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The re-purchase of ex-social housing by Social Landlords

To assist the Committee in its deliberations of the October Monitoring Round this paper provides the following - brief background information on the House Sales Scheme in Northern Ireland; the 10 year rule regarding the re-purchase of ex-NIHE and ex-Housing Association properties; trends in sales under the House Sales Scheme; the approach of re-purchasing ex-social housing stock in Great Britain (i.e. 'buy back' schemes); and, restrictions to the 'Right to Buy' in other jurisdictions.

Background – the House Sales Scheme in Northern Ireland¹

The House Sales Scheme gives eligible tenants of the Northern Ireland Housing Executive or Registered Housing Associations the right to buy their property (outright) from their landlord at a discount. The relevant enabling legislation is Article 3 of the Housing (NI Order 1983)². The House Sales Scheme has also been expanded to enable tenants to buy a portion of their home under equity sharing. To be eligible for the scheme tenants must have a minimum of five years tenancy with the Housing Executive, Registered Housing Association or another registered social landlord (including those in GB). Tenants without the five years qualifying tenancy may still be eligible if they succeeded or were assigned their tenancy from a spouse or partner.

¹ Further detailed information on the House Sales Scheme is available from 'Scheme for the Sale of Dwelling Houses by the Housing Executive (including equity sharing) (June 2009) or the Housing Executive's 'Housing Sales incorporating Equity Sharing: A Tenant's Guide'.

² See www.legislation.gov.uk/nisi/1983/1118/part/II/chapter/I

Certain types of tenants are not entitled to buy e.g. certain types of squatters; or a tenancy where the social landlord is actively considering or is taking legal action for possession of the dwelling. Tenants in rent arrears are not automatically excluded, however, any rent arrears must be settled if an application is to be successful. Certain types of properties are excluded from the scheme e.g. sheltered dwellings, most 1 or 2 bedroom bungalows.

The purchase price of the property is the market value (as assessed by a professional valuer) less any discount³.

Re-purchase of the property by a social landlord – 10 year rule

Paragraph 7.1 (3) of the House Sales Scheme policy provides guidance in relation to the resale of properties. The policy states that Housing Executive shall include in a contract, conveyance or lease, a clause whereby the purchaser must agree that if he or she wishes to **dispose of the dwelling within ten years** from the date of the purchase the Housing Executive and any registered housing association will be given the opportunity to re-purchase.

Where the Housing Executive or registered housing association is not prepared to buy, the property can be sold on the open market. If the property is sold, all or a portion of the discount may be recoverable.

Trends in Sales

The Northern Ireland Housing Executive's 'Housing Market: Review and Perspectives 2013-2016' publications provides the following statistics in relation to sales:

- Since 1979, the Housing Executive has sold more than 117,000 properties to sitting tenants. These properties now account for approximately 15% of the housing market as a whole.
- In 2002/03 almost 6,000 properties were sold to tenants but there followed a dramatic reduction in the number sold due to the reduction of the maximum discount available and the substantial increases in house prices between 2004 and 2007. In 2008/09 only 54 properties were sold. Since then the annual volume of sales has been fairly consist at around 250.

Re-purchasing former social housing stock – approaches in other jurisdictions

Similar to the House Sales Scheme in Northern Ireland, owners of ex-local authority properties in Great Britain must, **within 10 years of purchasing their property** (under the

³ Tenants are eligible for 20% of the market value after five completed years with a qualifying landlord, an increase of 2% additional discount of the market value is awarded for each additional year's tenancy up to 60%. However, the maximum discount an applicant can receive is £24,000.

“Right to Buy” scheme), give the council (or someone nominated by the council) first refusal to buy back the property before it can be sold on the open market.

Many local authorities in Great Britain now have “**buy-back**” schemes in place. Most local authorities have used the buy-back scheme to purchase a small number of properties on an individual case by case basis. However, there have been a number of local authorities who have put in place a policy to buy back a larger number of homes. For example, in order to address its housing shortage problem, Falkirk Council had approved plans to buy-back 100 ex-council properties, with an estimated cost of between £7m-£10m.

The buy-back schemes have been put in into operation for a number of reasons e.g. to assist a rising number of owner-occupiers in ex-council housing who can no longer afford their mortgages in the current economic climate; and to provide council with an opportunity to address shortages in social housing supply (particularly a shortage of larger family homes and one-bedroom properties). Some council buy-back properties at current market value, however, some buy-back at the original ‘Right to Buy’ price.

A council’s decision to buy back a property is based on a number of factors e.g. the availability of capital funds; housing need and demand (i.e. the type of property being offered and the area in which the property is located; additional costs for refurbishment work (to bring the home up to the Decent Homes Standard); and, the purchase represents good value for money.

‘Buy-Back’ Schemes in Great Britain

A variety of approaches have been taken by local authorities in their ‘buy-back’ schemes, e.g.:

- Some councils have bought-back the homes directly and subsumed them into existing housing stock or demolished them to make way for estate regeneration schemes.
- Some have nominated a third party to purchase the homes. For example, Newham Council (London) helped finance a housing association (‘Local Space’) which purchases both ex-council homes and properties from private landlords and then subsequently manages the properties⁴.
- *Mortgage to Rent* is a Scottish Government initiative to assist owner-occupiers in mortgage difficulties who are in danger of having their home repossessed. Under this arrangement a social landlord such as a housing association or local authority will buy the home (whether a private home or an ex-council home) and the former owner occupier will live there as a tenant. Tenants may have the right to buy back the property if they have been a tenant for five years. The new landlord receives funding from the Scottish Government to carry out necessary initial repairs to the property⁵.

⁴ The Guardian. ‘Return to the Block: council homes sold under the right to buy in London are being brought back into the social sector’. 26 July 2006.

⁵ Scottish Government. ‘Mortgage to Rent Scheme’. www.scotland.gov.uk/Resource/Doc/229807/0062239.pdf

Financing Buy-Back

The Coalition Government state that although relatively few councils in England have taken advantage of the buy-back provision, it is an important safeguard in a number of cases. The former Labour Government provided a number of financial incentives for local authorities to buy-back ex-council housing (in the form of a 'buy-back allowance'). Under this policy local authorities (if they wish) could buy back former council properties and claim around 50% of the costs from their total 'Right to Buy' receipts. The Coalition Government has decided to retain this 'buy-back' facility.

Restricting the 'Right to Buy'

The Scottish Government has taken a somewhat controversial decision to end the 'Right to Buy' under certain circumstances in order to retain social housing stock. Initially 'Right to Buy' was suspended for new tenants and in areas experiencing social housing shortage. However, in July 2013 the Scottish Deputy First Minister announced the final stage of the complete abolition of 'Right to Buy'. Those tenants still entitled to the 'Right to Buy' will have three years from the date of Royal Assent to the new Housing Bill to exercise their before it is abolished. It is reported that this move has been welcomed by Shelter and the Scottish Federation of Housing Associations.

In contrast, the Coalition Government are aiming to 'reinvigorate' the 'Right to Buy' by increasing the maximum discount that buyers can get off the market value of their home (£75,000 outside London, £100,000 in London).