

Supporting evidence for Delivering First Homes' questions in the Changes to the Current Planning System Consultation

October 2020



Supporting evidence for 'Delivering First Homes' questions in the Changes to the Current Planning System Consultation from Rentplus-UK Ltd

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This document provides further evidence to the online responses given to the questions from the 'Delivering First Homes' section of the consultation (p19-24).

Executive Summary

- As the consultation notes, *"although polling shows that 87% of people would prefer to own a home given a free choice, high prices, high deposits and difficulty accessing mortgage finance still mean that far too many people are denied this opportunity"*.
- The lower price of First Homes will make home ownership more accessible; however the scheme will still require a deposit of £14,000 on average as a minimum.
- Coronavirus has seen the number of mortgages for first-time buyers with a 10% deposit fall by 92% from March to September, pushing the dream of home ownership even further away for those without savings. It is now more common for a deposit of 20% to be required, equating to £28,000 as an average under First Homes.
- The English Housing Survey finds that only 10% of private renters aged 16-34 have savings of between £5,000 and £15,999. 61% of private renters and 82% of social renters have no savings at all.
- Given this, the barriers cited above will remain for a large number of people who would be aspiring home owners.
- We support option 1 (consultation paragraph 52), that First Homes should deliver 25% of the affordable housing products, replacing other affordable home ownership products (as defined in the NPPF), prioritising the replacement of those tenures which secure the smallest discount from market price.
- However, where a local authority's affordable home ownership allocation is over 25%, to help the widest possible group of aspiring buyers onto the housing ladder there need to be additional, complementary routes to home ownership that directly address the deposit barrier.
- There is a model called 'affordable rent to buy' which provides a solution and enables tenants to save up to buy the home they are renting. The key differences from the Government's own Rent to Buy scheme are that tenants benefit from an affordable rent for a much longer period of up to 20 years compared to just 5. They also receive a gifted, 10% deposit which they do not have to repay.

- Including this model as well as First Homes will mean that more people overall can be supported into home ownership, on top of those who can access First Homes.
- To enable this we recommend the following measures. These are within the spirit of the Government's overall ambition, but go further to ensure that the 'levelling up' agenda and commitment to expand homeownership are delivered.
 - 1) Under the transitional arrangements (consultation paragraphs 56 - 58), ensure that the 50% of local authorities who do not have up to date local plans can introduce a range of affordable home ownership products immediately.
 - 2) Following our legal advice that the 'affordable rent to buy' model counts as both affordable rent (given that this is what it offers for up to 20 years) and also a route to home ownership, we are seeking confirmation of this from the Government in planning guidance. This would make it clear for local authorities that the model can be included in either affordable housing category. It would also provide local authorities with flexibility to meet the different housing needs in their area. For example, many families may require an affordable rented home now, but have a long-term ambition to buy. This is no different from the Right to Buy or the new Right to Shared Ownership.
 - 3) Whilst we support option 1 (consultation paragraph 52, question 8), if First Homes are not widely adopted by developers (as with Starter Homes) then there should be some flexibility introduced to enable local authorities to fill any shortfall in their 25% allocation with affordable rent to buy. This is an already tried and tested product that is popular with developers as it is more financially viable. This would still achieve the overall aim of increasing access to home ownership for families who otherwise could not afford it.

Will First Homes be accessible to the 61% of private renters who have no savings at all?

- The House Price Index from June 2020¹ found that the average first-time buyer paid £200,028 for their home. With a 30% First Homes discount, this would be reduced to £140,000.
- To meet the 10% deposit required by mortgage lenders, aspiring home owners would therefore still need to have already saved on average a minimum of £14,000 to access the scheme.
- In reality however, it may be higher than this. Coronavirus has seen the number of mortgages for first-time buyers with a 10% deposit fall by 92% from March to Septemberⁱ, pushing the dream of home ownership even further away for those without savings. The number of deals for buyers with a 15% deposit has also halved

¹ HM Land Registry, 2020, *UK House Price Index Summary: June 2020*, available at: <https://www.gov.uk/government/statistics/uk-house-price-index-summary-june-2020>

during this time. It is now more common for a deposit of 20% to be required, equating to £28,000 as an average under First Homes.

