Briefing

Briefing: response to the consultation on First Homes

This briefing establishes policy principles that the Government could adopt to deliver a home-ownership scheme, one that helps people access home ownership in their local area, and loosens the grip of poverty for people on low-incomes, often key workers in our society.

We hope this consultation process will ensure an inclusive solution, one that supports potential home-owners on a low income, and also ensures people with more acute housing needs can escape poverty's grasp.

Rachelle Earwaker
Economist

Recommendations - the Government needs to:

1. Move away from arbitrary discounts on new build properties, and towards better understanding what is holding back those who want to access home ownership (including saving for deposits and the affordability of paying a mortgage). This information should then be used to design schemes which benefit a much wider demographic.
2. Propose a funding approach for affordable home ownership which expands over all of the affordable housing supply, so supporting potential home-owners does not tighten poverty's grip on those in the most acute housing need.
3. Ensure that affordable home ownership policies recognise and respond to local housing need and do not override the need for other tenures, particularly social rent, where they are the best means of addressing local housing need.

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JOSEPH ROWNTREE FOUNDATION

Summary and recommendations

In proposing First Homes, the Government is seeking to help people access 'the dream of home ownership' in their local area. The First Homes model is designed to offer potential buyers the option to do this by lowering both a prospective buyer's upfront deposit and ongoing monthly mortgage repayments through a 30% discount.

JRF welcomes the Government's attempts to enact targeted home-ownership support. However, as currently proposed, First Homes will not solve the problems facing those locked out of home ownership, while at the same time it risks negatively impacting the supply of affordable housing; it could redirect developers' contributions away from affordable homes for rent, which best meet the requirements of those in housing need.

This is because, as currently proposed, First Homes:

1. **Would only help a narrow group of potential home-owners**. Our affordability analysis shows that a 30% discount on the value of a new-build property is insufficient to bring those homes within the reach of many would-be buyers across the country. First Homes would be out of reach for single-earner households on lower quartile or median earnings, only becoming attainable for dual earners with two people working full-time and earning median earnings. When saving for a deposit is factored in, this could exclude much larger groups such as those with their incomes diverted towards childcare costs. As such, the policy may only support those already on the cusp of home ownership.

2. **Risks mainly helping people already able to access home ownership move into more expensive homes**. The new-build premium offsets the discount offered on First Homes in most regions in comparison to the average home a first-time buyer would purchase. In most regions it would be cheaper for a prospective buyer to purchase in the secondary market than buy a First Home, meaning the greatest beneficiaries of First Homes could be those already able to access home ownership, and the policy would simply enable them to buy new homes.

3. **Would have a limited impact in helping key workers access home ownership**. An explicit aim of the First Homes policy is to support key workers into home ownership. Our analysis shows that First Homes would be out of reach of key workers on lower incomes, whether because their professions are lower paid, or they are in the early stages of their careers. This is particularly stark for those in caring professions.

4. **Would divert funds from much needed social housing towards support for home-owners**. Using developer contributions to fund First Homes could re-direct a significant amount of support away from much needed social housing, towards a form of subsidised home ownership which, as set out above, will

benefit a narrow and more affluent pool of potential owners. In our modelled scenarios we estimate that nearly half a billion pounds could be redirected from social rented housing into First Homes, the equivalent of over 3,500 social rented homes a year. This is particularly important given that section 106 now accounts for almost 60% of social homes delivered (MHCLG, 2019).

5. **Threatens to disregard local assessments of housing need**. As currently proposed, First Homes acts as a top-down imposition on local areas to deliver an increase in subsidised home ownership. This threatens to override work done at a local level through Strategic Housing Market Assessments to determine the sort of housing that is needed in local communities. Local authorities are well placed to determine the need for affordable housing in their areas, both in terms of quantity and type, and central government should not undermine this.

Given these considerations we do not recommend that this proposal is implemented as currently proposed. If the Government is committed to ensure more households can access home ownership, including those on lower incomes, we recommend that when reconsidering the proposal, the Government should:

1. **Move away from arbitrary discounts on new build properties** to understand the barriers facing those who want to access home ownership (including saving for deposits and the affordability of paying a mortgage), using these to design schemes which can benefit a much wider demographic.

2. **Propose a funding approach for affordable home ownership which expands over all affordable housing supply**, therefore ensuring that supporting potential home-owners does not come at the expense of those in the most acute housing need.

