

Policy Response Starter Homes

April 2016

How much do we really know about how Starter Homes will work in practice? What will future Section 106 affordable housing look like?

Starter Homes are beginning to feel real. There have been two consultations out so far this year, one earlier in the year on changes to national planning policy and now a technical consultation on the Starter Homes regulations. But how much do we really know about how Starter Homes will work in practice?

Exception Sites

Of course, some Starter Homes policy already exists. The exception sites policy was announced by the Coalition Government on 2nd March 2015, with amendments to the Planning Practice Guidance (PPG) following later that month.

The opportunity has not so far proved popular with developers and there are few, if any, sites being promoted as Starter Homes exception sites.

The incentives to do so are limited. Whilst such sites are exempt from Section 106 affordable housing and general infrastructure contributions, they remain liable for CIL and site specific infrastructure.

Perhaps the only advantages over promoting a site through the conventional channels is that the PPG requires local authorities to secure a supply of Starter Homes exception sites and that an application for development on such sites should be approved unless it conflicts with the National Planning Policy Framework (NPPF).

Funding and numbers

There is a £2.3bn funding package to support the development of 60,000 Starter Homes. Of this, £1.2bn will be targeted at assembling and remediating brownfield land to provide 30,000 Starter Homes through the Starter Homes Land Fund, equivalent to £40,000 per unit. The remaining £1.1bn (£37,000 per unit) was announced in November's Spending Review, but how it will be used remains unclear.

If 200,000 Starter Homes are to be provided in total, this indicates that the Government is expecting 140,000 Starter Homes to come forward via Section 106.

The aspirations are clear, but a harder question is how many Starter Homes will be truly additional. There has been no substantive movement on buyer qualification (first time buyers aged under 40) leaving huge

overlap in many markets with the much expanded shared ownership programme and Help to Buy. Recent research for DCLG found that 57% of the homes bought through Help to Buy would have been built anyway. Given the currently broad buyer qualification criteria and the nature of the discount (20% for 5-8 years), it seems unlikely that Starter Homes will fare any better in terms of additionality.

Consultations

The consultation on changes to national planning policy covered the expansion of the definition of affordable housing to include a wider range of products, including discounted market sale (i.e. Starter Homes) and innovative rent to buy models. It is proposed

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 "If uncertainty continues, the likelihood of meeting the targets will diminish as the timeframe for delivery by 2020 gets shorter"



that policy should more clearly reflect the “requirement to plan for the housing needs of those who aspire to home ownership”.

The separate technical consultation on Starter Homes regulations covers three main areas of interest:

■ **Changes to the restriction on sale and letting.** It is suggested that the Government is willing to consider increasing the length of the restricted period to a maximum of eight years. The exception site policy currently has a five year restricted period. A tapered approach to the restriction is also proposed, where the proportion of market value that a sale within the restricted period is able to realise steps up to 100% over time.

At the time of writing, the House of Lords has just backed an amendment to the Housing and Planning Bill to extend the restricted period to 20 years, with the discount eroding by 5% each year.

■ **The size of a reasonably sized site:** the Government’s Productivity Plan, published in July 2015, stated that Starter Homes would be required on all “reasonably sized sites”. The preferred option appears to be all

sites of more than 10 units or larger than 0.5 hectares, in line with the Town and Country Planning definition of “major development”.

■ **The more significant question is what proportion of these “reasonably sized” sites should be Starter Homes.** The consultation suggests 20% based on a high level calculation that 22% would be viable on an “average site”. Exemptions from this requirement would be on viability grounds, potentially through a “prescriptive test”, with reasons expected to include exceptional infrastructure costs or “low demand”.

At the time of writing, the House of Lords has just backed a further amendment to allow local authorities to decide their own Starter Homes requirements.

■ **It is proposed that certain types of development would be exempt from providing Starter Homes,** including: supported housing, estate regeneration, affordable housing led developments, student housing and custom build. Purpose built PRS and elderly housing are also considered for exemption from on-site provision of Starter Homes with a commuted sum to be paid instead.