- The English Housing Survey² finds that **only 10% of private renters aged 16-34 have savings of between £5,000 and £15,999. 61% of private renters and 82% of social renters have no savings at all.**
- This will put First Homes out of the reach of a large number of people who would be aspiring to be homeowners.

Key workers face challenges in accessing home ownership schemes

- An Opinium **survey of NHS and key workers³ found that over two thirds experienced challenges in saving up for a house.** This includes over a quarter (28%) saying that their salary was not high enough for the mortgage needed.
- The survey also found that of those who have considered using one of the Government's home ownership schemes to help them onto the housing ladder, **78% experienced challenges in accessing the scheme.** Over a third (35%) noted that they still needed to save a deposit. This rises to 44% of key workers aged 18 to 34.

Example: Can a nurse access First Homes?

Using the figures outlined above for a First Homes house costing £140,000, if the buyer did manage to save a 10% deposit and secure a 90% loan to value mortgage this would be for the amount of £126,000. Based on an income multiplier of four and a half, this would require the first-time buyer to have a salary of £28,000. However, a newly qualified nurse starts on a salary of less than £25,000 and it would take 6-7 years' experience until they had reached this salary threshold*. The difficulty of accessing mortgage finance remains.

*Nurses.co.uk, 2020, *The Nursing Pay Guide & NHS Nurse Pay Calculator*, available at: <https://www.nurses.co.uk/careers-hub/nursing-pay-guide/>

Supporting the widest possible group onto the housing ladder

² MHCLG, 2020, *English Housing Survey 2018-19: Housing Costs and Affordability*, available at: <https://www.gov.uk/government/statistics/english-housing-survey-2018-to-2019-housing-costs-and-affordability>

³ The research was conducted by Opinium Research between 28 August and 2 September among 2,000 UK adults and 500 NHS/key workers.

- The English Housing Survey⁴ reports that 85% of first-time buyers funded their purchase from savings, with over a third reporting that some of their deposit was funded from family financial support.
- This means that home ownership remains largely only accessible to those who can afford to save or can rely on a gift or loan to fund their deposit.
- To ensure that the Government is supporting the widest possible group of aspiring homeowners onto the housing ladder, not just those who can rely on inheritance or the bank of mum and dad, it needs to ensure that the majority of households that don't have savings still have a route into home ownership.

Complementary home ownership models exist and should be promoted alongside First Homes – ‘affordable rent to buy’

- **We support the Government’s proposal that local authorities should deliver 25% of their affordable housing as First Homes (consultation paragraph 52, option 1, question 8). Running alongside this, however, there must also be complementary options for families for whom saving for a deposit is the main barrier to owning their home and therefore for whom First Homes will still not be accessible.**
- **There is a home ownership model called affordable rent to buy which provides a solution for this group.** The model targets support at key workers and families on lower incomes who otherwise could not afford to buy. Delivering it alongside First Homes would therefore expand the total number of people who can be supported to own their own home.
- Tenants do not need to pay any upfront deposit to access the scheme. Instead, their eligibility is based on an assessment on their finances and future ability to buy.
- If the financial assessment deems the aspiring homeowner will be able to buy in the next 20 years, they move into a new build home which they rent whilst they save up to buy it.
- They benefit from paying an ‘affordable’ rent, 80% of market rent (including service charges), for up to 20 years, enabling them to save more each month than if they were renting privately. During the rental period the home is managed by a housing association.
- The provider then helps them further by gifting them a 10% deposit when they buy.
- They can choose to do this at year 5, 10, 15 or 20, benefitting from a long-term, secure tenancy for the whole of the rental period up until they buy.

