

First Homes

Does the Government's First Homes scheme unlock delivery?

Executive Summary

- First Homes offers new build homes at a discount of 30% to 50% of market value to local first-time buyers and key workers in England.
- From June 2021, the initial First Homes went to market as part of a 1,500 home development in Bolsover.
- The scheme will be delivered through housebuilders' s106 obligations with 25% of homes set aside for First Homes specifically. We estimate that this will equate to 7,000 First Homes annually once the scheme is up and running.
- In terms of affordability, First Homes broadly sit in the space between shared ownership and social rent. Concerns that the scheme will partly displace shared ownership is valid in less expensive markets where affordability constraints are less severe, and the buyer has a greater choice.
- The price and earnings caps within the First Homes scheme could prove a barrier in some markets. Our analysis shows that delivering three-bed homes in London and the South will not be viable in terms of the current pricing relative to the price caps.

Introduction

The First Homes scheme was introduced as part of the 2019 Conservative election pledge to deliver 300,000 homes annually across all tenures by the mid-2020s.

The scheme offers a discount of at least 30% on the asking price of a new home for local first-time buyers, key workers and members of the armed forces. This discount is calculated compared to the average price of the wider new-build scheme.

The government has set price caps for homes that can be offered under First Homes, at £250,000 across England and £420,000 in London. In addition, eligible buyers will also be subject to income caps of £80,000 across England and £90,000 in London.

It is important to note that First Homes will not drive additional supply of new homes over and above what is presently being delivered. Instead, First Homes will form part of housebuilders' s106/affordable housing obligations. The current guidelines suggest that a minimum of 25% of s106 should be set aside for First Homes.

This report looks at where First Homes sit in the ‘menu’ of tenures presently on offer to buyers by comparing the gross income to buy across England and London to understand if the new scheme unlocks homeownership to new audiences.

We also consider the discount required to meet the proposed regional caps by local authority assuming current new build pricing - this serves as a proxy to highlight the markets where even with the maximum 50% discount applied to the sale price, there may be some challenges to builders in terms of delivery.

Affordability - what do First Homes offer relative to existing tenures?



The analysis above shows the gross income needed to buy and rent across six tenures. We have assumed the purchase or rent of a new build two-bed flat in London and a three-bed house for the rest of England.

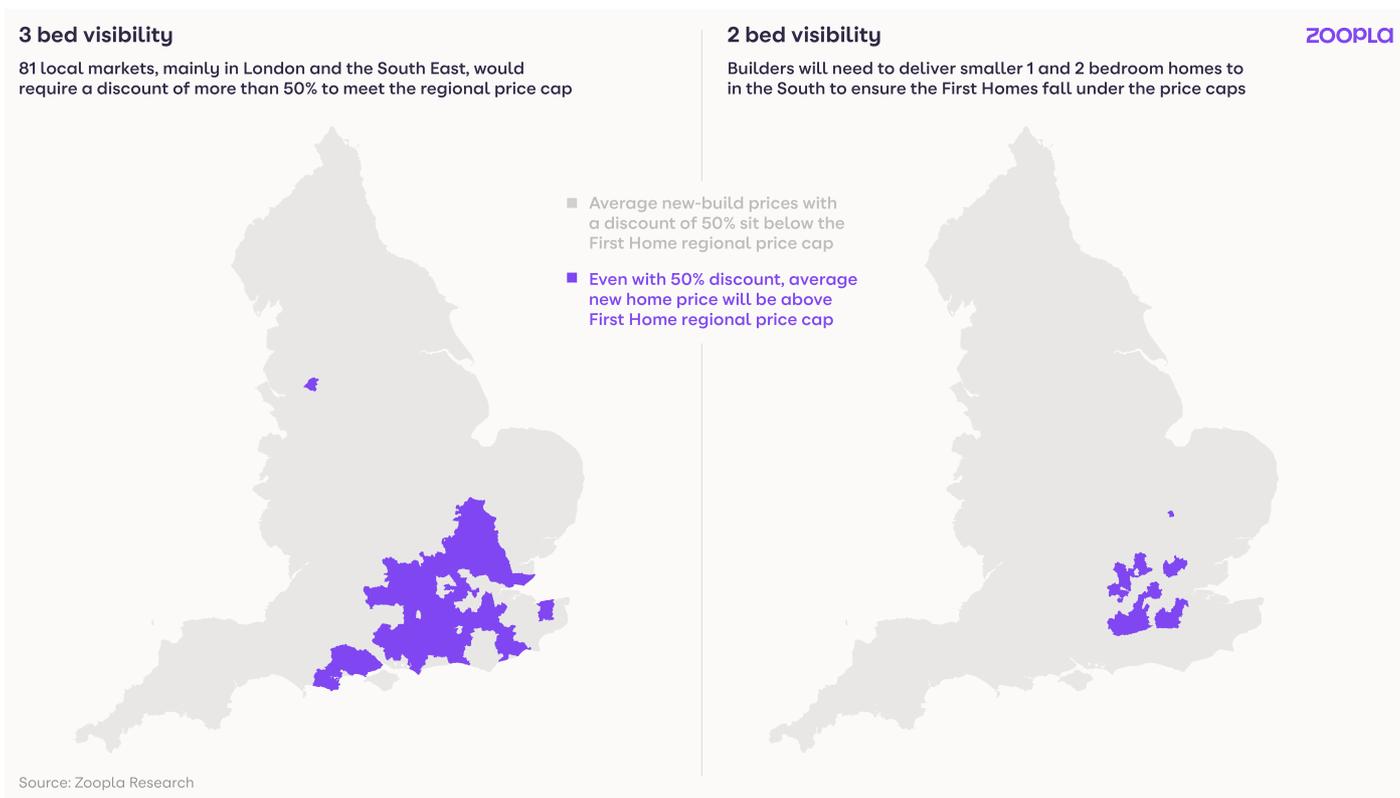
We can see that although First Homes fall between shared ownership and social rent, with an income requirement of £60,000 inside London and £30,000 for the rest of England. The income required for shared ownership is £68,500 in London and £34,000 for the rest of England.

