

Is it redistributive response to social housing need in England? – Another impact of Large Scale Voluntary Transfer programme

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Abstract

Over the past two decades, more than half of local authorities (LAs) in England have sold some or all of their council housing to newly established housing associations (HAs) under the Large Scale Voluntary Transfer (LSVT) programme. As with all HAs, their mission is to be local housing providers, often with a specific requirement to upgrade their stock as well as to develop community-based affordable homes, both for rent and to buy. Equally, they are expected to operate in such a way as to reflect some stakeholders' interest – which may involve expanding from the single authority in which they initially operate. As a result, except that their initial portfolio was within one local authority, LSVT HAs are not a homogeneous group of social landlords. They have developed in different ways with their own business priorities and strategies, part of which involves investment outside their original localities. This paper examines the extent to which LSVT HAs have expanded beyond their boundaries and the extent to which this can be associated with attributes of the LSVT, timing of transfer etc. Empirical test results suggest that HAs taking over stock in physically and financially better condition were more likely to deliver housing service outside their initial areas. Further analyses have found that their new investments were frequently accompanied by relatively high rents, presumably in consideration of financial sustainability and the Government regulatory regime.

key words: social rented housing, not-for-profit organisation, stock transfer

Introduction

Since December 1988, almost half of local authorities (LAs) in England have sold all of their council housing to newly established housing associations (HAs) under the Large Scale Voluntary Transfer (LSVT) programme. Adding those partially selling, the majority of the English LAs have implemented the LSVT. As with traditional HAs, the mission of the new HAs (henceforth, LSVT HAs) is to be local housing providers, often with a specific requirement to upgrade their stock as well as to develop community-based affordable homes to rent and to buy. Currently, however, a large proportion of LSVT HAs are operating beyond their original 'home' LA areas and delivering housing products in 'away' areas (or out of the home areas) by post-transfer investment and/or through mergers and acquisitions. The fact raises interesting research subjects to be examined in the context of English social housing policy. Among others, the most fundamental questions are why LSVT HAs need away business and how they are operating in new environments.

To answer these issues, it is required to examine various elements related to LSVT HAs which have housing stock in away areas. Of those, focusing on three key subjects, this paper attempts to explain LSVT HAs' post-transfer business evolution. The first topic is the extent to which geographical business expansion is associated with their initial and early conditions – that is, the financial, physical and organisational attributes of the LSVT. Then, this paper looks at profiles of 'away' areas, or new locations of LSVT HAs' post-transfer investment, in order to figure out whether or not having away stock represents LSVT HAs' new dimension of business pursuit and/or their responses to the interests of various stakeholders, including the Government. For the same purpose, thirdly, the paper examines LSVT HAs' away performances in terms of scale, tenure type and rent levels of housing stock – the examination takes a comparative approach, drawing on their home performances as well as traditional (i.e., non-LSVT) HAs' business outputs.

The remaining part of this paper is structured as follows. Section 2 explains the introduction and evolution of LSVT with relevant literature. Section 3 carries out an empirical test on impacts of initial and early attributes of LSVT HAs on their investments in away areas. Section 4 looks at socio-economic characteristics of away stock's destinations. Section 5 presents the pattern of away stock by tenure type and rent levels. The final section provides conclusions.

2 Introduction and evolution of LSVT

The concept and scope of LSVT, which were introduced in the 1985 Housing Act, are well summarised by some pieces of literature (for example, Malpass & Mullins, 2002; Mullen, 2001; Mullins *et al.*, 1995; WAG, 2003; Pawson, 2004; Daly *et al.*, 2005). In short, it is a legitimate mechanism of externalising council housing and relevant services by selling council housing stock to registered social landlords, or registered housing associations (HAs). The first LSVT was carried out in December 1988. In the early days (till the early 1990s), the programme had been undertaken by the limited number of LAs which intended budgetary and organisational streamlining of their housing department and expected extra revenue from housing stock sales – on average only four transfer packages were completed per year between 1988 and 1994.

