

Consultation response

# Starter Homes for First Time Buyers

January 2015

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Shelter helps millions of people every year struggling with bad housing or homelessness. We provide specialist advice and support on the phone, face to face and online, and our legal teams can attend court to defend people at risk of losing their home.

However at Shelter we understand that helping people with their immediate problems is not a long-term solution to the housing crisis. That's why we campaign to tackle the root causes, so that one day, no one will have to turn to us for help.

We're here so no one has to fight bad housing or homelessness on their own.

## Introduction

Shelter welcomes the opportunity to respond to the Department of Communities and Local Government (DCLG) consultation on 'Starter Homes'. We have responded to questions 1 - 11.

At Shelter we are in contact with millions of people every year through our front-line advice services, help-line and website who need our specialist housing advice and support. We are hearing more and more from people who are struggling with the cost and availability of homes in their local area. That's why we are campaigning for all political parties to commit to building the homes we need to address our massive housing shortage, which has built up under successive governments.

In that context, **it is very positive that the government is looking at new ways to stimulate house building including this Starter Homes initiative.** It is also right that the government is looking at ways to make new homes more affordable for first time buyers, who are increasingly priced out of the market. At Shelter we have consistently highlighted the difficulty young people have in saving a deposit and getting a stable home of their own.

We also welcome the use of an innovative planning mechanism (based on the success of rural exception sites) to reduce the cost of the most important and expensive raw material in house building: land. By using the planning system pro-actively to bring land into the system at a lower cost, more development value can be used to improve the quality and affordability of the homes.

However, the measures announced so far including this one are not nearly enough to get England building the minimum of 250,000 new homes per year that we need. Instead of a stream of initiatives we need all political parties to put forward a bold, co-ordinated plan to get us building the homes we need.<sup>1</sup>

Equally, the current design of this Starter Homes scheme has some serious drawbacks. The proposal does not include any funding for desperately needed affordable homes, especially Shared Ownership and Social Rented homes. Given the use of a planning intervention to reduce the cost of land to build the scheme we would argue that sites with an element of affordable housing should not be excluded from consideration by local councils. **Indeed, this new policy is the perfect opportunity to achieve both lower cost homes to buy and much needed new affordable rented homes.**

Shelter also argues that it is an unnecessary restriction to only allow these schemes on brownfield land. Greenfield land offers the best opportunities for capturing the extra value generated through the planning system and is often well located near existing transport links. If extended to include affordable housing, the Starter Homes policy could offer an attractive deal for local communities considering greenbelt swaps: low amenity value land near transport hubs could be taken out of the greenbelt in exchange for an equivalent amount of land going into the city greenbelt elsewhere.

## Summary of recommendations

- **There is no good reason to exclude the option of affordable housing from these new schemes.** Using a planning intervention to achieve lower land costs will lead to different levels of viability in different local markets. Local authorities should have the option to consider and prioritise bids with an affordable housing element in addition to first time buyer discounts.
- **There is no good reason to restrict these interventions to brownfield land only.** Greenfield land outside of the planning pipeline offers the best opportunities to generate value to pay for infrastructure, affordable housing or discounts for first time buyers. DCLG should allow for the use of these exception sites on greenfield land, including through greenbelt swaps.
- **On balance we would advocate a longer period (15 years) before homes can be sold-on at market value.** This is to allow the size of the discount market to grow and preserve affordability.

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<sup>1</sup> KPMG and Shelter, Building the Homes We Need: a programme for the 2015 government, 2014

## Responses to questions in the consultation

### Q1: Do you agree in principle with the idea of a new national Starter Homes exception site planning policy to deliver more new low cost homes for first time buyers?

Shelter agrees with the principle of using pro-active planning (such as the exception site policy) to get more homes built and in so doing support first time buyers. However, we do not agree with the principle that schemes built using pro-active planning should not have any affordable housing or community infrastructure. Councils should at least have the option to give preference to developers who can propose schemes on these sites which have both discounts for first time buyers and an affordable housing component (which could also attract grant funding under the Affordable Homes Programme 2015 - 2020).

### Unlocking the value of land

As the policy focuses on land outside of the usual planning process the value of land used will reflect its current use status as either industrial or commercial brownfield. The data below from the Valuation Office Agency (VOA) suggests that the difference in value between industrial and residential land is large.<sup>2</sup>

#### Industrial to residential planning gain (VOA, 2010)

Area	Industrial land value (£/ Ha)	Residential land value (£/ Ha)	Difference (£/ Ha)
East	740,000 (Cambridge)	2,900,000	2,160,000
East Midlands	500,000 (Nottingham)	1,200,000	700,000
London Outer	2,000,000 (Croydon)	4,037,500	2,037,500
North East	225,000 (Newcastle)	1,300,000	1,075,000
North West	450,000 (Liverpool)	1,500,000	1,050,000
South East	1,000,000 (Oxford)	4,000,000	3,000,000
South West	850,000 (Bristol)	2,200,000	1,350,000
West Midlands	650,000 (Birmingham)	1,200,000	550,000
		<b>Average</b>	<b>1,490,300</b>

Across the country, the average increase in value per hectare of brownfield land that is given residential planning use status was almost £1.5m in 2010.

