Economic geography and the regulatory state: Asymmetric marketization of social housing in England

Abstract

The 2011 Affordable Homes Programme (AHP) introduced dramatic reductions in the level of government grant for new-build construction by Housing Associations, with an expectation that Associations’ rents would rise towards market rates to compensate. Through this paper, I explore London-based Associations’ use of cross-subsidy from commercial sale and rental operations to ameliorate the push towards higher rents for social housing. I characterise the spatially-variegated response to the as AHP ‘asymmetric marketisation’. The case illustrates the value of bridging between Economic Geography literatures that acknowledge spatial variation in state-market constellations but offers less developed insights on modes of marketisation, and Political Science literature on the regulatory state that offers a useful framework for disaggregating between modes of marketization but which has overlooked the issue of spatial variation. The significance of this asymmetric marketization is heightened by ongoing concerns over the sustainability of London-based Housing Associations’ commercial activities, and by the possible extension of commercial-to-social cross-subsidisation across other national housing systems.

Introduction

In June 2010, the Chancellor of the United Kingdom’s newly-formed Conservative-Liberal Democrat coalition government George Osborne introduced his ‘accelerated plan to reduce the deficit’ (HM Treasury 2010: 1). ‘Austerity’ came to be a defining feature of the coalition government, and a significant academic literature has emerged exploring the ideas, policy transformations, and socio-economic outcomes associated with this agenda (e.g. Taylor-Gooby 2012, Blyth 2013, Hay 2013, Karamessini and Rubery 2013). Housing was an area to experience an early manifestation of austerity, with the coalition government’s Affordable Homes Programme reducing dramatically the volume of grants available to Housing Associations for the construction of homes to be let at below-market rates. Through this paper, I explore patterns of variation in Housing Association responses to the AHP.

Housing Associations’ core mission is the supply of rental accommodation at below-market rates to individuals who struggle to access private sector provision. The AHP was designed to allow Associations to offset grant reduction by charging higher rents on both newly-constructed homes and existing properties. Some Associations have, however, turned to cross-subsidy to ameliorate rent increases, using surplus generated by commercial sale and market rental properties to support their core social operations. By drawing on Homes and Communities Agency data on Housing Association operations from 2015-17, I present a regression analysis that demonstrates the significant influence of a London location on the turn to cross-subsidy, and descriptive statistics that unpack relevant contextual factors. I characterise this spatial variation in Associations’ responses to the AHP as asymmetric marketization, with local economic conditions having conditioned the manner in which these non-state providers of welfare goods engage with market-based mechanisms.

In conditioning London-based Associations’ turn toward commercial cross-subsidy, the region’s buoyant housing market provided ‘push’ and ‘pull’ factors that were less prevalent elsewhere. High prevailing rents provided a significant push factor, with Associations fearing that a move toward such rates would undercut their social mission of providing affordable housing to tenants priced-out from the local market. High sales prices provided a significant pull factor, allowing Associations to generate substantial returns on commercial sales of new-build property. Beyond the spatially-specific influence of local market context, Associations’ turn to commercial cross-subsidy was also significantly related to organisation size, and prior experience with new-build construction.

Driven by these findings on asymmetric marketisation, through the paper I present a case for building bridges between scholarship within Economic Geography and Political Science. Economic Geography literature has displayed a prominent interest in sub-national spatial variation of state-market relationships. However, within this literature levels of abstraction can remain high, and the tendency to characterise prevailing constellations as ‘neoliberal’ can direct attention from ‘within-type’ variation in modes of marketisation. In contrast, Political Science literature on the regulatory state offers useful disaggregation of modes of marketization, but does not place sustained attention to sub-national spatial variation in state-market relationships. Through the concept of asymmetric marketization, I aim to refine the focus on spatial variation in Political Science literature on the regulatory state, and the focus on differential modes of marketisation in Economic Geography literature on neoliberalism and state transformation.

In identifying and exploring this manifestation of asymmetric marketization, I develop my line of analysis through the following structure. In the first section below, I present the engagement that is prompted by this case study with Economic Geography literature on spatially-differentiated state-society constellations and Political Science literature on the regulatory state. Through the second section, I present an introduction both to Housing Associations’ role in the English social rental sector, and to the 2011 Affordable Homes Programme. I then in the third section provide an overview of the regression analysis. By adding information on location to Homes and Communities Agency data on Housing Associations’ financial accounts, I am able through the regression to demonstate that being located in London has a significant influence on the turn to commercial cross-subsidy. Through this section, I also draw on descriptive statistics to identify relevant contextual factors that underpin these patterns of regional variation. I conclude the paper by providing reflections on the changes in Housing Association practice highlighted in the paper, and exploring the wider value-added from the concept of asymmetric marketisation. Given disquiet over the impact of the increased reliance of social housing provision on market-based mechanisms in the (London region of the) English system, and the potential for the practice to gain traction elsewhere, it is important for further scholarship to explore this intersection of space, markets, and welfare provision.

