

London First response to the Ministry of Housing, Communities and Local Government's consultation:

First Homes: Getting you on the ladder

About London First

London First is a business campaigning group with a mission to make London the best city in the world to do business, for the benefit of the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital. We are made up of over 200 leading employers across a wide range of sectors including strong representation from the development industry.

Summary

- We welcome the Government's continued focus on increasing housebuilding and understand its emphasis on providing more opportunity for people to buy their own home. We are, however, concerned about the impact that the First Homes policy will have on housing supply in London.
- London needs more housing of all tenures but has an acute shortage of low-cost rental housing.
- The level of discount required to make First Homes affordable to many first-time buyers in London would need to be higher than 30%. There is therefore a danger that this policy provides a significant windfall gain to a small number of first-time buyers, while utilising support that could be used for other affordable housing products that London desperately needs.
- The practicalities of administering First Homes must be carefully considered. The arrangements will place a huge burden on already stretched local authorities without any additional funding.
- If introduced, First Homes should be delivered through small sites or on land the Government owns and chooses to use for this purpose. It should not be implemented through the section 106 process.

We would be delighted to discuss any of the points raised or any queries that you may have in relation to this response. Please contact Stephanie Pollitt, Programme Director, Housing on 020 7665 1427.

Detailed comments

Ensuring First Homes are affordable

1. While we understand the importance of supporting first time buyers, we are concerned about the level of discount that is likely to be needed to achieve this objective, particularly in London and other areas of the country that have high house prices. In



many parts of London, applying the proposed minimum 30% discount suggested in the consultation (and even with the proposed cap on the starting value of the home the discount could be applied to in the first place) would still mean the price is beyond the reach of the average first-time buyer. It may well be that the mortgage payment could be serviced, but finding even a reduced deposit, is likely to be a barrier to many people wishing to buy.

2. The proposals suggest that local authorities could choose to offer a higher level of discount, but this calls into question the proportionality of the intervention. Very significant levels of discount may be required in many parts of London, and there is a danger this policy provides a significant windfall gain for a small number of first time buyers while utilising support that could be used for other affordable housing products that London desperately needs.
3. We support the introduction of a cap on the value of the property that the First Homes discount can be applied to and believe that, in the context of London, this is best set as one pan-London rate by the GLA. While there is a good case to be made that the price cap should be determined at a borough level in the capital, this may in fact cause greater confusion and complication with 32 boroughs and the City of London all potentially producing different policies.
4. Regarding the requirement for independent valuation on each sale of a First Home, we would like to understand what measures the government propose to prevent abuse of the system? For example, what steps can be taken to stop the price potentially being inflated to mitigate against the loss of equity at the next sale?

Eligibility for the First Homes scheme

5. We agree that there could be some time-limited provisions put in place to ensure that First Homes are offered to local people first. In the context of London however, we do not believe it prudent to place local restrictions on purchasers to the borough within which they reside as this would be too limited and natural communities cannot be neatly captured into such areas.
6. If First Homes are introduced, they should be for first time buyers only. While this product does not immediately help address housing need in London, if such homes simply drift into the wider housing market then, in theory, the targeted subsidy it provides will be lost. If there is demand for this product there should be no reason why the first-time buyer prioritisation is waived.

Supporting the First Homes Scheme

7. Asking local authorities to take on the administration of First Homes, including both general and potentially more detailed allocation criteria, will place a significant burden on their already stretched resources. We note that the consultation does not suggest any additional funding or support to assist local authorities. It is clear from the consultation that First Homes will be a complex product to deliver, allocate and monitor, and the long-term implications of this cannot be easily addressed without creating a substantial new bureaucratic process.

