

## **Consultation Response: “Starter Homes regulations – technical consultation”**

**To:** Department for Communities and Local Government (DCLG)

**By:** The Intergenerational Foundation

**Date:** 18 May 2016

The Intergenerational Foundation ([www.if.org.uk](http://www.if.org.uk)) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

### **Introduction:**

The Intergenerational Foundation (IF) welcomes the opportunity to comment on government policy towards Starter Homes. The UK’s housing affordability crisis is one of the main focuses of IF’s research agenda, and since our foundation in 2011 we have published a number of research papers on this issue, including *Why BTL (buy-to-let) equals “Big Tax Let-off”* (2013) – which argued for the changes to the taxation of buy-to-let property which the government has implemented over the past year – and *Hoarding of Housing* (2011), which analysed the under-occupation of England’s existing housing stock.

IF is extremely pleased that the government is taking the need to increase the supply of housing seriously, and we would like to make the following points in response to the consultation document:

### **1) Restrictions on the sale and lettings of a starter home**

IF agrees with the government that there need to be restrictions on the reselling of Starter Homes at full market value, for two reasons: firstly, in order to prevent the stock of affordable housing from being eroded, and secondly, to ensure that Starter Homes do not effectively become a giveaway which only confers a one-off benefit on a fortunate group of young first-time buyers.

However, **IF recommends that the time period before a Starter Home can be resold at full market value should be longer than 8 years**, which the consultation document says is the maximum length of time the government is willing to consider. This is because of IF’s concern that Starter Homes could significantly exacerbate existing social inequalities between members of today’s younger generation if first-time buyers are allowed to sell on too quickly the homes they have bought.

IF’s analysis of data from the Annual Survey of Hours and Earnings (ASHE) suggests that even with the statutory price caps for Starter Homes in place, many households formed by couples in their 20s and 30s are unlikely to be able to afford them using their own

means. The table below shows the ratio of nationwide median earnings to the Starter Home price caps for a variety of different household types where both adults are in the same age group, with either both adults working full-time (FT) or one adult working full-time and the other working part-time (PT), as is common after a couple has had children:

Household Type	Location	Ratio of median earnings to Starter Home price
<b>Age 22-29</b>		
2FT	Outside London	5.8
1FT1PT	Outside London	8.2
2FT	London	10.4
1FT1PT	London	14.7
<b>Age 30-39</b>		
2FT	Outside London	4.4
1FT1PT	Outside London	6.2
2FT	London	7.8
1FT1PT	London	11.1

Source: ASHE: Table 6 (Earnings by Age Group), 2014 Revised Results

The purpose of this table is to demonstrate that even with the Starter Home price caps, the ratios of earnings to house prices is still likely to prove extremely challenging for at least half of all households aged between 20 and 40 to afford. Given that people who want to take advantage of Starter Homes will need to provide a deposit which will typically be between 15–25% of the purchase price, it seems inevitable that it will mainly be first-time buyers with wealthy families who can help provide this who will be the main beneficiaries of the scheme. Therefore, there is clearly a significant risk that public money will be being spent on assisting the property purchases of young people who could have afforded to access homeownership even in the scheme’s absence.

In order to minimize the potentially regressive impacts of the scheme, IF believes there should be a measure along similar lines to the amendment which was added to the Housing and Planning Bill during its first reading in the House of Lords (but which failed to gain approval in the Commons) to the effect that **the removal of the Starter Home discount should be tapered over a time period of 20 years, AND this 20-year period should be reset every time the Starter Home changes hands**. As the government itself suggests in the consultation document, someone who wants to sell a Starter Home before the whole of this period has elapsed would only be able to do so to another first-time buyer. Such a measure would achieve two of the main aims of the Starter Homes policy by both enabling first-time buyers to gain ownership of an asset which should be appreciating in value, while also ensuring that the supply of affordable housing should increase over time as more Starter Homes are built, rather than being eroded as the Starter Homes discount expires.

IF also agrees with the government that **Starter Homes should not be available to buy-to-let investors**.

## 2) The Starter Homes Requirement

IF would like to make a couple of points about the Starter Homes requirement which the government proposes in the consultation document. Firstly, **IF agrees with the**

**position that there should be certain types of housing development where it would be unreasonable to expect the developers to deliver Starter Homes.** In particular, IF is extremely concerned about the shortage of purpose-built accommodation for older people, which England will need far more of as its population ages over the coming years. One estimate from the estate agency Savills suggests the UK needs to build 78,000 new homes which are specially adapted for older residents each year over the next decade in order to match the levels of provision that are typical for other rich countries with a similar demography to Britain, but currently we are only managing to deliver around 7,000 per year.<sup>1</sup> Therefore, **IF agrees with the government's suggestion that accommodation for older people should be excluded from the Starter Homes requirement.** This should include all accommodation aimed at older people, broadly defined, including small-scale developments of retirement housing where older people are expected to live independently without support being provided (i.e. downsizing accommodation).

Secondly, IF is concerned that the proposed Starter Home requirement (20% of units on all private housing developments consisting of over 10 units or 0.5 hectares) **would result in many developments where all the affordable housing takes the form of Starter Homes.** IF considers such an outcome to be undesirable, for several reasons: without the discount being preserved over time, as suggested above, it would mean that the overall stock of affordable housing would be constantly being diminished; it would further shrink the share of properties which are affordable to low-income tenants who cannot afford owner-occupation even with the Starter Homes discounts; and it would worsen residential segregation (particularly if it resulted in new where all the residents were first-time buyers, as this would undermine the principle of mixed-age communities which IF strongly believes planning policy needs to encourage). Therefore, IF recommends that **Starter Homes should only ever provide a maximum of 50% of the amount of affordable housing which is built on a given site,** in order to foster the development of mixed and balanced communities.

*If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise further, please contact:*

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<sup>1</sup> Savills (2015) *Spotlight: Housing an ageing population* London: Savills Research