

‘Stepping onto the property ladder’ (Department for Communities and Local Government)

February 2015

HBF submission to Government consultation on the Starter Homes scheme

Background

The HBF is the principal trade association for private sector home builders in England and Wales and our members produce about 80 per cent of the new homes built each year.

Introduction

The Home Builders Federation welcomes the ambition and direction of the Government’s Starter Homes scheme. Initiatives that help not only to support more young people onto the housing ladder but also to deliver additional housing on brownfield land, are warmly welcomed by the industry.

Increasing housing supply is a complex challenge but the consequences of failure would be appalling for future generations. It is therefore very encouraging to see such a positive approach to tackling this problem. The introduction of the Help to Buy Equity Loan scheme has been transformative in this regard, providing a shot in the arm for the house building industry, helping tens of thousands of first-time buyers and creating jobs in communities all over the country. The Starter Homes scheme has the potential to go further in supporting first-time buyers by addressing affordability issues for those with limited existing equity and without considerable support from family members.

The key measure of the initiative’s success should therefore be its effectiveness in bringing forward *additional* sites for housing thus helping progressive local authorities to exceed their current five year land supplies and meet demand from this extremely important segment of the market in which many individuals and families find themselves. Local authorities should be allowed the freedom to identify any sites over and above the land allocated in their local plans to support the delivery of truly additional new homes of all and any tenure.

The principle underpinning the scheme is an extremely attractive one that house builders have already expressed an interest in taking forward. However given the scale of ambition outlined by Government to date, care must be taken to ensure that there are enough incentives to make sites viable which would otherwise not be deliverable with a 20 per cent discount applied even before any higher, more costly design standards are imposed above and beyond what is usual under the NPPF. Broadening the scope of the scheme to allow for Starter Homes to feature on a wider range of under-used or redundant sites would help to deliver Starter Homes to levels compatible with the scale of the Government’s ambition for this scheme.

Ultimately, the only solution to the acute housing crisis we find ourselves in is to greatly increase the level of house building from today’s levels. By providing new housing that is

additional to that already planned for in Local Plans this initiative should give a boost to overall housing delivery.

The HBF looks forward to working with Government as the final details of the scheme are developed.

Section 1: Planning for Starter Homes

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?

Yes. The principle of creating a policy and regulatory environment in which Starter Homes can be built and sold to first-time buyers at below market value is an attractive one. As per the draft text included in the consultation paper, it is right that there is a clear acknowledgement of the contribution that more affordable starter homes can make to the economic and social vitality of an area by helping to meet housing needs and alleviating pressure on other areas of the market. We would encourage government to widen the scope of the scheme to make it available in a broader range of areas and on a more diverse range of sites. If also accepted as a suitable Affordable Housing product there is no reason why Starter Homes, or a form of Starter Homes, could not form part of more developments as part of house builders' affordable housing contributions, alongside other affordable housing products and as part of an overall mix of tenures including private housing as well as a blend of affordable housing therefore leading to an overall increase in the number of affordable homes.

There should also be a clear statement in any Starter Homes exception site planning policy to ensure that such sites are not existing sites allocated for housing within Local Plans or included in local planning authorities' five year land supplies. Starter Home sites should be additional to development that is already planned in the local area and contribute to exceeding five year housing supplies rather than displacing existing sites that have been allocated for new homes.

Section 2: Making more brownfield land available for Starter Homes

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?

The focus should be on any additional land that is suitable for residential use which has not already been identified for housing in order to meet the ambition of delivering 100,000 additional new homes. It is critical that the identification of Starter Homes sites within a local authority area does not merely displace land which had previously been allocated in Local Plans.

Provided that individual sites are suitable for residential use with regards to infrastructure provision, land-uses in the surrounding area, noise and safety etc, under-utilised commercial and industrial land could provide a reasonable initial supply of sites for Starter

Homes. However, in order to achieve the scale of delivery proposed a broader range of sites could be considered eligible. Paragraphs 17 and 22 of the National Planning Policy Framework (NPPF) already encourage planning authorities to consider under-utilised brownfield sites for residential development and in many cases such sites are favoured by LPAs when allocating land for future housing.

