a query. However, some did express frustration at not having ready access to information, contrasting starkly with the experiences of those whose queries were immediately dealt with by an informed member of staff. Helen and Jeremy's contrasting comments illustrate this point well:

When you phone up they've got a dedicated right-to-buy team which was so reassuring...you speak to someone straight away, that was so reassuring, and you could tell it was all up to date cos they'd say 'what is your name' and bring up our details and give me an update there and then...it sounded like they were really well organised. (Helen)

I don't think the team are that informed cos every time I rang them up they always had to consult somebody else. (Jeremy)

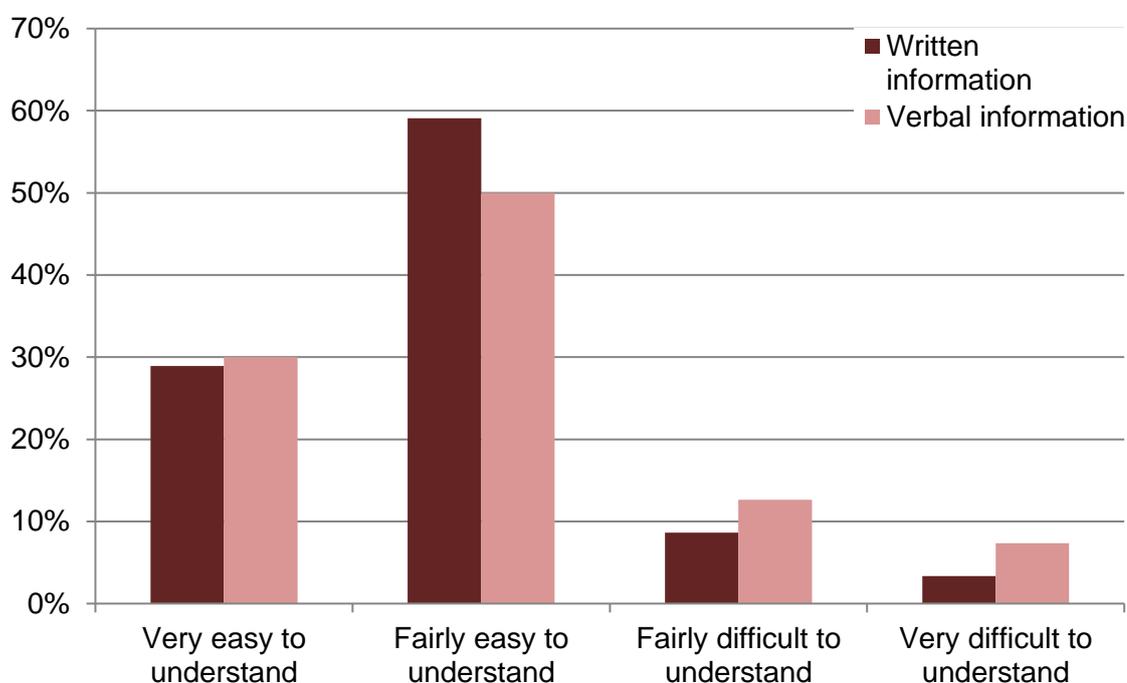
One respondent pointed out that, with only 20 days in which to accept an offer (during which time tenants may need to secure a mortgage and instruct a solicitor), it can be imperative that queries are dealt with promptly. Her only complaint about the process - which she otherwise spoke of in glowing terms - was the apparent absence of a full time member of staff to deal with enquiries:

If you're unsure of something and you think 'I'll double check' something and they've given you a certain amount of time as well to get that form back, and then you're told 'she's not back til Monday' and it's Thursday and that's four days that I haven't got to be able to sort it out. (Angela).

In addition, a relatively high proportion of survey respondents (39 per cent) reported not having all the information they needed to make a decision about applying for the right to buy. This is very likely to reflect the fact that at the point of applying most tenants did not know the value of their home (valuations were done later in the process and only one pilot offered indicative valuations to potential applicants) or

their mortgage eligibility. Tenants were advised against making formal mortgage applications prior to a formal offer notice being served to avoid incurring unnecessary expenses (for example, if their home was subsequently found to be excluded) or having mortgage offers expire. This is an issue we reflect further on below (see Section 5.3), and again in Chapter 8.

Figure 5.3: Perceptions of information provided, online tenant survey¹⁸



5.3. Issues raised about the process

Although the EOI and application process did not, generally, present any significant challenges for tenants, qualitative interviews revealed that certain aspects of the process had prompted a degree of dissatisfaction, disappointment, or anxiety. In particular, issues emerged with regard to: the requirement to make a full application and pay an administration fee before receiving a valuation; the process for identifying 'exempt' properties; and the impact on tenants of the process being 'suspended', or delayed.

Application and fee before valuation

Tenants wishing to exercise the RTB in the pilots had to submit an application and pay a £250 administration fee. The pilot housing associations then conducted the necessary legal searches and investigations to ensure the property could be sold and, once this was established, proceeded to value the property. The £250 administration fee is refunded if it transpires that the applicant's property is excluded or once the tenant has purchased the property, but it is not refunded if the tenant withdraws from the process (for example, if the property proves unaffordable).

¹⁸ 61% of respondents stated that they had received verbal information (N = 621)

Tenants in the pilot therefore applied to buy their homes, and paid their fee without knowing the value or purchase price of their home. Tenants were encouraged by the pilot associations to research property prices in their neighbourhood to help them assess the viability of buying. However, tenants interviewed explained that this was not always possible, for example if there had been few recent sales nearby, or no equivalent properties sold (see Chapter 9 for further discussion of this). The process replicates that of the statutory RTB with the exception of the administration fee, which is not payable under the statutory scheme.

One of the pilot landlords provided an indicative valuation to tenants earlier in the process to help them make an informed decision about whether to apply. Most of the participating landlords, however, were reluctant to do so, concerned about the ramifications of unwittingly raising expectations with low indicative valuations. A relatively small disparity between an indicative and a formal valuation can represent the difference between an affordable and an unaffordable purchase. We will see that some tenants were operating at the very limit of what they could afford but were very eager to take advantage of the 'once in a lifetime' opportunity to meet their aspirations (Chapter 8). Pilot landlords were sensitive to this fact, and concerned about having to manage the consequences of tenants whose hopes they may have raised, and then dashed.

But not all tenants appreciated this, and some found it difficult to comprehend that they could be asked to pay a fee and apply to buy something without knowing the price. They pointed out that this does not replicate a normal purchase:

If I was to go to buy a house I'd ask how much it was and they'd tell me for free...if I went to estate agents they'd tell me how much the property was I'm going to buy. (Leslie).

I felt like 'do I really want to waste this money?', cos what they said was they wanted me to pay for it before I had a chance to see whether it was actually financially viable...I said how can you try and offer to sell me something when you're not telling me how much it is? If you go and buy a car they don't tell you you have to wait two weeks before they tell you the price. It just doesn't work like that....All I got back from them was 'you have to decide whether it's a risk enough' I said 'well, I could go and put my rent money on the lottery and that would be a risk, you need to give me a bit more than that.' (Maggs)

You need to ensure you could get a mortgage, but you don't know whether you're going to be able to get a mortgage until you get the valuation, you can't get the valuation until you've paid £250, so then they say if you apply, you pay your money and for whatever reason you can't proceed, you lose your money. But it's not your fault cos you don't know what the valuation is, so you don't know whether you can get the mortgage or not. (Olunmi)

It is worth noting that other tenants thought it perfectly reasonable to be required to pay an administration fee upfront.

Suspending the process

Two unexpected issues arose during the pilot that effectively suspended the RTB process for some tenants. First, L&Q were inundated by EOIs and applications in the early stages of the pilot and, concerned about being oversubscribed and having to disappoint tenants, they stopped accepting any new applications for a period of time. Thus, some L&Q tenants were not able to proceed beyond an EOI¹⁹, or had to wait until the next tranche of applications were accepted. Second, the Housing and Planning Bill took longer than anticipated to pass through Parliament. Pilot landlords could not proceed with any sales until the Act was passed and until they had that certainty they did not think it prudent to commit resources to valuations and searches or raise tenant expectations. They wanted to avoid at all costs tenants reaching the brink of completion and not being able to proceed.

The impact of a process that stalled was keenly felt by tenants, who expressed frustration, anxiety and, at times, suspicion. From their perspective they had completed the necessary forms, submitted paperwork in some cases, and were keen to progress steadily through the process. Instead, progress came to a halt with no assurance of when they would move forward again.

They've taken my money very quickly...and I've heard nothing since...I keep calling the person he's dealing with it [who] says 'I'm sorry I don't know, I can't tell you, we don't know at this stage'...it was basically saying they they're in limbo, until someone else makes a decision they can't go further with it. (Mags)

To be honest I'm a bit fed up coz I received some details a long time ago and I haven't heard anything from them since and, when I phoned them up to see what was happening, they said the legislation hadn't passed yet. (Rick)

The vast majority of tenants reported that VRTB represented their only opportunity for home ownership (see Chapter 6) and, in this context, feelings (and anxieties) could run high. Delays, therefore, can quickly prompt anxiety and frustration amongst tenants (something the landlords may then need to manage and respond to). Doreen, for example, reported feeling 'anxious' '*just in case the Government said no...*' Tanya reported similar concerns explaining that the '*only thing during that process that I didn't like, there was a long wait [while the] government passed the legislation...At one stage I was like 'oh my god, what if it doesn't happen... it's that waiting game, checking emails every day.'*' Angela, similarly, talked about the delay in the context of her 'excitement' about buying her home:

We were told in April it would be June and June came and went....you're all excited about it, this started around Christmas time and now you're in August and you're thinking really? Does it take this long?...It would have been better to get it through Parliament first." (Angela)

Even reasonable timescales felt like delays to some tenants, whose views of the process and the landlord were then quickly coloured by their experience. One

¹⁹ Some tenants were subsequently able to apply. Once L&Q were confident they could accept further applications without exceeding their quota they opened the scheme again and accepted further tranches of applications.

respondent, for example, expressed dissatisfaction with the landlord, explaining that they had *'forgotten about her'* (they almost certainly had not, still being well within the timescale for that part of the process). Another expressed dissatisfaction with landlord communication because he has expressed an interest nearly two weeks ago and had not yet received an application form - again, in an acceptable timeframe.

In the regional pilot and then the main scheme, there will be no such hiatus while legislation passes through Parliament. However, any rationing mechanisms employed - for example quotas, or pausing until the next tranche of funding is available from the sale of high value council homes - could have the same effect.

Process for identifying excluded properties

Certain types of property were *excluded* from the pilot VRTB, including housing for older people, supported housing and housing for disabled people (as defined by the housing association concerned). Properties were also excluded where Section 106 or other planning agreements restricted the use of the property (e.g. to affordable housing). The reason for excluding such properties was partly pragmatic as it would not be possible to secure the consent of the local authorities to varying Section 106 conditions within the timetable of the pilot programme. In addition, the associations took a fairly consistent approach to using their discretion not to sell properties: based on an existing list of excluded rural parishes for Right to Acquire (RTA) purposes, or a special list drawn up by the association; and for reasons such as asset management and redevelopment (for example, due to impending demolition, regeneration, change of use or disposal). This flexibility was allowed because including such properties might increase costs and delays on existing developments or require programmes to be revised.

However, some properties cannot be sold for reasons that do not come to light until legal searches and investigations have been done. We reported in Chapter 4 on stakeholder concerns about the complexities of identifying these properties, for example those with planning restrictions or other covenants that prevent sale, and of accessing up to date and reliable S106 data.

As a result, there were instances in the pilot programme of tenants progressing some way through the process before their landlord ascertained that the property was excluded. By this time, tenants felt confident they could purchase and were excited about owning their own home, in some cases after years of aspiring to do so. Tanya was one such tenant, describing being *'over the moon'* when the VRTB was announced, having spent years exploring ways of buying a home (shared ownership schemes, open market, regular enquiries to her landlord). Her mortgage had been approved, all finance was in place (and with her solicitor), and a completion date was set. She then received a letter explaining that her property could not, in fact, be sold at this time, as it was likely that there was a covenant on the property. She explained that *'apparently there is a charge on the property, and so that's been going on for about six weeks now and I'm absolutely livid....apparently something to do with a charity'*. The landlord is attempting to negotiate in order to release the property for sale but in the meantime Tanya has no idea whether she will be able to complete her purchase.

