

Multiplication and division: the distribution of stock between landlords in the housing association sector

Introduction

This Sector Study supplements the analysis carried out for Sector Study 10, which examined housing association (HA) stock distribution at the local district level. This time the concentration measures that were used previously on HA stock only, the Concentration Ratio (C_r) and the Herfindahl Index (HI), are compared with measurements calculated using *all* general needs self-contained social housing stock in each district — that is, HA stock plus local authority rented housing in districts that have not transferred social housing stock through large scale voluntary transfer (LSVT). The purpose of this is to show the effect of large scale transfer on a district's housing associations and their tenants in terms of stock distribution and choice. A comparative measure such as the HI can be used to guide both HAs and local authorities in decision making about stock transfer and rationalisation, two of the main drivers for stock movement between social landlords at present.

Background

It has been argued that stock management amongst housing associations has essentially been development driven, opportunist and with little strategic overview. This is now said to be replaced by a more dynamic approach, moving away from the view that it is based around existing stock. The effects of the LSVT programme, changes in demand levels and now rent restructuring can all influence the numbers of HAs operating in a district and the distribution of stock between those landlords.

There are conflicting pressures on the geographical distribution of stock at present. Rent restructuring encourages a wider geographical distribution of stock to reduce risk as rents are now linked to local property prices and regional wage levels. Yet HAs in high demand areas are unlikely to want to invest in low demand areas and

with the current rent regime they will also want to protect their credit assessment. HAs operating in many areas may also want to prioritise investment in their own stock or reinvestment in high demand areas. Other HAs may want to cut down on the number of local authorities they have to deal with and make savings by focusing on stock nearer to local offices.

Balanced against this is the provision of adequate tenant choice. Having a large social landlord controlling the majority of stock in a district may provide economies of scale but can also potentially restrict tenant choice. An estimate of the amount of choice a prospective tenant might have can come from an examination of the distribution of stock between social landlords in a district. Where the majority of stock is in the hands of a few HAs (either because the stock level was small to start with or because most is concentrated in the hands of a few dominant landlords) tenant choice can be assumed to be less than if there is an even distribution of stock between a reasonable number of landlords. Having a comparative and robust measure of stock concentration at the local district level can therefore help both HAs and local authorities with decisions about stock movement between landlords.

Local authorities, with their enhanced role as strategic housing enablers, are also concerned with the efficient management of social housing in their districts. More recent stock transfers have tended to be split between more than one new landlord, while some units transfer to existing landlords. Those local authorities with stock still to transfer will want to ensure that the stock is redistributed in the most efficient manner between new and existing landlords. A comprehensive measure of stock concentration that gives an overview of stock distribution within and between districts would therefore enable both HAs and local authorities to gauge the effects of changing the number and size of social

landlords in a district and of any stock rationalisation between existing landlords.

The current stock distribution between social landlords

At present there are over 1,600 general needs¹ HAs operating throughout the 364 local authority districts in England. The majority (over 80%) have units in no more than three districts, and most (71%) operate only in one district. Yet the seven largest HAs operate in over 100 districts and the three largest have units in more than half the districts in England.

The LSVT HA is a unique type of large HA — one which initially has all its stock in one district. Yet some of the longer established LSVT HAs are now acquiring units, often only a handful, in other districts. Nine LSVT HAs had more than one 'secondary' district in which they owned less than 10% of that district's total HA stock. Most of those held stock in districts contiguous with their original transfer district, but some now own units in more than one region, making them more like other large traditional HAs. For example, Sovereign HA, set up originally to take LSVT stock in Newbury (now West Berkshire) in 1979, now has units in 50 districts throughout the South East and South West, and in over half the cases owns more than 50 units per district.

While this behaviour is not confined to LSVT HAs and individual HAs may have good reasons for wishing to acquire units in more districts, it is debatable whether acquiring very small numbers of units in other districts is beneficial to the HA concerned or other landlords already operating in the districts concerned. In the case of LSVT HAs it also raises the issue of whether they may eventually lose their initial 'local' identity.