In markets outside of London, demand for shared ownership may be dented, owing to the similar income required to buy under the First Home scheme. If buyers have a choice between shared ownership and a First Home plot, the deposit and ongoing costs are comparable in the first year of ownership before the rent element of a shared ownership home begins to rise over time.

In the South, where prices are higher, the size of the deposit required should prove a point of differentiation. Shared ownership requires a smaller deposit upfront so this tenure may be preferred by some buyers.

In terms of Help to Buy (HTB), and assuming the scheme ends in 2023, there is unlikely to be much overlap of supply, so these schemes won't be in direct competition with each other. However, if the delivery of First Homes does ramp up in the remaining years of HTB, it would be reasonable to expect to see some demand lost to First Homes as those eligible capitalise on the scheme.

How big a discount to fit under the First Homes price caps?



The map above shows the discount required for two and three-bed new homes at current market values to achieve the regional price caps.

Nearly a third of local authorities, or 121 out of 325, fall below the price caps of £420,000 in London and £250,000 in the rest of England.

A quarter, or 81 LAs, would need a discount in excess of the maximum threshold of 50%. Some 77 of these LAs would be in London and the South, with Harrogate, York, Warwick and Trafford the remaining markets.

When we look at two-bed homes, 219 out of the 325 local authorities would fall below the slated minimum discount of 30% and just 25 local authorities would require a discount above 50% to fall within the price caps.

Our analysis of NHBC data shows that two beds have accounted for over half of affordable supply over the last 20 years so it will be a case of 'business as usual' for housebuilders.

Summary

First Homes offer an uncomplicated new route into homeownership for those priced out of the open market or Help to Buy.

However, it is important to recognise that First Homes will not contribute additional supply, they are only a 'reallocation' of units already set aside for affordable housing.

Based on previous years of homes delivered through s106 (c28,000 pa), we estimate that the scheme will provide 7,000 homes annually, which is unlikely to sate buyer demand or act as a direct replacement to Help to Buy once the scheme closes in 2023.

Our analysis shows that the regional price caps are unlikely to deliver larger, three-bed homes in the South and London, where even at the maximum 50% discount, homes will fall above the regional price cap. This will lead to builders providing smaller one and two-bed homes to deliver their share of First Homes.

Presently the scheme is still under consultation, so it is likely these issues, amongst others, will be addressed as the scheme progresses in the years to come.

Contacts

For our research:

Rob Owens

Senior Property Analyst

robert.owens@zoopla.co.uk

For how we can help:

Alex Rose

Director – New Homes

alex.rose@zoopla.co.uk

Recent publications



The information and data in this report was correct at the time of publishing and high standards are employed to ensure its accuracy. However, no reliance should be placed on the information contained in this report and Zoopla Ltd and its group companies make no representation or warranty of any kind regarding the content of this article and accept no responsibility or liability for any decisions made by the reader based on the information and/or data shown here.