



Council Housing: Time to Invest (now, more than ever) – what we know

Introduction

In 2010, the Parliamentary Council Housing Group of MPs and Defend Council Housing (DCH) published [“Council Housing: Time to Invest, fair funding, investment and building council housing”](#). It was the result of an Inquiry that took evidence from tenants, councillors and others, and combined this in a thoroughly researched analysis of existing government policy, concluding that direct investment in council housing, accountably managed and maintained, was essential to produce and maintain the genuinely affordable and secure homes we have and need.

But the 2012 ‘self-financing’ regime which promised new financial resources for Council housing, has not delivered. Councils have attempted to find alternative sources of much-needed investment, looking to Special Purpose Vehicles, Joint Ventures and Local Housing Companies. These have not brought solutions to the scale of the UK’s housing crisis, which continues to deepen.

A lot has changed since 2010, and the pressures on council housing have only increased. Grenfell is a deadly symptom of what has gone wrong with UK housing policy. And the false economy of current policy is illustrated by the billions of pounds councils are having to spend on temporary accommodation. We are therefore glad to help in updating research to assess the current situation and the different investment strategies offered as an alternative to direct investment.

MPs will be calling for evidence, and discussing these issues, with tenants, campaigners, trade unions and councillors around the country. This paper is intended as a starting point for that discussion, outlining relevant past and current policies and assessing what we know about their effectiveness and possible consequences.

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Some quick notes on terminology

Language has been used to disguise what’s really happening to current housing policy. People will have their own examples of this, but we want to specifically address some terms:

1. **Council Housing** has a very specific – almost unique – identity. It is publicly-owned and subject to a degree of democratic accountability. Council tenants have Secure Tenancies, and rents are set by a central government formula (with some local elements) and are, in general, substantially lower than other forms of renting. In fact, we argue council housing has become the only truly affordable form of rented housing in many parts of the UK.
2. The term **“social housing”** is sometimes used interchangeably with council housing. We recognise there are other forms of non-market rented housing, but council housing should not be confused with other types. Where we refer to social housing, it will usually mean homes provided by housing associations.
3. The term **“Affordable Housing”** has become a source of confusion and infurcation for many. We try not to use this term in an unqualified way, because the experience in many places, is that “affordable” housing is not affordable!
4. **Housing Associations** have played a central role in housing policy, before and since 2010. They are now correctly known as Private Registered Providers, reflecting the fact that they are private companies. But we have mainly used the widely-understood term Housing Associations (HAs).

Why Council Housing?

Countries that fail to provide a decent council/public housing service begin to fail in much wider ways. Extensive international studies have documented how this has occurred over time.¹

1A World of Homeowners: American Power and the Politics of Housing Aid By Nancy Kwak University of Chicago Press 312pp, £31.50 ISBN 9780226282350 and 2497 (e- book) Published 11 November 2015

Decent council housing provision reduces pressure on the private market. Private sector rents are lower. Housing and flats become more affordable to buy. Some argue that the private sector will not be incentivised enough to build enough new homes, but that is hardly well reflected by what has actually occurred in the UK.

There are important effects of having a decent council housing system. In education children are able to stay at the same school for longer, they do not have to move schools when their parents are evicted because the private rent rises. In countries with better housing, teachers and other workers can live nearer work, and have lower housing and travel costs. This saves them and the state money.

Health services in countries with a better public housing system have lower staff costs and a far more efficient health service. People become ill less often through not being forced to live in unfit homes in the private and housing association sectors. And poverty is reduced, as is the greed of the wealthy who have less of an incentive to hoard their wealth by buying too many homes.

In the UK, as far as housing is concerned, 2023 is different from 2022, despite all this being a long time coming. In 2023 we already worry much more about mortgage rates, empty (hoarded) rooms, and the collapse of parts of the owner-occupied sector as well as rising private rents and falling housing prices.

You don't get a decent, stable overall housing sector without decent council housing. Housing Associations are no substitute: we have tested that as a theory and found it wanting.

Finally, decent council housing is not only housing for the poor. It is housing for people who prefer not to have the responsibility of all the upkeep of a home. The UK is decades away from having a housing sector as well developed as that of many other countries in Europe; but we could at least see where we should be heading. If you want to know what is possible, ask how and in what conditions the majority of university students in Finland are housed. You might be surprised by what you find. Once you begin to sort out housing – that need not be the end of your ambitions.

The housing crisis we face

The UK is currently in the grip of a national housing crisis, which homeless charity Shelter calls a “spiralling housing emergency”². Across the country we see lengthening housing waiting lists, chronic overcrowding, increasing rent and mortgage arrears, and corresponding growth in evictions and homelessness. The intensity of this housing crisis is strongly rooted in four decades of neoliberal policies that have shrunk the UK's previously large-scale council and social housing sector, reduced new housing output by councils, and deregulated the private rental sector (PRS).