Methodology and results

As in Sector Study 10, the C_3 (the concentration ratio for the three largest

HAs) and the Herfindahl Index (HI) are calculated², first for the HA stock only in each district and then again including any remaining local authority stock.³ This is the equivalent to putting the entire district's remaining local authority stock into one new LSVT HA and enables the effect of such a move on the concentration and distribution of stock in a district to be assessed. Further manipulation, for example by dividing stock between more than one new HA or transferring some stock to existing HAs, can then be tested.

Characteristics of HAs with high and low HI values

Districts with the highest HI values are dominated by large LSVT HAs and have few other HAs operating within them. Districts with low HI values have many HAs operating within them. While this could represent more potential choice for tenants, stock ownership may also be too fragmented for optimum efficiency. This could put some HAs at risk and represent a managerial problem for the local authority in having to deal with many separate landlords. A low HI value also prompts a closer look at the district distribution of HA units. For example, in Barnet the largest HA in the district operates just over 11% of the HA stock while a further 10% is divided between 30 of the smallest players, half of which own fewer than ten units each. Such information might then inform discussions between the local authority, in its strategic role, and HAs involved in stock swaps or mergers.

Comparison of district-level concentration measures using HA stock only and all social housing

The effect of including all social housing, with each local authority being counted as one extra landlord is to raise the HI values overall and narrow the range of values. The minimum value increases from 0.0570 to 0.1643 and the maximum value increases from 0.8817 to 0.9057.

¹ This analysis is for self-contained general needs units only, excluding bedspaces and bedsits. These include sheltered units but exclude units defined as 'very sheltered with care'. The data originate from the valid returns from Part N of the RSR 2001. Guided by the materiality threshold of 5% recommended by the Corporation, those HAs with less than 95% of general needs stock are excluded from the analysis.

² While the HI is more useful in terms of comparison, the C_3 is again included for clarity as it is a more intuitive measure. A fuller description of both measures of concentration is given in the Appendix to this report.

³ Data for local authority stock and the total housing stock come from the Housing Investment Plan (HIP) data.

Table 1

Districts with high HI and C₃ values, based on all social housing, 2001

District name	No. of HAs	LSVT	C ₃	HI	C ₃ incl. LA units	HI incl. LA units	Total social housing	Prop. LA stock
North East Derbyshire	11		0.72	0.2054	0.98	0.9057	9,847	95%
Barking & Dagenham	16		0.76	0.2186	0.98	0.9001	24,949	92%
Great Yarmouth	13		0.53	0.1393	0.97	0.8933	7,937	86%
Chester-le-Street	9		0.69	0.1999	0.97	0.8843	5,875	94%
Chiltern	11	✓	0.98	0.8817	0.98	0.8817	4,984	0%
Ellesmere Port & Neston	10		0.80	0.2720	0.98	0.8791	7,597	91%
Ryedale	8	✓	0.97	0.8717	0.97	0.8717	2,752	0%
Barnsley	14		0.70	0.2437	0.97	0.8689	26,551	93%
Wakefield	19		0.73	0.2294	0.97	0.8655	39,686	92%
Wansbeck	10		0.67	0.1745	0.96	0.8626	7,410	93%

Source: Housing Corporation/Dataspring

Table 2

Districts with low HI and C₃ values, based on all social housing, 2001

District name	No. of HAs	LSVT	C ₃	HI	C ₃ incl. LA units	HI incl. LA units	Total social housing	Prop. LA stock
City of Westminster	48		0.54	0.1219	0.73	0.3101	26,323	52%
Liverpool	59	✓(partial)	0.53	0.1231	0.72	0.3047	67,924	53%
Basingstoke & Deane	26	✓	0.84	0.2956	0.84	0.2956	11,052	0%
Halton	15		0.74	0.2276	0.81	0.2837	16,152	46%
Medway	27		0.50	0.1091	0.70	0.2837	6,722	50%
Brent	42	✓(partial)	0.67	0.1825	0.77	0.2827	22,822	47%
Walsall	18	✓	0.85	0.2449	0.85	0.2449	32,583	0%
Bexley	33	✓	0.77	0.2110	0.77	0.2110	13,634	0%
Kensington & Chelsea	46		0.55	0.1372	0.66	0.1946	18,927	38%
Sunderland	25	✓	0.61	0.1643	0.61	0.1643	40,933	0%