Detrimental emotional impact on tenants was not the only consequence of unclear (to tenants) exclusion criteria and processes. A change in, or lack of clarity about, exclusions was also found to affect tenants' attitudes towards their landlord. To Billy, for example, a change of 'eligibility status' appeared as incompetence on the part of his landlord. He 'passed' the basic eligibility checks and assumed these were fixed but, on closer investigation, it transpired his property was exempt. Not fully understanding the process, Billy assumed his landlord had made a mistake initially. Others expressed similar sentiments when exclusion criteria were not clear. Adrian, for example, whose property was excluded, made the following comment:

I asked them if they could give me clarification on what's classed as rural, but they couldn't. You could class anything as rural if there's a field nearby. (Adrian)

Pilot landlords fully appreciated the impact of exclusion policies that were unclear to tenants, acknowledging that these may appear inconsistent with consequences for their relationship with the landlord. One landlord, for example, expressed the view that tenants are familiar with, and can more easily comprehend certain classifications of exclusions (adapted properties, supported housing and suchlike). Those where covenants prevent sales (for example, related to gifted and or scheme funding restrictions) are less readily understood. He expressed concern about how tenants will react if their property is excluded because of, as he put it and they may see it, '*an accident of history*' while an identical property nearby can be bought. This situation may be compounded in the national scheme, as there will be overlapping geographical coverage between different landlords who may be operating different exclusion practices. There was no such overlap in the pilot programme

Judging by their comments in interview, tenants do not react well in these situations. Rather, any lack of clarity, (apparent) inconsistency, or late in the day exclusion can breed suspicion and rumour about the true motivation of the landlord (and government), which is not conducive to positive tenant/landlord relations. Amongst our interview respondents this included views such as:

- Landlords do not want to sell high value stock: two respondents expressed the view that rural exclusions were a smokescreen for protecting higher value stock.
- Landlords want to dispose of older properties. Talking about why his home was excluded, Billy for example talked in terms of the 'excuses' made by his landlord: *They did the excuse of the building was built after 1989... I didn't even believe it to be honest...my building was built I think in 1989 and there's some cut off point that if buildings are built after a certain period they're not, this was the reason I was told, I don't know whether that's true, so it's whether they want to sell all the old properties...(Billy)*
- Landlords want to retain older properties - *'it's quite an old house. It think if it was a new-build they'd have given it to me' (Sarah-Jane)*
- The VRTB will sway voters, generate funds for central government, or *I think they're doing it for that to get the benefit budget down. (Richard)*

Lessons can be learnt from the issues raised in this section for the regional pilot and the national roll-out. There are some key messages about communication, and about

timing, and of managing the expectations and anxieties of tenants on the brink of a major life decision.

6

Why do tenants want to buy their home?

There is strong evidence that the VRTB pilot programme provided tenants with an opportunity to fulfil aspirations for home ownership. There was very little evidence, meanwhile, of investment driven purchasing, although tenants did recognise the financial benefits that could accrue to them through ownership, particularly when purchasing with a large discount.

Many of the tenants interviewed had long-held aspirations to own their own home and reported being 'delighted' when they heard the RTB was being extended to housing association tenants. For example:

I've always wanted to buy a home²⁰ (Sarah-Jane)

I've always thought of owning my own property and the opportunity's come up and I want to take advantage of it (Paul)

When they came in with this new legislation that they would allow the sale of a property, I was over the moon (Alice)

Several had been so keen to buy their home they had contacted their landlord on numerous occasions over the years to query whether they could purchase. Others had explored shared ownership options (to no avail) or had been seeking transfers to council property where they would be able to exercise the statutory right to buy.²¹ Respondents described immediately contacting their landlords upon hearing news of the VRTB on national media, and logging their EOI on the first day of the scheme to secure their place in the queue.

In addition, most respondents were clear that the VRTB provided their *only* opportunity to buy. It represented a chance to realise their aspirations in an otherwise unaffordable housing market:

²⁰ All interview respondents were asked why they had expressed an interest in the RTB but not all had applied to do so. The tenants quoted in this section all indicated that they would like to buy their homes but not all were able to proceed to an application (several were in excluded properties, for example), or had not progressed that far at the time of their interview.

²¹ It is of interest that some pilots received EOIs from tenants who already had the right to buy through the 'preserved right to buy'. These tenants are not eligible for the VRTB on the grounds of eligibility for PRTB. These tenants had always had the right to buy their home yet had not applied to do so until the VRTB pilot programme was introduced. It is possible that some of these tenants did not realise they already had the right to buy.

The way current prices are there's no way in the world a nurse is going to be able to afford even a bed-sit in a grotty area anywhere in the country given salaries and the cuts and prices going up. (Richard)

We did previously [look on the open market] quite a few years ago and without the discount we would never have been able to afford something like we've got now (Angela)

I would never have been able to own my own home otherwise (Annabel)

Interview respondents reported not being able to afford open market prices, secure the requisite mortgage or save a large enough deposit, while only 16 per cent of survey respondents said they would have looked on the open market if the VRTB had not been introduced (See Figure 6.1). Interestingly, there was very little variation in survey responses between the two pilot HAs with the highest and lowest property values (L&Q and Riverside).

Of course not all tenants had actually tested the market and so their conclusions about market affordability may not have been fully informed. We will see in Chapter 8, for example, that awareness of property values and mortgage eligibility was not high. Just as some tenants assumed erroneously that they would be able to afford to purchase through the VRTB, others may have erroneously assumed they could not afford to buy on the open market. Nevertheless, nearly all of those interviewed - some of whom had explored their options more fully - were firmly of the view that the VRTB gave them their only chance of owning their own home. And information about applicants' income and savings (presented in Chapter 8) suggests this may well be the case for many of them.

At the heart of many tenants' aspirations to own their home was the desire to provide a legacy for children, and 'security' for themselves and their families. All interview respondents who had children referred to them when responding to questions about their motivation to buy. For example:

It's more the fact that once your children start getting a bit older and you realise you've got nothing to leave them (Maggs)

Well, it's going to give me something to pass on to my children, that was the main thing of it (Phil)

Security, and something for my son in the future

Respondents' reference to 'security' as a motivating factor in their desire to buy was often a little nebulous. However, it was clear that respondents were rarely referring to financial 'security', describing instead a kind of psychological, or ontological, security.

I know you've got security with the council place but it's still the fact [if it is owned that] it's your home and you can do what you want to it (Angela)

I wanted to have some security, some sort of feeling of security, cos I've got children, for myself and my children...I think the end game of owning your own property meant getting a good education, going to university, trying to get a decent job, saving money so it's all linked to that kind of thing, and then you

have something to pass on to your children so it's all linked in my mind to that kind of striving towards something. Whereas when you're renting you don't get that same sort of feeling of progress(Annabel)

In contrast, there was very little evidence of investment purchasing, i.e. purchasing with a view to selling in five years to realise the equity (discount). Only two per cent of survey respondents said their main motivation to buy was to generate a nest egg for the future by selling in a few years (see Figure 5.2). Rather, respondents (generally, though not always) described homes they loved, and expressed strong commitment to their communities and neighbourhoods. The VRTB was an opportunity to invest further in a 'lifetime home'.

No [I wouldn't sell in five years]. I'll come out of here in a wooden box, we love it here.

That tells you the story of why I want to buy it...It's the only home I've ever had in my life...that's it, sentimental value rather than monetary value (Jeremy)

I love it. I've got field views out the front and the neighbours are fantastic and it's really quiet and it's absolutely lovely...if it had been my previous home I probably wouldn't have bothered...my husband and I are really happy here, so it is somewhere we want to be long-term (Angela)

My interest in buying a property is coz we're going to be here forever (Ruth)

I've grown attached to the area and the community here. There are people I know, it's not just bricks and mortar. If I was to buy this place, it's all the links with the community ... (Connor)

In this context, conditions of resale were of little consequence to those interviewed. Few had any intention of selling in the foreseeable future. A key concern with the VRTB - drawing from the experience of the statutory RTB - is that the stock will remain only briefly with the original purchaser, quickly transferring into the private rental market. The conditions of resale are an attempt to mitigate this eventuality. The stated intentions of tenants in the pilot suggest these concerns may be unwarranted. However, we are dealing only in intentions at this stage in the process, and intentions do not always translate into actions.

Although there was little evidence of investment-driven purchasing, financial considerations did feature in respondents' decision making and some had considered the opportunities that could flow from a sale later in life. Some, for example, had calculated that their mortgage payments were no more than their rent, or believed it financially prudent to invest in property through mortgage payments rather than paying rent. As the following quotes show, however, financial considerations typically sat alongside other motivations, such as generating a family asset:

It would be nice to own something. I've been paying the money all this time so I should be able to own it... (Sarah-Jane)

The motivation is to leave something for my daughter and also I'm paying quite a bit for the rent. So instead of paying the rent it will be better for me to pay a mortgage and I don't really want to move from this flat. I think this is home for life now. (Sienna)

I thought to myself it's [savings] sitting there doing nothing, instead of me paying rent, if I could get this property cheaper and put a big deposit on it... but also when I leave work I'll get a lump sum with my pension and I could put that in and then I'm not having to pay rent. It was like a savings thing in a way, so that when I die the property can be sold and shared between my children. (Leslie)

Some interview respondents also appreciated that they would be investing in an asset that they could draw on in the future by releasing equity. The 'value' in the property could help respondents fulfil retirement dreams, and provide opportunities for mobility, and flexibility in future housing decisions. When respondents talked about selling in the future, emphasis was nearly always placed firmly on realising life plans and aspirations, rather than realising equity (although the former was clearly reliant on the latter). Thus, one respondent talked about the possibility of emigrating to Australia to join her adult children, while another talked about retiring abroad. Martin, meanwhile, explained that *'If I owned a property then I can sell it and move back down to my mum or somewhere else.'* Phil's comment below also demonstrates that the VRTB increased respondents' choices about future life plans.

Well, it's going to give me something to pass on to my children, that was the main thing of it, I wanted a place for my three children in the future. I've got a lot of love for Portugal...I hope that one day...I'll be able to retire there if I get some kind of equity in the property...I could either rent this place out, or sell it, or even pass it on to the kids. (Phil)

Figure 6.1: If the RTB had not been introduced do you think you would have...?
(online tenant survey, N = 597)

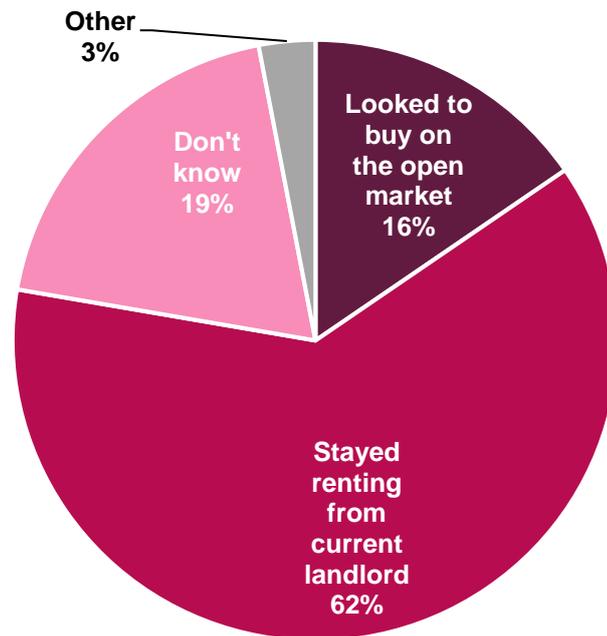
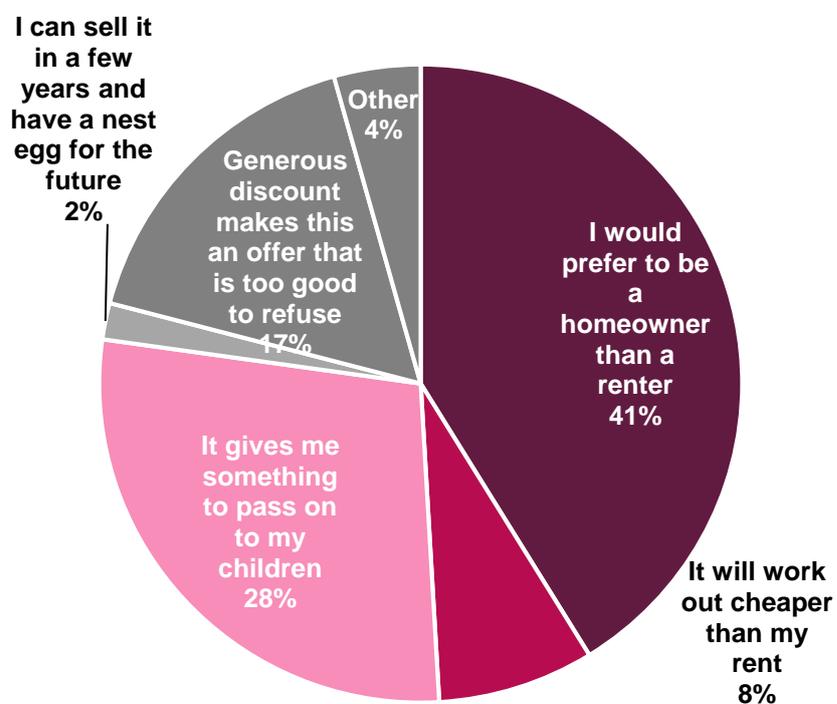


Figure 6.2: What is the MAIN reason you want to buy your home (online tenant survey, N = 597)



What was the level of demand for VRTB in the pilot programme?

