

How to get private initiative back into rented housing

by Francis Bennion,

Chairman, World of Property Housing Trust

Many voices are heard nowadays urging that private enterprise should be given a free hand in providing rented dwellings. Some even say that this would end the housing shortage within a year or two. These arguments are part of the long debate on rent control and security of tenure, and call for major changes in the law on a point of high political sensitivity. Need we wait for these changes? It seems not, since a great deal can be done under the law as it stands. The medium to use is the housing association, which already enjoys freedom from rent restriction.

It is a paradox of our time that while the mechanism of the market is allowed to apply more or less unchecked to the supply of housing for owner-occupation, the opposite is true of rented housing. It is generally accepted that owner occupation is a good thing, to be encouraged. It is an easy, almost involuntary, form of saving for those with an adequate income. Pride of ownership ensures a high level of maintenance of the housing stock, and the healthy desire to improve one's own property is given full scope. New houses, moreover, are located where people want them—otherwise they will not sell.

While owner-occupation is to be encouraged, it is by no means the whole answer. There are and will always be a very large number of people for whom it is unsuitable. This may be because they are unable on grounds of expense, health or age to support the burdens of ownership. Or they may have a job which entails travelling about, or have not decided where to settle, or expect increases in the size of their household and prefer to wait for house ownership until these materialise.

If any of these people can afford rented housing above the rent control limits (£400 rateable value in London; £200 elsewhere) they have no problem. But few can. Again, if they are near the top of a housing list kept by the local authority of the area in which they need or wish to live, or (in rare cases) that local authority has surplus accommodation, there is no problem. Rented housing is obtainable, almost certainly at below-market rents, though it may not be in the exact place or of the type the tenant desires. People not lucky enough to be in either of these categories have to scramble for a house or flat in the diminishing ranks of privately-owned rented property.

A Dilemma

The scramble arises of course because rents are kept artificially low. No one has attempted to compute the cost of this in economic terms. Anyone fortunate enough to enjoy a tenancy at an artificially low rent has something which makes economic nonsense—it is highly valuable to him personally, but he cannot usually transfer this value to anyone else, at least in a way which gives him its equivalent. If he wishes to move he is in a dilemma, and often this results in his staying put, although in economic terms the nation would benefit from his going to an area where his labour is more needed. In other cases it may be merely personal satisfactions that are lost—as where a widow is prevented from coming to live near her grown-up family. Either way the public good suffers. The housing shortage is exacerbated. The widow cannot leave the house that is too big for her and make way for a family. The worker whose skill is needed elsewhere cannot move out and release housing for another worker needed in that place.

If present trends in rented house ownership persist the public landlord will in time become universal. In December, 1969, figures given by the then Ministry of Housing and Local Government showed that 5,548,000 dwellings out of 8,463,000 in the rented sector were owned by local authorities or new town corporations. Four years earlier the figure was 4,881,000 out of 8,539,000. In that short period the public landlord moved from having 57 per cent of rented dwellings to having almost 66 per cent. Why should anyone worry about this? Local authority housing committees and housing departments are usually made up of humane and conscientious people doing their best to provide adequate housing. They are accountable to their ratepayers and the district auditor. Sympathy is usually displayed; probity almost invariably. Nevertheless many local authority people themselves confess to anxiety at the prospect of rented housing passing more or less entirely into the public sector.

What the Private Landlord can Offer

The private landlord has much to offer. In economic terms he can spot demand as soon as it arises (or even before). He can move swiftly to supply it wherever it pays him to do so. He is not confined, like a local authority, to one area and if his organisation is big enough he can operate nationally (no public authority can do this). He can provide competition in costs and techniques of housing management, as private enterprise is still allowed to do in the actual building of rented housing, even for public landlords. He can encourage new methods and designs, so that these are not left largely to government departments and agencies. He can provide commercial experience and acumen, cheap administration, and the use of private capital. Above all he can perform the essential service of providing a yardstick against which public agencies can measure their own achievements.

In human terms the private landlord offers an alternative for those who do not qualify for, or do not like, council housing. He can meet the likes and dislikes, prejudices and foibles of tenants with more flexibility and speed in change than is ever possible under public bureaucratic procedures.

Many think that the obvious way of obtaining these benefits is to abolish rent control, or at least make the fair rents system introduced by the Rent Act 1965 universal. Everyone who advocates this accepts that fully adequate provision must be made to relieve hardship. Nevertheless the matter remains controversial. Politicians of all parties are well aware that votes can be lost in the home more readily than anywhere else. The debate has raged back and forth for over 50 years. It has raged not only here but in every Western country. Even in the stronghold of capitalism itself we find the city of New York engaged in extending its already widespread system of rent control to add another 400,000 flats to the million now under restriction. The steady shrinking of the private sector surely tells us that if there are other methods of bringing private initiative back into rented housing they should be seized upon and used to the full without waiting for the day when controls are abolished. That day may never come at all; it will certainly not come for some time yet.

Private enterprise works for profit. This means that the advantages it offers are available only if profit is available. Profit takes many forms, from large speculative gains to a modest, but secure, rate of interest. In the low- and medium-price rented housing field we must look for the latter. Public opinion will not tolerate speculative gains, but the effect of the rent control system is to take away the assurance even of a secure return at no more than current interest rates. Thus the financial basis on which many highly-respected institutions, such as mutual insurance societies and building societies, operate cannot in general be applied to rented housing.

