

## Response to First Homes consultation

The following response is submitted by the National CLT Network, a charity and membership body that represents over 300 Community Land Trusts (CLTs) across England and Wales.

### Introductory remarks

- CLTs are set up and run by local people to develop and manage homes and other assets. The CLTs act as long-term stewards of the homes, ensuring that they are genuinely affordable, based on what people actually earn in their area, not just for now but for every future occupier. CLTs are defined in Section 79 of the 2008 Housing and Regeneration Act. As of March 2020 there are 326 CLTs, of which 278 are legally incorporated.
- As part of delivering affordable homes in perpetuity, a number of CLTs have developed First Homes, also known as Resale Price Covenant or Discounted Market Value (DMV), in response to a local need. For example, in 2008 St Minver CLT in Rock, Cornwall, completed 12 self-build affordable bungalows sold at 30% of open market value on a rural exception site using the DMV model. They completed a further 12 homes using the same model in 2011.
- London CLT's first project delivered 23 DMV homes for sale at prices that ensure that the annual housing cost is no more than one third of median income (currently £31,378). Two-bedroom flats were sold at £181,111, compared to the average price of a two-bedroom flat in Tower Hamlets of £471,080. London CLT used a variation of the DMV model by linking the sale price to median local incomes for subsequent sales, in order to retain the affordability of the homes in perpetuity in the event that the property price rises faster than incomes.
- There has been noteworthy demand amongst CLTs to deliver DMV but that has been hampered to date by difficulties in obtaining retail mortgage lending. For that reason we recently commissioned a [report](#) to understand lenders' attitudes towards lending on DMV. The relevant conclusions are set out in the answers to questions 13 and 14.
- In general we support the Government's ambitions to address difficulties for first time buyers to access home ownership through First Homes. However, as set out in our answers below, we are concerned that First Homes are only delivered where there is evidence of local need and does not negatively impact on the delivery of social and affordable rent where latter are needed. We would also encourage as much discretion being available for local authorities, including with regards to setting the discount, provided that they are then adequately resourced to carry out those functions. Finally, we are concerned to see measures are introduced to ensure the home remains affordable to the next purchaser should the housing market rise and that the Government is open to capital grant being available for First Homes should it be required to make a scheme viable.

- CLTs could be potential early adopters of the First Home policy, as they already have been. However, that will only be possible if there is continued revenue and capital funding made available through the Community Housing Fund (CHF). After an initial round of funding for local authorities, in 2018 £163m was made available to cover certain revenue costs and capital expenditure relating to site infrastructure (Phase 1), alongside funding to meet the capital costs of acquiring land and building schemes (Phase 2). However, outside London the CHF closed for bids in December 2019, just 18 months after being opened. Independent analysis confirms that the CHF stimulated a potential pipeline of 23,000 homes from local communities, up from an estimated 5,810 three years ago, including First Homes. There is now a risk that these homes will not be delivered. It is therefore vital that the CHF is renewed for one year to March 2021 until a longer budget can be set in the CSR.

## **Response to relevant questions**

### ***Ensuring First Homes are affordable***

1. **a) Do you agree with a minimum discount of 30% (but with local flexibility to set a higher one)?**

Yes.

In many areas a 30% discount will not be sufficient for first time buyers. Local authorities should be given the flexibility to set higher % discounts based on locally earned income data. CLTs provide a level of discount that means the home is genuinely affordable for those on lower quartile or median incomes if that is the need.

**b) If not, what should the minimum discount be? (20%, 40% or other (please specify))**

2. **a) Should we set a single, nationally defined price cap rather than centrally dictate local/regional price caps?**

No.

**b) If yes, what is the appropriate level to set this price cap?**

3. **a) If you disagree with a national price cap, should central Government set price caps which vary by region instead?**

**b) If price caps should be set by the Government, what is the best approach to these regional caps?**

**V. Other (please specify).**

Local authorities should determine price caps, taking into account different housing markets in their area and different levels of local incomes.

**4. Do you agree that, within any central price caps, Local Authorities should be able to impose their own caps to reflect their local housing market?**

Yes. As set out above, price caps should be set by local authorities.