Currently, this windfall increase in land value goes to the owner of the land. This is because house builders calculate how much to pay for land based on a 'residual land value methodology'. In short, this method is to calculate all the costs of house building (labour, materials, planning costs, tax, marketing and the developer's profit) and subtract this from the expected final sales values of the homes that can be built. Whatever is left is the amount that can be paid to the landowner. This of course means that the landowner 'captures' all of the increase that accrues from the change in planning status from say industrial to residential.

This extra value has not been generated by the landowner, but rather exists due to the high cost of homes and the planning system. Often the landowner and the developer are one and the same, with

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<sup>2</sup> Valuation Office Agency, 2010. Data has not been collected since 2011. Data taken from three reports: the Agricultural land and property market, the Industrial land market and the Residential building land market

developers buying land before it has planning permission with the aim of securing permission and capturing the windfall.

This is not how it works in other comparable countries such as France, Germany and the Netherlands. In these countries, the planning system works to capture the uplift in value from agricultural or industrial status and then uses this additional capital receipt to forward fund infrastructure or affordable housing (see Falk, N; [Funding Housing and Local Growth](#); Smith Institute, 2014).

A similar process is being used with the proposed Starter Homes policy, but the policy as currently outlined restricts the benefits of this approach to discounts on market sale housing only. By lifting this restriction and allowing for proposals which combine benefits to first time buyers with affordable rented or shared ownership homes which benefit a wider portion of the community, local authorities would have the opportunity to use the policy to meet their locally assessed housing need.

**The starting point should be an onus placed on the developer of a Starter Home site to prove that the site is only viable without any affordable housing, with the land price assumed to be at or close to existing use value.**

Using the VOA's 2010 data, we can roughly calculate that there will be at least **£3.5 billion** of additional value generated in the land value on the sites of the 100,000 new Starter Homes.<sup>3</sup> While on some sites capturing this uplift value may only be sufficient to finance the 20% discount on market sales price (especially on high density sites in areas of high house prices), in other areas an affordable component may be financially possible too.

### **Ensuring real discounts**

According to the ONS, the price of a home for first time buyers across England has risen 21.5% in the last two years, more than the discount offered through this programme. To ensure that first time buyers really are getting a discount from the local market it will be important to use robust calculations of the price to be discounted.

Shelter's strong preference would be that the average price to be discounted is calculated as **the full market price that such a property would be expected to attract if on market sale as assessed by two independent surveyors**, not a simple discount on average prices in the local market. The calculation should not be based on the price of "the average 2 bed in the local authority" for example, as developers may simply build homes which are 20% smaller than the average 2 bed in the local authority - wiping out the real effect of the discount.

**Q2: Do you agree that the Starter Homes exception site policy should focus solely on commercial and industrial brownfield land which has not been identified for housing?**

**Q3: Do you agree that the types of land most suitable for starter homes will be under-utilised or non-viable sites currently (or formerly) in commercial or industrial use?**

No. The advantage of a pro-active planning intervention such as exception sites is that it can be used to capture the rise in land value from non-residential to residential status. This advantage should be used in the places most appropriate for new homes - whether the land is brownfield or greenfield. In particular, land that is near existing transport links into sites of employment in parts of England which have the biggest housing pressures: such as London and the South East.

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<sup>3</sup> Using the average uplift from industrial to residential land values per hectare in 2010 (£1.5m) and an average UK density of 43 dwellings per hectare ([DCLG](#), 2010) across 100,000 new units is the equivalent of £3,490,000,000 in additional land values. The discount to house prices proposed by the policy of 20% is more than compensated for by the rise in house prices (in the last two years first time buyer house prices have risen 21.5% according to the ONS).

Shelter therefore argues that the policy should not just be restricted to commercial and industrial brownfield, but also greenfield land which has not been identified for housing, and which will offer even better land-value uplift than brownfield.<sup>4</sup> As stated in our answer to Q1, the Starter Homes policy should be extended to other land types and also be amended to allow local authorities to capture some of the land value generated for investment in affordable housing where appropriate.

