First Homes

Initial Prospectus and questionnaire following issue of Prior Information

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<https://www.contractsfinder.service.gov.uk/Notice/dbed9f83-70d3-4b6e-8d7e-6f820cc10e16>

Section 1 – Introduction

1. The Prior Information Notice published on 6 April 2021 announced Homes England’s intention to procure, on behalf of Ministry of Housing Communities and Local Government (MHCLG), house builders to promote the early delivery of the new affordable housing product, First Homes.
2. First Homes is a major Government priority and will support eligible first-time buyers to buy a home for a discount of at least 30% compared to the open market price.
3. On 1 April, Government published its response to the latest consultation on First Homes, which reaffirmed its commitment that 25% of affordable homes delivered through developer contributions in future should be First Homes. The response also included more detail on the design of and eligibility for First Homes. Full details of this response can be found here:

<https://www.gov.uk/government/consultations/first-homes>

1. In advance of delivery through the planning system, Government is also launching an early delivery programme to secure the early delivery of First Homes across England (outside London).
2. On 6 April, Homes England published its PIN to announce its intention to procure partners to deliver this programme. This Initial Prospectus provides further information about this programme in advance of a formal Invitation to Tender to be issued later this Spring. This Initial Prospectus will assist bidders to prepare and is also an opportunity for a period of market testing which will assist Homes England to refine its requirements for the Invitation to Tender.
3. The procurement is for a First Homes Early delivery scheme for 2021-23 that will deliver an estimated 1,500 First Homes for sale in England (excluding London), with the first purchaser legal completions anticipated from end of 2021 calendar year. The early delivery programme will provide learning to Homes England and MHCLG to assist the further national implementation of First Homes which will deliver at scale via the planning system.
4. The current and foreseeable levels of affordability challenges faced by first time buyers means that First Homes sold at a 30% discount are likely to be attractive. The national eligibility framework for buyers and the planning changes that will deliver this product at scale through the planning system means Homes England believes that a contract award in this early delivery programme offers the following benefits:
5. Delivery of additional affordable housing, over and above existing s.106contributions and existing delivery.
6. Opportunity for early engagement between builders and Local Authorities, ahead of the First Homes planning changes, to learn from and plan for scale delivery at 25% of all Affordable Housing.
7. Opportunity to learn from the early delivery sales process, the customer journey and contribute to its refinement before national implementation through the planning system.
8. Opportunity to understand level and type of customer demand, with access to a new and significant cohort of potential buyers currently excluded from home ownership.
9. Opportunity to develop, implement and refine local eligibility criteria, in advance of wider rollout via the planning system.
10. Reputational benefits to builders from driving delivery of a new affordable housing tenure and Government priority.
11. The intention is to procure house builders to the First Homes early delivery programme. Responses are welcomed from house building companies of all sizes inclusive of public, private, for profit and not for profit organisations engaged in house building.
12. The market testing exercise commences from 21 April 2021. This document outlines the proposed approach to procurement. At the discretion of Homes England and MHCLG, one or more information days may be held at which feedback may be provided on a face-to-face basis. This is anticipated to be via a “webinar” format.
13. A separate questionnaire document includes a number of questions to stakeholders. The responses to this document should use the Annexed questionnaire which should be returned to Homes England by 6 May 2021 and emailed to: [first.homes@homesengland.gov.uk](mailto:first.homes@homesengland.gov.uk).
14. It is proposed that the one or more “webinar” days will be held either side of receipt of questionnaires to support this market testing. These will be conducted online as Microsoft “Teams” meetings. The proposed dates (which are subject to change at Homes England’s discretion) are:
15. Thursday 29 April, 11.00 am;
16. Wednesday 12 May, 11.00 am;
17. Dial in in login details will be published on ProContract and will also be sent to all emails received in the [first.homes@homesengland.gov.uk](mailto:first.homes@homesengland.gov.uk) email box.

Section 2 – First Homes policy features to be tested in the early delivery programme

1. Homes England and MHCLG anticipates that First Homes will be delivered at scale through the planning system as early as 2022 with volumes growing rapidly to 25% of all Affordable Housing. In order to test the policy prior to delivery through the planning system, Homes England will deliver 1,500 First Homes via this procurement.
2. Owing to the shorter timescales of the early programme delivery route and the need for consistency to ensure that its output can be appropriately evaluated, these First Homes will be subject to **all** national policy criteria and **some** local criteria as follows:
3. Homes must be sold at a discount of 30% to market value. Local Authorities will not be able to set deeper discounts of 40% or 50% as part of the early delivery programme.
4. A price cap after the discount in England (excluding London) of £250,000 will be applied, meaning a maximum “gross” market value (assume 30% discount) of £357,143. Local Authorities will not be able to set lower price caps as part of the early delivery programme. As above, this programme is confined to England only excluding London.
5. There is a maximum household income cap (all applicants) of £80,000 in England (excluding London) for eligible purchasers. Local Authorities will not be able to set lower income caps as part of the pathfinder.
6. First Homes are always valued at full open market value. A valuation from an RICS-qualified valuer will be required prior to the application of the 30% discount to evidence that the house value does not exceed the price cap.
7. Qualifying purchasers must always be first time buyers and may need to meet local connections criteria (e.g. live or work in the area) if applied or be Key/essential Workers. Local Authorities will be able to determine their own local connection live/work criteria and prioritisation of Key/essential Workers. These eligibility requirements will be set out in an addendum to the local planning agreement with the house builder.