We believe opening the scheme up to all under-utilised or non-viable sites, rather than restricting it to only commercial and industrial brownfield land, would give the scheme a major boost in terms of potential scale. We can see no reason for restricting it to industrial and commercial sites and believe that the scheme's success in the longer-term will likely depend on widening the scope of the land eligible for Starter Homes sites.

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?

On potentially suitable sites if significant additional costs of remediation and preparatory work is required this could be met through exemptions from Section 106 affordable housing obligations and CIL. However, this may not be sufficient to also meet the value of the proposed 20 per cent discount for buyers. In such a scenario, further cost reductions would then be needed to make the scheme viable with the Starter Homes sales price discounts. As noted above, we believe that a broader range of sites should be considered for eligibility under the scheme, provided that the land was not already allocated for housing or factored into five year land supplies so that the Starter Homes would increase overall supply.

Under-utilised or non-viable industrial or commercial sites may provide the necessary features for a Starter Homes site as identified, particularly with regards to transport links and access to amenities. It should, however, be recognised that such sites can be very costly to prepare for residential development and it does not always follow that previously used commercial land is necessarily a more sustainable location for development in the context of the NPPF.

Site appraisals are able to identify whether existing employment land is under-utilised. To provide consistency across local authority areas and clarity for landowners and potential developers, consideration could be given to the development of a series of criteria which could be applied when assessing the suitability of a site. This could include strategic planning issues, market attractiveness and sustainability of residential development.

Even if stopping short of explicit definitions of 'under-utilised' and 'non-viable', a general statement on the likely criteria required for a site to be classified as underused or non-viable would help prospective developers to better focus resources promoting sites that are likely to qualify for Starter Homes status because by definition the majority of sites will currently be unviable. HBF would welcome the opportunity to work with the Government to develop the criteria on which a judgment as to a site's eligibility as 'under-utilised' and 'non-viable' could be assessed.

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?

The sustainability of any development is vital. It would be sensible for the emphasis of the Starter Homes initiative, therefore, to be on achieving the sustainable development that is

the bedrock of the NPPF and which underpins all successful spatial planning. Buyers of homes, and especially first-time buyers usually prefer to live close to transport links, schools, retail and other amenities. However, where a rural community has an identified need for a small number of affordable homes for local first-time buyers the Starter Homes scheme could provide a solution and should therefore ought to be considered on its merits as any other location would be within the overall development plan system and in accordance with the principles of the NPPF.

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?

Single tenure sites with just one type of housing aimed at a specific segment of the market will inevitably attract greater risk. Providing a proportion of open-market homes on schemes of 10 or more units would help to attract investment by improving the overall viability of these developments.

The presence of market homes on-site could also make the process of determining the valuation of the Starter Homes (from which the 20 per cent discounts would be derived) more straightforward. The valuation process would understandably be a major concern for the lenders, so we must find ways to address these concerns.

If it were necessary to ensure that a development became viable under the Starter Homes scheme, exemptions from planning-gain contributions could apply to all units on the site. This would ultimately make more sites viable and deliver more new homes for first-time buyers.

Section 3: Prioritising young first time buyers

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?

The success of the Help to Buy Equity Loan scheme demonstrates the level of demand amongst first-time buyers who have increasingly struggled to take first steps on the housing ladder since housing affordability ratios began to accelerate in the late 1990s/early 2000s. This trend was exacerbated during the financial crisis which made mortgage availability a major obstacle for young people.

The Help to Buy scheme has been an unequivocal success in bridging the deposit gap and in making homes more affordable for first-time buyers. The Starter Homes scheme would go one step further in reducing the price of buying a first home and opening up a realistic prospect of home ownership for even more people which, in turn, has wider benefits for the housing market, and the economy more generally as the market for new homes opens up to households who, in previous generations, would have been able to achieve the aspiration of home ownership.

