

Public Consultation: First Homes

To: Ministry of Housing, Communities and Local Government

By: The Intergenerational Foundation

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The Intergenerational Foundation (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) is pleased to see that the government is taking the problem of lack of access to affordable housing among younger people seriously. IF strongly believes that the housing crisis is one of the most pressing economic disadvantages affecting the current generation of younger people in the UK.

All Consuming Pressures,¹ a research report which we published last year in collaboration with Yorkshire Building Society, estimated that households in the under-35 age category now devote an average of 63% of their equivalised weekly income on essential goods and services, among which the cost of housing is the single largest item.

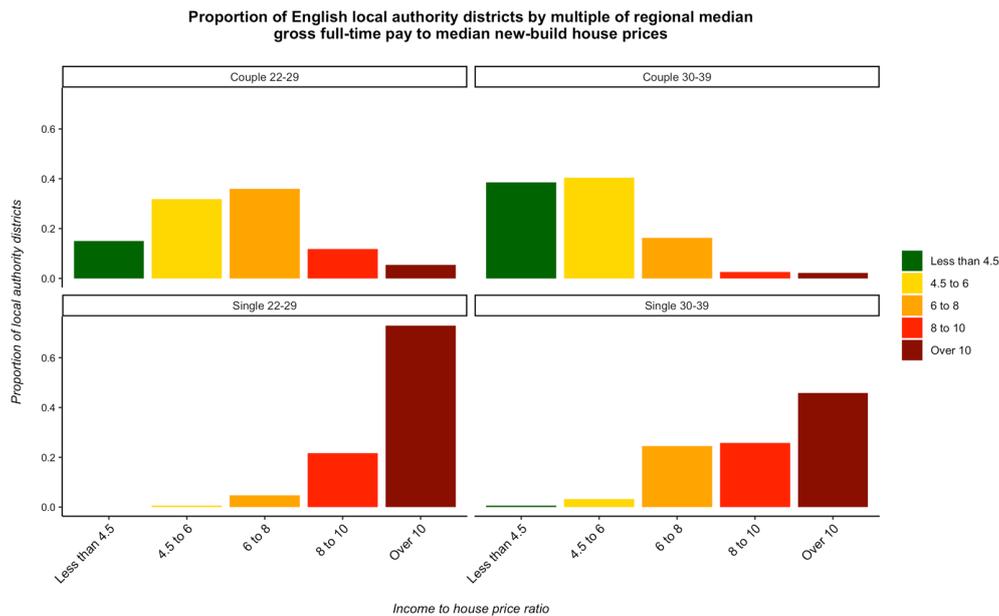
IF is broadly supportive of all government attempts to improve first-time buyers' access to affordable housing which is of a decent quality and size, so we are in favour of the First Homes scheme in principle. However, whilst bearing this in mind, we would also like to draw to the government's attention the following questions and observations regarding the scheme:

1) How much will First Homes increase affordability for young people?

The goal of the First Homes policy is to create a new type of affordable housing product which will offer property purchasers at least a 30% discount on the market price of a new-build home in the same area, to be preserved in perpetuity for all future buyers of the same property.

While a 30% discount on the market price sounds significant, our analysis of the available data suggests that even a discount of this size may not be enough to make buying a new home significantly more affordable for all young adults in many parts of the country, especially those where young adults most want to live (i.e. London and other big cities).

¹ Kingman, D. (2019) *All Consuming Pressures: the cost of living crisis facing younger generations* London: IF



Source: IF analysis of the Annual Survey of Hours and Earnings and House Price Statistics for Small Areas in England and Wales © Intergenerational Foundation 2020 www.if.org.uk

Fig.1

To investigate how much impact First Homes could have on affordability for young adults, IF created a simple statistical model which compared ONS estimates of the median earnings for workers who belong to different age groups in each English region² with the median price paid for a new-build home in each local authority district within each region,³ and then applied a 30% discount to the house price data to simulate the level of discount that would apply under the First Home scheme.

This was used to calculate house price-to-earnings ratios for young adult workers who are looking to buy in each local authority area of England, assuming that they are either single adults who earn the median full-time salary for a worker in their age group in each region or in a couple consisting of two adults who belong to the same age group and both earn the median full-time salary for a worker who belongs to their age group within each region.