1. First Homes will be marketed to local criteria buyers (if applicable) first for 3 months. If no buyer is found after 3 months, the home will be marketed to the national criteria of first time buyer and £80,000 household income cap for 3 months. If no buyer is found at the end of this period, the home will revert to market sale.

1. For the purposes of this early delivery programme the local criteria (for the 3 months of marketing are proposed as (and all meeting first time buyer and £80,000 household income cap):
2. Live or work in the Local Authority area of the First Home purchase; or
3. Are a Key work/essential worker (using the national definitions).
4. The First Homes definition of First Time Buyer is the same definition applied by Government for Stamp Duty Land Tax first time buyer relief.
5. The discount will be guaranteed in perpetuity. This is a legal obligation which will be enforced through a standard restriction registered on the title and referencing the applicable planning agreement and its eligibility requirements for future resale. This will be adopted in the early delivery programme but the existing planning agreements (pre-First Homes) will not be re-negotiated. Instead, the First Homes security in perpetuity and the eligibility requirements for future resale will be included in a supplemental deed to the already agreed planning agreement.
6. It is proposed that a standardised First Homes procedure for confirming eligibility should be adopted across England for all sales. A consistent pack of First Homes documents, guidance and instructions produced by Homes England and MHCLG will be used. The full process is outlined in the Annex A.

Section 3 – Provision of plots for First Homes sales from 2021

1. The procurement is seeking house builders to offer plots for sale as First Homes from their existing market sale homes production. All house builders of every size and including Registered Providers and Local Authorities can make First Homes proposals. Key requirements are:
2. The proposed homes market value/selling prices must not exceed the £250,000 price cap after the 30% discount is applied.
3. Proposals should include quarterly forecasts for practical (ready for occupation, warranty provider signed off) and legal completions (customers taking possession). Purchaser legal completion can be no later than March 2023.
4. Proposals must include estimated net internal floor area of homes, number of floors and their house type, number of bedrooms etc. Proposals must include the local authority area for each First Home.
5. They must be open market sale homes and not taken from or substituted from any existing Affordable Housing provision.
6. Proposed First Homes must specify gross price and the amount of grant required per plot after applying the 30% discount. Grant funding cannot exceed the value of the 30% discount.
7. Proposals must include evidence that house builders have engaged with Local Authorities and there is support for delivering additional Affordable Housing as the proposed First Homes over and above existing Planning Agreement commitments. The proposed First Homes plots would then be secured by way of a supplemental deed to the pre-existing planning agreement – it is not anticipated that existing s.106 agreements will need to be renegotiated. If there is no existing planning agreement, the plots will be secured by way of a new deed entered into by builder and local planning authority.
8. The homes must meet the Building Regulations standard, prescribed by either the relevant Local Planning Authority or set out within the Building Regulations Approved Inspector’s Initial Notice, and the 2013 energy efficiency requirements of Building Regulations (Part L). This must be confirmed in the proposal for each plot.
9. Proposals must also use the Building for a Healthy Life (BHL) criteria and confirm the score against each proposed house type proposed for funding.
10. Plot sale proposals must be assigned to one or more of the seven Modern Methods of Construction (MMC) categories if applicable.
11. Plot sale proposals must include a marketing analysis demonstrating fit and suitability of the proposed bid to the local first-time buyer market(s).
12. In line with Government policy, leasehold houses are not permitted. Leasehold apartments are permitted but only if the ground rent is limited to a peppercorn per annum.