Source: Housing Corporation/Dataspring

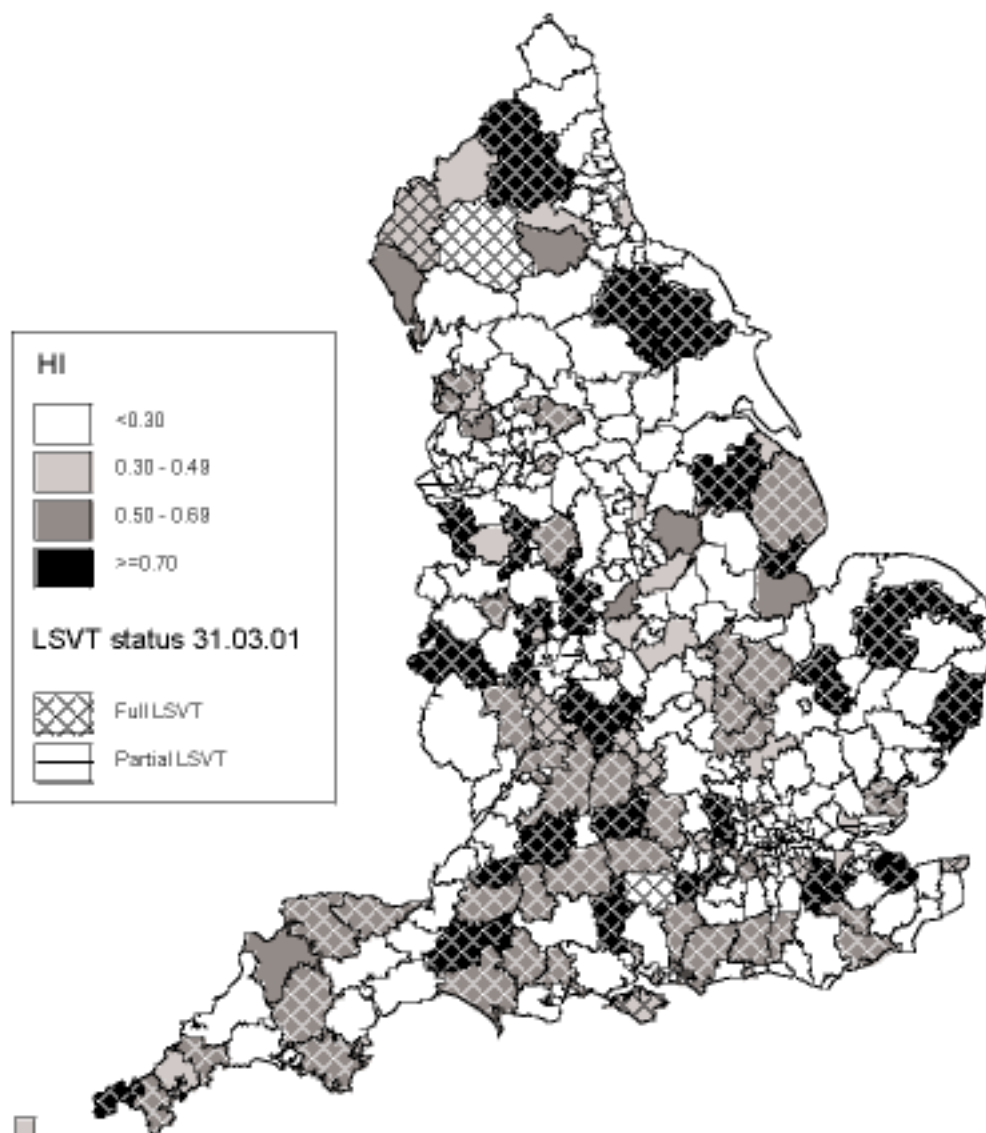
Table 1 compares the districts with the ten highest HI values when the local authority stock is included. These districts all have relatively low numbers of HAs. Where the local authority still has a high percentage of the social housing in a district, including this stock is comparable to having an LSVT HA in the district and this shows in its effect on the C₃ and HI values. These can then be compared to the initial values without local authority stock to show clearly the impact of a full transfer to one new LSVT landlord.