The wider social and economic benefits of targeting the scheme at first-time buyers are compelling but we do not see a persuasive justification for imposing an arbitrary age criterion.

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

Existing or previous government schemes have successfully assessed eligibility for first-time buyers or, at least, accurately recorded first-time buyer take up. However, based on our experience with previous schemes, with Help to Buy in England, and especially with Help to Buy in Wales, at least some of the lenders will require buyer eligibility for the scheme (e.g. first-time buyer, and any age restrictions) to be approved by an independent third-party organisation without a vested interest in the transaction (i.e. the lender is unlikely to accept the house builder performing this role). This third party must be accountable if it later emerges that the buyer did not in fact meet the criteria, not the lender. This role has been performed by housing association agents under HomeBuy Direct, FirstBuy and Help to Buy Equity Loan, and by Finance Wales for Help to Buy Wales.

While we would prefer a simpler process, the Government must discuss with the lenders whether a similar system of third-party buyer vetting will be required for the Starter Homes scheme before the scheme is formally launched. We cannot have a situation in which house builders start processing buyers, only to find subsequently that lenders will not lend on the scheme without some sort of third-party checks on eligibility.

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?

House builders will only build homes that can be sold, and because Starter Homes units will only be available to first-time buyers, the vast majority of buyers will require a mortgage. To that end it is necessary for a good number of mortgage lenders to be prepared to provide buyers with mortgages. The optimum length of restrictions to remain in place, and the most effective operation of the sliding scale for repayments of discounts, should therefore be determined having given great consideration to the responses provided by lenders and relevant trade bodies. In terms of achieving the goal of improving affordability for a greater number of people over a longer-term, restrictions on the sale of Starter Homes of around 10 years could meet the dual aims of providing housing in the short-term for first-time buyers and allowing them to build equity in the home whilst also potentially giving future first-time buyers the chance to benefit. A 10 year restriction on to whom and for how much the home could be re-sold would also strike the right balance between discouraging speculators whilst giving first-time buyers the opportunity to build equity and move up the housing ladder.

There are a range of options available in respect of the restrictions on sales and the nature of the sliding scale for paying back discounts. As noted in answer to Q7 above, the key issue will be around policing the scheme to reduce the risk of the initiative being abused. To this end, the restriction needs to be legally enforceable with a clear process for achieving accurate valuations.

Section 4: Making the first time buyer discount more financially viable

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?

Yes. Through recognition of the Starter Homes product as a form of affordable housing that is meeting local housing need, local and central government should be satisfied that housing that would otherwise not have been built on the basis of site viability is providing sufficient public good in addition to the benefits for the local authority through Council Tax and New Homes Bonus receipts.

The Section 106 Affordable Housing exemption would need to be very clear in the wording of the policy and not open to local interpretation. It must also not lead to local authorities seeking subsidisation from other developments in the area by demanding greater Affordable Housing contributions elsewhere.

The figures referenced in Section 4 of the consultation paper indicate that on average the reduced tariff-based contributions and a future CIL exemption could lower costs by around £21,000 per dwelling. Based on a current average selling price through Help to Buy Equity Loan of £212,000, this average reduction could account for just under half of the proposed 20 per cent discount. Putting aside the additional cost requirements any additional design requirements may be imposed on Starter Homes schemes above and beyond the costs associated with the design principles outlined in paragraphs 55-68 of the NPPF and any relevant local policies, the remaining +10 per cent (£22,000) of the 'financial gap' would need to be accounted for via lower land costs with any decontamination and land remediation factored in.

If there are sites deemed potentially viable according to the final criteria of the Starter Homes scheme, flexibility in the way in which the discount is funded help to ensure as many homes as possible can be delivered. This flexibility can be achieved by the degree of exemption from regulatory costs and the proportion of the site that is made available for Starter Homes.

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

CIL is designed to mitigate the cumulative impact of development on the wider local infrastructure. A further exemption for this form of housing from CIL charges is therefore potentially problematic for the credibility of the Levy in the long-run, but such an exemption would likely prove crucial in ensuring that the Starter Homes scheme is sufficiently equipped to have a significant impact so should be pursued in this instance. To this end, it is our view that the relative inflexibility of CIL, particularly in relation to sites of marginal viability and the expanding list of exempted tenures should be given strong consideration as the Government reviews the effectiveness of the Levy in the round.

