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First Homes Assessment

Greater Nottingham

Iceni Projects Limited on behalf of
Greater Nottingham Planning Partnership

September 2022

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ON BEHALF OF GREATER
NOTTINGHAM PLANNING
PARTNERSHIP

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First Homes Assessment
GREATER NOTTINGHAM

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1. INTRODUCTION

- 1.1 The local authorities of Ashfield, Broxtowe, Gedling, Rushcliffe and Nottingham City, who form part of the Greater Nottingham Planning Partnership (“GNPP”) have commissioned Icen Projects (“Icen”) to prepare an assessment of the affordability of First Homes. This includes advice on the discount that would be needed to make such products affordable in the local context and also information about relevant price and income caps. It should be noted that Erewash is not part of this commission; however, data has been included as they form part of the GNPP.
- 1.2 The Government announced their new discounted market tenure, for England, First Homes, in May 2021. First Homes should account for at least 25% of all affordable housing units delivered by developers and is the Government’s preferred form of affordable home ownership. Separately, affordable home ownership is expected to represent at least 10% of new homes on qualifying sites.
- 1.3 The policy came into force from 28th June 2021 for new residential planning applications. However, any sites with planning permission (full or outline) before 28th December 2021 or those with planning permission (full or outline) where there has been significant pre-application engagement before 28th March 2022 will be exempt. Rural exception schemes and sites of 100% affordable housing are also exempt from the First Homes requirement.
- 1.4 Whilst this report focusses on First Homes, it is the case that the findings would also be applicable to discounted market homes, where a local authority chooses to accept these in addition to First Homes, in general in terms of discounts required and income thresholds, for example.

2. PLANNING POLICY CONTEXT AND CURRENT EVIDENCE OF NEED

- 2.1 The current National Planning Policy Framework (NPPF) was published in July 2018 (replacing the NPPF of 2012) and was most recently updated in July 2021¹ with a series of Planning Practice Guidance (PPG)² documents being provided to help in understanding how to apply the NPPF.
- 2.2 Paragraph 61 of the NPPF sets out that in order to determine the minimum number of homes needed, strategic policies should be informed by a local housing need assessment, conducted using the standard method in national planning guidance – unless exceptional circumstances justify an alternative approach which also reflects current and future demographic trends and market signals. The paragraph is not really relevant to this study; however Paragraph 62 goes on to set out that within this context, the size, type and tenure of housing needed for different groups in the community should be assessed and reflected in planning policies including, but not limited to, those who require affordable housing, families with children, older people, students, people with disabilities, people who rent their homes and people wishing to commission or build their own homes.
- 2.3 Paragraphs 63 – 65 address affordable housing provision. They set out that where an affordable housing need is identified, planning policies should specify the type of affordable housing required and expect it to be met on-site unless off-site provision or a financial contribution in lieu can be robustly justified, and the agreed approach contributes to the objectives of creating mixed and balanced communities.
- 2.4 Paragraph 64 states provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas.
- 2.5 Paragraph 65 sets out that where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. In addition, other exemptions to this 10% requirement include instances where a site or proposed development:

¹ <https://www.gov.uk/government/publications/national-planning-policy-framework--2>

² <https://www.gov.uk/government/collections/planning-practice-guidance>

- Provides solely for Build to Rent homes;
- Provides specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);
- Is proposed to be developed by people who wish to build or commission their own homes; or
- Is exclusively for affordable housing, an entry-level exception site or a rural exception site.

2.6 The NPPF's Glossary (Annex 2) provides an updated definition of affordable housing; this includes definitions of rented affordable housing (social/affordable rents) as well as a number of affordable home ownership options (including shared ownership and rent-to-buy).

Planning Practice Guidance

2.7 The Government's Planning Practice Guidance (PPG) provides further detail of the interpretation of the NPPF and includes a number of sections which are relevant to the assessment of affordable housing need and types of affordable housing. The PPG on Housing and Economic Needs Assessments (last updated in December 2020) sets out a methodology for assessing affordable housing need in paragraphs 18 to 24.

2.8 In May 2021, MHCLG published new PPG regarding First Homes. The key parts of this guidance in relation to this report are set out below:

First Homes are a specific kind of discounted market sale housing and should be considered to meet the definition of 'affordable housing' for planning purposes. Specifically, First Homes are discounted market sale units which:

a) must be discounted by a minimum of 30% against the market value;

b) are sold to a person or persons meeting the First Homes eligibility criteria (see below);

c) on their first sale, will have a restriction registered on the title at HM Land Registry to ensure this discount (as a percentage of current market value) and certain other restrictions are passed on at each subsequent title transfer; and,

d) after the discount has been applied, the first sale must be at a price no higher than £250,000 (or £420,000 in Greater London).

First Homes are the government's preferred discounted market tenure and should account for at least 25% of all affordable housing units delivered by developers through planning obligations.

2.9 In terms of eligibility criteria, a purchaser should be a first-time buyer with a combined annual household income not exceeding £80,000 (or £90,000 in Greater London) and a mortgage needs to fund a minimum of 50% of the discounted purchase price. Local authorities can set their own eligibility criteria, which could for example involve lower income caps, a local connection test, or criteria based on employment status. Regarding discounts, a First Home must be sold at least 30% below the open market value. However, local authorities do have the discretion to require a higher minimum discount of either 40% or 50% (if they can demonstrate a need for this).