3. **Ensure that affordable home ownership policies recognise and respond to local housing need** and do not override the need for other tenures, particularly social rent, where they are the best means of addressing local housing need.

Finally, this consultation into the First Homes policy was realised prior to the outbreak of COVID-19 (coronavirus) in the UK. Given the outbreak, and subsequent and expected economic impacts in the housing market, the Government should evaluate whether First Homes is the right policy for now, and whether a focus on other housing tenures and programmes could provide greater certainty.

Firstly, the COVID-19 outbreak and lockdown have shown the weaknesses in our housing system, with too many households stuck in precarious and unsuitable housing circumstances. The Government should evaluate whether these insights direct policy towards supporting a narrow group into home ownership, or whether as a society we should be looking to address the housing circumstances of those on the lowest incomes, particularly through expanding the supply of low-cost homes for rent.

Secondly, COVID-19 may have medium to long-term impacts on the construction sector, house builders and developers. Given the strong role that the housing sector can play in stimulating the economy, it will be important to consider whether First Homes are likely to help or harm these efforts.

1. Affordability and targeting (Questions 1 and 30)

Currently, the significant factors preventing households from accessing home ownership are the **affordability of repaying a mortgage, and saving for a deposit**. It is welcome that the First Homes policy has focussed on addressing these issues.

However, its current design in offering a 30% discount on new-build properties is unlikely to be enough to ensure that households currently shut out of the housing market can access home ownership.

Through existing home ownership support (such as Help to Buy), first-time buyers (FTBs) on high incomes are already supported to access home ownership when deposit requirements are low (for example 5% through Help to Buy), interest rates are low, and they have sufficient income to maintain the mortgage payments. However, for those on lower incomes, both repaying a mortgage, and finding the savings to pay for a deposit while rent prices take up a large proportion of income, is difficult.

JRF's analysis shows that the First Homes proposal doesn't address these issues in the majority of regions in England for households on low to medium incomes, and for households with key workers - particularly compared to the price of an average home in the secondary market for an FTB if the scheme did not exist. This is due to two factors:

1. **The new-build premium** offsetting the discount on the property in the majority of regions, in comparison to the average property purchased by an FTB. This makes the discounted price of a First Home property either more expensive than the average FTB property, or only marginally cheaper, and also means the deposit required on the property is again, either more expensive than a deposit on an FTB property, or only marginally cheaper.
2. **Average house prices are still too high** relative to low to middle incomes in some regions. Property discounts of 40% or 50% deposits are often still insufficient to bring mortgage payments to an affordable level for the ideal beneficiaries of this scheme, with households paying no more than 30% of their net income on their mortgage.

As a result, the First Homes policy as proposed would only help a narrow group of households into home ownership, while many others who do not require support to access home ownership would be supported to buy new-build properties.

Affordability of repaying a mortgage and saving for a deposit

In this section we will present JRF's analysis of the affordability of the First Homes proposal, using a definition of affordable housing which assumes that no household should be paying more than 30% of their net income on their housing costs (rent, or mortgage payments).

Taking the median and lower quartile (LQ) earnings by region (and assuming no issues with mortgage applications, or saving for a deposit), we have calculated the maximum amount a household would be able to afford to spend on their housing costs through mortgage and interest payments without exceeding 30% of their net income. This assumes a 25-year mortgage at an interest rate of 5%i.

Using the maximum amount that these households could reasonably afford to spend on repayments for their home, the price of a new dwelling discounted by 30%, and the price of an average first-time buyer property[ii] (with 10% discounts applied to these prices to account for a 10% deposit), the case for the First Homes proposal is poor.

