



Central Lincolnshire Examination Note Affordable Housing (First Homes)

15 December 2022

Introduction

1. Following the discussion at the Hearing session on Matter 8, Issue 1, Question 3, the Inspectors requested a note from the Committee on the specific issue within Policy S22 of the price cap of £140,000 (after the 30% discount has been applied), this price cap relating to the issue of First Homes. In particular, it was requested by the Inspector what potential modifications might be appropriate in relation to an index linking of the price cap, rather than a permanent fixed cap of £140,000 for the life of the Plan, as well as a general review of initial value points.
2. By way of reminder, the national default price cap is set at £250,000 (after the discount is applied). However, the Written Ministerial Statement introducing First Homes stated that a local authority can 'impose lower price caps, if they can demonstrate a need for this through evidence'.
3. The purpose of this note is not to repeat the evidence submitted for the principle of the lower local price cap as submitted in the Plan, but instead is to put forward a potential modification which would have the effect of updating and adjusting the price cap during the life of the Plan.

The submitted price cap

4. The submitted plan proposes a price cap of £140,000 after the 30% discount has been applied. This was generally based on evidence during the preparation of the Plan, but especially 2020 data which, broadly speaking, identified an average open market value home to be around £200,000 (hence £140,000 once the discount is applied).
5. Without any modification, the effect would be that the £140,000 price cap would remain unaltered for the life of the Plan, which could be several years (and likely at least 5 years). During that time (and for the period since 2020), house prices, build costs, wage inflation and affordability of homes could adjust significantly, resulting in a fixed price cap of £140,000 potentially becoming ineffective (and potentially growing more ineffective, the older the plan becomes).

Index-linking the price cap

6. To counter the above identified problem, the policy could be modified to incorporate a simple index-linking proposition, which ensures the price cap is updated to an appropriate level to reflect current house price values and then adjusted to remain at an appropriate level reflective of wider market conditions. Thus, if house prices go up, then the cap would increase. If house prices fall, the cap would be lowered.
7. To keep this simple, it is proposed that the price cap be only adjusted once a year (1st April), that nationally available data be used from the Office for National Statistics (ONS), and that any adjustment to the price cap is known approximately 4-5 months before the adjustment takes effect.
8. It is therefore proposed that the house price inflation as registered over the year to September of any year, is then applied to the price cap the following April. This is similar to the government's approach to the setting of pensions and benefits, for example, whereby the national rate of inflation in September is used to calculate the uplift the following April.
9. To make the data as locally specific as possible, but not too local as to be distorted by any unusual local market trends in a particular year, it is proposed that the 'East Midlands' ONS house price inflation data is used.
10. For example, the September 2022 data is available via this link: [UK House Price Index - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/housing/indices/houseprices/datasets/ukhousepriceindex), and such monthly data is usually published around six weeks after the month in question (hence, September 2022 data is released in mid-November 2022, and so on).

Suggested Modifications

11. If the principles as described above are accepted by the Inspectors, then the consequential modifications will be as follows:

First, the starting point of the price cap be updated to reflect updated average prices paid across Central Lincolnshire. Our data (land registry data for sales in Central Lincolnshire) indicates that by 1 April 2022, average house prices paid had increased from that presently set out in the submitted plan (see paragraph 4.1.10, which indicated a range of , to £218,000 to £235,000, with a single average of £229,000.

Applying this increase to the price cap, it brings it up from £140,000 (in the submitted Plan) to £160,000.

Second, a mechanism be introduced in the Policy to index link the price cap to the general rise (or fall) in house prices.

Specifically:

Adjust the fifth paragraph of Policy S22 as follows:

"First Homes are homes priced at least 30% below full market value at a maximum value of ~~£140,000~~ **£160,000** after the discount has been applied. **This maximum value price cap is valid up to 31 March 2023. Thereafter, the price cap will be adjusted on 1st April each year, rounded to the nearest £1,000, in line with the % increase or decrease in house prices as established by the preceding September ONS East Midlands House Price Index data. The updated price cap**

will be published on the Central Lincolnshire website. A Planning Obligation agreement will confirm both: (a) the total % or quantity of First Homes to be delivered on the site; and (b) a trigger mechanism clause to enable an up to date price cap to be confirmed close to the point of housing delivery (rather than date of consent). Such a clause may include a number of trigger points, if the development is built out in phases.