In London, Manchester and other big cities the rapidly inflating private housing market is now directly linked to flows of international capital into its real estate markets, chasing lucrative returns from the high rents caused by the scarcity of truly affordable housing. The absolute and relative decline of council and social housing is fundamental to the housing crisis. This has shrunk from 5.5 million homes in 1979 to 4.1 million in 2021.³ This reflects the significant scaling back of new council house building due to national government funding cuts, the sale of council housing via the “Right to Buy” (RTB) policy introduced in the Housing Act 1980 which has privatised around 2 million council homes⁴, and the significant demolition of council stock, often as part of regeneration schemes that involve public land being sold or gifted to private developers.

The RTB has done as much to boost the PRS as to expand home ownership: by 2017, some 40% of ex-council homes across England had been resold to private landlords, and higher in at least ten London boroughs with the highest number of sublets in Newham at 46.7%.⁵ The record on replacing RTB homes sold from the sector is dismal. Of 107,033 council homes sold in England since RTB discounts were increased in 2012, only 41,743 have been replaced, 37,870 of these by local authorities⁶.

The UK Affordable Housing Commission recently argued that housing costs become unaffordable when rents or purchase costs exceed a third (33.3%) of household income for those in work. It found a ratio of 3.5, between house price and median gross annual residence-based earnings.⁷ By the end of 2020, private renters were paying 42.5% of their income on housing costs, and social housing tenants paying 39%.⁸ These rising costs have

2(Sagoe et al., 2020: 4)

3p.6, <https://researchbriefings.files.parliament.uk/documents/CBP-8963/CBP-8963.pdf>

4^{DLHC. (2021) Right to Buy sales and replacements, England: April 2021 to March 2022.}

5Barker, N. (2017, December 07). Exclusive: 7% rise in former Right to Buy homes now rented privately. Inside Housing. <https://www.insidehousing.co.uk/news/news/exclusive-7-rise-in-former-right-to-buy-homes-now-rented-privately-53507>

6^{DLHC. (2021) Right to Buy sales and replacements, England: April 2021 to March 2022.}

7Affordable Housing Commission [AHC]. (2020). Making Housing Affordable Again: Rebalancing the Nation's Housing System. London: Affordable Housing Commission. <https://bit.ly/2J8nG2e>

8GLA (Greater London Authority) (2021) Housing in London 2021: The evidence base for the London Housing Strategy. London: GLA.

especially affected households from a Black or Asian background and those with low-incomes. London households in poverty spend, on average, 56% of their income on housing.⁹ Private market housing – for both rent and sale – is especially marked by a deep and worsening affordability crisis in London. The London median house price (including flats) was £515,000 in September 2021, compared to £285,000 in England and £150,000 in the North East (the cheapest region in England). In 2021, the average house in London cost 13.9 times the average income, compared to 9.6 in England and 5.4 in the North East. This level of unaffordability has exploded over the past two decades: in 2002, the house price/earnings ratio for these three areas was 6.9, 5.1 and 3.3 respectively.¹⁰ Inflated house prices in London and the south-east have a distorting effect on housing in other parts of the country.

People on low incomes are hit the most: Deep welfare cuts, including decisions to freeze local housing allowance at its 2019 rates, mean that only 5% of homes across the country are now affordable for people on housing benefit¹¹.

In the council, and (most of the) housing association rental sector, housing costs remain considerably less expensive. Here, rent has been below 50% of private market rent levels. Social rents are higher in London compared to England as a whole, although this gap is much smaller than for private market rents. The average general needs monthly social rent for local authorities (net rent) in 2021/22 was £473.94 in London compared to £387.96 for England, while the equivalent Housing Association figures (gross rent) were £584.09 for London and £444.08 for England.¹²

What's Happened Since 2010?

The Coalition government, elected in May 2010, unleashed unprecedented “austerity measures” in response to the global financial crisis of 2007/08. The impact of that period is still being felt. Spending on non-market housing was cut in half¹³. Government subsidy for new social housing provided by HAs was reduced from 40% to 20% on average and increasingly, new homes were defined as having ‘Affordable Rents’ of up to 80% of the local market rate, often with time-limited tenancies¹⁴. The Coalition also scrapped the final round of housing PFI schemes, which while welcome due to the well-documented problems with PFI in housing and across the public sector, closed down the possibility of much-needed investment in new and existing council and social housing, which was not replaced.¹⁵

Although the “stock transfer” of council housing to housing associations has largely stopped since 2010, the impact of the policy is still being felt, in particular, through higher rents, reduced availability of non-market rented homes due to redevelopment, and loss of local democratic accountability¹⁶. This has been accelerated by the growing commercialisation of HAs, including their increasing tendency to form group-structures and get involved in speculative investment ventures¹⁷. Some HAs now build more homes for the private market than for social rent, arguing they are unable to do more to meet housing need due to lack of government grant¹⁸.

This greater “flexibility” for HAs was encouraged by the Housing and Planning Act 2016¹⁹ (some of the most damaging parts of the Act, such as “Pay to Stay”, were dropped under pressure from tenant-led campaigns). In this

9GLA (2022) Housing in London 2022: The evidence base for the London Housing Strategy. London: GLA; London Assembly Housing Committee [LAHC]. (2020). Affordable Housing Monitor 2020. London: GLA.

10ONS. (2022a). House price to resident-based earnings ratio.

