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## FIRST HOMES AND SHARED OWNERSHIP



### Introduction

1. This briefing note has been prepared by Gerald Eve LLP and is produced following the Government's written statement made by the Minister of State for Housing published on 24 May 2021, in respect of an affordable housing update.
2. The update relates to plans for the delivery of the First Homes scheme and a new model for Shared Ownership through the planning system, which is due to come into effect on 28 June 2021.
3. Both First Homes and Shared Ownership are home ownership products falling under the intermediate tenure of affordable housing. These are each outlined in turn below.

### First Homes

4. Part of the Conservative Party's 2019 Manifesto was a new affordable home ownership product called First Homes. This is a new discounted ownership scheme whereby buyers receive a minimum of 30% discount on market value for new build homes. To be eligible, buyers must have a household income of less than £80k per annum in England, and £90k per annum in London. To ensure these homes are not used for investment purposes, at least 50% of the discounted value is required to be financed via mortgage/ lending arrangement.
5. New build properties have a price cap of £250k in England and £420k in London. Furthermore, to keep ownership local and to reduce the need for young people to move to buy elsewhere, First Homes are to be marketed first to local people who must meet certain criteria including either being a first-time buyer or a key worker. If buyers are not found, then these restrictions are lifted after six months so as not to end up with empty homes if there proves to be a lack of uptake by the target market.
6. The scheme is to be funded through developer S106 contributions, and a discount is to be continued in perpetuity and secured via planning obligation. This is similar to other discounted home ownership products such as Discounted Market Sale where a restrictive covenant on the legal title ensures that the discount remains for future purchasers. The government is preparing model

obligations and title restrictions (recognised by HM Land Registry) for use by local authorities to ensure the discount remains in perpetuity.

7. The First Homes scheme was consulted on in 2020 to a range of parties including Registered Providers, Local Authorities, house builders and the public and received c.800 responses; following the consultation further details on its implementation, funding through developer contributions and exemptions have now been finalised, which are summarised below:
  - a. A minimum of 25% of all affordable housing units secured through developer contributions should be First Homes. This is a national threshold which will be applied in England;
  - b. First Homes, like other affordable housing products, should be delivered on-site, unless off-site provision or an appropriate financial contribution in lieu can be robustly justified;
  - c. Where cash contributions instead of on-site affordable housing units are secured, a minimum of 25% should be used to secure First Homes; where a mixture of cash contributions and on-site affordable housing units are secured, 25% of the overall value of affordable housing contributions should be applied to First Homes;
  - d. Of the remaining 75% of developer contributions towards affordable housing, once a local authority has secured the 25% First Homes requirement, they should prioritise securing their policy requirements on social rent, and where further affordable units can be secured, these tenure-types should be in the relative proportions set out within the relevant development plan; and
  - e. First Homes are an affordable home ownership product and therefore where specific developments are exempt from delivering affordable home ownership products, they shall also be exempt from the requirement to deliver First Homes.
8. In respect of CIL, developers of First Homes are able to obtain an exemption from the requirement to pay CIL, as is the case with other affordable housing products.
9. A final policy change is that in regard to exception sites where there are currently two types: entry-level and rural. These sites are brought forward outside of development plans in order to deliver affordable

housing. The entry-level exception site policy is to be replaced with a First Homes exception site policy under the changes. However, given affordability challenges in more rural areas, in designated areas (including National Parks and Areas of Outstanding Natural Beauty), rural exception sites will remain as the sole type of exception site that can come forward.

### Shared Ownership

10. Shared ownership refers to housing where occupiers buy a share (generally 25% to 75% of the value of the home) and pay rent on the remaining value of the property to the landlord.
11. This product has been around for over 40 years and, in 2019, the New Shared Ownership Model was introduced by the Government to improve its reach to those who struggle to purchase their own home, even with the help of Shared Ownership schemes. A key change to take effect is that currently 25% of the property must be purchased by the occupier at the start with minimum staircasing of 10% per annum, creating a barrier to those who cannot commit to this level; whereas, the new product reduces these levels to 10% and 1% respectively, making it more widely accessible and affordable for prospective shared owners.
12. The Government have now published their new model for Shared Ownership. The key changes are as follows:
  - i Reduce the minimum initial share from 25% to 10%;
  - ii Introduce a new gradual staircasing offer, to allow people to buy additional shares in their home in 1% instalments with heavily reduced fees;
  - iii Introduce a 10-year period during which the shared owner will receive support from their landlord to pay for essential repairs; and
  - iv Give Shared Ownership leaseholders (shared owners) more control when they come to sell their home, with a minimum lease term of 990 years.
13. These changes are considered by the Government to be more consumer friendly, however they are likely to have a significant impact on the value of Shared Ownership to Registered Providers, with subsequent impacts on scheme viability.
14. Home England are set to publish a model lease to be used as the basis for this new model of Shared Ownership.

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