

# First Homes: London Planning and Viability Implications

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First Homes came into effect on the 28<sup>th</sup> of June 2021.

The product is a new type of affordable home ownership, a discount market sale product, aimed at first-time buyers. Alongside Shared Ownership and Help to Buy, First Homes provides an additional route to home ownership for households unable to afford market housing. Whereas First Homes is restricted to first-time buyers, Shared Ownership and Help to Buy are available to a wider range of buyers needing financial support to buy a home. Government wants First Homes to account for at least 25% of all affordable housing requirements delivered on individual developments through Section 106 planning obligations.

## Eligibility

First Homes is a separate scheme from Help to Buy and Shared Ownership and the three do not overlap. For example buyers seeking a First Home cannot use the Government's Help to Buy Equity Loan Scheme. First Homes eligibility criteria includes having a joint household income of no more than £90,000 in London (£80,000 elsewhere) and local connection tests, and being a first-time buyer. As part of the Section 106 agreements, local authorities can apply their own eligibility criteria, for example they are encouraged to prioritise key workers providing essential services so that they are able to buy homes in the areas where they work. Shared Ownership is subject to the same income caps, but is available to second time movers, downsizers, and a broad range of buyers including first-time buyers.

First Homes will work by making homes available at a discount to open market value of 30%, 40% or 50% subject to a value cap of £420,000 in London (£250,000 elsewhere). The price discount is set at the discretion of the LPA and evidenced through the plan-making process. We expect to see some debate over the discount to apply during this process.

## Affordability

Savills Research team has found that applying a 30% discount on an average 2 bedroom flat would be sufficient to bring the property within the price cap in 298 of 316 local authorities. Of the remaining 18 local authorities, a 40% discount would potentially be required in 15, including St Albans, Elmbridge, Windsor & Maidenhead, Islington, Hackney and Cambridge. Meanwhile, in Kensington & Chelsea, the City of Westminster and City of London, even a 50% discount would potentially be insufficient to bring such property within London's £420,000 value cap.

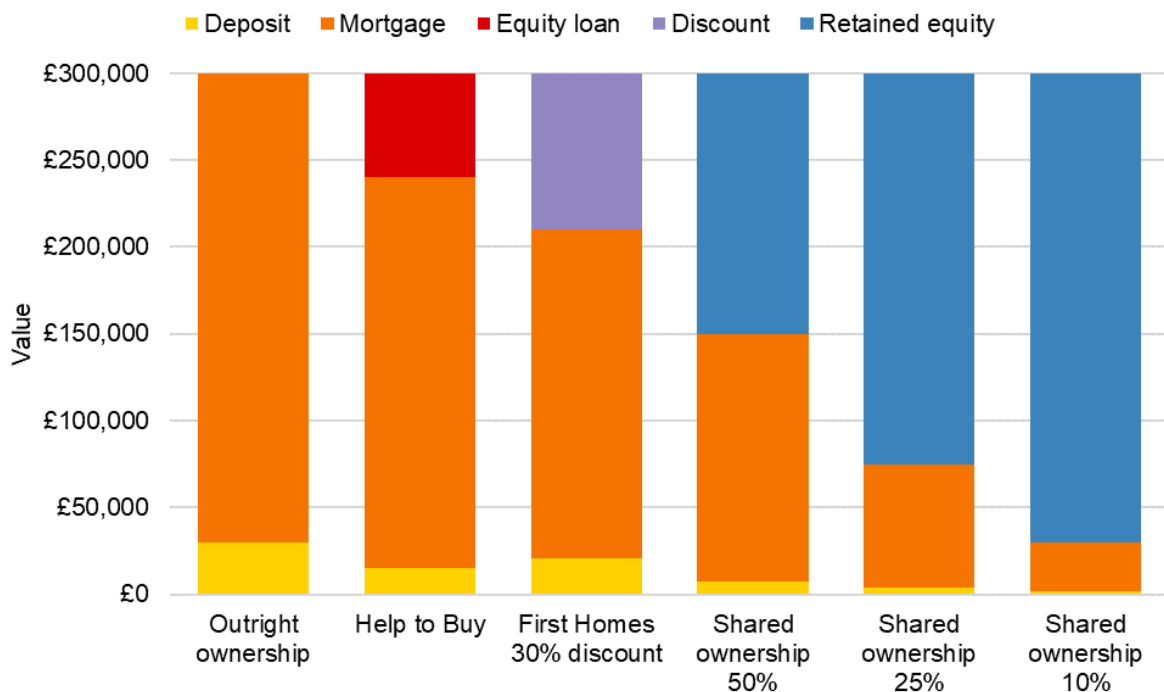
We have interrogated the affordability of First Homes against Shared Ownership and the Help to Buy scheme in relation to the median Help to Buy property at Q4 2020 costing £300,000. The following table demonstrates the minimum deposits and incomes required to acquire the property using Help to Buy, First Homes and Shared Ownership.