<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoresidencebasedearningslowerquartileandmedian>

11Institute for Fiscal Studies. (2023) [Housing quality and affordability for lower-income households](#)

12Regulator of Social Housing. (2022). Local authority registered provider social housing in England - stock and rents 2021-2022. Leeds: Regulator of Social Housing. <https://www.gov.uk/government/statistics/local-authority-registered-provider-social-housing-stock-and-rents-in-england-2021-to-2022>; Regulator of Social Housing. (2022). Private registered provider social housing stock in England – rents profile 2021-2022. Leeds: Regulator of Social Housing.

13The Return of Class War Conservatism? Housing under the UK Coalition Government

14[Withdrawn] Affordable Homes Programme 2011 to 2015: framework - GOV.UK (www.gov.uk)

15Hodkinson, S (2019) Safe as Houses: Private greed, political negligence and housing policy after Grenfell. Manchester University Press

16The privatization of council housing: Stock transfer and the struggle for accountable housing - Stewart Smyth, 2013 (sagepub.com)

17The future of housing associations in England: commercially minded, commercially hearted | British Politics and Policy at LSE

18Inside Housing - Insight - Reality check: why are housing associations not building more social rented homes?

new commercial environment, many larger HAs have expanded their development of “shared ownership” homes part-owned by tenants and part-rented from social landlords. However, written evidence to Parliament by the Centre for Housing Policy, School for Business and Society has found this tenure to be “pro-cyclical” in that new supply is dependent upon “buoyant” housing market prices, implying that new delivery may struggle in a downturn²⁰.

Moreover, satisfaction in shared ownership is poor, with tenants experiencing above-inflation rent rises, high service charges and the need to cover 100% of repair costs. Only 57% of shared ownership tenants report being “satisfied” with their housing compared to 83% of social housing tenants according to research by Housemark²¹. Shared ownership is not an adequate solution to the housing crisis, or a substitute for genuine council housing.

Affordable Homes completed by Tenure (Department for Levelling up, Housing and Communities Live Table 1000)

	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021
Tenure											
Social Rent	39,562	37,677	17,580	10,924	9,331	6,798	5,825	7,049	6,363	6,766	6,051
London Aff. Rent								103	1,002	1,797	2,102
Affordable Rent		1,146	7,181	19,966	40,860	16,549	24,454	26,934	28,957	28,263	23,830
Intermediate Rent	4,523	2,055	1,340	1,294	1,105	1,697	938	791	1,383	1,748	2,018
Shared Ownership					11,128	4,084	9,021	11,048	17,028	18,239	16,984
Aff. Home Ownership	17,004	17,468	16,976	10,940	3,535	3,486	1,968	1,459	2,460	2,108	1,132
First Homes											
Unknown Tenure								4	33	43	28
All Affordable	61,089	58,346	43,077	43,124	65,959	32,614	42,206	47,388	57,226	58,964	52,145

Even this limited new supply may now be under pressure. In June 2023, the Department for Levelling Up, Housing and Communities warned MPs that development by HAs is likely to be hit in upcoming years by a “challenging” economic environment including rising inflation, higher borrowing costs and a 7% cap on rents introduced to protect social housing tenants from the cost-of-living crisis²². These factors mean HAs are unlikely to build truly affordable housing at the scale needed to tackle the housing crisis except at the cost of major rent increases to their tenants.

Section 106, Community Levy or Planning Gain

Having cut grant funding, Government policy has relied on the planning process to provide non-market homes. Almost half of “affordable” homes built in 2020-21 came through Section 106 agreements²³. The problem with this is that it makes vital housing supply vulnerable to changes in the housing market and the capacity of local councils to insist that developers meet their obligations, in a system often shrouded in “viability” issues and “commercial confidentiality”²⁴. While Government has stated its intention to reform Section 106, proposals to replace it with a flat rate infrastructure levy have faced near-universal criticism for threatening to further undermine new affordable supply, by organisations ranging from Shelter and the National Housing Federation to the British Property Federation²⁵. The provision of the homes society needs is too important to leave to this undemocratic and limited process.

¹⁹[Housing and Planning Act 2016 \(legislation.gov.uk\)](#)

²⁰p.2 [Written evidence submitted by Dr Alison Wallace, Centre for Housing Policy, School for Business and Society, University of York \[FSS 002\]](#)

²¹p.3 Housemark (2021) Tenant Satisfaction Measures: Exclusive first look at the sector.

²²[Written evidence submitted by the Department for Levelling Up, Housing and Communities \[FSS 062\]](#)

²³[Affordable housing supply in England: 2020 to 2021 \(publishing.service.gov.uk\)](#)

²⁴[Shelter. \(2017\) Slipping through the loophole: How viability assessments are reducing affordable housing supply in England.](#)

In this context of reduced government funding, combined with the accumulated impact of the 2012 'self-financing' regime for Councils with council housing, since 2010 local councils have adopted a number of strategies to try to fill the gap. In theory they had more freedom to do so since self-financing was introduced in April 2012, but the government also capped the amount councils could borrow until the cap was lifted in October 2018²⁵. While the end of the borrowing cap and the "New Homes Bonus" have stimulated councils' development plans, other constraints built into "self-financing" and imposed since, mean the number of new council homes remains a fraction of what is needed.

