Delivering affordable housing within the Starter Home Initiative policy environment

North Tyneside Council

June 2016
Table of Contents

1. Introduction/ Background ........................................................................................................... 7
2. Current and Emerging Policy Context ......................................................................................... 8
3. Understanding the Potential for Starter Homes ......................................................................... 12
   The data set .................................................................................................................................. 12
   The Potential Scale for Starter Homes .......................................................................................... 12
   Details about this potential client group ....................................................................................... 14
   Summary of Potential Scale for Starter Homes ............................................................................. 26
4. Primary Data Survey .................................................................................................................... 31
   Approach and Methodology .......................................................................................................... 31
   Pathways to homeownership ......................................................................................................... 31
   Views of the product ....................................................................................................................... 33
   Type of property required ............................................................................................................. 34
   Is it a long term home? .................................................................................................................. 36
   Where may Starter Homes be most popular? ................................................................................. 37
   Income of respondents ................................................................................................................. 38
   What are the factors in deciding to buy for this cohort? ............................................................... 39
   At what price point does a Starter Home stop being an attractive option to a First Time Buyer? .......................................................................................................................... 40
5. Stakeholder Views ....................................................................................................................... 41
   Developers ...................................................................................................................................... 41
   Registered Provider ....................................................................................................................... 46
   Landowner Feedback .................................................................................................................... 47
6. Strategic Site Assessments .......................................................................................................... 48
   Killingworth Moor ......................................................................................................................... 49
   Murton Gap ..................................................................................................................................... 50
   Market Review ............................................................................................................................... 52
7. Key Findings ................................................................................................................................ 61
   Understanding the potential market for Starter Homes in North Tyneside ..................................... 61
   Understanding the potential appetite for Starter Homes in North Tyneside ................................. 62
   The economics of delivering Starter Homes in North Tyneside .................................................. 63
   Understanding the impact that Starter homes will have on other lower market products .......... 64
   Will SHI change the perception of Shared Ownership? ............................................................... 67
   Will SHI impact on the provision of affordable rented homes? ..................................................... 68
   The potential impact of delivering starter homes on your two strategic sites. ............................ 69
8. Conclusions .................................................................................................................................. 70
The future of sustainable affordable housing provision in North Tyneside

Our recommendations: ........................................................................................................... 71

List of Tables

Table 3.1: Minimum salaries and deposits – 2015 lower quartile .................. 18
Table 3.1a: Number of New Build Sales 2010 - 2015............................... 18
Table 3.2: Households who can support a mortgage for a lower quartile home
across the borough before a SHI discount is applied.................. 19
Table 3.3: Households who can support a mortgage for a lower quartile home
in Monkseaton and Whitley Bay (Area 1) before a SHI discount is applied........................................ 19
Table 3.4: Households who can support a mortgage for a lower quartile home
in Moor Park, New York, Chirton Grange, Preston Grange and Preston areas (Area 3) before a SHI discount is applied ............................................................................. 20
Table 3.5: Households who can support a mortgage for a lower quartile home
in the Killingworth, Annitsford, Burradon, Camperdown, Holystone
and Palmersville areas (Area 7) before a SHI discount is applied ............................................................................. 20
Table 3.6: Households who can support a mortgage for a lower quartile home
in the Shiremoor, Backworth, Northumberland Park and West
Allotment areas (Area 8) before a SHI discount is applied........... 20
Table 3.7: Minimum salaries and deposits with the SHI discount – 2015 lower
quartile ................................................................................................................................. 21
Table 3.8: 5% deposit requirements against borough wide average New build
houses ................................................................................................................................. 21
Table 3.9: Minimum household income required to rent within the PRS..... 27
Table 3.10: Variance between minimum household salaries to access PRS
versus lower quartile housing sold through the SHI................ 28
Table 4.1: Levels of mortgage respondents are comfortable with ........... 40
Table 6.1: The Potential Impact of SHI – Three Options ....................... 54
Table 6.2: Market Housing Provision Assumption – Murton Gap .......... 58
Table 6.3: Market Housing Provision Assumption – Killingworth Moor ..... 58
Table 6.4: Affordable Housing Provision Assumption ........................... 58
Table 6.5: Starter Home Provision Assumption ................................. 59
Table 6.6: Potential Impact of Varying Affordable Housing Provision – Murton
Gap................................................................................................................................. 59
Table 6.7: Potential Impact of Varying Affordable Housing Provision –
Killingworth Moor ................................................................................................. 60
Table 7.1: Cost comparison of market products ........................................ 66

List of Figures
Chart 3.1: Flow analysis to determine the scale of Starter Homes in North Tyneside ................................................................. 12
Chart 3.2: The potential scale of numbers for Starter Home Initiative ....... 13
Chart 3.3: Why People want to move ................................................................................................................................. 14
Chart 3.4: No. of Beds ..................................................................................................................................................... 15
Chart 3.5: House Type Aspirations................................................................................................................................. 15
Chart 3.6: Tenure Choice .............................................................................................................................................. 16
Chart 3.7: Tenure would consider v considered most likely......................... 17
Chart 3.8: Effect of 20% Discount on Affordability; District Wide ............ 21
Chart 3.9: Effect of 20% Discount on Affordability; Monkseaton and Whitley Bay (Area 1) ............................................................ 22
Chart 3.10: Effect of 20% Discount on Affordability; the Moor Park, New York, Chirton Grange, Preston Grange and Preston areas (Area 3) .... 23
Chart 3.11: Effect of 20% Discount on Affordability; in the Killingworth, Annitsford, Burradon, Camperdown, Holystone and Palmersville areas (Area 7) ................................................................. 23
Chart 3.12: Effect of 20% Discount on Affordability; the Shiremoor, Backworth, Northumberland Park and West Allotment areas (Area 8) .... 24
Chart 3.13: Level of declared savings ................................................................................................................................. 25
Chart 3.14: Populated Flow analysis to determine the scale of Starter Homes in North Tyneside ................................................................. 26
Chart 3.15: Median PRS Rents for Houses in 2015 ........................................ 27
Chart 3.16: Areas of Choice – Existing Housing........................................ 30
Chart 3.17: Areas of Choice – Emerging households................................. 30
Chart 4.1: Pathways to homeownership-products respondents had considered .......................................................................................... 32
Chart 4.2: Knowledge of SHI and intentions to use it .................................. 33
Chart 4.3: Concerns about the product .......................................................... 34
Chart 4.4: Types of property required ................................................................................................................................. 35
Chart 4.5: Property types required .............................................................................................................................................. 35
Chart 4.6: No of bedrooms required .............................................................................................................................................. 36
Chart 4.7: Long term home? ..................................................................................................................................................... 36
Chart 4.8: When respondents would take up the product............................ 37
Chart 4.9: Where respondents would like to live/expect to live .................... 38
Chart 4.10: Income levels of all respondents .............................................. 38
Chart 4.11: Level of savings ................................................................................................................................. 39
Chart 4.12: Levels of mortgage expected and comfortable with................... 40
List of Maps

Map 6.1: The location of the two strategic sites .............................................. 48

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1. Introduction/ Background

1.1 arc4 has been asked to carry out research on the impact of the Starter Home Initiative (SHI) in delivering affordable/social rented homes in North Tyneside.

1.2 Further to the announcements within the Autumn Statement 2015 and subsequent changes to National Planning Policy, the Government is clearly seeking a fundamental shift in affordable housing provision from renting to owning. This rapid change has the potential to alter the way the market works in North Tyneside.

1.3 Already there has been much debate about the role and impact of Starter Homes on local housing markets, with industry experts suggesting that for many, such homes will be out of the reach. Others are concerned over the overlap this form of housing has with schemes such as Help-to-Buy and whether therefore the level of additional homes required will end up getting built; more importantly for North Tyneside, what impact will this have on more traditional intermediate affordable housing products such as Shared Ownership?

1.4 The research and findings within this report therefore set out to inform and provide the Council with a ‘robust’ local evidence-base against which to consider and respond to the issue of Starter Homes.

1.5 This report sets out to:

- Provide the Council with a robust policy position on Starter Homes;
- Consider the implication of Starter Homes on their existing Affordable Housing Policy and consider if the policy will need to be revised; and
- Examine the impact of delivering Starter Homes on two strategic sites.
2. Current and Emerging Policy Context

National Planning Policy Framework (NPPF)

2.1 At the very heart of the National Planning Policy Framework is a presumption in favour of sustainable development. The emphasis of this presumption means that local planning authorities should set out to positively address and meet the development needs of their area with an ability to adapt to change where required.

2.2 This flexibility in approach is further echoed in paragraph 50 of the NPPF where again the challenge is provided for local planning authorities to “widen opportunities for home ownership”, plan for a “mix” of housing and in terms of affordable housing ensure that policy provisions are “sufficiently flexible to take account of changing market conditions over time”.

2.3 At the time of publication (March 2012) the NPPF provided a definition of affordable housing which principally reflected the previous provision contained within PPS3. This definition (Annex 2) saw and defined affordable housing as:

2.4 “Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices”.

2.5 NPPF further stated that “Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision”.

2.6 In defining intermediate affordable housing, the NPPF was clear that “Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing. Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered as affordable housing for planning purposes”

Starter Homes exception sites

2.7 In March 2015 the Secretary of State for Communities and Local Government published guidance on Starter Homes exceptions sites. This guidance set out the Government's plans to boost the level of housing available for first time buyers by introducing a discounted home ownership product on under used or unviable industrial and / or commercial land. In order to achieve the levels of discount required to operate this home ownership product, the government provided a waiver to interested developers that usual s106 contributions / tariffs would not apply.

2.8 The typical and expected characteristics of starter homes under this particular initiative included an expectation that a starter home would not be priced (after the discount) at significantly more than the average price paid by a first time
buyer. Outside of London then the discounted price should be no more than £250,000 and within London no more than £450,000.

2.9 The eligibility criteria for this initiative required that starter homes are offered for sale at a minimum of 20% below its open market value and that such properties are only available to people aged below 40 years at the time of purchase and who have not previously been a home owner.

2.10 Whilst in many local planning authority areas similar discount for sale / shared equity products had operated within the requirements of the NPPF definition of affordable housing (i.e. in perpetuity or through recycled subsidy), the starter homes exceptions site guidance introduced a significant change through its proposal to restrict or limit the benefit of the discounted value of the home to the first 5 years only. Therefore, upon the expiration of the 5-year anniversary of purchase, owners would be released from all restrictions and able to sell their home at full market value.

2.11 Supplemental to this initiative the then Housing Minister announced on 10th August 2015 a one-off £36 million funding package to help deliver the first wave of Starter Homes. The subsequent prospectus published in October 2015 by the Homes and Communities Agency invited Councils across England to bid for the first £10 million of capital funding to help bring forward additional land and make it viable for Starter Homes, by helping to fund preparation, infrastructure and clearance works.

Autumn Statement and Proposed changes to National Planning Policy

2.12 Further to the Chancellors Autumn statement in November 2015 and in it his announcement of the intention to roll out starter homes into the main stream housing market, DCLG published its consultation on the proposed changes to national planning policy. This consultation sought views on five principal proposed changes to national planning policy including “Broadening the definition of affordable homes, to expand the range of low cost housing opportunities”.

2.13 The consultation suggests that the restrictions imposed by “in perpetuity” requirements limits the availability of home ownership options for households whose needs are not met by the market. The proposals within this consultation therefore align with those contained within the Starter Home exceptions site guidance where a minimum time limit of 5 years on resale will be applied, where discounts of no less than 20% from open market value will be applied and where value caps of £250k and £450k will be applied for areas outside of London and within London respectively.

2.14 This consultation together with the Housing and Planning Act go further in that it is proposed that LPAs can secure Starter Homes as part of their on-site negotiations, that a statutory duty will be placed upon LPAs to deliver a “quota” or proportion of Starter Homes on appropriate sites and that such homes can also be delivered on rural exceptions sites.

2.15 At the time of writing this report the consultation on the proposed changed to National Planning Policy has closed, and whilst at this stage Local Planning
Authorities can currently refuse Starter Homes (or those proposed on a similar definition), it would however be sensible to assume that the changes as highlighted will be adopted over the next few months.

2.16 In summary therefore and under the Housing and Planning Bill 2015-2016 there will be a statutory duty for local planning authorities (LPAs) to provide starter homes on yet-to-be defined sites. This duty sits alongside (i.e. in parallel) with a local authority’s requirements for affordable housing set out in its development plan.

2.17 Subject to any transitional arrangements in secondary legislation, the proposed statutory duty for LPAs to require Starter Homes would in effect therefore override development plan policies, meaning that affordable housing will continue to have to be provided in accordance with the development plan, but only if it remains viable to do so after starter home provision (and other planning obligations, which may include another new statutory duty, for providing self-build and custom build housing) are taken into account.

2.18 Whilst starter homes do not therefore need to be defined as “affordable housing”, the government proposals to amend the National Planning Policy Framework (NPPF) effectively mean that this will be the case. If the NPPF is amended to include starter homes in the definition of affordable housing, then no affordable housing contribution should be sought by an LPA for the starter home element of a development.

2.19 The amendment to the definition of affordable housing in the NPPF will have an impact on adopted and in the case of North Tyneside its proposed development plan. Subject to the amendments for the NPPF, North Tyneside’s Development Plan will therefore need to be amended to set out the local starter home requirement, and the proportion of the affordable housing (i.e. the tenure split) that starter homes should comprise as a consequence. The government has recognised that where such a review of a Development Plan is required, then typically a six to twelve-month transition period to amend policies should be sufficient.