In Chapter 3 we reported on progress across the pilot programme, including information about the number of tenants expressing an interest in, and applying for, VRTB. In this chapter we interrogate these figures to draw conclusions about the level of interest in VRTB across the pilot housing associations.

Prior to the pilot programme, a range of estimates had been made about the likely demand for the VRTB. These varied from around 10 per cent to 35 per cent of tenants, depending on the assumptions underpinning the estimates. In a review last year for the Communities and Local Government Committee we presented evidence to suggest that demand was likely to be at the lower end of this range (Cole et al, 2015). However, most of these estimates had assumed that tenants who had been living in their property for three years would be eligible for the Right to Buy. As we have seen, tenants were only eligible for VRTB in the pilots if they had been a social tenant (not necessarily with the same landlord) for at least ten years. This reduced eligibility considerably. A large survey of social housing tenants provided a more detailed understanding of their perceptions of the Right to Buy (Green et al, 2016). Seven per cent of tenants responding said they were likely to take up the RTB and were assessed as being able to afford their property. However, there was major regional variation, ranging from one per cent of tenants in London to 12 per cent in the Midlands and the North. Clearly these were fairly speculative indications of the likely take-up once the national programme is introduced.

7.1. Expressions of interest and applications in the pilot programme

As reported in Chapter 4, a total of 4,405 tenants expressed an interest in the VRTB across the five pilots, with the highest number of Expressions of Interest (EOIs) submitted in L&Q (1,894) and Riverside (1,700). By 3 November 2016 the pilot landlords had processed 972 applications from these 4,405 initial EOIs.

These figures alone tell us very little, however, about the level of demand for the VRTB. Each pilot scheme differed in size - from 21,000 properties in Riverside to just 1,500 in Thames Valley - and approaches to marketing also varied. One landlord, for example, invited all tenants in the pilot to express an interest, while another

targeted just those tenants known to meet the 10 year minimum tenancy eligibility criterion.

Calculating EOIs and applications as a proportion of households in the pilot and, specifically, of tenants *in eligible properties* provides a more useful indication of initial demand for the VRTB. This analysis (Table 7.1) shows:

- 8.2 per cent of the total number of households in the pilot programme expressed an interest in the VRTB. This varied from 2.4 per cent in Saffron to 10.1 per cent in L&Q.
- 26.9 per cent of households living in *eligible properties*²² expressed an interest in the VRTB. This varied from 7.2 per cent in Saffron to 34.6 per cent in Sovereign.
- 1.8 per cent of all households in the pilot programme had applied to buy their home by early November 2016. This varied from 0.8 per cent in Saffron to 2.8 per cent in Riverside.
- 5.9 per cent of households *in eligible properties* in the pilot programme had applied to buy their home by early November 2016. Saffron and Thames Valley were the pilots with the lowest rate of applicants, at 2.3 per cent, with Riverside having the highest rate, at 9.1 per cent.

Table 7.2: Interest in and Demand for VRTB, at 3 November 2016

	L&Q	Riverside	Saffron	Sovereign	TVH	Total
Total number of households in pilot area	18,667	21,000	4,800	7,988	1,500	53,955
Households in eligible properties within the pilot area	5,712	6,519	1,600	1,601	954	16,386
Expressions of interest from eligible tenants	1,894	1,700 ²³	116	555	140	4,405
Applications processed	219	591	37	103	22	972
Proportion of total households expressing an interest	10.1%	8.1%	2.4%	6.9%	9.3%	8.2%
Proportion of eligible households expressing an interest	33.2%	26.1%	7.2%	34.7%	14.7%	26.9%
Applications as a proportion of total households	1.1%	2.8%	0.8%	1.3%	1.5%	1.8%
Applications as a proportion of eligible households	3.8%	9.1%	2.3%	6.4%	2.3%	5.9%

These figures on take-up may not, however, reveal the full extent of interest in VRTB. The approach to exclusions in some of the pilots may have limited the number of applications in some areas and one of the pilots (L&Q) had to 'freeze'

²² At the outset, some landlords excluded certain properties (supported housing in one case, but not in others) from the pilot and these were never considered 'in-scope'. Other types of properties ultimately excluded (preserved right to buy, for example, and older people's housing in several pilots) were initially considered 'in-scope'. See Chapter Three for details of the exclusion policy in each pilot.

²³ approximate figure

applications at one point in order to manage the level of demand. The confirmation of a future national roll-out once Royal Assent was granted may have also affected some tenants' decisions over the timing of their applications, even if they did not know when the national scheme was to be launched. In addition, there remained a significant number of households who had expressed an interest in the VRTB but had not (yet) made an application. The future intentions of this group may be crucial in determining a firmer estimate of the level of take-up. In the next section we consider some of the factors affecting levels of interest in the VRTB in the pilot programme.

7.2. Factors affecting apparent demand for the VRTB in the pilot programme

Factors potentially affecting the numbers of EOIs and full applications in the pilot programme include:

- **Outstanding demand from EOIs in the system.** The results of our initial online survey suggested that many households who had expressed an interest in VRTB but had not made a full application, may yet do so. In April 2016 our survey of all tenants who had expressed an interest in the VRTB found that 51 per cent had not made a full application. Of these, nearly all (95 per cent) said they still intended to apply or may do so at some point in the future (see Figure 7.1). A follow-up survey of this group of tenants in August 2016 suggests that strong interest from this cohort remained. Only 10 per cent reported no intention of applying, and 29 per cent had already applied (see Figure 7.2).

Figure 7.1: Will you make an application in the future? (online survey, tenants who had not already applied, N = 319)

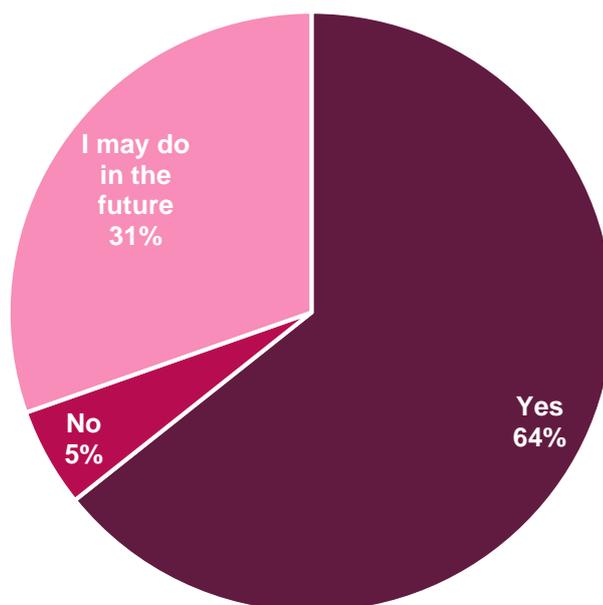
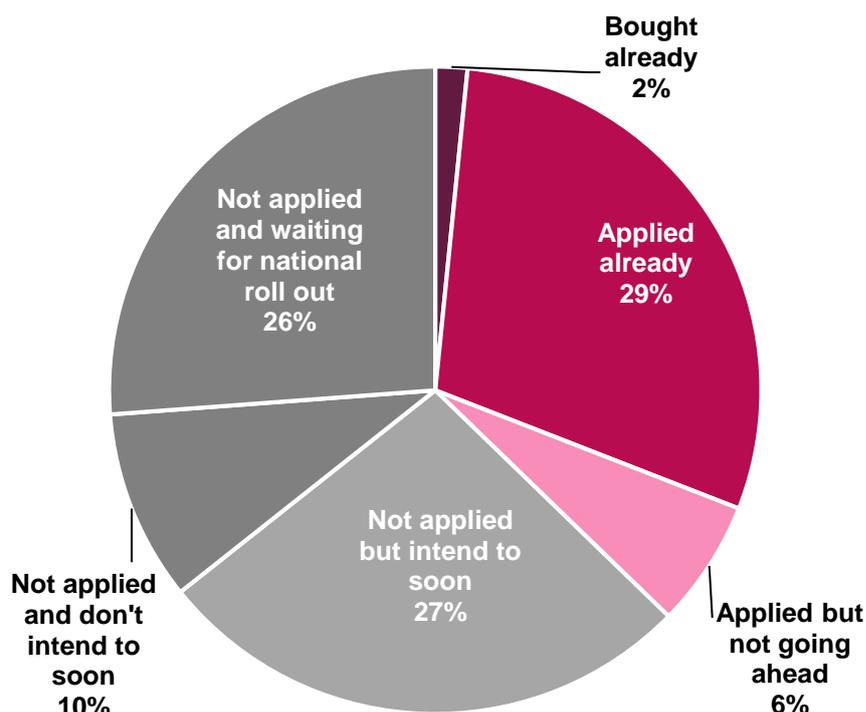


Figure 7.2: EOI Tenants' Situations/intentions (follow-up survey N=126)

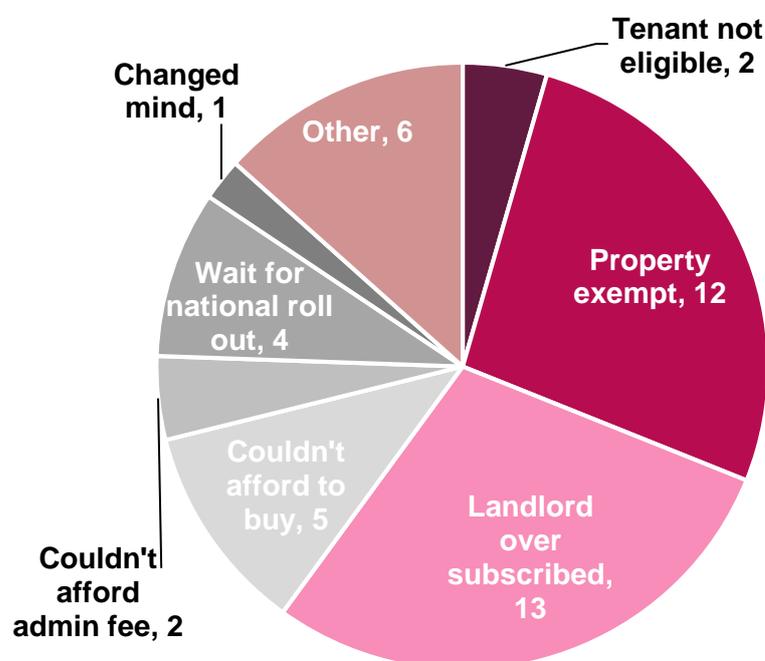


- Waiting for the national roll-out.** After the Housing and Planning Bill received Royal Assent in May 2016, some tenants reconsidered the timing of their applications. For example, 26 per cent of respondents to the follow-up survey²⁴ said they were waiting for the national roll-out to make their application. In fact a further large-scale regional pilot rather than a national programme was announced in the Autumn Statement in November 2016,
- Exclusion policies.** As noted in Chapter 3, the relatively short timescales associated with the pilot programme - for preparation and delivery - demanded a pragmatic approach to exclusions that led to more properties being excluded from the programme than may be the case in the national scheme. Associations may also be more reluctant to exclude properties in regional pilot and the national scheme (where they have some discretion), to limit the number of tenants who would then be able to exercise the portable discount. All the tenants interviewed who had not been able to progress from an EOI to a full application because their property was excluded said they would apply if they could under the national scheme. Of course it is not possible to tell whether these applicants would have progressed through to a completed sale - as this would have depended on the valuation, the discounted purchase price and their ability to secure the necessary finance - but it is likely most would have made a full application. In addition, some pilots had a higher proportion of excluded properties than others. Those with transferred local authority housing stock, for example, had a cohort of tenants who could not apply for the VRTB because they were eligible for the Preserved Right to Buy (PRTB): in Riverside, this accounted for around 15 per cent of all households in-scope.