	Full ownership	Help to Buy	First Home 30% discount	Shared Ownership 50%	Shared Ownership 25%	Shared Ownership 10%
Minimum deposit	£30,000	£15,000	£21,000	£7,500	£3,750	£1,500
Minimum income	£60,000	£50,000	£42,000	£38,600	£31,300	£27,000

The graph below provides a visual summary of the table. As demonstrated, using First Homes an individual would require a mortgage 30% lower than if they were buying the home on the open market. However, they'd need an even smaller mortgage when buying through Shared Ownership. The level of deposit required to buy the property through First Homes is also higher in comparison to when the property is acquired through Shared Ownership.

First Homes is clearly not a direct substitute to Shared Ownership and there is still likely to be continued demand in light of the smaller deposits required. However, even with both schemes running together, they will deliver far fewer homes than are currently supported through Help to Buy. Approximately 48,980 households buy homes through Help to Buy each year, on average for the last three years. By contrast, we predict developers will build around 6,700 First Homes per year. Grant funding and Section 106 contributions will provide another 30,000 homes per year, on average. This leaves a shortfall of 12,280 supported sale products per year.



Source: Savills, MHCLG

### **Forward funding**

One of the implications of First Homes is that developers active in higher value markets will be hit with bigger discounts on their revenues. That will leave less room for other, more heavily discounted forms of affordable housing and less appetite to deliver larger units through First Homes, due to their associated higher open market value.

Developers usually pre-sell affordable housing to a Registered Provider (Housing Association), with the early income from the sale de-risking part of the development and providing cash flow to pay for upfront site infrastructure. This forward sale will be lost with First Homes, as the developer will take on responsibility for selling the homes along with the other market sale housing on the site.

### **Viability**

At present, Section 106 affordable housing typically comprises a mix of social rent, affordable rent and shared ownership, with shared ownership typically making up 30-40% of the total. Government wants First Homes to make up 25% of these contributions. Whilst the proportion of homes delivered for social rent will largely be protected, the proportion of other tenures will fall as housebuilders divert delivery to First Homes.

Savills Research has **calculated** that Section 106 delivery of Shared Ownership and affordable rent homes would have been 29% lower over the last three years had the First Homes policy been in place. We would have delivered an average 6,700 First Homes per year, but -3,500 fewer affordable rented homes and -2,500 fewer Shared Ownership homes.

It is possible that developers will seek to reduce the overall percentage of affordable housing if viability is negatively impacted – leading to an overall reduction in the quantum of affordable housing, including First Homes, delivered through the planning system.

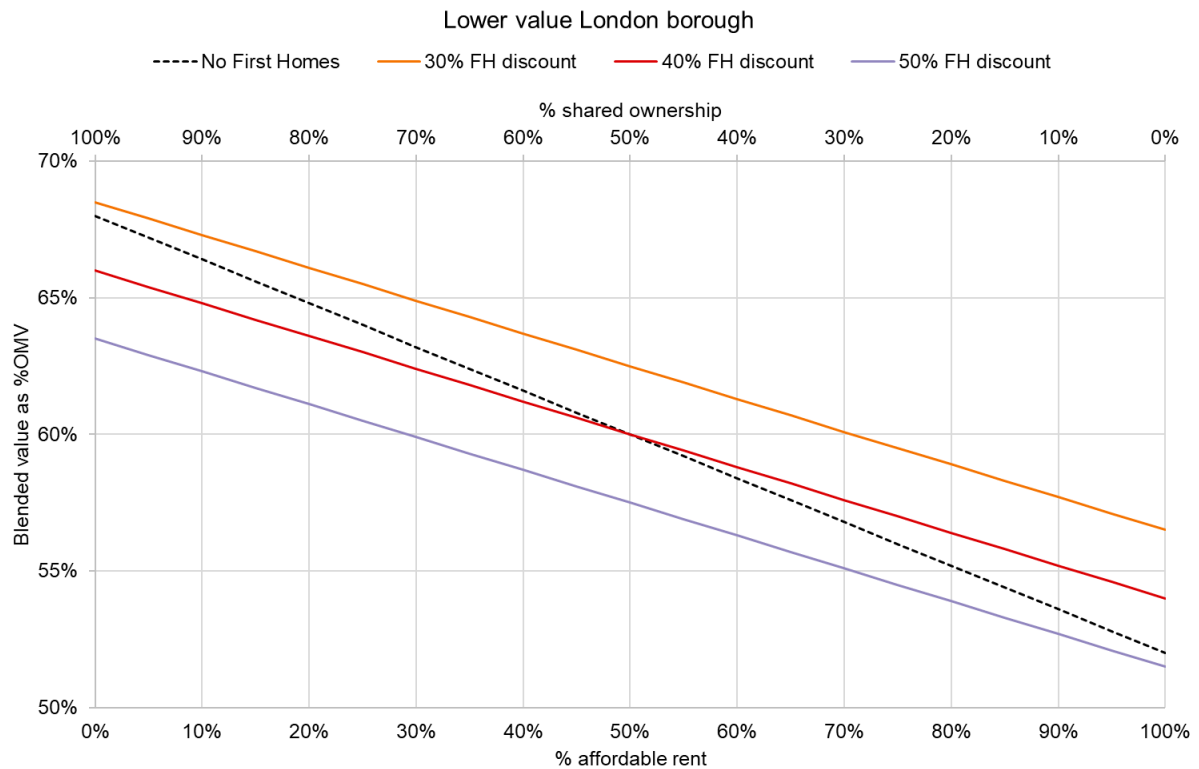
Our research has found that the impact First Homes will have on viability will depend on local residential values and the mix of tenures required in each local plan. We have looked at two illustrative local authorities to show the possible impacts in different parts of London.