Situating asymmetric marketization

The identification of asymmetric marketization within the English social housing sector constitutes the core conceptual contribution from this study. I define asymmetric marketization as *spatial variation in the mix of market and non-market mechanisms used to support the delivery of a given welfare good*. In the context of the case study of social housing in England, Housing Association revenue from commercial residential sale and rental operations are taken to constitute ‘market mechanisms’, revenue from social rental operational to constitute a non-market mechanism, and the supply of social rental accommodation to constitute a welfare good. The concept both builds from and bridges between Economic Geography scholarship on spatially-variegated state-market constellations, and Political Science literature that explores variation in modes of marketization in the delivery of welfare goods. In the paragraphs below, I situate the concept of asymmetric marketization in relation to these literatures.

The relationship between state, economy, and space is a core focus of scholarship within Economic Geography. Through the early-2000s, this subject of investigation was often framed through debates over the relative importance of states and markets. The prevailing view was that changes to structures of and rules on transnational finance and production had contributed to states losing power to market actors, although evaluations remained contested (Scott 2000: 493-4). Within this body of literature, ‘neoliberalism’ rapidly emerged as a central organising concept. In this regard, Springer (2010: 1025) noted the ‘remarkable pervasiveness’ of the term within Economic Geography scholarship, with the field in the course of a decade orienting itself around this study of ‘a new political, economic, and social arrangement emphasizing market relations, minimal states, and individual responsibility’.

From the early stages of these moves to interrogate the theory and practice of neoliberalism, interventions have sought to probe the importance of space and spatial variation. Perhaps most prominently, Peck and Tickell (2002: 388) advanced the position that in order to gain traction over the phenomenon of ‘neoliberalism’, it was necessary to incorporate analysis of ‘local neoliberalisms’. In their study of the North Atlantic neoliberal *genus*, Peck and Tickell argued that while localised manifestations of neoliberalism could exhibit substantial variation, overarching networks and structures provided significant constraint. Overall, Peck and Tickell (2002: 384) emphasised the family resemblance in Anglo-American neoliberalism, which they characterised as having entered a ‘roll-out’ phase ‘focused on the purposeful construction and consolidation of neoliberalized state forms, modes of governance, and regulatory relations’. Parallel reflections on the tension between localised difference and overarching structures of constraint are presented by Brenner and Theodore. When evaluating the nature of ‘actually-existing’ neoliberalism, Brenner and Theodore (2002: 372) suggest that local difference is being crowded-out by a homogenous form of marketization. For Brenner and Theodore, as for Peck and Tickell, local manifestations of neoliberalism tended to be marked more by similarity than by difference.

The introduction and exploration of the concept of ‘rescaling’ has helped advance discussion within Economic Geography over the relationship between space and transformations in state-market relationships. Brenner et al (2003: 11) helped to direct attention to rescaling, as they argued that transfers of power to sub- and supra-national sites of authority were leading ‘the inherited geographies of the nation state’ to be ‘transcended… [and] destabilised’. While a common conclusion on the politics of rescaling has been that the nation state retains its pre-eminence (cf. Bulkely 2005, Mansfield 2005, Magnusson 2010), significant contributions have identified in particular the city as a site of authority (e.g. Paul 2005, Jonas and Pincetl 2006, Li 2015).

Donald et al (2014) present cities, with their differential socio-economic conditions and policy and institutional mixes, as an appropriate unit of analysis through which to explore austerity-era transformation. The challenge of effectively managing dissimilar metropolitan sites within an overarching national framework is a recurrent theme of contemporary literature on the relationship between urban- and state-based scales of governance (e.g. Baldwin et al 2011, Pares et al 2014, Wood and Alexander 2016, Chapple 2018, Rodriguez-Pose and Wilkie 2018). Reed and Bruyneel (2010) note that variation in material factors contribute to the creation of ‘borders’ within national frameworks; differing environments can condition sub-national authorities toward variations in both practice and outcome.

The literature on rescaling in general, and on the challenging relationship between the urban and the national scales specifically, brings detail and nuance to broader debates on local variation under conditions of (trans-)national neoliberalism. There has been an acknowledgement, however, that greater attention to policy detail will help advance understanding of the interaction between local socio-economic conditions and variations in state-market constellations (Reed and Bruyneel 2010: 651). This study of social housing in England is presented as an attempt to use policy detail to refine understanding of the interplay between space, states, and markets in the execution of public policy. In line with Reed and Bruyneel (2010), through this study I confirm that local variation in material conditions is associated with local variation in the operatioanalisation of national policy frameworks. In essence, the London area constitutes a ‘border’ within the English social housing system, inside which Housing Associations have turned toward commercial activity to ameliorate the marketization of social rental accommodation. This sub-national variation has created differential combinations of market and non-market mechanisms in the supply of this welfare good. Given the conventional view of the UK as a highly centralised political system,[[1]](#footnote-1) this sub-national variation is particularly noteworthy. Some studies do seek to challenge this conventional view by exploring the impact of devolution and other new institutional arrangements on UK and English cities.[[2]](#footnote-2) However, whereas these revisionist studies tend to privilege changes to formal political institutions and agreements as drivers of increased city- and region-level autonomy, here I highlight the role of variation in sub-national market structures in shaping local divergence. In this case, differential housing market performance across England has provided a foundation for differential modes of marketization within this policy area, with London’s buoyant market both pushing and pulling London-based Associations toward cross-subsidization.