²⁴ of tenants who had not applied when first surveyed in April 2016 and indicated that they may do so.

- **The exclusion of the portable discount** from the pilot programme. As stated earlier, applicants in the pilot programme did not have access to a portable discount, if their property was excluded from the VRTB scheme. It is likely that these tenants will be eligible for a portable discount under the regional pilot and the national programme, and have access to exercise their VRTB on a property elsewhere, if they meet the eligibility criteria. At the time of writing the future arrangements for the portable discount have not been specified. However, if certain tenants are able to exercise this option, this will increase the level of take-up for VRTB overall.
- **Rationing** - each pilot housing association agreed on an indicative 'quota' for completions. However, as stated earlier, L&Q 'froze' all applications in their system in March 2016, due to concerns about raising tenant expectations at a time when the national scheme had not received Royal Assent (so there was no guarantee of any sales beyond the pilot stage), and in the light of very high levels of EOIs and applications. It is likely that the number of EOIs and applications in this pilot would have been much higher had their scheme remained open. For example, of the very small number (45) of respondents to the follow-up survey who reported no intention to apply, 13 said they were not proceeding because the 'landlord was oversubscribed'. All but one of these said they would definitely (11) or probably (1) have applied otherwise (see Figure 7.3). Several respondents in the qualitative interviews were among those told they could not proceed to an application because of high levels of demand and all were keen to exercise the VRTB.

Figure 7.3: Reasons for not going ahead with full application - (follow-up survey n=45)



Of course we do not know how many of the 972 applicants (at November 2016) will proceed to sale. That is the ultimate indication of effective demand for the VRTB and this will become clearer over the coming few months. It may be that some applicants currently in the system will not be able to proceed. In Chapter 8, for example, we raise questions about the proportion of current applicants who could afford to purchase, particularly in some areas. Our analysis tentatively indicates that some pilots may witness drop-outs at this stage. We do know, however, that many more tenants are indicating an interest in applying to buy their home than the figures in Table 7.1 indicate. The eventual level of take-up is likely to be somewhat higher than the 5.2 per cent recorded there.

Can tenants afford to buy their homes through the VRTB?

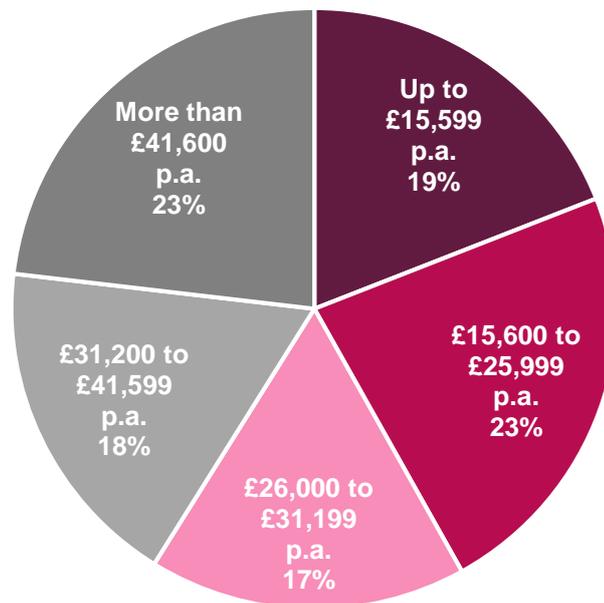
In Chapter 7 we reported on demand for the VRTB across the pilot programme, as indicated by numbers of EOIs and applications. We also suggested that demand may be higher than these initial figures indicate - a high proportion of tenants expressing an interest still intend to apply, and a range of factors may have suppressed demand in the pilot. However, with completions still in the very early stages, we do not yet know how much of this 'demand' will translate into actual sales. A key factor will be the ability of tenants to buy, taking into account the house price and their incomes, savings, and access to other finance (third party contributions, mortgages).

In this chapter we assess tenants' financial circumstances and compare these with property values in the pilot to draw some tentative conclusions about the proportion of tenants who may be able to afford to proceed with a sale. We also explore whether tenants intending to purchase know they are in a position to do so. For example, do they have a clear idea of the purchase price and their eligibility for finance? If tenants' decisions to purchase are not fully informed, one might expect a relatively high drop-out rate where there is a mismatch between financial circumstances and property values.

8.1. The Financial Circumstances of Applicants

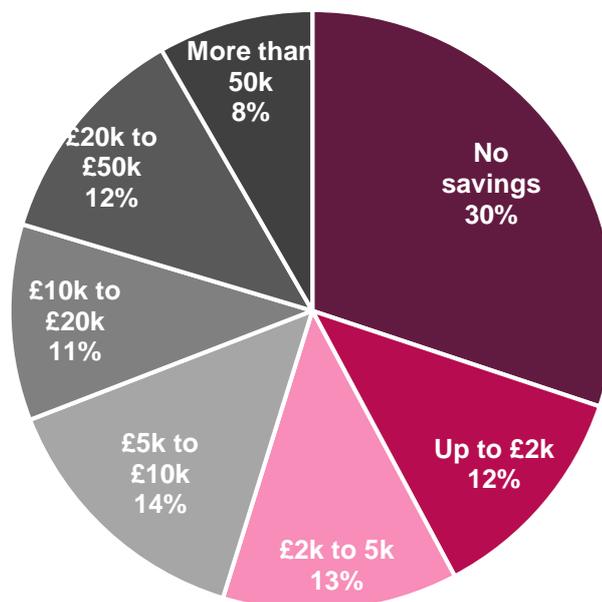
In making an application for VRTB, all applicants were asked about their income, but under the pressure of time, the pilot associations did not record this information in a consistent way across the programme. We therefore relied on the responses to the online survey for analysis of applicants' household income. Table 8.1 shows that 59 per cent of applicants had an annual household income of less than £32,000. While a direct comparison is not possible, this is likely to be higher than the average income for housing association households. For example, internal analysis by NHF of Bank of England data shows that 50 per cent of tenants had a household income of less than £18,000. There was some evidence from the survey that small households and older households had lower incomes, but in general income levels were fairly stable across a range of different factors. Of course, the ten year eligibility rule will mean that younger households will be under-represented among VRTB applicants.

Figure 8.1: Gross Household Income (online tenant survey, N = 389)



The figures on savings shown in Figure 8.2 below were taken from information provided by applicants themselves on the application forms and these self-reports may not be reliable. The figures do not distinguish between applicants' personal savings and their access to other sources, such as family gifts or loans, which might contribute to raising sufficient finance to purchase their homes. Notwithstanding these caveats, 20 per cent of households recorded savings of £20k or more. More than half (55 per cent) had saving of £5k or less and, within this group, more than half (and 30 per cent of all applicants) had no savings at all. These data suggest that savings were slightly higher in this group than housing association tenants overall: Bank of England figures from NHF internal analysis suggested that 45 per cent of tenants had no savings and 90 per cent had less than £12k.

Figure 8.2: Household savings of applicants (application forms, N=398)



Some interview and survey respondents were in stable, secure financial circumstances, with relatively high incomes and savings. But, more commonly, there were tenants in financial circumstances rather more precarious than one might expect from a potential purchaser. In some cases it was questionable whether respondents could afford to buy without significant financial risk, raising questions about whether greater emphasis should or could be placed on 'affordability checks' as part of the VRTB process. Several interview respondents, for example, reported stretching themselves in order to raise the £250 admin fee, others were proceeding with the purchase without a clear idea of how they would fund legal fees, and others reported no savings or any kind of buffer to fall back on, for example in the event of a period of illness or unexpected large expense. Those buying with mortgages were usually borrowing at or very close to their limit in a context of relatively low interest rates (see Figure 8.5 below for further discussion about income to mortgage ratios).

There was some evidence of tenants artificially (and temporarily) boosting their income through overtime to secure mortgages for the right to buy scheme. Mortgage payments were often estimated to be the same or lower than rental payment but were sometimes higher, in some cases by more than £100pcm (and in one case by an estimated £200). When asked how affordable such increases were, respondents tended to place emphasis on increased costs being *worth it* rather than being *affordable*. As one respondent explained - '*I'll be skint but at least I'll be a homeowner*' (Richard). Tenants' relief at not being required to pay a deposit, while understandable, revealed their constrained financial circumstances. For example:

I understand we might not need to pay a deposit cos of the size of the discount, the bank would be happy to take the discount as a deposit so that would have been a perfect opportunity coz we don't have any savings. (Connor)

There were many tenants who were financially secure enough to be able to buy their homes without significant risk. Charts 8.1 and 8.2 show, for example, that a significant minority of survey respondents had relatively sizeable incomes and savings. There were also examples where tenants were able to finance borrowing, and mitigate risk, by taking out joint mortgages with family members (see example in 8.5 below). However many of the tenants interviewed for this study appeared to be exposing themselves to future financial risk by buying, whether because they were stretching themselves to meet mortgage payments, had no buffer (savings, high disposable income, family able to help out), or were in single income households.

The precarious borrowing circumstances of some tenants raises questions about whether housing associations will need to do more to subject applications to closer scrutiny - in terms of the cost of purchase but also the *ongoing* costs of home ownership, which may be underestimated by eager VRTB applicants – and what the response might be if tenants were felt to be at risk but keen to buy. In Box 1 we present two case studies that illustrate some of these points.

Box 1: Case studies – stretched financial circumstances [All – we could slightly reframe this and perhaps add another example ...

Rachel, in her 70s, is in a quandary about whether to proceed with the purchase now she has received an offer (of £25k) slightly higher than hoped. Her savings are sufficient to purchase outright but this would leave very little of her nest egg - *'that would leave me with only about £6,000 to live on and I don't feel safe about it.'* The property is in relatively poor condition - *'there's rising damp and very bad condensation that will be costly to put right'* and Rachel is also concerned about the legal costs associated with buying which would further reduce her savings.

Maggs is a single parent who describes herself as *'on a very low wage'* who *'had a struggle to get the £250'*. Her family are not in a position to offer a contribution (*'my parents don't have any money anyway'*) and she has no savings - *'any savings that I had I've spent while being unemployed for I don't know how long'*. She was hoping to mortgage for slightly more than the purchase price to cover conveyancing and other fees, but is borrowing at the top of her limit so will have to fund these expenses herself. She has a fixed rate mortgage and is concerned about interest rate rises beyond that, although at present her mortgage payments are no more than her rent. She has not, however, considered the additional costs of home ownership such as insurance and property maintenance explaining that *'I haven't [considered that]. No, I don't want to basically, what will be will be'*. She is relying on low maintenance costs because her house is *'not a period property or anything that's going to be draining you money every month, fingers crossed'*. She has been taking on as much overtime as possible recently (she works two jobs) so her income seems higher, in order to secure a large enough mortgage. This raises concerns about the longer term sustainability of borrowing.

8.2. Awareness and Understanding of the Viability of Purchasing

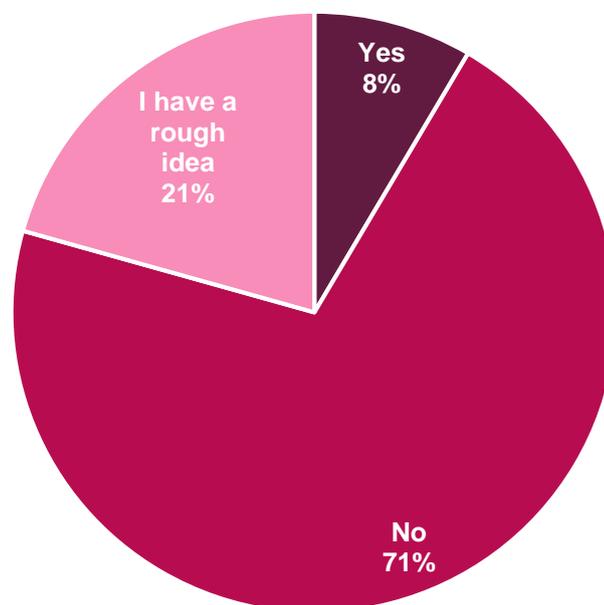
We saw in Chapter 5 that a high proportion of tenants expressing an interest in the right to buy reported an intention to apply and that (by November 2016) 972 applications had been processed. Applicants had committed to the process by paying the £250 administration fee.

