

Initial First Homes Evidence

Craven District Council

Final Report
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Section 1 Aim of the First Homes evidence

1. First Homes are the government's preferred discounted market tenure and should account for at least 25% of all affordable housing units delivered by developers.
2. The purpose of this report is to:
 1. Provide initial First Homes evidence for Craven to inform the implementation of First Homes in the Craven local plan area and the preparation of documents to be presented to the Council's Spatial Planning Sub-Committee relating to First Homes.
 2. Recommend further work required to meet the requirements for First Homes as set out in the Written Ministerial Statement of May 2021 and Planning Practice Guidance in terms of justifying local requirements for First Homes, if appropriate, and informing the local plan process.
 3. Recommend an updated tenure split to update that included in the Council's Strategic Housing Market Assessment (2017) once First Homes have been accounted for.

Section 2 Overview

3. The purpose of this section is to explain what First Homes are and present the policy background to the introduction of First Homes.
4. The National Planning Policy Framework (NPPF) sets out the government's planning policies for England and how they are expected to be applied. Paragraphs 60 to 67 set out approaches to assessing overall housing need and the need for affordable housing. Paragraph 63 specifically relates to affordable housing 'where a need for affordable housing is identified, planning policies should specify the type of affordable housing required'. Planning Practice Guidance (NPPG) accompanies the NPPF and sets out how affordable housing need should be assessed. The NPPF sets out affordable housing definitions which are presented at Appendix A.
5. The requirement for First Homes was introduced by the government in The First Homes Written Ministerial Statement of May 2021 and is now included in the NPPG (<https://www.gov.uk/guidance/first-homes#first-homes-definition-and-eligibility-requirements>). Key points are:
 - First Homes are a discounted market sale housing and should be considered to meet the definition of 'affordable housing' for planning purposes.
 - They must be discounted by a minimum of 30% against market value after the discount has been applied, the first sale must be at a price no higher than £250,000 outside London.

- They must be sold to people meeting eligibility criteria which includes first-time buyers and household incomes should not exceed £80,000.
 - The discount is passed onto each subsequent purchaser.
 - First Homes are the government's preferred discounted market tenure and should account for at least 25% of all affordable housing units delivered by developers.
6. The PPG states that 'the First Homes Written Ministerial Statement does give local authorities and neighbourhood planning groups the discretion to require a higher minimum discount of either 40% or 50% if they can demonstrate a need for this' (**NPPG Paragraph: 004 Reference ID: 70-004-20210524**). This paragraph also notes that 'minimum discounts should apply to the entire local plan area and should not be changed on a site-by-site basis.' The WMS and PPG on First Homes is clear that the need for any local requirements should be determined through the plan-making process and justified by appropriate evidence. Appendix B sets out further details of First Homes exception sites as presented in PPG.

First home products in the Craven Local Plan area context

7. The analysis in this paper relates to the Craven Local Plan area which is the Craven Local Authority District excluding the Yorkshire Dales National Park. Table 1 presents house price data for all sales and newbuild sales for the periods January 2018 to June 2021 and January to June 2021. It then calculates the value of First Homes based on 30%, 40% and 50% discounts based on these prices (note there were no newbuild sales reported in the January to June 2021 period).
8. It is a reasonable assumption, based on Arc4's experience of understanding housing markets, that a lower quartile price is a broad proxy for a 2-bedroom dwelling and median price a broad proxy for 3-bedroom dwellings. A 2-bedroom dwelling is the housing size most likely to meet entry level (first time buyer) housing need.

This evidence uses all sales prices the period January 2018 to June 2021 to establish:

- a lower quartile price of **£150,000** (which broadly equates to a 2-bedroom property price); and
- a median price of **£205,000** (which broadly equates to a 3-bedroom property price)

Table 1 Indicative First Home prices

Local Planning Authority	Jan 2018- June 2021 property price			Jan – June 2021 property price		
	LQ	Median	Average	LQ	Median	Average
Craven Local Plan area – all sales	£150,000	£205,000	£249,586	£158,000	£217,500	£266,453
	Proxy for 2 bedroom property (entry-level/first time buyer property)	Proxy for 3 bedroom property		Proxy for 2 bedroom property(entry-level/first time buyer property)	Proxy for 3 bedroom property	
First Homes discount price						
30%	£105,000	£143,500	£174,710	£110,600	£152,250	£186,517
40%	£90,000	£123,000	£149,752	£94,800	£135,500	£159,872
50%	£75,000	£102,500	£124,793	£79,000	£108,750	£133,227
Craven Local Plan area – newbuild sales	£201,167	£257,475	£298,240	No sales	No sales	No sales
First Homes discount price						
30%	£140,817	£180,233	£208,768	No data	No data	No data
40%	£120,700	£154,485	£178,944	No data	No data	No data
50%	£100,584	£128,738	£149,120	No data	No data	No data