To clarify the modes of marketization manifest in Housing Associations’ responses to the Affordable Homes Programme, I now turn to Political Science literature on the regulatory state. Given the shared interest in understanding the mechanisms through which market-based actors and processes have been woven into contemporary structures of governance, there is significant thematic similarity between literature on the regulatory state and that explored above on neoliberalism and the neoliberal state. The literature on the regulatory state tends to prioritise the inclusion of a high level of policy detail within its analyses, and offers a useful disaggregation of modes of marketization within the contemporary provision of welfare services. The concept of asymmetric marketization builds out from this strand of analysis, and also introduces a focus on space to this regulatory state scholarship.

The concept of the regulatory state is most closely associated with Majone (1994, 1997), who used the term to capture wholesale shifts from the hierarchical and integrated provision of public goods to more marketised systems incorporating a broader range of actors taking place across Western Europe at the time. Subsequent literature on the rise of the regulatory state has often focused on the emergence of regulatory agencies as increasingly substantive hubs in governance networks, and sought to clarify the range of mechanisms involved in shaping performance and outcomes (e.g. Thatcher 1998, Lodge 2002, Gilardi 2005, Flinders and Buller 2006, Kaye 2006, Lodge 2008, Wright 2009, Jordana et al 2011, Verbruggen 2013, Heims 2015, Badran 2017). Discussions over the impact of more market-based delivery of government functions feature prominently within this literature. It is broadly held that the move toward marketisation was driven by a perception amongst policy elites that significant efficiency gains were there for the taking (e.g. Majone 1997: 144, Moran 2001: 29, Levi-Faur 2005: 20). Debates remain unresolved over whether removals of government monopoly provision and the contracting-in of private agents has in fact generated increasingly efficient delivery (cf. Grimsey and Lewis 2005, Hodge and Greve 2007, Hodge and Greve 2009, Hermann and Flecker 2013, Mennicken 2013, Del Pino and Pavelini 2015, Gingrich and Watson 2016).

The work of Levi-Faur (2013) has helped to direct this focus on regulatory governance toward the study of welfare provision in particular. Contributions from Leisering and Mabbett (2011) on the governance of pensions and Haber (2015, 2016) on the governance of housing also served to extend this agenda. A ‘regulation for welfare’ strand of literature has emerged, which advocates the exploration of the mechanisms that shape the relationship between states, market actors, and non-market actors in the provision of welfare goods within contemporary governance networks (Levi-Faur 2014, Haber et al 2018). Within studies of welfare delivery through complex governance networks, we are presented with useful attempts to disaggregate ‘the market’ that both identify different modes of contracting-in and delegation used to incorporate private actors into welfare delivery, and explore the implications on quality of provision from variations in the relationship between state, service provider, and service user that accompany such marketisation (Pavolini and Guillen 2013, Starke et al 2013, Taylor-Gooby 2013).

The contribution from Gingrich (2013) advances these efforts to disaggregate the modes of marketization within regulatory governance structures, providing the most comprehensive and prominent typology in this regard. Gingrich (12-19) identifies a range of forms of market within regulatory state-type structures. Modes are defined as ‘consumer-driven’, ‘producer-driven’, and ‘state-driven’ according who holds effective control over production. In the consumer-driven mode, users select from a range of competing suppliers and are well-informed on service quality, with providers thereby being pushed to respond to prevailing preferences. The producer-driven mode is characterised by inadequate information on service quality and lack of oversight, in which users can be tied into a contractual relationship with a poorly-performing supplier. In the state-driven mode, governments retain capacity to shape the cost-efficiency incentives applied to all producers, and enact broad-based monitoring of performance. Under the ‘managed market’ variant, providers are forced to absorb resource reduction through efficiency gains, and under the ‘austerity market’ variant some reduction can be counter-balanced by levying charges on individual users.

Dynamics associated with Gingrich’s austerity markets are manifest within the asymmetric marketization of social housing in England. The Affordable Homes Programme was designed to allow that, where necessary, Associations could replace lost grant for new-build by increasing social rent levels towards prevailing market rates. With state agencies shaping resource flows in the form of maximum rents and grant allocation, and providers able to defray some efficiency pressures by increasing costs to users, the AHP displays core dynamics of the austerity mode of Gingrich’s schema. However, the turn toward commercial cross-subsidy by London-based Associations represents a modification of the austerity market, with increased costs being defrayed through market mechanisms to non-service users. Gingrich’s disaggregation of modes of marketization within the regulatory welfare state allows for variations in Housing Associations’ responses to the Affordable Homes Programme to be effectively identified.

Overall, the concept of asymmetric marketization both draws on and bridges between Political Science literature on the regulatory welfare state and Economic Geography literature on rescaling and neoliberal transformation. The high level of precision within literature on the regulatory welfare state on modes of marketization, as typified by Gingrich’s typology, presents us with a conceptual language with which to capture variation in the mix of market and non-market mechanisms within Housing Associations’ responses to the Affordable Homes Programme. With the aid of this conceptual language, we specifically see that London-based Associations have adapted the ‘austerity market’ response by using commercial activity to defray the extent to which reduced government revenue has been translated into higher costs for social renters. The focus in literature on rescaling and spatial variegation within Economic Geography pushes us to conceptualise the London region as a ‘border’ within the English social housing regime, and to identify variation in market performance as a driver of sub-national variation in policy operationalisation. By bringing together these two strands of literature, the lack of attention to spatial variation within regulatory welfare state literature and the under-developed conceptualisation of modes of marketization within literature on rescaling and neoliberal transformation can be addressed. The concept of asymmetric marketization represents a mechanism through which the comparative strengths of the two bodies of literature can be locked together.

