

## **Highbury Group**

### **Response to DCLG consultation on the Starter Homes proposal: “Stepping on to the property ladder”.**

#### **Introduction**

The Highbury Group is an independent group of specialists from public, private and independent sectors with a membership drawn from housing, planning and related professions; it offers advice and makes representations to Government and other agencies on planning and housing, with the aim of maintaining and increasing the output of housing, including high quality affordable housing (see footnote for membership).

The key purpose of the group is to promote policies and delivery mechanisms, which

- \* increase the overall supply of housing in line with need
- \* ensure that the supply of both existing and new housing in all tenures is of good quality and affordable by households on middle and lower incomes.
- \* support the most effective use of both existing stock and new supply
- \* ensure that housing is properly supported by accessible infrastructure, facilities and employment opportunities

#### **Consultation Questions**

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?

In principle we support initiatives which help to increase housing supply particularly through capture of land value increase achieved through change of planning use or infrastructure investment.

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?

Low existing use value land enables the greatest potential for land value uplift. There are many types of existing uses that have low value. We accept that a new initiative, which by nature is somewhat experimental, needs a small scale pilot which can take many forms whether this is determined by geography, scale, or type of land use.

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?

No. In general commercial and industrial land is poorly suited for residential use. There are, however, a small proportion of locations where change of use can deliver a good quality (and well served by amenity) housing development without disruptive neighbouring uses.

The proposal runs the risk of generalising from a few potentially successful outcomes to a universal judgement of commercial and industrial use and designation. In some locations, and often where housing use may be relatively successful, the loss of uses that maintain and potentially increase employment opportunities would be a larger loss to the economic and environmentally sustainable dynamic of the neighbourhood, than the housing gain.

There is a need for a wider range of “price points” in the housing market. Yet a site constructed of low cost high density, possibly smaller, dwellings targeted at the low income FTB poses some design and quality questions, which the proposal acknowledges through the suggestion of a Design Advisory Panel. We have limited experience of success in this field. The progress being made by Pocket Housing [www.pocketliving.com](http://www.pocketliving.com) is worth watching, and seems to operate without a proposal of this kind. However, in the 1980’s there was a move to deliver small one-bedroom houses in market developments, but the outcome here was not good, not least because during period of weakness in the market these homes were the hardest to sell on and people felt trapped.

Q4: Do you consider it necessary to avoid Starter Home developments in isolated locations, or where there would be conflicts with key protections in the National Planning Policy Framework?

Yes, with one exception: that is that some industrial and commercial uses within existing Green Belt designation add no value to the Green Belt purpose, and could be desirable housing locations. We would advocate a flexible approach to sites within the Green Belt, enabling re-designation (and substitution) of land, within a wider long term strategy for growth of constrained cities, and subject to a convincing case for redevelopment that has considered the advantages and disadvantages of realistic alternatives such as higher densities on land within the “belt”.

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?

We consider that the proposal, as presented, is not viable. See Appendix. The suggestion that increases in Gross Development Value through inclusion of open market sales might be needed, tends to support our view.

In principle housing, and planning for housing, should not be tenure labelled. The mix of tenures should be a result of the mix of housing need, income distributions, and changing market dynamics and aspirations. Where, however, a form of subsidy is secured through planning obligations some form of control over that subsidy is needed which at present determines the tenure of each dwelling (though it need not). It is desirable to ensure that all housing developments deliver a mix of tenures. In this case the tenure for the subsidised FTB product perhaps should be called “Intermediate”.

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?

We have some doubts about First Time Buyers being described as a type of housing need requiring a special policy. The proposal does not attempt to address this. If the FTB had a household income level that prevents access to market housing within a reasonable distance then that would represent a need. But we have concerns about placing more marginal FTB buyers (on 95% LTV or thereabouts) in home ownership, as they appear to become those

most vulnerable to market weaknesses. If the FTB would free up existing social or affordable housing through purchasing this product then that would have the social value of making a sub-market dwelling available to a household in need, though the amount would depend on the level of subsidy (discount to market) in the previous dwelling. Most FTBs are newly formed households, and many go on to increase their earnings (and housing consumption and investment), and both these points make the description of FTB problematic in defining need.

A subsidised product is designed to meet a need. If a new occupier is not in need then the “remaining unused” subsidy should be recycled into another dwelling to meet need. Furthermore a restriction on the nature of a future buyer will have a dampening effect on the security that can be offered to lenders, and may even affect the mortgageability of the product.

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

No. We do not have an efficient method of capturing land value uplift. This proposal, on declaration of an “exception”, would in some locations immediately increase the land value for the existing owner, and add hope value to similar sites.

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?

There is no need for a time period if the subsidy element (whether expressed as a share of value, or as a low, or zero, fee/rent/interest rate during its application, or a combination of these) can be recycled on resale or refinancing, or if the household is no longer in need. The Help to Buy: Equity Loan scheme shows how this can be done (using principal projections or mid-point economic forecasts) with no net cost to the taxpayer, and is thus State Aid compliant.

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?

This is illogical. The Starter Home as proposed is a subsidised product and thus is a form of affordable housing secured through, presumably, a planning obligation. Whether it delivers an appropriate planning outcome is another matter, and we would argue that whilst a subsidised home ownership product has its place in a mix of affordable housing it would only form a minority part of a medium to large sized development where renting and outright ownership would form the majority. That is why we believe land value uplift should be captured so that affordable housing obligations (and tariffs) can operate as a proportion of all development.

