

# Starter Homes

White Paper conference 13 Oct 2016

Cristina Howick

With thanks to Simon Drummond-Hay

# Agenda

- The conference organisers asked
  - How do starter homes fit into the affordable housing matrix?
  - What are the ramifications?
- I will discuss in turn
  - Basic information
  - Good news
  - Issues
    - (not-so-good news)

# The basics

# The new starter homes

- Planning and Housing Act 2016
  - A new affordable housing product
  - To allow the younger generation access to home ownership
  - New dwellings
  - For first-time buyers aged 23-40
  - Sold at a discount
    - Up to 80% of open market value
    - Capped at £250,000 (London 450,000)
  - Can be resold at market value after five years
  - 20% of all units
    - On sites of more than 10 dwellings or 0.5 ha
  - Subject to regulations still to come
    - Technical consultation closed 30<sup>th</sup> June 2016

# The old starter homes

- Not many people know that
- We already have Starter Homes
- Under the PPG
  - Reference ID: 55-001-20150318
- May be permitted on exception sites
  - Under-used or unviable industrial and commercial land
  - That has not been currently identified for housing
- Controlled by s106 planning obligations
- For young first-time buyers
- With price caps as above

**Good news**

# Should help the hard-done-by age groups

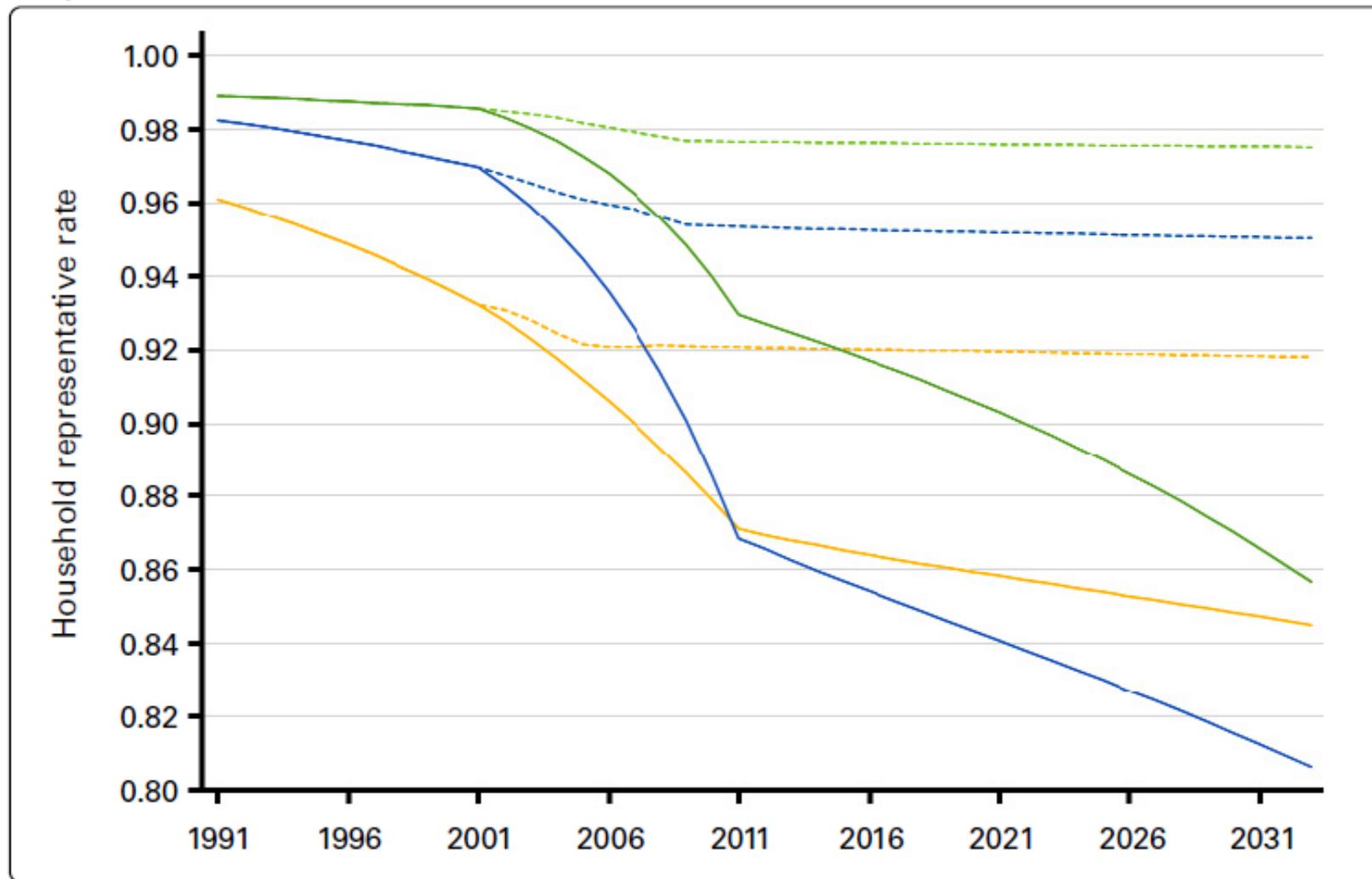
- Young(ish) people
- They do have a problem
- Look at recent CLG household projections
- What are the chances that you'll live in your own home?
- For most groups the chances will improve
  - In the next 20+ years
  - According to CLG projections
- But for the under-35s or under-40s the chances are worsening

# Hard-done-by age groups continued

- *‘Overall, more households are expected to be able to live separately in the 2030s*
- *But the groups whose circumstances improve are*
  - *Older working-age single people*
  - *And retired households*
  - *Not the young*
- *Almost one-in-five couples aged between 25 and 29 are expected to be living in someone else’s home in 2031*
  - *With the problem extending up to those in their thirties*
- *In London the situation is even more extreme*
  - *With young single men living alone almost disappearing’*