Beyond this set of conceptual contributions, through this paper I also offer an engagement with social housing and social housing reform. The challenges faced by Housing Associations within an increasingly marketised sector have attracted substantial comment within existing housing studies literature. Manville et al (2016), for example, note that recent reforms have reduced the level of support on offer to Associations from their regulatory agency, with the creation of a more distant relationship increasing the need for autonomous organisational leadership. Housing Associations’ difficulties in maintaining a focus on ‘social mission’ within their increasingly marketised environments have also been well-charted (e.g. Mullins et al 2012, Teasdale 2012, Tang et al 2017), while Casey and Allen’s (2004) work suggests that this social versus market tension has existed for some time. Asymmetric marketization presents a novel means of addressing this longstanding tension, with London-based Associations using expanded commercial operations to protect their core social mission – the provision of affordable rental accommodation. As is explored in the conclusion to the paper, the desirability and effectiveness of this turn to enhanced cross-subsidy is highly contestable. Nonetheless, the existence of this operational practice represents an additional, and spatially-variegated, layer of complexity within the relationship between Housing Associations, social mission, and marketization.

Social housing in England: Housing Associations and the Affordable Homes Programme

Social housing in England has followed a trajectory that was common to many sectors of welfare provision through the 20th century. These changes broadly parallel Majone’s (1997) characterisation of the shift from a ‘positive’ state that directly provides welfare goods to a ‘regulatory’ state whose interventions occur through rule-making within increasingly marketised networks. In the paragraphs below, I provide information on role of Housing Associations within the provision of social housing in England, and conclude the section with an overview of the 2011 Affordable Homes Programme.

It was in the aftermath of WWII that the UK government began to expand significantly its capacity to directly provide social rental housing (accommodation let at rates below the prevailing market level), with local authorities becoming pivotal agencies in the system that emerged. Local authorities provided the central government with a conveniently ‘plannable instrument’; by providing access to subsidised loans and grants, and mandating that a set contribution to building costs be made through locally collected rates, central government could ensure that their house-building targets were delivered relatively predictably and consistently (Cole and Furbey 1994: 59-63). This local authority housing was provided at below-market rates to lower-income groups, and came to be regarded as a central pillar of the state’s welfare system (Malpass 2005: 83-90). By 1980, around 6.5 million homes – 30 percent of the UK’s total stock of housing – came through such local authority provision (Stephens 2013: 200-1).

Movement away from a provider state mode began to gain traction in the UK from the start of the 1980s. At this time, the Conservative government under Prime Minister Margaret Thatcher passed legislation introducing a Right to Buy for local authority tenants. Under the Right to Buy, tenants meeting minimum length of tenure criteria were able to purchase their home from a local authority at a discounted rate, with the scale of discount increasing with length of tenancy. Cumulatively, around 1.8 million units were transferred out of local authority ownership through this route.[[3]](#footnote-3) It was from the end of the decade that an additional dimension of transformation in the UK housing system began to emerge, with local authorities moving to transfer stock through wholesale transactions to Housing Associations.

The regulatory framework surrounding Housing Associations was, to a large extent, put in place though the 1985 Housing Act. The 1985 Act codified Housing Associations as entities established for the purpose of managing or constructing housing, and which did not trade for profit. Under the Act, Housing Associations were to register with the Housing Corporation, a newly-created agency under the Department for the Environment (Housing Associations Act 1985: Section 12). The relationship between the government and Housing Associations was close, with the Corporation retaining oversight over Association performance and, through a series of grant-based mechanisms, providing important sources of funding.

It was from 1989 that the role of Housing Associations in the UK housing system underwent a qualitative shift. 1989 marked the year in which the first stock transfers occurred from local authorities to Housing Associations. An important driver of these transfers came from local authority housing managers acting to protect stock from potential transfers to market-based actors. Regulatory changes introduced through the 1988 Housing Act opened-up a mechanism for local authority residents to vote to transfer their homes to a market-based landlord. To forestall the perceived danger of stock being transferred to predatory landlords, and of local authority housing teams’ jobs being placed under pressure, many local authority housing managers took the lead in creating Housing Associations and arranging for stock transfers to occur (Malpass and Mullins 2002: 675-6). Since 1989, around 1.3 million homes have been transferred from local authority to Housing Association ownership (Altair 2016). Through the Housing Corporation (whose functions were in 2008 subsumed into the Homes and Communities Agency), the government retained capacities to shape rent levels and new-build construction activities of Housing Associations.