Fig. 1 displays the proportion of local authority districts which fall into each house price affordability ratio without any house price discount being applied for the four different types of purchaser which we included in our statistical model: a single purchaser aged 22–29, two people aged 22–29 who are purchasing as a couple, a single purchaser aged 30–39, and two people aged 30–39 who are purchasing as a couple. What we were particularly interested in was the number of local authority districts where this figure was below 4.5, because – as the First Homes consultation document emphasises – the maximum amount which a first-time buyer can usually borrow to buy a property is 4.5 times their household income.

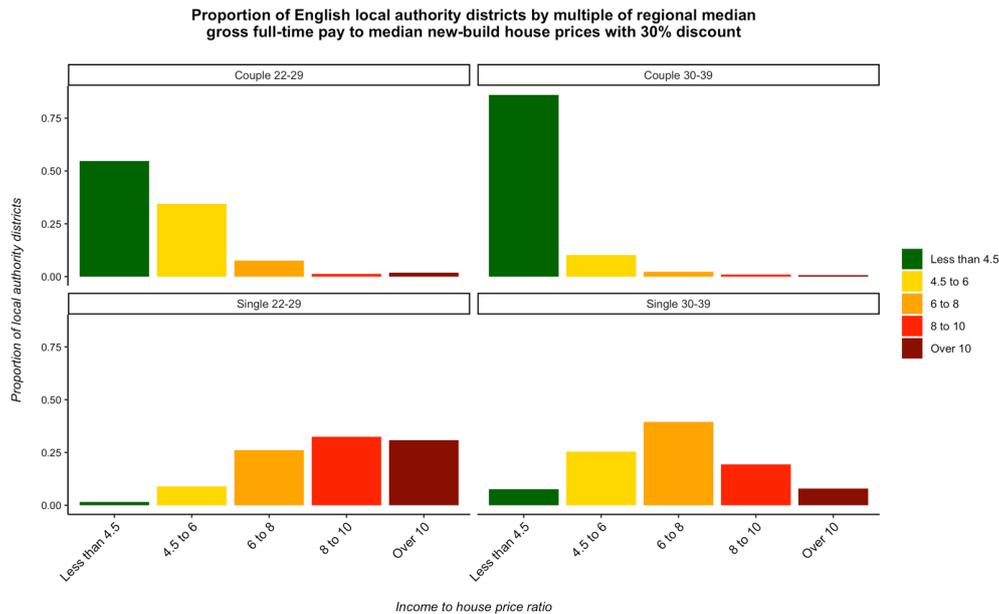
Clearly, the majority of local authority districts would be out of reach for all four of these groups, although about 15% of local authority districts would be affordable for a couple where both members were in their 20s, and just under 40% would be

² ONS (2019) *Annual Survey of Hours and Earnings, 2018* Newport: ONS

³ ONS (2019) *House price statistics for small areas in England and Wales: year ending March 2019* Newport: ONS

affordable for a couple where both members were in their 30s.

Obviously, geography is hugely important here: the more desirable an area is to live in the higher its house prices are, so in reality there may be very few districts in which these buyers actually want to live that they could afford. It's also worth emphasising that 50% of new-build homes will be below the median price in each district, but again, these are likely to be the smallest and least desirable properties, so these may not be ones which young adults are willing to purchase.



Source: IF analysis of the Annual Survey of Hours and Earnings and House Price Statistics for Small Areas in England and Wales
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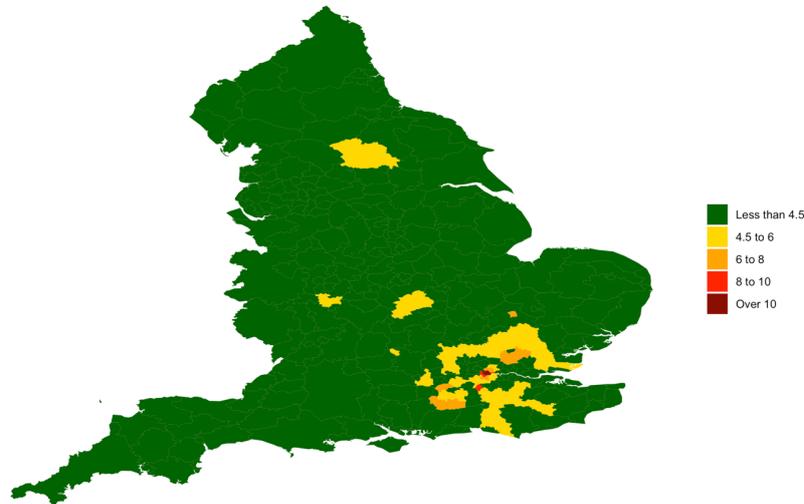
Fig.2

