

# Thanet First Homes Study

**Thanet District Council**

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## **Prepared by**

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## 1 EXECUTIVE SUMMARY

- 1.1 This report has sought to answer two questions,
- To identify the level of discount to the value of new-build dwellings that would be required to make First Homes (FH) affordable to local people (bearing in mind the impact this could have on the provision of social rented units); and
  - Whether FH would meet the housing needs of the District as identified in the Local Housing Needs Assessment (2020) (LHNA 2020).

### Target Groups

- 1.2 In answering the first of these questions, this report focuses on those households that fall into the “rent/buy” gap as identified in the LHNA 2020.
- 1.3 The report concludes that it is appropriate to consider the level of discount that should be applied as a range. The bottom of the range is the discount that would be required to enable households currently renting to afford to buy; the top of the range is that which would make dwellings affordable to households currently able to afford more expensive home, but short of the median<sup>1</sup>. The table below summarises the range.

**Table 1: Discount ranges for First Homes (Thanet District level)**

| Sizes            | LQ rent- equiv. purchase price | Median house price | Mid-point | Discount range - PRS | Discount range - Midpoint |
|------------------|--------------------------------|--------------------|-----------|----------------------|---------------------------|
| Studio/1-bedroom | £151,067                       | £193,488           | £172,277  | 22%                  | 12%                       |
| 2-bedroom        | £190,476                       | £276,000           | £233,238  | 31%                  | 18%                       |
| 3-bedroom        | £229,885                       | £357,075           | £293,480  | 36%                  | 22%                       |
| 4-bedroom        | £275,862                       | £451,375           | £363,619  | 39%                  | 24%                       |

Source: GL Hearn calculations

- 1.4 At the District average level, the table shows that a FH of studio/1-bedroom in size will be affordable to households able to afford lower quartile rents in the PRS where a discount of 30% is applied to the OMV of a new-build dwelling priced around the median.

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<sup>1</sup> This is defined as the mid-point of the cost of median-price dwellings and the value derived from private rent for the same sizes of home.

- 1.5 By applying a discount of 40%, households living in the PRS paying LQ rent will be able to afford new-build homes of 2- or 3-bedrooms in size priced around the median at the District average level.
- 1.6 For 4-bedrooms homes at the District average level, a discount of 50% may be necessary to meet the price ceiling set out in the PPG post discount of £250,000.

### **Income-led discounts**

- 1.7 This report undertakes further analysis to assess whether FH would be affordable given the household income distribution in the District. This provides guidance as to the level of discount that would be appropriate to enable households on certain incomes to access home ownership.
- 1.8 Households who have a lower level of income (below £15k per annum) would not be able to afford any size of home.
- 1.9 Those with a household income of between £15k-20k per annum would be able to afford a studio/1-bedroom size dwelling priced around the median where the maximum 50% discount is applied to the OMV.
- 1.10 It should be noted that 33% of Thanet's households are below the income level of £20,000 pa<sup>2</sup>. Since the gap between the home buying budget and the market price of these income groups is large, the provision of alternative rental housing options (e.g., social or affordable rent) or intermediate housing policy (e.g. shared ownership) should be considered for these households.
- 1.11 Households with higher income levels (above £20,000pa) can afford "for-sale" dwellings priced around the median with discounts of between 30% and 50% depending on the size of the home.

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<sup>2</sup> Thanet District Council, Local Housing Needs Assessment (2020), Paragraph 8.21-23

- 1.12 The analysis by income bracket suggests that with a District-wide FH discount of 50% 1-, 2-, 3-, 4-bedrooms dwellings would be affordable to households whose incomes fall between the level of £20,000 to £80,000.
- 1.13 The evidence presented in this report confirms that households with lower income levels (below £20,000 per annum) are likely to face difficulties in accessing FHs even were the maximum 50% discount level to be applied.
- 1.14 Overall, FHs will be suitable as a policy tool to provide a route to homeownership for households whose income falls broadly within the mid-range of the District's income distribution.

### **Policy options**

- 1.15 Where the Council is seeking a discount that is greater than 30%, consideration should be given to whether this might prejudice the viability of providing other forms of affordable housing (such as social rented homes).
- 1.16 Instead of setting a discount level that is greater than 30%, it might be more appropriate to set it at a minimum level of 30% and apply local eligibility criteria (such as income caps) as part of section 106 agreements, which might in some cases necessitate a greater level of a discount than 30%.
- 1.17 In such a case, the discount level would be driven off the affordability of FH to households on specific income bands. This would provide an opportunity to determine the level of discount on a case-by-case basis rather through a one-size-fits-all approach.

## **Local Housing Need**

- 1.18 This report draws on income and housing costs data from the LHNA 2020. This ensures the basis for assessing affordability (in particular the needs of those households that fall into the “rent/buy” gap) and therefore the suitability of FHs in Thanet, is consistent with the methodology used in this earlier report.
- 1.19 As indicated by LHNA 2020, there are a number of households in Thanet that fall within the “rent/buy” gap that are being excluded from the owner-occupied sector. By applying the FH discount to the OMV of new build homes, this report has shown that the FH policy will provide households in the “rent/buy” gap with an affordable route to homeownership.
- 1.20 That said, the evidence gathered indicates substantial variations in the price levels between the different sub-areas in Thanet. This suggests households in different parts of the District may experience different affordability issues depending on where they live (or are seeking to live). This may be factored into where the Council decides to seek FH.
- 1.21 Following the Planning Practice Guidance (PPG), once a minimum of 25% of First Homes has been accounted for, social rent products should be delivered in the same percentage as set out in the Local Plan<sup>3</sup>. This means that only other forms of intermediate products (as opposed to social rent) should be reduced to allow for First Homes.
- 1.22 However, to ensure that households with lower income levels are able to access affordable home ownership (AHO) products, Shared Ownership should be retained in the affordable housing mix.