Source: C Whitehead, Sir Frederic J. Osborn Lecture, Town and Country Planning Association, 15th Sep 2016

# England



So **Fig. 5 Comparison of household representative rates for young couples**

- 20-24, 2008-based
- 20-24, 2012-based
- 25-29, 2008-based
- 25-29, 2012-based
- 30-34, 2008-based
- 30-34, 2012-based

# What's the problem?

- It's effective demand
  - I.e. what people can afford
  - In competition with others
  - Lower and more unequal earnings
  - Precarious jobs
  - Student debt
  - Welfare 'reform'
  - Dysfunctional tax system
  - Monetary policy

# What isn't the problem

- It's not the planners' fault
- Nothing to do with land supply
- Nothing much planners can do about it
  - Except at the very margin
  - By making houses a bit cheaper
    - Than they'd be otherwise
  - But the leverage is terrible
    - Swimming against the current
  - To stabilise real house prices would need 400,000 dwellings p.a.
    - For many years
  - And even so
  - Say we did allocate land for 400,000 dpa
  - Would all these houses be built?
  - Probably not

# And the solution?

- More land won't help the hard-done-by young
  - If planners provide more housing sites
  - The extra houses go to older and richer people
    - They outbid the young
    - House prices are the same for everyone
- You can argue all you want at the Local Plan examination
  - More land will likely produce more housing
  - But won't help the hard-up young
- Because planning can't control who gets the houses
- Not in the market sector
- Until Starter Homes
- They do do the trick
- A good thing
- But we must ask
  - Can they deliver on the right scale?
  - At whose expense?
    - See below

# Issues

# Where do Starter Homes fit in?

- How will Starter Homes impact on other developer contributions?
  - Are they as well as or instead of traditional affordable tenures?
  - The details are not yet clear
  - Regulations are still to be laid
- But we do know Starter Homes will count as affordable housing
- So is bound to compete with say social renting
  - For achievable developer contributions
  - I.e. for a finite pot of money
  - The CEO of Berkeley Homes says

*‘Development viability is threatened tension between the national policy on Starter Homes and the London’ Mayor’s ambition to build more affordable housing [as well as] the very high rates of Community Infrastructure Levy.’*

# Are Starter Homes affordable housing?

- Frankly no
- They don't meet affordable need
  - (The needs of people who can't afford to access suitable housing in the open market)
- Because they're too expensive
- Second-hand housing is cheaper
  - Source: many SHMAs
- Here's an example

---

## Estimated cost of intermediate housing in xxx (monthly cost)

---

<i>Bedrooms</i>	<i>Open market value</i>	<i>Shared ownership</i>	<i>Starter home discounted 80%</i>	<i>Entry-level private rent</i>	<i>Entry-level owner-occupation*</i>
One	£125,000	£387	£501	£425	£423
Two	£180,000	£557	£722	£575	£643
Three	£235,000	£727	£943	£740	£995
Four	£290,000	£898	£1,163	£900	£1,720

---

'Home ownership with an 80% discount is more expensive than entry-level market accommodation (private rent) and shared ownership accommodation. It is also more expensive than entry-level home ownership, with the exception of three and four bedroom homes.'

**As it costs more than market accommodation it will not be considered as an affordable product suitable for those in affordable housing need (as any household able to access it would also be able to acquire alternative market housing and therefore not be in affordable housing need).'**

# A vicious circle

- Para 29 says (more or less)
  - Check if you're planning for enough market housing
  - To produce enough developer contributions
  - To meet your affordable need
  - If the answer is no
  - Think again
  - Consider planning for more market housing
- But
  - Starter homes count as affordable housing
  - They'll be paid for by developer contributions
  - But they won't help meet affordable need
  - Hence if you plan for more market housing
  - And spend the developer contribution on Starter Homes
  - Your affordable needs won't reduce
  - So you should consider planning for more market housing
  - ... Etc etc

# So who *will* Starter Homes help?

- Probably good if you're not in affordable need
- And can afford to rent in the open market
- Also could afford to buy
- Except for the deposit
- With a Starter Home you can borrow more
- The 20% discount de-risks the loan
- In effect it adds to your equity
- Because in five years' time you'll be able to sell
  - At full market price
- A good deal for the lender too

# Conclusions

# Conclusions

- Executive summary
  - Starter homes won't help people in affordable housing need
    - As officially defined
  - They *will* help young adults
    - Into owner-occupation
  - At the cost of households who *are* in need?
- Next steps
  - The new Government is less focussed on owner-occupation
  - Private-rented version of Starter Homes may be on the cards
  - It would be a radical change

But comments made by Barwell last week indicate that new Prime Minister Theresa May's administration is more interested than its predecessor in the potential for rented homes to boost housing supply. According to reports, Barwell told a conference that, while there was "still a role" for the government in helping people onto the housing ladder, "this can't be at the exclusion of all else". He added that Britain "needs to build more homes of every single type and not focus on one single tenure".

It was also widely reported that Barwell is considering adjusting the Starter Homes target to allow some rental units to count towards the 200,000-home goal. However, DCLG said that this target remains in place.

Philip Barnes, group land and planning director at housebuilder Barratt Developments, said that Starter Homes are currently a discounted market sale product and that, if rented homes were to be added to the definition, "it would appear that a major reconstruction of the policy would be required". Barnes welcomed the government's apparent shift in emphasis towards building more homes of all types. "The scale of the housing deficit is such that a broader policy approach, encompassing both owner-occupation and rental would seem appropriate," he said.

Source: Planning Resource 23 Sep 2016