2.10 Prior to First Homes being introduced by Government it was seen that Starter Homes might be a form of affordable home ownership (AHO), indeed the term Starter Home still remains in the NPPF as a tenure of affordable housing. Despite this, there is no evidence of any delivery of Starter Homes, and it is initially arguable that First Homes are just the same product as previously envisaged (for example the limits on property prices are similar to those for Starter Homes (£250,000 and £450,000 in London) and the scheme is specifically aimed at first-time buyers. There are however a number of differences between the two types of housing which include:

- Starter Homes were to be sold at a discount of at least 20% whereas First Homes have a minimum discount of 30%;
- Starter Homes were to be sold to a qualifying first time buyer and included an age restriction (of 40 apart from military veterans where there is no age restriction). First Homes has a greater focus on local people, with the definition of local being at the discretion of each local authority (based on residency or work location). There is no age restriction, but buyers must be first time buyers;
- A notable difference is in terms of perpetuity where a Starter Home would be a one-time discount with subsequent sales being at full market value (subject to potentially paying some money back depending on length of occupancy). First Homes on the other hand will see discounts held in perpetuity; and
- Buyers of First Homes will have to use them as a primary residence (although with some scope to move out temporarily) whereas a Starter Home could be let out, although some repayment of the discount could have been required depending on the date of the home being let;

2.11 Overall, whilst there are some differences between Starter Homes and First Homes, there are also some similarities. It is unclear at this stage how successful First Homes will be and what the demand for such products will be like. There are also potential issues in the longer term. For example, the buyer of a First Home who wants to move to a larger home (e.g. on starting a family) would have to sell at a discount and therefore may not be able to make the next step up the 'ladder'. However, for

the purposes of this report it has to be assumed there would be a market for such homes and that the Councils will seek to integrate such housing into the affordable housing offer to best effect.

Current Affordable Housing Needs Evidence

- 2.12 The GNPP's current evidence on affordable housing need was considered as part of the Housing Needs Assessment ("HNA") prepared by Icen in October 2020. In section 5 of the HNA, a fully PPG compliant assessment of affordable housing need was undertaken to consider both the need for social/affordable rented housing as well as the need for affordable home ownership products. The HNA pre-dated the announcement on First Homes.
- 2.13 On social and affordable rented housing, the HNA concluded that there was a need for around 2,615 affordable homes to rent per annum across all authority areas. The breakdown is set out in the table below.

Table 2.1 Social/Affordable Rented Housing

	Rented (p.a.)
Ashfield	237
Broxtowe	309
Erewash	271
Gedling	392
Nottingham	1,112
Rushcliffe	294
Greater Nottingham	2,615

Source: Greater Nottingham HNA, 2020

- 2.14 In respect of affordable home ownership products, the HNA (paragraph 10.10) concluded that there was not a particular need for this type of product. It was acknowledged that there are a number of households likely to be able to afford to rent privately but who cannot afford to buy a suitable home; however, it was also noted there is a potential supply of homes within the existing stock that can make a contribution to the need.
- 2.15 The analysis found that a key issue in the study area is about access to capital (e.g. for deposits, stamp duty, legal costs) as well as potentially mortgage restrictions (e.g. where employment is temporary) rather than simply the cost of housing to buy. In this context, whilst the Framework gives a clear direction that 10% of all new housing on larger sites should be for affordable home ownership, the findings of the Housing Needs Assessment were clear that this would not be the best solution in the study area.
- 2.16 Overall, it was concluded that it would be reasonable on the basis of the evidence to state that there is no substantive need to provide housing under the definition of 'affordable home ownership.' On

the contrary, the analysis identified a notable need for rented affordable housing which the report said could be prioritised subject to the Council's strategy of addressing affordable housing need.

3. HOUSING MARKET DYNAMICS

- 3.1 The October 2020 HNA report included a detailed analysis of house prices and rents across the study area. For affordable housing, this specifically focussed on lower quartile costs, which is important for the analysis to follow given that affordability (in terms of the PPG) is typically measured against these housing costs, and this information is taken forward into further analysis of the pricing of affordable housing (and therefore to allow consideration of the likely discounts and any (price/income) caps that should be applied to First Homes).
- 3.2 The analysis below considers the entry-level costs of housing to both buy and rent across the study area. The approach has been to analyse Land Registry and ONS data to establish lower quartile prices and rents. Using a lower quartile figure is consistent with the PPG and reflects the entry-level point into the market recognising that the very cheapest properties may be of sub-standard quality.
- 3.3 Data from the Land Registry for the year to September 2021 shows estimated lower quartile property prices by dwelling type. The data shows that entry-level costs to buy are estimated to start from about £75,000 for a second-hand flat in Ashfield and Erewash and rising to over £300,000 for a detached home in Rushcliffe. Looking at the lower quartile price across all dwelling types, the analysis shows a lower quartile price of between £127,500 (Ashfield) and £229,500 (Rushcliffe).
- 3.4 The figures are all based on the cost of existing homes in the market although newbuild prices are considered later in this section when looking at potential costs of affordable home ownership properties and a newbuild premium.

Table 3.1 Estimated lower quartile cost of housing to buy by type (existing dwellings)

	Flat/ maisonette	Terraced	Semi- detached	Detached	All dwellings
Ashfield	£72,500	£96,250	£128,000	£195,000	£127,500
Broxtowe	£95,000	£130,000	£169,950	£237,500	£167,600
Erewash	£75,000	£115,000	£150,500	£232,500	£145,000
Gedling	£96,000	£130,000	£165,000	£250,000	£163,500
Rushcliffe	£125,000	£180,000	£215,000	£312,500	£229,500
Nottingham	£94,000	£120,000	£145,000	£220,000	£131,000

Source: ONS Small Area House Price Statistics, year to September 2021

- 3.5 It is also useful to provide estimates of property prices by the number of bedrooms in a home. Analysis for this draws together Land Registry data with an internet search of prices of homes for sale (using sites such as Rightmove). The analysis suggests a lower quartile price of about £75,000-£80,000 for a 1-bedroom home in many areas, rising to £380,000 for homes with 4 bedrooms in Rushcliffe.