12. Amend paragraphs 4.1.10 to 4.1.12, and add two new supporting text paragraphs immediately after paragraph 4.1.12 as follows:

“4.1.10 Furthermore, the PPG stipulates that First Homes cannot be priced greater than £250,000 outside of Greater London, after the discount has been applied – this would mean the full market value of more than £350,000, based on a 30% discount being applied. The HNA identifies that average house prices paid across Central Lincolnshire were substantially below this in 2019 at between £171,000 and £217,000 **by 2022, at around £229,000.**

4.1.11. This evidence in the HNA clearly demonstrates that if the £250,000 cap were applied in Central Lincolnshire it would render the product unaffordable for the majority of first time buyers. Therefore, a reduced cap will be applied for First Homes in Central Lincolnshire of ~~£140,000~~ **£160,000** (or full market value equivalent of ~~£200,000~~ **£229,000** when 30% discount is applied). This cap will ensure that the product is aligned to Government’s intention for First Homes and delivers homes that are truly affordable to people looking to get onto the property ladder as they will be accessible to approximately 50% of households in Central Lincolnshire. The minimum discount of 30% will be applied to First Homes but larger discounts will also be welcomed to **either** bring the value below the ~~£140,000~~ **initial £160,000** cap, **or make available larger homes of a higher market value as First Homes.**

4.1.12. It should be noted that ~~£140,000~~ **£160,000** is not a target selling price, ~~if.~~ **If** the open market value of the First Home is below ~~£200,000~~ **£229,000**, before the 30% discount is applied, this will deliver a First Home price figure lower than ~~£140,000~~ **£160,000**. Providing a range of First Homes that offer a range of prices up to ~~£140,000~~ **£160,000**, to maximise affordable options is welcomed.

4.1.13 The £160,000 maximum value price cap described above was established by the Joint Committee based on evidence during the preparation of this Plan. However, the Joint Committee recognises that house prices can go up and down over time, and the price cap should therefore be adjusted each year to reflect such changes. The adjustment will be done once a year, taking effect on 1 April each year, with the % increase or decrease being the same % increase or decrease in house prices as established by the preceding September ONS East Midlands House Price Index data. Thus, for example, the September 2022 ONS East Midlands House Price Index identifies an 11.3% rise in house prices for the East Midlands over the year to September 2022. That 11.3% rise will therefore be applied to the price cap commencing 1 April 2023, adjusted to the nearest £1,000, and therefore bringing the cap up to £178,000 (after the discount has been applied). That price cap will remain until 31 March 2024, when it will be adjusted again on 1 April 2024 to reflect the house price inflation as recorded for the period over the year to September 2023. This means the price cap could go up or down in any particular year, though the cap will never exceed any national default cap (currently £250,000) as in place at the time the adjustment is made each April.

4.1.14 Recognising that the sale of a home can be many years after consent has been achieved, the policy also enables a Planning Obligation agreement to have a mechanism which allows for an adjustment in the price cap as a development gets progressively built out. This will ensure the price cap as applied to the prospective purchaser is more appropriate at the point the home is sold, not the potentially outdated planning consent date. Model terms for a First Homes Planning Obligation (as currently likely applied through a 's106 Agreement') have been issued by Government, and these will form the basis of the agreement locally:

<https://www.gov.uk/government/publications/first-homes-model-section-106-agreement-for-developer-contributions>

[subsequent paragraphs renumbered]

The effect of the modification

13. If the above modification is agreed, the effect will be that, from 1 April 2023, the new price cap of £178,000 would apply. This would be equivalent to a non-discounted home at a market value of approximately £254,000. Such a value in Central Lincolnshire should enable a range of 1 to 3 bed new properties being made available as First Homes (some of which should be significantly lower than the 'cap' of £178,000). Such size of property aligns to affordable homes of the greatest need, and is typical of what a 'first home buyer' seeking an 'affordable home' would seek to purchase, when attempting to enter the property market (remembering that a First Home is a form of affordable housing to meet the needs of those unable to access the open market). Those in need of a larger affordable property are typically more in need of a rent-based tenure product, rather than a property to purchase. The wider policy allows for this need to be catered for, beyond First Homes provision.

Consulting on the proposed modification

14. Formal consultation on the above modification can take place alongside all other suggested modifications in due course.