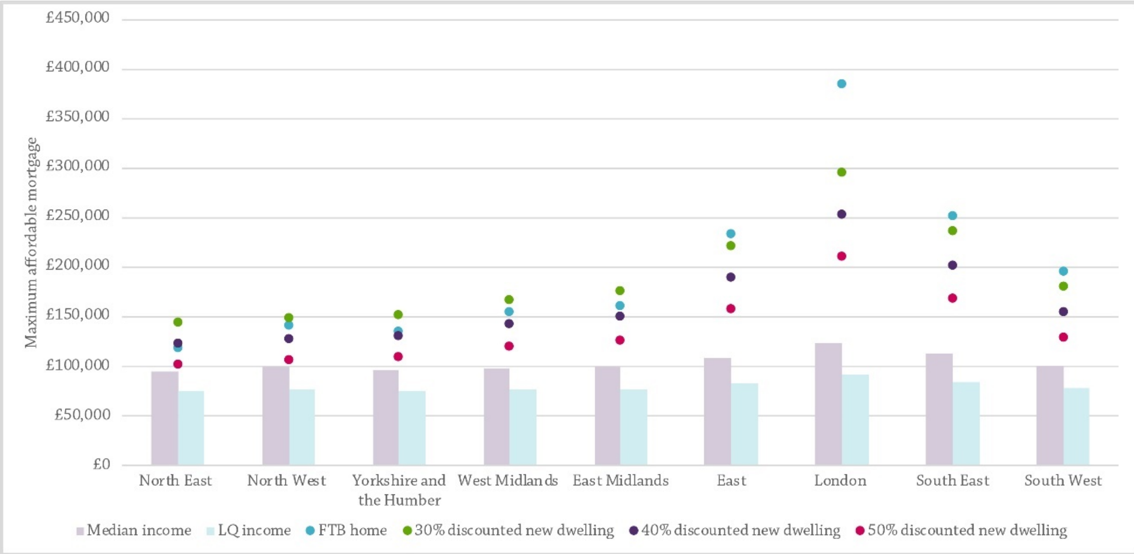
No single-earner household earning up to the median income would be able to afford a First Home, and for those on two times LQ earnings, a First Home is only just affordable for households in the North East and North West, and not affordable in other regions. For households earning two times the median income, the proposal is better, but not for every region – a First Home would still remain out of reach for dual-earning households in the East, London and South East.

Increasing the discounts on First Homes to 40% or 50% would improve the affordability of the First Homes proposal to the extent it would be accessible for those on low or median wages, but not for all households, and not for all regions.

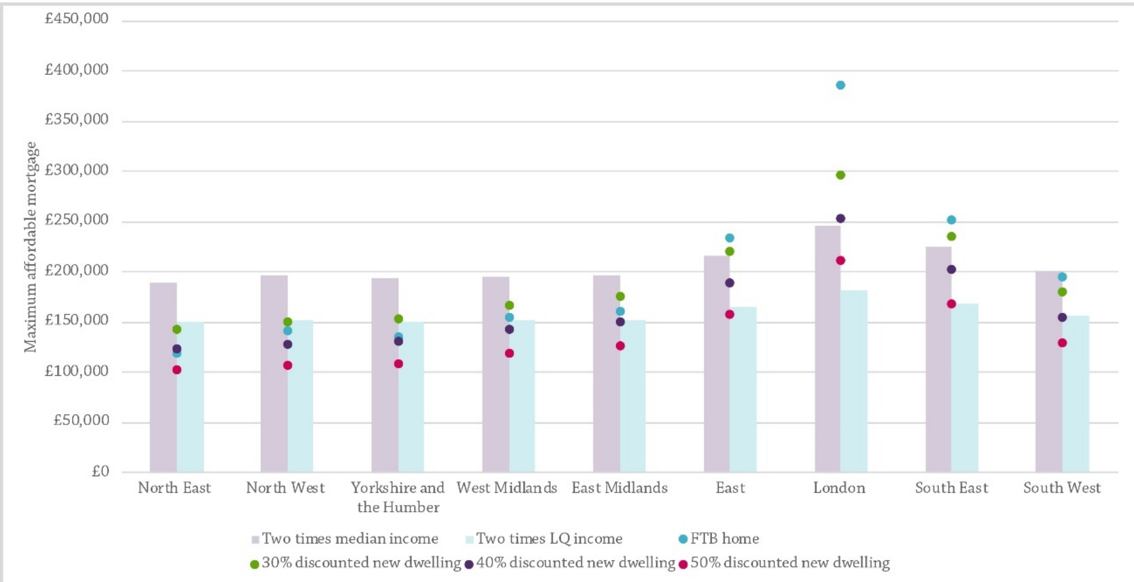
Even with 40% and 50% discounts on the average new dwelling price per region, no single-earner households earning up to the median income would be able to afford a First Home, as well as households earning twice the LQ income in London. In the South East and East, a First Home would only be affordable at a 50% discount for a dual-earner household earning two times LQ income. For households earning twice the median income, a First Home would be affordable in all regions except for London at a 40% discount. In London, a 50% discount would be required for a First Home to be affordable.