Table 2 shows the districts with the lowest HI values when all social housing is included. These either have less than half their total social housing stock left in the local authority's hands (due to partial transfer or a low initial presence) or have transferred all their stock, but to more than

one new LSVT HA. Sunderland for example, with the lowest HI value, divided its transfer stock between five new housing companies. This shows clearly the effects of transferring stock between two or more medium-sized local authorities that will not then dominate the district.

Very few LSVT districts have HI values of less than 0.3000 (Map 1). For example, the district of Eden only had a relatively small stock of 1,500 units to transfer, which were accommodated in one new HA while keeping the HI low. On the other hand, Sunderland achieved this by dividing their much larger stock of 30,000 houses between five new HAs. Basingstoke and Deane split their stock of just fewer than 9,000 units between two new HAs.

Map 1
District HI values
(housing
association stock
only)



Map 2 shows the HI values if the remaining non-LSVT districts were to put all their local authority stock into one new transfer HA. Eighty-eight districts would jump from the lowest band (under 0.3000) to the highest (over 0.7000). Yet four districts (City of London, Copeland, Chorley and Teesdale), all with relatively few local authority units to transfer, reduce their HI scores enough to move to a lower band.

So the most favourable size for any new transfer HA, in terms of stock concentration, can depend on the number and size of existing HAs and the relative amount of local authority stock to be transferred. This can be tested through

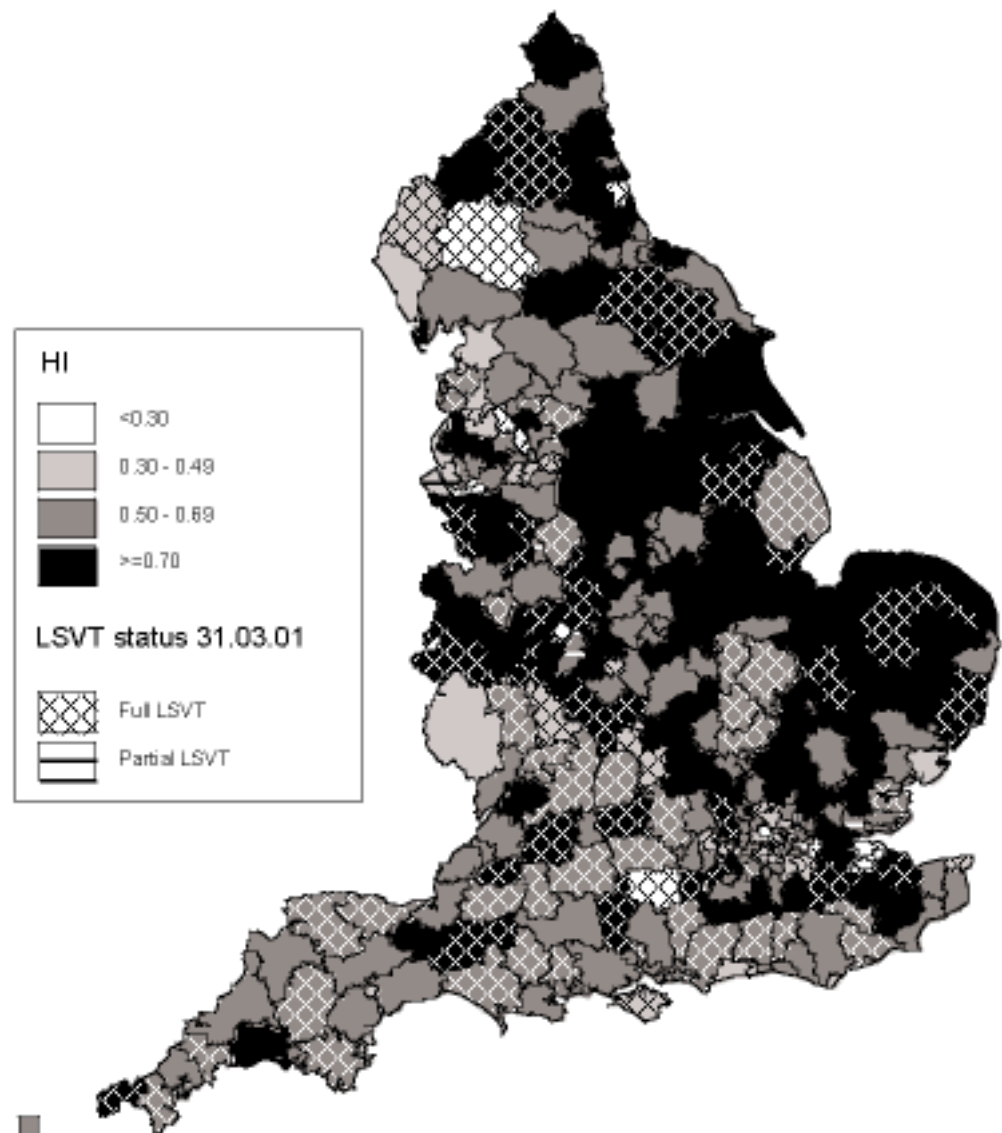
comparison of the HI values obtained when dividing the stock between a varying number of new HAs or with transferring some stock to existing HAs.