These tenants seem intent on proceeding if they can. Yet, when we explored how well informed tenants are about the viability of purchasing their homes, we find significant gaps in the knowledge and information required to make such a decision. Some respondents had researched extensively - checking Zoopla, comparing mortgage repayments to rents - but others had little idea of the value of their home, had not explored mortgage eligibility or were making poorly informed assumptions about lender practices, costs, and the viability of buying..

For example, many tenants did not know the value of their home or the purchase price. Figure 8.3 shows that 71 per cent reported having 'no idea' of the purchase price, and only eight per cent knew what the purchase price would be (a further 21 per cent had 'some idea'). Interview respondents, similarly, when asked about valuation frequently responded '*no clue*' (*Sarah-Jane*), '*I haven't got a clue*' or '*I don't know how much they go for in this area. I have no clue really.*'(*Paul*). There was a widespread tendency to underestimate the price of the home, especially in London

The majority of tenants required a mortgage for some or all of the purchase price. Figure 8.3, for example, shows that 89 per cent of survey respondents intended to use mortgage finance to help purchase their home. Over two thirds (69 per cent) of these tenants also reported being very or fairly confident that they could secure a mortgage. Yet the majority had no idea of the purchase price at that time - a prerequisite for a mortgage application.

Figure 8.3: Do you know the likely purchase price of your home? (online tenant survey, N = 543)



In Box 2 we present several case studies that illustrate the limited, and sometimes inaccurate, information on which some tenants' decision to buy was founded. What is of interest here is not that respondents were sometimes ill-informed but that, despite this, they often asserted quite definitively that they could (or, in one case, could not) afford to buy. Billy, for example, seems quite sure that he can afford to buy his

London home and that mortgage payments will be lower than his rent. Yet he does not know the value of his home, or how much his rent is (see Box 2).

It is worth noting, however, that the information tenants required to make informed decisions about buying their homes was not always readily available. As reported in Chapter 5, property valuations were not carried out until a full application had been made and the fee paid,²⁵ and tenants were discouraged, for good reasons, from securing a mortgage until they had received an offer letter (the point at which the purchase price is stated). Thus, even tenants who made concerted efforts to research the viability of purchasing were not always able to make an informed decision about applying.

In particular, tenants struggled to gauge the value of their property. Tenants were encouraged by the pilot landlords to research property prices in their neighbourhood - for example using Zoopla - but interview respondents explained that accurate data was not always available, for example if there had been few recent sales nearby, or no equivalent properties sold. As the following respondents explained:

It's anyone's guess really [valuation]. I went looking round on Zoopla and various estate agents online to try and get a feel for property prices but the nearest I could get was a two-bedroomed flat (Phil, living in a one-bed flat)

What made it difficult was that when I researched the property there was nothing in the area similar, cos they're social housing, so there was nothing in the area that I could get a guideline from. So I had about 300 in my head actually and that was based on colleagues that had friends that were selling smaller properties. And I just looked at three bed terraced houses in the area, not like for like, just the range of three beds and thought these are older houses and they were going for about 350. So I was thinking this is social housing, maybe we're pitching it between 300 and 350. So I was surprised when it came back at 380. (Jude)

The information presented in this section raises questions about the extent to which tenants who express an interest, and also those who had applied for the VRTB, are in a position to proceed.

The information that has started to come forward once valuations of the properties were being made is therefore essential in order to make any judgement on the likely affordability of VRTB for applicants in each pilot area. This is considered next.

²⁵ Valuations were not carried out until the Housing and Planning Act had been passed so some early applicants experienced a period of inactivity following their application, and had to wait a while before they were informed of the valuation and purchase price.

Box 2: Case studies: financial knowledge

Billy has applied to buy his London home because, he thinks, mortgage payments would be similar to his rent (Billy was informed subsequently that his property is excluded and so has not proceeded further). This assumption was based on the view that, with rents being so high in London, a mortgage could not possibly cost more. Billy did not, however, know how much his rent was, nor had he explored mortgage eligibility or costs. He explained:

Well it's a simple matter of economics, I'm paying that much money in rent, if I can pay that much money on a mortgage it would be the same sort of difference.... I think rents are so high now in London there's no way that people would be paying more money on a mortgage. It's just that it'll be going somewhere instead of renting your money's going nowhere....I don't know what the rent is, £150/week or whatever it is, £175/week.

Martin is self-employed, earning his living buying and selling second hand goods online from home. He has no savings. He estimates that his flat may be worth between £400-£500k, based on the sale prices of local properties. He heard from his sister, who once worked as an estate agent, about interest-only mortgages and is pinning his hopes on financing a purchase in this way. Martin is making many assumptions about lender practices on the basis of scant and outdated information from his sister:

They see that you're getting a deal where you're getting 100 grand knocked off then they'll lend you the money against that....cos the mortgage company can see why I'm doing it. My sister said they'll probably jump at the chance. I'm self-employed, I don't think they'd even want to know [see] my books but I'm confident that the amount of money paying back is only about £10 more than I'm paying now. [Interviewer: have you got much of a deposit to put down?] I didn't know there was much of a deposit actually needed. An interest-only mortgage I don't think you need a deposit. That's something I don't know. My sister maybe told me about it but it didn't go in my head

Whether a lender would provide a mortgage of this amount to Martin given his income and employment status is questionable. But, in any case, interest-only mortgages require purchasers to have a credible financial strategy (such as an investment) for repaying the (in this case very substantial) loan at the end of the mortgage term.

Paul, who expressed an interest in the RTB but has not submitted an application, has decided he *cannot* currently afford to buy his property. But this decision does not appear to be based on any clear understanding of value, purchase price, or mortgage eligibility (he is employed part time and has lived in the property for 30 years). He did not know how the discount was calculated or whether there was a cap, expressing surprise when informed that discounts in London were capped at £103k (he thought it would be higher). When asked if he knew the approximate value of his home he replied that *'well, it's a one bedroomed flat and I don't know how much they go for in this area. I have no clue really'*

8.3. Valuations in the Pilot Areas

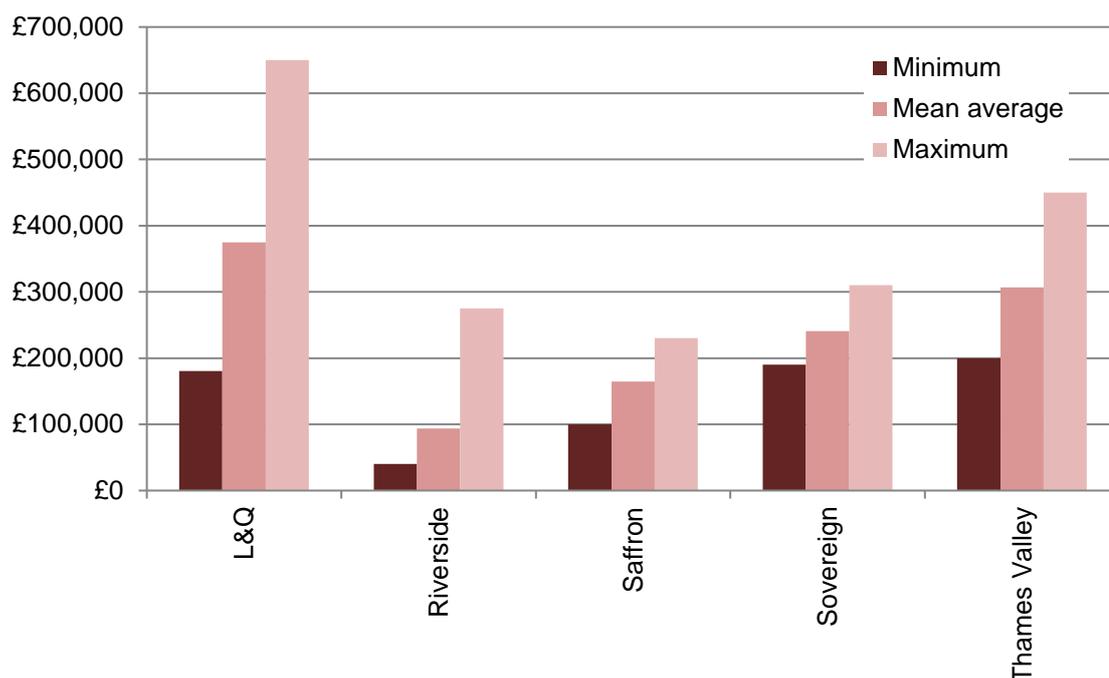
Analysis was undertaken on 282 **valuations** across the pilots, as shown in Table 8.1 and Figure 8.4 below. It is important to note that these figures are the market valuations and **not** the purchase price to the tenant, once discounts (which will vary of course from one applicant to the next) are taken into account. The charts show the difference in the average valuation by pilot association - ranging from £93,600 in Riverside to £374,400 in L&Q - a figure just over four times greater. However, these averages conceal a much wider spread of values within L&Q than in other pilots - ranging from £180,500 to £650,000. It is also worth noting the very low valuations of some Riverside properties at £40,000 - before any discounts are taken into account.

Valuations therefore vary dramatically from one pilot area to another. But this is not matched by parallel variations in the income and savings of the households - the differences here are small. There is limited evidence of higher savings among L&Q households, and household incomes are broadly stable across the pilot areas. Even allowing for discounts, this produces marked difference in the income-price affordability ratio from one pilot to another - and especially between the extremes of L&Q and Riverside.

Table 8.1: Key statistics on valuations in the pilots (August 2016)

	L&Q	Riverside	Saffron	Sovereign	TVH
Mean	£374,800	£93,600	£164,400	£240,700	£307,000
Min	£180,500	£40,000	£100,000	£190,000	£200,000
Max	£650,000	£275,000	£230,000	£310,000	£450,000
Number	65	163	39	49	5

Figure 8.4: Valuations by pilot area, up to August 2016²⁶



8.4. Affordability and expected completions

It is possible to match the valuations in section 8.4 to data on household incomes and savings from application forms and the online tenant survey. This provides an indication of likely **mortgage affordability**. Changes in the mortgage market since the Global Financial Crisis provide the context for assessing affordability in the pilots. The Financial Conduct Authority has supported a shift towards in-depth assessment of mortgage affordability, based on household circumstances and not just loan to income ratios. However, loan to income ratios are still used to provide a bald indication of the level of risk attached to loans. The Financial Policy Committee recommends a *'cap at 15 per cent in the total number of residential mortgages available at or above 4.5 times income'* (Financial Conduct Authority, 2016). In June 2016, 11 per cent of all regulated mortgages to individuals had a loan to income ratio of greater than four (Bank of England/Financial Conduct Authority, 2016). These figures provide a baseline to understand the valuations for the VRTB pilots.

A calculation of loan to income for VRTB valuations for three of the pilots can be seen in Figure 8.5.²⁷ This calculation takes account of the discount, and it is assumed that the reported savings of the household are used in full to reduce the purchase price further.²⁸ The analysis includes those who reported that they had sufficient savings to purchase outright.

²⁶ The range in Riverside is slightly skewed by the outlier of the £275,000 property included in the sample.

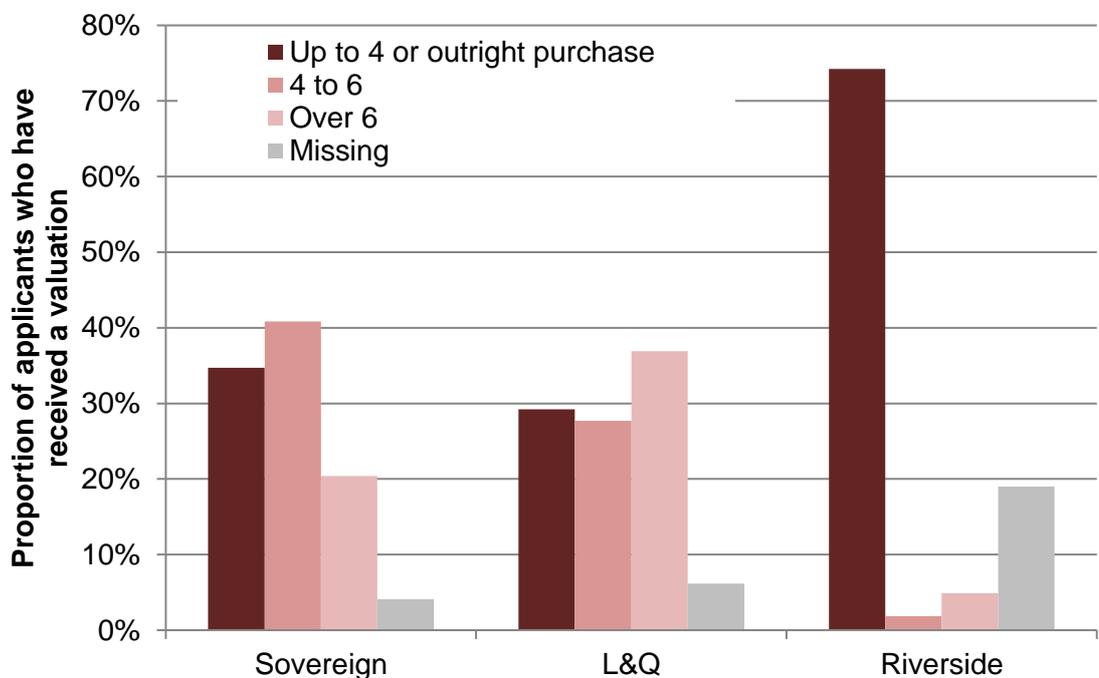
²⁷ There were not sufficient numbers of valuations to undertake this for Saffron and Thames Valley.