Self-Financing impact on Council Housing

Council tenants' rents (plus an amount of leaseholder charges) pay for all the management, maintenance and other running costs of homes and estates, and also cover the costs of historic borrowing and debt to build council homes. The House of Commons Parliamentary Council Housing group report 2009 showed that over 25 years, council tenants had paid £91 billion in rent but councils only received £60 billion in "allowances". Tenants had paid more in rent than the actual historic debt for building their homes.

Since the "debt settlement" of 2012 when each Council with homes was allocated a proportion of an inflated national debt figure, Government changes in the national rent policy (e.g. a four-year rent cut) and increases in the discounts for Right to Buy sales, which increased sales five-fold and vastly increased rent losses, have undermined the basis of councils' 30-year business plans. Individual councils are taking in hundreds of millions of pounds less in rent than projected in 2012. The debt they were allocated was based on income projections which bear no comparison to what Council Housing Revenue Accounts (HRAs) are actually taking in today.

Councils are cutting back on the scale of necessary work. The starvation of HRAs is resulting in a deterioration of the standard of tenants' homes. Expenditure by all HRAs on debt and service charges is estimated at around 25% of their income.

The Office for Budget Responsibility predicted the rent cap policy meant councils would lose an estimated 12% of their expected income by 2020. The Chartered Institute of Housing estimated Councils lose £2.56 billion over four years and £42.7 billion over the 30 year life of their "business plan". The Association of Retained Council Housing (ARCH) had a lower estimate, of £2.1 billion, which meant, they forecast, a reduction of 21.5% in spending per unit of housing.

David Hall, an independent consultant involved in the creation of the self-financing system said the debt settlement would have been £10 billion lower if the changes to the rent formula had been included in the calculations. There are clear grounds for, at the very least, revisiting the debt settlement. The government in 2012 explicitly gave itself the power to do so.

It is also notable that ending Right to Buy, has not led to any political backlash in Scotland at all. It has been totally uncontroversial and is reckoned to save around 15,000 homes from sale annually. It has been one powerful way of ensuring that local authority investment is not lost to the private market.

Are housing associations the answer?

Successive governments (Conservative, Labour and Coalition) have favoured policies to reduce direct provision and enhance private sector delivery, often involving housing associations as an alternative to council housing development. In other sectors this has been through direct sell-offs (e.g. privatisation of public utilities), but can be less obvious through public subsidies to private companies (e.g. the train operating companies).

In housing we have examples of these processes such as the Right to Buy council housing, which involved the sell-off of public housing, with huge public subsidies [1]. A second example is the growth of housing associations (HAs), which has been stimulated through a combination of government policies and funding decisions, and changes in the available sources of borrowing for the sector.

Focusing on the period from 2010, the Coalition government slashed the upfront grant for building new social housing, justifying the cuts not just on the basis of needed austerity but also that housing associations were sitting on considerable resources (in the form of accumulated reserves) that could be used to build new homes. Further the government policy encouraged housing associations to develop a *cross-subsidy model*, where associations would develop new properties at higher affordable rents and even full-market rates (for both rent and sale), and use the surpluses made to subsidise their social rent activities[2].

In addition, the fallout from the 2008/09 global financial crisis meant that the traditional source of funding (borrowing from the banks) was severely curtailed. This combination of factors pushed housing associations towards the capital markets, through the issuing of corporate bonds. So that, across England, eleven bonds were issued by seven HAs in the fourteen years between 1995 and 2009. In 2010, 14 bonds with a total size of £2.5 billion were issued by ten HAs. By 2017, there had been a cumulative total of 84 bond issues by 58 HAs, worth £17.1 billion.[3]

²⁵[Royal Town Planning Institute. \(2023\) 30 organisations call on government to reconsider key part of flagship planning reform.](#)

²⁶[Standard Note \(parliament.uk\)](#)

However, this borrowing came with strings attached and broader consequences. First, to get access to the capital bond market HAs need to engage credit rating agencies and seek to obtain the highest possible rating. This means that the priorities of the capital markets, as expressed in the credit ratings criteria, become integrated into the decision-making of senior managers. For example, to get the highest possible rating requires an operating margin (the surplus made on day to day operations) of 30 per cent or more [4]. In the period from 2006 to 2015 the big London-based HAs (known as the G15) increased their operating margins from 20% to 30.5%. [5]

This increase can only occur from a) raising income (e.g. rents), b) decreasing expenditure (i.e. cuts in services and/or maintenance), or c) a combination of the prior. Whichever way you look at this the tenants are losing out. Disrepair and untreated mould are a direct consequence of a squeeze on maintenance and repairs.

Second, we can see the impact of the cross-subsidy model, where the large developer housing associations are increasing their income from other activities rather than the traditional social rent. For example, in 2006 the G15 members derived 88% of their income from social rents; by 2015 this had reduced to 69.5%. [6]

Third, where once HAs would be driven solely by a social mission, often structured as a charity, recent years have seen the growth of complex group structures (see East Thames structure, below). Some HAs have gone so far in their engagement with the private capital markets that they have formed public limited companies (PLCs) and floated their corporate bonds on the London Stock Exchange, so that traders can buy and sell them. While traditional social landlord functions may be provided by a not-for-profit company within the group structure, these entities are increasingly being crowded out by joint ventures with private developers, companies set-up to provide commercial services on a for-profit basis as well as various financing vehicles (such as the previously mentioned PLCs).

