

## First Homes

### London Borough of Wandsworth

December 2021

#### **Prepared by**

GL Hearn Limited  
4th Floor  
65 Gresham Street  
London EC2V 7NQ

T: +44(0)20 7851 4900  
[glhearn.com](http://glhearn.com)

Public

## Contents

<b>Section</b>	<b>Page</b>
<b>1. Introduction</b>	<b>4</b>
<b>2. Target groups</b>	<b>5</b>
<b>3. Discount level</b>	<b>10</b>
<b>4. Conclusions</b>	<b>12</b>

### Quality Standards Control

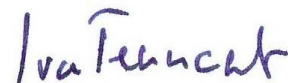
The signatories below verify that this document has been prepared in accordance with our quality control requirements. These procedures do not affect the content and views expressed by the originator.

This document must only be treated as a draft unless it has been signed by the Originators and approved by a Business or Associate Director.

DATE	ORIGINATORS	APPROVED
December 2021	Shannon Dockree	Ivan Tennant



---



---

### Limitations

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of GL Hearn; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

## 1. Introduction

- 1.1 PPG on First Homes sets out that the minimum discount should be 30% from the open market value (OMV) with local authorities having discretion to increase the discount to 40% or 50%<sup>1</sup>. The guidance goes on to state that local authorities can apply eligibility criteria (such as lower income caps) as part of the section 106 agreements in addition to the national criteria<sup>2</sup>.
- 1.2 First Homes are similar to discounted market sale (a product currently within the NPPF), although for discounted market sale products a discount of at least 20% (rather than 30%) from OMV is required.
- 1.3 A problem with having a percentage discount is that it is possible in some locations or types of property that such a discount still means that the discounted housing is more expensive than some housing available in the open market (including housing priced around the lower quartile). This is often the case as new build housing itself attracts a premium. According to recent research at the national level this has historically been around 15%.
- 1.4 The preferred approach in this report is to set out the affordability of different sizes of First Homes by number of bedrooms (studio/1-bed, 2-bed; 3- bed and 4-bed) to households on a range of incomes. This creates the foundations for the assessment of the depth of discount (up to a maximum of 50%) required to make dwellings affordable to the intended group.

---

<sup>1</sup> PPG (First Homes) Ref ID: 70-001

<sup>2</sup> PPG (First Homes) Ref ID: 70-008

## 2. Target groups

1.5 That said, it is also worth considering the needs of a key group, including those living in the private rented sector (PRS), given that a large proportion of households seeking an affordable route to home ownership will be currently renting their home.

1.6 The “home budget” (the amount of money for home purchase available to a given household) for households in the PRS can be derived from current lower quartile rental prices and the income required to access the PRS and then estimating what property price this level of income might support (assuming a 10% deposit and a 4 times mortgage multiple). Below is an example of a calculation based on a 2-bedroom home:

- Previous analysis has shown that the lower quartile rent for a 2 bedroom home in the Borough is £1,428 per calendar month (pcm); added to this should be an allowance for service charge of £150pcm<sup>3</sup>.
- On the basis of a household spending no more than 39.4% of their income on housing, a household would need net income of around £4,005 per month ( $(£1,428 + £150)/0.394$ ) or £48,061 per annum (rounded) to afford the lower quartile rent for a 2 bedroom home.
- The above is a net figure; assuming the net figure is 70% of the gross figure, gross income would be £68,659 ( $£48,061/.7$ ).
- Mortgage lending limits are usually calculated on the basis of gross income. Therefore, with an income of £68,659, it is estimated that a household could afford to buy a home for around £305,151. This is based on assuming a 10% deposit and a four times mortgage multiple – calculated as  $£68,659*4/0.9$ .

---

<sup>3</sup> While service charges fluctuates considerably across the Borough and the type of development, with some as low as £100pcm and as high as £300pcm, £150 pcm is a reasonable benchmark.

1.7 Therefore, £305,151 is a suggested purchase price to make First Homes affordable for households who are able to rent a 2 bedroom lower quartile home but not to buy. This figure is essentially the equivalent price that is affordable to a household who can just afford to rent a 2 bedroom home privately.

