

STARTER FOR TEN

Unanswered Questions

Starter Homes are an important part of Government's housing policy with a target of 200,000 to be delivered in this parliament. They will be available to first time buyers under the age of 40 and priced at a discount of at least 20% to the open market value of the property. The maximum discounted price will be capped at £450,000 in London and £250,000 elsewhere.

Starter Homes were originally intended to bring forward additional brownfield sites that were unviable or under-used by exempting them from the Community Infrastructure Levy and/or S106 affordable housing contributions. The scope has since been widened so that "every reasonably sized housing site" should include a provision for them. Thanks to redefinition, they now look set to contribute a large proportion of future Affordable Housing delivery. However, there are still a number of unanswered questions about how they will actually work in practice. These include:

What is the value of a starter home?

Buyers will be able to purchase Starter Homes at discounts of 20% (or more) to open market value and then sell for 100% of market value in five years time. Although this may appear simple, the discount and its period raises a number of concerns. Determining the open market value of a Starter Home should be relatively easy if there are equivalent properties sold without a discount on the same site. However, if there are no comparable properties sold then there is likely to be a wide range of opinion on value.

Additionally, with the potential to realise a 20% profit after five years, the value of a Starter Home to a new buyer could be much higher than just 80% of market value. Depending on the buyer's appetite for risk, the price they are prepared to pay for a Starter Home could be closer to 100% than the intended 80% of open market value. That creates the risk of buyers overpaying for Starter Homes, especially in more competitive housing markets.

This could cause concern for mortgage lenders. What happens if a Starter Home is sold or repossessed at some point during the five year discount period? Is it sold at 100% of market value with 20% payback to some other party or is it sold at a discount? Keeping the discount in perpetuity (with the option to staircase out) has emerged as a potential solution but does bring the scheme closer to shared ownership than originally envisaged.

How many extra new homes should we expect?

The headline target is for 200,000 Starter Homes during this parliament but how many of those will actually be additional to the number of new homes we might have built anyway? A recent DCLG report* suggested that around 57% of homes bought with Help to Buy equity loan would've been bought and hence built anyway. Even those figures are subject to some debate and the calculation of actual net new supply will be more complex for Starter Homes given the potential for overlap with both Help to Buy sales and Affordable Housing supply.

How will the development process adjust?

Buyers' appetite for Starter Homes appears to be strong but remains unproven in the market. Meanwhile, the potential for overlap with Help to Buy and question marks over mortgage lenders' appetite make it difficult for developers to forecast sales rates. The likely sales rates of Starter Homes are especially important because the traditional early development cashflow provided by selling S106 homes in bulk to Housing Associations may not be forthcoming on these homes. Therefore, and in combination with questions about the underlying land value of Starter Homes (e.g. what is an appropriate developer profit margin?), this makes valuing and bidding for development land a more difficult and risky process.

Could there be unintended consequences?

The housing market is a complex and interconnected system. Even ignoring the wider impact, there are likely to be unintended consequences arising from the Starter Home scheme. The introduction of price caps for London and the rest of the country suggest that Starter Homes could be best value in the Home Counties, where market values are closest to London prices but the cap is much lower. It is in these markets that we could see developers reduce the size and quality of Starter Homes relative to their existing products in order to achieve a sufficient profit margin over costs while ensuring a competitive land value.

Reducing uncertainty is always near the top of the list when developers are asked what Government should do to fix the housing market (the top normally being 'fix planning'). As it stands, the lack of detail around Starter Homes is causing considerable uncertainty in the development market and threatens Government's ability to meet its broader housebuilding ambitions. More detail on how Starter Homes will work in practice is urgently required.

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* "Evaluation of the Help to Buy Equity Loan Scheme", Feb 2016