Section 4 – Assessing bid proposals

1. It is anticipated that bid proposals will be assessed against the following draft criteria (full assessment criteria will be included in the Invitation to Tender):
2. **Cost minimisation** - the primary assessment metric is value for money, the grant required per home. This will be benchmarked against national, local and house type averages aggregated from all proposals received to ensure bids are competitive on both costs and outputs.
3. **First Time Buyer product “fit”** - in addition, proposals will be benchmarked against a suitable regional house price index (or similar, to be determined by Homes England) as a proxy for a typical first-time buyer new build purchase cost. This will further ensure proposals are competitive on cost and are affordable to buyers.
4. **Deliverability** - to ensure the scheme can be delivered within the funding timeframe, deliverability will take account of the strength of Local Authority Support, the forecasts for purchaser legal completion, and the strength of marketing analysis. Earlier delivery of completions will be prioritised and score higher if proposals are well-supported by Local Authorities and have coherent marketing plans.
5. **Design and quality** – will be applied after cost, fit and deliverability assessments to then further assess proposals with higher BFL scores and use of MMC.
6. It is anticipated that some criteria will be applied as pass/fail thresholds before the above assessment is made. The pass/fail requirements will be set out in the Invitation to Tender and are likely to be: Building Regulations 2013 Part L compliance, together with the anticipated Health & Safety and Environmental and other thresholds reasonably applied by Homes England in making contract awards to house builders.
7. As set out above, levels of housing affordability vary widely which means there is likely considerable variation in the product offer for First Homes with its England (outside London) discount cap of £250,000. The early delivery procurement is considering a number of approaches at this stage including:
8. Applying a regional “allocation” or distribution of grant funding according to affordability with proportionately more going to areas of lowest affordability. This may mean that specified regional “lot” areas are applied for bidding; or
9. Taking a “market-led” national approach, driven by value for money and prospects for early delivery which is entirely “neutral” on geography and seeks to maximise the numbers of First Homes delivered in the early delivery programme; or
10. Taking a combined approach such that once all bid proposals are evaluated there is a facility to “balance” delivery by further prioritising proposals in areas that have proportionately fewer First Homes.
11. The First Homes early delivery programme will seek to allocate all grant funding up to the maximum of £150m available – this cannot be exceeded - to suitable proposals meeting Homes England’s requirements. According to demand and suitability of proposals, the funding may be over or under-subscribed and this may produce more or less than the est.1,500 homes anticipated for the early delivery. For avoidance of doubt, proposals cannot be funded if they do not meet Homes England’s requirements.
12. As set out in the introduction, the combination of high demand for discounted homes and the provision of grant to re-direct market sale home s to First Homes offers benefits to buyers and builders. From the builder perspective Homes England believes a discount on the grant required, i.e. not assuming it will be 100% “replacement” of the 30% on the full market value is possible reflecting the First Homes sales volume potential.

Section 5 – Grant payment and programme contract management

1. It is anticipated that grant funding is made available to qualifying First Homes plot sales by builders making claims to Homes England via its Investment Management System (or a similar system) on exchange of contracts for the home with grant funding paid to solicitors and released at legal completion. Grant will not be claimed or paid in advance of exchange of contracts with a purchaser. Funding will be managed and monitored, including progress against forecasts, through the Homes England Investment Management or similar system. The form of the standard grant funding agreement which will be non-negotiable will be published with the Invitation to Tender.
2. Homes England is considering agreeing an “allocation” grant funding estimate based on the characteristics of the house types proposed for First Homes and not working with a plot-specific “red-edged” plan. Homes England believes this may better reflect the reservation/demand-led approach to First Homes customer applications. However, Homes England acknowledges this may be challenging to incorporate in the First Homes supplementary deed to the local planning agreement.
3. Homes England is also seeking to manage, once agreed, forecast grant allocations according to demand. “Unused” grant allocation in a forecast quarter could therefore be deleted and/ or applied elsewhere (and including being applied to another builder). This means that if homes are not sold according to forecast, Homes England has the right to recycle the grant to other bidders. Again, Homes England acknowledges this may be difficult to reflect in the supplementary deed.

Section 6 – Lender Support

1. First Homes will be purchased by eligible buyers with a minimum 5% deposit and up to 95% LTV mortgage from a mortgage bank or building society (%ages are of the discounted purchase price). Buyers must purchase with a minimum of a 50% mortgage of the discounted purchase price.
2. Provision of lender product choice is vital for First Homes customers. Early engagement work with lenders has already produced strong expressions of interest for the product and many lenders are already undertaking the first steps to add First Homes as a mortgage lending product. Given the reforms to the planning system are establishing this as a new Affordable Housing product accounting for 25% of all affordable provision, lenders have a strong market incentive to participate and this is already reflected with many lenders, national and regional, already committed to supporting the product.