Fourth, in part these group structures are a result of the growth in mergers to create ever larger organisations, with some mega-landlords holding over 100,000 homes. These mergers are part of the logic that seeks greater efficiencies (i.e. cost cutting) and more capacity to borrow and expand development plans.

These are only some of the changes to housing associations over the past decade. In addition, there have been changes to the regulatory environment downgrading the tenants' voice and setting the bar very high (in the form of the serious detriment test) before any regulatory intervention is made.

The point of all of the above becomes clear when we understand that HAs are hybrid organisations, with a contradiction at their heart. As the front cover of the Genesis HA annual report in 2014 proclaimed, "Socially hearted, commercially minded". Since 2010 government policy and the funding environment has played strongly on the *commercially minded* side of this contradiction, as outlined above.

The result is that tenants in many cases have suffered higher rents and poorer services. And crucially HAs have not been able to provide enough new homes to counter the long-term fall in council housing resulting from the RtB policy and withdrawal of funding to local authorities.

Group Structure

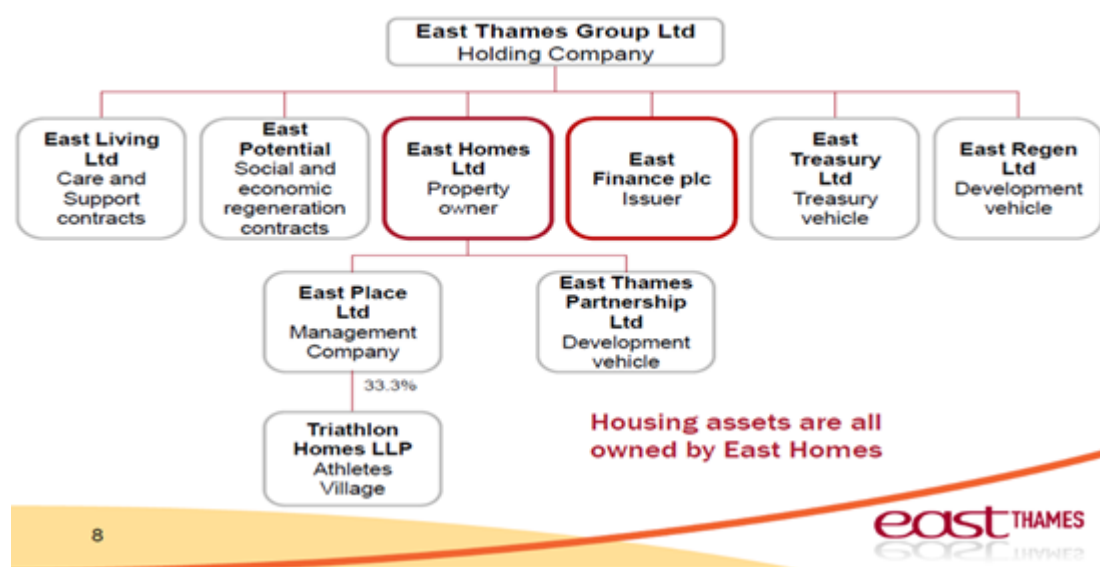


Figure 1 – Complex group structure. Source: East Thames investor presentation (May, 2012)

[1] Murie, A. (2016). *The Right To Buy?: Selling off Public and Social Housing*, Bristol: Policy Press

[2] Smyth, S. (2019) Embedding financialization: a policy review of the English Affordable Homes Programme, *Housing Studies*, 34:1, 142-161, DOI: [10.1080/02673037.2018.1442561](https://doi.org/10.1080/02673037.2018.1442561)

[3] Smyth, S.; Cole, I. and Fields, D. (2020, p. 2). "From gatekeepers to gateway constructors: Credit rating agencies and the financialisation of housing associations, *Critical Perspectives on Accounting*, 71, 102093

[4] Moody's, (2013). *Rating Methodology: English Housing Associations*. London: Moody's Investor Services

[5] Smyth et al. (2020, p.12).

[6] Smyth et al. (2020, p. 12). Crook and Kemp (2019) found similar results both in terms of percentage of income and number of homes that HAs are providing for the private rental market. (A. D. H. (Tony) Crook & Peter A. Kemp (2019). "In search of profit: housing association investment in private rental housing", *Housing Studies*, 34:4, 666-687, DOI:[10.1080/02673037.2018.1468419](https://doi.org/10.1080/02673037.2018.1468419))

London

London provides a perfect illustration of the mismatch between grant funding and social need. The Greater London Authority (GLA) estimates 66,000 new homes are needed per year, of which 43,000 need to be "affordable", and the majority (31,000) "at social rent levels"²⁷. The Mayor of London received £4.82 billion grant funding under the Government Affordable Housing Programme (AHP) 2016-23, and committed to start 116,000 homes defined as "affordable" by April 2023, with 78% of that target reached by March 2022. The Mayor received a further £4 billion from the new AHP 2021-26 and has promised 35,000 "affordable" housing starts per year, half expected to be traditional social rent.