It is also important to look at whether or not households who may be able to afford a First Home, would be able to afford a home in the current market without the policy. In the North East, North West, Yorkshire and the Humber, West Midlands and East Midlands, it is cheaper to purchase an average first-time buyer property than a First Home. This means that while a First Home would be affordable, it would only benefit those who are already able to purchase a home on the open market. This undermines the case that First Homes, in these regions, would help households onto the housing ladder, rather than helping those who could already access home ownership move into more expensive properties. This goes against the expressed aims of the scheme.

Graph 1 - Maximum individual affordable mortgage compared with the cost of new dwellings at 30%, 40% and 50% discounts, and undiscounted FTB homes



Graph 2 - Maximum affordable mortgage for two times income, compared with the cost of new dwellings at 30%, 40% and 50% discount, and undiscounted FTB homes



JRF analysis of 2019 ONS Earnings and Hours worked data and 2019 ONS Quarterly House price index. All house prices are discounted by a further 10% to account for deposit requirements.

In all these scenarios, First Homes would only benefit a narrow group: dual-earners, working full-time and earning average wages. Those with only one income, such as single people, single parents, and couples who only have one earner due to caring responsibilities, would not benefit from First Homes. Similarly, in much of the country those who earn below average wages, many of whom may be in vital roles and/or key workers, will not find that First Homes brings ownership with their reach.

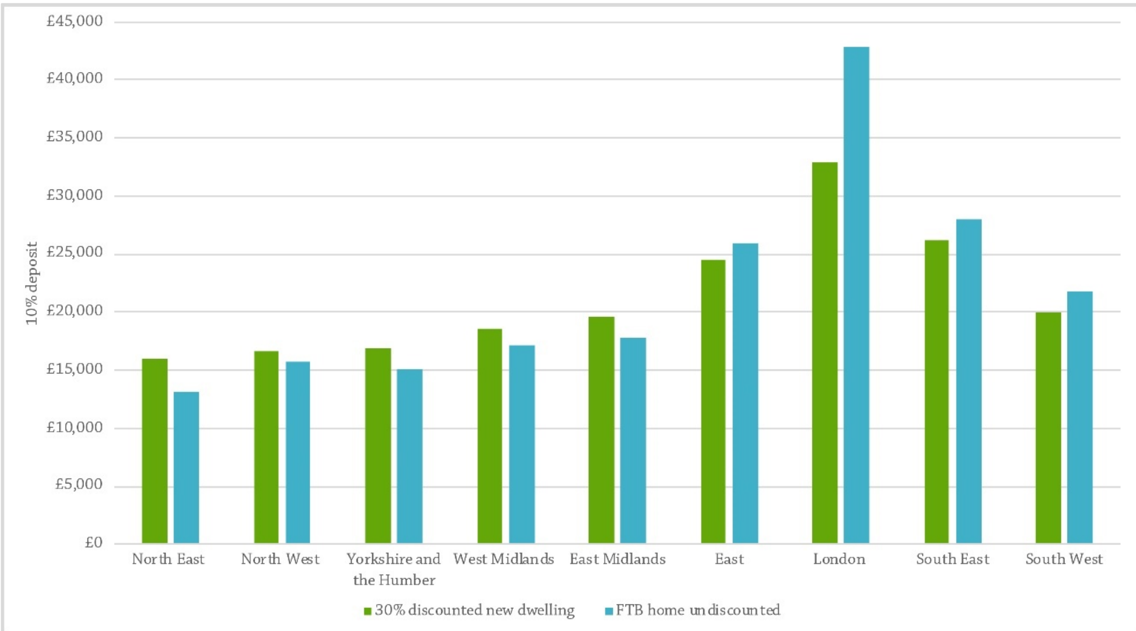
This analysis shows that an arbitrary 30% discount on new dwellings would not be an effective way of making home ownership affordable for low- to median-income earners, even for households earning two times the median income. In regions where a First Home would be most affordable, it would be cheaper to purchase an average

FTB home at market price. This highlights that the intended outcome, of making home ownership more accessible to FTBs for whom current policies aren't working, unfortunately isn't achieved with this policy.

The above affordability pressures will likely be compounded by saving for a deposit. Those who do not have the facility to commit a significant chunk of their earnings towards savings, for example, owing to other high-expenditure requirements such as travel to work or child-care costs, will still find themselves struggling to access First Homes.