#### *Outer London borough*

The 30% First Homes discount is smaller than the discount to open market value for either Shared Ownership or affordable rent. This means requiring First Homes in these outer London markets results in a higher blended value.

However, a 30% discount may not be enough to make First Homes affordable in higher value markets. New homes might need deeper discounts to bring them within the First Homes £420,000 price cap. Where there is a larger discount, our research shows that the a site's blended value is reduced. As such, a 30% discount could work well in outer London boroughs from a viability perspective for developers.





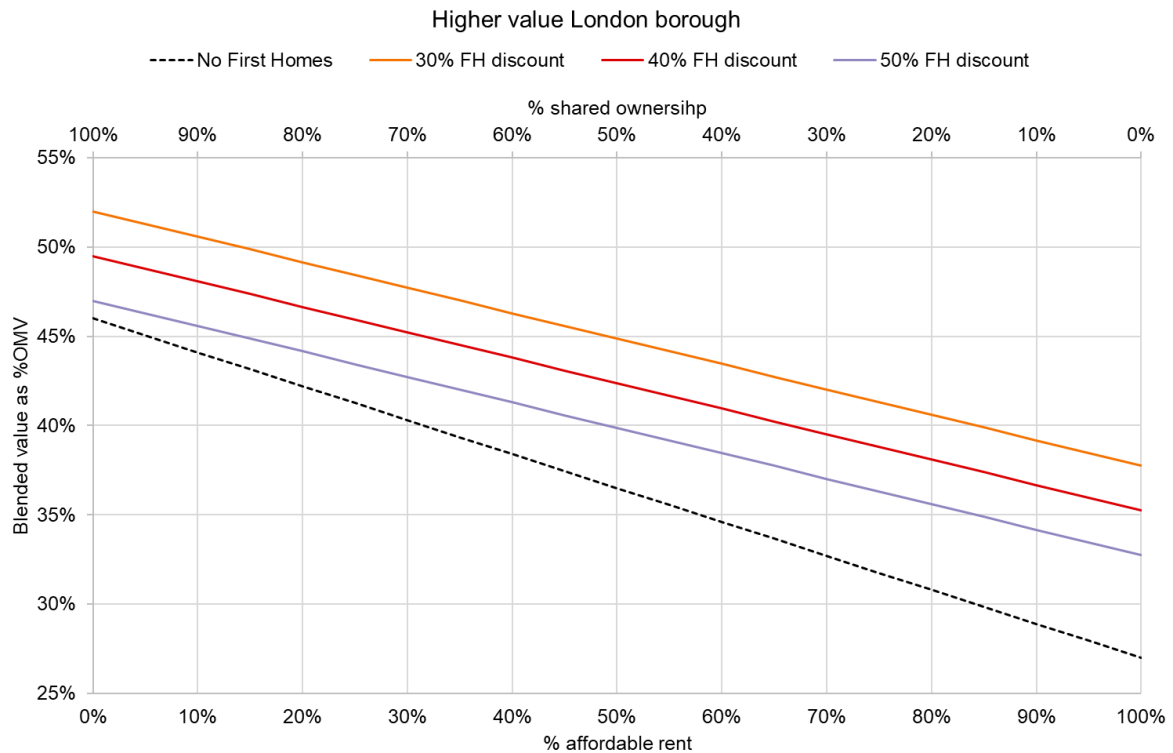
Source: Savills

### *Inner London borough*

Our research shows that the discounts to open market value for Shared Ownership and affordable rent are greater than 50% in the highest value local authorities. This means First Homes results in a higher blended value regardless of whether the discount is 30%, 40%, or 50%.

