

Starter Homes: the government's £27bn raffle

200,000 lucky first-time buyers stand to share £26.8bn of government-subsidised profits through the Starter Homes scheme, leaving over 2 million aspiring home owners stuck renting, Generation Rent reveals today.

The scheme's potential rewards far exceed the already generous returns of home ownership and will benefit fewer than 5% of the 4.3m private renters that the government claims to be helping.

With the House of Lords to debate the policy as part of the Housing Bill this week, Generation Rent proposes that Starter Homes are only resold to first-time buyers at the same discount that the first cohort will enjoy, and that they are only built in addition to – not instead of – affordable homes to rent.

Under current government plans, first-time buyers using the Starter Homes scheme to buy a newly built home at a 20% discount would be able to sell it on after 5 years for the full market price. With house prices predicted to rise by an average of 5% a year, the average new-build home in England worth £297,000 could be bought for £238,000 under the scheme, then sold for £379,000 after five years.

The owner would pocket £141,000 – enough to build another affordable home.

In London, with an average new build price of £479,000, a home could be bought for £383,000 and sold for £611,000 five years later: a profit of £228,000. With 200,000 homes built and sold in total, this windfall would add up to £26.8bn.

The government plans to build Starter Homes instead of affordable homes for rent, costing the taxpayer £2.3bn, but as each Starter Home is sold off, it disappears into the open market, never to be replaced by another affordable home. If homes sold off under Right to Buy are replaced exclusively by Starter Homes, this will erode the supply of sub-market housing.

Only 200,000 households stand to benefit from the Starter Homes scheme, out of 2.3m private renter households estimated by the English Housing Survey to expect to buy a home.

Instead, by maintaining the discount in perpetuity instead of five years, the government could ensure that each Starter Home benefits multiple households over future generations. When a Starter Home's first owner decides to move, they could only sell to another first-time buyer at a 20% discount to the prevailing market price, and so on, ensuring that the home remains affordable.

Betsy Dillner, Director of Generation Rent, said:

“The government said its Starter Homes would be exclusively for first-time buyers, but by letting them vanish into the open market after five years, they're betraying the millions who are stuck renting.

“A perpetual 20% discount would help multiple first-time buyers, instead of a jammy handful of winners in a multibillion pound raffle. While a household using the scheme couldn't sell at the full market price they would be in a much better financial position than if they were still renting.

“The government should keep its promise to first-time buyers and build Starter Homes for the many, not the few – as well as homes for those who aren't in a position to buy.”

Ends

Notes to editors:

The Conservative General Election Manifesto, page 51, stated:

“a clear objective to build affordable homes, including 200,000 Starter Homes which will be sold at a 20 per cent discount, and will be built exclusively for first time buyers under the age of 40.”

The English Housing Survey 2014-15 estimated that there are 4.3m private renters, 2.3m of whom expect to buy a home at some point in the future.

Generation Rent estimated the typical profits on Starter Homes using the Office for National Statistics House Price Index (December 2015) and the PwC estimate of price rises, reported here:

<http://www.bbc.co.uk/news/business-33621047>

The analysis estimates the number of Starter Homes built in each region based on the number of private sector home completions in 2014/15 (DCLG Live Table 253), the profit on the average Starter Home in each region, if sold after 5 years, and the total profits on Starter Homes across the country.

Region	Number built 2014/15	% of total	New build price	Starter Home price	Price after 5 years	Price after 5 years with discount	Profit under current scheme	Number of homes built	Total subsidised profits
London	12190	13%	479,000	383,200	611,339	489,071	228,139	25,401	£5.8bn
South East	16560	17%	312,500	250,000	398,838	319,070	148,838	34,507	£5.1bn
South West	12350	13%	278,000	222,400	354,806	283,845	132,406	25,735	£3.4bn
West Midlands	8600	9%	217,000	173,600	276,953	221,562	103,353	17,920	£1.9bn
East Midlands	10310	11%	222,000	177,600	283,335	226,668	105,735	21,484	£2.3bn
East of England	12160	13%	312,500	250,000	398,838	319,070	148,838	25,339	£3.8bn
Yorkshire	8520	9%	195,000	156,000	248,875	199,100	92,875	17,754	£1.6bn
North East	5120	5%	180,000	144,000	229,731	183,785	85,731	10,669	£0.9bn
North West	10170	11%	199,000	159,200	253,980	203,184	94,780	21,192	£2.0bn
England	95980		297,000	237,600	379,056	303,244	141,456	200,000	£26.8bn**

*Starter Homes in South East and East of England have a maximum price of £250,000, so would have a true market value of £312,500, much lower than the average new home price recorded by the ONS.

**Total of regions

The Starter Homes policy, and the discount's time limit in particular, has already come in for criticism from housebuilders and lenders:

<http://www.insidehousing.co.uk/analysis-and-data/investigations/splash-down/7013038.article>

A scheme similar to Generation Rent's proposal is already operated in the private sector by Pocket Homes.