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<sup>3</sup> PPG (First Homes) Ref ID: 70-015



## 2 INTRODUCTION

- 2.1 GL Hearn has been commissioned to gather relevant evidence and provide advice to Thanet District Council to enable the Council to adopt a suitable policy position in respect of First Homes (FH). This report sets out this evidence, seeking to address two inter-related topics,
- a. To identify the level of discount to the value of new-build dwellings that would be required to make FH affordable to local people (bearing in mind the impact this could have on the provision of social rented units); and
  - b. Whether FH would meet the housing needs of the District as identified in the Local Housing Needs Assessment (2020) (LHNA 2020).

### **National policy**

- 2.2 PPG on First Homes sets out that the minimum discount should be 30% from the open market value (OMV) with local authorities having the discretion to increase the discount to 40% or 50%<sup>4</sup>. The guidance goes on to state that local authorities can apply eligibility criteria (such as lower-income caps) as part of the section 106 agreements in addition to the national criteria<sup>5</sup>.
- 2.3 First Homes are similar to discounted market sales (a product currently within the NPPF), although for discounted market sale products a discount of at least 20% (rather than 30%) from OMV is required.
- 2.4 A problem with having a percentage discount is that it is possible in some locations or types of property that such a discount still means that the discounted housing is more expensive than some housing available in the open market (including housing priced around the lower quartile). This is often the case as new-build housing itself attracts a premium. According to recent research at the national level, this has historically been around 15%.

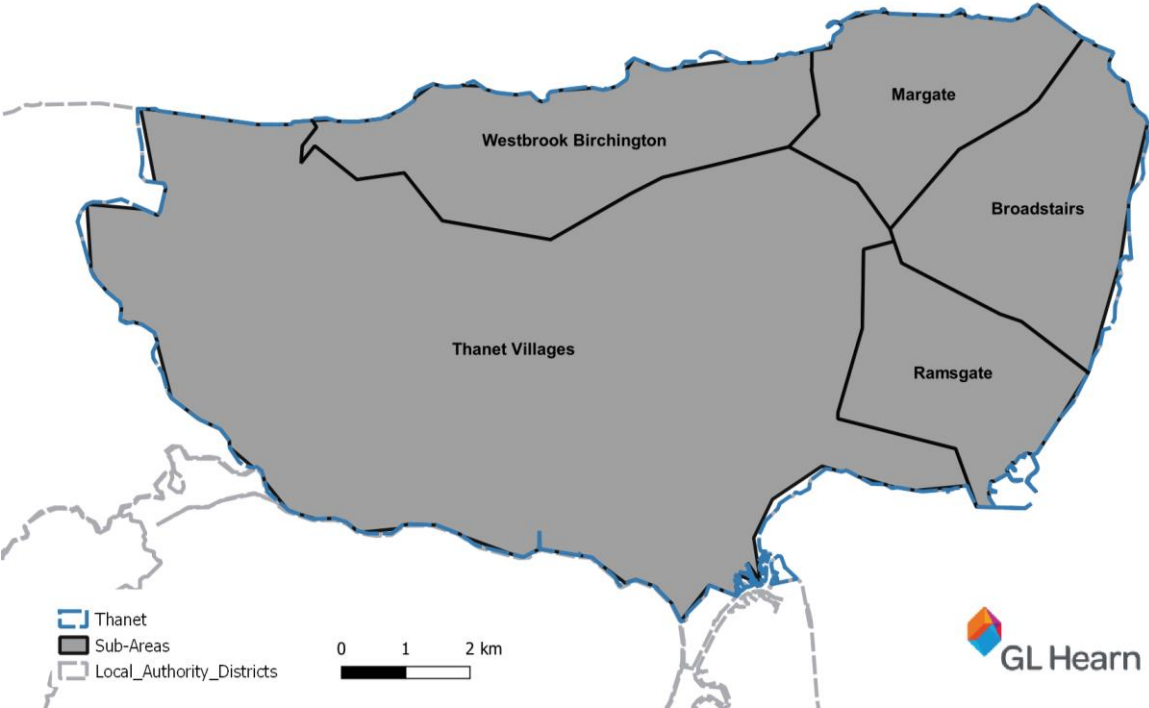
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<sup>4</sup> PPG (First Homes) Ref ID: 70-001

<sup>5</sup> PPG (First Homes) Ref ID: 70-008

- 2.5 The preferred approach in this report is to set out the affordability of different sizes of First Homes by the number of bedrooms (studio/1-bedroom, 2-bedrooms; 3-bedrooms and 4-bedrooms) to households on a range of incomes.
  
- 2.6 Also, the analysis is presented at sub-area levels of the District. This includes Broadstairs, Margate, Ramsgate, Thanet Villages and Westbrook-Birchington. While the level of discount applied to FHs should be uniform across the whole District and set in the context of a Local Plan review<sup>6</sup>, the sub-area analysis, which identifies variations in house prices between them and therefore the potential for different levels of affordability, may help identify which sites may be most suitable for FHs.

**Figure 1: Sub-Areas of Thanet District**



<sup>6</sup> PPG (First Homes) Ref ID: 70-004

2.7 The analysis set out in this report facilitates an assessment of the depth of discount (up to a maximum of 50%) required to make dwellings affordable to target groups within each of the sub-areas as well as the District as a whole.

2.8 This report is structured as follows:

- Chapter 3 identifies a range of discounts for target groups that falls within the “rent/buy” gap based on their income level and current market house prices;
- Chapter 4 sets out the level of discount required for “for-sale” homes based on different household income groups in the District;
- The summary and conclusions chapter puts forward suggested discount levels that would be required to make FH affordable to local people and the degree to which FH are likely to meet residents’ housing needs as set out in the LHNA 2020.