Fig.2 shows the results of our statistical model once a 30% discount was applied to median new-build house prices in each local authority district. These findings suggest that the scheme would make new-build housing more affordable in a significant number of local authority districts, but with the caveat that the scheme is likely to be of much greater benefit to couples than it is to people who are buying on their own, and also to people who are in their 30s rather than to people who are in their 20s. Our model suggests that 86% of local authority districts would become affordable to people buying as a couple in their 30s, and 54% to people who were buying as a couple in their 20s, but only a minuscule number would be affordable to people in either age group who were buying on their own.

However, to reiterate from above, geography does matter: Fig.3 shows which local authority districts people who were buying as a couple in their 30s could afford to buy a home in after the 30% discount was applied. It strongly suggests that affordability is likely to remain particularly challenging in most of the desirable areas of London and the South East, which suggests that a larger discount than the 30% which is proposed in the First Homes consultation document would be necessary to significantly improve affordability in these areas. However, the need to provide a larger discount in these areas will have to be balance against the potential impact this would have on the number of such homes being delivered: if it led to a lower overall amount of affordable housing being built, then that would not help young

people grappling with the housing crisis.

Ratio of regional median earnings to local authority district median house prices for couples in their 30s in English local authority districts with 30% discount



Source: IF analysis of the Annual Survey of Hours and Earnings and House Price Statistics for Small Areas in England and Wales
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Fig.3

2) Are first-time buyers at risk of becoming “stuck” in First Homes?

The other significant concern which IF has about the proposed scheme is that, although the idea of preserving the original discount on the purchase price of First Homes in perpetuity is preferable to simply handing a one-off windfall to a particular generation of first-time buyers, there is a risk that some purchasers could become “stuck” in an unsuitable home when they want to sell it and move on to a larger one if they are unable to afford to make up the difference between the discounted value of their current property and the market price of the type of property they want to move on to.

However, this is clearly a hypothetical problem, in comparison to the much more immediate issue of ensuring that young adults can get on the housing ladder. IF suggests that DHCLG ought to establish a scheme for monitoring the long-term effects of living in a First Home on the people who purchase them, so that it can examine whether people who purchase them are subsequently prevented from being able to move elsewhere by the scheme, and in order to provide a robust evidence base for future policy development in this area.

3) Will First Homes actually be delivered?

The first two sections of this response should have demonstrated that IF is broadly supportive of the First Homes policy, although we think that it will benefit certain groups of young adults much more than others as it is currently designed.

However, our biggest concern about the scheme is that it may never actually deliver new housing on a large enough scale to have any significant impact on the housing crisis. This is partly because there may be a preference on the part of either planning authorities or housing developers to build other types of affordable housing instead of First Homes, given that the scheme is just one type of affordable housing product among several others, each of which is designed to achieve different policy objectives.

It is also because the last time the government attempted to implement a scheme which was supposed to give first-time buyers a discount on the cost of purchasing a new-build home, via the Starter Homes scheme that was first announced in 2015, it failed to produce any tangible results.

The design of the Starter Homes scheme was very similar to what is being proposed for First Homes – these were intended to be newly built homes that would be sold exclusively to first-time buyers who were under the age of 40 – and although the scheme enjoyed a high profile in the Conservative government’s 2015 general election manifesto, an investigation by the National Audit Office which was published in 2019, four years later, found that it was impossible to identify any new homes which had been sold under the Starter Homes scheme.⁴

IF is concerned that this experience has demonstrated that actually delivering subsidised new housing aimed at first-time buyers has proved difficult in the past, so we hope that the First Homes scheme remains a high enough priority for the government for it to actually reach fruition. This will be especially important given the high degree of uncertainty which has been created by the COVID-19 crisis, but IF hopes that fixing the housing crisis facing young adults will still be near the top of the government’s agenda.

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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⁴NAO (2019) *Investigation into Starter Homes* London: NAO