Eventually, however, the Government gave momentum by providing political goals as well as financial assistance to transfer low or negative valued council housing. The housing Act 1996 introduced the Estate Renewal Challenge Fund programme, which ran from September 1996 to March 2000, in order to finance the transfer of low quality council housing stock which had a negative value to recipient HAs. The Housing Green Paper (DETR, 2000a) set out a quantitative target of LSVTs – up to 200,000 dwellings each year to be transferred from LAs to HAs. The same paper also presented a quality target of social housing stock overall (not only council housing but also HA housing), termed as the Decent Homes Standard (DHS), which appeared as a political drive for LSVT, since LAs with a lack of financial resources to meet the DHS recognised selling off housing stock to HAs as a practical measure of housing improvement without budgetary sacrifice. Furthermore, the Communities Plan 2003 (ODPM, 2003) accelerated the movement by requesting all LAs having council housing at that time to undertake an option appraisal to attain the DHS by July 2005. In that all the other DHS options allow LAs to retain housing ownership, LSVT seemed to be the most drastic measure. Nevertheless, it became the most popular approach. Including those having carried out the scheme before the introduction of the DHS, almost half of the English LAs opted for full LSVT, i.e., transfer of all council housing stock (Table 1). In all regions but London, the proportions of LAs choosing the measure amounted to over 40 per cent. Consequently between 1988 and 2008, more than 1 million council housing units were transferred to LSVT HAs, with the result that this new type of social landlords currently own almost half of dwellings in the HA sector (HC, 2008).

Table 1 No. of LAs having taken and taking full LSVT: 1st of May 2008 (% in parentheses)

	full LSVT		other approaches to DHS	total
England	176	(49.7)	178	354
London	4	(12.1)	29	33
South East	35	(52.2)	32	67
South West	28	(62.2)	17	45
East of England	25	(52.1)	23	48
East Midlands	16	(40.0)	24	40
West Midlands	19	(55.9)	15	34

Yorkshire & The Humber	9	(42.9)	12	21
North East	12	(52.2)	11	23
North West	28	(65.1)	15	43

Note: LAs undertaking full LSVT before the introduction of the DHS were included.

Source: Created by the author based on the UK parliament release. Available at <http://www.parliament.uk/deposits/depositedpapers/2008/DEP2008-1437.doc>.

The majority of housing stock owned by LSVT HAs is former council stock and thus is located in their home LA areas. Similarly, as housing stock was transferred with sitting tenants, a large proportion of consumers of LSVT HAs' housing service reside in the home areas. Therefore evaluation of LSVT HAs has been undertaken mainly in the context of their being custodians of former council housing stock or of replacing the LA housing department. Extensive research carried out both in academic and political spheres has concentrated on the new landlords' achievement of transfer contract and accountability to local tenants and to transferor LAs who keep their stake to a reduced (as the Government agency is the supervisory and regulatory authority for the HA sector) yet influential extent. Studies on LSVT HAs' performances beyond transfer promises, such as involvement in community regeneration and empowerment, and job creation related to housing services, have also focused on those in home areas (for example, Card & Mudd, 2006; and Daly *et al.*, 2005).

In spite of its steady development, geographical diversification of LSVT HAs, that is, delivery of housing products outside of their home areas, has not been studied extensively. Although over the past nine years (a period which did not experience a major LA boundary change), away stock increased by over 80 per cent (or annually by 7.6 per cent on average) and the number of LSVT HAs beyond their original boundaries more than doubled (Table 2), the motive of having away stock, and stimulants to attract LSVT HAs out of their home areas and the structure of away business (for example, delivering traditional social rented housing services or innovative housing products) remain under-researched. A few pieces of literature have reviewed LSVT HAs' expansion of business locations, and they have commonly found timing of transfer as a reason – on balance, LSVT HAs established earlier were more likely to have away stock. Although a few scholars (for example, Pawson & Fancy, 2003) have associated the fact that financially favourable conditions were often observed in early LSVT HAs with the likelihood of their later business diversification, there is limited empirical evidence. If their argument holds, then the explanation that LSVT HAs' away investment is owing simply to a matter of time contains a problem which is similar to spurious regression. To clarify this point, it is required to examine to what extent initial attributes of LSVT HAs – financial, physical and institutional conditions at transfer – affected their geographical business expansion.

Table 2 LSVT HAs with away stock

	HAs	stock in away areas
1999/00	40	53,431
2000/01	43	58,327
2001/02	45	61,141
2002/03	49	62,789

2003/04	52	66,726
2004/05	60	78,905
2005/06	64	82,900
2006/07	75	89,052
2007/08	83	96,317
<i>change: 99/00 - 07/08</i>	43	42,886
<i>annual average growth rate</i>	9.6%	7.6%

Note: LSVT HAs established under full transfer schemes only. Stock consists of dwelling for social renting, shared-ownership and non-social renting except in 1999/00 – the year did not have non-social renting homes.
Source: Author's calculation based on TSA RSR 1999/00 to 2007/08.

