

Report to:

Sefton Council

**Housing Affordability
In the Context of
First Homes**

Final Report

February 2022

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Summary

Introduction

1. This report provides analysis of the affordability of First Homes in Sefton. 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. Affordable home ownership must represent at least 10% of new homes on qualifying sites¹. Whilst this report focusses on First Homes, it is the case that the findings would also be applicable to discounted market homes in general (in terms of discounts required and income thresholds for example).
2. The analysis carried out is mindful of the latest National Planning Policy Framework (NPPF) – July 2021 and associated Planning Practice Guidance (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.
3. Analysis is also considered within the context of the adopted Local Plan (April 2017) – particularly Policy HC1 which deals with affordable housing. Of note are the different policies in the South (Bootle/Netherton) and North areas of the Borough. In October 2019, a Strategic Housing Market Assessment (SHMA) Update was completed, which in turn led the Council to look at the tenure split within the Local Plan to reflect changes to the NPPF (a requirement for 10% of all homes on larger sites to be affordable home ownership (AHO)).

House Prices, Rents and Affordability

4. Analysis has been undertaken to look at the cost of housing to buy and rent in the Borough (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. In a national context, Sefton is a relatively cheap area to buy housing with the average (median) price of a home in 2021 being £193,600; this is around £80,000 lower than the average for England (£274,000). Average prices are however higher than seen across Merseyside (£165,000) and the North West (£181,300). Relative to many other areas, percentage house price increases in Sefton have been lower; over the decade to 2021, prices in Sefton rose by 34%, this compares with 50% nationally.
6. This analysis also showed significant differences in pricing in different parts of the Borough, with the median price in Bootle being £91,500 and up to £301,300 in Formby; overall, prices in the north of the Borough are around double those seen in the south. Sub-areas in the north of the Borough also saw greater increases in prices over the decade to 2021.

¹ Paragraph 65 National Planning Policy Framework July 2021

7. The number of sales in Sefton (as with other locations) have been lower in the past decade or so than was seen in the decade to 2007 (an average of 3,600 sales per annum (2011-21) compared with 5,000 in the 1997-2007 period).
8. Private sector rents are also relatively low, with a median rent in the year to March 2021 being £575 per month (compared with £730 nationally) – overall rents have increased by around 10% over the past 5-years although this in part looks to be due to a slightly greater proportion of lettings being of larger homes – no individual property size saw average rents increase by more than 6% over the 5-year period.
9. A further price and rent analysis looking at lower quartile housing costs suggests that to buy a home in the Borough would typically cost £138,000 with private sector rents sitting at £475 per month. This analysis again identified significant differences between the north and south of the Borough, although differences in rents were not as substantial as for house prices (a lower quartile home in the north is around double that in the south, but rents are only around 28% higher).
10. A final analysis sought to establish the cost of newbuild housing – this is important as in looking at discounts to make homes affordable it is this price against which any discount would need to be judged. Across the whole Borough, it was estimated that there is a newbuild premium of around 25%, but again with differences between the north (premium of around 20%) and the south (45%) of the Borough. Whilst the percentage difference is notable, in actual cost terms the premiums are estimated to be quite similar (a premium of about £45,000 for a 3-bedroom home in the North and about £50,000 in the South).

First Homes

11. 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 finding and suggestions:
12. **Level of discount** – there is a case for the Council to seek a greater discount than the standard 30%, although this will in part depend on the mix of First Homes expected to be delivered (a 30% discount looks to be appropriate for homes with 1- or 2-bedrooms). Additionally, the Council will need to consider if a higher discount will have any 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).
13. **Price cap** – given the cost of housing in the Borough 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. Taken in the round, recognising differing prices in different locations and the likely profile of First Homes (by size) the Council could consider a price cap of around £160,000 at the present time.

14. **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 Council consider an income cap of around £40,000-£45,000. On the basis of local pricing, the analysis suggests that households with an income in excess of this level are likely to be able to buy a home in many parts of the Borough and so applying a cap can help to ensure that housing is provided for those with a greater need (more marginal affordability).
15. **Size of First Homes** – based on the 2019 SHMA Update it seems likely that the focus of First Homes will be on 2-bedroom properties, along with some 3-bedroom and a smaller proportion with 1-bedroom. The need for larger (4+-bedroom) homes is not expected to be significant.
16. **Local eligibility criteria** – the Council is able to prioritise First Homes for certain groups and also apply eligibility criteria. It is recommended that the Council considers 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 Council 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.

1. Introduction

Background

- 1.1 This report provides analysis of the affordability of First Homes in Sefton. 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. Initially, a brief summary of the current planning policy position is provided, as well as a review of the Council's current policy and approach to the delivery of affordable housing.
- 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. Affordable home ownership must represent at least 10% of new homes on qualifying sites.
- 1.3 The policy came into force from 28 June 2021 for new residential planning applications. However, any sites with planning permission (full or outline) before 28 December 2021 or those with planning permission (full or outline) where there has been significant pre-application engagement before 28 March 2022 will be exempt. Rural exception schemes (note relevant in Sefton) 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 in general (in terms of discounts required and income thresholds for example).

National Planning Policy

- 1.5 The current National Planning Policy Framework (NPPF) was published in July 2018 (replacing the NPPF of 2012) and was most recently updated in July 2021² with a series of Planning Practice Guidance (PPG)³ documents being provided to help in understanding how to apply the NPPF.
- 1.6 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 <https://www.gov.uk/government/publications/national-planning-policy-framework--2>

³ <https://www.gov.uk/government/collections/planning-practice-guidance>

- 1.7 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.
- 1.8 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.
- 1.9 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:
- 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.
- 1.10 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.
- 1.11 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.
- 1.12 Guidance 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. Additionally, in May 2021, a new PPG was published relating to First Homes⁴, 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 criteria (i.e. what makes something a First Home) and also a range of issues such as eligibility criteria. First Homes are discussed in more detail in Section 3 of this report.

⁴ <https://www.gov.uk/guidance/first-homes>

Current Affordable Housing Policy in Sefton

- 1.13 The Sefton Local Plan was adopted in April 2017⁵; this sets out how new development will be managed in the period from 2015 to 2030. Relevant to this report is Policy HC1 (shown in the box below) which sets out policies for Affordable and Special Needs Housing. Of note within this policy is the different target depending on the location of housing, also the tenure split is different across areas. Overall, the north of the Borough (areas outside Bootle and Netherton) has a higher target and for more of this to be rented rather than intermediate housing.

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| <p>HC1 AFFORDABLE AND SPECIAL NEEDS HOUSING (selected extracts)</p> <p><u>All of Sefton outside Bootle and Netherton</u></p> <ol style="list-style-type: none"> 1. For new developments of 15 dwellings or more (or for residential and other conversions involving 15 or more additional dwellings net) 30% of the total scheme (measured by bedspaces) will be provided as affordable housing. 2. 80% of the affordable housing should be provided as social rented/affordable rented and the remaining 20% provided as intermediate housing. <p><u>Bootle and Netherton</u></p> <ol style="list-style-type: none"> 3. Affordable housing will be required as part of proposals for new developments of 15 dwellings or more (or for residential and other conversions involving 15 or more additional dwellings net) on the basis of 15% of the total scheme (measured by bedspaces). 4. Affordable housing should be 50% social/affordable rented and 50% intermediate housing. <p><u>All Areas</u></p> <ol style="list-style-type: none"> 6. Special needs housing can be substituted for up to 50% of the site affordable housing contribution on a bedspace for bedspace basis. 7. Where extra care or sheltered housing is proposed to be substituted for affordable housing, this must meet the tenure requirements set out in parts 2 and 4 of this policy. 9. Affordable and/or special needs housing will be provided in accordance with this policy unless a robust assessment of a scheme's economic viability confirms that this cannot be achieved. 10. Off-site provision of affordable housing, or a financial contribution of broadly equivalent value, will be considered where it can be robustly justified, and where the agreed approach contributes to the objective of creating mixed and balanced communities. 11. In implementing the policy, the Council will have regard to: <ol style="list-style-type: none"> a. the definitions and provisions of affordable and/or special needs housing in relevant national guidance as they may change over time, and b. changes in the Borough's requirements for affordable and special needs housing based on new evidence of need as set out in future commissioned Strategic Housing Market Assessments or similar studies. |
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⁵ <https://www.sefton.gov.uk/media/1133/a-local-plan-for-sefton-for-adoption-final.pdf>