However, government cuts and rising construction and land costs mean that 70% fewer homes are forecast to be built under the AHP 2021-26 compared to the previous programme²⁸. Moreover, current "affordable" housing completions are just 28% of the required annual total, while social rental homes are being completed at only a tiny fraction (around 2%) of the required amount. By contrast, more expensive (London) Affordable Rent contributed the vast bulk of "low cost rent" housing in 2021/22 (49.9%), followed by shared ownership (35.8%).

Many councils have brought their Arms Length Management Organisations (ALMOs) back in house to save unnecessary management costs - reducing the number of ALMOs from 70 to just 30 by 2020 (Inside Housing, 2020)²⁹. Councils have also looked to Special Purpose Vehicles (SPVs) and Local Housing Companies (LHCs) to get round restraints to build and manage homes. Each of these has had very mixed results.

Local Housing Companies (LHCs)

LHCs have emerged since 2010 as private companies set up and owned by local councils for the purposes of acquiring, developing, and managing housing of different tenures, including market, intermediate, and social housing. Across England, 83% of councils had housing companies in 2021, according to UCL research³⁰. In London, 27 of London's 32 borough councils have formed an LHC, although not all are active. LHCs are constituted as "Special Purpose Vehicles" (SPVs) outside of the Housing Revenue Account, giving them greater flexibility in borrowing and managing homes, including setting rents. They have the power to borrow from public and private capital providers, including institutional and corporate financial actors, although to date, most councils have taken advantage of the Public Works Loan Board's attractive rates to borrow and on-lend to their LHC, generating a profit in the process.

Most LHCs develop and/or acquire real estate to sell or rent on the private market, generating capital receipts and long-term revenue streams that can be transferred to the council's General Fund or used to cross-subsidise 'affordable' housing. Proponents have framed LHCs as an innovative means for local authorities to monetise rising land values, deliver new housing, and generate long-term fiscal rents to offset centrally imposed austerity.³¹ However, emerging evidence suggests major risks inherent to this model for municipal housing provision.

First, although LHCs increase the stock of new housing, they fail to deliver significant quantities of social housing – at best no more than 20% of homes, with the rest a mix of more-or-less unaffordable market and intermediate tenures. Second, by their nature LHCs are speculative, with their business models predicated on an inflating market, successfully debt-financing land and property values, thus serving to deepen the housing crisis. With material, labour, and financing costs all rising with inflation, some councils are now reducing the amount and kind of "affordable" housing they initially promised, whilst Croydon's LHC went bust with deleterious implications for the council's finances.

Finally, LHC developments in London have tended to proceed through the comprehensive, partial or in-fill redevelopment of existing council estates. In Lambeth, for example, eight out of thirteen LHC projects entail the demolition and breaking up of existing place-based communities and social relationships that support tenants in their everyday lives, subjecting them to the well-documented stress and anxiety and displacement. LHCs also erode security of tenure and remove certain rights such as their Right to Buy, Right to Transfer and Right to Manage.

²⁷p.37, London Assembly Housing Committee [LAHC] (2022) Affordable Housing Monitor 2022. London: GLA.

²⁸p.37, London Assembly Housing Committee [LAHC] (2022) Affordable Housing Monitor 2022. London: GLA.

²⁹<https://www.insidehousing.co.uk/news/almos-pre-crisis-development-plans-hiked-by-70-in-one-year-66267>

³⁰[Inside Housing \(10.06.21\) More than 80% of councils now own housing companies, research finds 10.06.21](https://www.insidehousing.co.uk/news/almos-pre-crisis-development-plans-hiked-by-70-in-one-year-66267)

³¹Morphet and Clifford, 2020

Build to Rent (BTR)

One of the most striking transformations in the UK's cities over the past decade has been the growing ownership of homes by institutional or corporate landlords. Homes owned at scale by institutional investors have been a growing feature of housing markets internationally over the past two decades, with private equity firms taking advantage of loosened rent controls and the privatisation of public housing schemes to buy up housing in New York and Berlin in the 2000s³². These strategies proliferated following the 2008 financial crisis, with multinational asset management companies such as Blackstone taking advantage of collapsing property markets to acquire land and homes at scale in countries including the US, Ireland, Spain and Greece³³. Since the financial crisis, housing has increasingly become treated as a mainstream asset class by corporate investors, with housing portfolios acquired by longer-term investors such as Real Estate Investment Trusts (REITs). In the UK, the dominant form this has taken has been through the rise of Build to Rent (BTR): homes purpose-built or acquired for the rental market and owned by pension funds and other institutional investors with a long-term investment horizon³⁴.