### 3 TARGET GROUPS

- 3.1 In order to establish the need for Affordable Home Ownership (AHO), PPG sets out the wider definition of those to be considered as in affordable need include *“households which can afford to rent in the private rental market, but cannot afford to buy despite a preference for owning their own home”*<sup>7</sup>. However, currently there is no guidance about how the number of such households should be measured.
- 3.2 Therefore, in line with the LHNA 2020<sup>8</sup>, this report draws on the current methodology to look at the affordability of households based on their required income to live in the private rental sector. This report identifies the “rent/buy gap” which is the gap between these households’ affordability and the price of buying a new-built market dwelling of the same size.
- 3.3 To answer the first question posed, the level of discount required, the approach taken in this report is to identify a range of discounts so as to capture as many households falling into the “rent/buy” gap as possible.
- 3.4 To identify this range, this report starts with those living in the private rented sector (PRS). This is because a large proportion of households seeking an affordable route to homeownership will be currently renting their home.
- 3.5 Those households able to just afford a dwelling priced around the lower quartile (LQ) in the PRS represent the lower level of the FH discount range.
- 3.6 The upper end of the range is derived from the price at the mid-point between a home whose value reflects the amount a household currently renting could afford and dwellings prices around the median.

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<sup>7</sup> PPG (Housing needs of different groups) Ref ID: 67-005

<sup>8</sup> Thanet District Council, Local Housing Needs Assessment (2020), Paragraph 8.75

## Discounts derived from private rents

### a. *How much can households afford?*

3.7 The “home budget” (the amount of money for home purchase available to a given household) for households in the PRS can be derived from the income required to access housing in the PRS priced at the lower quartile (LQ). It is then possible to estimate what property price this level of income might support (assuming a 10% deposit and a 4 times mortgage multiple). Below is an example of a calculation based on a 2-bedrooms home:

- Local Housing Need Assessment (LHNA) 2020 shows that the LQ rent for a 2-bedrooms home in the Ramsgate sub-area is £685 per calendar month (pcm); added to this should be an allowance for a service charge of £100pcm<sup>9</sup>.
- On the basis that a household spends no more than 29% of their income on housing, a household would need a net income of around £2,362 per month ( $(£685 + £100)/0.29$ ) or £28,345 per annum (rounded) to afford the lower quartile rent for a 2-bedrooms home.
- The above is a net figure; assuming the net figure is 70% of the gross figure, gross income would be £40,493 ( $£28,345/.7$ ).
- Mortgage lending limits are usually calculated based on gross income. Therefore, with an income of £40,493, it is estimated that a household could afford to buy a home for around £179,967. This is based on assuming a 10% deposit and a four times mortgage multiple – calculated as  $£40,493*4/0.9$ .

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<sup>9</sup> Thanet District Council, Local Housing Needs Assessment (2020), Paragraph 8.112

- 3.8 Therefore, £179,967 is a suggested purchase price to make First Homes affordable for households who can rent a 2-bedrooms lower quartile home but not to buy in the Ramsgate sub-area. This figure is essentially the equivalent price that is affordable to a household that can just afford to rent a 2-bedrooms home privately.
- 3.9 The above exercise was repeated for properties of different sizes within each of the five sub-areas, starting with studio/1-bedroom units.
- 3.10 The table below shows the prices that First Homes (FHs) should be after the discount has been applied such that they are affordable to households currently able to access studio/1-bedroom lower quartile homes in the PRS of the five sub-areas of Thanet.

**Table 2: First Home purchase prices based on private sector rents (studio/1-bedroom size)**

| Sub-Area                     | LQ Rent | % Income on rent <sup>10</sup> | Net monthly income required | Gross annual income required | FH purchase price |
|------------------------------|---------|--------------------------------|-----------------------------|------------------------------|-------------------|
| <b>Broadstairs</b>           | £645    | 27%                            | £2,389                      | £40,952                      | £182,011          |
| <b>Margate</b>               | £555    | 31%                            | £1,790                      | £30,691                      | £136,406          |
| <b>Ramsgate</b>              | £550    | 29%                            | £1,897                      | £32,512                      | £144,499          |
| <b>Thanet Villages</b>       | £615    | 29%                            | £2,121                      | £36,355                      | £161,576          |
| <b>Westbrook-Birchington</b> | £610    | 33%                            | £1,848                      | £31,688                      | £140,837          |
| <b>Thanet average</b>        | £575    | 29%                            | £1,983                      | £33,990                      | £151,067          |

Source: GL Hearn calculations

- 3.11 The table below shows the prices that FH of 2-bedrooms should be after the discount has been applied such that they are affordable to households currently living in a home of a similar size in the PRS in each of the five sub-areas of Thanet.

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<sup>10</sup> The percentages in this column reflect the proportion of income considered reasonable for a given household to spend on housing costs. As noted in Thanet’s Local Housing Needs Assessment 2020 (see paragraphs 8.24-8.36), the cost of living in different sub-areas will vary. The determining factor for this is the income remaining to a household once housing costs have been considered and whether this “residual” income is enough to support a reasonable quality of life. At higher rent levels, where housing costs are expressed as a percentage of overall income, the absolute value of the residual income will be enough compared with cheaper rents despite the higher percentage applied.