⁴ MHCLG, 2020, *English Housing Survey 2018-19: Housing Costs and Affordability*, available at: <https://www.gov.uk/government/statistics/english-housing-survey-2018-to-2019-housing-costs-and-affordability>

- The model helps the significant group in the 'middle', who don't qualify for the Right to Buy but who can't afford Help to Buy, Shared Ownership or First Homes because they can't raise a deposit.
- The average total household income of families using affordable rent to buy is £32,000. Given this is an average, it means many people with lower incomes are able to access home ownership. This compares to £53,000 for those using Help to Buy.

Example: Can a nurse access affordable rent to buy?

Going back to the nurse example above, in this case the provider would see that whilst the tenant could not afford to buy right now, they would be able to do so in 6-7 years' time and they would be accepted for the scheme. They would move into a new build home without paying any upfront deposit.

This is not just a hypothetical example. One of Rentplus' NHS tenants, nurse Nicole Richards, 27, is one of the many key workers who found it impossible to save for a deposit whilst renting privately.

Nicole was finally able to circumvent the deposit barrier after moving into one of Rentplus' affordable rent to buy homes in May 2017. She is now paying a reduced rent on a new build home and saving for a deposit to buy the property. After five years, Rentplus will gift 10% of the sale price towards her deposit.

Commenting on her new home, Nicole said:

"I'd been renting for about six years and I have never been able to save as much as I am now. Rentplus is a fantastic opportunity to help people such as myself to save to purchase their first home and I am so grateful to find this opportunity".

- Nearly half of all affordable rent to buy tenants are key workers, including 18% who work for the NHS or in social care, 9% who work in education and 8% who are from the armed forces. Affordable rent to buy tenants generally have below average incomes in sectors which are crucial to their local community such as retail, construction and transport.
- There is significant interest from institutional investors in this tenure and there is an emerging market of SME competitors.

Benefits in comparison to shared ownership:

We recognise that the Government has introduced a new model of shared ownership which will make home ownership more accessible. Affordable rent to buy offers a number of additional benefits which will help more people to fulfil their home ownership aspiration:

- A gifted 10% deposit which they do not need to pay back – overcoming the main obstacle to home ownership.
- Tenants are 100% renters and then 100% homeowners, rather than spending years in a half rent/half own state. This gives them a clear and defined route to full ownership.
- It also means there is only ever one set of legal fees for the purchase, rather than having to pay administration and legal costs every time they buy a share as with shared ownership.
- Tenants are not liable for any repair or maintenance costs until the point at which they own the home fully, potentially up to 20 years.

Benefits for local authorities:

- Two thirds of households come from the housing waiting list where often they had been for many years but weren't in high priority need so would be unlikely to ever be allocated a social rent home.
- 17% move out of social housing; freeing this up for those in greater need. In some areas, this is as high as 50%.
- The model is fully funded by pension funds and institutional investment funds. It doesn't rely on any funding from the Government's Affordable Homes Programme (AHP). This enables local authorities to deliver additional homes and target the AHP grant on new homes for social and affordable rent. The provider purchases new build homes as part of affordable housing allocations. This is either through the delivery of s106 agreements or through creating additionality by buying market units from developers and housing associations and turning them into affordable housing.

Benefits for the Government:

- By having affordable rent to buy running alongside First Homes to complement and supplement it home ownership can be opened up to the maximum number of people; delivering the Government's levelling up agenda and commitment to "supporting people to make the dream of home ownership a reality".
- It will mean that a greater proportion of the 87% who want to own their own home can do so.
- The model does not require any Government money at all and delivers additional homes on top of those funded through the Affordable Homes Programme.