3 Impact of initial and early attributes of LSVT HAs on their geographical expansion

There are a number of possible factors motivating LSVT HAs to have away stock – for example, diversification of risks associated with operating in a single local economy, delivering a homogeneous type of housing product, or pressures from local stakeholders. On the assumption that in part such factors have arisen from conditions at transfer, this section examines the impacts of the initial and early attributes of LSVT HAs on their geographical expansion. The empirical test explores to what extent financial, physical and institutional conditions at, and shortly after, transfer have stimulated LSVT HAs to have away stock.

Model and research hypothesis

A hypothesis to be tested is that the LSVT HAs in financially and physically better conditions, and with less influence of stakeholders in home areas at the initial and early stage, tended to have stock outside of their home LA areas. This is drawn from the speculations (a) that LSVT HAs which were established with financial health would have capacity to allocate their resources outside of their home areas; (b) that LSVT HAs which took over physically bad-conditioned stock would experience costly repair requirements, thus reducing resources needed for away investment; and (c) that strong local stakeholders' presence in setting up LSVT HAs would bind their business within home areas.

The dependent variable in the test is a binary outcome – an LSVT HA has stock in any away area(s) or not. Therefore the model takes a logistic regression, as in the following form:

$$F \{ \gamma (X_i) \} = \ln \left\{ \frac{\gamma (X_i)}{[1 - \gamma (X_i)]} \right\} = \alpha + \beta X_i + \varepsilon$$

where:

- γ represents the probability that LSVT HA i has stock outside of its home LA area;
- X is a matrix of an LSVT HA's attributes at initial and early stage;
- β is a coefficient matrix corresponding to X ;
- α represents an intercept for each probability; and
- ε is an error term.

Variables and data in use

LSVT HAs to be examined in the test (and in empirical evidence in the remaining part of this paper) are HAs which took over LA housing stock through whole LSVT scheme, and completed at least one whole financial year at the end of March 2008. The list of LSVT HAs is derived from the Communities and Local Government (CLG). The geographical information of stock is from the Tenant Service Agency (the former Housing Corporation), *Regulatory and Statistical Return* (RSR) 2007/08. The number of LSVT

HAs in this observation amounted to 138, of which 83 had stock in away areas (see the previous table).

Independent variables are aggregated roughly into four groups – those related to financial, physical, tenant-related and geographical attributes, which were drawn from various data sources (for details of sources and definitions, see Annex).

The first group include variables representing financial and physical conditions – **gross transfer price**, **set-up cost** and **loan facility**, all of which are converted to real terms (deflated by a consumer price index) and drawn from the Homes and Communities Agencies (HCA). The gross transfer price means the capital receipt from an LSVT HAs to an LA, and this is not necessarily the same as the Tenanted Market Price (HCA, 2009) but to the author’s knowledge, this represents a value of transferred stock value most comprehensively among the reliable data sources. The valuation methodology reflects rental income and expenditure stream, normally for 30 years, with discount rates of currently six to eight per cent (for details, see ODPM (2005b)). The test model also employs **quantity of transferred stock**. No significant collinearity has been observed between transfer price and stock. In fact the statistical problem was not seen between any explanatory variables employed in this model. Apart from the three financial variables which could be negative, the variables are in log form. As variables representing initial borrowing costs, **loan rate index**, which is the Sterling Interbank-offered rate in London (over three months) is included in the test. Also the **three-year lagged index** is added to capture the cost-cutting or increasing impact of re-financing at an early stage after transfer. The first re-financing timing after transfer was drawn from the report by ODPM (2002). Similarly, expected **asset value change** (in real terms), with the same time lag, is installed to consider a change in borrowing capacity by using transferred assets as security on loans. The change is calculated from first-time buyers’ quarterly house price indices for each region released by Halifax. For very recently established LSVT HAs, which are unable to have the lagged house price indices, the figures are estimated up to the first quarter of 2009 by the ARIMA method. (The test result for this estimation is available from the author upon request.) As property transactions driven by short- or mid-term speculation are highly regulated in the HA sector, this variable is likely to capture a borrowing capacity change rather than to present expected capital gain or loss by property disposals.