Table 3.2 Estimated lower quartile cost of housing to buy by size (existing dwellings)

	1-bedroom	2-bedroom	3-bedroom	4-bedroom	All dwellings
Ashfield	£75,000	£105,000	£150,000	£250,000	£127,500
Broxtowe	£85,000	£135,000	£185,000	£290,000	£167,600
Erewash	£80,000	£130,000	£175,000	£270,000	£145,000
Gedling	£85,000	£125,000	£195,000	£295,000	£163,500
Rushcliffe	£115,000	£170,000	£235,000	£380,000	£229,500
Nottingham	£80,000	£130,000	£160,000	£220,000	£131,000

Source: Land Registry and Internet Price Search, year to September 2021

- 3.6 A similar analysis has been carried out for private rents using ONS data – this covers a 12-month period to September 2021. For the rental data, information about dwelling sizes is provided (rather than types); the analysis shows an average lower quartile cost (across all dwelling sizes) of around £500-£600 per month depending on location.
- 3.7 It should be noted that the ‘all dwellings’ figures exclude room rents and therefore differ slightly from data as published by ONS. This only really has a modest impact and only for Broxtowe and Nottingham. The all dwellings figure has been calculated by IcenI based on the number of lettings in different size categories, excluding room rents. For reference the lower quartile figures from ONS including room only rents were £550 per month in both Nottingham and Broxtowe.

Table 3.3 Lower Quartile Market Rents, year to September 2021 – Greater Nottingham

	1-bedroom	2-bedroom	3-bedroom	4-bedroom	All dwellings
Ashfield	£400	£475	£510	£713	£485
Broxtowe	£450	£575	£650	£900	£590
Erewash	£425	£540	£625	£775	£525
Gedling	£400	£550	£625	£898	£550
Rushcliffe	£498	£600	£750	£1,000	£625
Nottingham	£495	£575	£630	£800	£570

Source: ONS and IcenI calculations

Newbuild Premiums

- 3.8 As well as establishing the entry-level cost of housing (lower quartile costs) it is necessary to establish the likely costs of newbuild housing. This is because First Homes will be a product based on discounting from a new home and therefore establishing costs for new homes will help understand what level of discount is required to make them genuinely affordable. It is not straightforward to estimate the likely cost of a home prior to discount as housing costs will vary depending on location and the type of scheme – the analysis below however seeks to establish a typical Open Market Value (OMV) for newly-built homes of different sizes in different locations.

- 3.9 The series of tables below show the lower quartile cost of existing and new homes by type from Land Registry data; to boost the sample of new homes, data from the last 5 years has been used. A five year period has been used to get an idea of the difference in price between sales of existing homes and newbuild and this longer period is used as a single year can sometime produce a skewed result (if for example the majority of newbuild is on a single site which may be atypical to the dwelling stock in an area generally (e.g. if the majority of new homes are in a more/less expensive location).
- 3.10 The analysis clearly identifies that newbuild homes are more expensive than existing homes in the stock although the overall average 'premium' does vary across areas and is clearly heavily influenced by the profile of homes sold – for example, in Broxtowe the overall 'premium' for all dwellings is 19%, yet the premium for all individual property types is higher than this – this reflects the fact that a higher proportion of newbuild homes in this area are flatted units, which typically have a lower price than houses, this brings down the overall average price for newbuild homes.
- 3.11 It should be noted that it is only the estimated newbuild premium that is taken forward into the analysis (i.e. not the actual house prices). The premium is then applied to the up-to-date house prices (i.e. in this case for the year to September 2021).

Table 3.4 Lower quartile cost of housing to buy (existing and newly-built dwellings) – 5 years to September 2021 – Ashfield

	Existing dwellings	Newly-built dwellings	New-build premium
Flat/maisonette	£68,400	£77,200	13%
Terraced	£80,000	£130,800	64%
Semi-detached	£112,600	£157,200	40%
Detached	£168,800	£206,900	23%
All dwellings	£109,800	£165,400	51%

Source: Land Registry

Table 3.5 Lower quartile cost of housing to buy (existing and newly-built dwellings) – 5 years to September 2021 – Broxtowe

	Existing dwellings	Newly-built dwellings	New-build premium
Flat/maisonette	£88,300	£129,500	47%
Terraced	£115,100	£168,100	46%
Semi-detached	£145,000	£187,600	29%
Detached	£200,000	£243,500	22%
All dwellings	£142,500	£170,000	19%

Source: Land Registry

Table 3.6 Lower quartile cost of housing to buy (existing and newly-built dwellings) – 5 years to September 2021 – Erewash

	Existing dwellings	Newly-built dwellings	New-build premium
Flat/maisonette	£80,100	£60,100	-25%
Terraced	£95,100	£149,400	57%
Semi-detached	£132,500	£149,300	13%
Detached	£206,900	£230,000	11%
All dwellings	£125,000	£150,100	20%

Source: Land Registry

Table 3.7 Lower quartile cost of housing to buy (existing and newly-built dwellings) – 5 years to September 2021 – Gedling

	Existing dwellings	Newly-built dwellings	New-build premium
Flat/maisonette	£87,400	£108,900	25%
Terraced	£114,400	£177,000	55%
Semi-detached	£143,000	£185,000	29%
Detached	£219,700	£251,600	15%
All dwellings	£140,000	£200,000	43%

Source: Land Registry

Table 3.8 Lower quartile cost of housing to buy (existing and newly-built dwellings) – 5 years to September 2021 – Rushcliffe

	Existing dwellings	Newly-built dwellings	New-build premium
Flat/maisonette	£122,400	£212,500	74%
Terraced	£163,800	£185,700	13%
Semi-detached	£190,000	£238,200	25%
Detached	£282,400	£320,000	13%
All dwellings	£199,900	£265,100	33%

Source: Land Registry

Table 3.9 Lower quartile cost of housing to buy (existing and newly-built dwellings) – 5 years to September 2021 – Nottingham

	Existing dwellings	Newly-built dwellings	New-build premium
Flat/maisonette	£87,800	£86,500	-1%
Terraced	£96,800	£144,200	49%
Semi-detached	£122,300	£163,600	34%
Detached	£185,000	£265,000	43%
All dwellings	£110,000	£135,100	23%

Source: Land Registry

- 3.12 Focussing on Broxtowe again as an example, the Table below shows over the 5 year period studied that 24% of all newbuild sales were flats, compared with less than 5% of existing homes. Given that flats typically have notably lower prices, this drives the total down significantly and leads to the

situation where the overall average premium is lower than any of the individual figures for different types. Likewise, the lower proportion of newbuild sales of semis and detached (compared to the existing market) will further add to this finding. This approach has been followed for all authorities.