Annex A: Proposed Customer Journey for establishing eligible buyers

1. All First Homes marketing will be site/scheme specific (based on the agreed eligibility criteria) and led by the house builder. A preliminary meeting between house builder and Local Authority will set out local eligibility criteria prior to customer engagement. It is the builder’s responsibility to generate interest from prospective purchasers.
2. The standard procedure is “reservation-led”, with the builder / mortgage advisor teams “qualifying” the applicant against the agreed criteria and using the standard document pack to submit a completed application to the Local Authority. Early feedback from stakeholders is that this is the preferred approach, otherwise time and resource could be applied to eligibility checking before there is a real prospect of reservation commitment.
3. The Local Authority will then grant a formal eligibility approval. Customers cannot submit their mortgage applications unless in receipt of the First Homes Authority to Proceed. The standardised buying process uses the customer conveyancer to give legal undertakings to the Local Authority that the purchase is compliant e.g. with all eligibility and financial requirements before requesting permission from the Local Authority to exchange contracts.
4. The suggested process described above has already been tested with lender stakeholders to ensure it includes the features they require to support the product e.g. consistency on approach to eligibility checking, valuation and incentives.

**Pre-sale set up**

* Local authority eligibility criteria clear e.g.
  + Income
  + Local connection
  + FTB
  + Key worker
  + Marketing plans
* Plots identified with release dates
* Pre-sale valuation data supports proposed selling prices
* Marketing begins

Detailed set up briefing based on as applicable S106 agreement/Local Authority priorities for early delivery.

Engagement required with:

* Builder sales teams
* Mortgage advisors
* Conveyancers
* Local Authority

Amendments agreed as required on all Homes England standard First Homes application forms etc.

**Customer responds to builder marketing**

* Qualification process begins
  + Builder sales team
  + Mortgage advisor
* Qualification identifies likely eligible customer

Sales team and advisors refer to agreed LA eligibility criteria and “package up” application using standardised Homes England First Homes application forms and evidencing as required e.g. local connection.

Qualification may include income sustainability check using standard Homes England calculator.

Standard reservation application pack submitted to Local Authority includes customer’s first signed declaration of eligibility noting consequences of fraudulent application. DPA permissions clear for sharing of data.

Pack includes cover “checklist” against all LA criteria and confirming evidenced as required.

Pack includes intended customer conveyancer.

**Customer reserves, pays builder £500**

* Builder submits application pack to Local Authority.
* Customer has selected conveyancer and mortgage advisor

Local Authority conducts own due diligence/reviews standard application pack, checklist and supporting evidence.

Standard First Homes Authority to Proceed and Instructions to conveyancers available to LA team.

If compliant, Local Authority issues First Homes ATP.

First Homes ATP issued to: builder, customer, mortgage advisor and conveyancer

**Local Authority receives application and checks against First Homes criteria**

* Local Authority confirms that the customer is eligible and issues the Authority to Proceed document

Using standard instruction pack, Conveyancers confirm plot sale contract.

Conveyancer advises customer on form of scheme, resale, restrictions, and eligibility requirements.

Customer makes second signed declaration to conveyancer, confirms eligibility.

Conveyancer cannot allow exchange of contracts if > 6 months from date of exchange to purchaser legal completion.

Conveyancer evidences lender valuation not < purchase price and compliant disclosed incentives and confirms they will e.g. ensure correct restriction in place at Land Registry following legal completion.

Conveyancer completes and signs standard form legal undertaking to Local Authority that it is a compliant sale and confirming they will carry out post legal completion actions.

**First Homes Authority to Proceed ATP issued**

* Conveyancing begins, customer conveyancer follows standard instruction pack, notifies lender, advises customer and prepares undertakings
* Mortgage application submitted
* Mortgage lender values home
* Mortgage lender makes mortgage offer
* Customer ready with 5% deposit to be made available at exchange
* Customer conveyancer submits legal undertaking to Local Authority and requests First Homes **Authority to Exchange** contracts from Local Authority.

**Local authority receives completed conveyancer signed legal undertaking and request to exchange from customer conveyancer**

* Local Authority confirms that undertaking compliant and issues First Homes **Authority to Exchange** to conveyancer

Local Authority conducts own due diligence/reviews standard undertaking, checklist and supporting evidence.

If compliant, Local Authority issues First Homes ATE.

ATE issued to customer conveyancer

Customer conveyancer confirms date of exchange and estimated date of legal completion to Local Authority which is also confirmed by the builder.

Via standard lender processes, conveyancer confirms date of exchange and follows lender procedures to arrange draw down funds for legal completion.

**EXCHANGE OF CONTRACTS**

* Customer conveyancer on receipt of ATE, proceeds to exchange
* Customer pays 5% deposit
* Contracts exchanged

**PURCHASER LEGAL COMPLETION**

* Customer moves in
* Conveyancer carries out remaining action to comply with their legal undertaking and returns all documentation to Local Authority

Customer conveyancer responsible for ensuring restriction on title registered and all necessary certificates/applications etc as applicable made to Land Registry and entirely consistent with S106 agreement as applicable.

**Local Authority receives these documents from the customer conveyancer and updates records**

* Case closed