Evidence and Policy Updates since the Local Plan

- 1.14 In October 2019, the Council published a Strategic Housing Market Assessment (SHMA) Update⁶ which amongst other things looked again at the issue of affordable housing need – this was in the context of the NPPF seeking 10% of all housing on larger sites to be for affordable home ownership (which would fit into the category of intermediate housing in Policy HC1).
- 1.15 The analysis of need showed a similar patterns to previous SHMA studies, including highlighting spatial differences in affordability and need in the North and South of the Borough. Key findings and issues for the Council to consider within that document can be summarised as:
- There is a clear need for social/affordable rented accommodation in the Borough, although in Bootle and Netherton the analysis suggested a small surplus (although noting there may be a mismatch in terms of the size of homes needed and those available). The greatest need for social/affordable rented housing was found to be in Southport (more than half of the Borough's affordable need);
 - When looking at a need for affordable home ownership a surplus of affordable housing was shown although analysis did identify modest shortfalls in Formby, Maghull/Aintree and Crosby.
 - It was concluded that a 10% target for affordable home ownership (AHO) may be appropriate in some locations (the 10% figure coming from the NPPF) and arguably also in those areas with an apparent surplus to help diversify the stock. There was no evidence to suggest any figure higher than the 10%. Overall, it was suggested that a 10% AHO target is likely to be appropriate across the Borough.
 - It was suggested in terms of setting housing costs in the affordable home ownership sector that the Council considers setting prices at a level which (in income terms) are equivalent to the levels needed to access private rented housing. This would ensure that all households in need under the new definition could potentially afford housing;
 - It was noted that Policy HC1 (outside of Bootle/Netherton) seeks for 30% of housing to be affordable with an 80:20 split between social/affordable rented and intermediate and if the 30% were retained then the policy might need to change to something in the region of a 67:33 split between social/affordable rented and affordable home ownership.
 - In Bootle and Netherton, the report notes the lower target of 15% in the plan (with a 50:50 split between tenures). With the 15% target it was noted that the Council might need to revise the split to be 33:67 between social/affordable rented and affordable home ownership;
 - Due to the report being published before the concept of First Homes it was recommended that as much of the affordable home ownership (AHO) as possible should be delivered as shared ownership – this is because shared ownership (due to the subsidised rent element) looks likely to be the most affordable form of AHO in the Borough – this conclusion applied across both main areas.
 - Also within the report, a mix of AHO housing was suggested, with a particular focus on 2-bedroom homes (40% of the total) along with 3-bedroom accommodation (30%). The analysis also pointed towards a potential need for around 25% of homes to be 1-bedroom, with a likely limited need for 4+-bedroom affordable home ownership homes (5% of the total)

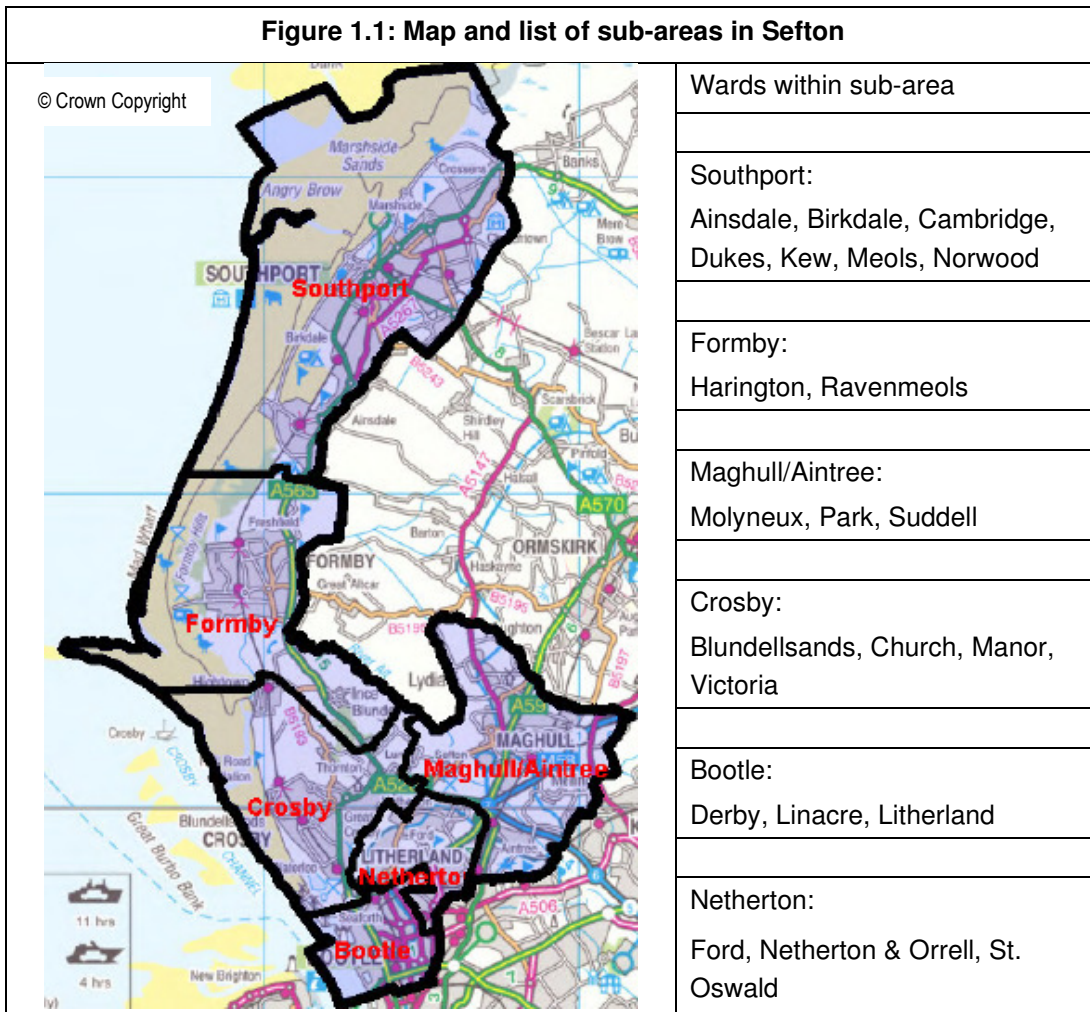
⁶ https://modgov.sefton.gov.uk/documents/s93796/Sefton_SHMA_final_report_Oct2019.pdf

- 1.16 Following publication of the SHMA update, the Council took the report and recommendations to the Planning and Building Control cabinet in November 2019⁷, a number of decisions were made, including:
- it be noted that the tenure split for affordable housing to be applied on qualifying schemes is 33:67 (between affordable/social rent and affordable homeownership) in Bootle and Netherton and 67:33 (between affordable/social rent and affordable homeownership) elsewhere in line with the NPPF;
 - the amount of affordable housing required on a site will be calculated by units rather than bedspaces and that this will be monitored to ensure it is delivering the type of affordable housing that is needed be approved; and
 - it be noted and approved that the other policy recommendations in the SHMA be promoted through appropriate policy reviews.

Sub-market/settlement detail

- 1.17 It can be seen from the Council's affordable housing policy and SHMA research that there are clear differences between different parts of the Borough. Whilst Government policy on First Homes appears to direct local authorities to have a single policy for a whole Borough, it is the case that in drawing conclusions consideration should be given to spatial differences. This is also considered important given that in affordable housing terms, the evidence does not show a quantitative need in the south of the Borough (Bootle and Netherton), with the SHMA update suggesting that affordable housing delivered in this area would help to 'diversify' the housing stock.
- 1.18 The sub-areas used in analysis are consistent with those used in previous SHMA research and are shown on the map below. The areas are built up from groups of wards (as shown). In total, six sub-areas have generally been used; whilst this report also looks at the six areas, the main conclusions are drawn from considering a South (Bootle and Netherton) and North (Rest of Borough) split – such a split is also consistent with the different policies in HC1 of the Local Plan.

⁷ <https://modgov.sefton.gov.uk/ieDecisionDetails.aspx?Id=10937>



Source: 2019 SHMA Update

Introduction: Key Messages

- This report provides analysis of the affordability of First Homes in Sefton. 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. Affordable home ownership must represent at least 10% of new homes on qualifying sites.
- The analysis carried out is mindful of the latest National Planning Policy Framework (NPPF) – July 2021 and associated Planning Practice Guidance (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.
- Analysis is also considered within the context of the adopted Local Plan (April 2017) – particularly Policy HC1 which deals with affordable housing. Of note are the different policies in the South (Bootle/Netherton) and North areas of the Borough. In October 2019, a Strategic Housing Market Assessment (SHMA) Update was completed, which in turn led the Council to look at the tenure split within the Local Plan to reflect changes to the NPPF (a requirement for 10% of all homes on larger sites to be affordable home ownership (AHO)).

2. House Prices, Rents and Affordability

Introduction

- 2.1 This section provides background data about housing costs (to buy and rent) in Sefton and put in context with other areas. The section also looks at affordability when measured using house price to income ratios before finishing by looking at lower quartile prices (by size). The lower quartile information is important for 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.
- 2.2 The analysis provided is largely contextual with elements then being used to consider the likely discounts and any (price/income) caps that should be applied to First Homes.