1.8 The above exercise was repeated for properties of different sizes. The table below shows the prices that First Homes should be after the discount has been applied such that they are affordable to households currently able to access studio/1-bed, 2-bed, 3-bed and 4-bed lower quartile homes in the PRS.

**Table 1: Affordable First Home purchase prices based in private sector rents**

Size of dwelling	LQ Rent	% income on rent <sup>4</sup>	Net Income required	Gross Income required	First Home purchase price
Studio/1bed	£1,322	37.50%	£3,754	£5,363	£286,039
2 bed	£1,578	40.00%	£4,005	£5,722	£305,149
3 bed	£2,223	42.00%	£5,292	£7,560	£403,175
4 bed	£2,804	50.00%	£5,608	£8,011	£427,276

Source: GL Hearn calculations

1.9 The table below in turn sets out the discounts that would be required to new-build lower quartile for-sale dwellings to be affordable to PRS households (based on the purchase prices identified in Table 1).

1.10 This suggests that for this group, First Homes should be affordable to households currently able to afford dwellings of 1-, 2- and 3- beds if discounts are applied that are within the minimum and maximum allowable thresholds. For homes that have 4 or more bedrooms other affordable home ownership (AHO) products may be more suitable, such as Shared Ownership.

<sup>4</sup> The percentages in this column reflect the proportion of income considered reasonable for a given household to spend on housing costs. As noted in Wandsworth's Local Housing Needs Assessment 2020 (see paragraphs 8.10-8.21), the determining factor for this is the income remaining to a household once housing costs have been taken into account and whether this "residual" income is enough to support a reasonable quality of life. At higher rent levels, where housing costs are expressed as a percentage of overall income, the absolute value of the residual income will be enough compared with cheaper rents despite the higher percentage applied.

**Table 2: Discounts required for lower quartile PRS households to afford**

Size of dwelling	OMV	First Home purchase price	Discount
Studio/1bed	£367,138	£286,039	22%
2 bed	£518,190	£305,149	41%
3 bed	£688,563	£403,175	41%
4 bed	£965,138	£427,276	56%

Source: GL Hearn calculations

- 1.11 Table 3 below sets out the First Home discount expressed as a range from the PRS (the level of discount that would be required for those just able to afford PRS) and those households able to afford a dwelling priced at the mid-point between this and a for-sale dwelling priced around the lower quartile.
- 1.12 As noted above, this suggests that dwellings of 1-, 2- and 3- beds would be affordable to households able to afford LQ dwellings in the PRS. Moreover, the level of the required discount could be less in lower value parts of the Borough.

**Table 3: First Home discount ranges**

Unit size	LQ Rent	Income required (gross)	Income required pa	Equivalent purchase price	LQ house price	Mid-point	Discount range	
							PRS	Mid-point
Studio/1bed	£1,322	£5,363	£64,359	£286,039	£367,138	£326,588	22%	12%
2 bed	£1,578	£5,722	£68,658	£305,149	£518,190	£411,669	41%	26%
3 bed	£2,223	£7,560	£90,714	£403,175	£688,563	£545,869	41%	26%
4 bed	£2,804	£8,011	£96,137	£427,276	£965,138	£696,207	56%	39%

Source: GL Hearn calculations

- 1.13 In reality, there will be a range of incomes in the rent/buy gap (the gap between the incomes required for renting and buying). As a result, some households will be able to afford a higher price than that set in Table 1. However, setting all homes at a higher price would mean excluding some households from the market.

- 1.14 On this basis, it is considered reasonable to look at the cost of First Homes as a range, from the equivalent private rents for different sizes of home up to the mid-point of the cost of lower quartile dwellings of the same sizes on the open market and the relevant private rented figure.
- 1.15 Despite the lower quartile being used, this would still mean that only limited number of households in the rent/buy gap could afford. For this reason, any housing provided at such a cost would need to also be supplemented by intermediate housing at a lower cost (which might include other tenures such as Shared Ownership or London Living Rent). This is currently secured by the Council's Intermediate Housing Policy which seeks to ensure that intermediate housing is affordable to those on a spread of incomes and not just at the London Mayor's upper income threshold.
- 1.16 It is also worth noting the effect of the price cap in LBW. PPG states that the sale price of a First Home must not exceed £420,000 after the discount has been applied<sup>5</sup>.
- 1.17 Table 4 sets out the sale prices of LQ homes in LBW at the OMV and at three levels of discount: 30%, 40% and 50%. This indicates that studio/1 bedroom and 2 bedroom homes discounted by 30-50%, and 3 bedroom homes discounted by 40-50% would fall within the £420,000 price ceiling.



