

Council House property millionaires

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As rented housing stocks fall, hundreds of ex-council tenants are now property millionaires!

With the private rented housing market contracting at an alarming rate and the stock of social housing not being replenished fast enough to meet current needs, the housing crisis shows no signs of improving in the foreseeable future.

The decision back in 1980 to introduce the right to buy scheme, which allowed tenants to buy their council houses, has paid a large part in depleting the stock of social housing. However, one of the unintended effects of the scheme was to create property millionaires out of some of those previous council house tenants.

At KIS Finance (<https://www.kisbridgingloans.co.uk/>) we have looked into the story behind the gradual selling off of social housing stock and how for some, the decision to buy has turned them into property millionaires.

Where are these millionaire ex-council tenants?

The huge hike in property prices over the last few decades, particularly in London, has meant that many of those who purchased their council houses have benefited from a massive increase in the value of their property.

According to Savills, the average amount paid for a property in London in 1996 was £79,000. In 2018 the average had increased over 6 times to £478,853 and by 2022 this had risen to £544,113! The most expensive areas in London are Westminster, Kensington and Chelsea. The cheapest property on the market at the moment in Westminster is £350,000 - and that will only get you a studio apartment! According to Zoopla, the average price for a property in Kensington and Chelsea is around £2,409,002.

Council tenants who purchased their flats in a 9-storey block in Clarendon Place, Westminster, have done particularly well. Some three-bed flats, that were once owned by the local authority, have sold within recent years for £2.25 million and £1.8 million. Another of the flat owners in the same block managed to make a profit of over £1.6 million, when they sold it just 6 years after purchase.

Other Londoners have done well too. Over in Hackney, ex-council houses in Shepherdess Walk have been sold for between £1m and £2m. One property was purchased for £171,000 by the tenant in 2000 and later sold for £1m in 2014, whilst another was purchased through the Right to Buy scheme for £220,000 in 1997 and later sold in 2013 for £1.94m.

A flat in Branch Hill was purchased after discount for £130k in 1995, and another for £240k in 1996. A flat in this same block later sold for £1m.

Homeowners cash in on their purchase

40% of council houses sold under the scheme in London are now rented out privately, which goes completely against the original intention of home ownership by allowing people to turn the scheme into a money-making business opportunity.

This has also made the rental market far more expensive for potential tenants, as the average rent charged by private landlords across England is £1,162 per month, compared to just £410 for a council property. This rockets to an average price of £2,343 in London, which is over 4 times the average amount charged by the Local Authority (£505).

Due to significant increases in property prices in some areas, in particular many parts of London, the rewards for some of those who purchased their homes have been huge. Consequently, there are now hundreds of ex-council tenants who, due to taking the step and buying their council property, have since become property millionaires!

Where did the erosion of social rented housing start?

The continuous erosion of the UK's stock of social rented housing has been a concern for many years, ever since Margaret Thatcher introduced the original Right to Buy scheme in 1980. Back in 1979, 42% of people living in the UK lived in council homes. Since 1980 council and social housing tenants have been able to purchase their homes through the 'Right to Buy' scheme at a discounted price.

The scheme was introduced as an opportunity for tenants to improve their financial situation, and since it started, around 2 million council homes in the UK have been sold to council tenants.

In 1997 there were 3.5 million council houses, but by 2022 this had reduced to 1.6 million

A crisis in the social housing market

The Chartered Institute of Housing has expressed concerns that the ongoing loss of council properties is continuing to impact on the affordable housing crisis, as social housing is not being replaced fast enough. The decision in June 2022 to extend the Right to Buy to housing association properties has further impacted the stock of affordable housing, with up to 2.5 million tenants potentially benefiting from the scheme.

The new Right to Shared Ownership scheme, which came into effect in December 2022, will see a further erosion of the stock of affordable housing. Under the initial scheme tenants in properties built under the government's Affordable Homes Programme 2021-26, can buy a share in their property worth between 10% and 75%. The plan is to extend this to more tenants in the coming years.

With little chance that the same number of homes will be built to replace the lost stock, we are likely to see a further reduction in the stock of social housing.

Exodus of private landlords hit the rental market

At the same time, the private rental market is shrinking. Last year saw 35,000 more properties sold off than bought by landlords, averaging 66 properties lost to the rental market every day. The market is seeing an exodus of private landlords as mortgage rates soar and increased legislation is making the buy to let market a less attractive proposition for many.

Has 'Right to Buy' had its day?

Over the years, the discounts available and term of residency needed to qualify for the scheme have varied. Currently, the maximum discount available is up to 70% of the property value, or a maximum of £87,200 (£116,200 in London). The scheme is now only available in England after being abolished in Scotland in July 2016, and January 2019 for Wales.

The number of right to buy purchases peaked in 1988 – 1989 at 135,701. This figure has dropped substantially to 10,878 sales in 2021/22. However, with the extension last year for the right to buy housing association properties and the recent introduction of the Right to Shared Ownership scheme, the concerning trend of an ever-reducing social housing pool of properties looks likely to continue.

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full report at:

<https://www.kisbridgingloans.co.uk/finance-news/hundreds-of-ex-council-tenants-are-now-property-millionaires/>

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