Table 3.10 Number of Sales by Type and New-Build/Existing, Broxtowe Example

	Existing dwellings	Newly-built dwellings	Total
Flat/maisonette	4.8%	24.1%	5.7%
Terraced	20.6%	12.6%	20.2%
Semi-detached	38.9%	33.3%	38.6%
Detached	35.7%	30.0%	35.4%
All dwellings	100.0%	100.0%	100.0%

Source: Land Registry

- 3.13 In terms of estimating an overall new-build premium, we have used the proportions in each new-build category and applied this percentage to the new-build premium in each type of category. This allows us to calculate a weighted average which gives us the overall estimated premium. The calculation is summarised in the Table below for Broxtowe.

Table 3.11 Calculating Overall New-Build Premium, Broxtowe Example

	% of Sales	Premium	Weighed Sales Premium
Flat/maisonette	24.1%	47%	11.3%
Terraced	12.6%	46%	5.8%
Semi-detached	33.3%	29%	9.6%
Detached	30.0%	22%	6.6%
All dwellings	100.0%	-	33%

Source: Land Registry

- 3.14 The figures for different dwelling types have therefore been standardised across all authorities on the basis of the volume of sales in different categories as has been shown in the example Tables above for Broxtowe. From this it is estimated that the typical newbuild premium in the study area is between 17% and 34% - these figures have been used in calculations of OMV against which a discount can be judged. For each authority the premiums calculated are:

- Ashfield – 34%;
- Broxtowe – 33%;
- Erewash – 17%;
- Gedling – 24%;
- Rushcliffe – 18%; and
- Nottingham – 29%

- 3.15 These premiums are taken forward into the First Homes analysis in the next section to consider the levels of discount likely to be required to make homes affordable. The analysis is carried out by number of bedrooms in a property, so for example a lower quartile 2-bedroom home in Ashfield (existing housing) was estimated to cost £105,000 and therefore a newbuild 2-bedroom home is estimated to have a cost of £140,700 (£105,000 plus 34%).

4. FIRST HOMES ANALYSIS

4.1 The analysis below looks at the likely cost of a First Home for it to be considered as genuinely affordable in a local context. As noted in the previous section, the 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 that typically available in the open market. This is often the case as new build housing itself attracts a premium.

4.2 The preferred approach in this report is to set out a series of purchase costs for different sizes of accommodation which ensure these products are affordable for the intended group. These purchase costs are based on current lower quartile rental prices and also consideration of the income required to access the private rented sector and then estimating what property price this level of income might support (assuming a 10% deposit and a 4 times mortgage multiple – the same assumptions as used in the Housing Needs Assessment). Below is an example of a calculation based on a 2-bedroom home in Broxtowe:

- Previous analysis has shown that the lower quartile rent for a 2-bedroom home in Broxtowe is £575 per month;
- On the basis of a household spending no more than 27% of their income on housing (the threshold used in the HNA), a household would need an income of around £2,130 per month to afford ($575/0.27$) or £25,600 per annum (rounded);
- With an income of £25,600, it is estimated that a household could afford to buy a home for around £113,600. This is based on assuming a 10% deposit and a four times mortgage multiple – calculated as $25,600 \times 4/0.9$ (rounded).

4.3 Therefore, £113,600 is a suggested purchase price to make First Homes/discounted home ownership affordable for households in the rent/buy gap. This figure is essentially the equivalent price that is affordable to a household who can just afford to rent privately. In reality, there will be a range of incomes in the rent/buy gap and so some households could afford a higher price; however, setting all homes at a higher price would mean that some households will still be unable to afford.

4.4 On this basis, it is considered reasonable to look at the cost of First Homes/discounted home ownership as a range, from the equivalent private rent figure up to a midpoint of the cost of open market purchase and the relevant private rented figure (for a 2-bedroom home this is £135,000, giving a midpoint of £124,300). The use of a midpoint would mean that only around half of households in the rent/buy gap could afford the cost, and therefore any housing provided at such a cost would need to also be supplemented by an equivalent number at a lower cost (which might include other tenures such as shared ownership).

- 4.5 To work out what level of discount might be required to make a home affordable it is also necessary to estimate the likely cost of newbuild homes of different sizes (as it will be this price against which any discount would be applied). OMV for newbuild homes were estimated in the previous section.
- 4.6 The series of tables below therefore set out a suggested purchase price for First Homes in each local authority across the study area. The tables also show the estimated OMV and the level of discount likely to be required to achieve affordability.
- 4.7 It should be noted that the discounts are based on the OMV as estimated, in reality the OMV might be quite different for specific schemes and therefore the percentage discount would not be applicable. For example, if the OMV for a 2-bedroom home in Broxtowe were to actually be £200,000 (rather than the modelled £179,600) then the discount would be in the range of 38% and 43%.
- 4.8 On the basis of the assumptions used, the analysis points to a discount of around 30% for homes with 2 bedrooms, with a higher discount of 40% being appropriate for 3-bedroom homes. Given that a single discount figure is likely to be needed for plan making purposes the Councils may need to consider the likely mix of First Homes. If the majority of First Homes are likely to be 2-bedroom homes then a 30% figure would be appropriate.
- 4.9 In setting any discount above 30% it will be important for the Councils to ensure that the viability of providing other forms of affordable housing (notably rented tenures) is not compromised. On the basis of affordability, a 30% discount looks to be right for Greater Nottingham generally (assuming a high proportion of 2-bedroom homes) and therefore the viability issue is less relevant, although the scale of delivery of First Homes will also need to be considered against the delivery of other forms of affordable housing. The Housing Needs Assessment suggested the main need for affordable home ownership was for 2-bedroom homes (followed by 3-bedrooms) in all areas.
- 4.10 The data for a number of areas (Ashfield, Broxtowe, Erewash and Nottingham) is interesting in that for 1-bedroom homes the equivalent price associated with privately renting is actually higher than the estimated price to buy a home of that size in the existing market – for this size of home (in these areas) it has therefore been assumed that the price of a home should not exceed the current second-hand price.