**Table 4: First Homes – prices after discounts applied**

Size of dwelling	LQ House price	Discount range (30%)	Discount range (40%)	Discount range (50%)
Studio/1bed	£367,138	£256,996	£220,283	£183,569
2 bed	£518,190	£362,733	£310,914	£259,095
3 bed	£688,563	£481,994	£413,138	£344,281
4 bed	£965,138	£675,596	£579,083	£482,569

Source: GL Hearn calculations

- 1.18 The Intermediate Housing Policy is reviewed annually and it currently requires that (a) 50 per cent of all intermediate homes are affordable to those on household incomes of up to £56,200 per annum; (b) 50 per cent of all intermediate homes are affordable to those on household incomes of up to £90,000 per annum - in line with the London Plan intermediate household income thresholds; and (c) that in any scheme, an average household income be achieved across all Shared Ownership in a scheme with this average income being no more than £56,200.

### **3. Discount level**

- 1.19 Table 5 sets out the level of discount required to for-sale homes priced around the lower quartile (the borough average) to be affordable to households on incomes ranging from £40,000 to £90,000 at £5,000 intervals.
- 1.20 The colour coding illustrates the depth of discount required with the deeper red indicating a higher discount in order to achieve affordability. The darker the blue, the smaller the discount. A negative number indicates a discount would not be required for a dwelling of this size to be affordable to a household at that income level. These households are unlikely to opt for a First Home.
- 1.21 Lower quartile house prices have been arrived at by taking the average lower quartile prices achieved in the second-hand market and adding 15% to allow for a new-build premium.
- 1.22 The “Home Budget” is 4 times household income plus access to a deposit of around £37,000 (10% of the purchase price of a lower quartile 1-bedroom flat).
- 1.23 This shows that, to be affordable to a household on £40,000pa, a studio or 1-bedroom flat would need to be discounted by 46%. No other sizes of dwelling would be accessible to a household on this income within the discount range permitted for First Homes.
- 1.24 Furthermore, it is questionable whether a first-time buyer household with an income at this level would have a deposit worth the equivalent of one year’s salary.
- 1.25 For households on higher incomes, First Homes will make a wider range of sizes of dwellings available. For example, for a household on £60,000pa a two-bedroom dwelling would be available in the event First Homes were discounted by 47%.

1.26 For those households on the highest income level to be eligible for a First Home of £90,000, a three-bedroom dwelling would be affordable at a discount of 42%.

**Table 5: Discounts required to lower quartile house prices to be affordable to the target group**

Income level	Home budget	First Home (LQ for sale)- Studio/1bed	First Home (LQ for sale)-2 bed	First Home (LQ for sale)-3 bed	First Home (LQ for sale)-4 bed	Discount required - Studio/1bed	Discount required - 2 bed	Discount required - 3 bed	Discount required - 4 bed
£40,000	£196,714	£367,138	£518,190	£688,563	£965,138	46%	62%	71%	80%
£45,000	£216,714	£367,138	£518,190	£688,563	£965,138	41%	58%	69%	78%
£50,000	£236,714	£367,138	£518,190	£688,563	£965,138	36%	54%	66%	75%
£55,000	£256,714	£367,138	£518,190	£688,563	£965,138	30%	50%	63%	73%
£60,000	£276,714	£367,138	£518,190	£688,563	£965,138	25%	47%	60%	71%
£65,000	£296,714	£367,138	£518,190	£688,563	£965,138	19%	43%	57%	69%
£70,000	£316,714	£367,138	£518,190	£688,563	£965,138	14%	39%	54%	67%
£75,000	£336,714	£367,138	£518,190	£688,563	£965,138	8%	35%	51%	65%
£80,000	£356,714	£367,138	£518,190	£688,563	£965,138	3%	31%	48%	63%
£85,000	£376,714	£367,138	£518,190	£688,563	£965,138	N/A	27%	45%	61%
£90,000	£396,714	£367,138	£518,190	£688,563	£965,138	N/A	23%	42%	59%