House Prices

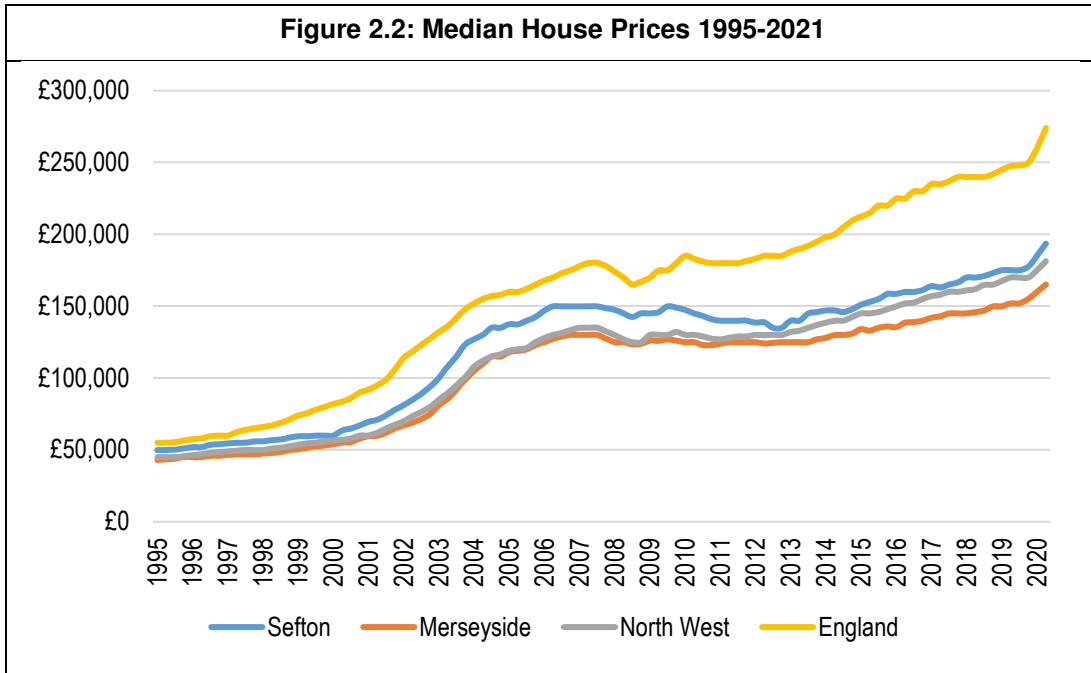
- 2.3 The median value of house sales in Sefton in 2021 was £194,000. This was 17% above the Merseyside average and 7% above the equivalent figure for the north West region. Relative to the national average, prices for all properties in Sefton are however substantially lower – in the year to March 2021 the average (median) price of a home sold in England was £274,000.

Figure 2.1: Median House Prices, year to March 2021

| | Flat/ Maisonette | Terraced | Semi- Detached | Detached | All Sales |
|---------------------|---------------------|------------------|-------------------|------------------|------------------|
| Sefton | £122,000 | £130,000 | £194,000 | £331,300 | £193,600 |
| Merseyside | £115,000 | £117,000 | £180,000 | £300,000 | £165,000 |
| <i>Differential</i> | <i>+</i> £7,000 | <i>+</i> £13,000 | <i>+</i> £14,000 | <i>+</i> £31,300 | <i>+</i> £28,600 |
| North West | £131,000 | £127,500 | £185,000 | £310,000 | £181,300 |
| <i>Differential</i> | <i>-</i> £9,000 | <i>+</i> £2,500 | <i>+</i> £9,000 | <i>+</i> £21,300 | <i>+</i> £12,300 |
| England | £230,000 | £215,000 | £243,500 | £385,000 | £274,000 |
| <i>Differential</i> | <i>-</i> £108,000 | <i>-</i> £85,000 | <i>-</i> £49,500 | <i>-</i> £53,700 | <i>-</i> £80,400 |

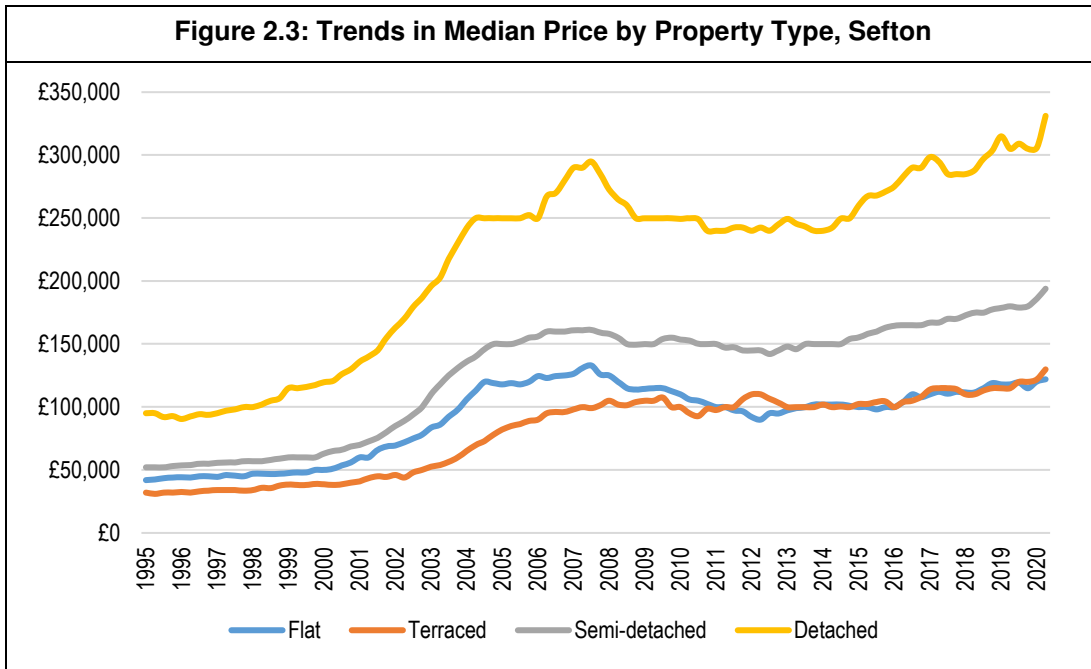
Source: ONS Small Area House Price Statistics

- 2.4 The figure below charts growth in the median house price over the period since 1995. House prices in Sefton closely follow trends seen across other areas over time, with price growth in the pre-recessionary period between 2003-8, a dip during the recession and a recent increase from 2013. Relative to many other areas, percentage house price increases in Sefton have been lower; over the decade to 2021, prices in Sefton rose by 34%, this compares with 39% in the North West and 50% nationally. Price rises have however been above the Merseyside average of 32% of the same period.



Source: ONS Small Area House Price Statistics

2.5 Trends in the values of different types of properties in Sefton are shown in the figure below. It shows that in the longer-term, the strongest value growth has been for detached properties although all dwelling types have seen increased values. It is also notable that all dwelling types saw a drop in price through the early part of the 2008 recession, but that detached homes look to have been particularly affected by this.



Source: ONS Small Area House Price Statistics

Smaller-area Prices

- 2.6 It is also possible to provide key information about house prices for the six sub-areas with the table below showing median prices in 2021 for different dwelling types. Overall, this shows the highest prices to be in Formby and lowest in Bootle. Indeed the difference between areas are substantial, with the average price in Formby being some £209,800 (229%) higher than in Bootle.

| | Flat/ Maisonette | Terraced | Semi- Detached | Detached | All Sales |
|---------------------------|---------------------|-----------------|-------------------|------------------|------------------|
| Southport | £125,000 | £143,200 | £185,000 | £324,000 | £191,300 |
| <i>Diff. from Borough</i> | <i>£3,000</i> | <i>£13,200</i> | <i>-£9,000</i> | <i>-£7,300</i> | <i>-£2,300</i> |
| Formby | £187,000 | £225,000 | £257,000 | £411,700 | £301,300 |
| <i>Diff. from Borough</i> | <i>£65,000</i> | <i>£95,000</i> | <i>£63,000</i> | <i>£80,400</i> | <i>£107,700</i> |
| Maghull/Aintree | £110,000 | £175,500 | £196,400 | £272,000 | £209,800 |
| <i>Diff. from Borough</i> | <i>-£12,000</i> | <i>£45,500</i> | <i>£2,400</i> | <i>-£59,300</i> | <i>£16,200</i> |
| Crosby | £136,500 | £168,400 | £225,100 | £415,800 | £209,100 |
| <i>Diff. from Borough</i> | <i>£14,500</i> | <i>£38,400</i> | <i>£31,100</i> | <i>£84,500</i> | <i>£15,500</i> |
| Bootle | £45,300 | £76,600 | £148,000 | £184,000 | £91,500 |
| <i>Diff. from Borough</i> | <i>-£76,700</i> | <i>-£53,400</i> | <i>-£46,000</i> | <i>-£147,300</i> | <i>-£102,100</i> |
| Netherton | £70,000 | £98,600 | £136,800 | £210,500 | £123,000 |
| <i>Diff. from Borough</i> | <i>-£52,000</i> | <i>-£31,400</i> | <i>-£57,200</i> | <i>-£120,800</i> | <i>-£70,600</i> |
| Sefton | £122,000 | £130,000 | £194,000 | £331,300 | £193,600 |