²⁸ Only a small number of applicants reported having sufficient savings to purchase outright. They were included in the analysis to give an indication of the affordability of all applicants.

The results in Figure 8.5 show that just over a third of applicants at Sovereign (36 per cent) and just under a third at L&Q (31 per cent) have income multipliers of less than four (including outright purchase). These applicants are likely to be able to access mortgages to enable purchase. For Riverside, nine out of ten applicants (91 per cent) have income multipliers of less than four.

The variation in the L&Q valuations is important. The number of completions may depend on the availability of stock in the lower half of their values that match with incomes of tenants in this accommodation. The figures alone would suggest that the relatively high proportion of applicants (37 per cent in L&Q and 20 per cent in Sovereign) requiring more than **six times** their income to afford VRTB purchase would have to drop out of the process. However, as shown in the next section, some of these applicants do appear to be proceeding with purchase.

Figure 8.5: Income multipliers for applicants receiving a valuation (after discount and savings)



8.5. Plugging the 'affordability gap'

The analysis presented in the preceding section suggests that a relatively high proportion of applicants in some pilots may not be able to afford to proceed to completion. Yet, at the time of writing, few applicants were withdrawing from the process, including some requiring mortgages in excess of four times their income, or where the combined sum of their mortgage, savings and any third party contribution did not provide sufficient funds to meet the purchase price.

The research team interviewed some of these tenants in an effort to understand how they were plugging their 'affordability gap'. However, so few had completed by this time that questions about whether, and how, they could afford to purchase remained hypothetical. Generally speaking, respondents simply restated that they were confident they could meet the purchase price through a combination of mortgages, savings and third party contributions, and were confident they could meet monthly mortgage payments.²⁹ Only a few reported strategies for overcoming affordability issues. This included a woman who had secured a mortgage from an 'adverse credit mortgage provider' (a single parent to five children, earning £28k pa, Olubunmi has secured a mortgage of £221k over 35 years but still has a £25k shortfall that she is trying to meet through family contribution); and a couple of respondents exploring interest-only mortgages (although they are unlikely to meet the criteria). More positively, another respondent had found a way to proceed with the purchase without stretching herself financially, or exposing herself to the risks of adverse credit and interest only lending, by purchasing jointly with her son. Her situation is described in Box 3).

Box 2: Case studies: Plugging the 'affordability gap'

Jude has been renting from her landlord for 23 years and has lived in her current home - a three bed terraced house - for 16 years. She has always wanted to own her own home, as she explained:

Renting wasn't something I wanted to do forever and really it's also to leave something for my children when I move on, so that's the main reason, I just don't really like the idea of renting because you never own. There's also only so much really that you can do to the property

Despite earning a good income, she could never quite manage to save a large enough deposit to buy on the open market. When the opportunity arose through the VRTB pilot to buy her home at a discount she applied straight away. However, when she received the valuation and approached mortgage providers she was told her income was not high enough to qualify for the mortgage she needed.

I spoke to two mortgage brokers and the first thing they said is you will not get the mortgage on the full amount, even though I'd got some money saved,

²⁹ The research team intend to conduct another round of interviews once more tenants have completed which may provide further insight.

they still said you won't get a mortgage, your salary's just not enough, cos I'd need something like seven times my salary....

The valuation came in at 380 and then I get the maximum 103 discount but obviously the way that mortgages are now, I needed to be earning 80,000 and not many average people who are in social housing would be earning 80,000.

However, by combining her income with that of her adult son, they are eligible for a joint mortgage that is affordable to them and this is how Jude (and her son) are financing their purchase. They have made a new, joint application that has been accepted.

It would also seem that the propensity of lenders to lend to households on modest incomes varies considerably between the pilots, and this practice may mitigate the extent of differences in affordability between higher and lower value areas. At the time of writing this report, evidence was beginning to emerge that (in London, at least) high street lenders were offering VRTB tenants mortgages for more than four times their household income.

Analysis was undertaken of 25 L&Q tenants who had completed the purchase of their homes under VRTB by November 2016. Clearly this is too small a sample to draw any general conclusions, but the findings help to provide an indication of the financial profile of purchasers in the London market. All these households had benefited from the maximum £103.9k discount (representing an average of 32 per cent discount off the full price of the property). Four of the households required no mortgage and had bought outright - one benefiting from a substantial family gift and others buying from their savings. Four of the households depended fully on their mortgage to pay for their home (with the discount being treated as their 'deposit'). Of the remaining 17 households, savings contributed on average to 10.5 per cent of the post-discount price. The remaining amount was being met through mortgage payments.

In terms of the mortgage to income ratios for the 21 households³⁰, three had been given mortgages at up to three times their income, nine at between three and four times their income, seven at between four and five times their income and two at more than five times their income. From this admittedly very small sample, more than forty per cent of households were therefore receiving a mortgage at more than four times their income. The highest multiple was 5.4, for a household with an annual income of £28k receiving a mortgage of £151.8k. The largest mortgage was £371k. Interest rates on the mortgages ranged from 1.5 per cent to 3.5 per cent and the mean rate was 2.2 per cent. In each case the mortgage had been provided by a high street lender. This profile is bound to raise concerns - particularly in the context of the broader financial circumstances of some tenants outlined in 8.1 above- that some tenants may be significantly overreaching themselves, especially in high value areas.

Clearly there will be some tenants who are able to buy without undue risk. However this Chapter has raised important questions about the risks that some tenants may

³⁰ excluding the four households who had bought outright

take in order to take advantage of the opportunity to buy. In many cases the desire to take on risk reflected a feeling that purchase would give the family security. The issue of risk and affordability raises important and challenging issues for HAs in relation to providing safeguards where it is felt that tenants cannot afford to purchase.

Profiling the VRTB: which tenants are buying, and what stock is being bought?

9.1. Profiling demand for the Voluntary Right to Buy

The application forms submitted by tenants intending to exercise their Right to Buy provide details of household and stock characteristics. Analysis of application forms³¹ shows that:

- More women than men were lead applicant (60 per cent versus 40 per cent)
- The majority of applicants were White British and Irish (73 per cent)
- Most commonly applicants were aged 45-54 (37 per cent) with only nine per cent aged 65 or over (see Figure 9.1). These older applicants were not, however, distributed equally across the pilots - they comprised 15 per cent of all Riverside applicants but only three per cent of those in L&Q.
- Over three quarters of applicants lived in houses (75 per cent), while 21 per cent of applicants lived in flats or maisonettes (see Figure 9.2). A higher proportion of L&Q applicants lived in flats than applicants in the other pilots, partly reflecting the stock profile of that landlord. Only three per cent of applicants lived in bungalows. This will partly reflect the fact that some bungalow accommodation will have been excluded by pilot housing associations on the grounds of being housing for older persons or adapted accommodation.
- Applications were mostly for two and three bed properties.
- 14 per cent of applicants reported someone in their household with a disability.
- Nearly half (45 per cent) of applicants lived in smaller households, either alone or with one other household member.

³¹ A total of 428 application forms were analysed, representing all applications forms received by April 2016.

Figure 9.1: Age of lead applicant (Application forms, N = 420)

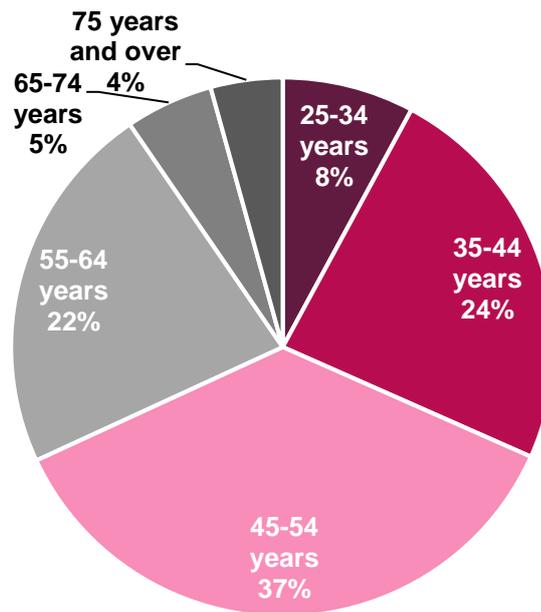
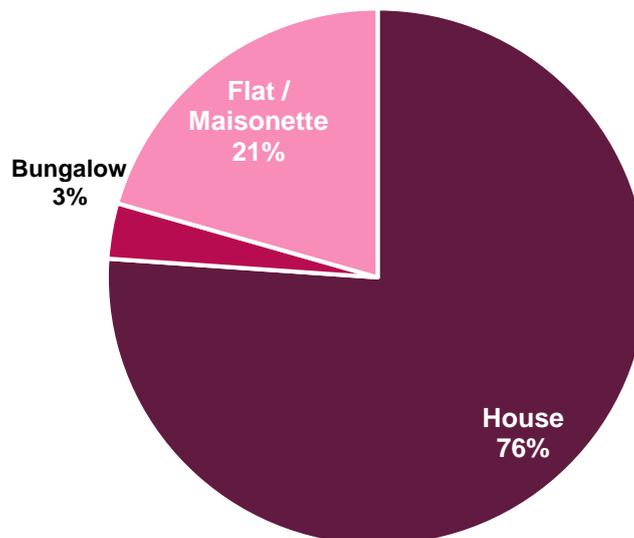


Figure 9.2: Type of property (Application forms, N = 360)



The profile of respondents to the online survey (all of whom had expressed an interest and around half of whom had made a full application) was similar, although it should be noted that this sample included tenants who had not (yet) applied. For example, middle aged survey respondents formed the largest group of those interested in the VRTB (see Figure 9.3), with Riverside receiving higher levels of interest from tenants over the age of 65 than the other pilots. In line with the profile of applicants, 21 per cent of online survey respondents lived alone, although a higher proportion lived in two person households (Figure 9.4). It is perhaps of interest that nearly one quarter (24 per cent) lived with adult children. Figure 9.5 shows that a slightly lower proportion of online survey respondents than applicants lived in houses (63 per cent) and a higher proportion in flats (35 per cent).