In relation to rent charges, for the early years of the 1990s Housing Associations operated in a relatively *laissez-faire* environment. However, from the middle of the decade, the government moved away from its light touch approach, with the Housing Corporation being directed by the government to use its influence to manage the pace of Associations’ rent increases. In the first instance, the Corporation began to take account of Associations’ rent levels when making decisions over applications for capital grants. Given the importance of Corporation funding to Associations’ development activities, this mechanism provided a potent incentive. After some prevarication over the target level, the Housing Corporation announced in 1998 that HAs with rent increases above Retail Price Inflation + 1 percent would lose access to funding (Malpass 2000: 216).

These regulatory tweaks served to constrain the rents that could be levied on social rental tenants by Housing Associations were able to achieve through their core social rental activity. Regulatory constraints evovled through the years of the Labour government from 1997-2010, for whom a major goal was the equalization of rent charges across the social rental sector for equivalent properties. To accomplish this goal, a complex set of ‘rent influencing guidelines’ were created, which deployed Housing Corporation monitoring to steer Associations toward rents that were deemed locally appropriate for the given type of property (Wilson 2016: 6-9). Overall, under this regime, Housing Associations charged a ‘social rent’ that was set according to a formula that took account, *inter alia*, of property value and local earnings level (Wilson 2017: 3).

The period through the 1990s and 2000s, then, saw the emergence of Housing Associations as the leading providers of social housing in England. Through the Housing Corporation, the UK government retained the capacity to shape charges levied by Associations, with social rents being set against a measure of property value, local income levels, and other factors. The Housing Corporation was also a fulcrum of Associations’ new-build operations, with its grants constituting around 50 percent of Associations’ investment expenditure from the mid-1990s through to the late-2010s (see Figure 1). The Affordable Homes Programme, introduced by the Coalition government in 2011, served to transform the rent and new-build development regime surrounding Housing Associations, and provided the context for London-based Associations’ turn to cross-subsidisation.

Figure 1: English Housing Associations’ gross investment expenditure (£bn)

Source: Wilcox et al 2017: Table 59

In December 2010, six months after coming to power, the Conservative-Liberal Democrat Coalition government officially launched its Affordable Homes Programme 2011-15. With its commitment of £4.5bn over the four-year period, the AHP represented a manifestation of the Coalition government’s ‘austerity’ focus on reducing capital expenditure. Projected HCA spend under the AHP was around one-third of the level committed during the previous four-year period.

The aim of the AHP was to support the delivery of 150,000 new homes, predominantly for rent at sub-market rates. In order to facilitate the attainment of this target off the back of a significantly-reduced capital grant, a new market-linked rental modality for Housing Associations was introduced as part of the Programme. Under this ‘affordable rent’ modality, Associations were permitted to charge up to 80 percent of the prevailing market rate (as a point of comparison, in 2011 the average social rent (determined by the national rent regime) was around 50 percent of the prevailing market rate (DCLG 2012)). This affordable rent mode was intended to constitute the ‘principal element’ of new-build homes delivered under the AHP (HCA 2011: 5); while not completely barred, the AHP prospectus was clear that applications for grant to support new-build social rent accommodation would only be considered ‘in exceptional circumstances’ (HCA 2011: 20). It was envisaged that the higher ‘tenanted market value’ (a 30-year projection of rental income) of affordable rent properties would allow Housing Associations to ‘crowd in’ private finance to counter-balance the lower levels of HCA grant. In addition to pushing Associations to provide new-builds at affordable rent rather than social rent, the AHP also introduced an expectation that existing stock would be converted from social to affordable rent, with the additional resource flows generated also being used to support new-build activities (HCA 2011: 5).

Under the AHP, then, the broad expectation was that Housing Associations would counterbalance reduced grant flows for new-build operations by moving towards increasingly market-related rental rates. As is explored below, significant sub-national variation emerged in the form of marketization adopted within the provision of social housing in England.

Exploring asymmetric marketization: method and analysis

Through the 1990s and 2000s, then, the provision of social housing in England evolved in a manner that reflected the transformations toward the ‘regulatory state’ and the ‘regulatory provision of welfare’. In the paragraphs below, I outline the spatial variation that was embedded in the English social housing system in response to the Coalition government’s AHP. In doing so, I present a regression analysis that seeks to probe the drivers – including spatial location – of Associations’ turn toward commercial cross-subsidy following the launch of the AHP. I frame this analysis by first reviewing descriptive statistics that capture regional variation in volumes of commercial cross-subsidy, private sector rental affordability, and Housing Association rent levels. Key descriptive statistics and the regression analysis are founded on an extension of the Homes and Communities Agency’s Global Accounts dataset,[[4]](#footnote-4) through which I have added location information to the HCA’s compendium of Associations’ income and expenditure activities. The descriptive statistics identify overall patterns of asymmetric marketization, and the regression analysis confirms the significant role of a London location (alongside Associations’ size and prior experience of new-build construction) in shaping the drive toward commercial cross-subsidy as a mechanism to ameliorate grant reduction.

Before progressing to the descriptive statistics and regression analysis, a word on data limitations is necessary. Within the Homes and Communities Agency Global Accounts, data on Housing Associations’ income and expenditure relating to market sale and market rent is available only after 2015. As such, the descriptive statistics and regression analysis focus on the 2015-17 period. This time period captures the completion of the 2011-15 AHP, and the transition into the 2015-18 AHP which retained the core features of the early iteration. Given the broad continuity across the earlier and later iterations of the AHP, the 2015-17 timeframe is an appropriate focus of analysis.