Given the issues with the new-build premium outlined above, the deposit required for a new dwelling discounted by 30% (a First Home) would either be higher than the deposit required for an average first-time buyer property, or would only be marginally lower (Graph 3).

Graph 3 – The amount of money for the 10% deposit needed for a 30% discounted new dwelling, and undiscounted FTB home



JRF analysis of 2019 ONS Quarterly House Price Index

As such, the level of deposit required to access a mortgage for a First Home is also significant, ranging from £16,000 in the North East to £33,000 in London (based on a 90% Loan-to-Value ratio). Given high rental costs in relation to incomes across the country, and that 63% of renters have no savings (MHCLG, 2017/18), these are still significant deposits, that may not be low enough to allow more first-time buyers, key workers or local people currently locked out of home ownership, into the market.

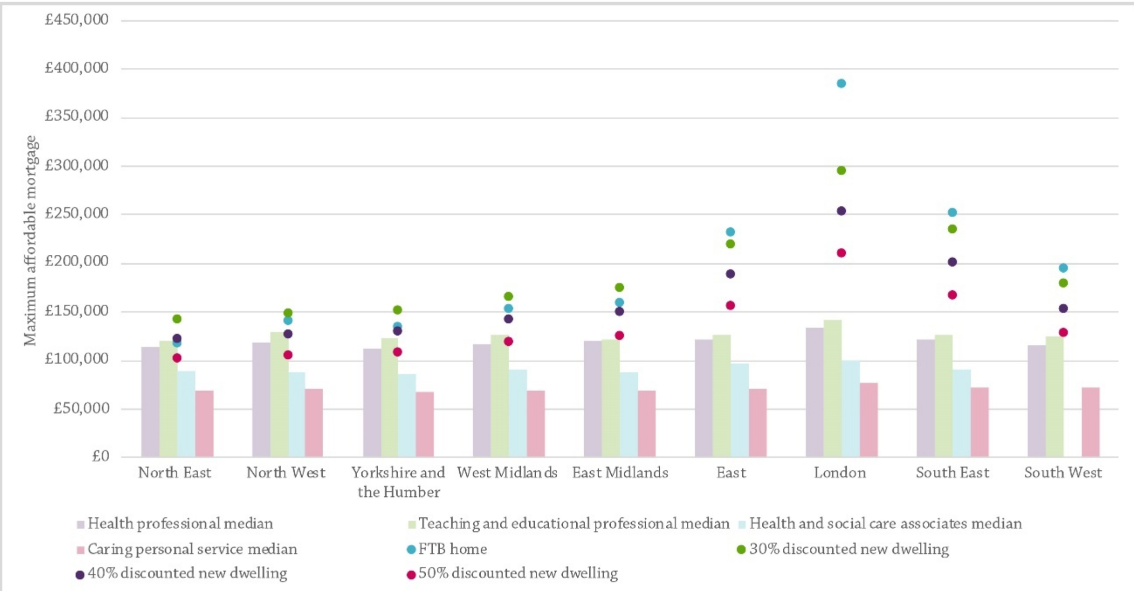
Overall, the above analysis shows that First Homes for key workers would have mixed outcomes, dependent on where you lived, and whether you had two strong incomes in a household. The First Homes policy appears to continue to be out of reach for those on low to middle incomes who do not have another earner in their household – and would be effectively out of reach for those in the caring and personal service professions. This would exclude those in lower-paid key worker roles such as caring, which as current events have shown provides a vital service to the country, and those in the earlier stages of their careers.

Key workers

The First Homes proposal also aims to improve access to home ownership for key workers. We replicated the analysis above for four key worker professions: health professionals, teaching and education professionals, health and social care associates, and caring personal service occupations. The analysis shows a similar story of the policy not achieving its objectives, particularly for households on a single income, and shows that home ownership is effectively out of reach for those in the caring personal service roles, and is limited for those working as health and social care associates.

Graph 4 shows that for households earning the median income, the North East and the North West are the only regions where a home would be affordable at a 40% discount rate (and not for all key workers), and in Yorkshire and the Humber, and the West Midlands, a home would only be affordable with a 50% discount. Even at a 50% discount rate, on a median income, for homes in the East Midlands, East, London, South East and South West, home ownership would remain out of reach. Households earning up to the equivalent of median income for their sector would not be able to afford a First Home discounted by 30%.