Table 4.1 Affordable home ownership prices – data for year to September 2021 – Ashfield

	Affordable Price	Estimated newbuild OMV	Discount required
1-bedroom	£75,000	£100,500	25%
2-bedrooms	£97,400-£101,200	£140,700	28%-31%
3-bedrooms	£104,600-£127,300	£201,000	37%-48%
4+-bedrooms	£146,300-£198,000	£335,000	41%-56%

Source: Iceni analysis derived from a range of data

Table 4.2 Affordable home ownership prices – data for year to September 2021 – Broxtowe

	Affordable Price	Estimated newbuild OMV	Discount required
1-bedroom	£85,000	£113,100	25%
2-bedrooms	£113,600-£124,300	£179,600	31%-37%
3-bedrooms	£128,400-£156,700	£246,100	36%-48%
4+-bedrooms	£177,800-£233,900	£385,700	39%-54%

Source: IcenI analysis derived from a range of data

Table 4.3 Affordable home ownership prices – data for year to September 2021 – Erewash

	Affordable Price	Estimated newbuild OMV	Discount required
1-bedroom	£80,000	£93,600	15%
2-bedrooms	£106,700-£118,300	£152,100	22%-30%
3-bedrooms	£123,500-£149,200	£204,800	27%-40%
4+-bedrooms	£153,100-£211,500	£315,900	33%-52%

Source: IcenI analysis derived from a range of data

Table 4.4 Affordable home ownership prices – data for year to September 2021 – Gedling

	Affordable Price	Estimated newbuild OMV	Discount required
1-bedroom	£76,200-£80,600	£105,400	24%-28%
2-bedrooms	£104,800-£114,900	£155,000	26%-32%
3-bedrooms	£119,000-£157,000	£241,800	35%-51%
4+-bedrooms	£171,000-£233,000	£365,800	36%-53%

Source: IcenI analysis derived from a range of data

Table 4.5 Affordable home ownership prices – data for year to September 2021 – Rushcliffe

	Affordable Price	Estimated newbuild OMV	Discount required
1-bedroom	£94,900-£104,900	£135,700	23%-30%
2-bedrooms	£114,300-£142,100	£200,600	29%-43%
3-bedrooms	£142,900-£188,900	£277,300	32%-48%
4+-bedrooms	£190,500-£285,200	£448,400	36%-58%

Source: IcenI analysis derived from a range of data

Table 4.6 Affordable home ownership prices – data for year to September 2021 – Nottingham

	Affordable Price	Estimated newbuild OMV	Discount required
1-bedroom	£80,000	£103,200	22%
2-bedrooms	£113,600-£121,800	£167,700	27%-32%
3-bedrooms	£124,400-£142,200	£206,400	31%-40%
4+-bedrooms	£158,000-£189,000	£283,800	33%-44%

Source: IcenI analysis derived from a range of data

Key Questions and Answers in Relation to First Homes

- 4.11 The paragraphs below seek to answer a series of questions in relation to First Homes which are posed via PPG. This should help the Councils in deciding the appropriate approach, although ultimately there will be choices and decisions to be made by the Councils that this report can only comment on. Whilst the analysis above has focussed on pricing, the discussion below also draws on this information to consider whether there are any specific local criteria that could be applied.

Is there a justification for a discount of greater than 30%, if so, what should it be, and should the discount be variable depending upon property size?

- 4.12 There is no obvious case to seek a discount in excess of 30% - whilst a higher discount will certainly make homes cheaper and therefore potentially open up additional households as being able to afford it seems likely that many households (particularly those seeking smaller homes) could already afford to buy a home in the existing market, subject to having sufficient funds for a deposit (a deposit would also be required for a First Home). Providing a higher discount may well have an impact on viability, meaning the Councils will not be able to provide as many homes in other tenures (such as rented affordable housing which is likely to be needed by those with more acute needs and fewer choices in the housing market).
- 4.13 Although not specifically set out in the PPG, it does seem likely that the Councils would need to have a single discount for all dwelling sizes and in any case, across Greater Nottingham, there is no strong argument that different sizes of homes will have such different pricing/affordability that different discounts would be appropriate anyway (other than for 4+-bedroom homes which are unlikely to be delivered in any great quantity as First Homes).

Is the maximum price of £250K after discount for initial sale an appropriate maximum sales value?

- 4.14 Looking at the tables above, it can be seen that all of the affordable prices (apart from the upper end 4+-bedroom estimate for Rushcliffe) sit well below the £250,000 cap and therefore it is arguable that a lower cap would be appropriate. Given that First Homes will be likely to focus on 2- and 3-bedroom homes) there are good reasons for looking at a lower cap.
- 4.15 A lower cap would help to ensure that homes are affordable even on schemes where the OMV is relatively high (although consideration about viability and potential loss of other forms of affordable housing will also be a consideration). The table below sets out a view of possible price caps, these are based on the upper end estimate of the 3-bedroom affordable price, to which 10% has been added to allow for some degree of future proofing – the figures could however be regularly monitored by reference to local house price and private rental data.

Table 4.7 Possible Price Caps for First Homes (based on a 3-bedroom home)

	Upper End Affordable Price	Price + 10% (possible cap)
Ashfield	£127,300	£140,000
Broxtowe	£156,700	£172,000
Erewash	£149,200	£164,000
Gedling	£157,000	£173,000
Rushcliffe	£188,900	£208,000
Nottingham	£142,200	£156,000

Source: Derived from a range of sources as described

Is the national threshold of £80,000 for household income appropriate?