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

No. The proposal suggests that any supply under this initiative should count as part of the Local Plan 5 year output. The market element of this output delivers CIL. If that is further eroded as share of output (e.g. as for self-build) then the remaining market output will either deliver less CIL in aggregate [implying that this central government proposal will be at the expense of the delivery of infrastructure in the local authority area], or the CIL rate in £m<sup>-2</sup> would have to be increased [which in extremis would make more sites unviable]. If the

Starter Homes would be at the expense of output of other affordable and social housing then that in itself raises a major policy question that has not been addressed in the proposal.

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

Another administrative system seems unnecessary when there is an accountable system of approval, and open record, of planning consents.

If the implication is that these Starter Home sites should have a new time limited planning use class then we would suggest that this is impracticable, especially as it would depress security values and thus the ability for the household to finance the purchase.

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

Our conclusion is that this initiative should not proceed as proposed.

Highbury Group  
5<sup>th</sup> February 2015

## **Appendix**

There are a number of problems with this proposal. Firstly the “cost” is not to government but to lost CIL and AH receipts for the local authority area. Secondly it is doubtful that low value housing in poorer locations all occupied only by First Time Buyers is a desirable outcome. Thirdly it is questionable whether a subsidy should be gifted away to the buyer. A strong social case would have to be made for this to be State Aid compliant. But the most significant factor is a misunderstanding of land value dynamics.

CIL and AH are rarely a “cost” to the developer and certainly are not a charge added to the purchase price of the dwelling. They reduce the residual value of land or price paid to the landowner.

The first table below shows this effect for the average England newbuild.

The second table shows the assessment for a development of Starter Homes and compares the residual land value with existing use.

The residual land value after the impact of the proposed Starter Home discount, even with the waived obligation of CIL and Affordable Housing, is lower than the existing use value. This would deter the land owner from selling for Starter Home use.

**England average new housing**

GIA	m <sup>2</sup>	95
Price paid	£	261,000
All in development cost	£m <sup>-2</sup>	1,750
All in development cost	£	166,250
Unencumber spade ready plot value	£	94,750
CIL at this price point	£	6,000
AH contribution per market dwelling	£	15,000
Plot value with these obligations	£	73,750
Density	dph	40
AH share	%	20
Market housing	dph	32
Residual land value with obligation	£	2,360,000

**Comment**

ONS HPI Nov 2014  
Includes financing, risk cover and profit

Residual  
DCLG estimate  
DCLG estimate  
Site related infrastructure included

Average achieved

**England average Starter Homes on commercial/industrial**

GIA	m <sup>2</sup>	90
Value without discount	£	198,000
Less discount	%	20
Gifted to FTB(s)	£	39,600
Price paid	£	158,400
All in development cost	£m <sup>-2</sup>	1,700
All in development cost	£	153,000
Unencumber spade ready plot value	£	5,400
CIL at this price point	£	-
AH contribution per market dwelling	£	-
Plot value	£	5,400
Density	dph	40
AH share	%	0
Market housing	dph	40
Residual land value with Starter Homes	£ph	216,000

Smaller average dwelling size  
Estimated from ONS HPI for FTB newbuild  
Proposed

Lower construction and site works cost

Waived in proposal  
Waived in proposal

Estimated commercial/industrial value      £ph      450,000

## Footnote

The Highbury Group is an independent group of specialists from public, private and independent sectors from housing, planning and related professions which prepares proposals for Government and other agencies on policy options for optimising the output of housing including affordable housing.

The group was established in 2008. The group now meets at the University of Westminster, London. It comprises the following core members: Duncan Bowie -University of Westminster (convener); Stephen Ashworth – SRN Denton ; Julia Atkins - London Metropolitan University; Bob Colenutt - Northampton Institute for Urban Affairs ; Kathleen Dunmore - Three Dragons ; Michael Edwards - Bartlett School of Planning, UCL; Deborah Garvie SHELTER ; Stephen Hill - C20 Futureplanners ; Angela Housham - Consultant ; Andy von Bradsky -PRP ; Seema Manchanda – planning consultant; Tony Manzi - University of Westminster; James Stevens - HomeBuilders Federation ; Peter Studdert – Planning consultant ; Janet Sutherland - JTP Cities; Paul Watt - Birkbeck College ; Nicholas Falk- URBED; Catriona Riddell – Planning Officers Society; Richard Donnell – Hometrack; Pete Redman – Housing Futures; Richard Simmons- University of Greenwich; Richard Blyth /Joe Kilroy – RTPi ; Michael Carnuccio – National Housing Federation; Stephen Battersby- Pro-Housing Alliance; Roger Jarman – Consultant/ Housing Quality Network; Richard Bate- Green Balance; Eric Sorensen; Ken Bartlett; David Waterhouse- Design Council/CABE; Martin Crookston; Chris Shepley; Kath Scanlon – LSE; Nicky Morrison – University of Cambridge; Glen Bramley- Heriot Watt University; Tim Marshall – Oxford Brookes University. Alisdair Chant- Berkeley Group.

The views and recommendations of the Highbury Group as set out in this and other papers are ones reached collectively through debate and reflect the balance of member views. They do not necessarily represent those of individual members or of their employer organisations.

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