Your current policy position

2.20 Policy DM4.7 of the North Tyneside Council Local Plan Pre-Submission Draft sets out the Council’s policy approach towards affordable housing delivery. It states that:

2.21 “To meet a Borough-wide target for at least 25% of all new homes to be affordable in perpetuity, new housing developments of 10 or more dwellings, or on sites of 0.5 ha or more, must include the maximum proportion of affordable housing taking into consideration specific site circumstances and economic viability. Developments will be required to provide a mix of affordable housing for rent and intermediate housing, based on the most up-to-date evidence of local need.

2.22 In all but the most exceptional cases the Council will require affordable housing provision to be made on-site. Where alternative off-site affordable housing provision or a commuted sum is proposed it must be demonstrated that:
North Tyneside – SHI and Affordable Housing

2.23 Proposals for the delivery of affordable housing schemes (such as those submitted by the Council and Registered Providers) that make a contribution towards North Tyneside's overall assessed needs for affordable housing will be supported.

2.24 It is therefore important to note the current drafting of Policy DM4.7 in terms of its preference and reference to affordable housing being provided “in perpetuity” and also in terms of the mix of affordable housing being based upon “the most up to date evidence of local need”.

2.25 The most recent Strategic Housing Market Assessment for North Tyneside suggests a tenure split of 25% intermediate 75% rented with the associated viability appraisal confirming that delivery is viable / possible at these thresholds or targets.

- All options for securing on-site provision of affordable housing have been explored and exhausted; and,
- Where off-site affordable housing is to be provided the amount of affordable housing would be equivalent to, or greater than, the amount that would be viable if the provision was made on-site; or,
- Where a Commuted Sum is to be provided it will be equivalent to, or greater than, the amount that would be viable if the provision was made on-site.
3. Understanding the Potential for Starter Homes

The data set

3.1 The Strategic Housing Market Assessment (SHMA) 2014 primary survey data was used as a key data source in this section of the report. This survey work was undertaken by arc4.

3.2 The SHMA data was filtered to consider existing and emerging households under 40-years of age. The original weighting profile that was used in 2013 was maintained for the new filtered data.

3.3 In 2014, the initial survey data was weighted using the Census 2011 data which provided age and tenure profiling data. The age profile data we could use then was based on Household Representative Persons aged under and over 65 so this data was extracted with house tenure and geography built in to ensure, as far as possible, that the response data was presented in a format that was representative of the resident household characteristics across the Council area and within the identified sub areas.

The Potential Scale for Starter Homes

3.4 Chart 3.1 illustrates the flow of analysis undertaken to establish the potential scale for Starter Homes in North Tyneside

Chart 3.1: Flow analysis to determine the scale of Starter Homes in North Tyneside

- Total Number of Household in North Tyneside
- Qualifying Numbers by age
- Households with an income to support a mortgage for a Starter Home
- Households, who can support a mortgage for a Starter Home, with at least a 5% deposit
- Quantum and % of Total Number of Households who qualify and can afford a Starter Home

3.5 Extrapolating data from the 2014 SHMA places the expected number of households across North Tyneside in 5-years at 98,316.
3.6 The 2014 SMHA identifies 7,369 existing households and 9,272 emerging households who would qualify for Starter Homes; a total of 16,641 households, or 16.9% of total households within North Tyneside in the next 5-years. (Figures relate to ages 18-40. This drops by 13-households when the new 24-40 age criteria is applied. This is considered de minimis for the purposes of this report)

3.7 This is a significant number, however further interrogation of the SHMA and median house prices across the borough has helped to identify the number of households that could, in theory, access home ownership based on their stated income. The SHMA data holds salary details of 95.7% of existing households and 98.8% of emerging households.

3.8 Table 3.1 gives the detail of lower quartile new build 2 and 3-bed houses in the each of the study areas along with the average across the borough. Table 3.7 provides the same detail but with the 20% SHI discount applied.

3.9 The borough wide average sales price for a new build 2-bed house stands at £84,911 and 3-bed at £163,722. If we assume a 95% mortgage and a mortgage limit of 3.5 X gross salary it can be determined that 3,929 of qualifying households can access the market for a new build 2-bed home and 592 can access a 3-bed; a combined total of 4,521 households.

3.10 Applying the same affordability criteria to SHI homes, the number of households with sufficient salary to access the market when the 20% discount is applied rises by 3,700. The average 2-bed price of £67,993 is accessible by a further 2,941 qualifying households, whilst a 3-bed, at £131,018 can be accessed by a further 759 households. This increases the number of households from 4,521 to 8,221 households, an increase of 81.8%, who have sufficient salary to access 2 and 3-bed new build homes sold under the SHI. 8,221 households represent 8.4% of the total households within North Tyneside.

3.11 This data is illustrated in Chart 3.2

**Chart 3.2:** The potential scale of numbers for Starter Home Initiative

![Chart 3.2](source: SHMA 2014, Census 2011 & Zoopla Data)
Details about this potential client group

3.12 We have been able to interrogate 2 cohorts from the 2013 SHMA that would qualify for Starter Homes.
- The first, existing households under the age of 40 who would be classified as first time buyers;

3.13 The second, emerging households, are the second oldest in the household, who will be leaving home in the next 5 years, and still be under the age of 40 when they set up their own household.

3.14 The review has considered 4 factors influencing households’ next housing move:
- Drivers to move;
- Type of accommodation;
- Affordability; and
- Location.

Drivers to Move

3.15 Chart 3.2 illustrates the various drivers existing households give for moving within the next 5 years. The desire to buy and securing a better house, with a garden in a good location are the key drivers. These households would certainly be supported by, and potentially attracted to, the Starter Home Initiative.

Chart 3.3: Why People want to move

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harassment / Threat of Harassment / Crime / ASB</td>
<td>15.0%</td>
</tr>
<tr>
<td>Overcrowding</td>
<td>10.0%</td>
</tr>
<tr>
<td>Want larger garden</td>
<td>20.0%</td>
</tr>
<tr>
<td>Want smaller garden</td>
<td>5.0%</td>
</tr>
<tr>
<td>To be in a particular school catchment</td>
<td>15.0%</td>
</tr>
<tr>
<td>Armed Forces (returning home or similar)</td>
<td>25.0%</td>
</tr>
<tr>
<td>To be closer to work / new job</td>
<td>20.0%</td>
</tr>
<tr>
<td>To move to a better neighbourhood / more pleasant area</td>
<td>15.0%</td>
</tr>
<tr>
<td>To be closer to family / friends to give / receive support</td>
<td>10.0%</td>
</tr>
<tr>
<td>To be closer to family / friends for social reasons</td>
<td>5.0%</td>
</tr>
<tr>
<td>Forced to move</td>
<td>0.0%</td>
</tr>
<tr>
<td>Marriage / to live together</td>
<td>0.0%</td>
</tr>
<tr>
<td>Major disrepair of home</td>
<td>0.0%</td>
</tr>
<tr>
<td>Want own home / live independently</td>
<td>10.0%</td>
</tr>
<tr>
<td>Want to buy</td>
<td>15.0%</td>
</tr>
<tr>
<td>Need housing suitable for older / disabled person</td>
<td>5.0%</td>
</tr>
<tr>
<td>Home is too expensive to heat</td>
<td>0.0%</td>
</tr>
<tr>
<td>Want property that is better in some way</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: SHMA 2014
Property requirements

3.16 Chart 3.3 confirms that the majority of existing households looking to move want a 3-bed home. There is a relatively large number also looking for a 4-bed.

Chart 3.4: No. of Beds

![Chart 3.4: No. of Beds](image)

Source: SHMA 2014

3.17 Charts 3.4 shows the respondent’s house type aspirations against their house type expectations.

3.18 The majority of respondents would like a detached house but very few expect to secure this type of accommodation. With the exception of those looking for semi-detached houses it is clear that the majority of respondents do not expect to secure the type of home they would like in their next move.

Chart 3.5: House Type Aspirations

![Chart 3.5: House Type Aspirations](image)

Source: SHMA 2014
3.19 Chart 3.5 illustrates the type of tenure existing households would consider moving to within the next 5 years. 44% of those expecting to move are looking at buying from the open market with far lower proportions looking at either a low cost home ownership option or social rent as their next housing move.

Chart 3.6: Tenure Choice

Tenure Choice

- Owned (no mortgage)
- Owned (with mortgage)
- Rented from a HA
- Rented from North Tyneside Homes / Council
- Private Rented
- Low Cost Home Ownership
- Shared Ownership
- Shared Equity
- Discounted for sale
- Self Build

Source: SHMA 2014

3.20 Chart 3.6 indicates that there is a significant potential requirement for assisted purchase products (low cost homeownership products).

3.21 16% of respondents would consider moving to private rented but 40% feel they may have to move into this sector. However, while 20% of respondents would like to move into a form of low cost home ownership, none actually consider this a likely move within the next 5 years.

3.22 Interestingly, a higher proportion of respondents (40%) feel that ownership, with a mortgage, is their most likely next housing move, yet only 30% state this is their preferred move.
Affordability

3.23 This section analyses the 2014 SHMA data against Zoopla data providing 2 and 3-bed house prices in the lower quartile across North Tyneside for the last 5 years. The analysis looks at the Study Areas 1, 3, 7 and 8, those areas bordering onto the two strategic sites, as well as the borough as a whole:

1 Whitley Bay and Monkseaton area;
3 Moor Park, New York, Chirton Grange, Preston Grange and Preston area;
7 Killingworth, Annitsford, Burradon, Camperdown, Holystone and Palmersville area; and
8 Shiremoor, Backworth, Northumberland Park and West Allotment area.

3.24 The data analysis only accounted for new build sales including those new builds still on the market. There is one exception to this: in Area 3 there have been no new build sales in the last 5 years; as such the resale data for 3-beds in that area has been used to provide a guide.

3.25 The following tables consider the minimum gross salary required to buy either a 2 or 3-bed house at the 2015 lower quartile in each of the 4 targeted areas and the average across the borough. The calculation assumes a 95% mortgage and a mortgage of 3.5 X the gross salary.
Table 3.1: Minimum salaries and deposits – 2015 lower quartile

<table>
<thead>
<tr>
<th>Area</th>
<th>2-Bed</th>
<th></th>
<th>3-Bed</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Deposit</td>
<td>Mortgage</td>
<td>Salary</td>
</tr>
<tr>
<td>1*</td>
<td>£260,000</td>
<td>£13,000</td>
<td>£247,000</td>
<td>£70,571</td>
</tr>
<tr>
<td>3</td>
<td>£117,950</td>
<td>£5,898</td>
<td>£112,053</td>
<td>£32,015</td>
</tr>
<tr>
<td>7</td>
<td>£84,666</td>
<td>£4,233</td>
<td>£80,433</td>
<td>£22,981</td>
</tr>
<tr>
<td>8</td>
<td>£110,856</td>
<td>£5,543</td>
<td>£105,313</td>
<td>£30,089</td>
</tr>
<tr>
<td>Borough</td>
<td>£84,911</td>
<td>£4,246</td>
<td>£80,665</td>
<td>£23,047</td>
</tr>
</tbody>
</table>

* The very low number of new build sales in this area presents a distorted view: 3-beds will always command a higher price than 2-beds in a like for like location. There were only three 3-bed new build sales which must have been in a lower value area than the nine 2-bed new build sales.

Source: Zoopla

3.26 As only new build sales have been used, some of the data sets are relatively low. The lower the quantum, the weaker the statistical strength to the finding.

Table 3.1a: Number of New Build Sales 2010 - 2015

<table>
<thead>
<tr>
<th>Area</th>
<th>No. of 2-beds Sales</th>
<th>No. of 3-Bed Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>15</td>
<td>84</td>
</tr>
<tr>
<td>8</td>
<td>7</td>
<td>9</td>
</tr>
</tbody>
</table>

3.27 The data illustrates that access to 2-beds across the borough is more affordable than accessing 3-bed homes. To acquire a 2-bed home at the lower quartile values within the borough would require a deposit of circa £4.2k and salary in the region of £23k pa.

3.28 To acquire a 3-bed home at the lower quartile within the borough would require a deposit of circa £8.1k and salary in the region of £44kpa.

3.29 Area 1, Monkseaton and Whitley Bay, is significantly more expensive than the other 3 areas which reflects the popularity and demand for housing in these locations.

3.30 Area 7, Killingworth, Annitsford, Burradon, Camperdown, Holystone and Palmersville, has significantly lower values.

3.31 Table 3.2 illustrates the households who can support a lower quartile property across the borough. This clearly shows that access to home ownership across the borough will be difficult for the majority of first time buyers.
3.32 Nevertheless, there are still 4,521 households with sufficient salary to support a 95% mortgage to acquire either a 2 or 3-bed lower quartile home across the borough. This number increases to 8,221 once the 20% Starter Home discount is applied to market value.