One particular innovative use for the Starter Homes policy may be through greenbelt swaps. These are where local authorities re-designate parts of their greenbelt by taking out some land in places suitable for homes (the NPPF currently allows for this on brownfield land only) and adding extra land to their greenbelt which has high public or amenity value elsewhere. There is therefore no net loss to the greenbelt. These swaps should always be at the discretion of local authorities, but it would be a very helpful tool for them to be able use an exception site policy such as this to capture land value. This is because they can then use the land value uplift to offer discounts to first time buyers, improvements to local services and affordable rented housing - which will help increase the local communities' willingness to accept the change.<sup>5</sup> Shelter argues that these swaps should be allowed on agricultural land within local green belts if it also has low amenity value for the public (i.e. is not beautiful or used as public green space).

**Q4: Do you consider it necessary to avoid Starter Homes developments in isolated locations, or where there would be conflicts with key protections in the National Planning Policy Framework?**

Homes should be built in places which are well connected to sites of employment, public services and accessible green space. Small numbers of mono-tenure homes should not be built in isolated areas where people will struggle to get jobs, go to the shops or develop into a community.

There is a risk with this policy that the most viable sites (those with the lowest current land value) will be in the most isolated locations. There therefore needs to be some check in the policy to make sure that there is a balance between locational quality and viability.

As in our answer to Q2 and Q3, we do not think that this tool for local authorities should be restricted to brownfield land and so we not think it should be restricted if there is a 'conflict' with greenbelt land as designated in the NPPF. Indeed, this policy offers an opportunity to increase the protection of genuinely beautiful or publically value places through greenbelt swaps.

**Q5: Do you agree that the Starter Homes exception site policy should allow at the planning authority's discretion a small proportion of market homes to be included when they are necessary for the financial viability of the Starter Homes site?**

As in our answer to Q1, we argue that the use of a proactive planning mechanism means that a large uplift in land value (we estimate at least £3.5bn across 100,000 homes) will be created. While it is possible that on some sites the uplift value will only be sufficient to finance discounts on homes sold, in other cases there will be sufficient uplift relative to density to fund affordable housing too. We therefore argue that local authorities should be able to consider proposals which include an affordable housing element and only choose those without affordable housing if they are satisfied (through the viability process) that there is no possibility of funding affordable housing. Viability arguments should only be allowed to justify the inclusion of a small proportion of market homes on the basis of complete transparency of development appraisals. Current definitions of viability do not provide this, and create a perverse situation in which a developer can argue against contributions on the grounds of viability, while

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<sup>4</sup> See KPMG and Shelter, Building the homes we need, 2014

<sup>5</sup> See Shelter's entry to the Wolfson Economics Prize 2014 for evidence on what helps local communities accept new greenfield development: in particular improved local services, more local job opportunities and homes affordable to local people.

their desired profit margin can neither be scrutinised nor challenged. Unless the definition of viability used in planning rules is changed to rectify this, we do not support allowing market homes to be included in this policy, as doing so would trigger higher profit expectations and higher land prices, undermining the economic rationale of the Starter Homes policy itself.

**Q6: Do you agree starter homes secured through the Starter Homes exception site policy should only be offered for sale or occupation to young first time buyers?**

**Q7: Do you think there are sufficient existing mechanisms in place to police this policy?**

We argue in our response to Q1 that Starter Homes sites should include affordable homes, with local authorities having the power to consider proposals which can be financed from the uplift in land value generated.

For the homes that are for market sale we agree that first time buyers under 40 should be prioritised, as this is a group who are struggling to get onto the property ladder due to high house price inflation. However, we would also like to see strong covenants in place to ensure that the homes are not sold to property investors or buy to let landlords and are for occupation by the owners.

**Q8: What is the most appropriate length for a restriction on the sale of a starter home at open market value? How should the sliding scale be set?**

The advantage of a longer period before re-sales can be at open market value is that the discount remains in perpetuity for the next generation of young buyers. The disadvantage, is that - as with other intermediate housing products - the owner or tenant may have trouble with re-sales.

On balance, Shelter would prefer there to be a longer period before re-sale can be at open market value. This is to further reduce the risk that people will speculate on buying these homes as an investment to capture the public subsidy in future and so that this new sub-market can grow more quickly, which will also make re-sales easier.

**Q9: Do you agree that guidance should make clear it is inappropriate for Starter Homes exception site projects to be subject to section 106 contributions for affordable housing and tariffs?**

**Q10: Do you agree that Starter Homes exception site projects should be exempt from the payment of the Community Infrastructure Levy?**

No, as stated above these are fatal flaws in the proposal that Shelter strongly opposes. Please see our response to Q1 and other questions.

**Q11: Do you have any views on how this register should work and the information it should contain?**

The register should provide publically accessible figures on the level of local housing demand for new starter homes. Registers should also be integrated with the government's ongoing plans for local authority custom build registers, as developed in a Private Member's Bill by Richard Bacon MP which is currently being considered by the House of Lords.

**Further Information:**

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