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THE ENTERPRISE RIGHT TO BUY



- Right to Buy has increased private ownership but Right to Contest has not.
- Government should introduce the Enterprise Right to Buy for commercial tenants.
- This would allow them to buy public sector property at a discount.
- The Enterprise Right to Buy can increase development and help reduce the deficit.

1. INTRODUCTION

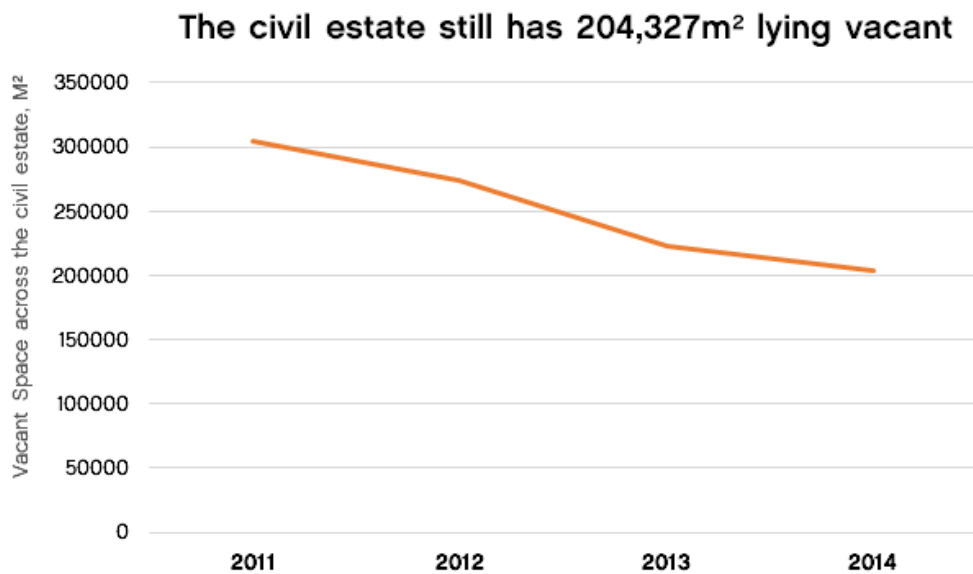
The two major economic challenges facing the Government are increasing the poor performance of productivity and eliminating the still large budget deficit. Making better use of public sector owned property can be one effective way of achieving both of those aims. The Government should introduce an Enterprise Right to Buy which would allow commercial tenants to buy their public sector owned properties at a discount.

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2. STATE OF THE ESTATE

The Government owns over £300 billion worth of land and property and sold assets worth approximately £1.4 billion in the previous Parliament. The mandated civil estate, which is a small sub-section of the entire Government estate, in 2014 had more than 200,000 square metres of vacant space and whilst this is an 8.5% fall over the year, it still represents an overall 2.4% vacancy rate. The public sector holds around 40% of developable sites and around 27% of brownfield land which is suitable for housing. The Ministry of Defence, owns approximately 1% of all land in the UK which equates to 227,300 hectares.



In 2012/13, the value of the local government estate was £169.8 billion and the value of the investment estate of local councils was £9.5 billion, of which £2.6 billion belongs to London borough councils. These properties are rented out competitively, including to small businesses. The Cabinet Office's Government Property Unit (GPU) has been leading the drive for central government estates to be more efficient and sustainable. According to the government's Estate Strategy report in October 2014, the sales of properties between 2010 and 2014 have saved more than £600 million per year in running costs.

These property sales are generally focused on the value to the taxpayer and do not involve discounts to the buyer. The Local Government Association, for example, has advised councils selling assets to "make sure they get the best possible price". Discounting the price of estates to entrepreneurs and businesses will rapidly boost sales, generating revenues for central and local government and providing cheaper land and property for businesses. This will enable more rapid expansion and investment.

3. RIGHT TO BUY

The Right to Buy scheme has allowed council house tenants to buy their homes at a significant discount on the market value. For houses, people who have been tenants for between three

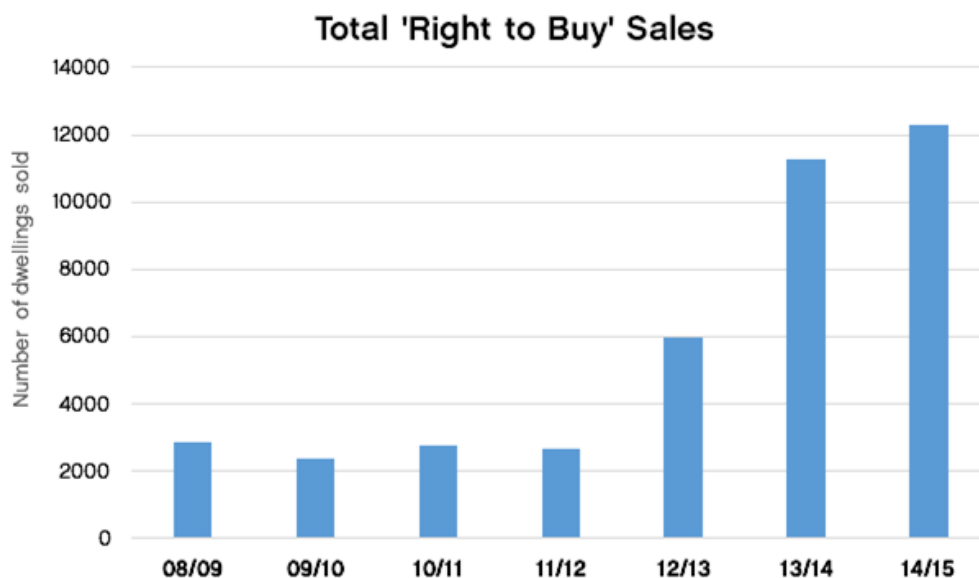
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and five years can receive a 35% discount and this will rise by 1% for every extra year of tenancy. The maximum discount is 70% or £77,900 across England and £103,900 in London. For flats, the discount is 50% which rises by 2% every extra year after five years. If the new owner sells the property within ten years, then the property must be offered first to the old landlord or another social landlord. Selling the property within five years will mean having to return some or all of the discount.