Economic drivers for BTR include housing demand from younger and more affluent renters locked out of home ownership, and investor demand for inflation-proof assets in an economy characterised by weak growth in rival sectors such as industrial land. In the UK, BTR has also benefited from active government support including a £1bn BTR Fund lasting from 2012–2016, the tenure's inclusion in a £10bn programme focused on loan guarantees for private and affordable housebuilding, and official recognition within the wider planning system. BTR has boomed as a result, with the sector's total stock accounting for 76,800 completed homes and a further 49,800 under construction, alongside a potential 113,500 more in the development pipeline as of November 2022³⁵. While the bulk of the sector remains comprised of high density apartments in cities such as London, Manchester, Edinburgh, Birmingham and Leeds³⁶, a smaller number of 'single family' housing schemes aimed at key workers are planned, typically in suburban areas close to transport links³⁷.

While BTR advocates argue the sector helps address an urban housing supply shortage, rents in the sector are high. Research by the consultancy EG shows average rents of £1,839 per month for the sector as a whole across the UK, ranging from £2,362 in London and £2,289 in Edinburgh to £1,421 in Manchester and £1,334 in Liverpool³⁸. Only limited independent research to date has been carried out assessing industry claims that the sector provides higher quality housing than the mainstream private rented sector³⁹, and local authorities have raised concerns over poor space standards in the related "co-living" sector⁴⁰. Although the bulk of corporate landlord activity in the UK to date has focused on the development of new build housing, future instability in the housing market could create opportunities for investors to acquire portfolios of existing housing stock, raising concerns over the potential for extractive practices found in related sectors such as social care (see below).

Joint Ventures

These are specific developments and projects involving local authorities, housing associations and institutional capital. For example, in 2019, the London Borough of Croydon signed an income strip lease with L&G (Legal & General Group plc) for the provision of homes for residents previously residing in emergency accommodation. The London Boroughs of Bromley and Newham signed similar deals with insurance company Pension Insurance Corporation plc (PIC) in 2021 and 2022, respectively. These 'income strips' involve councils using their cheaper borrowing rates to purchase open market properties which they then sell to an institutional investor who in turn leases them back to the council who eventually recover ownership of the asset for a peppercorn sum (Bloom 2023).⁴¹ Another example is the Connected Living London (CLL) joint venture between Grainger PLC, one of

32Fields D and Uffer S (2016) The financialization of rental housing: A comparative analysis of New York City and Berlin. *Urban Studies* 53(7): 1486–1502.

33Beswick J, Alexandri G, Byrne M, et al. (2016) Speculating on London's housing future. *City* 20(2): 321–341.

34Brill F and Özogul S (2021) Follow the firm: Analyzing the International Ascendancy of Build to Rent. *Economic Geography*. Epub ahead of print 9 July 2021.

35Savills. (2022) [UK Build to Rent Market Update – Q3 2022](#).

36p.6 EG Radius. (2022) BTR's £11bn lockdown boom

37Savills. (2021) [Suburban Build to Rent](#).

38EG Radius (2023) [BTR in UK Cities](#).

39Wilson J, Russel O and Scanlon K. (2017) Making the most of Build to Rent. Report, Future of London and LSE London.

40Trowers &Hamlins (2019) The challenges and controversies of co-living

41Bloom, A. (2023). Value 'stripping': Affordable housing, institutional investment, and the political economy of municipal debt. *European Urban and Regional Studies*, 30(1), 66–71. <https://doi.org/10.1177/09697764221123929>

Britain's largest professional landlords, and London's public transport body, Transport for London, to build and manage around 3,000 Buy To Rent homes in various developments beginning in 2023, with TFL selling land, Grainger raising finance through share issues, and CLL financing the scheme through loans.

Much can and does go badly for public bodies involved in such schemes. Croydon is not the only local authority reduced to or near bankruptcy through such deals.

Demolition

Local authorities and housing associations have increasingly turned to demolition of housing estates to cross-finance redevelopment. This has been a particular issue in London where over 33,000 social rental properties were demolished between 1997 and 2022⁴². Demolition is threatened in other areas including a controversial site in Rochdale. It is important to recognise that such policies have ripple effects beyond the immediate area. Research by the London Tenants Federation found that . "Money intended for building additional social-rented homes is often used to replace demolished homes with replacements being at 'affordable rents' rather than the housing type actually need. In addition, demolition and rebuild is almost certainly more expensive than the refurbishment."⁴³

Meanwhile, council tenants have been the target of attempts to reduce government spending and free up or sell off council homes, with policies in the Localism Act 2012 including fixed term tenancies and means' testing, and the 2016 Housing and Planning Act threat of higher rents to force out working tenants, combined with benefit cuts designed to price tenants out of homes. The Bedroom Tax was introduced in April 2013 and currently affects 600,000 households. There is no evidence that it has increased the availability of council housing. On the contrary, one piece of independent academic research concludes:

"The bedroom tax has increased poverty and had broad-ranging adverse effects on health, well-being and social relationships within this community. These findings strengthen the arguments for revoking this tax⁴⁴."

New threats

An ominous new development is the role of predatory investment companies in UK housing. These include publicly-listed corporations and Real Estate Investment Trusts (REITs) with shareholders such as pension funds, private equity and sovereign wealth funds; subsidiaries of publicly-listed pension funds with similar shareholders to REITs, which invest directly in construction and management companies, and provide funds for others to build or acquire stock; and private equity firms who tend to buy and sell portfolios of existing stock.