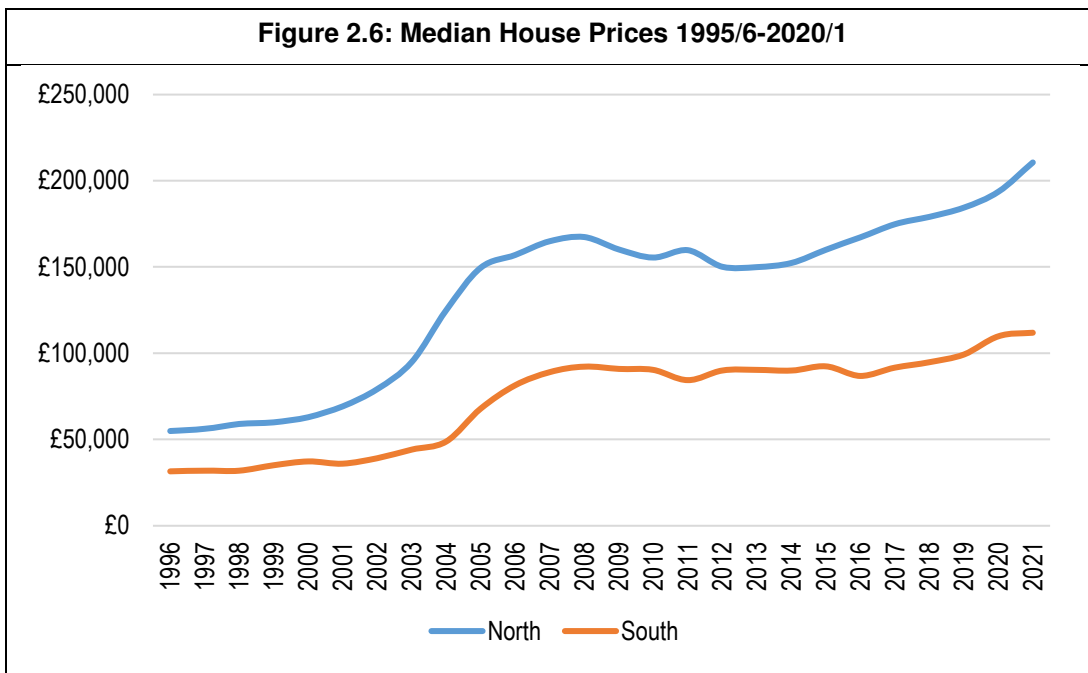
Source: Land Registry

- 2.7 When looking at the two broad areas, it can be seen that prices in the north are roughly double those in the south, with substantial differences also being seen for each of the property types shown by the data.

| | Flat/ Maisonette | Terraced | Semi- Detached | Detached | All Sales |
|---------------------------|---------------------|-----------------|-------------------|------------------|-----------------|
| North | £126,000 | £170,000 | £200,900 | £340,400 | £210,700 |
| <i>Diff. from Borough</i> | <i>£4,000</i> | <i>£40,000</i> | <i>£6,900</i> | <i>£9,100</i> | <i>£17,100</i> |
| South | £54,500 | £87,500 | £140,000 | £197,700 | £112,000 |
| <i>Diff. from Borough</i> | <i>-£67,500</i> | <i>-£42,500</i> | <i>-£54,000</i> | <i>-£133,600</i> | <i>-£81,600</i> |
| Sefton | £122,000 | £130,000 | £194,000 | £331,300 | £193,600 |

Source: Land Registry

- 2.8 The figure below charts growth in the median house price over the period since 1995/6 for the North and South areas. The analysis shows that both areas have seen prices broadly tracking the same trends, with prices in the North area (i.e. Southport, Formby, Maghull/Aintree and Crosby) being consistently higher than those seen in the South (Bootle and Netherton).



Source: Land Registry

2.9 The table below shows overall median price changes in each area over the previous decade. Over the past 10-years the data shows lower rises in Netherton and Bootle, with notably higher increases in all areas to the north (particularly Crosby). When looking at the north/south split the data is however interesting in showing broadly similar levels of price change; for the south, this finding occurs as the number of sales in Netherton (which has higher prices than Bootle) has increased over time as a proportion of total sales in this location.

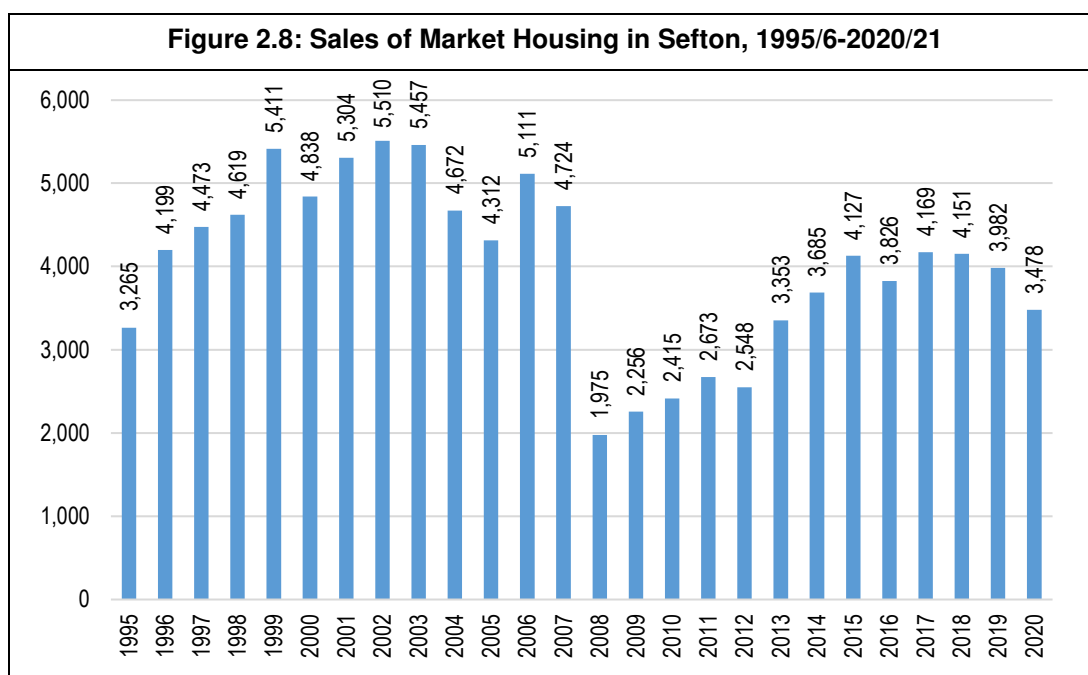
Figure 2.7: Growth in House Prices in Sefton in decade to March 2021 (sub-areas)

| | Median price (2010/11) | Median price (2020/21) | Price change | % change |
|-----------------|------------------------|------------------------|--------------|----------|
| Southport | £149,600 | £191,300 | £41,700 | 28% |
| Formby | £220,000 | £301,300 | £81,300 | 37% |
| Maghull/Aintree | £159,300 | £209,800 | £50,500 | 32% |
| Crosby | £148,800 | £209,100 | £60,300 | 41% |
| Bootle | £74,300 | £91,500 | £17,300 | 23% |
| Netherton | £105,000 | £123,000 | £18,000 | 17% |
| North | £159,800 | £210,700 | £50,900 | 32% |
| South | £84,400 | £112,000 | £27,600 | 33% |
| SEFTON | £145,000 | £193,600 | £48,600 | 34% |

Source: Land Registry

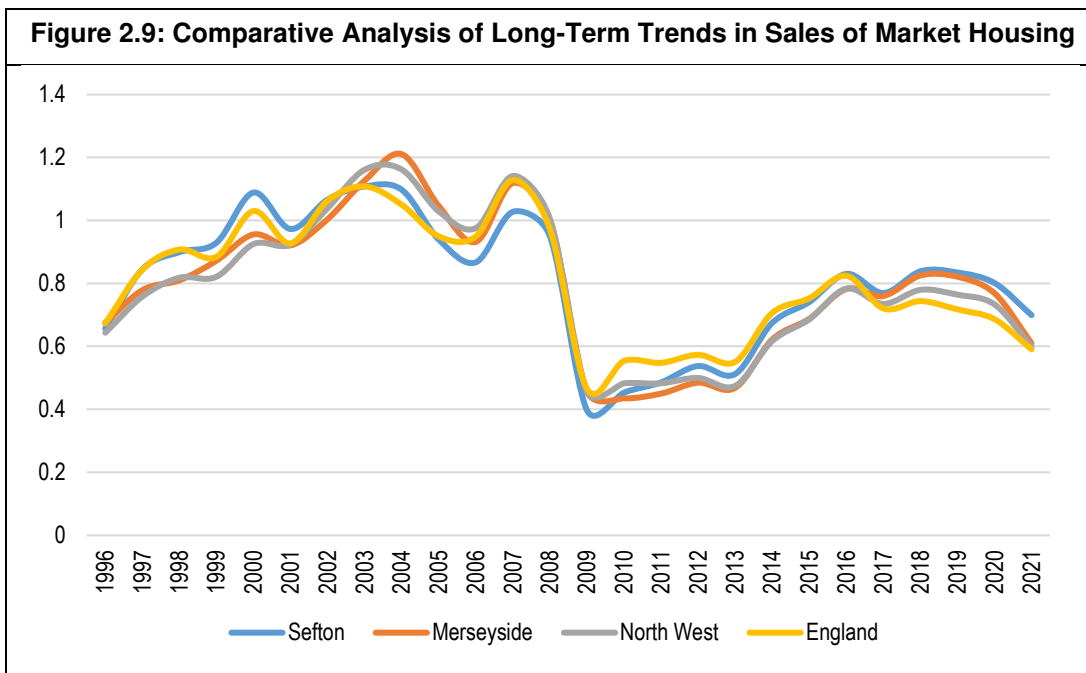
Sales

2.10 Transaction levels (sales) reflect the relative buoyancy of the market and provide an indication of 'effective demand' for market housing. Sales volumes averaged 5,000 per annum over the 10-year period to 2007. They fell dramatically as a result of the 'credit crunch', before picking up from 2012 onwards as availability of mortgage finance improved and as a result of Government support for the housing market. Sales of market housing in Sefton have however been trending down slightly since 2017 – there is evidence of an uplift in sales through 2021 (likely to be related to Covid-19 and related policies (Stamp Duty holiday)) although full data for the year was not available at time of this report being drafted.