**Do you have any further comments on ways of making First Homes affordable?**

As set out in answer to question 1, CLTs have been delivering First Homes for some time. However, they set the target house price and level of discount in relation to what is affordable to those on locally earned incomes, to ensure that the home is genuinely affordable to local people. That may be based on median incomes or lower quartile incomes, depending on the local need. In some rural areas where locally earned incomes are lower and house prices tend to be higher, setting the target house price in relation to median incomes would be inappropriate as it would make the First Home unaffordable. The same approach should apply to all First Homes. This should be set out in Local Plan policy with the detail set out in a SPD.

***Eligibility for the First Homes Scheme***

**5. Do you agree that local authorities are best placed to decide upon the detail of local connection restrictions on First Homes?**

Yes.

**6. When should local connection restrictions fall away if a buyer for a First Homes cannot be found?**

This should be left to local authority discretion.

**7. In which circumstances should the first-time buyer prioritisation be waived?**

This should be left to local authority discretion and be informed by evidence of local need (e.g. older people needing to downsize) including local housing needs surveys.

**8. a) Should there be a national income cap for purchasers of First Homes?**

No.

**b) If yes, at which level should the cap be set?**

No. This should be left to local authority discretion. See answer to question 4.

**c) Do you agree that Local Authorities should have the ability to consider people's income and assets when needed to target First Homes?**

Yes, as they do through their Housing Registers.

### ***Supporting the First Homes scheme***

**10. a) Are Local Authorities best placed to oversee that discounts on First Homes are offered in perpetuity?**

Yes, other than where a CLT is delivering the First Homes - CLTs act as long term stewards and enforce the perpetuity of discounts as part of that role.

We suggest that buyers should be given the option to form a CLT to take on the long-term stewardship of the homes and ensure permanent affordability should they wish to do so.

**b) If no, why?**

**12. How could costs to Local Authorities be minimised?**

It is vital that there is resource available to support local authorities to carry out this function. This could be through financial support from the Government or via charging a small fee on the resale price, paid by the vendor.

### ***Supporting competitive mortgage lending***

**13. Do you agree that we should develop a standardised First Homes model with local discretion in appropriate areas to support mortgage lending?**

Yes.

Community Led Homes, a partnership between the National CLT Network, the Confederation of Co-operative Housing and the UK Co-housing Network, commissioned a [report](#) in February 2020 on lenders' attitudes around Discounted Market Value (DMV) sales i.e. First Homes (Chappell, Heywood and Williams, 2020, included in this submission). The study, which included 15 interviews with various types of lenders, found that the provision of a standardised model would ease their concerns about offering DMV lending. Of those lenders not already offering DMV products, most expressed concerns surrounding the perception of complexity in DMV packages, a lack of knowledge about the topic and the smaller market for DMV mortgages.

Those lenders already offering shared ownership mortgages but not DMV cited the importance of the Homes England model lease for shared ownership, the overall

standardisation for the sector and Government support for the sector in their decisions to begin offering shared ownership products. This study found that a similar standardisation of the DMV market would greatly encourage now-hesitant lenders to enter the market. In particular, several lenders expressed a desire for a standardised lease or covenant and increased Government support to feel more comfortable entering this space.

Respondents indicated that they believed such a standardised lease should be drafted by Homes England in consultation with other relevant governmental and non-governmental organisations. DMV lending with further restrictions surrounding mortgagee income, connection to the locality, occupation and main residence status was perceived as more complicated, risky or difficult to the lenders interviewed, so if the First Homes programme plans to include such stipulations, it would be important to offer standardised and agreed-upon wording and definitions for such restrictions.

We, as part of the Community Led Homes partnership, intend to commission a model lease for DMV mortgages like the standard Homes England shared ownership lease, or at the minimum develop some standard clauses, for example, defining the Mortgagee In Possession and the pricing mechanism/formula. This is in light of securing an exemption for community led housing from the ban on leasehold. We would welcome aligning this leasehold model with the FH freehold covenant that the Government may develop, so the terms are as similar as possible for lenders.

**14. Do you agree that it is appropriate to include a mortgage protection clause to provide additional assurance to lenders?**

Yes, but only as a measure of last resort.