Restrictions on letting First Homes

8. We agree that First Homes should not be used as a subsidised investment opportunity and therefore purchasers should only use the home as their 'sole or primary residence.' How this can be easily and effectively enforced is not clear. Questions 15 and 16

demonstrate the inherent complexity of these proposals. An individual, couple or family that occupy a First Home will be subject to the same complex and fluid circumstances that are an everyday fact of normal life – trying to cater for this in various restrictions about how a First Home can be utilised will be an arbitrary judgement. Such complexity could also make the ultimate re-sale of these homes a challenging proposition. As per our comments in the ‘Supporting the First Homes Scheme’ section above, further thought is required about the extent of the burden future monitoring requirements to regulate restrictions on First Homes will place on local authorities.

Setting developer contributions for First Homes

9. The consultation notes that the Government is mindful of the trade-off between the desire to supply First Homes and the supply of other affordable housing tenures. We agree that it is important to be mindful of this trade-off, and for decisions to be made in relation to it that are led by housing need.
10. The overwhelming housing need in London is for more affordable housing. The GLA’s Strategic Housing Market Assessment 2017 noted that the net requirement for new homes between 2016 and 2041 would be 65,900 with 47% of that being low-cost rent (social and affordable rent) and 18% intermediate (e.g. shared ownership and London Living Rent)¹. The Assessment has helped inform the draft new London Plan, which has refined these figures setting a strategic target of 50% of all new homes delivered across London to be affordable².
11. We support the Government’s desire to provide greater opportunity for people to own their home, but this should not come at the expense of cannibalising affordable housing delivered through the section 106 process. If First Homes are delivered through this mechanism, it is likely that shared ownership products will be squeezed out of the market and, if a very high percentage of First homes is required, will also leave little room for social housing for those who desperately need it, and who may never be able to find a deposit for a new home.
12. For the reasons noted above, the introduction of First Homes should not be done through the section 106 process and should be supplementary to that provision. The most appropriate mechanism for delivery is therefore as a percentage of all homes delivered on suitable sites. We believe that a suitable site should be defined as small sites of less than 0.25 hectares and the Government’s own landholdings where it chooses to use it to support the delivery of First Homes. Whilst the Written Ministerial Statement (HCWS50) made by Minister of State for Housing and Planning on 28 November 2014 prevents affordable housing contributions being sought on developments of 10 units or less, we believe these developments can play an important role in contributing to the delivery of First Homes. First Homes should also not be delivered as part of any Build to Rent development as maintaining control of the management of all homes in such a development is a vital part of the business model, particularly where institutional investors are involved.
13. An amendment to the NPPF should be made to define small sites as below 0.25 hectares in size and require local authorities to allocate small sites to deliver First Homes. This approach, in terms of definition and allocation, would be consistent with Policy H2: Small Sites of the draft new London Plan, and these elements were not contested by the Secretary of State in his recent comments on the Intent to Publish version of the Plan. The exact percentage of First Homes on these sites should be

¹ The 2017 London Strategic Housing Market Assessment, GLA, November 2017

² New Draft London Plan, GLA, August 2018

determined at a local level but we believe that as a minimum it should be set at 40% of new homes.

14. We welcome the Budget announcement of a new £12bn Affordable Homes Programme. Economic analysis for London First has shown that an additional £8.6bn annually is required to meet London's annual housing need of 66,000 homes³. This will require significantly enhanced levels of investment from both the public and private sectors. If the Government were to enforce the provision of First Homes in such a way that it significantly depleted the provision of other types of affordable housing, it must commit to increasing the amount of money allocated through the AHP to fund these other types of affordable homes.

Delivery through exception sites

15. We support the delivery of First Homes through the National Planning Policy Framework entry-level exception site policy at the national level and the suggested amendments as outlined in the consultation. In London, small sites should be the main delivery mechanism for First Homes.

Community Infrastructure Levy exemptions

16. We agree that First Homes should be exempt from the Community Infrastructure Levy particularly as other types of affordable housing are already exempt.

³ Hard Choices. How much should the nation spend on building new homes? A report by Volterra Partners for London First, September 2018.