**Table 3: Affordable First Home purchase prices based on private sector rents (2-bedrooms size)**

| Sub-Area                     | LQ Rent | % Income on rent | Net monthly income required | Gross annual income required | FH purchase price |
|------------------------------|---------|------------------|-----------------------------|------------------------------|-------------------|
| <b>Broadstairs</b>           | £760    | 27%              | £2,815                      | £48,254                      | £214,462          |
| <b>Margate</b>               | £715    | 31%              | £2,306                      | £39,539                      | £175,730          |
| <b>Ramsgate</b>              | £685    | 29%              | £2,362                      | £40,493                      | £179,967          |
| <b>Thanet Villages</b>       | £765    | 29%              | £2,638                      | £45,222                      | £200,985          |
| <b>Westbrook-Birchington</b> | £755    | 33%              | £2,288                      | £39,221                      | £174,315          |
| <b>Thanet average</b>        | £725    | 29%              | £2,500                      | £42,857                      | £190,476          |

Source: GL Hearn calculations

- 3.12 The table below shows the prices FH of 3-bedrooms should be after the discount has been applied such that they are affordable to households currently living in a home of a similar size in the PRS in each of the five sub-areas of Thanet.

**Table 4: Affordable First Home purchase prices based on private sector rents (3-bedrooms size)**

| Sub-Area                     | LQ Rent | % Income on rent | Net monthly income required | Gross annual income required | FH purchase price |
|------------------------------|---------|------------------|-----------------------------|------------------------------|-------------------|
| <b>Broadstairs</b>           | £925    | 27%              | £3,426                      | £58,730                      | £261,023          |
| <b>Margate</b>               | £860    | 31%              | £2,774                      | £47,558                      | £211,367          |
| <b>Ramsgate</b>              | £800    | 29%              | £2,759                      | £47,291                      | £210,181          |
| <b>Thanet Villages</b>       | £890    | 29%              | £3,069                      | £52,611                      | £233,826          |
| <b>Westbrook-Birchington</b> | £910    | 33%              | £2,758                      | £47,273                      | £210,101          |
| <b>Thanet average</b>        | £875    | 29%              | £3,017                      | £51,724                      | £229,885          |

Source: GL Hearn calculations

- 3.13 The table below shows the prices FH of 4-bedrooms should be after the discount has been applied such that they are affordable to households currently living in a home of a similar size in the PRS in each of the five sub-areas of Thanet.

**Table 5: Affordable First Home purchase prices based on private sector rents (4-bedrooms size)**

| Sub-Area                     | LQ Rent | % income on rent | Net monthly income required | Gross annual income required | FH purchase price |
|------------------------------|---------|------------------|-----------------------------|------------------------------|-------------------|
| <b>Broadstairs</b>           | £1,165  | 27%              | £4,315                      | £73,968                      | £328,748          |
| <b>Margate</b>               | £1,000  | 31%              | £3,226                      | £55,300                      | £245,776          |
| <b>Ramsgate</b>              | £865    | 29%              | £2,983                      | £51,133                      | £227,258          |
| <b>Thanet Villages</b>       | £1,010  | 29%              | £3,483                      | £59,704                      | £265,353          |
| <b>Westbrook-Birchington</b> | £1,100  | 33%              | £3,333                      | £57,143                      | £253,968          |
| <b>Thanet average</b>        | £1,050  | 29%              | £3,621                      | £62,069                      | £275,862          |

Source: GL Hearn calculations

*b. Discounts required*

- 3.14 This section sets out the discounts that would be required to the OMV of new-build “for-sale” dwellings to be affordable to households currently paying LQ rent in the PRS. The discount value is calculated by comparing the OMV of median house prices (this allows for the new build premium of 15%) and the FH purchase prices identified in the four tables above. A negative number indicates a discount would not be required for a dwelling of this size to be affordable to the households living in the PRS paying LQ rent.
- 3.15 The table below sets the discount value required for households living in the PRS paying LQ rent to afford studio/1-bedroom dwellings based on the median market price.



**Table 6: Discounts required for lower quartile PRS households to afford (studio/1-bedroom size)**

| Sub-Area              | OMV (Median price) | FH purchase price | Discount |
|-----------------------|--------------------|-------------------|----------|
| Broadstairs           | £168,446           | £182,011          | -8%      |
| Margate               | £188,916           | £136,406          | 28%      |
| Ramsgate              | £193,775           | £144,499          | 25%      |
| Thanet Villages       | £176,525           | £161,576          | 8%       |
| Westbrook-Birchington | £243,225           | £140,837          | 42%      |
| Thanet average        | £193,488           | £151,067          | 22%      |

Source: GL Hearn calculations

- 3.16 The data shows a large difference in market value between sub-areas of Thanet for studio/1-bedroom size dwellings. This suggests that for this group, the households living in the PRS paying LQ rent would be able to afford this type of “for-sale” dwelling in most of the sub-areas following discounts of 30-40%.
- 3.17 The table below sets the discount value required for households living in the PRS paying LQ rent of 2-bedrooms dwellings.

**Table 7: Discounts required for lower quartile PRS households to afford (2-bedrooms size)**

| Sub-Area              | OMV (Median price) | FH purchase price | Discount |
|-----------------------|--------------------|-------------------|----------|
| Broadstairs           | £330,625           | £214,462          | 35%      |
| Margate               | £250,700           | £175,730          | 30%      |
| Ramsgate              | £270,250           | £179,967          | 33%      |
| Thanet Villages       | £276,000           | £200,985          | 27%      |
| Westbrook-Birchington | £319,508           | £174,315          | 45%      |
| Thanet average        | £276,000           | £190,476          | 31%      |

Source: GL Hearn calculations

- 3.18 For this group, the table indicates that households living in the PRS paying LQ rent that are currently able to afford dwellings of 2-bedrooms in the PRS can't afford market “for-sale” dwellings of the same size. The sub-areas that have relatively high median house prices are Broadstairs and Westbrook-Birchington. For these households, discounts of between 30 and 40% would be required for FH to be affordable.

- 3.19 The table below sets the discount value required for households living in the PRS paying LQ rent of 3-bedrooms dwellings.