Our study found that a failure to include a standardised, well-understood MPC clause would prevent lenders from expanding their DMV business. Those interviewed said that the absence of an MPC clause in a standardised lease or guidelines would greatly decrease their confidence in being able to enter the sector or justify the risk involved to their shareholders. This concern appeared most important to larger lenders. However, because of the potential impact on the number of homes that would remain affordable in perpetuity, we urge that the MPC is used as an instrument of last resort, with an agreed cascade and timescale for selling the property before the MPC is triggered.

**Do you have any other comments on ways to support competitive mortgage lending?**

We would urge against encouraging people on the margins of affordability to take on First Homes without stringent affordability checks, particularly should a recession hit again.

***Delivering First Homes***

**20. Which mechanism is most appropriate to deliver First Homes?**

Planning policy through changes to the National Planning Policy Framework and guidance.

**21. Which do you think is the most appropriate way to deliver First Homes?**

As a percentage of Section 106 affordable housing through developer contributions.

**22. What is the most appropriate level of ambition for First Home delivery?**

iv. Other (please specify). This should be left for local authorities to determine, based on evidence of need for First Homes versus other forms of tenure, including affordable rent. Whilst we appreciate the Government's focus on home ownership, we are concerned about the impact on the delivery of other forms of tenure, particularly in rural areas where the overwhelming need is frequently for affordable rented homes.

**Do you have any other comments on how First Homes could be delivered?**

We are concerned about what happens when a rising housing market means that the home is no longer affordable to qualifying buyers at the point of resale. Should this occur for a CLT they will seek to buy back the property and, through the use of grant, bring the property back to an affordable level. We urge that the Government consider the possibility of using the Affordable Homes Programme to allow a community-led housing organisation or housing association to buy back the property to then resell it at an appropriate local discount.

Whilst the Government is not considering that grant will be required for delivery, it should be noted that there will be instances where local affordability (i.e. the difference between house prices and locally earned incomes) means that the level of discount required on a First Homes will make it unviable to deliver First Homes without some form of subsidy. This is particularly the case in low value market areas.

***Delivery through exception sites***

**23. Do you agree with these proposals to amend the entry-level exception site policy to a more focused and ambitious First Homes exception site policy?**

No. We have concerns about the impact on the supply of rural exception sites, which have to date been crucial for the delivery of community led housing, including CLTs. The land price obtained from a pure First Homes site will be greater than that on a rural exception site where there will be a mix of tenures based on local need, and most likely a high proportion of rented homes. This may lead to landowners not releasing land for rural exception sites as they will hold out for releasing it for First Homes.

- 24. a) Do you think there are rare circumstances where Local Authorities should have the flexibility to pursue other forms of affordable housing on entry-level exception sites, because otherwise the site would be unviable?**

No.

- b) If yes, what would be an appropriate approach for Local Authorities to demonstrate the need for flexibility to allow other forms of affordable housing on a specific entry-level exception site?**

- 25. What more could the Government do to encourage the use of the existing rural exception site policy?**

Rural exception sites are a vital source of supply of land for CLTs to deliver affordable housing for local people, including First Homes. We are therefore encouraged by the Government seeking ways to encourage more use of exception sites.

As the consultation points out, the Government has supported delivery by community-led housing groups on rural exception sites through the Community Housing Fund. This provided vital pre-development revenue grants to reach planning and capital grant for forms of tenure not supported under the Affordable Homes Programme, including for the development of First Homes. However, the Fund came to an end in December. If communities are to support the delivery of affordable homes, including First Homes, it is vital that the Community Housing Fund is renewed for a full five years in the Comprehensive Spending Review and that bridging funding is made available until that point.

- 26. What further steps could the Government take to boost First Homes delivery?**

As set out above, CLTs have been developing First Homes for some time now. They could be early adopters of the policy. However, for them to be able to do so it is essential that the Government renews the Community Housing Fund for a further five years.

- 27. Do you agree that the proposal to exempt First Homes from the Community Infrastructure Levy would increase the delivery of these homes?**

Yes

- 28. Do you think the Government should take steps to prevent the CIL rates being set at a level which would reduce the level of affordable housing delivered through section 106 obligations?**

Yes.