- 4.16 To study the income threshold, analysis has been provided below to consider the likely incomes required to afford the lower and upper end affordable prices – again based on a 3-bedroom home. This is shown in the table below and shows even the most expensive price would require a local income of about £42,500 (Rushcliffe) – well below the £80,000 threshold. It should however be noted that these findings are based on a specific set of assumptions about mortgage multiples and deposit availability (10% deposit and 4 times mortgage multiple) and in reality individual households will have their own specific circumstances.
- 4.17 That said, it is considered that an £80,000 threshold looks to be too high; households with that level of income would be expected to readily buy a home in the area without the need for any discount. On balance, and looking at the figures in the round it is considered that an income cap in the range of around £32,000 (Ashfield) to £47,000 (Rushcliffe) might be appropriate. In setting a cap, it is suggested that the upper end income figures shown below are used to which a further factor (of 10%) has been added to provide flexibility and future proof the figures. As with the price cap data, the figures can again be monitored and updated by reference to local housing market costs.

Table 4.8 Incomes Required to Afford a 3-bedroom First Home

	Incomes (lower end)	Incomes (upper end)	Incomes (upper end) +10%
Ashfield	£23,500	£28,600	£31,500
Broxtowe	£28,900	£35,300	£38,800
Erewash	£27,800	£33,600	£37,000
Gedling	£26,800	£35,300	£38,800
Rushcliffe	£32,100	£42,500	£46,800
Nottingham	£28,000	£32,000	£35,200

Source: Derived from a range of sources

What size of property is appropriate to be seen as a First Home?

- 4.18 To consider the size of homes needed as First Homes the analysis below relies upon that in the Housing Needs Assessment (HNA) and table below shows the conclusions as set out in the summary of that document. The analysis strongly points to First Homes mainly being 2- and to a slightly lesser

extent 3-bedroom homes, potentially with a proportion of 1-bedroom homes and an even lower proportion with 4-bedrooms. The relevant figures are shown in bold in the table below.

Table 4.9 Recommended Housing Mix by Size by Type

Authority	Housing Type	1 Bed	2 Beds	3 Beds	4+ Beds
Ashfield	Market	4%	27%	46%	24%
	Affordable Home Ownership	23%	38%	24%	15%
	Affordable Rented	35%	37%	25%	3%
Broxtowe	Market	12%	31%	40%	18%
	Affordable Home Ownership	20%	42%	32%	6%
	Affordable Rented	21%	40%	33%	6%
Erewash	Market	7%	32%	42%	19%
	Affordable Home Ownership	20%	37%	32%	12%
	Affordable Rented	26%	44%	27%	4%
Gedling	Market	3%	30%	48%	19%
	Affordable Home Ownership	20%	38%	31%	11%
	Affordable Rented	25%	44%	27%	3%
Nottingham	Market	11%	29%	42%	18%
	Affordable Home Ownership	15%	46%	34%	5%
	Affordable Rented	25%	41%	31%	2%
Rushcliffe	Market	11%	28%	40%	21%
	Affordable Home Ownership	19%	40%	39%	3%
	Affordable Rented	40%	29%	29%	2%

Source: Housing Needs Assessment (Table 8)³

What is the level of need for such products?

- 4.19 In some ways, this is a difficult question to answer. The analysis in the HNA is clear that there are likely to be a small number of households whose incomes sit in the range of being able to afford to privately rent, but not being able to buy a home. It can be concluded that as long as First Homes are made available for an affordable price, it is likely there will be a strong demand (although some households in the rent/buy gap may not choose a discounted product given that the discount is held in perpetuity). Alternatively, it is possible that First Homes see demand for those who can technically afford housing in the existing market – this would not be meeting a need but would arguably provide some demand for this type of home.
- 4.20 Regardless of the need/demand, it is not recommended that the Councils seek to reduce the amount of social/affordable rented homes by prioritising First Homes. The evidence does not support the Councils in seeking more than 25% of affordable housing in this tenure (and arguably much less).

³ <https://www.gnplan.org.uk/media/3371769/housing-needs-assessment-2020.pdf>

- 4.21 This is a difficult point which at the time of writing is unclear. It seems clear from the evidence in the HNA that the Councils could challenge the current NPPF position that 10% of all housing (on qualifying sites) should be for affordable home ownership (AHO) – this is due to the need clearly being greater for rented products.
- 4.22 Furthermore, the evidence would suggest that requiring a lower proportion than the 25% of all affordable housing as First Homes is appropriate in need terms. If the Councils are compelled to provide 25% of all affordable housing as First Homes then this could well squeeze out other forms of AHO – notably shared ownership, which is likely to be a product available for households with more marginal affordability (shared ownership typically has lower deposit requirements and outgoings are kept down by having a subsidised rent).
- 4.23 Ideally therefore the Councils would seek a lower proportion than 10% of all housing as AHO, and within the AHO provide a range of products (which might include First Homes and also shared ownership). This would likely mean that First Homes would make up a (possibly much) lower proportion of affordable housing than the 25% set out in guidance; this would be reasonable in affordable need terms.

Should the Councils set local eligibility criteria?

- 4.24 First Homes are designed to help people to get on the housing ladder in their local area, and in particular to ensure that key workers providing essential services are able to buy homes in the areas where they work [see PPG 70-008]. The Councils can therefore prioritise key workers for First Homes, and are encouraged to do so, especially if they have an identified local need for certain jobs or workers.
- 4.25 To ensure First Homes are available to local residents and workers local connection eligibility criteria could be used. This could be in-line with any criteria within local allocations policy and for example could require potential purchasers to demonstrate that they:
- Live in the relevant local authority for a period of time (possibly 2-years);
 - Work over 16 hours a week in the relevant local authority, or
 - Have a close relative (parent, adult son or daughter or adult sibling) who has lived in the relevant local authority for a period of time
- 4.26 Additional preference could be given to essential workers. Annex 2 of the NPPF also includes the needs of essential local workers *'Affordable housing: housing for sale or rent, for those whose needs are not met by the market (including housing that provided a subsidised route to home ownership and/or is for essential local workers' [emphasis added]. Essential local workers are defined as *'Public sector employees who provide frontline services in areas including health, education and community**

safety – such as NHS staff, teachers, police, firefighters and military personnel, social care and childcare workers’.