The 2011-15 AHP prospectus was explicit in laying out an expectation that affordable rents introduced under the programme across England would be ‘at, or close to, the 80 percent [of the prevailing market rate] limit’ (HCA 2011: 47), with the subsequent 2015-18 AHP retaining the core assumption that reduction in grants flowing to Associations would be counterbalanced by this move toward market-based rental rates (HCA 2014). However, regional disparities in the affordability of market rent levels meant that the implications of a move toward market rates were particularly dramatic for London-based Associations. In London median private rent equated to around 50 percent of median income at the start of the AHP period, as compared with figures of between 35 and 23 percent across the other English regions (see Figure 2).

Source: ONS (2016).

In the light of these local market conditions, London-based Associations responded to the AHP by committing to the use of additional market-based mechanisms to counter-balance reduced grant flow. Rather than, as the architects of the AHP had expected, increasing the rents charged to new and existing social tenants, a commitment to generate additional resource flows through increased commercial cross-subsidy was articulated. Plans were laid to use profit generated by market sale of new housing and market rental activity to support new-build construction (G15 2015, Network Homes 2016a, Network Homes 2016b). Several larger London-based Associations adopted a principle that, supported by such cross-subsidy, new rent levels would not exceed 65 percent of the prevailing market rate (Hollander 2018) (substantially below the AHP cap of 80 percent).[[5]](#footnote-5)

The extent of the regional divergence in Housing Associations’ extraction of commercial surplus is illustrated in Figure 3. At £120m, the commercial surplus generated by London-based Associations in 2015-17 was over four-times the volume generated by the next-highest performing region. London-based Associations’ turn toward commercial cross-subsidisation was accompanied by two notable trends. First, we see that these Associations provided affordable rent at rates that were substantially below the 80 percent of prevailing market rate permitted under the AHP. Whereas across England as a whole the average affordable rent was levied at around 70 percent of the prevailing market rate, in London the figure was below 50 percent (see Figure 4). Second, we see that London-based Associations had a lower propensity to convert existing social rent properties to affordable rent. Whereas across England as a whole 37 percent of existing social housing was converted by Housing Associations to the new affordable rent mode from 2015-17, in London the figure was 30 percent (see Figure 5). Overall, the rate of construction in recent years has been broadly similar across the English regions; exempting the North East and North West, Associations’ new constructions have on average added 4-6 percent to their 2015 social housing stock levels (see Figure 6).

Source: Author’s analysis of HCA Annual Global Accounts[[6]](#footnote-6)

Source: Author’s analysis of DCLG Social Housing Lettings data.[[7]](#footnote-7)

Source: Author’s analysis of HCA Global Accounts.[[8]](#footnote-8)

Source: Author’s analysis of HCA Global Accounts.[[9]](#footnote-9)

A regression analysis was used to confirm the influence of location and other organisational factors on Housing Associations’ use of commercial cross-subsidy. For the dependent variable (‘Rate of commercial surplus’), total surplus generated from market sales and market rent (2015-17) provided the numerator, and total turnover (2015) the denominator.[[10]](#footnote-10) To test for the influence of location on Associations’ turn to commercial surplus and cross-subsidy, dummy variables were created to capture an organisation’s home region. The HCA classification, in which Associations are assigned to the English region in which he majority of its homes are located, was used as the source data.[[11]](#footnote-11) Existing literature on social enterprises leads us to expect that organisations’ capacity to branch-out into commercial activity is shaped by size (with larger entities having greater access to financial resources and personnel required to adapt into and expand marketable activities), and by prior experience in the production of the marketable commodity. To test for the influence of organisation size, total turnover (2015) was used as the source data. To test for the influence of prior experience, the HCA classification of Association type was used. Where the majority of its stock was derived from independent construction and acquisition, an Association is classified as ‘traditional’; when the majority of its stock was purchased wholesale from local authorities through Large-Scale Voluntary Transfer, an Association is classified as ‘LSVT’.[[12]](#footnote-12) The intuition is that traditional-type Associations have greater experience at new-build construction, and so are better placed to expand construction for market sale and for market rent. Dummy variables were created for traditional and LSVT Association type.

As Table 1 shows, the mean rate of commercial surplus across the 263 Associations included in the model was 0.01 (i.e. commercial surplus equated to one percent of turnover). The range ran from -0.19 to 0.15. The mean turnover in 2015 was £60,528,470, with the range running from £2,614,000 to £439,617,000. There was an even split between traditional- and LSVT-type Associations, and a broadly even distribution of Associations across the English regions (with slightly higher numbers of Associations in London and the North West) (Table 2).