3.33 The majority of this number, 3,929 can only access 2-bed units.

3.34 It is worth noting that circa 85% of emerging households do not have the salary requirements to access 2-bed units.

### Table 3.2: Households who can support a mortgage for a lower quartile home across the borough before a SHI discount is applied

<table>
<thead>
<tr>
<th>Household Type</th>
<th>Estimated Minimum Salary (95% Mortgage)</th>
<th>Households where salary can support the mortgage</th>
<th>Households where salary cannot support the mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>2-Bed</td>
<td>£23,047</td>
<td>Emerging 1,406</td>
<td>15.35%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Existing 2,523</td>
<td>35.76%</td>
</tr>
<tr>
<td>3-Bed</td>
<td>£44,439</td>
<td>Emerging 112</td>
<td>1.22%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Existing 480</td>
<td>6.80%</td>
</tr>
<tr>
<td>Combined</td>
<td></td>
<td>4,521</td>
<td>27.88%</td>
</tr>
</tbody>
</table>

Source: 2014 SHMA and Zoopla

3.35 The following tables illustrate the number of first time buyers from existing and emerging homes who have a salary that would support acquiring a home in the lower quartile within each of the 4 study areas.

3.36 Monkseaton and Whitley Bay are clearly the least affordable areas, with Area 7 (Killingworth et al) being the most affordable and the two remaining areas, 3 (Moor Park et al) and 8 (Shiremoor et al) being almost in line with the borough average.

### Table 3.3: Households who can support a mortgage for a lower quartile home in Monkseaton and Whitley Bay (Area 1) before a SHI discount is applied

<table>
<thead>
<tr>
<th>Household Type</th>
<th>Estimated Minimum Salary (95% Mortgage)</th>
<th>Households where salary can support the mortgage</th>
<th>Households where salary cannot support the mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>2-Bed</td>
<td>£70,571</td>
<td>Emerging 0</td>
<td>0.00%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Existing 278</td>
<td>3.94%</td>
</tr>
<tr>
<td>3-Bed</td>
<td>£51,570</td>
<td>Emerging 112</td>
<td>1.22%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Existing 480</td>
<td>6.80%</td>
</tr>
<tr>
<td>Combined</td>
<td></td>
<td>870</td>
<td>5.37%</td>
</tr>
</tbody>
</table>

Source: 2014 SHMA and Zoopla
Table 3.4: Households who can support a mortgage for a lower quartile home in Moor Park, New York, Chirton Grange, Preston Grange and Preston areas (Area 3) before a SHI discount is applied

<table>
<thead>
<tr>
<th>Estimated Minimum Salary (95% Mortgage)</th>
<th>Household Type</th>
<th>Households where salary can support the mortgage</th>
<th>Households where salary cannot support the mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>2-Bed £32,015</td>
<td>Emerging</td>
<td>240</td>
<td>2.62%</td>
</tr>
<tr>
<td></td>
<td>Existing</td>
<td>1,111</td>
<td>15.75%</td>
</tr>
<tr>
<td>3-Bed £33,915</td>
<td>Emerging</td>
<td>240</td>
<td>2.62%</td>
</tr>
<tr>
<td></td>
<td>Existing</td>
<td>1,111</td>
<td>15.75%</td>
</tr>
<tr>
<td>Combined</td>
<td>2,702</td>
<td>16.66%</td>
<td>13,514</td>
</tr>
</tbody>
</table>

Source: 2014 SHMA and Zoopla

Table 3.5: Households who can support a mortgage for a lower quartile home in the Killingworth, Annitsford, Burradon, Camperdown, Holystone and Palmersville areas (Area 7) before a SHI discount is applied

<table>
<thead>
<tr>
<th>Estimated Minimum Salary (95% Mortgage)</th>
<th>Household Type</th>
<th>Households where salary can support the mortgage</th>
<th>Households where salary cannot support the mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>2-Bed £22,981</td>
<td>Emerging</td>
<td>1,406</td>
<td>15.35%</td>
</tr>
<tr>
<td></td>
<td>Existing</td>
<td>2,523</td>
<td>35.76%</td>
</tr>
<tr>
<td>3-Bed £49,380</td>
<td>Emerging</td>
<td>112</td>
<td>1.22%</td>
</tr>
<tr>
<td></td>
<td>Existing</td>
<td>480</td>
<td>6.80%</td>
</tr>
<tr>
<td>Combined</td>
<td>4,521</td>
<td>27.88%</td>
<td>11,695</td>
</tr>
</tbody>
</table>

Source: 2014 SHMA and Zoopla

Table 3.6: Households who can support a mortgage for a lower quartile home in the Shiremoor, Backworth, Northumberland Park and West Allotment areas (Area 8) before a SHI discount is applied

<table>
<thead>
<tr>
<th>Estimated Minimum Salary (95% Mortgage)</th>
<th>Household Type</th>
<th>Households where salary can support the mortgage</th>
<th>Households where salary cannot support the mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>2-Bed £30,089</td>
<td>Emerging</td>
<td>567</td>
<td>6.19%</td>
</tr>
<tr>
<td></td>
<td>Existing</td>
<td>2,523</td>
<td>35.76%</td>
</tr>
<tr>
<td>3-Bed £46,412</td>
<td>Emerging</td>
<td>112</td>
<td>1.22%</td>
</tr>
<tr>
<td></td>
<td>Existing</td>
<td>480</td>
<td>6.80%</td>
</tr>
<tr>
<td>Combined</td>
<td>4,521</td>
<td>27.88%</td>
<td>11,695</td>
</tr>
</tbody>
</table>

Source: 2014 SHMA and Zoopla
The impact of SHI on affordability

3.37 The SHI offers a 20% discount against the open market value of a property.

3.38 Table 3.7 shows the effect of the 20% discount on the house value, deposit, mortgage and salary requirements on the lower quartile houses within each area. The calculation assumes a 95% mortgage and a mortgage of 3.5 X the gross salary.

Table 3.7: Minimum salaries and deposits with the SHI discount – 2015 lower quartile

<table>
<thead>
<tr>
<th>Area</th>
<th>2-Bed</th>
<th>3-Bed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Deposit</td>
</tr>
<tr>
<td>1</td>
<td>£208,000</td>
<td>£10,400</td>
</tr>
<tr>
<td>3</td>
<td>£94,360</td>
<td>£4,718</td>
</tr>
<tr>
<td>7</td>
<td>£65,333</td>
<td>£3,267</td>
</tr>
<tr>
<td>8</td>
<td>£88,685</td>
<td>£4,434</td>
</tr>
<tr>
<td>Borough</td>
<td>£67,993</td>
<td>£3,400</td>
</tr>
</tbody>
</table>

3.39 The following charts compare the number of first time buyers from existing and emerging homes who have a salary that would support acquiring a home in the lower quartile in North Tyneside to the number that could afford a property purchased through the Starter Home Initiative.

Chart 3.8: Effect of 20% Discount on Affordability; District Wide

Source: 2014 SHMA and Zoopla
This Chart illustrates that only 3,405 of the 9,272 emerging households can afford access to market housing with the assistance of SHI. This leaves 5,867 emerging households who cannot afford market housing, even with SHI.

Within the highest value area, Monkseaton, the SHI increases the potential pool of first time buyers from 870 to 1082, a rise of 24%. In the Moor Park area, the rise is the greatest; from 2,709 to 7,800 or 133%. In the Killingworth area the increase is 76%; from 4,521 to 7,971. In the last area, Shiremoor, numbers increase from 4,521 to 5,030, a rise of 11%.

**Chart 3.9: Effect of 20% Discount on Affordability; Monkseaton and Whitley Bay (Area 1)**

![Chart showing effect of 20% discount on affordability](chart.png)

Source: 2014 SHMA and Zoopla
Chart 3.10: Effect of 20% Discount on Affordability; the Moor Park, New York, Chirton Grange, Preston Grange and Preston areas (Area 3)

Source: 2014 SHMA and Zoopla

Chart 3.11: Effect of 20% Discount on Affordability; in the Killingworth, Annitsford, Burradon, Camperdown, Holystone and Palmersville areas (Area 7)

Source: 2014 SHMA and Zoopla
3.42 The affordability assessments discussed above, based purely on qualifying households’ incomes, have identified a substantial number of households who could access 2 and 3-bed new homes through the SHI; a total of 8,221. This represents 49% of all qualifying 16,641 households.

3.43 However, access to mortgages is also reliant upon applicants having a sufficient deposit. The affordability calculations have been based on the lowest deposit acceptable to the majority of high street lenders, 5%. To summarise:

### Table 3.8: 5% deposit requirements against borough wide average New build houses

<table>
<thead>
<tr>
<th>House Type</th>
<th>Open Market</th>
<th>SHI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-bed</td>
<td>£84,911</td>
<td>£4,246</td>
</tr>
<tr>
<td>3-bed</td>
<td>£163,722</td>
<td>£8,186</td>
</tr>
</tbody>
</table>

3.44 The 2014 SHMA provides data on the level of deposit households have declared they have access to.

3.45 The following chart illustrates that for many households, access to homeownership will still not be possible, even under the SHI, due to lack of savings.
3.46 50% of respondents will not be able to access mortgages due to lack of savings. In theory, the remaining 50% of households will have access to sufficient savings to be able to acquire a 2-bed home, either from the open market or through the SHI, with the number dropping to 38% who, in theory, can access savings sufficient to secure a mortgage for a 3-bed, again either on the open market or through the SHI.

3.47 Even to arrive at the 50% and 38% figures, positive assumptions have had to be made. To acquire a 2-bed requires a deposit of £3,400 for a SHI and £4,246 for open market with respondents noting that they have up to £5,000 of savings. The available data does not allow an analysis of just how many of these households will have the minimum savings to cover the deposit and other ancillary acquisition and moving costs. The same issue arises with the deposits required for 3-bed houses of £8,186 market sale and £6,555 for SHI; not all respondents with savings between £5k-£10k will have the required savings for these levels of deposits.

3.48 The data indicates that under the SHI 50% of households have sufficient savings to access 2-beds and 38% to access 3-beds. These figures should be read with some caution as the actual numbers may be lower as it is likely that many of the respondents will not have the level of savings to cover the minimum deposit and other ancillary acquisition and moving costs.

3.49 Nevertheless, applying a 50% reduction to the 8,221 households that qualify and have sufficient incomes results in a revised figure of 4,111, or 4.18% of the total households in North Tyneside (98,316).
Summary of Potential Scale for Starter Homes

3.50 The following chart populates the analysis flow noted in Chart 3.1 on page 11

Chart 3.14: Populated Flow analysis to determine the scale of Starter Homes in North Tyneside

Total Number of Household in North Tyneside

98,316

Qualifying Numbers by age

16,641

Households with an income to support a mortgage for a Starter Home

8,221

Households, who can support a mortgage for a Starter Home, with at least a 5% deposit

50%

Quantum and % of Total Number of Households who qualify and can afford a Starter Home

4,111 or 4.18%

SHI Versus the Private Rented Sector (PRS)

3.51 There is a strong possibility that households currently within the PRS may look at the SHI deal as an opportunity to move into homeownership. This move may not be about housing need but be more opportunity or locality driven, with households looking to take advantage of the SHI deal.

3.52 Chart 3.12 shows the median rents for 2 and 3-bed houses within the study areas and across the Borough for 2015. The Zoopla data relates to wards, rather than the sub-areas referred to throughout this paper.
Chart 3.15: Median PRS Rents for Houses in 2015

<table>
<thead>
<tr>
<th>Ward</th>
<th>No. of 2-bed Lets</th>
<th>No. of 3-bed Lets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monkseaton (N&amp;S) &amp; Whitley Bay</td>
<td>17</td>
<td>45</td>
</tr>
<tr>
<td>Preston</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Killingworth</td>
<td>15</td>
<td>22</td>
</tr>
<tr>
<td>Northumberland</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>Borough Wide</td>
<td>322</td>
<td>650</td>
</tr>
</tbody>
</table>

Source: Zoopla Data

3.53 Table 3.9 illustrates the gross household income required to afford access to the PRS, assuming that the rent is no more than 30% of the gross household income.

<table>
<thead>
<tr>
<th>Ward</th>
<th>2-bed House</th>
<th>3-bed House</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monkseaton (N&amp;S) &amp; Whitley Bay</td>
<td>£26,920</td>
<td>£32,960</td>
</tr>
<tr>
<td>Preston</td>
<td>£27,720</td>
<td>£28,520</td>
</tr>
<tr>
<td>Killingworth</td>
<td>£22,000</td>
<td>£29,080</td>
</tr>
<tr>
<td>Northumberland</td>
<td>£20,960</td>
<td>£26,520</td>
</tr>
<tr>
<td>Borough Wide</td>
<td>£22,000</td>
<td>£26,000</td>
</tr>
</tbody>
</table>

3.54 Table 3.9 reviews the minimum household income required to rent PRS against the minimum household income to acquire a 2 or 3-bedroom house under the SHI.
Table 3.10: Variance between minimum household salaries to access PRS versus lower quartile housing sold through the SHI

<table>
<thead>
<tr>
<th>Area</th>
<th>2-bed House</th>
<th></th>
<th>3-bed House</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SHI</td>
<td>PRS</td>
<td>Variance</td>
<td>SHI</td>
</tr>
<tr>
<td>1</td>
<td>£56,457</td>
<td>£26,920</td>
<td>-£29,537</td>
<td>£41,256</td>
</tr>
<tr>
<td>3</td>
<td>£25,612</td>
<td>£27,720</td>
<td>£2,108</td>
<td>£27,132</td>
</tr>
<tr>
<td>7</td>
<td>£17,733</td>
<td>£22,000</td>
<td>£4,267</td>
<td>£39,504</td>
</tr>
<tr>
<td>8</td>
<td>£24,072</td>
<td>£20,960</td>
<td>-£3,112</td>
<td>£37,130</td>
</tr>
<tr>
<td>Borough</td>
<td>£18,455</td>
<td>£22,000</td>
<td>£3,545</td>
<td>£35,562</td>
</tr>
</tbody>
</table>

Source: Zoopla Data

3.55 The data indicates that 2-beds acquired through the SHI may be more affordable than the PRS equivalent across the borough, with the notable exception of Monkseaton and Whitley Bay and a marginal variance in and around the Killingworth area.