The second group consists of variables related to tenant involvement at transfer. They are **rate of tenant ballot in favour**, **rate of tenant ballot turnout** and **proportion of tenants on a board**. Legitimately, LSVT can be undertaken, only if the majority of sitting tenants support it in a ballot. A high rate in the first variable implies tenants’ strong and positive expectation of the new landlord’s operations in their communities, while the second variable infers a degree of tenants’ concern regarding both the transferees and the transfer process. The third variable captures tenants’ influence on LSVT HAs’ business planning. At the time of writing, the proportion at transfer is not available for all LSVT HAs. Therefore, the figures from RSR 2007/08 are employed. The substitute is based on the assumption that the initial proportion of tenants sustains even in changing a board size (usually downsizing) because any reduction in the tenants’ proportion would be severely opposed by pressure groups and trade unions. Also, since

the Housing Act 1996 came into effect, tenants, councillors and independent people are expected to be equally represented on a board of LSVT HAs.

As the third category, **maturity of LSVT** (years since transfer in log form) is installed into the regression to control a temporal factor. Although some pieces of literature explain the early LSVTs were financially and physically good, this variable did not have collinearity problems with others in the first category. The final group is geographical dummies related to LSVT HAs' home areas. An **urban** means that the transferor LA is categorised as urban by the definition of DEFRA (2000) – in other words, LSVT HA's initial stock was located in an urban area. Also eight **regional dummies** are added – the excluded one is the South West region.

Result

The test result is presented in Table 3. All variables related to financial and physical conditions had coefficients with statistical significance. The signs of the coefficients indicate that LSVT HAs which had financially and physically good conditions, and which were less pressurised by original and new stakeholders, tended to have away stock.

Firstly, LSVT HAs with less set-up cost and larger transfer capital appeared more likely to have away stock. This result explains that LSVT HAs starting with a healthy balance sheet could have more room to accommodate the costs of business expansion. Secondly, LSVT HAs with less borrowing costs both, for setting-up and re-financing, also tended to have away stock. Relatively small payable interest, which could be reduced in the short-term, supported LSVT HAs' geographical diversification. Thirdly, LSVT HAs taking over a large quantity of council housing stock were more likely to have away stock. The result seems to be contradictory, in that because more dwellings have to be contractually managed and renovated in home areas, this might tend to tie LSVT HAs locally. One possible counter-argument is that more transferred dwellings could mitigate the financially negative impact of a decrease in rented dwellings – notably the decrease caused by the Right to Buy, which was introduced in the 1980 Housing Act. This is the right of eligible social renters to purchase their rental home, and the right is reserved after transfer. If the initial stock quantity was large enough to absorb the financial risk resulting from rental income loss from the RTB, then it might provide LSVT HAs with greater viability for away investment.

Fourth, negative coefficients of loan facilities and asset growth seem to be an unexpected outcome, in that generally a company with larger borrowing capacity tends to expand. In the case of LSVT HAs, however, initially limited borrowing capacity appeared to support away business. This might explain LSVT HAs' cautious attitude towards the influence of private financiers, stakeholders who are new and not taken over from the previous landlords. With a capped loan amount, LSVT HAs could restrain, to some degree, being controlled by loan covenants related to operations in home areas, which gave them more room to diversify their business. In addition, relatively moderate penetration of private finance into their balance sheets at an earlier stage might secure later the confidence of private lenders who would offer LSVT HAs favourable loan deals, enabling them to

expand their business horizon. Fifth, all three variables related to tenant involvement showed significantly negative coefficients, which indicates that the more tenants involved in transfer, the less LSVT HAs were likely to expand beyond original boundaries. This is an unsurprising outcome, as this group of stakeholders are mostly concerned geographically with the narrowest issues – for example, catch-up repairs and modernisation of their rented dwellings. In their case studies, Pawson & Fancy (2003) and Card & Mudd (2006) have also observed that a strong tenants’ presence on the board is likely to drive LSVT HAs towards local issues.

The variable of maturity has a positive coefficient, which implies that LSVT HAs established earlier might have away stock. The outcome seems to support a widely held view that LSVT HAs’ away expansion could be a matter of time. However, the coefficient failed to show statistical significance, which does not mean a full endorsement of the simple causality.