- 4.27 To give an indication of the number of essential workers in Greater Nottingham analysis has been undertaken looking at Standard Industrial Classification 2007 (SIC) categories – this shows employment sectors based on industry, and for the purposes of this analysis the public administration, education and health industries have been used to represent ‘essential workers’. The analysis shows that around 30% of resident workers across the study are considered ‘essential workers’ – this figure is similar to (very slightly higher) than seen in other locations.

Table 4.10 Number and proportion of essential workers

	Resident essential workers	% of workers in area
Ashfield	14,595	26%
Broxtowe	17,003	32%
Erewash	14,061	26%
Gedling	17,857	32%
Rushcliffe	18,431	33%
Nottingham	36,902	30%
Study area	118,849	30%
Nottinghamshire	-	30%
East Midlands	-	28%
England	-	28%

Source: 2011 Census

- 4.28 The 2011 Census also enables analysis to be conducted as to the tenure of workers by industry. It can be seen that essential workers see a fairly average profile, with similar levels of owner-occupation, social renting and private renting as is seen across the whole study area – indeed 71% of households in this category are owner-occupiers. It should be noted that this data is from the 2011 Census which is now slightly out of date, the Councils could look at this data again when new data from the 2021 Census is published (likely to be in 2023 on this topic).

Table 4.11 Housing tenure by industry of employment (2011) – Greater Nottingham

	Owner-occupied	Social rented	Private rented
Agriculture, energy and water	71%	8%	20%
Manufacturing	77%	9%	14%
Construction	78%	8%	14%
Distribution, hotels and restaurants	60%	15%	25%
Transport and communication	71%	10%	19%
Financial, Real Estate, Professional and Administration	70%	10%	20%
Public administration, education and health	71%	10%	19%
Other	60%	13%	27%
All industries	70%	11%	19%

Source: 2011 Census

- 4.29 It is also possible to consider the affordability of housing for essential workers by considering local salaries. An online assessment of local jobs (across Nottinghamshire (including Nottingham)) for nurses, firefighters, teachers, police officers and childcare was undertaken in May 2022. This showed a range of salaries, but typically in the range of about £20,000 to £30,000 per annum. The average salary was around £25,000 although it does need to be noted that there are a variety of roles with a range of salaries in these professions depending on level of expertise and experience.
- 4.30 With a salary of £25,000, an individual might be able to buy a home for around £110,000 (based on a 10% deposit and 4 times mortgage multiple) and with two salaries at this level would be able to afford around £220,000. This latter figure would allow the household to afford to buy a home across much of the study area, but the single income would possibly make home ownership difficult (particularly in higher value locations), and this population could be a potential target for affordable home ownership products.
- 4.31 Overall, the analysis does not point towards there being a particular and specific need for affordable housing for essential workers. Such workers make up a similar part of the workforce as is the case in many areas, and they are as likely to be owner-occupiers as other industry groups. However, on the basis of local incomes (notably for single income essential workers), access to the owner-occupied sector may be restricted by income and it may be appropriate to consider whether or not some affordable properties should be set aside for single income essential local workers.

Will existing social housing tenants be able to afford First Homes?

- 4.32 As well as considering the pricing of First Homes it is interesting to consider where the demand for such homes might come from. Overall, it is thought that First Homes would predominantly be targeted at households who are currently in private rented accommodation and also newly forming households (for example grown up children living with parents). It is worth additionally considering if any current tenants of social housing are likely to have a demand for such homes.
- 4.33 In short, it is considered that there is unlikely to be any significant demand from households who currently live in social housing. This is because income levels are typically low and in many cases, if a household wanted to buy then it would be financially beneficial to use Right-to-Buy rather than buying a discounted product where the discount is held in perpetuity.
- 4.34 Regarding income levels, there is no source of data specifically for Greater Nottingham, it is however possible to look at national data, and there is no reason to believe that tenants in the study area have a substantially different income profile. The table below shows estimates of the incomes of

households in the social rented sector drawn from ONS data (taken from the Household Finances Survey)⁴ – data has been shown for 2017 to 2020.

- 4.35 The analysis shows that households in the social sector have an average income of around £24,000-£26,000 per annum (gross); however, between 40% and 44% of this is in the form of cash benefits, which in many cases would not be eligible to use to secure a mortgage. Excluding benefits from the income shows an average in the range of £13,500 and £15,500 – likely to fall well short of buying a home and (as noted) if eligible for Right-to-Buy then unlikely to be a financially beneficial move. Whilst these figures are just averages, and there will be other tenants with higher (and lower) incomes it is considered that the numbers able to afford are likely to be small, and in most cases would not see buying a First Home as being a better option than buying their current accommodation.

Table 4.12 Average incomes of social housing tenants (UK)

Year	Gross income	% as cash benefits	Income excluding cash benefits
2017/18	£24,070	44%	£13,479
2018/19	£25,384	42%	£14,723
2019/20	£25,787	40%	£15,472

Source: ONS

- 4.36 The analysis looks at incomes only and it would be the case that households would also need a deposit to be able to buy a home. Data from the English Housing Survey (2018-19) showed that 80% of all social tenants had no savings or investments; this source also did not record a single household as having moved from social rented accommodation to owner-occupation (the same finding was also seen in the previous year). All of this points to there being likely to be a very low (or no) need/demand for First Homes from current social housing tenants.