**Table 8: Discounts required for lower quartile PRS households to afford (3-bedrooms size)**

| Sub-Area                     | OMV (Median price) | FH purchase price | Discount |
|------------------------------|--------------------|-------------------|----------|
| <b>Broadstairs</b>           | £414,000           | £261,023          | 37%      |
| <b>Margate</b>               | £333,500           | £211,367          | 37%      |
| <b>Ramsgate</b>              | £313,950           | £210,181          | 33%      |
| <b>Thanet Villages</b>       | £416,588           | £233,826          | 44%      |
| <b>Westbrook-Birchington</b> | £382,615           | £210,101          | 45%      |
| <b>Thanet average</b>        | £357,075           | £229,885          | 36%      |

Source: GL Hearn calculations

- 3.20 For 3-bedrooms size dwellings, the market house price is relatively higher in certain sub-areas such as Broadstairs, Thanet Villages and Westbrook-Birchington. At the District average level, the data indicate that households living in the PRS paying LQ rent can't afford market dwellings of this size. For these households, discounts of between 40 and 50% would be required for FH to be affordable.

**Table 9: Discounts required for lower quartile PRS households to afford (4-bedrooms size)**

| Sub-Area                     | OMV (Median price) | FH purchase price | Discount |
|------------------------------|--------------------|-------------------|----------|
| <b>Broadstairs</b>           | £557,750           | £328,748          | 41%      |
| <b>Margate</b>               | £488,750           | £245,776          | 50%      |
| <b>Ramsgate</b>              | £428,375           | £227,258          | 47%      |
| <b>Thanet Villages</b>       | £391,000           | £265,353          | 32%      |
| <b>Westbrook-Birchington</b> | £500,250           | £253,968          | 49%      |
| <b>Thanet average</b>        | £451,375           | £275,862          | 39%      |

Source: GL Hearn calculations

- 3.21 For 4-bedrooms size dwellings, the difference in market house price between the sub-areas is substantial. The most expensive sub-area is, however, Broadstairs. At the District average level, households living in the PRS paying LQ rent can't afford market dwellings of this size.

*c. Conclusions*

- 3.22 The analysis shows that, at the District level, a discount of 22% is needed for households living in the PRS paying LQ rent to afford homes. Applying the minimum FH discount (30%) will allow these households to afford these dwellings.
- 3.23 However, in some parts of the District, no discount is required for dwellings of studio/1-bedroom in size on account of variations in house prices across the District.
- 3.24 For the larger sizes of dwellings (2 to 4 bedrooms), the data shows that, at the District level, applying the FH discount range of 30%-50% will allow households living in the PRS paying LQ rent to afford homes.

**The discount range**

- 3.25 In reality, there will be a range of incomes in the “rent/buy” gap (the gap between the incomes required for renting and buying). As a result, some households will be able to afford a higher price than that set out in the tables above. However, setting all homes at a higher price would mean excluding some households from the market, especially those with lower income levels.
- 3.26 On this basis, it is considered reasonable to look at the cost of First Homes as a range, from the equivalent private rents for different sizes of the home up to the mid-point of the cost of median-price dwellings of the same sizes on the open market and the relevant private rented figure.
- 3.27 This range will allow the affordability of a wider range of households in the “rent/buy” gap to be covered through the FH policy.

**Table 10: First Home discount ranges (Studio/1-bedroom)**

| Sub-Area              | LQ Rent | Income required (net) | Gross Income required pa | Equiv. purchase price | Median house price | Mid-point | Discount range (PRS) | Discount range (Mid-point) |
|-----------------------|---------|-----------------------|--------------------------|-----------------------|--------------------|-----------|----------------------|----------------------------|
| Broadstairs           | £645    | £2,389                | £40,952                  | £182,011              | £168,446           | £175,228  | -8%                  | -4%                        |
| Margate               | £555    | £1,790                | £30,691                  | £136,406              | £188,916           | £162,661  | 28%                  | 16%                        |
| Ramsgate              | £550    | £1,897                | £32,512                  | £144,499              | £193,775           | £169,137  | 25%                  | 15%                        |
| Thanet Villages       | £615    | £2,121                | £36,355                  | £161,576              | £176,525           | £169,051  | 8%                   | 4%                         |
| Westbrook-Birchington | £610    | £1,848                | £31,688                  | £140,837              | £243,225           | £192,031  | 42%                  | 27%                        |
| Thanet average        | £575    | £1,983                | £33,990                  | £151,067              | £193,488           | £172,277  | 22%                  | 12%                        |

Source: GL Hearn calculations

- 3.28 As noted above, for dwellings of studio/1-bedroom size, the minimum FH discount (30%) will allow households living in the PRS paying LQ rent to afford median dwellings at the District average level.
- 3.29 However, in the sub-area of Westbrook-Birchington, the discount level should be larger to allow more households in the “rent/buy” gap to afford dwellings.

**Table 11: First Home discount ranges (2-bedrooms)**

| Sub-Area              | LQ Rent | Income required (net) | Gross Income required pa | Equiv. purchase price | Median house price | Mid-point | Discount range (PRS) | Discount range (Mid-point) |
|-----------------------|---------|-----------------------|--------------------------|-----------------------|--------------------|-----------|----------------------|----------------------------|
| Broadstairs           | £760    | £2,815                | £48,254                  | £214,462              | £330,625           | £272,544  | 35%                  | 21%                        |
| Margate               | £715    | £2,306                | £39,539                  | £175,730              | £250,700           | £213,215  | 30%                  | 18%                        |
| Ramsgate              | £685    | £2,362                | £40,493                  | £179,967              | £270,250           | £225,109  | 33%                  | 20%                        |
| Thanet Villages       | £765    | £2,638                | £45,222                  | £200,985              | £276,000           | £238,493  | 27%                  | 16%                        |
| Westbrook-Birchington | £755    | £2,288                | £39,221                  | £174,315              | £319,508           | £246,911  | 45%                  | 29%                        |
| Thanet average        | £725    | £2,500                | £42,857                  | £190,476              | £276,000           | £233,238  | 31%                  | 18%                        |

Source: GL Hearn calculations

3.30 For dwellings of 2-bedrooms in size, the table indicates the discount range that should be applied to dwellings priced around the median. In the event discounts were applied in line with this range, households living in the PRS paying LQ rent would be able to afford dwellings priced at this level in the 5 sub-areas of the District.