3.56 However, in the majority of areas 3-bed houses in the PRS remain more affordable than the equivalent home acquired through the SHI. Only properties in and around Preston may be more affordable through SHI, though the variance of £1,388 is marginal.

Location

3.57 In assessing respondents’ preferences for areas to live the SHMA referred to 9 different areas within North Tyneside and a further 10 outside the borders of the borough:

1. Whitley Bay/Monkseaton area;
2. Cullercoats/Tynemouth area;
3. Moor Park/New York/Chirton Grange/Preston Grange/Preston area;
4. North Shields Town Centre/Meadowell/East Howdon/West Chirton/Willington Quay/Percy Main area;
5. Wallsend Town Centre/High Farm/Battle Hill/Holy Cross/Howdon area;
6. Benton/Longbenton/Forest Hall area;
7. Killingworth/Annitsford/Burradon/Camperdown/Holystone/Palmersville area;
8. Shiremoor/Backworth/Northumberland Park/West Allotment area;
9. Dudley/Seaton Burn/Wideopen area;
10. Newcastle;
11. Gateshead;
12. South Tyneside;
13 Sunderland;
14 Blyth/Cramlington;
15 Elsewhere in Northumberland;
16 County Durham;
17 Tees Valley;
18 Elsewhere in UK; and
19 Outside UK.

The following charts refer to these 19 different locations. Charts 3.14 and 3.15 look at the areas existing and emerging households would consider moving to.
The coastal areas are the most popular amongst both cohorts, with Tynemouth and Cullercoats ranking the highest. Many emerging households also see the Wallsend Town centre across to Battle Hill as an attractive option. 16% of emerging households would consider moving away from the North East as their preferred choice (15% elsewhere in the country, 1% outside of the UK)
4. Primary Data Survey

Approach and Methodology

4.1 Primary research has been undertaken focusing on households who were between 20 and 40-years of age and who had not previously owned a property before but were looking to buy their first home.

4.2 The primary research was undertaken through a telephone based survey. A target of accessing 100 households was established and in total, 1,248 phone calls were made to achieve this sample. In total, 77 fully completed interviews were achieved and 20 partial interviews (respondents chose to not answer some of the questions). Analysis has therefore been undertaken on all 97 respondents because they contained very relevant responses to a number of questions.

4.3 The keys questions that were being considered within the sample are outlined below:

- Pathways to homeownership?
- Views on the product?
- Type of property required?
- Is it a long term home?
- Where may Starter Homes be most popular?
- Income levels and savings?
- What are the factors in deciding to buy for this cohort?
- At what price point does a Starter Home stop being an attractive option to a First Time Buyer?

Pathways to homeownership

4.4 In terms of accessing a low cost homeownership or assisted purchase product as a mechanism into homeownership, low numbers of respondents were considering this option; however, given the answers, it’s clear that respondents do not fully understand these products or how they work and so had possibly not heard of them.

4.5 Help-to-Buy which has been widely advertised is a product that is being considered but this is actually the same (in terms of legal structure) to an equity loan.

4.6 Shared Ownership has much lower popularity/knowledge from respondents and Discount Open Market Value (DOMV) even less, possibly given the limited use of that product.
4.7 It seems possible that a lack of knowledge is driving the decisions about accessing products; when the Starter Home Initiative was explained to respondents, 38 respondents had previously heard of it, and once explained 69 confirmed that they would be interested in using it; clearly, respondents needed more information as 21 confirmed they were unsure about using the product.

4.8 It is difficult to confirm whether the Starter Home Initiative will change the perception of Shared Ownership; despite the long term option that Shared Ownership has offered in the market, it is still not a popular product. Only 9 have considered the product where 34 had considered Help-to-Buy. When the Starter Home Initiative was explained, 69 respondents said that they would use it. This is significantly higher than for Shared Ownership. This needs further exploration and potentially could be considered through focus groups.

4.9 Previous primary research undertaken by arc4 has confirmed that the target market for the Starter Home Initiative would rather have full ownership of their property rather than share it with a housing association/developer.
Views of the product

4.10 Respondents generally saw the attractiveness of the product; 36 respondents thought the discount was the main benefit, whilst 32 saw the fact that they could now get onto the housing ladder as the key feature; 29 respondents did not know what the main benefit of the product was.

4.11 However, there were some very clear concerns about the product, the main one being summarised as believing the product had ‘a catch’ or there would be some ‘small print’ what they did not know about. 7 respondents were concerned that the properties would be in unpopular locations and 8 respondents were concerned that the product only applied to new properties.
Chart 4.3: Concerns about the product

<table>
<thead>
<tr>
<th>Concerns about the product</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t know</td>
<td>14</td>
</tr>
<tr>
<td>Only new properties</td>
<td>8</td>
</tr>
<tr>
<td>No concerns</td>
<td>8</td>
</tr>
<tr>
<td>Buying generally</td>
<td>6</td>
</tr>
<tr>
<td>Small print</td>
<td>24</td>
</tr>
<tr>
<td>Deposit req</td>
<td>12</td>
</tr>
<tr>
<td>The locations</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Primary survey data 2016

Type of property required

4.12 Houses were by far the most popular product although respondents were far less sure about the type of house. Whilst semi-detached received the largest preferred feedback, it is potentially also what would be expected; 52 respondents did not know what property type they required.

4.13 However, far clearer is the requirement for 2-bed properties with 44 respondents confirming this and 23 respondents confirming 3-bed.

4.14 This is slightly different from the SHMA data, where the priority was for 3 and 4-bed houses rather than 2-beds; although these were popular too.
Chart 4.4: Types of property required

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat</td>
<td>12</td>
</tr>
<tr>
<td>House</td>
<td>60</td>
</tr>
<tr>
<td>Bungalow</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Primary survey data 2016

Chart 4.5: Property types required

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi</td>
<td>14</td>
</tr>
<tr>
<td>Detached</td>
<td>5</td>
</tr>
<tr>
<td>Terraced</td>
<td>3</td>
</tr>
<tr>
<td>Don't know</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: Primary survey data 2016
Is it a long term home?

4.15 Respondents were asked how long they intended to remain in their new home for. Options were less than 5 years or more than 5 years and clearly, whilst we cannot establish whether these are forever homes, it is an intention to remain in homes longer. However, given that the majority of respondents wanted 2-bedrooms, decisions on accessing homeownership for the first time are more likely based on affordability rather than trying to access a larger (more expensive) home.
4.16 Respondents were asked to consider when they may choose to move and take up the product. Timeframes varied but were around 6 months to 3 years. Homeownership plans are now longer term than they used to be when access to mortgages was far simpler. Given these timeframes though, they are likely to be planned pathways to homeownership.

Chart 4.8: When respondents would take up the product

<table>
<thead>
<tr>
<th>When would the product be taken up?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t know/Not sure</td>
<td>5</td>
</tr>
<tr>
<td>Between 4 and up to 5 yrs</td>
<td>2</td>
</tr>
<tr>
<td>Between 3 and up to 4 yrs</td>
<td>1</td>
</tr>
<tr>
<td>Between 2 and up to 3 yrs</td>
<td>10</td>
</tr>
<tr>
<td>Between 1 and up to 2 yrs</td>
<td>37</td>
</tr>
<tr>
<td>Between 6 months and up to 1 year</td>
<td>14</td>
</tr>
<tr>
<td>In the next 6 months</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Primary survey data 2016

Where may Starter Homes be most popular?

4.17 Like the SHMA data, households consider the Wallsend Town Centre across to Battlehill as an attractive option. This was the most attractive for emerging households in the SHMA.

4.18 Coastal areas did not have the same attraction for respondents as the SHMA data.
Chart 4.9: Where respondents would like to live/expect to live

<table>
<thead>
<tr>
<th>Location</th>
<th>Like</th>
<th>Expect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anywhere within North Tyneside</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dudley/Seaton Burn/Wideopen area</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shiremoor/Backworth/Northumberland Park/West...</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Killingworth/Annitsford/Burradon/Camperdown/Holyst...</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Benton/Longbenton/Forest Hall</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Wallsend Town centre/High farm/Battle hill/Holy...</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>N Shields town centre/Meadowell/East Howdon/West...</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Moor Park/New York/Chirton, Preston Grange/...</td>
<td>35</td>
<td>40</td>
</tr>
<tr>
<td>Cullercoats/Tynemouth area</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Outside North Tyneside</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whiteley Bay/Monkseaton</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>All locations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary survey data 2016

Income of respondents

4.19 The income levels of all respondents are shown below. There are lower income respondents. However, the income of respondents who would consider the product after it had been explained to them is also shown.

4.20 Income levels are proportionally higher for this group than for those identified through the SHMA data.

Chart 4.10: Income levels of all respondents

![Chart showing income levels of respondents]
Savings

4.21 The feedback from respondents was that savings are extremely low with the majority having less than £5k. Assisted purchase products such as SHI will be helpful but as a deposit is still required a lack of savings will remain a potential barrier to purchase.

4.22 This was similar to feedback from the SHMA primary survey.

**Chart 4.11: Level of savings**

<table>
<thead>
<tr>
<th>Level of savings</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>£35,000 to under £40,000</td>
<td>1</td>
</tr>
<tr>
<td>£20,000 to under £25,000</td>
<td>1</td>
</tr>
<tr>
<td>£10,000 to under £15,000</td>
<td>9</td>
</tr>
<tr>
<td>£5,000 to under £10,000</td>
<td>8</td>
</tr>
<tr>
<td>Up to £5,000</td>
<td>28</td>
</tr>
</tbody>
</table>

What are the factors in deciding to buy for this cohort?

4.23 The identified benefits of the product and the concerns about the product begin to reveal the determining factors of buying for this cohort.

4.24 Respondents (36) confirmed that the discount was the main benefit of the product and 32 respondents confirmed that it would allow them to get onto the housing ladder. This certainly indicates that affordability and access to homeownership are the priority factors of purchasing for this cohort and by considering the concerns about the product, other priorities can be identified. The feedback suggests that the discount is seen as enabling homeownership rather than allowing an individual to buy a larger home than they would otherwise have been able to afford.

4.25 Whilst many respondents felt the product was in some way ‘too good to be true’ and the small print may reveal this, 2 of the concerns about the product were location and the fact that the product was only available on new build properties. Clearly, location is a factor in decision making and whilst a significant proportion of respondents would use the product, there was concern about where the properties would be located.

4.26 Further research such as focus groups could start to reveal buying decisions and priorities.
At what price point does a Starter Home stop being an attractive option to a First Time Buyer?

4.27 Respondents provided the following mortgage levels as being expected and levels that they would be comfortable with. The expected and comfortable levels of monthly payment fell largely into the £400-£600/700 pcm range.

Chart 4.12: Levels of mortgage expected and comfortable with

Table 4.1: Levels of mortgage respondents are comfortable with

<table>
<thead>
<tr>
<th>Mortgage payment</th>
<th>Maximum Property purchase based on 25 years and 5% deposit utilising starter home initiative interest rate 3% repayment mortgage</th>
<th>LQ values in the Borough Zoopla 2015 2 bed</th>
<th>LQ values in the Borough Zoopla 2015 3 bed</th>
</tr>
</thead>
<tbody>
<tr>
<td>£400</td>
<td>£106,250</td>
<td>£84,911</td>
<td>£163,722*</td>
</tr>
<tr>
<td>£500</td>
<td>£131,250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>£600</td>
<td>£156,250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>£700</td>
<td>£183,750</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The figure of £163,772 relates only to the new build sales and current unsold new build 3-beds across the borough for the last 5-years, a total of 176 homes. The average for all LQ sales stands circa £97,000; this includes 10,899 resales.
5. Stakeholder Views

Developers

5.1 In order to help understand the potential appetite and capacity for starter homes within North Tyneside, arc4 conducted a series of interviews with house-builders currently active in North Tyneside.

5.2 The following house builders / developers where approached for interview:
  - Banks Homes;
  - Barratt Homes;
  - Bellway;
  - Bett Homes;
  - Esh Group;
  - Gleeson Homes;
  - Persimmon Homes.

5.3 Interviews were subsequently held with 3 volume national house-builders: Persimmon Homes; Bellway Homes and Barratt Homes.

Persimmon Homes

5.4 The Group Planning Director & Strategic Land Director for Persimmon homes provided the following views:

Current Activity

5.5 Persimmon are currently active in the North Tyneside area with approximately 650 units in development at East Benton and further plans in the pipeline for their site at West Benton. Persimmon own circa 65% of the Murton Gap site.

5.6 Persimmon’s current approach towards the delivery of affordable housing delivered through the planning system has been to secure agreement with local Registered Providers for the delivery of affordable rented properties but to promote and provide their own intermediate affordable housing offer and product through Discounted Market Value (DMV). Persimmon’s view is one where they feel they can offer a better service, process and product than that provided by Registered Providers (RP) through the Shared Ownership tenure. It was noted that the current DMV products secure affordability in perpetuity and that lenders do not appear to have issues or restrictions on this product, albeit this product may be subject to slightly higher mortgage interest rates.

5.7 Persimmon shared the view that there was ample demand for these DMV and assisted purchase products provided that the pricing is appropriate for the target market. They cited an example in Amble where, in a very tight market, they have produced a Help-To-Buy style model where purchasers pay a £3,300
deposit and £300pcm mortgage and can buy a family house; this has proved very popular.