Source: GL Hearn Calculations

#### **4. Conclusions**

- 1.27 The mid-way point calculation provides a Borough level guide as to the level of discount that would be required for First Homes to be affordable to the intended group.
- 1.28 First Homes with 1-, 2- 3-bedrooms will be affordable to households able to afford lower quartile rents in the PRS. That said, to access homes of 2- and 3-bedrooms in size, a discount of around 40% would be required.
- 1.29 Households in the rent-buy gap who have a higher level of income would be able to afford lower quartile for-sale dwellings with discounts of between 30% and 50% depending on the size of home.
- 1.30 For 3-bedroom homes a discount of greater than 30% may be necessary to meet the Greater London price ceiling post discount of £420,000.
- 1.31 The analysis by income bracket suggests that with a Borough-wide First Home discount of 50% a range of 1-, 2- and 3-bedroom dwellings would be affordable to households in the rent/buy gap whose incomes fall within the income ceiling of £90,000 in London.
- 1.32 Where the Council is seeking a discount that is greater than 30% consideration should be given to whether this might prejudice the viability of providing other forms of affordable housing (such as social rented homes).
- 1.33 Instead of setting a discount level that is greater than 30%, it might be more appropriate to set it at a minimum level of 30% and apply local eligibility criteria (such as income caps) as part of section 106 agreements, which might in some cases necessitate a greater level of discount than 30%.
- 1.34 In such a case, the discount level would be driven off affordability of First Homes to households on specific income bands, which would provide an

opportunity to determine the level of discount on a case-by-case basis rather through a one-size-fits-all approach.

- 1.35 In accordance with the NPPG, once a minimum of 25% of First Homes has been accounted for, social rent products should be delivered in the same percentage as set out in the Local Plan. This means that only other forms of intermediate products (as opposed social rent) should be reduced to allow for First Homes.
- 1.36 Previous analysis recommended that it might be sensible to adopt an equal split of 50% social rent and 50% intermediate products (based on both fixed and discretionary affordable housing tenure targets set out in the London Plan). The application of the requirement for First Homes would change the affordable housing tenure split to 50% social rent, 25% intermediate products and 25% First Homes.

## **General Disclaimer**

This report has been prepared by GL Hearn Limited (GL Hearn) in favour of the London Borough of Wandsworth (“the Client”) and is for the sole use and benefit of the Client in accordance with the agreement between the London Borough of Wandsworth and GL Hearn dated 15<sup>th</sup> June 2021 under which GL Hearn’s services were performed. GL Hearn accepts no liability to any other party in respect of the contents of this report. This report is confidential and may not be disclosed by the Client or relied on by any other party without the express prior written consent of GL Hearn.

Whilst care has been taken in the construction of this report, the conclusions and recommendations which it contains are based upon information provided by third parties (“Third Party Information”). GL Hearn has for the purposes of this report relied upon and assumed that the Third Party Information is accurate and complete and has not independently verified such information for the purposes of this report. GL Hearn makes no representation, warranty or undertaking (express or implied) in the context of the Third Party Information and no responsibility is taken or accepted by GL Hearn for the adequacy, completeness or accuracy of the report in the context of the Third Party Information on which it is based.

## **Freedom of Information**

GL Hearn understands and acknowledges the Authority’s legal obligations and responsibilities under the Freedom of Information Act 2000 (the “Act”) and fully appreciates that the Authority may be required under the terms of the Act to disclose any information which it holds. GL Hearn maintains that the report contains commercially sensitive information that could be prejudicial to the commercial interests of the parties. On this basis GL Hearn believes that the report should attract exemption

from disclosure, at least in the first instance, under Sections 41 and/or 43 of the Act. GL Hearn accepts that the damage which it would suffer in the event of disclosure of certain of the confidential information would, to some extent, reduce with the passage of time and therefore proposes that any disclosure (pursuant to the Act) of the confidential information contained in the report should be restricted until after the expiry of 24 months from the date of the report.