Source: ONS Small Area House Price Statistics

2.11 The analysis below benchmarks sales trends relative to average over the 1995-2007 period. It shows a strong correlation between sales trends in Sefton and other locations, with sales trends broadly tracking all other areas over time.



Private Rental Values

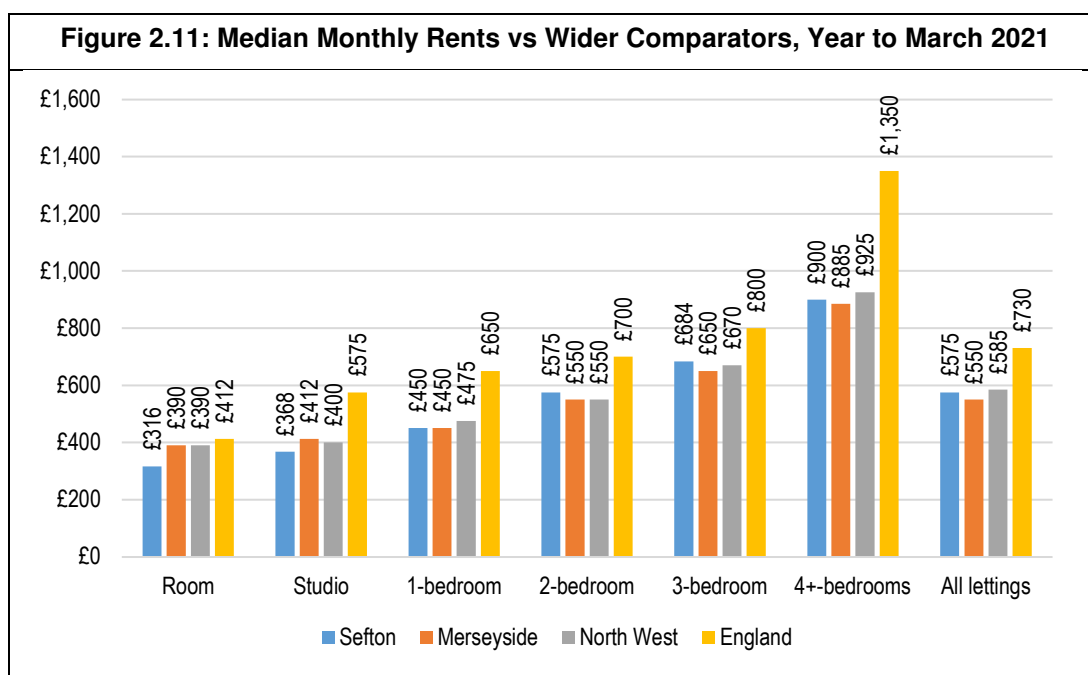
2.12 The analysis below reviews current private rents in Sefton against the Merseyside, regional and national average – the data is drawn from the ONS Private Rental Market Statistics with the first table below setting data out for Sefton. This shows (excluding rooms and studios) median monthly rents vary from £450 for a 1-bedroom home, up to £900 for 4+-bedroom properties.

Figure 2.10: Monthly Rents in Sefton, Year to March 2021

| | Count of Rents | Mean | Lower Quartile | Median |
|--------------|----------------|--------|----------------|--------|
| Room | 30 | £294 | £238 | £316 |
| Studio | 40 | £378 | £368 | £368 |
| 1-bedroom | 330 | £452 | £408 | £450 |
| 2-bedrooms | 640 | £586 | £525 | £575 |
| 3-bedrooms | 480 | £694 | £600 | £684 |
| 4+ bedrooms | 80 | £1,043 | £780 | £900 |
| All Lettings | 1,600 | £602 | £475 | £575 |

Source: ONS Private Rental Market Statistics

2.13 The median rent for all properties is 5% above the Merseyside average, 2% lower than the North West average and 21% below the England average. Rents in Sefton for all property sizes are all well below the national average.



Source: ONS Private Rental Market Statistics

- 2.14 Analysis below has also sought to consider rental trends over the last 5 years to provide a relative indication of where there is a supply/demand imbalance. The evidence indicates that over this period rents have grown by an average of 10%, although no individual property size has seen an increase in excess of 6%⁸. It should be noted that averages for any specific period will be influenced by the types of property let and this may explain why the overall increase is greater than the increase for any specific size of property.

Figure 2.12: Rental Growth in Sefton, 2015/16 – 2020/21 (median rents)

| | 2015/16 | 2020/21 | Change | % Change |
|--------------|---------|---------|--------|----------|
| Room | £345 | £316 | −£29 | −8% |
| Studio | £347 | £368 | £21 | 6% |
| 1-bedroom | £425 | £450 | £25 | 6% |
| 2-bedrooms | £550 | £575 | £25 | 5% |
| 3-bedrooms | £650 | £684 | £34 | 5% |
| 4+-bedrooms | £895 | £900 | £5 | 1% |
| All Lettings | £525 | £575 | £50 | 10% |

Source: ONS and VOA Private Rental Market Statistics

⁸ A higher increase in the rent for all sizes than any of the individual property sizes can arise if the proportion of lettings recorded by ONS/VOA in different sizes changes over time. In the 2016 data, 32% of the lettings recorded related to homes with up to 1-bedroom (including rooms and studios), but the 2021 data only had 25% in this category. At the other end of the scale, 31% of records in 2016 had 3+-bedrooms compared with 35% in the 2021 information. As larger homes have higher rents, this change in the balance between sizes creates the situation where the overall average can increase more than for specific sizes (as larger homes have a greater influence on the average). It is not however clear from the data if the patterns of lettings overall have typically moved towards larger homes, as the ONS/VOA data only includes a portion of letting occurring over the periods studied.

Market Affordability

- 2.15 The median house price-to-earnings ratio in Sefton in 2020 at 6.46 is lower than the England average (7.84), pointing to weaker affordability pressures, although this ratio is higher than seen in the region (5.75). This is based on workplace-based earnings; residents' earnings are higher than workplace-based earnings, by an average of around £2,600 per year. The median house price for residents is therefore a lower figure of 5.91 times earnings – this is still slightly above the regional figure (5.72).

| | Residence-based | Workplace-based |
|--------------------------------------|-----------------|-----------------|
| Median House Price, Yr. to Sept 2020 | £177,450 | £177,450 |
| Median Annual Earnings, 2020 | £30,010 | £27,458 |
| Median House Price-to-Income Ratio | 5.91 | 6.46 |

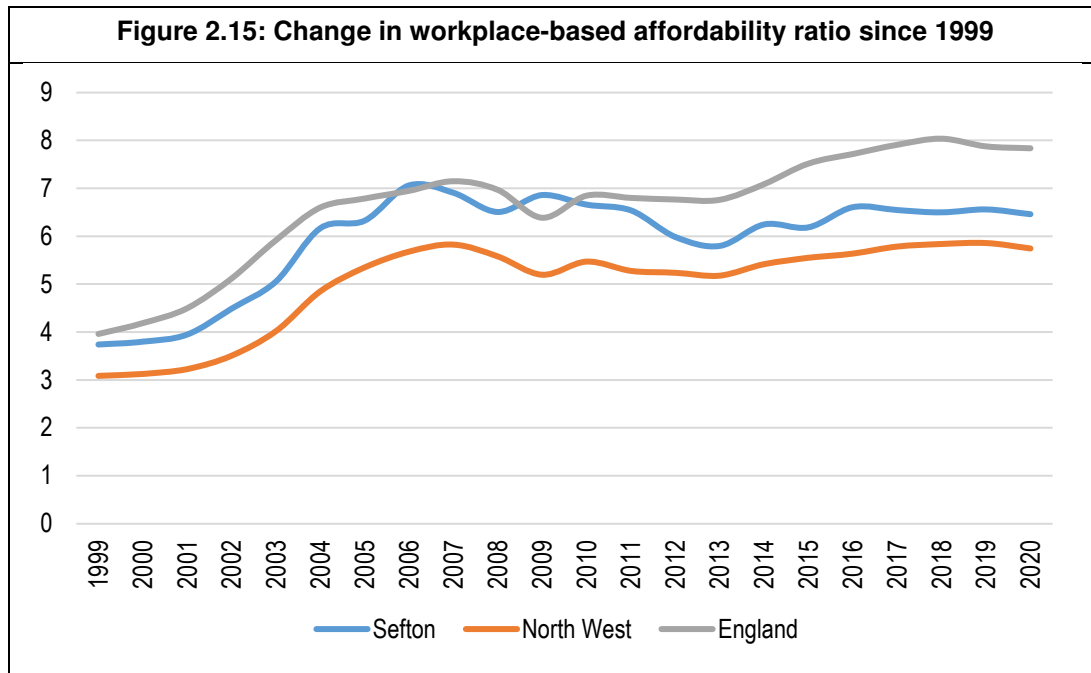
Source: ONS House Price to Earnings Ratio Data