5.8 Persimmon currently builds and markets a range of starter homes typically with 2-bed units starting at 55.74sqm and 3-bed units from 61.31sqm. They advised that Registered Providers often require a different size and specification of units to that provided direct to the market. For example, Registered Providers required 3bed/5person at 80sqm and 3bed/6person at 84.63sqm.

5.9 Persimmon advised that across all of their range they employ a range of design features to increase the kerb appeal of their homes, stressing that this is particularly important for first time buyers as unit size and estate density issues can often be mitigated through attractive design and keen pricing.

5.10 Persimmon advised that engaging and working with Registered Providers is “not too difficult” but did express concern that the Registered Providers were often “too risk averse” making delivery on larger sites more problematic. They felt that bringing in a Registered Provider does not necessarily help them to de-risk a scheme but can help combat some initial development inertia. However, Persimmon advised that this small advantage does not outweigh the benefits they feel they can gain by delivering and disposing of the units themselves.

Comments on North Tyneside Current Affordable Housing Policy

5.11 Persimmon advised that the 25% Affordable Housing Policy requirement was higher than other local authorities in the region, and that consequently this often resulted in an adverse effect upon scheme viability.

5.12 Overall scheme viability was considered to be more relevant and Persimmon noted that if and where viability became too much of an issue due to affordable housing quotas or restrictions, then these would make schemes more difficult to stack-up. This could delay scheme delivery and may result in temporary rebalancing of their regional development programme with deliverable schemes outside North Tyneside being pulled forward.

5.13 Persimmon advise they need flexibility during their build-out on larger schemes, so cascades are essential. Persimmon would prefer a more flexible approach to be adopted by the Local Planning Authority (LPA), especially on larger phased sites allowing for (where appropriate) the on-going review and renegotiation of their multiple s106 obligations where market fluctuations over time can adversely impact upon scheme viability. Specifically, Persimmon would prefer an ability to “flip” Shared Ownership and Affordable Rent, to other tenures of affordable housing (including DMV) if the market and scheme viability supported or required this type of approach.

The Starter Homes Initiative

5.14 Persimmon Homes is fully behind the Starter Home Initiative (SHI) and have been working with Government advisers in developing the policy (whilst we have been unable to verify the figure, Persimmon indicated that Government...
will have a quota of 15% Starter Homes on sites). They advised that they will shortly be proceeding to planning submission for their site at Gosforth Business Park for 100% Starter Homes, advising that whilst they expect that this scheme will be refused locally and therefore go to Planning Appeal, they are confident of a successful resolution given that their proposals fully accord with the Government model and approach.

5.15 The SHI allows Persimmon direct control over the delivery and disposal of these intermediate products and similar to the existing DMV products, better matches their preference. As such they see that the SHI will, on all reasonably sized sites, affect the market but exactly how this will impact other intermediate products is yet to be determined.

5.16 Persimmon does however feel that the SHI has two structural flaws:

- Firstly, the reference to, and compliance with, the Design Advisory Panel shows a significant difference between the Design Advisory Panel’s standard house templates and Persimmon’s own house types. On average the Design Advisory Panel templates are 33% larger leading to concerns that the Government is trying to push the bar up; they will be responding accordingly. Persimmon feels that design should be appropriate to the context of the site and the market.
- Secondly, Persimmon view the 5-year restriction on the equity ceiling as being too short. Currently their own DMV model provides an equity ceiling in perpetuity and they are also aware of other DMV models whereby initial equity discounts are recycled upon staircasing.

5.17 Persimmon also expressed concerns about the impact of the SHI on their social conscience; questioning who will provide homes for the neediest in society. They feel that this is where Registered Providers will need to become more active and embrace commercial risk to meet their social goals.

5.18 Persimmon have yet to determine whether the SHI will increase land value as the potential impact of the policy has yet to be established across the sector.

5.19 Persimmon remains keen to work with the Council and its Registered Provider partners to help provide a balanced approach towards schemes and affordable housing in the future. They therefore see SHI as only one part of the solution with the agreed affordable provision to include a mix of SHI, Affordable Rent, and Discount Market Value and where the market calls for it, limited Shared Ownership units. Persimmon advised that they intend to stand by any existing deals they have with Registered Providers and the Council and will not be looking to renegotiate to include the SHI.

5.20 Persimmon advised that they will have to take great care on future schemes in order to ensure development viability as the SHI may distort the market place, especially in regions such as the North East where average house prices were close to the upper limit of £250k for SHI. Persimmon advised that last year over 30% of their homes sold for less than £150,000. This means that Persimmon will have to be very wary of the activity of other developers when establishing the tenure balance on their schemes. This all adds to the need to work with the Council and RP’s to agree a workable and balanced scheme.
Bellway Homes

5.21 The Land Director, Land Manager and Technical Property Manager for Bellway Homes (North East) provided the following views:

Current Activity

5.22 Bellway is currently very active in the North Tyneside area with at least 6 major sites in development, including:

- Earsdon (remaining 150 units);
- Scaffold Hill (230 units);
- Stephenson Park Killingworth (120 units);
- Five Mile Park, Wide Open (150 units);
- Wallsend (69 units); and
- Whitehouse in Gosforth Park (366 units).

5.23 Bellway has and primarily continues to, work with Riverside, ISOS and Home Group to deliver their affordable housing planning requirements. Whilst there are a few residual sites where Target / Social Rent is still being delivered, most rented units are now delivered as Affordable Rent. Bellway has noted a reluctance by the Registered Providers to deliver Shared Ownership units, with providers keen to avoid an over exposure within this tenure especially where fixed equity ceilings and tight local need restrictions are enforced. Bellway already offer a Discounted Market Value (DMV) product but are aware of issues associated with the policing of the resales which can often make the Council resistant to this type of tenure provision.

5.24 Bellway provides HCA compliant homes to their Registered Provider partners, however with likely changes to both design and code requirements this may well change. Generally, Bellway do not offer standard apartments and will usually only provide these in small numbers if and where required / appropriate. Bellway’s current standard house types include 2-bed/4-person houses at 59.18sqm and 3-bed/5-person houses at 78.87sqm. Similar to Persimmon, Bellway also provides larger units for Registered Provider partners as a requirement of grant conditions including 2-bed units at 73.86sqm and 3-bed units at 88sqm.

5.25 Bellway advised that after the initial shock of the Autumn Statement 2015, they are still able to engage and work with local Registered Providers to take forward affordable units. They do however describe the Registered Provider market as being “fragile” in nature, reporting that prices are significantly lower now (up to 20% lower) than pre-budget. Bellway advised that they do however find it more difficult to secure a Registered Provider to take larger numbers of Shared Ownership units.

5.26 Bellway felt that having a Registered Provider on board can give schemes some initial momentum, but this can also adversely affect their bottom line; on some
schemes Registered Provider involvement is beneficial and not on others, so flexibility remains key to delivery (it is a case of “horses for courses”). They only have a finite number of homes they can deliver every year and affordable homes provision comes out of that number, not added to it; in 2014/15 Bellway built 840 homes with 18% of them being affordable.

Comments on North Tyneside Current Affordable Housing Policy

5.27 Bellway expressed three main concerns with the Council’s current policy and advise that all impact upon scheme viability, and thereby influence the attractiveness of developing in North Tyneside as opposed to other local authorities in the region.

- Firstly, the 25% affordable provision requirement is higher than all neighbouring authorities, 15% in Newcastle and Northumberland and between 10-20% in Durham.

- Secondly, the policy on ensuring Shared Ownership remains affordable in perpetuity by imposing a fixed equity ceiling and restrictive local needs criteria makes these Shared Ownership units less attractive to lenders; with only a limited number of lenders (Halifax and Nationwide) willing to lend against these types of fixed equity models. The imposition of equity ceilings and occupancy restrictions are often counter-productive and can make the units less affordable as, for example, both the Halifax and Nationwide will expect a deposit of between 10-15% and only provide limited mortgage products (at higher interest rates) than those available to general housing. This can make these units less attractive to both purchasers and Registered Providers who are concerned about elongated sales periods and overall housing costs.

- Thirdly, Bellway noted the reluctance of the Council to allow them to use their DMV model as an alternative to Shared Ownership.

5.28 Bellway also confirmed that they were worried that the Council often had unrealistic expectations of land value and development costs, overestimating the former and underestimating the latter. This can result in a misunderstanding of scheme viability and the level of s.106 a development can withstand.

The Starter Homes Initiative

5.29 Bellway will provide the Starter Home Initiative (SHI) in line with the Government model and policy.

5.30 The SHI allows Bellway direct control over the delivery and disposal of the intermediate product on site and as such matches their preferred approach. As such they see that the SHI can replace Shared Ownership, which due to the current restrictions, they consider to have limited appeal.

5.31 Bellway advised that in their opinion the SHI has three structural flaws.

- Firstly, compliance with the Design Advisory Panel would require house templates far larger than the current market provision. They advised that the standard 3-bed/5-person house at the Design Advisory Panel is 90sqm;
some 11sqm bigger than their current HCA compliant 3-bed/5-person house. Bellway advised that it seemed counter intuitive for the Government to remove design and code standards for Registered Providers and yet at the same time introduce higher space standards to the SHI.

- Secondly, Bellway also considers the 5-year restriction on the equity ceiling to be far too short and will believes this will cause problems for the Council when looking to achieve affordable homes in perpetuity unless policy is amended. They did however see how this new definition of affordable housing could strengthen the argument to remove equity restrictions on Shared Ownership products as well as promoting the use of Bellway’s DMV model to allow those tenures to be maximised in North Tyneside.

- Thirdly, Bellway expressed concerns over the policing of re-sales. If this function is carried out by an estate management company, then a service charge will have to be levied across the estate; this may cause problems with residents not benefiting from SHI.

5.32 Bellway’s opinion was that the SHI should produce a better return than the existing types of affordable provision. This will, in effect, increase land values. A potential issue they face internally is one where they have a clause within their standard Land Option Agreement, that they are obliged to secure best value for the land. This would mean that regardless of which affordable tenure they would prefer to offer, Bellway may have no alternative but to try and maximise Starter Homes to fulfil their legal requirement.

5.33 Bellway expressed similar concerns to Persimmon over the potential distortion SHI may cause and how this may affect scheme viability. This is more of an issue in lower / median housing markets including the North East. Bellway will take a very keen interest in the activity and mix within other housing developments in the area when establishing the tenure balance on their schemes. This all adds for the need to work flexibly with the Council and Registered Providers to agree a workable and balanced scheme.

Registered Provider

5.34 To help provide a balanced perspective, representatives from local Registered Providers with an active development interest in North Tyneside were also asked for their views on the opportunity, risk and likely impact of Starter Homes.

Bernicia Homes

5.35 The Assistant Director of Development and Regeneration at Bernicia Homes was contacted to discuss their view and approach to the Starter Homes Initiative as well as towards 2 strategic sites. The following comments were noted:

5.36 Bernicia, along with other regional RPs, has a longstanding relationship with both Persimmon Homes and Taylor Wimpey. Consequently, it was felt that they generally have a good opportunity to agree a deal to take s.106 affordable homes with these 2 developers.
5.37 The majority of s.106 units Bernicia acquire are for Affordable Rented homes, with less than 10% for Shared Ownership tenure. It was felt that Bernicia would like to do more Shared Ownership but often have limited opportunity to do so where developers prefer to provide their own Discounted Market Value (DMV) products.

5.38 The future development aspiration for Bernicia includes the development of up to 400 new Affordable Rented units over the next 4 years; of which 280 of these are already committed. Bernicia are keen to explore other tenures and forms of housing provision including outright sale, private rented and Shared Ownership to add to and supplement their core development programme. They also held the view that the Starter Homes Initiative (SHI) would provide them with a further tenure opportunity to deliver a larger development programme.

5.39 Across all sites Bernicia advise that the exact tenure mix they are able to support will be subject to a scheme by scheme appraisal and review. In taking this flexible approach Bernicia consider the full range of housing options provision (including on-site / off site / commuted sums) to ensure that the final mix is both sustainable and deliverable. They expressed concern that SHI may prove very popular compared with Shared Ownership and they would be very cautious of delivering Shared Ownership in areas that also have Starter Homes.

5.40 Bernicia feel that the majority of their development programme over the 4 years will come via the s.106 Planning Gain schemes, and not through their traditional directly developed sites.

Landowner Feedback

5.41 Colin Barnes, Director at Northumberland Estates was contacted to discuss their stance and approach to the 2 strategic sites.

5.42 Northumberland Estates confirmed that they were very keen to work with the Council and the developers to deliver development across both strategic sites. They confirmed that they were aware of the SHI and broadly supported this tenure.

5.43 Northumberland Estates advised, on several occasions, that though they were keen to adopt a partnership approach, they had to sell the land at good commercial rates and were conscious that the SHI should, in theory, increase the return available on the affordable housing element and they would expect a reasonable commercial share of this uplift.
6. Strategic Site Assessments

6.1 Forming an integral part of this commission, we have been asked to consider 2 strategic sites within North Tyneside which when combined are scheduled to deliver up to 5,000 new homes over the next 15-20 years. Both of these sites will be subject to the Council’s Affordable Housing Policy and in light of the proposed changes to the definition of Affordable Housing you have asked us to explore the appropriate tenure split between Starter Homes, other more recognised Intermediate AH tenures and Affordable Rented units.