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9. Table 2 shows the actual incomes required for First Home options based on a 3.5x income multiple and a 10% deposit. The income figure is assumed to be a household income for the purpose of this analysis. The income required for a lower quartile open market newbuild property would be 34.1% higher than for a First Homes property and 25.6% higher for a median priced property.

Table 2 Income required for First Homes to be affordable (based on 3.5x income multiple and assumes a 10% deposit)

Local Planning Authority	Income needed based on Jan 2018- June 2021 property price			Income needed based on Jan – June 2021 property price		
	LQ	Median	Average	LQ	Median	Average
Craven Local Plan area – all sales	£38,571	£52,714	£64,179	£40,629	£55,929	£68,516
	Proxy for 2 bedroom property (entry-level/first time buyer property)	Proxy for 3 bedroom property		Proxy for 2 bedroom property (entry-level/first time buyer property)	Proxy for 3 bedroom property	
First Homes discount						
30%	£27,000	£36,900	£44,925	£28,440	£39,150	£47,962
40%	£23,143	£31,629	£38,508	£24,377	£33,557	£41,110
50%	£19,286	£26,357	£32,090	£20,314	£27,964	£34,258
Craven Local Plan area – newbuild sales	£51,729	£66,208	£76,690	No sales	No sales	No sales
First Homes discount						
30%	£36,210	£36,047	£41,754	No data	No data	No data
40%	£31,037	£26,483	£30,676	No data	No data	No data
50%	£25,864	£33,104	£38,345	No data	No data	No data
% difference in income for newbuild	34.1%	25.6%	19.5%	No data	No data	No data

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10. Table 3 considers the relative affordability of discounted prices to households on lower quartile, median and average earnings using ONS Annual Survey of Hours and Earnings (ASHE) data using all sales and newbuild prices. This initial First Homes Evidence indicates that across the Craven Local Plan area, First Homes would not be affordable to households on lower quartile or median earnings. However it is recommended that in order to meet the requirements of the WMS and NPPG further work is required to fully justify this through the plan making process and the preparation of evidence to update the Council's SHMA (2017), which is likely to be in the form of a local housing needs assessment, as required by paragraph 61 of the NPPF.

Table 3 Comparison of earnings ratio to market prices and First Homes at alternative discounts

	Earnings and ratio to price (all sales Jan 2018 to Jun 2021)		Earnings and ratio to price (all sales Jan 2021 to June 2021)	
	Lower Quartile	Median	Lower Quartile	Median
ONS earnings data 2021 (based on Craven District)	£20,407	£26,891	£20,407	£26,891
First Homes discount based on all sales				
30%	5.13	5.34	5.4	5.66
40%	4.4	4.57	4.63	4.85
50%	3.66	3.81	3.86	4.04
First Homes discount based on newbuild sales				
30%	6.88	6.7	No data	No data
40%	5.9	5.74	No data	No data
50%	4.91	4.79	No data	No data

Key

3.16	Price below 3.5x earnings
3.79	Price between 3.5x and 4x earnings
5.13	Prices more than 4x earnings

Source: ONS Annual Survey of Hours and Earnings resident-based earnings data 2021

District-level First Homes price

11. Table 4 sets out indicative First Home property sales prices at a different discount based on the lower quartile and median sale prices set out in paragraph 8. The affordability of discounted property prices is then tested with latest (2021) ONS Annual Survey of Hours and Earnings data which demonstrates First Homes exceed 3.5x income multiples regardless of the discounts applied to property price.