- 2.16 Over the last 15 years the median house price-to-earnings ratio has increased by a modest 0.13 points, from 6.33 in 2005 to 6.46 in 2020. It has seen lower comparative growth than has been evident the North West or England pointing to less comparative deterioration in affordability in the Borough. It is also notable that the increase in the ratio over the last five-years (2015-20) is also slightly lower than seen nationally.

| | 2005 | 2010 | 2015 | 2020 | 5 Year Change | 15 Year Change |
|------------|------|------|------|------|---------------|----------------|
| Sefton | 6.33 | 6.66 | 6.19 | 6.46 | 0.27 | 0.13 |
| North West | 5.35 | 5.47 | 5.55 | 5.75 | 0.2 | 0.4 |
| England | 6.79 | 6.85 | 7.52 | 7.84 | 0.32 | 1.05 |

Source: ONS House Price to Earnings Ratio Data

- 2.17 The figure below shows the annual changes to the ratio back to 1999; whilst the figures are variable over time, this figure clearly shows the lower deterioration of affordability in comparison with the national picture.



Source: ONS House Price to Earnings Ratio Data

Lower Quartile Prices and Rents

- 2.18 The analysis above has largely focussed on median house prices and rents; however, an important part of understanding affordability is to establish the entry-level costs of housing to buy and rent. The affordable housing needs assessment (for example in the SHMA Update) compares prices and rents with the incomes of households to establish what proportion of households can meet their needs in the market, and what proportion require support and are thus defined as having an 'affordable housing need'. The lower quartile prices and rents (along with incomes) are then used in analysis to look at the affordability and pricing of First Homes.
- 2.19 The analysis below considers the entry-level costs of housing to both buy and rent across the Council 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.
- 2.20 Data from the Land Registry for the year to March 2021 shows estimated lower quartile property prices in the Borough by dwelling type. The data shows that entry-level costs to buy are estimated to start from about £82,000 for a second-hand flat and rising to £260,000 for a detached home. Looking at the lower quartile price across all dwelling types, the analysis shows a lower quartile price of £138,000 (existing dwellings). The analysis is also split between newly-built and existing dwellings which typically shows higher prices for new homes.

Figure 2.16: Lower quartile cost of housing to buy – year to March 2021 – Sefton

| | Existing dwellings | Newly-built dwellings | All dwellings |
|-----------------|--------------------|-----------------------|---------------|
| Flat/maisonette | £82,000 | £126,000 | £84,000 |
| Terraced | £85,000 | £175,000 | £88,000 |
| Semi-detached | £158,000 | £180,000 | £158,000 |
| Detached | £260,000 | £230,000 | £255,000 |
| All dwellings | £138,000 | £195,000 | £140,000 |

Source: Land Registry

- 2.21 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 £76,000 for a 1-bedroom home, rising to £277,000 for homes with 4-bedrooms.

Figure 2.17: Estimated lower quartile cost of housing to buy by size (existing dwellings) – year to March 2021 – Sefton

| | Lower quartile price |
|---------------|----------------------|
| 1-bedroom | £76,000 |
| 2-bedrooms | £118,000 |
| 3-bedrooms | £167,000 |
| 4-bedrooms | £277,000 |
| All Dwellings | £138,000 |

Source: Land Registry and Internet Price Search

- 2.22 A similar analysis has been carried out for private rents using ONS data – this covers a 12-month period to March 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 £475 per month.

Figure 2.18: Lower Quartile Market Rents, year to March 2021 – Sefton

| | Lower Quartile rent, pcm |
|----------------|--------------------------|
| Room only | £238 |
| Studio | £368 |
| 1-bedroom | £408 |
| 2-bedrooms | £525 |
| 3-bedrooms | £600 |
| 4-bedrooms | £780 |
| All properties | £475 |

Source: ONS

- 2.23 The rental figures above have been taken from ONS data; it is however of interest for this study to see how these vary by location. The table below shows an estimate of the overall lower quartile private rent in each of the sub-areas; this is based on analysis of Rightmove data on available lettings which has then been adjusted to be consistent with the data from ONS. In some areas there was limited evidence of any significant supply from the Rightmove source and so the estimates have been supplemented by analysis of the relative cost of housing (looking at purchase prices) and also an understanding of the profile of stock in the private rented sector (drawn from Census data). The overall lower quartile purchase price has also been shown (drawn directly from the Land Registry source – but also taking account of data over the last five years to help provide an estimate in smaller areas).
- 2.24 The analysis shows some variation in prices and rents, although it should be confirmed that in smaller areas a best estimate has been provided. Prices (and indeed rents) are estimated to be lowest in Bootle, with highest prices being seen in Formby. Prices and rents are higher in the North of the Borough.

| | Lower quartile price (existing dwellings) | Lower Quartile rent, pcm |
|-----------------|--|--------------------------|
| Southport | £143,000 | £470 |
| Formby | £232,000 | £750 |
| Maghull/Aintree | £164,000 | £600 |
| Crosby | £161,000 | £510 |
| Bootle | £65,000 | £350 |
| Netherton | £93,000 | £465 |
| | | |
| North | £158,000 | £500 |
| South | £79,000 | £390 |
| | | |
| Borough | £138,000 | £475 |

Source: Internet private rental cost search and Land Registry

- 2.25 The tables below provide estimates of prices and rents by dwelling size for the different sub-areas. These figures are estimated and are largely included for reference (although the North/South split is used when looking at the potential pricing of First Homes).

Figure 2.20: Estimated Lower Quartile Prices by Size and by sub-area (existing dwellings)

| | 1-bedroom | 2-bedrooms | 3-bedrooms | 4-bedrooms | All dwellings |
|-----------------|-----------|------------|------------|------------|---------------|
| Southport | £70,000 | £120,000 | £175,000 | £265,000 | £143,000 |
| Formby | £120,000 | £180,000 | £250,000 | £360,000 | £232,000 |
| Maghull/Aintree | £90,000 | £120,000 | £195,000 | £270,000 | £164,000 |
| Crosby | £90,000 | £140,000 | £200,000 | £300,000 | £161,000 |
| Bootle | £50,000 | £60,000 | £95,000 | £120,000 | £65,000 |
| Netherton | £60,000 | £70,000 | £120,000 | £150,000 | £93,000 |
| | | | | | |
| North | £80,000 | £130,000 | £195,000 | £295,000 | £158,000 |
| South | £55,000 | £65,000 | £110,000 | £135,000 | £79,000 |
| | | | | | |
| Borough | £76,000 | £118,000 | £167,000 | £277,000 | £138,000 |

Source: Internet private rental cost search and Land Registry

Figure 2.21: Estimated Lower Quartile Private Rents (per month) by Size and by sub-area (existing dwellings)

| | 1-bedroom | 2-bedrooms | 3-bedrooms | 4-bedrooms | All dwellings |
|-----------------|-----------|------------|------------|------------|---------------|
| Southport | £425 | £550 | £625 | £815 | £470 |
| Formby | £600 | £770 | £880 | £1,145 | £750 |
| Maghull/Aintree | £465 | £600 | £685 | £890 | £600 |
| Crosby | £460 | £595 | £680 | £880 | £510 |
| Bootle | £275 | £355 | £405 | £525 | £350 |
| Netherton | £330 | £425 | £485 | £630 | £465 |
| | | | | | |
| North | £445 | £575 | £655 | £855 | £500 |
| South | £295 | £380 | £435 | £570 | £390 |
| | | | | | |
| Borough | £408 | £525 | £600 | £780 | £475 |

Source: Internet private rental cost search and Land Registry

Estimating a Newbuild Premium

- 2.26 The final analysis regarding prices seeks to understand the cost of newbuild homes in different locations. This is important as any discount will need to be judged against the open market value (OMV) of a home. The first analysis below sets out the cost of existing homes and newbuild properties as sold over the past 5-years – 5-years of data has been used to increase the sample of new homes.
- 2.27 The table below shows the average (median) price of a home in each of the different built-form categories and for the north and south areas. Overall, the data does point to newbuild homes having a higher price, although overall figures are influenced by the profile of dwellings sold. In the north, newbuild dwellings are typically around 10%-20% more expensive than existing homes, with the exception of detached homes where the average newbuild price is actually lower; in the south newbuild flats are slightly cheaper than existing homes. Overall, the uplift in percentage terms is significantly higher in the south of the Borough than the north.