Section 5: Design

Section 5 of the consultation on 'Encouraging good design for Starter Homes' does not include any corresponding questions, but Government may find it helpful to receive views on how underpinning good design principles in this initiative could be achieved effectively without inflating development costs to such an extent that either viability for developers or affordability for purchasers is compromised.

It seems to us that the approach to promoting good design for Starter Home developments should be consistent with the ways in which we seek to promote good design in new residential development more generally.

The clear basis of policy should therefore be paragraphs 56-68 of the NPPF which provide local planning authorities and developers with a good sense of the design principles that should be taken into account to ensure that development is sustainable. This policy ensures that good design is integral to spatial planning while explicitly avoiding overly-prescriptive definitions of precisely what constitutes high quality design. It is through such an approach that innovation and originality can thrive and be responsive to local considerations.

In addition to the NPPF, the industry has set out its vision of how good principles of urban design can be realised in new housing developments through the Building for Life 12 (BfL12) scheme. BfL12's twelve principles provide a clear and user-friendly roadmap for delivering the generally accepted elements of good design. They also carefully balance their coverage of the key elements of good design with an avoidance of unnecessary prescription in order that BfL12 can be successfully applied across the country to different types and sizes of development in a wide range of local contexts. The strength and appropriateness of its principles are widely recognised and supported by other bodies and government.

We would therefore advocate that the basis for promoting good design in Starter Home developments should be to encourage the use of BfL12 as a primary guide to achieving quality in conjunction with the relevant provisions of the NPPF.

It is not clear that there is any need for much more than this, although it may be that this approach could be supplemented where appropriate by the use of suitable design codes relating to the form, massing and appearance of the individual dwellings themselves. Again, any such use of design codes should avoid undue prescription which is likely to slow down delivery and add to costs.

We are aware that the Design Advisory Panel is considering the question of design with regards to Starter Homes schemes and are contributing views in line with our current comments to the Panel's discussion on this as one of its member organisations.

In this connection, we would add that it is also of paramount importance that while Starter Homes are not designed to inferior standards compared with other high quality new homes and communities, we should also avoid approaches to promoting good design - for example, by imposing additional and unnecessary standards or design requirements - that could run the risk of increasing development costs and so undermining the initiative's success. We see no justification for Starter Homes developments to deviate from the

already strong design principles set out in the NPPF as supported by industry best practice through BfL12.

Section 6: Identifying demand for Starter Homes

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

A basic register of individuals interested in the scheme could prove useful for local house builders and potentially also local authorities in assessing the likely interest in introducing a Starter Homes exception site policy to deliver new Starter Homes in the future. The HBF has developed a webpage to immediately begin gauging interest on the website, new-homes.co.uk.

Section 7: Identifying vanguards to promote Starter Homes

Q12: What kind of vanguard programme would be most helpful to support the roll out of Starter Homes?

Identifying interested local authorities interested in taking part as an 'early adopter' would represent a good starting point. Many developers have stated that they would be very interested in working with cooperative local authorities, particularly if the authority were able to identify sites on which they think the scheme could succeed.

The scheme could be kickstarted through identification of suitable surplus public land under the control of the Homes and Communities Agency. Whilst noting that the HCA already has several often competing priorities when disposing of land, if this approach were adopted, consideration should be given to trialling a fast-track process for house builders to acquire the land. This would reduce the otherwise inflated costs often associated with bidding for public sector land and accelerate the first wave of Starter Homes developments. However such sites must be required to meet all the Starter Homes criteria if they are to offer a true test of the scheme from the viewpoints of house builders, local planning authorities and customers. This should include the test of additionality. Merely displacing existing sites or substituting either market value housing or existing affordable housing for Starter Homes will not provide the most effective test bed for the Starter Homes scheme.