6.2 Map 6.1 shows the location of these 2 strategic sites:

Map 6.1: The location of the two strategic sites

1 – Killingworth Moor

2- Murton Gap
Killingworth Moor

Key:
Yellow: development zones approximately 2,000 homes
Orange: mixed use facilities for retailing centers and services
Purple star: allocated employment zones (c.17ha)
Green Star: location for a primary and secondary school (the latter to serve both sites)
Purple dots: secondary highway routes and access points
Turquoise dots: existing pedestrian and cycle routes that integrate new development with existing
Red M: Potential for new metro station.

Site Description

6.3 Broadly the site is bordered to the east by the main arterial road, the A19 with Backworth and the Northumberland Park development. To the south there is the village of Holystone, Benton Square Industrial Park, Forest Gate Housing and an existing council estate running alongside the B1505. The west boundary is bordered by the B1317 before running north-west along the border of Killingworth Village until the site hits Killingworth Way to the north-west of the site. The more rural and attractive aspects of the site run along the west north-west sides of the site. The further east and south you go into the site the less attractive the aspects become.
6.4 It is understood that the plan is for collectively circa 40% of the site to provide useable open space with opportunities for ecological improvements which will comprise green corridors following the southern boundary providing a significant buffer to Palmersville and Killingworth Village and to the north enhances and maximises benefits of the existing Waggonway bridle path.

6.5 Bellway have interest in both of these strategic sites. They have started on a phase of development on their site at Killingworth Moor.

6.6 Bellway are keen to agree a sustainable mix of housing tenure on both sites, but fear that the Council have unrealistic expectations of the level of s.106 contributions the sites can support. They advise that the current costings for the non-housing s.106 contributions sits at circa £16m.

6.7 Bellway cited that they are particularly concerned with the need for, and cost of, a new Metro Station on both sites.

Murton Gap

Key:
Yellow: development zones approximately 3,000 homes
Orange: mixed use facilities for retailing centers and services
Purple star; allocated employment zones (c.17ha)
Green Star: location for a primary school
Purple dots: secondary highway routes and access points
Red Dots: primary highway route and access points running north to south
Turquoise dots: existing pedestrian and cycle routes that integrate new development with existing
Red M: Potential for new metro station.
Site Description

6.8 Broadly the site has four district outlooks. To the north the site has open aspects to the village of Earsdon and beyond. To the east the site borders the very popular residential town of Monkseaton. To the south the road runs along the A191 and Rake Lane overlooking the North Tyneside General Hospital, the northern reaches of Preston Grange and the village of New York. The West side of the site adjoins Shiremoor.

South west corner of the site looking east along the A191
South west of the site looking north to Shiremoor
New York looking north to Murton Village
Rake Lane looking north east across the site to Monkseaton
View from Monseaton looking west to Murton Village
View from Monkseaton looking to the northern border of the site

6.9 It is understood that the plan is for collectively circa 50% of the site to provide useable open space with opportunities for ecological improvements which will comprise green corridors following the southern boundary, along Rake Lane, providing a wildlife corridor and maintaining the existing separation of Murton Village.

6.10 Bellway have interest in both of these strategic sites. They have started on a phase of development on their site at Killingworth Moor.

6.11 Bellway are keen to agree a sustainable mix of housing tenure on both sites, but fear that the Council have unrealistic expectations of the level of s.106 contributions the sites can support. They advise that the current costings for the non-housing s.106 contributions sits at circa £16m.

6.12 Bellway cited that they are particularly concerned with the need for, and cost of, a new Metro Station on both sites.

6.13 Persimmon advise that they own, or control, 65% of the site at Murton Grange. This is the type of site that Persimmon are referring to when they want to secure
a flexible approach from the Council. Delivery will be over a number of years and the market will fluctuate so Persimmon wish to be able to keep an ongoing review of their planning obligations against the changing market.

6.14 Persimmon advised that they had concerns over the level of s.106 payments that the scheme will attract; they raised a particular concern over the cost of, and indeed need for, a new Metro Station.

Market Review

6.15 arc4 have undertaken market research into the two strategic sites in North Tyneside. A number of local estate and letting agents were approach to offer their views on demand and market trends alongside the price ranges currently being offered in these locations.

6.16 The following agents who covered the Whitley Bay and Killingworth geographies were approached to take part in the work:

- Pattinson Estate Agent
- Your Move
- Alexander & Co
- Hunters Estate Agent
- Embleys Estate Agents

6.17 Interviews were held with:

- Embleys Estate Agents
- Pattinson Estate Agent
- Your Move
- Alexander & Co

6.18 All agents were positive about the current market conditions in North Tyneside. The general view was that confidence in the market is growing and that demand for both home ownership and private rental products is on the rise. Agents recognised that demand is particularly strong amongst would be first time buyers (FTB) with most suggesting that this demographic are now far older than they used to be as many have opted to move home whilst saving for a deposit or have been in private rented accommodation.

Demand

6.19 The need for more starter homes was raised as a key priority for all agents. Most felt there was a shortage of this type of property within the area and indicated that they would expect that any that become available to perform well in the current market conditions. It was further noted by all agents that there was an undersupply of what they described as ‘suitable homes’. When this was explored further agents added that the current supply is not effectively meeting the demand present within the area.
6.20 The properties that receive highest demand in the Murton Gap and Killingworth Moor geographies are family homes. All agents agreed that 3 bedroom detached properties receive consistent high demand in all geographies and they recommended anyone who was looking to build in the area focused on this dwelling type as they predicted that demand would continue to rise. Secondary was 3 bed semi-detached dwellings followed by 2 bed properties.

6.21 Agents believe that demand for 3 bed properties is high amongst those seeking starter homes due to the rise in age of first time buyers who they feel now seek a larger home as their first home to avoid the costs of moving again and are considered far more aspirational in terms of the home they wish to obtain. They added that young couples and families are typically at the core of this demand.

6.22 Demand for flats and apartments was considered the lowest within these areas. Agents noted that demand has noticeably fallen over the last 3-5 years with most indicating they had properties on their books they “simply couldn’t shift”. Most felt that the dip in demand was also due to the costs associated with moving leading many to seek a larger property that they do not have to move from in the short term and an increase in demand for homes amongst young families and FTB’s. In terms of geographies, properties in and around Northumberland Park were deemed the overall least desirable.

Demographics

6.23 The demand profile of those seeking properties across Monkseaton and Killingworth Moor were described as mixed, however, most saw a strong demand from young families and couples. Agents believe that demand from non-locals is higher within Monkseaton than in Killingworth Moor with properties close to the centre of Monkseaton being identified as the most desirable for young families, whilst couples who have yet to have children are more drawn to properties within Killingworth Moor.

6.24 Agents believe this is due to it falling outside the school catchment areas and advised that this greatly influences the desirability of a property. Those that fall within the catchment areas of Valley Garden middle school receive significant demand and sell much faster than those outside the catchment area.

Price

6.25 All agents agreed that properties within the Monkseaton area usually receive the highest demand. They felt that this was reflected in the prices charged with good 3 bed properties in Monkseaton selling for between £210,000 - £230,000 (detached/semi) and 2 bed properties commanding £175,000 - £185,000. Agents report that properties here usually receive high levels of interest and sell quickly due to consistent demand. However, the cost is significantly reduced the further away from the centre a property is. It was noted that this is usually by £15,000 - £20,000 the further out it is.

6.26 Killingworth Moor is generally viewed by agents as less popular but far cheaper than properties in and around Monkseaton. Agents noted that demand here often comes from young people and couples who are unable to purchase a larger
property in the Monkseaton area and most recognised this is often their ‘second choice’ location. They are also people who have yet to have children and are therefore less affected by the school catchment areas and so place a greater focus on the ‘value for money’ offered to them in these areas.

6.27 Backworth and Shiremoor were deemed the least desirable when compared to others geographies in the study area. Here prices are considered the lowest with some properties selling for as low as £65,000. However, prices generally fall between £170,000 - £190,000 for a large 3-bed property offering a garden and parking.

**Affordable and SHI Impact on Scheme Viability**

6.28 Affordable home provision has an impact on scheme viability. It follows then the introduction of the Starter Homes Initiative will affect both the affordable home provision and scheme viability.

6.29 To allow an initial understanding of the potential impact three options have been considered across both strategic sites:

<table>
<thead>
<tr>
<th>Table 6.1: The Potential Impact of SHI – Three Options</th>
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6.30 There are a multitude of elements that make up scheme viability, especially for strategic sites providing thousands of units. Nevertheless, the adoption of a set of standard assumptions will allow for review of the likely implication of the three options.
6.31 The following should not be seen as a scheme viability review, rather a review of the proportional effect of looking at the four affordable provision options on the final scheme viability.

Assumptions:
- House Numbers - 3,000 units at Murton Gap and 2,000 units at Killingworth Moor.
- Market Unit Types, sizes and numbers- The following are a selection of the standard house types provided by Persimmon and Bellway across other sites in North Tyneside and neighbouring boroughs:

**Persimmon House Types**

- The Swale
  - 3-bed Semi-detached
  - £184,950 to £202,950

- Dartford
  - 3-bed Semi-detached
  - £206,950 to £208,950

- Rufford
  - 3-bed Semi-detached
  - £206,950 to £208,950

- Amberley
  - 4-bed Detached £206,950 - £208,950
  - Prices from developments on site in Gosforth (no unit sizes given)

- Nene
  - 4-bed Detached £259,950 (Nene)

- Westminster
  - 4-bed Detached £279,950

- Harrington
  - 5-bed Detached from £319,950

**Bellway House Types**

- Ash
  - 2-bed Semi-detached
  - From £137,995
  - 58.25 sqm

- Cherry
  - 3-bed Semi-detached & terraced
  - £TBA
  - 73.86 sqm

- Hazel-semi
  - 3-bed Semi-detached
  - £TBA
  - 85.01 sqm

- Larch-Semi & terraced
  - 3-bed Semi-Detached or Terraced
  - From £189,995
  - 98.38 sqm
Hazel-detached  
3-bed Detached £214,995  
85.01sqm

Hawthorne  
3-bed Detached £219,995  
87.89sqm

Willow  
3-bed Detached £219,995  
87.89sqm

Juniper  
4-bed Detached  
From £229,995  
90.02sqm

Oak  
4-Bed Detached  
£TBA  
116.31sqm

Maple  
4-Bed Detached  
£TBA  
110.83sqm

Acacia  
4-Bed Detached  
£TBA  
131.83sqm

Rowan  
4-Bed Detached  
£TBA  
114.08sqm

Lime  
4-Bed Detached  
£TBA  
132.11sqm

Bay  
4-Bed Detached  
£TBA  
153.29sqm

Pine  
4-Bed Detached  
From £329,995  
154.23sqm

Plane  
4-Bed Detached  
From £339,995  
159.61sqm

Prices from Earsdon View

Redwood  
4-Bed Detached  
From £379,995  
193.72sqm

6.32 Close to the Murton Gap the following current comparable properties were found:
6.33 At Killingworth Moor the following new build comparable properties were found:

3-bed Semi-detached – Barratts £174,995
Killingworth

3-bed Terrace, Barratt Homes £171,995 through to £199,995 & end of Terrace 3-bed £228,500
Killingworth

6.34 Using these comparable properties, the Design Advisory Panel Guidance and the feedback from the agent review the following tables provided the assumptions used on the potential unit type, size, price and percentage split for the two sites.
Table 6.2: Market Housing Provision Assumption – Murton Gap

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Unit Size (SQM)</th>
<th>OMV</th>
<th>% Split on Site</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-Bed Detached</td>
<td>90</td>
<td>£210,000</td>
<td>30%</td>
</tr>
<tr>
<td>3-Bed Townhouse</td>
<td>110</td>
<td>£215,000</td>
<td>30%</td>
</tr>
<tr>
<td>4-Bed Detached</td>
<td>120</td>
<td>£230,000</td>
<td>15%</td>
</tr>
<tr>
<td>4-Bed Detached</td>
<td>150</td>
<td>£330,000</td>
<td>15%</td>
</tr>
<tr>
<td>5-Bed Detached</td>
<td>200</td>
<td>£379,950</td>
<td>10%</td>
</tr>
</tbody>
</table>

Table 6.3: Market Housing Provision Assumption – Killingworth Moor

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Unit Size (SQM)</th>
<th>OMV</th>
<th>% Split on Site</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-Bed Detached</td>
<td>90</td>
<td>£185,000</td>
<td>35%</td>
</tr>
<tr>
<td>3-Bed Townhouse</td>
<td>110</td>
<td>£195,000</td>
<td>25%</td>
</tr>
<tr>
<td>4-Bed Detached</td>
<td>120</td>
<td>£210,000</td>
<td>20%</td>
</tr>
<tr>
<td>4-Bed Detached</td>
<td>150</td>
<td>£275,000</td>
<td>20%</td>
</tr>
<tr>
<td>5-Bed Detached</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

6.35 Affordable unit types, sizes and numbers. The following table provides the assumed affordable housing provision, including the purchase price RP’s will need to agree with the developer.