| Figure 2.22: Median cost of existing and newbuild housing in Sefton (5-years to March 2021) | | | | | |
|--|----------|----------------------|-----------------|------------|--------------|
| | | Median existing home | Median newbuild | Difference | % difference |
| North | Flat | £117,300 | £140,000 | £22,600 | 19% |
| | Terrace | £155,000 | £175,700 | £20,700 | 13% |
| | Semi- | £182,700 | £203,200 | £20,500 | 11% |
| | Detached | £320,000 | £275,800 | -£44,200 | -14% |
| | Total | £185,000 | £230,900 | £45,900 | 25% |
| South | Flat | £64,900 | £62,500 | -£2,400 | -4% |
| | Terrace | £75,400 | £158,500 | £83,100 | 110% |
| | Semi- | £127,700 | £155,800 | £28,100 | 22% |
| | Detached | £184,300 | £189,500 | £5,200 | 3% |
| | Total | £95,000 | £181,500 | £86,500 | 91% |
| Total | Flat | £110,300 | £127,500 | £17,200 | 16% |
| | Terrace | £112,500 | £175,100 | £62,600 | 56% |
| | Semi- | £175,000 | £174,600 | -£400 | 0% |
| | Detached | £311,600 | £238,000 | -£73,600 | -24% |
| | Total | £170,000 | £203,000 | £33,000 | 19% |

Source: Land Registry

- 2.28 Whilst the data above is interesting, it doesn't really come to any conclusions about what a newbuild premium is on a like for like property. Below an analysis has been undertaken to look at newbuild homes for sale (or recently for sale) across the Borough to estimate likely prices. At the time of looking at the data (which is drawn from internet sale sites) there was very little evidence of newbuild homes for sale in Bootle and Netherton and so figures for this area have additionally been estimated by looking to standardise some of the Land Registry data presented above – in this area estimated prices for only 2- and 3-bedroom homes have been provided; it is however the case that most First Homes would be expected to be in these size categories.
- 2.29 Focussing on 2- and 3-bedroom homes suggests around a 20% newbuild premium in the north of the borough and around 45% for the south. These figures are used when looking at the OMV against which any discount to make a home affordable should be applied. On the basis of this analysis, it is further estimated that a typical newbuild borough-wide would be around 25% above the lower quartile price and this has been applied for all sizes in the table below.

| Figure 2.23: Estimated lower quartile cost of existing and newbuild housing in Sefton by dwelling size (year to March 2021) | | | | | |
|--|------------|------------------------------|-------------------------|------------|--------------|
| | | Lower quartile existing home | Lower quartile newbuild | Difference | % difference |
| North | 1-bedroom | £80,000 | £140,000 | £60,000 | 75% |
| | 2-bedrooms | £130,000 | £155,000 | £25,000 | 19% |
| | 3-bedrooms | £195,000 | £240,000 | £45,000 | 23% |
| | 4-bedrooms | £295,000 | £310,000 | £15,000 | 5% |
| South | 1-bedroom | £55,000 | - | - | - |
| | 2-bedrooms | £65,000 | £95,000 | £30,000 | 46% |
| | 3-bedrooms | £110,000 | £160,000 | £50,000 | 45% |
| | 4-bedrooms | £135,000 | - | - | - |
| Borough-wide (estimated) | 1-bedroom | £76,000 | £95,000 | £19,000 | 25% |
| | 2-bedrooms | £118,000 | £147,500 | £29,500 | 25% |
| | 3-bedrooms | £167,000 | £208,750 | £41,750 | 25% |
| | 4-bedrooms | £277,000 | £346,250 | £69,250 | 25% |

Source: Derived from a range of sources

House Prices, Rents and Affordability: Key Messages

- Analysis has been undertaken to look at the cost of housing to buy and rent in the Borough (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)).
- In a national context, Sefton is a relatively cheap area to buy housing with the average (median) price of a home in 2021 being £193,600; this is around £80,000 lower than the average for England (£274,000). Average prices are however higher than seen across Merseyside (£165,000) and the North West (£181,300). Relative to many other areas, percentage house price increases in Sefton have been lower; over the decade to 2021, prices in Sefton rose by 34%, this compares with 50% nationally.
- This analysis also showed significant differences in pricing in different parts of the Borough, with the median price in Bootle being £91,500 and up to £301,300 in Formby; overall, prices in the north of the Borough are around double those seen in the south. Sub-areas in the north of the Borough also saw greater increases in prices over the decade to 2021.
- The number of sales in Sefton (as with other locations) have been lower in the past decade or so than was seen in the decade to 2007 (an average of 3,600 sales per annum (2011-21) compared with 5,000 in the 1997-2007 period).
- Private sector rents are also relatively low, with a median rent in the year to March 2021 being £575 per month (compared with £730 nationally) – overall rents have increased by around 10% over the past 5-years although this in part looks to be due to a slightly greater proportion of lettings being of larger homes – no individual property size saw average rents increase by more than 6% over the 5-year period.
- A further price and rent analysis looking at lower quartile housing costs suggests that to buy a home in the Borough would typically cost £138,000 with private sector rents sitting at £475 per month. This analysis again identified significant differences between the north and south of the Borough, although differences in rents were not as substantial as for house prices (a lower quartile home in the north is around double that in the south, but rents are only around 28% higher).
- A final analysis sought to establish the cost of newbuild housing – this is important as in looking at discounts to make homes affordable it is this price against which any discount would need to be judged. Across the whole Borough, it was estimated that there is a newbuild premium of around 25%, but again with differences between the north (premium of around 20%) and the south (45%) of the Borough. Whilst the percentage difference is notable, in actual cost terms the premiums are estimated to be quite similar (a premium of about £45,000 for a 3-bedroom home in the North and about £50,000 in the South).

3. First Homes

Introduction

- 3.1 Analysis within the SHMA update (previously discussed) suggested that there are a number of households likely to fall under the PPG definition of needing affordable home ownership (including First Homes) – i.e. in the gap between renting and buying – but that the potential supply of low-cost housing to buy makes it difficult to quantify a net additional need for such housing. However, given the NPPF, the Council is likely to need to consider some additional homes on larger sites as some form of affordable home ownership (AHO) – indeed delivery of 10% of homes as AHO does form part of the Council's current strategy.
- 3.2 The analysis below focusses on the cost of First Homes (which can be described as a form of discounted market sale housing) to make them genuinely affordable. The reason for the analysis to follow is that it will be important for the Council to ensure that any affordable home ownership is sold at a price that is genuinely affordable for the intended target group – for example there is no point in discounting a new market home by 30% if the price still remains above that for which a reasonable home can already be bought in the open market (i.e. the second hand market).

First Homes

- 3.3 In May 2021, MHCLG published a new Planning Practice Guidance (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.

- 3.4 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).

Pricing of First Homes to be Affordable

- 3.5 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 above, 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.
- 3.6 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 SHMA update). 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 across the Borough is £525 per month;
 - On the basis of a household spending no more than 27.5% of their income on housing (the threshold used in the SHMA update), a household would need an income of around £1,910 per month to afford ($525/0.275$) or £22,900 per annum;
 - With an income of £22,900, it is estimated that a household could afford to buy a home for around £101,800. This is based on assuming a 10% deposit and a four times mortgage multiple – calculated as $22,900 \times 4/0.9$.
- 3.7 Therefore, £101,800 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.
- 3.8 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 £118,000, giving a midpoint of £109,900). The use of a midpoint would mean that only around half of households in the rent/buy gap could afford, 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).
- 3.9 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.
- 3.10 The table below therefore sets out a suggested purchase price for First Homes across the Borough. The table also shows the estimated OMV and the level of discount likely to be required to achieve affordability.

- 3.11 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 were to actually be £170,000 (rather than the modelled £147,500) then the discount would be in the range of 35% and 40%.
- 3.12 On the basis of the assumptions used, the analysis points to a discount of around 30% for homes with 1- or 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 Council may need to consider the likely mix of First Homes. If the majority of First Homes are likely to be 1 or 2 bedroom homes or flats then a 30% figure would be appropriate, but if more 'family' sized (3+-bedroom) homes are likely then consideration could be given to a higher discount.
- 3.13 However, in setting a discount it will be important for the Council to ensure that the viability of providing other forms of affordable housing (notably rented tenures) is not compromised; the Council will need to look at the issue of viability carefully if seeking a discount of above 30%.

Figure 3.1: Price to make First Homes Affordable – Sefton – Borough-wide

| | Affordable Price | Estimated newbuild OMV | Discount required |
|-------------|-------------------|------------------------|-------------------|
| 1-bedroom | £77,600-£79,100 | £95,000 | 17%-18% |
| 2-bedrooms | £101,800-£109,900 | £147,500 | 25%-31% |
| 3-bedrooms | £116,400-£141,700 | £208,750 | 32%-44% |
| 4+-bedrooms | £151,300-£214,100 | £346,250 | 38%-56% |

Source: Derived from a range of sources as described

- 3.14 It should also be noted that the analysis above is for the whole of Sefton Borough; the pricing of housing does vary significantly across the area – the tables below set out equivalent figures for each of the north and south sub-areas.
- 3.15 This analysis points to higher discounts as generally being required compared with borough-wide analysis and for the north area certainly points to discounts of 40% as being likely to be needed to make homes genuinely affordable across key dwelling sizes (particularly 3-bedroom homes).