**Table 12: First Home discount ranges (3-bedrooms)**

| Sub-Area                     | LQ Rent | Income required (net) | Gross Income required pa | Equiv. purchase price | Median house price | Mid-point | Discount range (PRS) | Discount range (Mid-point) |
|------------------------------|---------|-----------------------|--------------------------|-----------------------|--------------------|-----------|----------------------|----------------------------|
| <b>Broadstairs</b>           | £825    | £3,426                | £58,730                  | £261,023              | £414,000           | £337,511  | 37%                  | 23%                        |
| <b>Margate</b>               | £760    | £2,774                | £47,558                  | £211,367              | £333,500           | £272,434  | 37%                  | 22%                        |
| <b>Ramsgate</b>              | £700    | £2,759                | £47,291                  | £210,181              | £313,950           | £262,065  | 33%                  | 20%                        |
| <b>Thanet Villages</b>       | £790    | £3,069                | £52,611                  | £233,826              | £416,588           | £325,207  | 44%                  | 28%                        |
| <b>Westbrook-Birchington</b> | £810    | £2,758                | £47,273                  | £210,101              | £382,615           | £296,358  | 45%                  | 29%                        |
| <b>Thanet average</b>        | £775    | £3,017                | £51,724                  | £229,885              | £357,075           | £293,480  | 36%                  | 22%                        |

Source: GL Hearn calculations

3.31 The table above suggests the discount range for dwellings of 3-bedrooms size. This range will allow households living in the PRS paying LQ rent to afford the same size of dwelling they currently live or dwellings priced at the mid-point between the PRS equivalent and the median price-point.

**Table 13: First Home discount ranges (4-bedrooms)**

| Sub-Area                     | LQ Rent | Income required (net) | Gross Income required pa | Equiv. purchase price | Median house price | Mid-point | Discount range (PRS) | Discount range (Mid-point) |
|------------------------------|---------|-----------------------|--------------------------|-----------------------|--------------------|-----------|----------------------|----------------------------|
| <b>Broadstairs</b>           | £1,065  | £4,315                | £73,968                  | £328,748              | £557,750           | £443,249  | 41%                  | 26%                        |
| <b>Margate</b>               | £900    | £3,226                | £55,300                  | £245,776              | £488,750           | £367,263  | 50%                  | 33%                        |
| <b>Ramsgate</b>              | £765    | £2,983                | £51,133                  | £227,258              | £428,375           | £327,816  | 47%                  | 31%                        |
| <b>Thanet Villages</b>       | £1,065  | £4,315                | £73,968                  | £328,748              | £557,750           | £443,249  | 41%                  | 26%                        |
| <b>Westbrook-Birchington</b> | £900    | £3,226                | £55,300                  | £245,776              | £488,750           | £367,263  | 50%                  | 33%                        |
| <b>Thanet average</b>        | £765    | £2,983                | £51,133                  | £227,258              | £428,375           | £327,816  | 47%                  | 31%                        |

Source: GL Hearn calculations

- 3.32 The table above suggests the discount range for dwellings of 4-bedrooms size. Given the higher median house price of this group, the required discount is the highest among other sizes of dwellings. This range will allow households living in the PRS paying LQ rent to afford the same size of dwellings in which they currently live or dwellings priced at the mid-point between the PRS equivalent and the median price-point.
- 3.33 Since the discount range is arrived at based in part on median house price, this may mean that only a limited number of households or those with higher income levels in the “rent/buy” gap could afford FH. Therefore any housing provided at such a cost would need to be supplemented by other tenures of housing that provide an affordable route to home ownership, such as Shared Ownership.

## The Price Cap

3.34 It is also worth noting the effect of the price cap set out in PPG. It states that the sale price of a First Home must not exceed £250,000 after the discount has been applied<sup>11</sup>.

3.35 The tables below set out the sale prices of median homes in sub-areas of Thanet at the OMV and three levels of discount: 30%, 40% and 50%.

**Table 14: First Homes – prices after discounts applied (Studio/1-bedroom)**

| Sub-Area              | Median House price | Discount range - 30% | Discount range - 40% | Discount range - 50% |
|-----------------------|--------------------|----------------------|----------------------|----------------------|
| Broadstairs           | £168,446           | £117,912             | £101,068             | £84,223              |
| Margate               | £188,916           | £132,241             | £113,350             | £94,458              |
| Ramsgate              | £193,775           | £135,643             | £116,265             | £96,888              |
| Thanet Villages       | £176,525           | £123,568             | £105,915             | £88,263              |
| Westbrook-Birchington | £243,225           | £170,258             | £145,935             | £121,613             |
| Thanet average        | £193,488           | £135,441             | £116,093             | £96,744              |

Source: GL Hearn calculations

3.36 The table above indicates that studio/1-bedroom dwellings in all sub-areas of the District discounted by 30-50% would fall within the £250k price ceiling.

**Table 15: First Homes – prices after discounts applied (2-bedrooms)**

| Sub-Area              | Median House price | Discount range - 30% | Discount range - 40% | Discount range - 50% |
|-----------------------|--------------------|----------------------|----------------------|----------------------|
| Broadstairs           | £330,625           | £231,438             | £198,375             | £165,313             |
| Margate               | £250,700           | £175,490             | £150,420             | £125,350             |
| Ramsgate              | £270,250           | £189,175             | £162,150             | £135,125             |
| Thanet Villages       | £276,000           | £193,200             | £165,600             | £138,000             |
| Westbrook-Birchington | £319,508           | £223,656             | £191,705             | £159,754             |
| Thanet average        | £276,000           | £193,200             | £165,600             | £138,000             |

Source: GL Hearn calculations

<sup>11</sup> PPG (First Homes) Ref ID: 70-002

3.37 At both District average and Sub-area levels, the table above indicates that 2-bedroom dwellings discounted by 30-50% would fall within the £250k price ceiling.