Table 1: Descriptive statistics (scale variables)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Minimum | Maximum | Mean | Std. deviation |
| Commercial surplus (proportion) | -0.19 | 0.15 | 0.01 | 0.02 |
| Turnover (£000) | 4444.00 | 439617.00 | 44350.8 | 48943.96 |

Table 2: Descriptive statistics (nominal variables)

|  |  |  |
| --- | --- | --- |
|  |  | Proportion |
| Type | Traditional | 46.6 |
| LSVT | 53.6 |
| Region | East Midlands | 6.5 |
| East of England | 10.6 |
| London | 14.1 |
| North East | 6.5 |
| North West | 22.4 |
| South East | 11.8 |
| South West | 9.1 |
| West Midlands | 11.8 |
| Yorkshire | 7.2 |

Running an OLS multiple regression to see what explains the variation in commercial surplus, we get the following results. The model is significant, F (263) = 2.71 p.004, and accounts for 9.7% of the variation (R2). This demonstrates that these Housing Association characteristics play a fairly important role in explaining variation in extraction of commercial surplus. Table 3 shows the results of the regression analysis. Housing Association size (as measured by turnover) and location in London are significantly positively related to commercial surplus. These findings confirm the London-centric nature of asymmetric marketization in English social housing, and the suggestion in existing literature regarding the greater capacity of large social enterprises to effectively marketise output. In line with existing literature, a positive (although not statistically significant) relationship was found between traditional-type Associations and rate of commercial surplus.[[13]](#footnote-13)

Table 3: Explaining variation in Associations’ extraction of commercial surplus

|  |  |  |  |
| --- | --- | --- | --- |
|  | Variable | Coefficient  (std. error) |  |
|  | Size | 0.133 (0.000) | \* |
| Type | Traditional | 0.049 (0.003) |  |
| Region | East Midlands | 0.023 (0.006) |  |
|  | East of England | 0.077 (0.005) |  |
|  | London | 0.192 (0.005) | \* |
|  | North East | -0.070 (0.006) |  |
|  | South East | 0.020 (0.006) |  |
|  | South West | 0.014 (0.005) |  |
|  | West Midlands | 0.018 (0.005) |  |
|  | Yorkshire | -0.057 (0.006) |  |
| N |  | 263 |  |
| X2 (model fit) |  | 2.707 | \*\* |
| R2 |  | 0.097 |  |

Note: \*p < 0.05; \*\*p < 0.01. The LSVT-type and North West-region variables have been removed from the model because of collinearity issues.

In summary, the regression analysis confirms that London-based and larger Associations have a greater propensity towards generating commercial surplus. Taken together, this analysis and the accompanying descriptive statistics shed light on the relationship between commercial surplus and use of the affordable rent modality, suggesting that commercial surplus has been used both to reduce the volume of conversions from social rent to affordable rent required to support new-build activity, and also to sustain the gap between affordable rent charged and the prevailing market rate. Across English Housing Associations, this London-based turn to cross-subsidy represents the emergence of significant spatial variation in the mix of market and non-market mechanisms used to deliver social housing*.*

Conclusion

Through this article, I have defined asymmetric marketization as *spatial variation in the mix of market and non-market mechanisms used to support the delivery of a given welfare good*, and confirmed the existence of asymmetric marketization within the English social housing system. In this concluding section, I reflect on the implications to the changes in Housing Association practice explored through the main analysis, and highlight the wider relevance of the concept of asymmetric marketization.

The turn toward market-based cross-subsidy is a contentious issue within English social housing. A positive reading of the development is that commercial cross-subsidy represents an innovative response to austerity budgets, and one that may involve broadly progressive resource flows from relatively affluent market buyers and renters to lower income social housing tenants. However, concerns have been voiced over the sustainability of the new model by both providers and the sector’s regulator. In relation to providers, the chair of the G15 grouping of large London-based Associations has recently declared that in the capital ‘the cross-subsidy model is at full stretch’.[[14]](#footnote-14) In relation to the regulator, the Homes and Communities Agency has recently offered critical reflection on the levels of risk involved in the increased reliance on market-based mechanisms, questioning the ability of some Associations to cope with a slowdown in rental and sales markets (HCA 2017). The significance of this risk has been underscored by the credit rating agency Standards and Poor’s recent downgrade of four London-based Associations, which was done on the back of concerns over the future stability of market-based resource flows (Cross 2018). Norris and Byrne’s (2017a, 2017b) comparative analysis, which explores the potential role of social housing as either a pro- or counter-cyclical factor in housing booms and busts, further highlights the importance of considering the evolution of modes of marketization in this sector. Beyond these material concerns, questions have also been raised over the impact of increased commercialisation on Housing Associations’ focus on their core social mission (Hilditch 2017).

Beyond the English context, parallel practices of asymmetric marketization can be seen within different national systems. In the Netherlands, for example, through the early-2000s Amsterdam-based Associations in particular turned to commercial cross-subsidy to support the provision of new-build social rental accommodation (van der Veer and Schuiling 2005: 177). Within the Turkish system, the Housing Development Administration (TOKI) has cross-subsidised particularly in its Istanbul-based operations (Turk and Altes 2010: 28). We are in addition currently seeing ongoing experimentation across a range of lower- and middle-income countries with ways to simultaneously deepen market-based housing provision and introduce mechanisms to correct market failure (Clegg 2017).