Figure 3.2: Price to make First Homes Affordable – Sefton – North of Borough

| | Affordable Price | Estimated newbuild OMV | Discount required |
|-------------|-------------------|------------------------|-------------------|
| 1-bedroom | £83,200-£86,300 | £140,000 | 38%-41% |
| 2-bedrooms | £111,500-£120,800 | £155,000 | 22%-28% |
| 3-bedrooms | £127,000-£161,000 | £240,000 | 33%-47% |
| 4+-bedrooms | £165,800-£230,400 | £310,000 | 26%-47% |

Source: Derived from a range of sources as described

3.16 In the south, where property values are lower the ‘affordable price’ for 1- and 2-bedroom homes using this method actually comes out higher than the estimated cost of lower quartile housing to buy. The analysis therefore replaces the lower quartile price as the affordable price. Again the analysis points to discounts of at least 40% for the two dwelling sizes where a full analysis has been carried out.

Figure 3.3: Price to make First Homes Affordable – Sefton – South of Borough

| | Affordable Price | Estimated newbuild OMV | Discount required |
|-------------|------------------|------------------------|-------------------|
| 1-bedroom | £55,000 | - | - |
| 2-bedrooms | £65,000 | £95,000 | 46% |
| 3-bedrooms | £69,300-£73,700 | £160,000 | 39%-47% |
| 4+-bedrooms | £84,400-£97,200 | - | - |

Source: Derived from a range of sources as described

Key Points in Relation to First Homes

3.17 The paragraphs below seek to answer a series of questions in relation to First Homes. This should help the Council in deciding the appropriate approach, although ultimately there will be choices and decision to be made by the Council 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?*

3.18 There is certainly a case to seek a discount in excess of 30% - a higher discount will certainly make homes cheaper and therefore potentially open up additional households as being able to afford. However, providing a higher discount may well have an impact on viability, meaning the Council 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).

3.19 The Council could therefore investigate higher discounts (with 40% being suggested by the analysis if homes of 3+-bedrooms are likely to be delivered), but it is not recommended to seek a higher figure unless this can be proven to not impact on overall affordable delivery.

3.20 Although not specifically set out in the PPG, it does seem likely that the Council would need to have a single discount for all dwelling sizes and in any case, for Sefton, there is no strong argument that different sizes of homes will have such different pricing/affordability that different discounts would be appropriate anyway.

- *Is the maximum price of £250K after discount an appropriate maximum sales value?*

3.21 Looking at the table above, it can be seen that all of the affordable prices sit below the £250,000 cap and therefore it is arguable that a lower cap would be appropriate. It can also be seen that the £250,000 figure is only close to being approached for larger (4-bedroom) homes in the north of the Borough. It is considered that the number of 4-bedroom homes likely to be provided as First Homes will be low (focus likely to be on 2- and 3-bedroom homes – see below) and this gives further reason for looking at a lower cap.

3.22 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). Looking at the affordable prices, and also the analysis of actual newbuild from Rightmove it is considered that a cap of something in the region of £160,000 might be appropriate. This could help to ensure that First Homes are only offered on properties where the initial OMV is not significantly above the affordable prices.

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

3.23 To study the income threshold analysis has been provided below to consider the likely incomes required to afford both the lower end and midpoint Affordable Price. This is shown in the table below and shows even the most expensive price would only require an income of about £50,000. 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 multipole) and in reality individual households will have their own specific circumstances.

3.24 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 (and recognising that there may be relatively few 4-bedroom homes delivered) it is considered that an income cap of around £40,000-£45,000 might be appropriate in the case of Sefton.

| | Affordable Price (lower end) | Affordable Price (midpoint) |
|-------------|------------------------------|-----------------------------|
| 1-bedroom | £19,400 | £18,700 |
| 2-bedrooms | £25,100 | £27,200 |
| 3-bedrooms | £28,600 | £36,200 |
| 4+-bedrooms | £37,300 | £51,800 |

Source: Derived from a range of sources

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

3.25 To consider the size of homes needed as First Homes the analysis below relies upon that in the SHMA update which looked at the need for affordable home ownership. The table below shows the estimated need and the conclusions drawn in the SHMA. The analysis strongly points to First Homes mainly being 2- and 3-bedroom homes, potentially with a proportion of 1-bedroom homes and an even lower proportion with 4-bedrooms.

| Figure 3.5: Size requirement for affordable home ownership (including First Homes) | | |
|---|-------------------------|-----------------------------|
| | Modelled Mix of Housing | Suggested 'policy' position |
| 1-bedroom | 24-26% | 25% |
| 2-bedrooms | 38% | 40% |
| 3-bedrooms | 30-33% | 30% |
| 4+-bedrooms | 5-6% | 5% |

Source: SHMA Update

- *What is the level of need for such products?*

3.26 In some ways, this is a difficult question to answer. The analysis in the SHMA Update is clear that there are likely to be a 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 (particularly in the north of the Borough). 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).

3.27 That said, it is not recommended that the Council seek to reduce the amount of social/affordable rented homes by prioritising First Homes. First Homes may be the preferred tenure of Affordable Home Ownership homes and the Council may wish to consider securing more than 25% of affordable homes as First Homes within the current policy requirement (current policy seeking 33% of affordable housing as affordable home ownership (and 67% in Bootle/Netherton).

- *Should the Council set local eligibility criteria?*

3.28 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. The Council can therefore prioritise key workers for First Homes, and are encouraged to do so, especially if they have an identified local need for certain professions.

3.29 To ensure First Homes are available to local residents and workers a 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 Sefton (for a period of time (possibly 2-years));
- Work over 16 hours a week in Sefton, or
- Have a close relative (parent, adult son or daughter or adult sibling) who has lived in Sefton for a period of time

3.30 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'*.

- 3.31 This definition does not include the wider roles such as delivery drivers and postal workers which were included to access school places and childcare during the pandemic.
- 3.32 To give an indication of the number of essential workers in Sefton 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 35% of resident workers are considered ‘essential workers’ in the Borough – this figure is higher than that seen regionally (30%) and nationally (28%).

Figure 3.6: Number and proportion of essential workers in a range of areas

| | Sefton | | North West | England |
|---|------------------|--------------|--------------|--------------|
| | Resident workers | % of workers | % of workers | % of workers |
| Agriculture, energy and water | 1,878 | 1.5% | 2.2% | 2.3% |
| Manufacturing | 8,007 | 6.5% | 10.3% | 8.9% |
| Construction | 9,132 | 7.4% | 7.4% | 7.7% |
| Distribution, hotels and restaurants | 26,558 | 21.6% | 22.6% | 21.5% |
| Transport and communication | 9,383 | 7.6% | 8.0% | 9.1% |
| Financial, Real Estate, Professional and Administration | 18,865 | 15.4% | 15.3% | 17.5% |
| Public administration, education and health | 42,798 | 34.9% | 29.6% | 28.2% |
| Other | 6,088 | 5.0% | 4.6% | 5.0% |
| All industries | 122,709 | 100.0% | 100.0% | 100.0% |

Source: 2011 Census

- 3.33 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 Borough – indeed 80% of households in this category are owner-occupiers.

Figure 3.7: Housing tenure by industry of employment (2011) – Sefton

| | Owner-occupied | Social rented | Private rented |
|---|----------------|---------------|----------------|
| Agriculture, energy and water | 75% | 7% | 18% |
| Manufacturing | 81% | 7% | 13% |
| Construction | 82% | 6% | 12% |
| Distribution, hotels and restaurants | 67% | 11% | 21% |
| Transport and communication | 80% | 7% | 13% |
| Financial, Real Estate, Professional and Administration | 78% | 7% | 15% |
| Public administration, education and health | 79% | 8% | 13% |
| Other | 68% | 10% | 23% |
| All industries | 77% | 8% | 15% |

Source: 2011 Census

- 3.34 It is also possible to consider the affordability of housing for essential workers by considering local salaries. An online assessment of local jobs (across Merseyside) for nurses, firefighters, teachers, police officers and childcare was undertaken in November 2021. 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.
- 3.35 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 make home ownership difficult (particularly in higher value locations), and this population could be a potential target for affordable home ownership products.
- 3.36 Overall, the analysis does not point towards there being a particular and specific need for affordable housing for essential workers. Whilst such workers make up a slightly higher part of the workforce than is the case in many areas 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.

First Homes: Key Messages

- 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 finding and suggestions:
- **Level of discount** – there is a case for the Council to seek a greater discount than the standard 30%, although this will in part depend on the mix of First Homes expected to be delivered (a 30% discount looks to be appropriate for homes with 1- or 2-bedrooms). Additionally, the Council will need to consider if a higher discount will have any 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).
- **Price cap** – given the cost of housing in the Borough 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. Taken in the round, recognising differing prices in different locations and the likely profile of First Homes (by size) the Council could consider a price cap of around £160,000 at the present time.
- **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 Council consider an income cap of around £40,000-£45,000. On the basis of local pricing, the analysis suggests that households with an income in excess of this level are likely to be able to buy a home in many parts of the Borough and so applying a cap can help to ensure that housing is provided for those with a greater need (more marginal affordability).
- **Size of First Homes** – based on the 2019 SHMA Update it seems likely that the focus of First Homes will be on 2-bedroom properties, along with some 3-bedroom and a smaller proportion with 1-bedroom. The need for larger (4+-bedroom) homes is not expected to be significant.
- **Local eligibility criteria** – the Council is able to prioritise First Homes for certain groups and also apply eligibility criteria. It is recommended that the Council considers 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 Council 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.