**Table 16: First Homes – prices after discounts applied (3-bedrooms)**

| Sub-Area                     | Median House price | Discount range - 30% | Discount range - 40% | Discount range - 50% |
|------------------------------|--------------------|----------------------|----------------------|----------------------|
| <b>Broadstairs</b>           | £414,000           | £289,800             | £248,400             | £207,000             |
| <b>Margate</b>               | £333,500           | £233,450             | £200,100             | £166,750             |
| <b>Ramsgate</b>              | £313,950           | £219,765             | £188,370             | £156,975             |
| <b>Thanet Villages</b>       | £416,588           | £291,611             | £249,953             | £208,294             |
| <b>Westbrook-Birchington</b> | £382,615           | £267,830             | £229,569             | £191,307             |
| <b>Thanet average</b>        | £357,075           | £249,953             | £214,245             | £178,538             |

Source: GL Hearn calculations

3.38 At the District level, the evidence shows that 3-bedrooms dwellings discounted by 30-50% would fall within the £250k price ceiling. However, if FHs location falls within sub-areas of Broadstairs, Thanet Villages and Westbrook-Birchington, 3-bedrooms dwellings should at least be discounted by 40% to fall within the PPG price ceiling.

**Table 17: First Homes – prices after discounts applied (4-bedrooms)**

| Sub-Area                     | Median House price | Discount range - 30% | Discount range - 40% | Discount range - 50% |
|------------------------------|--------------------|----------------------|----------------------|----------------------|
| <b>Broadstairs</b>           | £557,750           | £390,425             | £334,650             | £278,875             |
| <b>Margate</b>               | £488,750           | £342,125             | £293,250             | £244,375             |
| <b>Ramsgate</b>              | £428,375           | £299,863             | £257,025             | £214,188             |
| <b>Thanet Villages</b>       | £391,000           | £273,700             | £234,600             | £195,500             |
| <b>Westbrook-Birchington</b> | £500,250           | £350,175             | £300,150             | £250,125             |
| <b>Thanet average</b>        | £451,375           | £315,963             | £270,825             | £225,688             |

Source: GL Hearn calculations

3.39 At both the District level and most sub-areas (except for Thanet Villages), the table indicates that 4-bedrooms dwellings must discount by 50% to fall within the £250k price ceiling.



## 4 INCOME-LED DISCOUNTS

4.1 The table below sets out the level of discount required for “for-sale” homes priced around the median (District level average) to be affordable to households based on incomes ranging from £10,000 to £70,000 at £5,000 intervals. This income range is based on the household income distribution indicated in Thanet’s Local Housing Needs Assessment (LHNA 2020)<sup>12</sup>.

4.2 That said, it is also worth taking this assessment up to £80,000 given that this is the upper income threshold in the test set out in PPG<sup>13</sup>.

**Table 18: Discounts are required to median house prices to be affordable to the target group**

| Income level | Home budget | First Home (Median for sale)-Studio/1bed | First Home (Median for sale)-2 bed | First Home (Median for sale)-3 bed | First Home (Median for sale)-4 bed | Discount required - Studio/1bed | Discount required - 2 bed | Discount required - 3 bed | Discount required - 4 bed |
|--------------|-------------|--|------------------------------------|------------------------------------|------------------------------------|---------------------------------|---------------------------|---------------------------|---------------------------|
| £10,000      | £59,349     | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | 69%                             | 78%                       | 83%                       | 87%                       |
| £15,000      | £79,349     | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | 59%                             | 71%                       | 78%                       | 82%                       |
| £20,000      | £99,349     | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | 49%                             | 64%                       | 72%                       | 78%                       |
| £25,000      | £119,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | 38%                             | 57%                       | 67%                       | 74%                       |
| £30,000      | £139,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | 28%                             | 50%                       | 61%                       | 69%                       |
| £35,000      | £159,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | 18%                             | 42%                       | 55%                       | 65%                       |
| £40,000      | £179,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | 7%                              | 35%                       | 50%                       | 60%                       |
| £45,000      | £199,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | N/A                             | 28%                       | 44%                       | 56%                       |
| £50,000      | £219,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | N/A                             | 21%                       | 39%                       | 51%                       |
| £55,000      | £239,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | N/A                             | 13%                       | 33%                       | 47%                       |
| £60,000      | £259,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | N/A                             | 6%                        | 27%                       | 43%                       |
| £65,000      | £279,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | N/A                             | N/A                       | 22%                       | 38%                       |
| £70,000      | £299,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | N/A                             | N/A                       | 16%                       | 34%                       |
| £75,000      | £319,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | N/A                             | N/A                       | 11%                       | 29%                       |
| £80,000      | £339,349    | £193,488                                 | £276,000                           | £357,075                           | £451,375                           | N/A                             | N/A                       | 5%                        | 25%                       |

Source: GL Hearn Calculations

<sup>12</sup> Thanet District Council, Local Housing Needs Assessment (2020), Paragraph 8.21-23