Beyond these existing dynamics, there are more general reasons to expect asymmetric marketization to grow in importance for the provision of social housing across different national systems. In her typology of housing system transformation, Whitehead (2015: 250) suggests that within many countries the social housing sector is moving from a heavy reliance on government support, to an increasingly self-sufficient situation. Within ‘austerity-era’ transitions, Whitehead notes that cross-subsidisation can help fill resource gaps.[[15]](#footnote-15) Across OECD countries and beyond, housing systems remain marked by deep and sustained sub-national variation (Crescenzi et al 2016, OECD 2016, Hudson et al 2018). Reductions of government support for social housing and significant spatial variation in housing market performance are, then, common features across national systems; in the English case, the confluence of these factors served to condition social housing providers toward asymmetric marketization.

As manifest in the English case, asymmetric marketization represents a response to a particular set of political economic constraints and opportunities. It was a response that provided an empirical foundation on which to bridge between Economic Geography and Political Science scholarship, bringing together the former’s focus on spatial variation with the latter’s disaggregation of market-based mechanisms. Given the concerns that have been raised over the sustainability and desirability of the observed changes in London-based Housing Association practice, and given the potential in other national systems for similar spaces to emerge where social provision becomes increasingly reliant on market mechanisms, it is important that the theory and practice of asymmetric marketization is subjected to further scrutiny.

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1. See, for example, Hambleton (2017). [↑](#footnote-ref-1)
2. See, for example, Clark et al (2016), Bailey and Wood (2017), Shaw and Tewdwr-Jones (2017) [↑](#footnote-ref-2)
3. DCLG Live Data Tables. DCLG Official Website, available at <https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales>. Accessed 15th March, 2017. [↑](#footnote-ref-3)
4. The HCA’s Global Accounts dataset contains annual information on the financial status of Housing Associations with a housing stock of 1,000 units or higher. This information includes a breakdown of assets and liabilities and income and expenditure. By adding data on Housing Association ‘Region of operation’ as listed in the Global Accounts ‘Unit cost’ data table to the HCA Global Accounts ‘Entity-level financial statements’ data table, I was able to construct a dataset through which the relationship between location and financial performance could be explored. Additional information on data sources is provided below. [↑](#footnote-ref-4)
5. Additional commentary on this turn to cross-subsidy is provided in social housing trade journals and reports (e.g. Apps 2015, Buckle 2015, Blackman 2017). [↑](#footnote-ref-5)
6. HCA Global Accounts present detailed annual breakdowns of Housing Associations’ income, expenditure, and investment flows. Prior to 2015, HCA Global Accounts did not collate information on Associations’ commercial activities. [↑](#footnote-ref-6)
7. See DCLG official website, available at <https://www.gov.uk/government/collections/rents-lettings-and-tenancies>. Accessed 7th August, 2018. A sub-national figure is provided only for the London region. [↑](#footnote-ref-7)
8. See HCA official website, available at <https://www.gov.uk/government/collections/global-accounts-of-housing-providers>. Accessed 7th August, 2018. The numerator is provided by the total number of conversions from social rent to affordable rent 2015-17, and the denominator is provided by the total social housing stock in 2015. Data on conversions from social to affordable rent is only available from 2015. [↑](#footnote-ref-8)
9. See HCA official website, available at <https://www.gov.uk/government/collections/global-accounts-of-housing-providers>. Accessed 7th August, 2018. In the Global Accounts, ‘Affordable housing’ refers to Affordable Rent, Social Rent, and Shared Ownership (figures for each mode individually are not available). For the ‘Proportion of existing stock’ figure, the numerator is provided by total affordable housing constructed 2015-17, and the denominator by total social housing stock in 2015. [↑](#footnote-ref-9)
10. Data from HCA Global Accounts: ‘Global Accounts-Entity’ tab; ‘Income and Expenditure, Turnover’, ‘Income and Expenditure (Other), Non-social housing – Market rent – Operating surplus’, ‘Income and Expenditure (Other), Non-social housing – Property build for sale – Operating surplus’ columns. Available at <https://www.gov.uk/government/collections/global-accounts-of-housing-providers>. Accessed 8th August, 2018. [↑](#footnote-ref-10)
11. Data from HCA Global Accounts: ‘Global Accounts-Entity unit costs’ tab; ‘Region of operation’ column. Available at <https://www.gov.uk/government/collections/global-accounts-of-housing-providers>. Accessed 8th August, 2018. [↑](#footnote-ref-11)
12. Data from HCA Global Accounts: ‘Global Accounts-Entity unit costs’ tab; ‘Type’ column. Available at <https://www.gov.uk/government/collections/global-accounts-of-housing-providers>. Accessed 8th August, 2018. [↑](#footnote-ref-12)
13. The full data table is available on request from the author. [Included in Annex for the purpose of review] [↑](#footnote-ref-13)
14. Quoted in Barratt (2018). Barratt (2019) also notes that stock of HA ‘built for sale’ homes that remain unsold has risen significantly in recent years. [↑](#footnote-ref-14)
15. In a similar vein, Aalbers et al (2017) and Wainwright and Manville (2017) have recently identified a ‘financialisation’ of social housing provision across Europe, as Associations turn increasingly to a range of instruments to generate funds for investment in increasingly challenging contexts. [↑](#footnote-ref-15)