Table 4 Craven Local Plan Area First Home discount analysis based on all sale prices

Craven Local Plan Area	House price	
	Lower Quartile	Median
Jan 2018 to June 2021 all sale price>>>	£150,000	£205,000
A.This is what a First Home would cost based on different discounts	Lower Quartile	Median
30% discount	£105,000	£143,500
40% discount	£90,000	£123,000
50% discount	£75,000	£102,500
B.This is the household income that would be needed to afford a First Home at different discounts. The amount assumes a 10% deposit and a mortgage is no more than 3.5x income.	Lower Quartile	Median
30% discount	£27,000	£36,900
40% discount	£23,143	£31,629
50% discount	£19,286	£26,357
C. Actual income measures	LQ	Median
2021 ONS Earnings data	£20,407	£26,891
D. Ratio of income required for different First Home discounts. This is A divided by C	LQ	Median
30% discount	5.1	5.3
40% discount	4.4	4.6
50% discount	3.7	3.8

Sources: Land Registry © Crown copyright 2021; ONS ASHE 2021 resident-based earnings data

12. Table 5 considers analysis based on newbuild prices 2018 to June 2021. The data presented in tables 4 and 5 show that in terms of both all sales and new build sales, regardless of discount to market price earnings they are generally not sufficient to afford First Homes Products.

Table 5 Craven Local Plan Area First Home discount analysis based on newbuild sale prices

Craven Local Planning Authority Area	House price	
	Lower Quartile	Median
2018-June 2021 newbuild sales price>>>	£201,167	£257,475
A. This is what a First Home would cost based on different discounts	Lower Quartile	Median
30% discount	£140,817	£180,233
40% discount	£120,700	£154,485
50% discount	£100,584	£128,738
B. This is the household income that would be needed to afford a First Home at different discounts. The amount assumes a 10% deposit and a mortgage is no more than 3.5x income.	Lower Quartile	Median
30% discount	£36,210	£46,346
40% discount	£31,037	£39,725
50% discount	£25,864	£33,104
C. Actual income measures	Lower Quartile	Median
2021 ONS Earnings data	£20,407	£26,891
D. Ratio of income required for different First Home discounts. This A divided by C	Lower Quartile	Median
30% discount	6.9	6.7
40% discount	5.9	5.7
50% discount	4.9	4.8

Implications of First Homes for an overall affordable tenure split

13. NPPG sets out how First Homes should be addressed in local plans. Policies for First Homes should reflect the requirement that a minimum of 25% of all affordable housing units secured through developer contributions should be First Homes (**Paragraph 013 Reference ID: 70-013-20210425**). The NPPG states that ‘A policy compliant planning application should seek to capture the same amount of value as would be captured under the local authority’s up-to-date published policy’ (**Paragraph: 014 Reference ID: 70-014-20210524**). Then, NPPG says ‘once a minimum of 25% of First Homes has been accounted for, social rent should be delivered in the same percentage as set out in the local plan. The remainder of the affordable housing tenures should be delivered in line with the proportions set out in the local plan policy (**Paragraph 15 reference ID: 70-015-20210524**).
14. The Council’s 2017 SHMA Update indicates that an appropriate split on tenure would be achieving between 15% and 25% affordable housing for sale, and between 75% and 85% affordable housing for rent. The 2017 SHMA Update did not differentiate between social and affordable rent on the assumption that a range of rental options would come forward. However, virtually all rented accommodation being developed in

Craven is affordable rent and therefore the model assumes a combined social/affordable rented need.

15. In line with the NPPG, there is a need to deliver the affordable housing tenures in line with the proportions set out in adopted Craven Local Plan Policy H2: Affordable Housing. Criterion f) of this policy states that 'the size, type and tenure of affordable units will be expected to reflect the most up to date evidence of affordable housing needs, from the latest SHMA and any other robust and up to date evidence of local housing need'. The initial First Homes evidence supplements the 2017 SHMA Update and provides updated income/house price data to inform the delivery of housing tenures after 25% of First Homes has been accounted for, to best meet affordable housing need. As stated in paragraph 16, the 2017 SHMA Update does not differentiate between social and affordable rent, therefore this updated evidence informs and justifies adjustment of the tenure mix to best meet affordable housing need.
16. The final recommended affordable tenure split for Craven is set out in Table 6 and ensures that once 25% of First Homes has been accounted for, the remainder of the affordable housing tenures should be delivered in line with the proportions set out in the local plan policy, in line with the NPPG.