However, in these prime locations even a 50% discount may not be enough to bring a new home below the £420,000 London price cap. In this case, developers would either need to build much smaller homes, to bring the price below the cap, or to sell homes at discounts greater than 50%.





Source: Savills

### Pilot scheme

As it will take time for First Homes to filter through the planning scheme, the Government is promoting a pilot scheme to provide an initial 1,500 homes. The first discounted homes went on sale in Bolsover District on the 4<sup>th</sup> of June with the Housing Secretary in attendance as part of the Government's pilot scheme. We understand further pilots will be announced throughout the year with Homes England offering developers grant funding to enable developers to offer market housing on a First Home basis. Up to £150m is available to fund 1,500 First Homes, an average grant of £100k. This is substantially higher than the average grant available to provide a home on a Shared Ownership basis – the equivalent grant would fund c.3,000 Shared Ownership homes. The grant provision will not apply to London. It is assumed the grant will not continue once First Homes start to come through the planning system

### Transitional arrangements

There are a series of transitional arrangements in respect to the requirement for First Homes from developments:

- The new provisions do not apply to local plans / neighbourhood plans submitted for examination (or reached publication stage) before 28 June 2021.
- They do not apply to plans submitted for examination before 28 December 2021. However, plans already going through the examination process without a First Homes provision could be



subject to an early review. *“Planning Inspectors should consider... whether a requirement for an early update of the local plan might be appropriate (NPPG)”*

- They do not apply to sites with full or outline planning already in place or determined before 28 December 2021.
- They do not apply to applications for full or outline planning *“where there has been significant pre-application engagement”* and that are determined before 28 March 2022. Significant pre-app is defined as substantive discussions between the LPA and applicant relating to the proposed quantity or tenure mix of affordable housing contributions.

In respect to the planning process, we expect to see uncertainty during the transitional period as councils consider how to make their plans compliant with First Homes even if they are not immediately up for review. Labour run boroughs may see some resistance to adopting new plans that seek to incorporate First Homes particularly as it may squeeze out other forms of affordable housing. The Government expects at least 25% of all Section 106 affordable homes to be delivered as First Homes. The Government has identified that the social rent element should be protected in accordance with the percentage set out in the development plan. The remaining element is to be delivered in line with the affordable tenure proportions set out in local policy. This dissection of affordable tenures could result in a decline in other forms of affordable housing, such as Shared Ownership units.

We expect the Mayor of London to publish his position on how London boroughs are set to deal with the new affordable housing product over the coming weeks. In 2020, Tom Copley, deputy mayor for housing and residential development at the Greater London Authority (GLA), said that the policy *“should be scrapped”* so we expect some resistance.

Moving forward, applications submitted without a significant pre-application process and determined prior to the 28<sup>th</sup> of March 2022 may result in councils seeking a contribution towards First Homes despite their policy not requiring it, and we will need to monitor decisions and appeals to see how LPAs tackle the requirement where it is not part of their development plan. We advise our developer clients working on larger long-term housing sites to keep the First Homes requirement at the forefront of their viability assessments as they are likely to become a requirement when they come to submit planning applications.

## Summary

The First Homes initiative is likely to provide an attractive alternative to first-time buyers due to the potential substantial discounts offered on the open market value of new build properties. With the phasing out of the Government’s Help to Buy scheme by 2023, it is likely that the demand for First Homes and other forms of affordable housing will increase. However, given the strict 25% requirement from the outset and the Government’s current guidance on the preferred tenure split, it is likely that the dissection of affordable housing in this manner will impact the delivery of other forms of affordable housing.

Our research has shown that First Homes will work favourably for developers active in inner London boroughs where the discounts to open market value for shared ownership and affordable rent are greater than 50% in the highest value local authorities. For our developer clients, this is likely to generate a higher blended value regardless of the level of discount applied on First Homes. Conversely a 50% discount in these higher value areas might not bring the First Home in line with the value cap of £420,000, this could result in developers selling homes at greater discounts or delivering smaller units.

In relation to outer London boroughs, a 30% discount generally works well for developers as delivering First Homes at this 30% discount results in a higher blended site value. However, in higher value boroughs deeper discounts may be required to bring a product in line with the £420,000 value cap. Reductions greater than 30% will adversely affect a site's blended value and impact the delivery of First Homes in higher value outer London boroughs. It will be important for LPAs to understand the viability implications when determining the level of discounts through their local plan evidence-based research. We will need to monitor the plan-making process closely across London to ensure that the viability of schemes coming forward is not adversely affected.

Statements from planning authorities explaining how the new product will be applied may take some time to appear. However, it is evident that developers will need to be mindful of the requirement, as national guidance is such that First Homes should be included within any application determined after the end of year, or in some cases, after March 2022. We recommend early discussions with relevant authorities to understand their intended approach to the implementation of the new affordable housing tenure.