4

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/12845averageincomebytenure>

5. SUMMARY AND CONCLUSION

- 5.1 This report provides analysis of the affordability of First Homes in Greater Nottingham. The Government announced their new discounted market tenure, for England, First Homes, in May 2021. First Homes should account for at least 25% of all affordable housing units delivered by developers and is the Government's preferred form of affordable home ownership (AHO).
- 5.2 Separately, the latest National Planning Policy Framework (NPPF) states that AHO should represent at least 10% of new homes on qualifying sites, although this figure can be challenged where evidence of a lack of need for such housing can be shown (paragraph 65 of the NPPF).
- 5.3 In Greater Nottingham, the evidence of the need for affordable housing very clearly points to a situation where provision of AHO could '*significantly prejudice the ability to meet the identified affordable housing needs of specific groups*' – notably the needs of households who require a rented affordable product (social/affordable rents).
- 5.4 In other words, Iceni consider that the evidence of need and for different types of affordable housing (specifically rented versus affordable home ownership (AHO)) means that the 10% of all housing as being affordable home ownership is not appropriate across the study area.
- 5.5 Any decision to move away from the 10% AHO requirement would likely need to be set out in new Local Plans and would potentially be challenged through the examination process. To date, we are only aware of one authority – Doncaster - who have sought to bring forward a plan under the new NPPF and not provide 10% AHO – the case put forward by the Council was accepted by the Inspector. In addition, it should be noted that we are not aware of any cases where Councils seeking to move away from the 10% have been unsuccessful.
- 5.6 Specifically, the Doncaster inspector stated the following (Paragraph 177) and we would consider that the situation regarding need for AHO in this study area is similar to Doncaster (although an alternative tenure split, potentially with a lower proportion of AHO might be appropriate):
- 'Paragraph 6.9 refers to 75% of the affordable homes being for rent and 25% for low cost home ownership. This would not deliver 10% of homes on major developments as affordable home ownership products, but it is based on the findings of the Council's Housing Needs Study which shows that it is necessary to meet the needs of specific groups. The tenure split is therefore justified and consistent with national policy'.
- 5.7 The circumstances applicable in Doncaster closely mirror the circumstances in Greater Nottingham. There is clear evidence to support the Councils focussing on meeting the needs of specific groups,

which in this case, is the needs of those in need of social and affordable rented products. Delivering the full requirement for AHO could jeopardise the ability to meet the needs of those most in need in an area where AHO is not expected to play a significant role in the context of affordable housing.

First Homes

- 5.8 The analysis carried out is mindful of the PPG – in particular, that related to First Homes (May 2021) – this sets out the levels of discount to be applied, along with price and income caps. The First Homes PPG also provides detail on qualifying (i.e. what makes something a First Home) and eligibility criteria.
- 5.9 Analysis has been undertaken to look at the cost of housing to buy and rent in the study area (and different parts of the area). This is important when looking at the affordability of First Homes (or indeed other forms of AHO) as clearly any housing delivered that is more expensive than readily available in the existing market cannot be considered as genuinely affordable (even if provided at a discount to Open Market Value (OMV)).
- 5.10 Drawing on the price and rent analysis, calculations were carried out to consider what price a First Home should be sold for so it can be called genuinely affordable, essentially this is a price that can be afforded by the majority of people in the rent/buy gap (i.e. who can afford to rent a home privately but cannot afford prices to buy within the existing housing market). Analysis also looked at the case for there to be price and income caps for households to be eligible for First Homes as well as a number of other relevant points. Below is a summary of key findings and conclusions:
- 5.11 **Level of discount** – there is no strong case for the Councils to seek a greater discount than the standard 30%; a 30% discount on estimated OMV is likely to make homes affordable for most sizes of accommodation (most notably apart from 4 or more bedroom homes, which are unlikely to be delivered in any great quantity as First Homes). Additionally, a higher discount could potentially have an impact on the viability of providing other forms of affordable housing such as social/affordable rented housing which is likely to be needed by those with more acute needs and fewer choices in the housing market. This is consistent with the conclusions of the 2020 HNA.
- 5.12 **Price cap** – given the cost of housing in the area and calculations about the cost of First Homes to be affordable it is considered that there is a strong case for setting a price cap on the initial sale. Taken in the round, recognising differing prices in different locations and the likely profile of First Homes by size, the Councils could consider a price cap which this report suggests linking to the cost required to make 3-bedroom homes affordable. The possible caps for each authority to consider are set out in Table 4.7 of this report.
- 5.13 **Income threshold** – linked to the suggestion of a price cap it follows that an income cap could also be applied. In this case it is suggested that the Councils consider an income cap below £80,000

(depending on area and again linked to affordable costs for 3-bedroom homes) – potential income caps are set out in Table 4.8 of this report and the local authorities can use these figures should they decide to move below the income cap. On the basis of local pricing, the analysis suggests that households with an income in excess of the figures in Table 4.8 are likely to be able to buy a home and so applying a cap can help to ensure that housing is provided for those with a greater need (more marginal affordability). It will however be for each local authority to decide if they want a cap, and if so at what level.

- 5.14 **Size of First Homes** – based on previous research in the 2020 HNA, it seems likely that the focus of First Homes will be on 2- and (to a slightly lesser extent) 3-bedroom properties, along with a smaller proportion with 1-bedroom. The need for larger (4 or more bedroom) homes is not expected to be significant.
- 5.15 **Local eligibility criteria** – the Councils are able to prioritise First Homes for certain groups and also apply eligibility criteria. The Councils could consider including any local connection criteria that may exist within current allocations policies (and could include priority for people living or working in the area, or with strong family ties). The Councils could also think about giving key workers/essential local workers some degree of priority, although analysis does not suggest that such groups are necessarily disadvantaged in the housing market at the current time.
- 5.16 It seems unlikely that there would be much demand from existing social housing tenants for First Homes. Income levels (and access to savings) are likely to be low and in any case, using the Right-to-Buy is likely to be more financially beneficial for these households.
- 5.17 Any need for First Homes should not be seen as an additional need over and above the housing requirement in adopted and emerging Local Plans, but the Councils will need to consider how such housing will fit into their overall strategy including for affordable housing generally. If possible, it is recommended that the Councils minimise the delivery of AHO generally, including First Homes. This is to ensure the focus is on providing rented affordable products – such housing will be available to households with more acute needs and fewer choices in the housing market.