

Document 11D14

Found within Document LBM01 - response to Inspectors' Preliminary matters 02 March 2022

Appendix A of document 11D14 First Homes Topic Paper



LONDON BOROUGH OF MERTON - LOCAL PLAN RESPONSE TO INSPECTOR'S PRELIMINARY QUESTIONS

1. Introduction

In December 2021, the London Borough of Merton ('the Council') has submitted its draft Local Plan to the Planning Inspectorate for examination. The Inspectors have issued their preliminary questions on the plan which include First Homes. The Inspectors' questions are as follows:

"22. National policy on First Homes is set out in the above-referenced WMS. The way that this topic will be considered in the examination is dependent on whether the Local Plan is subject to the transitional arrangements set out in the WMS, a matter that will be clearer to us once we have received confirmation of the plan's publication date.

23. Nevertheless, we note that paragraph 11.1.4 of the Local Plan refers to First Homes and indicates how Policy H11.1 could deliver these in line with the national policy expressed in the WMS.

24. In light of the above we would welcome your initial views on whether the Local Plan would accord with national policy in respect of First Homes in a brief topic paper. This should also cover whether the Local Plan is internally consistent on this issue when the contents of paragraph 11.1.9 are considered together with those of paragraph 11.1.4. The topic paper should provide a representative sample of hypothetical development scenarios, to test how the plan would fulfil the requirement for the minimum of 25% of all affordable housing units on site to be First Homes, and whether 10% of the total number of homes on a site would be available for affordable home ownership (per paragraph 65 of the Framework). The topic paper should also include the justification for any deviation from national policy in these regards. We would also appreciate the Council's view as to whether submitted evidence relating to the viability of the provision of affordable housing adequately covers the position relating to First Homes, or whether additional work may be required on this matter".

2. First Homes requirement

The 2021 Planning Practice Guidance on First Homes indicates that First Homes:

- a) Must be discounted by a minimum of 30% against the market value;
- b) Are to be sold to persons meeting certain eligibility criteria;
- c) Will ensure that the initial discount is passed onto subsequent qualifying purchasers secured by a covenant on the title;
- d) Are to be sold at a maximum price (after discount) of £420,000.

3. Implementing First Homes in Merton

The Council has confirmed that the requirement for First Homes will be implemented by substituting the current requirement for 30% of the affordable housing with 25% First Homes and a balance of 5% to be provided as Shared Ownership. The remaining 70% of the affordable housing will be provided as London Affordable Rented housing.

4. Relative values generated by First Homes and Shared Ownership

Given that the First Homes requirement will simply replace units in another affordable tenure, the impact of the requirement depends on the relative values generated by Shared Ownership and First Homes.

The Merton Local Housing Plan Housing Viability Study (August 2020) utilises a range of sales values for private housing, reflective of evidence of achieved values in developments across the Borough. This range is summarised in Table 4.1.



Table 4.1: Private housing sales value range

Value Band	Value per square metre
A	£4,500
B	£5,200
C	£6,000
D	£6,700
E	£7,500
F	£8,200
G	£8,900
H	£9,600
I	£10,300

In order to ensure that Shared Ownership units are affordable to households in receipt of incomes not exceeding those identified in Table 6.19.1 of the Local Plan Housing Viability Study¹, the capital value attributed to shared ownership units is capped at £3,940 per square metre. The range of values that a developer will receive from a Registered Provider ('RP') for completed shared ownership units is summarised in Table 4.2.

Table 4.2: Value payable to developers by RPs for shared ownership units

Value Band	Value payable by RP to developer for completed shared ownership units
A	£3,150
B	£3,640
C	£3,940
D	£3,940
E	£3,940
F	£3,940
G	£3,940
H	£3,940
I	£3,940

In order to comply with the criteria set out in the PPG, First Homes will need to be sold at a price not exceeding £420,000 after the discount has been applied. In order to arrive at a set of per square metre values for comparison purposes, we have used a one bed unit to reflect the most typical type of unit that developers will provide as First Homes. Table 4.3 summarises the unrestricted market value for a one bed First Home in each value band to identify (a) the value after the discount has been applied and (b) the value per square metre that the unit would generate.

¹ £50,000 for 1 bed units; £70,000 for 2 bed units; and £90,000 per annum for 3 bed units.