Table 6 Affordable tenure split

Social/Affordable rent	Affordable home ownership	First Homes
60-65%	10-15%	25%

Conclusions and policy recommendations

17. This paper has explored the likely cost of First Home products based on alternative discounts and tested these against local incomes.
18. A key conclusion is that this initial evidence indicates that First Homes at a 50% discount are unlikely to be affordable to eligible households generally, but may be affordable to some. Further work is required to confirm the affordability of First Homes through the plan-making process and the preparation of evidence including a housing needs assessment.
19. This paper makes two recommendations:
 1. Whilst this paper has provided initial First Homes evidence, it is recommended that it feeds into more complete evidence required to justify any local requirements such as higher discounts and lower price caps, if appropriate. The WMS and PPG on First Homes is clear that the need for any local requirements should be determined through the plan-making process, that is through the preparation of evidence including a housing needs assessment and through an update to relevant local plan policies (H2) or through the preparation of a new local plan for North Yorkshire following local government reorganisation.

2. In line with PPG paragraph 015 (ID: 70-015-20210524), there is a need to deliver the affordable housing tenures in line with the proportions set out in the adopted Craven Local Plan Policy H2: Affordable Housing. A tenure split as set out in table 6 is therefore recommended.

Appendix A Affordable housing definitions

Definitions relating to affordable housing are presented in the NPPF 2021 (Annex 2):

Affordable housing: housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers); and which complies with one or more of the following definitions:

- a) **Affordable housing for rent:** meets all of the following conditions: (a) the rent is set in accordance with the government's rent policy for social rent or affordable rent, or is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider); and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For Build to Rent schemes, affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent).
- b) **Starter homes:** is as specified in Sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan-preparation or decision-making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a particular maximum level of household income, those restrictions should be used.
- c) **Discounted market sales housing:** is that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.
- d) **Other affordable routes to home ownership:** is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low-cost homes for sale (at a price equivalent to at least 20% below local market value) and Rent to Buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision or refunded to government or the relevant authority specified in the funding agreement.

Appendix B First Homes exception sites

What is a First Homes exception site?

A First Homes exception site is an exception site (that is, a housing development that comes forward outside of local or neighbourhood plan allocations to deliver affordable housing) that delivers primarily First Homes as set out in the First Homes Written Ministerial Statement.

Paragraph: 024 Reference ID: 70-024-20210524

Where can First Home exception sites come forward?

First Homes exception sites can come forward on unallocated land outside of a development plan. They cannot come forward in areas designated as Green Belt, or designated rural areas as defined in Annex 2 of the National Planning Policy Framework. In these areas rural exception sites are the sole permissible type of exception site.

Paragraph: 025 Reference ID: 70-025-20210524

What evidence can be used in demonstrating that a proposed First Homes exception site is proportionate in size to the existing settlement?

For decision making, what constitutes a proportionate development will vary depending on local circumstances. As part of their process for preparing planning applications, applicants should consider engaging a relevant built environment professional to provide advice on the scale of their proposal and also consider proactively engaging with local authorities where possible to discuss their proposals.

For plan making, local authorities and neighbourhood planning qualifying bodies are encouraged to set policies which specify their approach to determining the proportionality of First Homes exception site proposals, and the sorts of evidence that they might need in order to properly assess this.

Paragraph: 026 Reference ID: 70-026-20210524

Can First Homes exception sites deliver market housing?

First Homes exception sites can deliver a small proportion of market housing, provided that it can be demonstrated that this is necessary in order to ensure the overall viability of the site. Local authorities and neighbourhood planning groups can set policies that specify in further detail the proportions of market housing would be considered acceptable, and under what circumstances.

Paragraph: 027 Reference ID: 70-027-20210524

What sort of evidence can be provided in order to justify the inclusion of a small proportion of market housing on First Homes exception sites?

Applications for First Homes exception sites that propose the inclusion of a small proportion of market housing will be expected to provide evidence that the site would be unviable without such housing being included, for instance in situations where the development faces significant and unexpected delivery costs. Evidence would

typically be in the form of a detailed viability assessment prepared in line with Planning Practice Guidance on Viability in Decision Taking.

Paragraph: 028 Reference ID: 70-028-20210524

Under what circumstances can other types of affordable housing come forward on First Homes exception sites?

Where local evidence suggests that a significant local need exists for one or more other forms of affordable housing on a proposed First Homes exception site, applicants may alter the proportions of affordable housing to include small quantities of other affordable housing products. Applicants will be expected to provide evidence of this need in the form of a Local Housing Needs Assessment, local authority Housing Register, or other sufficiently rigorous local evidence.

Paragraph: 029 Reference ID: 70-029-20210524