Summary

Like their histories, the size and geographical range of HAs is very varied. Some large and very large HAs have stock in nearly half the districts in England, while others maintain a more local distribution. Various HAs are seeking growth through group structures, either by combining to form a new organisation or by creating their own group structure. Many small HAs continue to want to remain specialised

Map 2

District HI values (housing association and local authority stock)



providers in a local setting while mergers and acquisitions tend to take place between medium sized HAs.

Pressure for stock rationalisation is coming from the HAs themselves, in an effort to stay competitive in the face of rent restructuring, but also from the local authorities in which the HAs work. A district with many HAs operating within it is difficult for the local authority to manage strategically. The local authority can put a certain amount of pressure on HAs to rationalise by controlling access to funds for development, and mainstream development opportunities are already becoming increasingly concentrated in the hands of

the large housing associations. Another area of concern is the potential problems with choice-based lettings (CBL) schemes — it is difficult to develop and coordinate these schemes where there are many players in one district.

Using a measure of concentration such as the HI helps to monitor the effects of policy changes on the relative distribution of social housing stock between the social landlords at the district level. The HI analysis can be a powerful tool for calculating the effects of redistribution of stock between landlords within a district, and for HAs with multiple stock locations to compare their situation in different areas.

Additional information

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Appendix

Concentration ratios and the Herfindahl Index

The simplest way to measure concentration is by comparing the proportions of each HA's units in each district. However, this does not permit national comparisons, as there are different numbers of HAs and HA units in each district. A summary representation of concentration can be given by using a concentration index. The simplest of these is the reciprocal of the number of HAs, but this assumes that HAs are of equal size.

An alternative approach is to use a concentration ratio (C_r). This is defined as the proportion of HA housing accounted for by the r largest HAs, where r is an arbitrary number. However, concentration ratios can be criticised for the arbitrary selection of r , and the measure will give different rankings for different values of r .

A more comprehensive measure, the Herfindahl Index (HI), takes into account the

number and share of all the HAs in a district. The HI is a commonly accepted measure of market concentration. It is calculated by squaring the market share (proportion) of each organisation competing in the market area and then summing the resulting numbers (for this analysis, market share and the HI are expressed as decimal). For example, if only 4 HAs have stock in a district, with shares of 30, 30, 20 and 20 each, this would give an HI of 0.26, calculated as $0.3_2 + 0.3_2 + 0.2_2 + 0.2_2$. The index varies between zero (indicating a large number of equally sized HAs in a district) and one (where there is just one HA). The HI increases as both the number of HAs in the district decreases and the disparity in size between the HAs increases, thus giving rise to a slightly different district ranking to the concentration ratio. A market where the HI is between 0.1 and 0.18 is moderately concentrated and a value in excess of 0.18 is considered to be concentrated.