Table 4.3: Values generated by one bed First Homes

Value Band	Value per square metre	Unrestricted market value of FHs	London FH cap	FH percentage discount	FH value after 30% discount	FH value per square metre
A	£4,500	£252,000	£420,000	30%	£176,400	£3,150
B	£5,200	£291,200	£420,000	30%	£203,840	£3,640
C	£6,000	£336,000	£420,000	30%	£235,200	£4,200
D	£6,700	£375,200	£420,000	30%	£262,640	£4,690
E	£7,500	£420,000	£420,000	30%	£294,000	£5,250
F	£8,200	£459,200	£420,000	30%	£321,440	£5,740
G	£8,900	£498,400	£420,000	30%	£348,880	£6,230
H	£9,600	£537,600	£420,000	30%	£376,320	£6,720
I	£10,300	£576,800	£420,000	30%	£403,760	£7,210

Comparing the values in tables 4.2 and 4.3, one can note that the values generated by First Homes will be significantly higher in most cases in comparison to the values generated by Shared Ownership. This is because the only affordability criteria set for First Homes is that the discounted value must not exceed £420,000. In contrast, the Council's affordability criteria for Shared Ownership applies a maximum household income of £50,000, resulting a lower maximum property purchase price.

5. The Impact on substituting First Homes for Shared Ownership units in the viability assessment

Given that income to the developer will be no lower than it would have received for Shared Ownership units, the Gross Development Value ('GDV') of schemes should be unaffected by substituting some or all of the Shared Ownership units with First Homes. Indeed, the GDV should increase as a result of First Homes replacing some or all of the Shared Ownership units. We provide two worked examples overleaf in tables 5.1 and 5.2.

In example 1, the scheme provides a total of 200 units, 35% of which are provided as affordable housing (equating to 70 units). In order to meet the PPG requirement for 10% of total homes to be provided as First Homes, a minimum of 20 First Homes would be required. This would equate to 29% of the affordable homes, which would satisfy the PPG requirement that at least 25% of the affordable homes are provided as First Homes.

The GDV of the scheme with a traditional affordable housing mix of 70% rented and 30% shared ownership is £64,762,145 in Value Band D. With the First Homes requirement, the GDV increases to £65,677,895.

Similar increases result in Example 2, which assumes an overall affordable housing provision of 25%.

Further examples are provided with smaller numbers of units (examples 3, 4 and 5) which all assume provision of 35% affordable housing (or nearest equivalent percentage due to rounding up).

Table 5.1: Example 1 (200 units, 35% affordable housing)

				Value Band: A		Value Band: D		Value Band: I	
	Ave Unit area sqm	No of units	Net Internal Area sqm	Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	130	7,936.50	£4,500	£35,714,250	£6,700	£53,174,550	£10,300	£81,745,950
Social Rent	61.05	49	2,991.45	£2,185	£6,536,318	£2,185	£6,536,318	£2,185	£6,536,318
Shared ownership	61.05	21	1,282.05	£3,150	£4,038,458	£3,940	£5,051,277	£3,940	£5,051,277
		200			£46,289,026		£64,762,145		£93,333,545

Revised housing mix incorporating First Homes

			Value Band:	Value Band: A		Value Band: D		Value Band: I	
	Ave Unit area sqm	No of units	Net Internal Area sqm	Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	130	7,936.50	£4,500	£35,714,250	£6,700	£53,174,550	£10,300	£81,745,950
Social Rent	61.05	49	2,991.45	£2,185	£6,536,318	£2,185	£6,536,318	£2,185	£6,536,318
First Homes	61.05	20	1,221.00	£3,150	£3,846,150	£4,690	£5,726,490	£7,210	£8,803,410
Shared ownership	61.05	1	61.05	£3,150	£192,308	£3,940	£240,537	£3,940	£240,537
		200			£46,289,026		£65,677,895		£97,326,215

Table 5.2: Example 2 (200 units, 25% affordable housing)

	Ave Unit area sqm	No of units	Net Internal Area sqm	Value Band: A		Value Band: D		Value Band: I	
				Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	150	9,157.50	£4,500	£41,208,750	£6,700	£61,355,250	£10,300	£94,322,250
Social Rent	61.05	35	2,136.75	£2,185	£4,668,799	£2,185	£4,668,799	£2,185	£4,668,799
Shared ownership	61.05	15	915.75	£3,150	£2,884,613	£3,940	£3,608,055	£3,940	£3,608,055
		200			£48,762,161		£69,632,104		£102,599,104

Revised housing mix incorporating First Homes

	Ave Unit area sqm	No of units	Value Band: Net Internal Area sqm	Value Band: A		Value Band: D		Value Band: I	
				Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	150	9,157.50	£4,500	£41,208,750	£6,700	£61,355,250	£10,300	£94,322,250
Social Rent	61.05	30	1,831.50	£2,185	£4,001,828	£2,185	£4,001,828	£2,185	£4,001,828
First Homes	61.05	20	1,221.00	£3,150	£3,846,150	£4,690	£5,726,490	£7,210	£8,803,410
Shared ownership	61.05	-	-	£3,150	-	£3,940	-	£3,940	-
		200			£49,056,728		£71,083,568		£107,127,488