Table 3 Test result (dependent variable: HA having away stock =1)

	variable	coefficient	Wald	ρ	
financial & physical	set up cost	-0.076 **	0.106	0.745	
	loan facilities	-0.010 **	0.643	0.423	
	interest rate	-0.680 **	2.277	0.131	
	interest rate (3-yr lagged)	-0.062 **	0.036	0.851	
	gross transfer price	0.013 **	0.491	0.483	
	asset value change (3-yr lagged)	-0.034 **	4.054	0.044	
	stock size	0.288 **	0.082	0.775	
others	ballot in favour	-1.252 **	0.276	0.599	
	ballot turnout	-8.945 **	2.495	0.114	
	tenant board member	-0.053 **	2.999	0.083	
	maturity	6.195	16.064	0.000	
	urban dummy	0.057 **	0.006	0.938	
	regional dummies:	London	17.258 **	0.000	0.999
		South East	-1.326 **	1.897	0.168
		East of England	1.317 **	1.034	0.309
		East Midlands	1.521 **	1.298	0.255
		West Midlands	-1.233 **	1.402	0.236
Yorks & Humber		-0.523 **	0.115	0.734	
North East		-1.449 **	0.713	0.398	
	North West	-2.251	4.247	0.039	
	Constant	38.041 **	1.736	0.188	

N=138, -2 Log likelihood=87.612, Cox & Snell R Square=0.503, Nagelkerke R Square=0.687, Hosmer & Lemeshow Test: $\chi^2 = 5.360$, $\rho = 0.715$. Estimated dependent variable’s correction percentage = 87.0. ** indicates 5-% significant level.

4 Socio-economic profile of away area

This section provides an empirical test on socio-economic characteristics of LSVT HAs' away areas, or locations of their business diversification. The area profile drawn from the test result will set out what socio-economic elements of LA areas attract housing investment by LSVT HAs out of their original localities and such elements are expected to be reflections of LSVT HAs' post-transfer business strategy and/or stakeholders' interests. Therefore, the hypothesis to be tested is not straightforward. Away areas could be markets with strong social housing demand, for example due to affordability constraints, resulting in new stock allocation of LSVT HAs steered by a political drive. On the other hand, they could have more commercially attractive elements for property developers, if LSVT HAs and their stakeholders prioritise financial viability of post-transfer business.

The dependent variable is a binary – an LA area has away stock of LSVT HAs or not, and thus, the model has the same logistic regression form in the previous section, but the notation changes as below:

- γ represents probability that LA i has away stock of any LSVT HAs;
- X is a matrix of an LA's social-economic characteristics;
- β is a coefficient matrix corresponding to X ;
- α represents an intercept for each probability; and
- ε is an error term.

Independent variables

Independent variables represent the latest socio-economic characteristics and their annual average changes of each LA. All price variables are converted to real terms. The annual changes calculated over the last five years up to 2008, but due to data consistency fewer years are applied to some variables. For details of this point as well as measurement units, definitions and sources of the datasets, see Annex.

Roughly speaking, the explanatory variables are categorized into three groups – although this does not deny relevance of a variable in one category to the others. The first category is related to availability of tenures other than social renting. This group has **private rent level**, which is an average of contractual rents proposed by a private landlord and referred by an LA to Government for assessment of Housing Benefit application. Thus, the variable means the average rent in a private but assisted market, which is presumably the most appropriate comparator to a social rented sector. Also **lower quartile house price** is installed. The property value at the lower-end market represents likelihood of tenure change from renters to owner-occupier. The second category has relevance to demand housing with an assisted rent. The variables in this group are: the number of **unemployed people**; and **lower quartile gross pay** of full-time workers. The third category represents economic strength. It contains **economically active population** and **median gross pay** of full-time workers. Geographical dummies as specified in the previous test are also installed.

Result

The test result summarised in Table 4 set out a mixed profile of away areas, and thus the ambiguity of LSVT HAs' business strategy outside home areas. It is not clear that areas with away stock are those with significant demand for housing welfare or those attracting property developers' interests.