Recommended Planning Policy Changes to Level Up Home Ownership

- By scaling up affordable rent to buy more families can be supported into home ownership in addition to those who will be able to benefit from First Homes. These are people who otherwise could not afford to buy.
- To achieve this requires small planning policy changes under the Government's current reforms:
 - As highlighted in the Planning for the Future white paper⁵, half of all local authorities do not have an up to date local plan. One of the main constraints to delivery for affordable rent to buy is that so many local authorities are operating from historic local plans which pre-date the 2018 revisions to the NPPF, which advocated for a wide range of affordable housing options. This results in local authorities frequently obtaining external legal and planning advice to provide the assurance required that new models of affordable housing can be included as part of their affordable housing provision before choosing to accept it. This is costly, considerably slows down the delivery of new affordable homes and prevents competitors from entering the market, despite interest from institutional investors in the sector.
 - **As part of the transitional arrangements (consultation paragraphs 56-58, question 12), the Government should issue planning guidance which makes clear than any Local Plans which stipulate a percentage of the affordable housing mix to be shared ownership can be interchanged for other home ownership tenures for any portion above the 25% required for First Homes. This should apply immediately and would address the fact that currently very few local plans include innovative home ownership tenures as they were prepared prior to the revised NPPF in 2018. This would enable local authorities to deliver a wider range of affordable home ownership homes now to start helping more people onto the housing ladder.**
 - There are currently four categories of affordable housing defined in the NPPF, including 'a) affordable rent' and 'd) other affordable routes to home ownership', which includes shared ownership and rent to buy models. We have legal confirmation that affordable rent to buy can be included by local authorities in **both** categories given that it offers an affordable rent for between 5 and 20 years. Whilst there is the opportunity to purchase, this does not apply until at a minimum year 5, and at the maximum year 20, compared to after just 3 years for social housing tenants under the Right to Buy. Rupert Warren QC concludes in a September 2020 reportⁱⁱ:

"I have little doubt that the Rentplus model falls within the term "affordable rented" in part (a) of the NPF definition, for the reasons set out above, and also within the "rent to buy" aspect of part (d) of the NPPF definition. This is due to the characteristics of the model when seen from start to finish, and is in line with the NPPF's clear

⁵ MHCLG, 2020, *Planning for the Future*, available at:
<https://www.gov.uk/government/consultations/planning-for-the-future>

indication that a model of affordable housing may fall within one or more of the parts of the Annex 2 NPPF definition.”

- He notes: “the tenure is affordable, managed by an RP, and is restricted in time in a very similar way to (perhaps even more so than) traditional rented affordable housing.”
- **As part of the transitional arrangements (consultation paragraphs 56 - 58, question 12) we are seeking confirmation of this from the Government in planning guidance so that it is clear for local authorities that the model can be included either in the affordable rent category or the other affordable routes to home ownership category. This would provide them with flexibility to meet the different housing needs in their area. For example, many families may require an affordable rented home now, but have a long-term ambition to buy. This is no different from the Right to Buy or the new Right to Shared Ownership.**
- **Finally, whilst we support option 1 (consultation paragraph 52, question 8) if First Homes are not widely adopted by developers (as with Starter Homes) then there should be some flexibility introduced to enable local authorities to fill any shortfall in their 25% allocation with affordable rent to buy – an already tried and tested product that is popular with developers as it is more financially viable. This would still achieve the overall aim of increasing access to home ownership for families who otherwise could not afford it.**

ⁱ Moneyfacts.co.uk data on mortgage products available for first-time buyers, accessed on 23rd September 2020.

Source: Moneyfacts.co.uk				Source: www.moneyfacts.co.uk	
Mortgage Treasury - Page 1 From 01/01/2020 To 15/09/2020					
Date	RES - All - 85% LTV - Count	RES - All - 90% LTV - Count	RES - All - 95% LTV - Count	RES - All - 100% LTV - Count	Count
01/01/2020	658	751	386	14	
01/02/2020	666	776	405	14	
01/03/2020	664	779	391	14	
01/04/2020	311	326	162	12	
01/05/2020	208	100	41	8	
01/06/2020	286	183	31	8	
01/07/2020	356	70	14	7	
01/08/2020	347	68	20	10	
01/09/2020	347	62	14	12	
15/09/2020	358	44	12	12	

ⁱⁱ Please see Rupert Warren QC report attached.