Graph 4 - Maximum individual affordable mortgage for key workers on median incomes, compared with new dwellings at 30%, 40% and 50% discounts, and undiscounted FTB homes[iii]



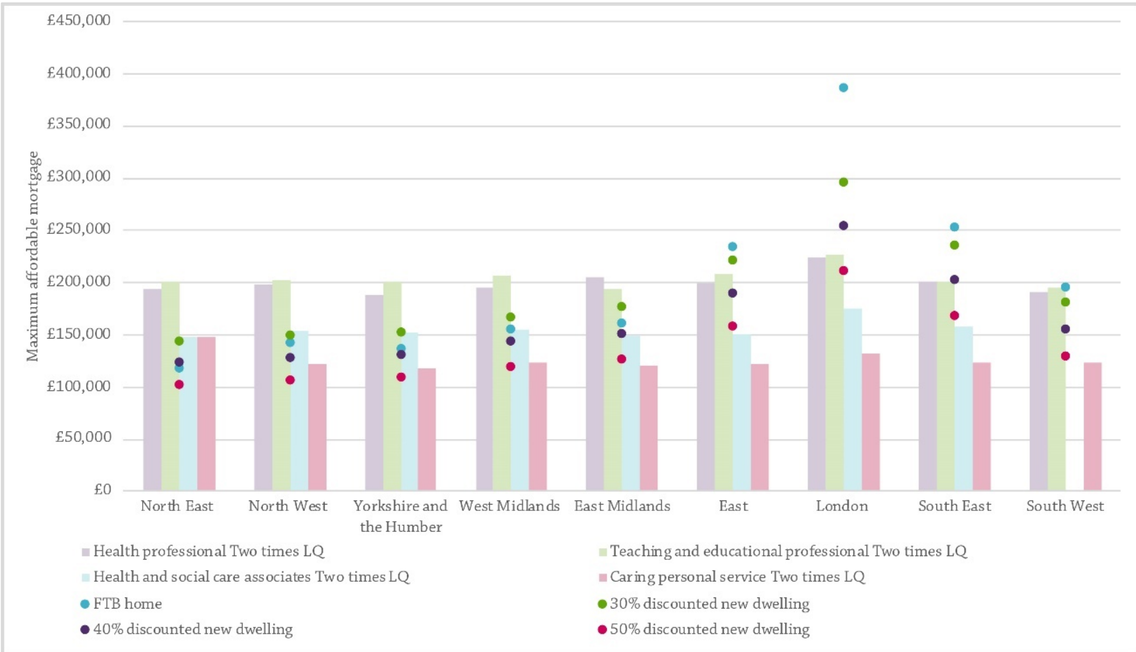
JRF analysis of 2019 ONS Earnings and Hours worked data and 2019 ONS Quarterly House price index. All house prices are discounted by a further 10% to account for deposit requirements.

As illustrated in Graph 5, for dual-earner households with two full-time workers on LQ incomes, the story is better – but again, not for all regions and not for all professions. For caring personal service roles, a First Home is unaffordable in the majority of regions – with it only being affordable in the North East, North West, Yorkshire and the Humber and West Midlands at a 50% discount. For health and social care associates, a