Whereas the hypothesis that away stock was allocated to most-needed areas was supported by a significantly negative coefficient of lower quartile pay, the latest unemployment level did not necessarily support the argument – the coefficient was negative and insignificant. Moreover, significantly positive coefficients of the two social indicators' growth rates contradictorily implicate changing demand for social housing in away areas, which appeared as places with an improving environment for the poorest people, but underdeveloped conditions for unemployed people. Also, it is difficult to conclude that the hardship of alternative tenure availability attracted away stock. The coefficients of owner-occupation and private renting showed opposite signs with significance – both for the latest levels and growth rates. Instant interpretation of this inconsistency would be that LSVT HAs have expanded to areas where buying a home is relatively difficult, but remaining a renter in a private market is not. In part, areas of inflating property values might have attracted ambitious LSVT HAs, but the Government regulator has cautioned social landlords not to rely on speculative property transactions (HC, 2008). Economic growth presented a coherently positive reason for attracting away stock. The growth rates both of an economically active population and of median pay had significantly positive coefficients. However, as the latest median pay had a negative sign, away areas might not be locations of wealthy population.

In short, the area profile drawn from the test result is not plausible evidence to explain particular elements of and influences on LSVT HAs' business strategy. The outcome hints that having away stock is not fully explained by social landlords' core and welfare purposes or non-core and commercially ambitious orientation. It does not clearly show that redistribution of social housing stock is optimally shaped by a policy drive or by market discipline. In this respect, the ambiguity might represent a mixed output of these factors, or a complexity of quasi-market discipline. For LSVT HAs (unlike their previous landlords), it is a complicated task to respond to the interests of various stakeholders, including the Government regulator, private financiers, transferor LAs and the original tenants. Even if the Government intends to induce LSVT HAs to have away stock in most-needed areas for welfare purpose, other stakeholders, for example, private financiers, would recommend business in profitable areas. Local stakeholders could also suggest such areas with expectation of income flow from away areas to their community, once they approve their landlords' geographical expansion – their earnestness of doing so, however, remains open to question. Finally, it should be noted that a liner regression with the quantity of away housing stock in each LA as a dependent variable also produced an unclear outcome (the test result is available from the author upon request).

Table 4 Test result (dependent variable: an LA area with LSVT HAS' away stock =1)

		coefficient		Wald	ρ
House price:	latest	0.766	**	0.112	0.738
	annual change	0.018	**	0.039	0.844
Private rent:	latest	-1.583	**	0.329	0.566
	annual change	-0.097	**	0.672	0.412
Lower quartile pay:	latest	-4.645	**	0.406	0.524
	annual change;	0.009	**	0.001	0.976
Unemployed:	latest	-2.049		7.717	0.005
	annual change;	0.057	**	0.556	0.456
Econ. active pop:	latest	2.514		5.540	0.019
	annual change	0.135	**	1.006	0.316
Median pay:	latest	-4.403	**	0.585	0.444
	annual change	0.063	**	0.067	0.796
Urban dummy		0.135	**	0.054	0.816
Regional dummies:	London	-14.626	**	0.000	0.998
	South East	-15.811	**	0.000	0.998
	East of England	1.986	**	0.000	1.000
	East Midlands	-18.751	**	0.000	0.997
	West Midlands	-19.337	**	0.000	0.997
	Yorks & Humber	0.663	**	0.000	1.000
	North East	-17.495	**	0.000	0.997
	North West	-19.369	**	0.000	0.997
Constant		59.402	**	0.000	0.991

N=350. (Due to missing values, of 354 LAs, 350 are included in the test.)

-2 Log likelihood=164.446, Cox & Snell R Square=0.205, Nagelkerke R Square=0.407, Hosmer & Lemeshow Test: χ^2 = 3.790, ρ = 0.804. Estimated dependent variable's correction percentage = 88.9. ** indicates 5-% significant level.

5 Profile of away stock – composition and rent level

This section looks at a profile of away stock by rent level and tenure type in an attempt to figure out what kind of business strategy LSVT HAs are taking in away areas, and how the stakeholders' influence shapes away business structure.

Firstly, rent levels of away stock (social rented housing only) are examined. On average, LSVT HAs are charging higher rents in away areas than in home areas. Table 5 sets out that the average rents of LSVT HAs' away stock was ten per cent higher than that of home stock in England overall. Between regions, the surpluses of away rents ranged from six per cent in the South East to a quarter in the West Midlands. The figures are based on all self-contained properties, which means that they could be biased by distribution of stock volume between property sizes, which vary rent levels. To control this impact, the average rents of two-bedroom properties only (the category with the largest stock volume) were calculated but the results, which are available from the author upon request, appeared fairly similar.