Housing Associations and their Operation

It can however be applied to housing associations. These are voluntary, independent, non-profit-making bodies having their tenants' wellbeing as their only concern. They have been likened to the older gas, electricity and water undertakings—the public utility societies. Indeed in earlier days they were included in this description. Usually formed by incorporation

under the Industrial and Provident Societies Acts, housing associations have members, a managing board composed of unpaid volunteers and (sometimes) a paid staff. There is no organisational reason why they should not operate in much the same way as a joint-stock company. Some do, while not of course declaring any dividends. Loan or debenture stock can however be issued.

The charitable impulse of numerous individuals (an excellent thing in itself) has led to a recent proliferation of small housing associations lacking the organisation and experience needed for efficient working. This difficulty can be corrected by a policy of co-ordination and rationalisation.

The exemption of housing associations from rent control originated in the Conservative Government's Housing Repairs and Rents Act of 1954 and was maintained by the Labour

Page 138

Government. Both the main political parties are agreed on this aspect of housing policy. In practice however the rents of housing associations are often supervised and controlled by the Department of the Environment as one of the conditions for making public mortgage finance available to them—the main current source of their capital. Such restrictions would not apply where private mortgages obtained—at least where no subsidy was required.

The housing association enjoys certain fiscal advantages arising from its charitable status. Rates on its administrative offices, and even some of its developments, are halved. It escapes selective employment tax, and income tax on its investments and revenue surplus. It need have no links of any kind with local authorities or other public bodies. In these circumstances can the housing association be a true private enterprise body (as a building society is), and thus achieve the object we are seeking?

Two Possible Obstacles

There are two possible obstacles. The first is that its charitable status might seem to prevent the housing association from operating over a very wide field. Without infringing this status it can however offer housing to anyone whose existing housing conditions are inadequate and who has no other means of improving them. This is a very large category indeed. By a unique paradox, the housing charity in a sense takes away the charitable status of its beneficiaries by the very exercise of its function, since its own tenants are obviously not in housing need whatever might have been their position before. Provided however the tenants are in receipt of no more than a modest income the tax authorities are prepared to treat them as within the objects of the charity, on the assumption that if not housed by the charity they would again become inadequately housed. Estimates vary of the number of people who are inadequately housed in this country, but the number is probably at least 3m. Almost all of these could legitimately be housed by charitable housing associations. The scope is therefore enormous.

Most charitable housing associations at present operate on public money, through local authority loans and Exchequer subsidies. While the market rate of interest is charged on the loans, the subsidies (and in some cases additional relief through rates) enable the charitable housing association to keep its rents down to a level which tenants can pay. Where private capital is relied on entirely, these advantages do not apply, and here we come to the second difficulty. Allowing for administrative savings arising from charitable status and the presumed greater efficiency of private enterprise, can the charity find sufficient tenants able to meet the resulting rents unaided by subsidy? Some charities may, through their own endowments, be able to operate limited rent-rebate schemes. In other cases, as with sheltered housing for the elderly, their tenants may be drawn almost entirely from the ranks of those entitled to supplementary benefits under the state scheme. Provided rent levels are agreed with the Department of Health and Social Security they will be paid in full by supplementary benefits. A further possibility is indicated by the Birmingham Corporation Act of 1968, under which rent subsidies are paid by the local authority to tenants of private landlords, including housing associations, a principle which has now been taken up in the present Government's

housing policy. Where none of these alleviations is available, the tenant will be called upon to pay an economic rent. Can he do so, while still being a subject for housing by a charity?

Meeting the Rent

The case of those who urge the total abolition of rent control, with individual state assistance for those unable to meet the economic rents thus chargeable, is that the majority of people are prepared to pay the true cost of housing. This might be so if all rents were at an economic level. Under the present system the disparity between most council rents and what a charitable housing association using private money alone would have to charge is considerable. In time it should become less, as more councils adopt fair rents as laid down by rent officers. Even as things stand now there must be many people who, being unable to obtain subsidised accommodation, would gladly accept what a housing association could offer and struggle to meet the rent.

More sensible rent policies must come. The notion of subsidising the tenant (where necessary) rather than the bricks and mortar has been accepted. Fair rents for all, and subsidies for all tenants who need them (whoever the landlord may be) are part of the Government's policy and will soon be implemented, so far as finance allows. As this occurs there will be more and more opportunity for charitable housing associations to form the vehicle through which private initiative can operate. Even now the scope is there. Mr. Horace Cutler, when Chairman of the Greater London Council's housing committee, called for local authorities to leave further expansion of the housing stock to housing associations. The Labour Minister of Housing and Local Government, Mr. Greenwood, described this as "moonshine," since housing associations had neither the resources nor the organisation necessary. The lesson is obvious. All who wish to mobilise private initiative to end the rented housing shortage and check the spread of public landlordism should support and strengthen the housing association movement. As we have said, associations need to be well organised, and on a scale big enough to employ skilled and able staff at the salary such people command.

The housing association enjoys many advantages over the local authority. It can operate on a country-wide scale, promoting mobility of labour and interchange of tenancies. It avoids monopoly, red tape, and bureaucratic slowness. It is outside local politics and the problems of housing "outsiders" or overriding the points system. It can spot need and move in swiftly, untrammelled by local government boundaries and the dislike of some authorities for providing housing on a sufficient scale. It is not subject to the sort of departmental rivalries found by the Seebom Committee. It can change its policies easily, and try out new methods and approaches as soon as they are shown to be right. In short it can put back into rented housing the virtues of private enterprise without its defects, and without waiting for changes in the law or being buffeted by conflicting political philosophies. This is recognised by the present Government. Is the property world prepared to recognise it too?

© 2011 F A R Bennion
Doc. No. 1971.001

Website: www.franciscbennion.com
Estates Gazette (Vol. 217) 9 Jan 1971

Any footnotes are shown at the bottom of each page
For full version of abbreviations click 'Abbreviations' on FB's website

References:

None