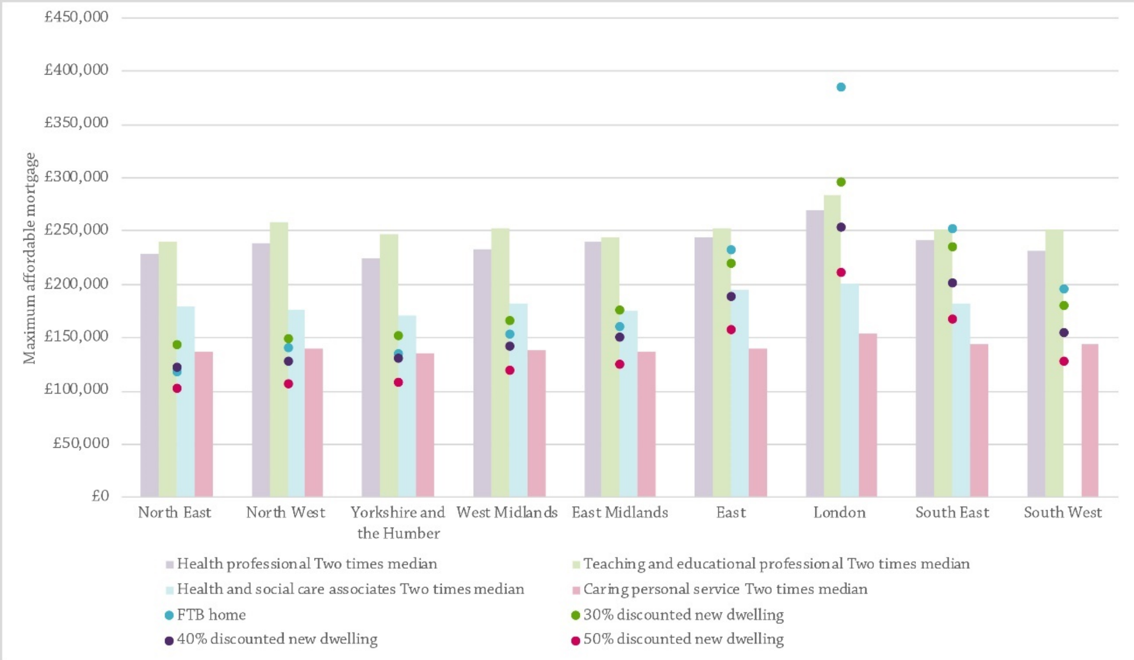
30% discounted First Home would only be viable in the North East and the North West; 30% discounted First Homes would remain out of reach for all four key worker professions in the East, London and the South East.

For households earning two times the median income in each of these professions (Graph 6), the affordability picture improves – but for those in caring and personal service roles, a First Home at a 30% discount would still not be affordable in any region. In London, none of our key worker professions would be able to afford a First Home at a 30% discount even when earning twice the median income for their professions.

Graph 5 - Maximum individual affordable mortgage for key workers on two times LQ incomes, compared with the cost of new dwellings at 30%, 40% and 50% discounts, and undiscounted FTB homes



Graph 6 - Maximum individual affordable mortgage for key workers on two times median incomes, compared to the cost of new dwellings at 30%, 40% and 50% discounts, and undiscounted FTB homes



JRF analysis of 2019 ONS Earnings and Hours worked data and 2019 ONS Quarterly House price index. All house prices are discounted by a further 10% to account for deposit requirements.

2. Developer contributions for First Homes at the cost of affordable renting tenures (Questions 20 to 22)

There is a considerable risk that plans to fund First Homes through developer contributions will redirect funding away from much needed homes for social rent, thereby redistributing support from those with the most acute need towards those who are relatively more affluent, with little regard for the housing needs in local communities.

This is particularly important given that developer contributions are an important factor in the supply of social rent homes. In 2018/19, around 60% of all social rent additions were through developer contributions (MHCLG, 2019). Undermining this route for new supply risks further compounding issues of housing need.

The Government's First Homes consultation document sets out three scenarios for the number of First Homes which could be delivered. These are:

1. 40% of section 106 units are required as First Homes, delivering 8,000 First Homes through section 106 and a further 4,000 through exception sites.
2. 60% of section 106 units are required as First Homes, delivering 12,000 First Homes through section 106 and a further 4,000 through exception sites.
3. 80% of section 106 units are required as First Homes, delivering 15,000 First Homes through section 106 and a further 4,000 through exception sites.

Scenario 1 is proposed as a baseline in the consultation document, given that currently around 40% of all homes delivered through section 106 are for affordable home ownership, with a majority being for shared ownership.

It should be acknowledged that presenting this rate as the baseline is somewhat misleading. Policies which determine the types of affordable homes which should be delivered through section 106 are determined, and therefore best understood, locally.

In areas with significant affordability pressures a local plan may dictate a much smaller proportion of affordable home ownership units should be brought forward through developer contributions, in favour of a higher rate of rented units. What is more, the high proportion of affordable home ownership units may in itself be a consequence of the viability loopholes the Government has itself taken positive steps to close (Grayston, 2018). However, for the purposes of this response we have modelled potential impacts on the supply of social rent units using these figures as a starting point.

Table 1: The impact of value-in-kind redirected developer contributions

Number of First Homes delivered through section 106	Cost of delivering First Homes (£ million)	The amount of in-kind developer contributions redirected from rented housing to affordable home ownership (£ million)	The amount of in-kind developer contributions redirected from rented housing to affordable home ownership (equivalent to social rent units)
8,000	£550		
12,000	£850	£300	2,000
15,000	£1,050	£500	3,500

JRF analysis of MHCLG's Lord et al's report, The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17. Figures rounded to nearest £50 million and 500 units.