There are some possible factors to explain the relatively high rents of away stock. Among others, Government regulation cannot be overlooked. The rent restructuring regime, which was introduced by the Government in April 2002, has required social rents to be adjusted to target levels which are officially formulated (DETR, 2000a). In general, rent progresses towards the targets are advanced within HA housing stock, while being behind within council housing, mainly because of overly benevolent rents charged by LAs without full cost-consciousness. As the great majority of LSVT HAs' stock in home areas inherited modest rents from the previous landlords, and these were unable to be raised swiftly owing to transfer promises and the regulations (Udagawa, 2008), rent averages in home areas remained below those in away areas. Without the former downward pressure, rents of away stock are generally set around the target level. Their compliance with the regulatory framework can be inferred from the fact that they are close to the level of rents of traditional HAs (see the second column of the table). These observations imply that LSVT HAs reflect Government housing policy to a greater extent in an away area. Also, in that rental income is their major revenue source (HC, 2008), higher rents are presumably making LSVT HAs' away business more financially viable – this might be an outcome contractually stipulated by private financiers who are involved in their away investment.

Table 5 Rents charged by LSVT HAs having away stock (£s per week and non-LSVT=1.00): all sizes, March 2008

	away		home		away/home
	£	non = 1.00	£	non = 1.00	
England	77.67	0.96	70.74	0.86	1.10
London	97.23	1.04	89.98	0.96	1.08
South East	87.14	1.01	82.22	0.92	1.06
South West	78.38	1.02	71.54	0.91	1.10
East of England	79.81	0.98	71.27	0.87	1.12
East Midlands	74.75	1.03	63.03	0.84	1.19

West Midlands	78.77	1.04	63.04	0.84	1.25
Yorks & Humber	69.77	0.98	59.69	0.83	1.17
North East	68.89	0.98	60.32	0.80	1.14
North West	70.41	1.02	65.95	0.87	1.07

N=80,481. Social rented stock of assured and secure tenancy excluding 'care homes providing personal care', which cover 98% of social rented stock presented in Table 6. Rents contain service charges. Source: Author's calculation based on CLG and TSA RSR 2008.

The following table shows that LSVT HAs are taking more mixed-tenure approach in away areas than in home areas. The proportions of non-social rented and shared-owned housing were obviously higher than those of home stock or traditional HAs' figures. Dwellings with shared ownership, which are innovative social housing products under the Government's Low Cost Home Ownership scheme, accounted for more than ten per cent in away areas, but the equivalent share in home areas was less than one per cent. Commercially rented dwellings shared almost four per cent in away areas, while the percentage was negligible in home areas. By contrast, away stock had a relatively modest proportion of high-welfare housing products – social rented housing for special needs, which included housing for older people. Dwellings in this category shared less than fourteen per cent, which is below the levels in home areas and of traditional HAs.

In part, the observations suggest that LSVT HAs are increasingly conscious of the cost and benefit of away business. The latest report of the Housing Corporation set out that shared ownership products generate significant surpluses, while special needs housing requires costly management – the average costs of specialist HAs (that is, HAs whose stock consists mainly of special needs housing) are approximately twice that of other HAs (HC, 2008). The stock pattern indicates that LSVT HAs are pursuing strategies to make them profitable enough to be sustainable in away areas, and again, this may be satisfying various stakeholders, particularly, private financiers.

Table 6 stock composition in away areas (%): March 2008

		non-social rented	shared ownership	social rented general needs	special needs
LSVT HAs	away stock	3.8	10.8	71.6	13.8
	home stock	0.2	0.8	83.7	15.3
non-LSVT HAs		2.6	7.7	68.7	20.9

N=96,317 (away), 771,253 (home) and 1,357,984 (non). Source: As Table 5.

Conclusion

Evaluation of LSVT HAs needs a careful look at their performances from various perspectives. Of those, focusing on initial conditions, area profiles and stock components, this paper has examined why LSVT HAs, or social landlords who were initially bound exclusively to local commitments, have expanded their business horizons beyond their original LA areas. It also has studied how they are performing in new areas.