Figure 9.3: Age of lead applicant (online survey, N = 583)

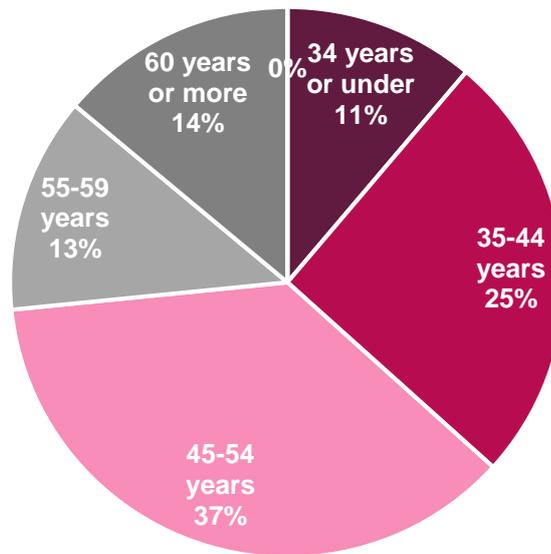


Figure 9.4: Household size (applicants: online survey)

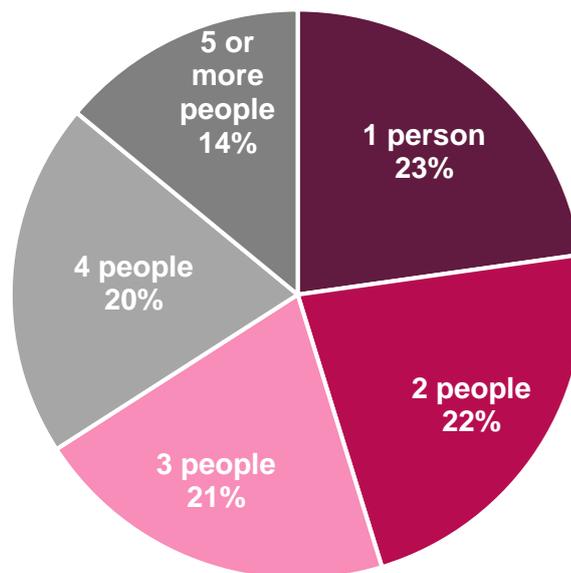
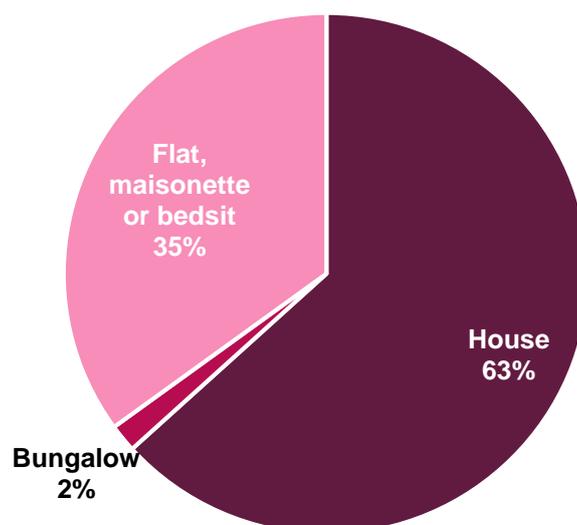


Figure 9.5: Property type (online tenant survey, N = 577)



At this stage analysis can only profile *interest* or *demand* in the VRTB. We do not yet know how many tenants responding to our online survey will pursue their initial interest in the scheme, or indeed how many applicants will secure the finance they need and complete on their purchase (see Chapter 8). This picture could shift, therefore, as more tenants apply, and sales proceed.

9.2. Demand compared to characteristics of pilot areas

The figures presented in section 9.1 above - while interesting - mean little without an understanding of the wider tenant and stock profile of each of the pilot housing associations. Women, for example, may comprise 60 per cent of all applicants but if they represent 80 per cent of all housing association tenants then they are *less* likely, not *more* likely, than men likely to apply for the RTB. Here we consider the profile of applicants (based on application form data) and of online survey respondents (EOIs and applicants). We then use secondary data to assess how representative they are of the tenants and stock in the wider pilot areas.³² The results are most robust in the pilots with the largest number of applications and EOIs.

Analysis suggests that particular demographic groups, and particular property types, are overrepresented in the VRTB pilot, including:

- **Houses**, compared with flats. Houses account for 51 per cent of stock across all of the pilot areas but 76 per cent of applicants.³³
- **Three-bed** properties. Across all of the pilot areas three bed properties accounted for 35 per cent of stock. In comparison 57 per cent of applicants were living in a three bed property.³⁴

³² This relates to all stock in the pilot areas, not just eligible properties.

³³ This figure is slightly skewed by the relatively high number of Riverside tenants in the application form data (and the very high demand for houses from Riverside tenants). A lower proportion of survey respondents (63 per cent) were seeking to purchase a house.

- **Middle aged tenants.** The age group of 45 to 54 year olds account for 37 per cent of lead applicants (amongst both 'applicants' and survey respondents). Age data is not available at pilot level but 35 to 49 year olds accounted for 29 per cent of Housing Association tenants in 2011.³⁵ Two factors are likely to support this over-representation of middle aged tenants. The first is the ten year qualification period, rendering many younger tenants ineligible. Second, difficulty accessing a mortgage for people who are retired is likely to reduce demand from this group, particularly in higher value areas where savings, pension lump sums and suchlike are less likely to cover full purchase price.
- **People with higher incomes.**³⁶ The online survey suggests that 23 per cent of tenants expressing an interest or applying had a gross household income of more than £41,600 per annum. Income data is not available across the pilots but, as noted in the previous section, this proportion is much higher than levels recorded in national data. It is likely that this over-representation reflects a level of self-selection about the affordability of VRTB amongst those expressing an interest or applying.

This gives some indication of the tenants who may be most likely to exercise the VRTB, and of the stock most likely to be sold. It must be emphasised again, however, that analysis at this stage is indicative only. It is only once the pilots have seen a significant number of completions that firm conclusions can be drawn.

Although this picture generally holds across the five pilots, there was some variation in demand for particular locations, from certain tenants, and for particular property types. For example, houses were in high demand across the programme but slightly less so in L&Q than in Riverside and Sovereign. Riverside applicants, meanwhile, had a slightly older age profile than in the other pilots. It is useful, therefore, to summarise some of the key characteristics associated with demand in each of the pilots.

In **L&Q**³⁷ demand was notably higher for particular locations, larger properties and houses. Specifically:

- In terms of geography, applications were in proportion to the number of properties held in each local authority area. Exceptions to this trend were Newham where demand was relatively high (20 per cent of applicants compared to eight per cent of L&Q stock) and Lewisham where demand was relatively low (nine per cent of applicants compared to 29 per cent of L&Q stock).
- A relatively high proportion of applicants were living in a house (59 per cent³⁸ compared to 38 per cent of L&Q stock).

³⁴Again, this figure is slightly skewed by the overrepresentation of Riverside tenants in the application from data. A slightly lower 49 per cent survey respondents were living in a three bed property..

³⁵ Authors calculations based on table DC4201EW of the 2011 census for England.

³⁶ This analysis is based on survey data only. Income was inconsistently recorded by tenants in their application forms.

³⁷ Data on EOs and applicants taken from online tenant survey (N = 371) and applicants only from application forms (N = 87). Data on L&Q stock supplied by the Housing Association and analysed by the authors.

³⁸ There was a slightly lower proportion (51 per cent) of online survey respondents living in houses.

- Demand was higher for larger properties (50 per cent of applicants³⁹ lived in a property with three or more bedrooms compared to 36 per cent of L&Q stock.)

In **Riverside**⁴⁰ demand was relatively uniform across the pilot with no local authority area witnessing disproportionately high or low demand. Demand was notably higher, however, from older tenants, with higher incomes, living in larger properties. Specifically:

- Demand for houses in Riverside was very high with 84 per cent of applicants⁴¹ living in houses compared with 61 per cent across the pilots as a whole.
- Applicants were more likely to live in three bed properties (61 per cent) than tenants in the pilot area as a whole (39 per cent); and less likely to live in one-bed properties (just seven per cent of applicants compared to 24 per cent of Riverside stock in the pilot area).⁴²
- Riverside applicants had a slightly older age profile than tenants across the pilot area: 36 per cent were aged 45-54 (compared to 21 per cent in the pilot area as a whole) and 27 per cent were 55 to 64 years (compared to 19 per cent).⁴³
- Riverside survey respondents had incomes notably higher than across the pilot area as a whole. For example 43 per cent reported a household income of greater than £26,000 compared to just four per cent across the pilot area.

In **Sovereign**⁴⁴ demand was notably higher from working age households with higher incomes living in larger properties. For example:

- Demand for houses in Sovereign was high, with 85 per cent of online survey respondents living in houses (compared with 66 per cent across the pilot).
- 61 per cent of VRTB tenants were living in three-bed properties compared to 41 per cent across the pilot. In contrast, one bed properties accounted for one per cent of VRTB tenants compared to 19 per cent across the pilot area.
- Only 10 per cent of online survey respondents were aged 60 years or over compared to 34 per cent of the pilot area as a whole.⁴⁵
- Online survey respondents in Sovereign had incomes notably higher than across the pilot area as a whole. For example 46 per cent reported a household income of less than £32,000, compared to 76 per cent with an income of less than £30,000 across the pilot area.

³⁹ And a slightly lower 46 per cent of online survey respondents..

⁴⁰ Data on EOs and applicants taken from online tenant survey (N = 137) and applicants only from application forms (N = 214). Data on Riverside stock supplied by the Housing Association.

⁴¹ And 81 per cent of online survey respondents

⁴² Results from the online survey were very similar.

⁴³ Results from the online survey were very similar.

⁴⁴ Data on EOs and applicants taken from online tenant survey (N = 86) and applicants only from application forms (N = 67). Data on Sovereign stock supplied by the Housing Association.

⁴⁵ For comparison, 4.5 per cent of applicants were aged 65 years or older.

In **Saffron** and **Thames Valley** the number of EOIs and applications were much lower, making it difficult to identify wider trends. However, there is some evidence that:

- Houses were in relatively high demand in Saffron. Bungalows account for 38 per cent of stock in this Housing Association but only around one-fifth of applications.
- Larger properties were overrepresented in Saffron. Three-bed properties account for 38 per cent of properties but almost three-quarters of applicants.
- Three-bed properties were also overrepresented amongst applications in Thames Valley - accounting for 28 per cent of properties but around half of applicants.
- Middle aged tenants are overrepresented in Thames Valley. Tenants aged 45 to 64 years account for 38 per cent of tenants but around half of applicants.

9.3. Profile of demand for VRTB compared with Statutory Right to Buy.

There are notable similarities, as well as some differences, between the stock and household profile of those applying for the VRTB and the local authority tenants who exercised the RTB under the statutory scheme.

The demographic profile of tenants purchasing under the statutory RTB has changed over time.⁴⁶ In the first phase, during the 1980s, a relatively high proportion of RTB purchasers were older, reflecting pent up demand and the larger discounts for longer term tenants. During the 1990s the most common household type was a two parent family with children at school. It appears that the profile of VRTB is more likely to reflect the early phases of the RTB for local authority tenants with pent-up demand from middle aged tenants. The household type is more likely in the VRTB than the statutory RTB to consist of single person households, which is representative of wider demographic shifts in this direction over the last thirty years.

Property characteristics of the VRTB can also be compared to the statutory right to buy. Houses were disproportionately represented amongst RTB sales of local authority accommodation whilst flats and maisonettes were less popular.⁴⁷ More recently flats and maisonettes have made up a larger proportion of sales under the Preserved RTB. In 2014/15, Flats and maisonettes made up just less than half of Preserved RTB sales.⁴⁸ At the same time bungalows accounted for just two per cent of sales. This can be compared to the property type for tenants interested in the VRTB (see Figure 9.2). As we saw in the previous section, houses accounted for almost two-thirds of tenants with only two per cent living in bungalows. However, these national figures highlight significant variation between the pilots, with almost half (49 per cent) of L&Q tenants seeking to buy a flat.

⁴⁶ For a more detailed summary see: Cole, I. et al (2015) The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations

⁴⁷ For a more detailed summary see: Cole, I. et al (2015) The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations.

⁴⁸ Authors calculations based on data from CORE, UK Data Archive 7603.

Most statutory RTB purchasers were drawn from lower middle class or skilled working class backgrounds while only a minority of RTB purchasers had low incomes (Burrows, Ford and Wilcox, 2000). The VRTB appears to continue this trend - allowing those with higher incomes, compared to other social housing tenants, to purchase their homes.

Key Lessons and Messages

The overall message of this report is that the VRTB pilot programme has been an effective way of testing out how the policy can be marketed, how applications can be handled, how ongoing challenges can be met or mitigated, and how applications can be dealt with through each stage from the expression of interest through to completion while meeting a tight timetable. The pilot programme helps to anticipate future demand in different local housing contexts and highlights a range of issues that will need to be managed by housing associations.

The number of associations included in the pilot was sufficient to achieve internal diversity without overwhelming the capacity to manage the programme in a coherent way. The positive links developed between the pilots encouraged genuine mutual learning and proved to be invaluable in surmounting many of the obstacles that inevitably arose during the programme.

The pilot associations faced challenges in anticipating and managing demand, especially at the two ends of the affordability/value spectrum (Riverside and L&Q), and in managing tenant expectations where applications were slowed or prevented by valuations or unexpected legal conditions on properties. There was added pressure because of the understandable urgency of tenants wishing to purchase; and the fact that the pilot was being undertaken at the same time as the development of policy and procedures for the national programme. The timing of the pilot programme therefore risked falling between two stools. It was not possible for the programme to test out draft policy or procedures for the national scheme, because they had not been produced at the end of 2015. In the event, the Chancellor announced a large-scale regional pilot of VRTB in the 2016 Autumn Statement. Originally, there was also no time planned between the completion of the pilot programme and the determination of regulations for the national scheme. As it happened, the launch of the regional pilot and then the wider programme is now later than originally expected, so there may be opportunity to incorporate some of the lessons from the pilot scheme into the regional pilot and the national VRTB programme.