Financial investors' asset-stripping and extractive management practices have already had a disastrous impact on England's adult social care sector where 84% of care home beds (around 350,000) are now owned and managed by the private sector, making it by far the largest private sector adult care market in Europe.⁴⁵ The four largest care home providers are owned by private equity and hedge funds, and control around 10% of the market, including 41 of London's 1000 private care homes.⁴⁶

Now such institutional investors are positioning themselves to directly enter the social and affordable housing sector, primarily in the form of for-profit Private Registered Providers (FPPRPs, introduced by the Labour Government in 2008). In England, there are now 69 FPPRPs collectively owning 28,164 homes, with 41% for social rent (including supported housing) and 59% as shared ownership.⁴⁷ Legislative changes from April 2017, applicable to both non-profit and profit-making PRPs, mean they no longer need to seek consent from the Regulator before selling their stock. Since 2016, for-profit providers of social housing have been permitted to bid for government grants to provide social and shared ownership homes for specific schemes; and in 2021, they were also allowed to become strategic partners for longer-term projects.

These reforms have incentivised PRPs to seek greater private finance through bond issues and joint-ventures, and give greater confidence to institutional investors that social and affordable housing rents will generate higher and more secure revenue streams. While institutional capital in social rent and affordable housing remains overwhelmingly focused in housing association bond finance, their direct investment strategies are becoming clear. First, investors have, to date, been growing their stock through purchasing what are called S106 properties – designated affordable housing units of various tenures provided by developers as a proportion of a development as required by planning policies.

42DLUHC, 2023b

43[London's social housing depleted by demolition, study claims \(architectsjournal.co.uk\)](https://www.architectsjournal.co.uk/london-social-housing-depleted-by-demolition-study-claims)

44[Qualitative study of the impact of the UK 'bedroom tax' | Journal of Public Health | Oxford Academic \(oup.com\)](https://www.oxfordacademic.com/doi/10.1093/ajph/101.10.1811)

45see Bourgeron, Théo; Metz, Caroline; Wolf, Marcus (2021): They don't care - How financial investors extract profits from care homes, Berlin: Finanzwende/HeinrichBöll-Foundation

46Savills. (2022) UK & European Care Homes 2022: The Countercyclical Asset Class?

47Savills. (2023, May 2). Private Capital and Affordable Housing. https://www.savills.co.uk/research_articles/229130/346694-0

Second, rather than traditional social rent properties, institutional investors mainly target the more expensive, inflation-linked “sub-market” affordable tenures, and particularly shared ownership properties because they are sold at a bulk discount by developers and allow them to immediately recoup between 10% and 75% of the equity whilst receiving rental income on the non-owned share that annually increases above RPI.

Third, institutional investors are starting to partner with other PRPs and developers, especially those facing financial pressures, to forward fund new homes.

Finally, the two main institutional investors in social and affordable housing appear to have very different long-term approaches: while L&G plans to eventually buy its own sites to directly build and manage social housing as a low-yield, low-risk, long-term investment that matches its pension liabilities, Blackstone is targeting much higher returns of 8% for its investment fund to trigger bonus payments for fund managers, raising concerns that it will skimp on repair and maintenance to maximise profit.⁴⁸

Conclusions

Large-scale council house building is back on the agenda. The scale of our housing crisis and the absence of homes people can afford, combined with escalating debt and mortgage charges, is refocusing attention on council housing as a solution.

Despite the many obstacles that still exist, since the lifting of the borrowing cap in 2018, some councils have begun to build new homes. However, these are a fraction of what’s needed: a total of 7,310 between 2019 and 2022⁴⁹. Many are under pressure, and aspire to build far more than current circumstances allow. Some councils without any current council housing (due to stock transfer) are keen to re-establish local council housing.

Some of the new council homes, as in Goldsmith Street, Norwich, are of the highest design and environmental standard⁵⁰. Councils such as Wandsworth have adopted a radical approach to their housing strategy⁵¹. Others are considering options to buy up or take over existing under-used private developments. Elsewhere Councils are battling to enforce planning conditions for genuinely-affordable and council rent homes on new developments involving public land and assets.

There remain important questions about types of tenancies, rent levels, ownership and management of new council homes.

But the major challenge remains: what kind of investment? Investment via public funds can create a new generation of secure, affordable, first class, energy-efficient and accountably-managed homes. Council homes built in the 20th century have more than paid for themselves, as a self-financing public investment.

Many alternative routes, attempting to harness private property markets to public advantage, have been tried, and are summarised here.

This paper is an incomplete survey of what we know now. We are very keen to work alongside this MPs Inquiry, and to learn from the evidence of those living and working in, managing and caring about council housing.

For us, this is a vital issue and a potential turning point, in creating the homes people in Britain need. We look forward to hearing your views.

48Social Housing. (2018, May 16). Blackstone looks for 8% returns on Sage investment;

49[ARCH NFA DLUHC Submission.pdf](#)

50‘A masterpiece’: Norwich council houses win Stirling architecture prize | Architecture | The Guardian

51[Council’s new administration unveils raft of radical new housing policies - Wandsworth Borough Council](#)