Table 5.3: Example 3 (100 units, 35% affordable housing)

	Ave Unit area sqm	No of units	Net Internal Area sqm	Value Band: A		Value Band: D		Value Band: I	
				Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	65	3,968.25	£4,500	£17,857,125	£6,700	£26,587,275	£10,300	£40,872,975
Social Rent	61.05	25	1,526.25	£2,185	£3,334,856	£2,185	£3,334,856	£2,185	£3,334,856
Shared ownership	61.05	10	610.50	£3,150	£1,923,075	£3,940	£2,405,370	£3,940	£2,405,370
		100			£23,115,056		£32,327,501		£46,613,201

Revised housing mix incorporating First Homes

	Ave Unit area sqm	No of units	Value Band: Net Internal Area sqm	Value Band: A		Value Band: D		Value Band: I	
				Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	65	3,968.25	£4,500	£17,857,125	£6,700	£26,587,275	£10,300	£40,872,975
Social Rent	61.05	25	1,526.25	£2,185	£3,334,856	£2,185	£3,334,856	£2,185	£3,334,856
First Homes	61.05	10	610.50	£3,150	£1,923,075	£4,690	£2,863,245	£7,210	£4,401,705
Shared ownership	61.05	-	-	£3,150	£0	£3,940	£0	£3,940	£0
		100			£23,115,056		£32,785,376		£48,609,536

Table 5.4: Example 4 (50 units, 35% affordable housing)

				Value Band: A		Value Band: D		Value Band: I	
	Ave Unit area sqm	No of units	Net Internal Area sqm	Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	32	1,953.60	£4,500	£8,791,200	£6,700	£13,089,120	£10,300	£20,122,080
Social Rent	61.05	13	793.65	£2,185	£1,734,125	£2,185	£1,734,125	£2,185	£1,734,125
Shared ownership	61.05	5	305.25	£3,150	£961,538	£3,940	£1,202,685	£3,940	£1,202,685
		50			£11,486,863		£16,025,930		£23,058,890

Revised housing mix incorporating First Homes

			Value Band:	Value Band: A		Value Band: D		Value Band: I	
	Ave Unit area sqm	No of units	Net Internal Area sqm	Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	32	1,953.60	£4,500	£8,791,200	£6,700	£13,089,120	£10,300	£20,122,080
Social Rent	61.05	13	793.65	£2,185	£1,734,125	£2,185	£1,734,125	£2,185	£1,734,125
First Homes	61.05	5	305.25	£3,150	£961,538	£4,690	£1,431,623	£7,210	£2,200,853
Shared ownership	61.05	-	-	£3,150	£0	£3,940	£0	£3,940	£0
		50			£11,486,863		£16,254,868		£24,057,058

Table 5.5: Example 5 (30 units, 35% affordable housing)

				Value Band: A		Value Band: D		Value Band: I	
	Ave Unit area sqm	No of units	Net Internal Area sqm	Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	19	1,159.95	£4,500	£5,219,775	£6,700	£7,771,665	£10,300	£11,947,485
Social Rent	61.05	8	488.40	£2,185	£1,067,154	£2,185	£1,067,154	£2,185	£1,067,154
Shared ownership	61.05	3	183.15	£3,150	£576,923	£3,940	£721,611	£3,940	£721,611
		30			£6,863,852		£9,560,430		£13,736,250

Revised housing mix incorporating First Homes

			Value Band:	Value Band: A		Value Band: D		Value Band: I	
	Ave Unit area sqm	No of units	Net Internal Area sqm	Value psm	GDV	Value psm	GDV	Value psm	GDV
Private units	61.05	19	1,159.95	£4,500	£5,219,775	£6,700	£7,771,665	£10,300	£11,947,485
Social Rent	61.05	8	488.40	£2,185	£1,067,154	£2,185	£1,067,154	£2,185	£1,067,154
First Homes	61.05	3	183.15	£3,150	£576,923	£4,690	£858,974	£7,210	£1,320,512
Shared ownership	61.05	-	-	£3,150	£0	£3,940	£0	£3,940	£0
		30			£6,863,852		£9,697,793		£14,335,151



6. Conclusions

The exercise above demonstrates that the Council's approach to delivering First Homes (namely substituting First Homes for Shared Ownership units) will result in a broadly neutral impact on financial viability.

Consequently, the submitted evidence relating to the viability of the provision of affordable housing adequately covers the position relating to First Homes and no additional work is required on this matter.