Table 6.4: Affordable Housing Provision Assumption

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Unit Size (SQM)</th>
<th>Tenure</th>
<th>OMV Murton/ Killingworth</th>
<th>RP Offer as a % of OMV</th>
<th>% Split of Tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-bed Terraced</td>
<td>67</td>
<td>Affordable Rent</td>
<td>£130,000/ £110,000</td>
<td>45%</td>
<td>75%</td>
</tr>
<tr>
<td>2-Bed Semi-Detached</td>
<td>67</td>
<td>Shared Ownership</td>
<td>£138,000/ £113,000</td>
<td>65%</td>
<td>25%</td>
</tr>
<tr>
<td>3-Bed Semi-Detached</td>
<td>75</td>
<td>Affordable Rent</td>
<td>£190,000/ £150,000</td>
<td>45%</td>
<td>25%</td>
</tr>
<tr>
<td>3-Bed Semi-Detached</td>
<td>75</td>
<td>Shared Ownership</td>
<td>£190,000/ £150,000</td>
<td>65%</td>
<td>75%</td>
</tr>
</tbody>
</table>
6.36 Starter Home Unit Types, sizes and numbers. It has been assumed that the SHI units would mirror the shared ownership provision, i.e.

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Unit Size (SQM)</th>
<th>Tenure</th>
<th>OMV Murton/ Killingworth</th>
<th>Discount offered</th>
<th>% Split of Tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-Bed Semi-Detached</td>
<td>67</td>
<td>Starter Home</td>
<td>£138,000/ £113,000</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>3-Bed Semi-Detached*</td>
<td>90</td>
<td>Starter Home</td>
<td>£210,000/ £160,000</td>
<td>20%</td>
<td>75%</td>
</tr>
</tbody>
</table>

* Starter homes criteria is for larger 3-beds than current Shared Ownership Provision; these larger units will carry a higher asking price.

6.37 The following other capital assumptions have been assumed:

- Gross build cost, including on-costs: £1,050/sqm
- S.106 Contribution for market homes only (not affordable nor SHI): £15,000/unit
- Developers profit: 20% Gross Market Price for market and SHI, 4% of build cost for affordable (Affordable Rent and Shared Ownership)
- Sales costs at 5% of Gross Market Price
- Land and financing costs; residual figures

6.38 Taking all of the above into account the following two tables illustrate the potential effect the four noted options have the scheme viability:

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Option One Current Policy</th>
<th>Option Two Developer</th>
<th>Option Three Government</th>
<th>Option 4 Demand Led</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Total Units</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Market</td>
<td>2,250</td>
<td>2,250</td>
<td>2,250</td>
<td>2,250</td>
</tr>
<tr>
<td>Affordable Rent</td>
<td>562</td>
<td>300</td>
<td>150</td>
<td>562</td>
</tr>
<tr>
<td>Shared Ownership</td>
<td>188</td>
<td>0</td>
<td>0</td>
<td>60</td>
</tr>
<tr>
<td>Starter Homes</td>
<td>0</td>
<td>450</td>
<td>600</td>
<td>128</td>
</tr>
<tr>
<td>Notional Residual Figure/ plot (to cover land &amp; financing costs)</td>
<td>£34,512</td>
<td>£41,171</td>
<td>£46,107</td>
<td>£35,650</td>
</tr>
<tr>
<td>Tenure</td>
<td>Option One Current Policy</td>
<td>Option Two Developer</td>
<td>Option Three Government</td>
<td>Option Four Demand Led</td>
</tr>
<tr>
<td>------------------------------</td>
<td>---------------------------</td>
<td>----------------------</td>
<td>-------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Assumed Total Units</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Market</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Affordable Rent</td>
<td>375</td>
<td>200</td>
<td>100</td>
<td>375</td>
</tr>
<tr>
<td>Shared Ownership</td>
<td>125</td>
<td>0</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>Starter Homes</td>
<td>0</td>
<td>300</td>
<td>400</td>
<td>85</td>
</tr>
<tr>
<td>Notional Residual Figure/plot (to cover land &amp; financing costs)</td>
<td>£14,902</td>
<td>£15,432</td>
<td>£22,516</td>
<td>£15,552</td>
</tr>
</tbody>
</table>
7. Key Findings

Understanding the potential market for Starter Homes in North Tyneside

7.1 There is a potential market for Starter Homes in North Tyneside. Data from the 2014 Strategic Housing Market Assessment primary research confirms that 7,369 existing households and 9,272 emerging household qualify for the Starter Home Initiative.

7.2 Of these, 4,521 households have sufficient salary to access 2 or 3-bed lower quartile market housing in the borough. 3,929 households can potentially access a 2-bed home and 592 households can potentially access a 3-bed home.

7.3 However, as the Starter Home Initiative provides a 20% discount from the open market value of properties on the open market, this reduces the amount of mortgage and deposit required and therefore decreases the level of income required to afford a property. This increases the number of potential households who could access a 2 or 3-bed house in the borough by 81.8% to 8,221 households. 6,870 households can potentially access a 2-bed home and 1,351 households can potentially access a 3-bed home through the Starter Home Initiative.

7.4 The challenge will be whether households have deposits. The feedback from respondents was that savings are extremely low with the majority having less than £5k. Assisted purchase products such as the Starter Home Initiative will be helpful but as a deposit will still be required, the lack of savings remains a potential barrier to purchase. Once current levels of savings are factored in the number of household who can access the SHI drops by 50%, from 8,221 to 4,111.

7.5 In terms of the potential markets, 3-bed houses are the most popular choice (51%) for respondents; from the SHMA primary research 30% stated a preference for 2-beds and 17% for 4-beds. This is differs from the primary data feedback undertaken as part of this research where 44 of 73 households wanted 2-bed properties.

7.6 Most people would prefer to acquire a detached home but expect to purchase either a terrace or semi-detached home – this was consistent across both data sets.

7.7 The data from the Strategic Housing Market Assessment confirms that coastal areas are the most popular amongst emerging and existing qualifying households, with Tynemouth and Cullercoats ranking the highest. Many emerging households also see Wallsend Town Centre across to Battle Hill as an attractive option. 16% of emerging households would consider moving away from the North East as their preferred choice (15% elsewhere in the country, 1% outside of the UK).

7.8 Like the SHMA data, households in the most recent primary research considered Wallsend Town Centre across to Battlehill as attractive options. This
was the most attractive option for emerging households in the SHMA. Coastal areas did not have the same attraction for respondents in the most recent primary research as the SHMA data.

7.9 The Starter Home Initiative plays a significant role in increasing accessibility to preferred locations. For example, within the highest value area, Monkseaton, the Starter Home Initiative increases the potential pool of first time buyers from 870 to 1,082 (24%) and in the Moor Park area, the rise is 187% from 2,709 to 7,800. In the Killingworth area the increase is 76% From 4,521 to 7,971. In the last area, Shiremoor, numbers increase from 4,521 to 5,030 (11%).

7.10 Given that the principal driving factors for this cohort in moving are to buy and secure a better house, with a garden in a good location, the Starter Home Initiative is likely to be a popular product. However, there were some very clear concerns about the product itself, the main one being summarised as believing the product had ‘a catch’ or there would be some ‘small print’ that purchasers weren’t aware of. Seven respondents were concerned that the properties would be in unpopular locations with 8 respondents concerned that the product only applied to new properties; location will matter.

Understanding the potential appetite for Starter Homes in North Tyneside

7.11 Achieving homeownership for new and existing households is the greatest driver to moving (34.4% of respondents). The data clearly confirms other drivers including securing a better house, with a garden in a good location. These households would certainly be supported by, and potentially attracted to, the Starter Home Initiative.

7.12 Low cost homeownership products are considered by purchasers but not to the extent that outright sale is. 44% of respondents from the SHMA primary research would consider open market sale and 20% would look at the Shared Ownership option and 16% the private rented sector. However, the number of respondents who expect to make home ownership their next move stands at about the same rate as those expecting to move in to the private rented sector; just under 40%. This group may be attracted by the Starter Home Initiative.

7.13 From the recently completed primary research, in terms of accessing a low cost homeownership or assisted purchase product as a mechanism into homeownership, low numbers of respondents were considering this option; however, given the answers, it’s clear that respondents do not fully understand these products or how they work and so had possibly not heard of them. For example, Help-to-Buy which has been widely advertised is a product that is being considered by respondents who were not considering an equity loan although this is to some extent the same product. Shared ownership has much lower popularity/knowledge from respondents and Discount Market Value (DMV) even less.

7.14 However, feedback strongly evidenced that once the product was explained to individuals, the potential take-up of the Starter Home Initiative changed; when SHI was explained to respondents, 38 respondents had previously heard of it,
and once explained 69 confirmed that they would be interested in using it. This is likely to be a popular product.

7.15 Whilst many respondents felt the product was in some way ‘too good to be true’ two of the concerns about the product were location and the fact that the product was only available on new build properties. Clearly, location is a factor in decision making; whilst a significant proportion of respondents would use the product, there was concern about where the properties would be located. Further research such as focus groups could start to reveal buying decisions and priorities.

7.16 Agents believe that demand for 3 bed properties is high amongst those seeking starter homes due to the rise in age of first time buyers who they feel now seek a larger home as their first home to avoid the costs of moving again. Agents, added that young couples and families are typically at the core of this demand. The primary research would by and large support this. Agents also confirmed that demand for apartments had significantly reduced for this reason.

The economics of delivering Starter Homes in North Tyneside

7.17 Developers are generally very supportive of the Starter Home Initiative. Persimmon Homes is fully behind SHI and have been working with Government advisers in developing the policy and Bellway confirmed they will provide SHI in line with the Government model and policy.

7.18 Both developers consider SHI to offer direct control over the delivery and disposal of these intermediate products and, being similar to their existing Discount Market Products, better matches their preference. As such they see that SHI will all but replace Shared Ownership on the majority of their future schemes. Persimmon are moving on a scheme at Gosforth Business Park with 100% Starter Homes.

7.19 There were some criticisms of the product regarding the size of the Design Advisory Panel standard house templates. Bellway advised that it seemed counter intuitive for the Government to remove design and code standards for Registered Providers and yet at the same time introduce higher space standards to the SHI. A further criticism was the recently popular view in the press that the 5-year restriction on the equity ceiling is too short. Interestingly developers were concerned about the potential of the Council to achieve affordable homes in perpetuity unless the policy is amended.

7.20 Other concerns were that SHI may result in higher land values with land owners potentially anticipating and expecting higher values for their land. These concerns did not appear to dampen plans to deliver the product.

7.21 Bellway did however see how the proposed new definition of Affordable Housing could strengthen the argument to remove equity restrictions on Shared Ownership products as well as promoting the use of Bellway’s Discount Market Value model to allow those tenures to be maximised in North Tyneside.

7.22 Both developers were concerned that SHI may distort the market place and create an unfair playing field. Persimmon advised that last year over 30% of
their homes sold for less than £150,000. If Persimmon did not offer SHI and a competitor did on a site close-by, it would create an unfair level of competition. This all adds to the need to work flexibly with the Council and Registered Providers to agree a workable and balanced scheme in relation to the surrounding area.

7.23 The future development aspiration for Bernicia includes the development of up to 400 new Affordable Rented units over the next 4 years; of which 280 of these are already committed. Bernicia are keen to explore other tenures and forms of housing provision including outright sale, private rented and Shared Ownership to add to and supplement their core development programme. They also held the view that the Starter Homes Initiative would provide them with a further tenure opportunity to deliver a larger development programme.

Understanding the impact that Starter homes will have on other lower market products

7.24 Within both consultation responses and commentary from industry experts, there are some residual concerns regarding the relative competition for similar products within the First Time Buyer / lower segment of the housing market. Whilst for some this may be seen as healthy First Time Buyer terms of a broadening of offers and products, this may lead to a further level of confusion within an already keenly priced area of the market. Developers appear particularly keen on ensuring an ability to flex products to respond to either market changes to meet customer expectations, however this type of approach becomes increasingly difficult to monitor and manage and could result in less balanced delivery where initial developments / schemes promote single tenure responses.

7.25 SHI provides a ‘true discount’ from the market that after a relatively short period of time is ‘written off’ leaving the purchaser with the ability to sell the property. It is a very clean product, easy to understand without any ongoing charges or uplift in equity. It is likely to have quite an impact in terms of popularity of the product.

7.26 In terms of products, purchasers are particularly concerned about the costs of homeownership, the ongoing costs of products, the repayment requirements of products and which products provide full title ownership; compared to other products SHI has a number of benefits but other products also provide benefits:

- Both Help-to-Buy (equity loan) and Shared Ownership products have ongoing costs; in Help-to-Buy there is a charge after 5 years on the equity loan and in Shared Ownership a rent is payable on the unowned equity. These do not exist in the Starter Home Initiative nor do they in Discount for Market Value products.

- Shared Ownership does not provide full title ownership for the purchaser. Purchasers are legally tenants which can be off-putting for purchase who want to achieve homeownership and have a choice of other products. The other main ownership products do provide full title ownership.
SHI offers a 20% discount from the market. Shared Equity can offer similar buy-in levels and the Help-to-Buy mortgage guarantee product enables home buyers more high-loan-to-value mortgages (80-95%). So if purchasers have a 5% deposit, purchasers need to take out and pay back a 95% mortgage. Shared Ownership buy-in levels can be as low as 25% but are more likely to be offered at 50% and so are cheaper in terms of access.

In terms of repayment, the Starter Home Initiative does not require the discount to be repaid, providing the purchaser lives in the property for 5 years. All other products need to be repaid and in the case of Shared Equity and Shared Ownership the buy-out could increase significantly if property prices increase.

Whilst the discount for sale products are good products in comparison, many have a requirement for the discount to be passed to future purchasers in perpetuity and this also limits the ‘type’ of household that can purchase the property. This can be unpopular with lenders, although Persimmon had not experienced these difficulties.