The examinations have revealed that LSVT HAs on financially better conditions at transfer were more likely to have housing stock in away areas. Moderate involvement of tenants and private lenders at the beginning of the process also appeared to support the landlords' geographical expansion. Area profiles did not clearly identify stimulants of away business, but rent levels and tenure pattern of away stock have suggested that the post-transfer business strategy of LSVT HAs is inclined more to non-core or innovative housing products, while keeping social rented housing as mainstream and charging rents which meet the regulatory purpose. In other words, LSVT HAs which were in an advantageous condition at transfer are now transforming their business from reliance on traditional rental income in a single area, to diversified operations in terms both of locations and housing products. At the same time, the transformation remains politically acceptable and presumably profitable enough for the HAs to make themselves financially viable. With this respect, LSVT HAs in away areas are more likely to pursue their own interests and to reflect the interests of stakeholders with a wide or borderless geographical scope than those in home areas.

Considering this changing pattern, one possible scenario of LSVT HAs' future is that they will be more responsive to empowered and relatively new stakeholders – one of which will probably be the private financier. It is too early, however, to conclude that LSVT HAs will become more commercially driven through penetration of private funds, firstly in that the Government regulation guides social landlords to avoid substantial future debt funding and operations solely to meet long-term loan covenants (HC, 2008). In addition, although stakes of transferor LAs and tenants in home areas might decrease in relative terms, they will remain influential, taking into account the home stock dominance in LSVT HAs' portfolios. In short, the LSVT HAs' business strategy will be developed by balancing the political, institutional and organisational interests of various stakeholders. This means that the future path of LSVT HAs will not describe a simple linear function. Nonetheless, all stakeholders can be unanimous in that they are expecting LSVT HAs to be financially sustainable enough to adapt themselves to changing social demand for various housing products, both at assisted and non-assisted markets, and, more fundamentally, to changing socio-economic and political environments in England. This agreement is not a surprising outcome, because they have already witnessed previous landlords' failures – a lack of financial resources, resulting in unsatisfied housing quality and quantity – a problem which might not be addressed without the LSVT programme.

Annex Definitions and sources data in use

	variable	measurement unit	source	note
Test 1	LSVT HA with away stock		CLG, RSR 2008 Part O.	
	Gross transfer price	£m	HCA	real price deflated by CPI (2005 price)
	Set up cost	£m	ditto	ditto
	Loan facility	£m	ditto	ditto
	transferred stock*	no. of dwellings	ditto	-0.53 correlation coefficient between stock and transfer price
	loan rate	%	UK national statistics	Sterling Interbank offered rate in London (3 months)
	3-year lagged loan rate	%	ditto	ditto
	expected real asset value change in three years	%	Halifax, UK national statistics and author's estimation	Based on quarterly first-time buyers' house price indices by region (from Halifax) deflated by CPI. For the latest two years' transfer, the author forecasts regional house price indices with ARIMA approach (the regression result will be available upon request).
	rate of tenant ballot in favour*	%	HCA	
	rate of tenant ballot turnout*	%	ditto	
	proportion of tenants in a board*	%	RSR 2008 Part P	Calculated by the author. As at the end of March 2008.
	maturity*	a year unit	Author's calculation based on HCA	One unit is 365 days since transfer.
	urban dummy		DEFRA	Urban/rural classification by DEFRA
Test 2	LA with away stock of LSVT HAS		CLG, RSR 2008 Part O.	
	Lower quartile house price*	£	CLG	real price for 2007
	----- annual average growth	%	ditto	2002 - 2007
	Private rent*	£ per week	Rent Service	average referred rent with service charges eligible to Housing Benefit for 2007/08, real price
	----- annual average growth	%	ditto	2002/03 - 2007/08
	Unemployment*	persons	NOMIS	People claiming job seeking allowances, 12-month average end in March 2008
	----- annual average growth	%	ditto	April 2002 to March 2008
	Lower quartile pay*	£ per week	ditto	full-time worker's gross pay for 2008; real
	----- annual average growth	%	ditto	2003 - 2008
	Economically active population	persons	ditto	Monthly average of Jan to Dec 2007
	----- annual average growth	%	ditto	Jan 2004 to Dec 2007
	Median pay*	£ per week	ditto	full-time worker's gross pay for 2008; real
	----- annual average growth	%	ditto	2003 - 2008

Note: LSVT HAS with ERCF were not included. As they are partial Transfer: (Negative stock valuations and outstanding stock-related debt were overcome by the availability of Estate Renewal Challenge Fund (ERCF) grants and a new system of Treasury payments respectively (Malpass & Mullins, 2002; NAO, 2003). This made possible 32, mainly partial transfers in 18 local authorities, the majority of which were in urban areas with high levels of social and economic deprivation (ODPM, 2004).

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