Despite the failure to build new houses, largely due to restrictive planning laws (see our report [Pink Planning](#)), Right to Buy is a powerful tool in boosting home ownership and in generating revenues for councils to reinvest in housebuilding. The significant economic gains from home ownership are well established and Right To Buy is an effective redistribution of asset wealth from the State to families and individuals.

In 2014/15, 12,304 homes were bought under the scheme which generated £930.2 million for local authorities; this is an increase on the 2,638 homes which were bought in 2011/12 and must, at least in part, be explained by the increase in the discount implemented in 2012. The government has recently outlined plans to extend the Right to Buy to 1.3 million housing association tenants in England. As we have argued before, this could help to transform the prospects of low income families.



4. RIGHT TO CONTEST

The Community Right to Reclaim Land was introduced in February 2011 and essentially gives communities the right to ask that land owned by public sector bodies which is vacant or is being under-used is brought back into productive use. This includes local authorities as well as other public sector bodies such as the Environment Agency. The Department for Communities and Local Government can agree to this request if there are no plans currently for the sites and if disposal would allow them to be brought back to meaningful use.

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As part of the Government's drive to increase the efficiency of the land and property in its ownership, it extended the Community Right to Reclaim Land by introducing the Right to Contest scheme in January 2014. This allows the Government to be challenged by businesses, individuals and even local authorities to sell sections of the central Government's estate if it is not being used or could be put to better use. If a Right to Contest application is accepted, the property will go up for sale "at a fair price", and will be available to any potential buyers.

The aim is to encourage private sector development and generate receipts to contribute to deficit reduction. However, Freedom of Information requests showed that by September 2014, only nine applications under Right to Contest had been made and none of them had even been accepted. The Community Right to Reclaim Land has fared similarly; there have been only 53 applications, of which 41 have already been rejected and the remaining still under consideration. Clearly, Right to Contest has attracted neither the volume nor the quality of applications initially hoped for by the Cabinet Office.

5. INTRODUCING THE ENTERPRISE RIGHT TO BUY

The Government should use the success of the Right to Buy scheme in the commercial sphere to help achieve the aims which the Right to Contest has not achieved. There are clear signs that the Government is now focussing on improving the use of its estate and accelerating asset sales. For example, the One Public Estate programme aims increase cooperation amongst councils to release underused sites to generate private sector activity. It also aims reduce operating costs for central and local government and to encourage collaboration amongst service providers.

Space for Growth makes surplus space, which cannot be sold or let out, available to use for free for SMEs, charities and social enterprises. It has proven particularly helpful for firms operating in the Sharing Economy. The Homes and Communities Agency disposes land for the Government "on terms that promote development, economic activity and growth". Whilst sales are on a competitive basis, schemes such as Build Now, Pay Later offer more flexible mechanisms which reduce business costs.

Extending the Right to Buy for commercial tenants to create an Enterprise Right to Buy would be a natural next step and would mean that properties which are being rented can be bought at a discount. Effectively, this is a transfer of wealth from the State to the private sector. The investment estate of councils, which in 2012/13 was worth £9.5 billion, contains properties which are rented out competitively, including to small businesses.

Whilst local authorities are encouraged to make sure they get the best possible price for their assets, the economic benefits of development justify deferred payments and discounts. Ownership of a property gives companies much greater confidence and financial leeway to expand and develop. Increasing the sales of government owned commercial property to businesses will be of benefit to local economies by boosting enterprise and freeing capital for investment. This will help to deliver stronger productivity growth.

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The Enterprise Right to Buy would allow commercial tenants of public sector owned property to buy it at discounts – of 35% in line with the Right to Buy discount for council houses. Any properties which are, eventually, sold under the Right to Contest should also be sold at this discount rather than at the market rate; this will incentivise greater engagement with the scheme. The discounts could, at least in part, be funded by the sales of surplus and vacant land and properties.

The scheme should not just be a vehicle for buy-to-let companies so the discount should be repaid if the property is sold shortly after. Businesses need greater flexibility than in residential property so the threshold should be shorter than the five years for council houses. There also some rare circumstances when, for example, national security reasons should prevent a sale.

An examination by the Audit Commission produced last year estimated that local authorities have surplus assets worth £2.5 billion but “assets held for sale” of only £500 million. English councils also spent £5.6 billion in 2012/13 on premises-related expenditure which was often due to older buildings requiring heavy maintenance work.

The Enterprise Right to Buy would provide a bigger incentive for different levels of Government to accelerate schemes to sell surplus properties. As well as the direct receipts, this would help to reduce the maintenance and repair costs from surplus properties from draining government resources. Making more properties and land available for businesses to buy will drive economic growth and increase tax revenues elsewhere.

6. CONCLUSION

If Britain is to significantly increase building, a radical simplification and consolidation of the planning system is necessary. However, the Enterprise Right to Buy could be a valuable tool for businesses which are currently renting public sector owned property and would mean a redistribution of wealth from the State to the private sector. In so doing, it would help to raise business productivity and raise revenue for different levels of Government.

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