Compared to the other main product, the table below considers the affordability of SHI for purchasers based on a £100k property. Shared Ownership remains the most attractive product in terms of buy in costs, Help to Buy is very similar to the Starter Home Initiative and all provide valuable reductions in mortgage costs compared to outright sale.
### Table 7.1: Cost comparison of market products

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Assistance</th>
<th>OMV</th>
<th>Purchase Price</th>
<th>Equity Acquired</th>
<th>Deposit @ 5%</th>
<th>Mortgage Required</th>
<th>Est. Mortgage pcm *</th>
<th>Rent PCM</th>
<th>Rent PCM</th>
<th>Rent PCM</th>
<th>Cost pcm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starter Homes Initiative &amp; Help to Buy</td>
<td>20% Discount &amp; 20% Equity Loan</td>
<td>£100,000</td>
<td>£64,000</td>
<td>80%</td>
<td>£4,000</td>
<td>£60,000</td>
<td>£410</td>
<td>£0</td>
<td>£0</td>
<td>£410</td>
<td>£410</td>
</tr>
<tr>
<td>Shared Ownership</td>
<td>Equity Share</td>
<td>£100,000</td>
<td>£50,000</td>
<td>50%</td>
<td>£2,500</td>
<td>£47,500</td>
<td>£325</td>
<td>£115*1</td>
<td>£115*1</td>
<td>£115*1</td>
<td>£439</td>
</tr>
<tr>
<td>Help to Buy - Equity Loan</td>
<td>20% Equity Loan</td>
<td>£100,000</td>
<td>£80,000</td>
<td>80%</td>
<td>£5,000</td>
<td>£75,000</td>
<td>£513</td>
<td>£0*2</td>
<td>£0*2</td>
<td>£0*2</td>
<td>£513</td>
</tr>
<tr>
<td>Starter Home Initiative</td>
<td>20% Discount on OMV</td>
<td>£100,000</td>
<td>£80,000</td>
<td>100%</td>
<td>£4,000</td>
<td>£76,000</td>
<td>£520</td>
<td>£0</td>
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<tr>
<td>Out Right Sale</td>
<td>None</td>
<td>£100,000</td>
<td>£100,000</td>
<td>100%</td>
<td>£5,000</td>
<td>£95,000</td>
<td>£650</td>
<td>£0</td>
<td>£0</td>
<td>£650</td>
<td>£650</td>
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<tr>
<td>Help to Buy - Mortgage Guarantee</td>
<td>30% Mortgage Guarantee</td>
<td>£100,000</td>
<td>£100,000</td>
<td>100%</td>
<td>£5,000</td>
<td>£95,000</td>
<td>£650</td>
<td>£0</td>
<td>£0</td>
<td>£650</td>
<td>£650</td>
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</tbody>
</table>

* at 6.5%
*1 S/O rent at 2.75% Unsold Equity
*2 Equity Loan attracts a charge of 1.75% + 1% increase pa on loan after 5-years
7.27 The impact Starter Home initiative will have on other products is yet to be seen, although the costs figures in table 7.1 do suggest that given the ongoing costs of homeownership it could have a significant impact on Help to Buy.

7.28 The other potential elements that need to be considered are:

- Where Starter Home Initiative will be offered and in what quantities. The strategic site appraisals suggest that the affordable housing policy including for 17% Starter Home initiative could readily be provided.

- Whether developers choose to deliver these products, although it seems likely that they will.

- Whether Registered Providers will wish to continue to offer Shared Ownership; feedback from developers suggested that DMV was better than Shared Ownership and that Registered Providers do not want to take Shared Ownership property any longer.

- Lender considerations - Many lenders have continued to take a prudent approach towards new build properties and so often seek to spread their risk by limiting exposure through different types of lending. It is often the case that lenders will limit the number of properties it is prepared to accept as security on each development, and examples of this are common where high proportions of shared ownership or DMV schemes are promoted. It is likely that unless specific scheme rules are developed that lenders will continue to apply their standard lending policies to Starter Homes therefore again potentially limiting their involvement in lending under this scheme or not to lend at all. If this is the case then a more balanced policy response (including market views) will be required especially on larger sites.

Will SHI change the perception of Shared Ownership?

7.29 It is difficult to confirm whether the Starter Home Initiative will change the perception of Shared Ownership. Given the feedback from developers and the Registered Provider, it would seem that Shared Ownership will not necessarily be a major contributor to the Affordable Housing intermediate supply but it is and remains an important product consideration (this is more about balance / mix and flexibility).

7.30 Whilst the announcement of additional funding to support the development of more Shared Ownership is likely to bring more housing associations back into the market for Section 106 units, there remains some continuing scepticism regarding both the relative value and affordability of this tenure as well as concerns over its attractiveness due to often onerous re-sale restrictions (albeit these may start to fall away as NPPF is amended).

7.31 The intention of the Governments funding announcement is more about seeking to broaden the appeal of Shared Ownership to get Registered Providers to the development table, but also to challenge and attract more mainstream house builders. Therefore, maybe practical incentives for housebuilders and developers to deliver shared ownership themselves, as both a way to maintain control and to also to ensure differentiation from other products. Developers are likely to want to keep shared ownership “in the mix” but have the flexibility to “flip” between affordable products (including rent-to-buy; shared
equity, SHI, DMV) as markets changes over time and also as individual schemes get built out.

7.32 Whilst the management responsibility for shared ownership may cause some sales focused developers some concerns, it is likely that any such responsibilities (whilst modest in scale) will continue to be passed on to housing associations unless “in-house” arrangements are available. The income stream from the unsold share is relatively risk free and so is attractive to investors so this may start to tip the balance and thinking for some house builders (and their funders) to move into other tenures of provision.

7.33 Developers will take a very cautious view in assessing a balanced scheme; they are particularly worried that SHI can affect their open market sales if competitors are offering SHI and will not offer Discount Market Value where the SHI is being offered.

7.34 Developers will look to use SHI as part of the affordable housing obligation but do not think that SHI will impact upon the demand for Affordable Rented units.

7.35 Registered Providers would be extremely cautious about offering Shared Ownership in areas where SHI is being offered. Across all sites Bernicia advises that the exact tenure mix they are able to support will be subject to a scheme by scheme appraisal and review. In taking this flexible approach, Bernicia considers the full range of housing options provision (including on-site / off site / commuted sums) to ensure that the final mix is both sustainable and deliverable. They expressed concern that Starter Homes may prove very popular compared with Shared Ownership and they would be very cautious of delivering Shared Ownership in areas that also have Starter Homes.

**Will SHI impact on the provision of affordable rented homes?**

7.36 Whilst the likes of Bernicia continue to promote and develop / acquire affordable rented homes, it would appear that the majority of future development capacity by local Registered Providers has already been secured and accounted for within the existing pipeline of development schemes. The ability and appetite for Registered Providers to respond to meet the estimated imbalance of affordable housing in North Tyneside (especially for rented products) appears therefore to be questionable.

7.37 The Local Planning Authority has an aspiration to develop 3,000 new / additional Affordable Housing units over the Local plan period and under the suggestion / recommendation of the current SHMA, some 2,250 of these should ideally be for rent. Whilst Registered Providers will continue to support rental products, against a background of no Affordable Housing Programme grant and reducing rents the level of this support is likely to be muted. As the level of developer subsidy required to deliver either a social and affordable rented product is considerable, the LPA will need to carefully consider the implications upon viability if continuing in strict adherence to current adopted policy thresholds. Again a more flexible approach is likely to be required whereby the LPA informed through viability appraisals may choose to adjust tenure mix and / or AH thresholds in order to balance local need against scheme delivery.
The potential impact of delivering starter homes on your two strategic sites.

7.38 Both developers’ opinion was that the SHI should produce a better return than the existing types of affordable provision and both were keen to deliver Starter Homes. Both developers seemed committed to continuing to provide a balanced approach towards schemes and affordable housing in the future.

7.39 Developers see SHI as only one part of the solution with the agreed affordable provision to include a mix of SHI, Affordable Rent, and Discount Market Value and where the market calls for it, limited Shared Ownership units. The actual delivery on the ground will need careful monitoring.

7.40 The strategic site scheme reviews suggest that the notional residual figure for developers of delivering Starter Homes are positive and suggest that affordable rented homes can be delivered. Including Starter Homes in favour of affordable rent does improve viability but a sensible and balanced approach could deliver affordable rented homes. Developers confirmed this what they were seeking.

7.41 This is positive for the council in terms of retaining its ability to deliver affordable rented housing on its strategic sites.
8. Conclusions

The future of sustainable affordable housing provision in North Tyneside

8.1 Given the evidence from the primary research, there would appear to be a latent demand / need for home ownership for First Time Buyers (FTBs) and an interest for intermediate ownership. This level of latent demand may be further extended should any additional form of financial assistance be coupled with Starter Home Initiative. The conclusions of this report are that there does appear to be a healthy demand / level of interest for Starter Homes in North Tyneside.

8.2 This level of demand is also likely to be higher than anticipated as most FTBs purchasing in the open market stretch themselves beyond the theoretical definition of "affordable" by spending more than 30% of their net disposable income on housing - they will still spend as high as lenders will lend and FTBs for this product will be no different.

8.3 Demand is then also likely to be higher if Starter Home initiative is introduced in its current format. It would seem that there will be a significant number of interested purchasers paying for the opportunity to get a one off "20% kick back" 5 years down-stream - this may include investors backing FTBs and developing a profit share. Given the post 5 year incentives associated with SHI, many FTBs may be more willing to access the market for this type of product and its potential "pay back" as a route to fund full market access especially for their second purchase.

8.4 The Council may wish to review its aspiration for 3,000 additional affordable homes if a flexible approach cannot be taken within the current preferred tenure split of 75% rent and 25% intermediate housing and there does not appear to be sufficient capacity / interest / finance to deliver this within the local Registered Provider sector although additional market testing is required.

8.5 The key to delivery (of 3000 additional affordable units) will be flexibility on both tenure mix and affordable housing threshold and further economic viability work is likely to be required when the final product is released. Within that testing, the range of scenarios to accommodate what developers may do will need to be carefully considered.

8.6 However, there are other uncertainties at this stage such as the ongoing concerns regarding the level of exposure lenders are prepared to have on all intermediate affordable housing products (including SHI) - this is important on big strategic sites where affordable housing numbers may be high and again, this will need careful monitoring and there are a number of unknowns that cannot be answered at this stage.

8.7 If the NPPF is amended to include Starter Homes in the definition of affordable housing, then no affordable housing contribution should be sought by an LPA for the Starter Home element of a development. Subject to the amendments for the NPPF, North Tyneside’s Development Plan will therefore need to be amended to set out the local Starter Home requirement, and the proportion of the affordable housing (i.e. the tenure split) that Starter Homes should comprise as a consequence; the Council may need to be more open to commuted sums
in lieu of Starter Homes / Affordable Housing if they want to fund and deliver any priority sites or meet particular need requirements.

Our recommendations:

8.8 The current SHMA recommendation supports 25% intermediate and 75% rented (social and affordable rent).

8.9 Feedback from your officers has confirmed that the Council has a successful track record in achieving this affordable housing requirement and tenure split.

8.10 Although not confirmed, in the future, it is likely that LPAs under the provisions of the Housing and Planning Act, will be required to enable and support the provision of between 10 – 20% of all new dwellings as Starter Homes on all qualifying sites. Subject to the amendment of NPPF (and Affordable Homes definition within) then these units will legitimately constitute affordable housing provision.

8.11 In addition to this, it is likely that continuing to deliver this level of rented affordable housing will prove challenging going forward for the following reasons:

- Registered Providers nationally are reconsidering their investment programmes in the light of the end of social housing grant and the substantial reduction in rental income associated with the 1% annual rent cut until 2020. This is likely (and anecdotally being reported) to reduce the appetite and ability for Registered Providers to take social and affordable rented stock, at prices that developers feel are economically viable, in any significant volume

- Given the changes in Government support for local authorities it is probable that local authorities will change their position over development and start to take a more competitive approach towards attracting development investment opportunities to boost Council tax revenues. Councils will need to be more flexible in planning negotiations and take a more sensitive approach to viability to deliver more units.

8.12 Given the level of interest, financial capacity to access the Starter Home Initiative and level of developer interest in Starter Homes, it would be prudent to suggest that the authority test a range of scenarios by tenure mix to enable the authority to test this flexibility and inform future negotiations.

8.13 We recommend that the 25% affordable is retained as informed by the Strategic Housing Market Assessment and advise that the following tenure splits are tested (not an exhaustive list):

- 75% Rental: 25% Intermediate (of which a minimum 17% to be Starter Homes);
- 60% Rental: 40% intermediate (of which a minimum 17% to be Starter Homes); and
- 50% Rental: 50% intermediate (of which a minimum 17% to be Starter Homes).
8.14 As part of this commission, the Council specifically asked us to consider the future role of Shared Ownership as a competitor product within the current range of intermediate home ownership products and with the introduction of Starter Homes.

8.15 Our findings have been reported in this report and have confirmed that the product is not popular with purchasers or developers. There is a role for this product for a targeted client group and the council should consider creating a more attractive Shared Ownership model. Developers and Registered Providers would be more willing to expand this tenure if restrictions on equity ceilings and local occupancy clauses were relaxed. This would make the units more affordable and attractive to purchasers as it would mean lower deposits, lower mortgage rates and make re-sales easier.

8.16 We would recommend further investigations and a pilot approach to introducing this product.