The pilot programme differs from the wider programme in several respects: the pilots were working to a finite timetable of just over a year and had a maximum number of 600 RTB completions allocated to them as a whole; the portable discount did not apply for eligible tenants in excluded properties in the pilots; 'blanket' exclusions were applied in the pilots to some properties (such as those with S106 conditions) for pragmatic reasons; and pilots received additional resources

from DCLG to cover set-up costs and then a further amount on completions to ease the administrative burden. Also, as we noted earlier, there are as yet insufficient households who have completed the RTB process in the pilot programme to enable a robust assessment to be made of the future level of take-up among eligible tenants.

It would therefore be hazardous to transfer the lessons from the programme to a regional or national scale without any further qualification or note of caution. Bearing these factors in mind, we indicate below some of the main lessons and messages that have emerged from the pilot programme so far (up to November 2016) which may have implications for all housing associations when the regional pilot and the national programme are launched.

10.1. Eligibility for the VRTB

- The application of exclusions (overall policy, the extent of variability between associations, identifying properties subject to covenants, resolving/renegotiating conditions so properties can be sold and so on) will be a key challenge in the national scheme. The pilots were able to avoid some of the complexities of exclusion policy due to the short timescale and experimental nature of the programme. There may be more reluctance in the regional pilot and the national scheme to exclude properties because of the requirement for a portable alternative discount, which did not apply to the pilots. However, housing associations will be unable to make decisions on these issues until the expectations on the application of portable discounts have been finalised. There is also the risk of geographical overlap in some areas, where different policies might apply to tenants in otherwise similar dwellings, depending on the practices of the landlord concerned.
- It is therefore important for associations to identify all excluded properties in their stock at the outset, considering the knock-on implications for portable discounts. Wherever possible, tenants should not be able to progress an application on a property where it is subsequently discovered that it cannot be sold. Associations will need to weigh up the costs of identifying all excluded properties, against the likely level of customer dissatisfaction arising from identifying exclusions during the sale process. The balance between these two options is likely to depend on the scale of the scheme and its likely impact on the association.
- The pilot programme suggests that associations will need to invest time and resources to identify or resolve unexpected or unusual legal conditions and covenants that could lead to frustration and disappointment if they prevent sales
- Tenant eligibility criteria was applied consistently across the pilot and this worked well, suggesting that a consistent national framework should be considered. Consistent approaches to tenant or property eligibility helps mitigate against variable practice in the same geographical area (i.e. where more than one housing association operates in the same areas).

10.2. Applying for the VRTB

- Other associations should be encouraged to adopt many of the procedures developed by the pilots in terms of marketing, the process for expressing an interest, the handling of applications (e.g. forms, documentation required, and the applicability of digital and non-digital approaches). Procedures for managing applications worked very well in the pilot programme. Very few problems were highlighted, awareness of VRTB was high, and processes were considered to be relatively easy and straightforward by tenants.
- Careful consideration should be given to the scope and timing of valuations. An offer of indicative valuations may provide a helpful 'reality check' for some applicants about the financial consequences of purchase, but it may cause problems subsequently if the formal valuation then differs substantially from the initial indication. Tenants are likely to find it difficult to identify a direct and reliable comparator for their property if they try to undertake their own research into values. This may lead tenants to make unrealistic assumptions about their property, only to be pulled up short fairly late in the process.

10.3. Impact on Housing Associations

- The VRTB pilot placed significant additional demands on association staff and on their data management systems. Associations need to have comprehensive and up-to-date information about their stock and their tenants. What will be required is likely to go beyond what associations would need to know, were the properties to remain within their rented stock. This may point to a need to develop partnerships and networks to share learning and (possibly) resources in preparation for VRTB, particularly for smaller associations with limited capacity.
- More time should be built into the application process, for example in the time limits between instructing solicitors and completion and in the time (20 days in the pilot programme) between the landlord making an offer and the tenant accepting it. Twenty days does not always give tenant enough time, especially where valuations are made relatively late in the process.
- Managing tenant expectations may be very demanding. Because of the discount many tenants see VRTB as a 'golden opportunity' to realise aspirations and provide security for their family, so the stakes are high. There is likely to be a fair amount of latent demand and tenants will tend to undervalue their properties. In this context, getting communication right is crucial. Clarity and transparency on process, timings, progress and eligibility is key. As one stakeholder put it:

There's a big 'be prepared'. The more you can sort out upfront, don't be inventing it on the back foot, which is a bit hard in the pilot, by definition you do that a little bit. If you can get the preparation right, you can get the exclusions and exemptions right and be upfront about those and be very clear with customers, that is clearly half the battle, managing expectations.

- Any time lags, delays or suspensions in the programme are likely to generate high levels of tenant dissatisfaction and anxiety, given the fact that this will be the most important financial transaction most of them will have been involved in.

- Associations will need to ensure that their procedures for fraud protection and detection are robust in advance of the launch of the VRTB programme. There are good practice exemplars here among the pilots.
- The introduction of the VRTB may prompt a sharp increase in preserved right to buy applications which will affect those associations that have a high proportion of their stock acquired through stock transfer.

10.4. Outcomes of VRTB

- Certain property types in certain locations are likely to be over-represented in sales: associations will need to build this into their business planning to estimate the implications for the future profile of their properties let at social rents, and for their development programmes.
- VRTB may pose a financial risk to some tenants. There is evidence that some may be overreaching significantly because of mortgage lending practices (e.g. high income to mortgage ratios combined with low savings, no buffer or consideration to future interest rates and so on). The pilot raises questions about industry lending practices in some markets.
- The report therefore suggests that housing associations will need to think carefully about advice and support for tenants who might take on risky borrowing to pay for their home. This support could include ‘affordability checks’ to highlight areas of concern. Managing affordability concerns is likely to be challenging if tenants are keen to buy but feel they are being constrained by their association.
- Associations will need to ensure that modelling the impact of VRTB is customised, to take into account regional and local variations in take-up, reviewed when initial completions are made. The difference between higher and lower value housing markets in the provision of mortgages at high multiples of household income is one such source of local variation that will affect take-up.
- VRTB presents an opportunity that should be grasped to address some of the problems that emerged with the statutory RTB scheme, for example restricting sub-letting to avoid rapid transfer of properties into the private rented sector, introducing overage clauses, and fraud prevention and proof of eligibility measures that offer greater protection against abuse of the scheme.

The central lesson from this research for the regional pilot and the eventual national scheme is the need for as much clarity as possible at the launch of the programme on eligibility, access to discounts, the availability of funding, the prioritisation of applications, and the requirements for the portable discount. A lack of clarity will make it difficult for associations to plan effectively for all aspects of VRTB and increase the risk of widespread tenant dissatisfaction in a context of raised expectation. The imperative was summed up by one stakeholder in a single word: certainty.

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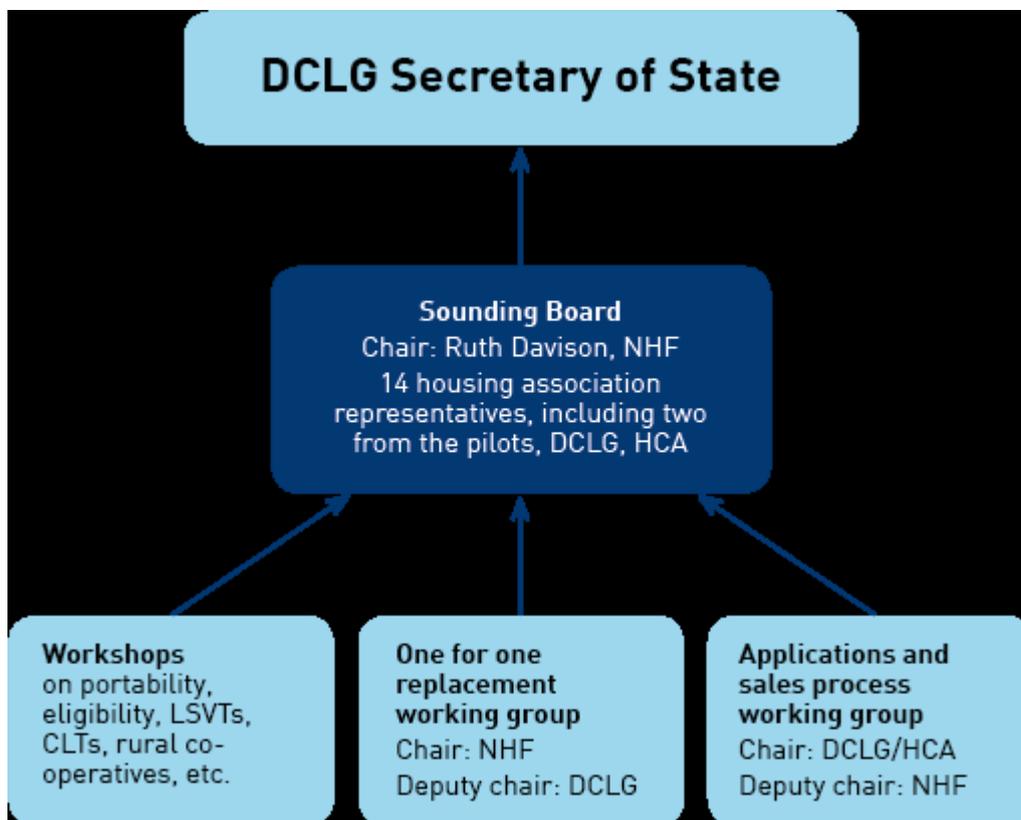
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Appendix 1: The Governance Structure of the VRTB Programme



Appendix 2: Schemes to support access to owner occupation

A range of different schemes have been introduced to help social housing tenants access owner occupation. The key features of the main schemes are summarised below.

Statutory Right to Buy

The statutory Right to Buy scheme for local authority tenants was first introduced by the Housing Act 1980. Local authority tenants who met the qualifying criteria received the Right to Buy their home at a discount. Various aspects of the scheme have changed over time including the qualifying period for length of tenancy and the level of discount available. "In England the current Right to Buy scheme is governed by the Housing Act 1985 (as amended)".⁴⁹ The Right to Buy has been abolished in Scotland and the Welsh government have stated their intention to discontinue the scheme. "Northern Ireland has a Right to Buy scheme in place for both Housing Executive (the largest social housing provider) and housing association tenants. It is called the House Sales Scheme".⁵⁰

Right to Acquire

The Right to Acquire for housing association tenants was introduced in 1996. This gave some housing association tenants the opportunity to purchase their property in specific circumstances. The Right to Acquire only applies to properties built with Social Housing Grant after April 1997. Tenants qualified for this after two years but the available discounts were much lower than under the statutory Right to Buy.

⁴⁹ House of Commons Library (2016) Comparison of Right to Buy policies in England, Scotland, Wales and Northern Ireland, <http://researchbriefings.files.parliament.uk/documents/CBP-7174/CBP-7174.pdf>

⁵⁰ House of Commons Library (2016) Comparison of Right to Buy policies in England, Scotland, Wales and Northern Ireland, <http://researchbriefings.files.parliament.uk/documents/CBP-7174/CBP-7174.pdf>

Preserved Right to Buy

Many local authority properties have been transferred to the ownership of housing associations. "Where the tenant was previously a secure council tenant at the point at which ownership of the property was transferred to a housing association – these tenants have a 'preserved' Right to Buy".⁵¹ Discounts for the preserved Right to Buy are the same as under the statutory scheme for local authority tenants.

Voluntary Right to Buy

"As a general rule, assured tenants of housing associations (aside from those who were previously secure council tenants with a "preserved" RTB) do not have the RTB on the same terms as council tenants".⁵² The voluntary agreement between the NHF and the government in 2015 is intended to address this issue. Housing Association tenants who did not already qualify for the preserved Right to Buy would now have the opportunity to access the Right to Buy. Discounts for the VRTB pilot were in line with those for the statutory RTB (rather than the Right to Acquire).

⁵¹ House of Commons Library (2016) Extending a voluntary Right to Buy to housing association tenants (England), <http://researchbriefings.files.parliament.uk/documents/CBP-7224/CBP-7224.pdf>

⁵² House of Commons Library (2016) Extending a voluntary Right to Buy to housing association tenants (England), <http://researchbriefings.files.parliament.uk/documents/CBP-7224/CBP-7224.pdf>