Our analysis has estimated the implied value of in-kind developer contributions towards affordable housing, to understand how these scenarios would impact the supply of affordable housing for rent (Lord et al, 2018).

We have taken the figures from 2016/17 and uprated them to 2018/19 using the ONS' quarterly house price index for average new dwellings in England to calculate the overall in-kind cash value of uncommitted developer contributions, and the implied subsidy for different forms of affordable housing. Using this we have estimated a figure for the in-kind cash value of First Homes in each of these three scenarios (8,000, 12,000 and 15,000 homes). From this, we can estimate how much funding could be diverted towards First Homes in the Government's proposed scenarios.

Doing this shows that increasing the number of units for affordable home-owners from 8,000 to 12,000 would redirect around £300 million a year away from rented social housing to affordable home ownership. Were the number of First Homes to increase from 8,000 to 15,000 this would redirect around £450 million a year from rented social housing to affordable home ownership. This would equate to around 2,000 and 3,500 social rent homes a year in each respective scenario.

This demonstrates that a funding mechanism for First Homes which relies on developer contributions risks fundamentally undermining the supply of homes for social rent, redirecting this support to more affluent prospective home-owners.

Furthermore, the approach proposed in this consultation for top-down requirements for First Homes fails to take account of local need. Through local plans and strategic housing market assessments local authorities have determined, or are in the process of determining, the housing needs in their areas, supported by local democratic oversight. Overriding this with the mandate that local authorities should prioritise First Homes without regard to determined local need is unwise. If the Government is to introduce First Homes as a new affordable tenure, it should be for local authorities to determine where they can make a contribution to housing need, and for them to include them in local plans on affordable housing policies accordingly.

While we encourage increasing the supply of housing across all tenures in England, we do not support encouraging a home-ownership proposal that will not work for households on low to average incomes, and in addition, will be at the expense of desperately needed affordable rentals.

3. First Homes and the recovery post COVID-19

The First Homes consultation document was produced before the COVID-19 outbreak and lockdown. The exact impact that the crisis will have on the housing market is still unknown, but we know that the crisis will significantly impact households' incomes, confidence and appetite to make key life decisions such as the purchase of a first home. The environment that many key workers are operating in is also changing rapidly. The crisis has also highlighted the precarious, unsuitable and unstable housing situations that many households are in due to a lack of quality, low-cost housing in England that allows everyone to live in a decent, affordable home.

While the Government has taken some positive steps to address these impacts, such as reinstating the Local Housing Allowance (LHA) at 30% of local rents, there is still more that can be done. In immediate response to the crisis the Government should lift the national LHA cap to ensure all rental areas benefit from the increase, and raise the LHA rate to cover at least 50% of local rents. When thinking about the economic recovery for the UK in the medium to long term, the Government must consider how the housing and construction sector can be used to help stimulate the economy.

The current lockdown effectively freezing the housing market has resulted in heightened uncertainty around market values. As such, introducing First Homes in the near term may have delivery challenges, as the value and the discount of the property is so key to the proposal. The Government should look at what other housing supply programmes and tenures could better suit the current environment – for example supporting the delivery of social rented homes, as these homes have a guaranteed income stream and the rent is more independent from market change and risk.

As a society we believe in taking care of people on low incomes, who are providing us with vital services, because it’s the right thing to do. We should be looking to address the housing circumstances of these people, particularly through expanding the supply of low-cost homes. First Homes as proposed will not achieve this. We hope the Government will take this opportunity to create an inclusive support scheme, one that supports potential home-owners on a low income, and also ensures people with more acute housing needs can escape poverty’s grasp.

Notes

[i] Based on FCA responsible lending recommendations that affordability assessments must normally be based on a capital and interest basis, and on a maximum term of 25 years, lenders should assess if consumers could still afford their mortgage if at any point in the first five years of the loan, their mortgage rate increased to 3% higher than the current rate taken out.

[ii] Note that the prices for new dwellings and first-time buyer properties are averages by region, and do not account for size, specific location, and so on.

[iii] Note that the key worker data is not available for health and social care associates in the South West – we can assume that the affordability of a First Home here would be somewhere in between health professions and caring and personal service professions in the South West.

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About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - We can solve poverty in the UK - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from www.jrf.org.uk

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