Implications for development

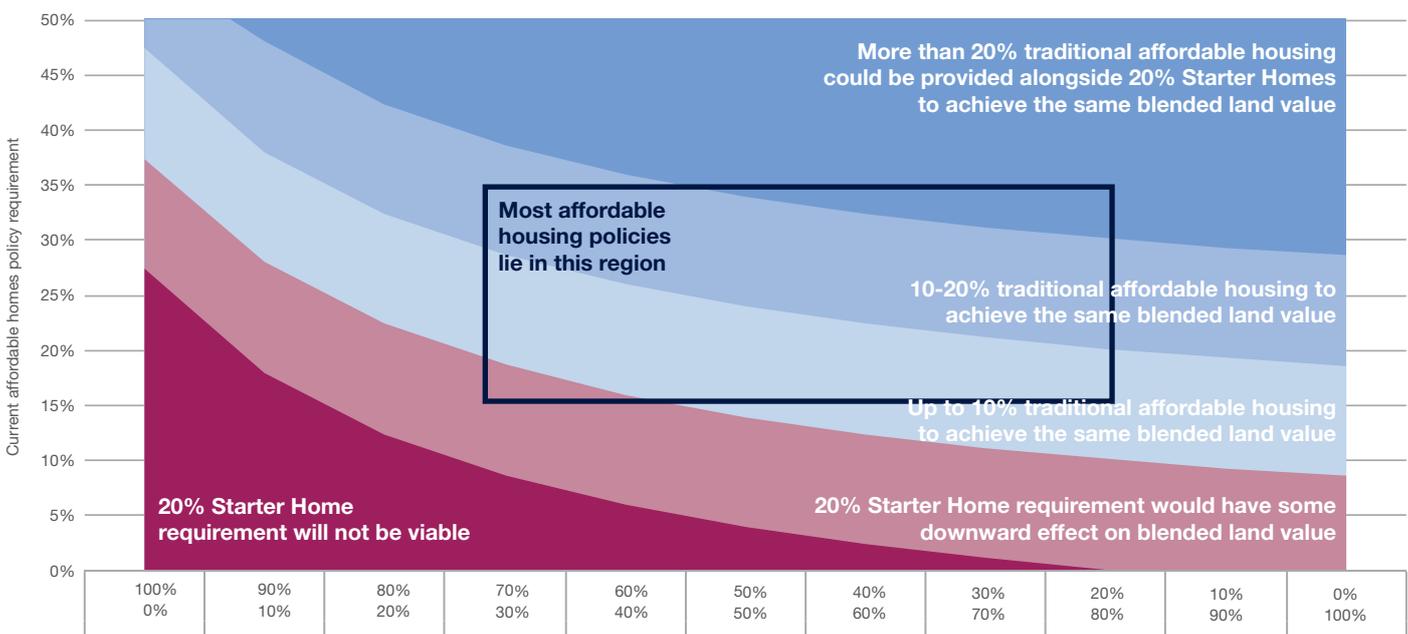
The consultation recognises that local planning authorities should continue to have the flexibility to impose Section 106 affordable housing as an additional requirement to Starter Homes where it is both viable to do so and where there is a demonstrable need. Many local authorities will have ample evidence of need from their Local Plan evidence base, but will affordable housing on top of Starter Homes be viable?

Our high level analysis suggests that this depends on the existing affordable housing policy and how strictly this has been enforced to date. Where there has been delivery of more than 10-15% traditional affordable housing, delivery of 20% Starter Homes will return approximately the same blended land value, but with no capacity for additional affordable housing (affordable rent and shared ownership).

Where there has been relatively high delivery of traditional affordable housing, more than 30%, then the provision of 20% Starter Homes makes a relatively small impact on blended land value. This leaves capacity to continue delivery of at least 15-20% affordable housing (affordable

FIGURE 1

What is the likely viable mix of Starter Homes and other affordable housing?



Affordable homes mix (top = shared ownership; bottom = affordable rent)

Source: Savills Research

rent and shared ownership) in addition to 20% Starter Homes.

Not surprisingly, where there has been limited delivery of affordable housing to date, prevailing land values mean that it will not be viable to deliver 20% Starter Homes.

These results do not include consideration of the potential cannibalisation by Starter Homes of market sales, including those using Help to Buy. Unless Starter Homes can be clearly differentiated, there is a risk that there will be a range of products available on development sites, all appealing to first time buyers within a narrow range of price points.

The 20% discount means that Starter Homes are likely to be the more attractive option for buyers, detracting from the sales rate of full market sale homes, impacting cashflow and having a downward effect on blended land value. The consequence of this would be that lower proportions of traditional affordable housing could be viably delivered alongside Starter Homes than this analysis suggests.

If the issue of product overlap can be resolved, our analysis suggests that 10-20% traditional affordable housing can still be viably delivered in addition to 20% Starter Homes on sites that have been delivering 20-30% traditional affordable housing.

Still unknown – value of a Starter Home

There are a range of valuation questions that remain unresolved. This has serious implications for mortgage lenders trying to understand the value of their security.

■ What will people pay for Starter Homes?

► How should the open market value for a Starter Home be benchmarked if there is limited comparable evidence and how should this benchmark value be kept up to date in a potentially fast moving market?

► It is clear that the minimum 20% discount that disappears in five (or eight) years is worth something at the point of sale. We have estimated that the value of this 20% that can be realised in five years' time may mean buyers are prepared to pay well over 90% of full market value. Should this be avoided and, if so, how?

■ What happens if a Starter Home is repossessed within the five or eight year restricted period?

What size and spec?

There have been concerns that sites may be rendered unviable or the quality and size of Starter Homes could be compromised where prevailing new homes values are substantially above the maximum value caps of £450k in London and £250k for the rest of England.

Under the exception sites policy, local planning authorities are expected to work with developers to ensure Starter Homes are “well designed and of a high quality”. There is therefore a balancing act to play between obtaining a mix of units to meet housing need and ensuring viability.

The technical consultation proposes a commuted sum could be paid where the discount would need to be substantially greater than 20% for the sales values to fall beneath the maximum value caps. The Starter Homes requirement would then need to be provided elsewhere.

The option to pay a commuted sum potentially solves the viability problem, but leaves the local authority with a need to build Starter Homes somewhere else.

There is likely to be a political imperative in many areas to spend the commuted sum within local authority boundaries but, particularly in the highest value districts, there may not be available development land on which Starter Homes can viably be built. A more flexible approach may therefore be required.

Local authority resourcing is also a constraint and many have made little progress to date in spending commuted sums paid in lieu of affordable housing contributions. The total amount of money from commuted sums held by local authorities across England increased by 71%, from £3.6bn to £6.2bn, during the year to March 2015.

Continuing uncertainty

The results of the policy consultation are currently under review. The technical consultation closes on 18th May and we then have to await the Government's response. This means the uncertainty around how Starter Homes will work in practice is likely to persist at least until the autumn.

If the very clear Government aspirations for Starter Homes delivery are to be realised, the remaining unresolved questions need answering over this time period. If uncertainty continues, the likelihood of meeting the targets will diminish as the timeframe for delivery by 2020 gets shorter. ■

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