<sup>13</sup> PPG (First Homes) Ref ID:70-007

- 4.3 The colour coding illustrates the depth of discount required with the deeper red indicating a higher discount to achieve affordability. The darker the blue, the smaller the discount. A negative number (labelled as N/A) indicates a discount would not be required for a dwelling of this size to be affordable to a household at that income level. These households are unlikely to select the First Home.
- 4.4 Median “for-sale” house prices have been arrived at by taking the average median prices achieved in the second-hand market and adding 15% to allow for a new-build premium.
- 4.5 The “Home Budget” is 4 times household income plus access to a deposit of around £15,000 (10% of a 1-bedroom flat priced around the median).
- 4.6 The table above shows that no sizes of dwelling would be accessible for households of income level lower than £15,000pa within the discount range permitted for First Homes.
- 4.7 To be affordable to a household on £20,000pa, a studio or 1-bedroom flat would need to be discounted by 49%. No other sizes of dwelling would be accessible to a household on this income within the discount range permitted for First Homes.
- 4.8 Furthermore, it is questionable whether a household with an income at or below this level would have a deposit worth the equivalent of one year’s salary. As indicated in LHNA 2020, around 33% of the household in Thanet District are below this income level (less than £20,000pa).
- 4.9 For households on higher incomes, the provision of FH has the potential to make a wider range of sizes of dwellings available. For example, for a household of £40,000pa, a 2- or 3-bedroom dwelling would be available in the event the discount applied was 35% or 50% respectively.

4.10 For those households with the highest income level of £80,000 in the table above to be eligible for the First Home, a 4-bedrooms dwelling would be affordable at a minimum discount of 30%.

## 5 CONCLUSIONS

- 5.1 This report has sought to answer two questions,
- c) To identify the level of discount to the value of new-build dwellings that would be required to make First Homes (FH) affordable to local people (bearing in mind the impact this could have on the provision of social rented units); and
  - d) Whether FH would meet the housing needs of the District as identified in the Local Housing Needs Assessment (2020) (LHNA 2020).

### Target Groups

- 5.2 In answering the first of these questions, this report focuses on those households that fall into the “rent/buy” gap as identified in the LHNA 2020.
- 5.3 Therefore, this report concludes that it is appropriate to consider the level of discount that should be applied as a range. The bottom of the range is the discount that would be required to enable households currently renting to afford to buy; the top of the range is that which would make dwellings affordable to households currently able to afford more expensive home<sup>14</sup>. The table below summarises the discount ranges.

**Table 19: Discount ranges for First Homes (Thanet District level)**

| Sizes            | LQ rent- equiv. purchase price | Median house price | Mid-point | Discount range - PRS | Discount range - Midpoint |
|------------------|--------------------------------|--------------------|-----------|----------------------|---------------------------|
| Studio/1-bedroom | £151,067                       | £193,488           | £172,277  | 22%                  | 12%                       |
| 2-bedroom        | £190,476                       | £276,000           | £233,238  | 31%                  | 18%                       |
| 3-bedroom        | £229,885                       | £357,075           | £293,480  | 36%                  | 22%                       |
| 4-bedroom        | £275,862                       | £451,375           | £363,619  | 39%                  | 24%                       |

Source: GL Hearn calculations

- 5.4 At the District average level, a FH of studio/1-bedroom in size will be affordable to households able to afford lower quartile rents in the PRS where a discount of 30% is applied to the OMV of a new-build dwelling priced around the median.

<sup>14</sup> This is defined as the mid-point of the cost of median-price dwellings and the value derived from private rent for the same sizes of home.

- 5.5 By applying a discount of 40%, households living in the PRS paying LQ rent will be able to afford new-build homes of 2- or 3-bedrooms in size priced around the median at the District average level.
- 5.6 For 4-bedrooms homes at the District average level, a discount of 50% may be necessary to meet the price ceiling set out in the PPG post discount of £250,000.

### **Income-led discounts**

- 5.7 This report undertakes further analysis to assess whether FH would be affordable given the household income distribution in the District. This provides guidance as to the level of discount that would be appropriate to enable households on certain incomes to access home ownership.
- 5.8 Households who have a lower level of income (below £15k per annum) would not be able to afford any size of home.
- 5.9 Those with a household income of between £15k-20k per annum would be able to afford a studio/1-bedroom size dwelling priced around the median where the maximum 50% discount is applied to the OMV.
- 5.10 It should be noted that 33% of Thanet's households are below the income level of £20,000 pa<sup>15</sup>. Since the gap between the home buying budget and the market price of these income groups is large, the provision of alternative rental housing options (e.g., social or affordable rent) or intermediate housing policy (e.g. shared ownership) should be considered for these households.
- 5.11 Households with higher income levels (above £20,000pa) can afford "for-sale" dwellings priced around the median with discounts of between 30% and 50% depending on the size of the home.

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<sup>15</sup> Thanet District Council, Local Housing Needs Assessment (2020), Paragraph 8.21-23

- 5.12 The analysis by income bracket suggests that with a District-wide FH discount of 50% 1-, 2-, 3-, 4-bedrooms dwellings would be affordable to households whose incomes fall between the level of £20,000 to £80,000.
- 5.13 This report has confirmed that households with lower income levels (below £20,000 per annum) are likely to face difficulties in accessing FHs even were the maximum 50% discount level to be applied. Therefore, FHs should be suitable as a policy tool that provides a route to homeownership for households whose income falls broadly within the mid-range of the District's income distribution.

### **Policy options**

- 5.14 Where the Council is seeking a discount that is greater than 30% consideration should be given to whether this might prejudice the viability of providing other forms of affordable housing (such as social rented homes).
- 5.15 Instead of setting a discount level that is greater than 30%, it might be more appropriate to set it at a minimum level of 30% and apply local eligibility criteria (such as income caps) as part of section 106 agreements, which might in some cases necessitate a greater level of a discount than 30%.
- 5.16 In such a case, the discount level would be driven off the affordability of FH to households on specific income bands. This would provide an opportunity to determine the level of discount on a case-by-case basis rather through a one-size-fits-all approach.

### **Local Housing Need**

- 5.17 This report draws on income and housing costs data from the LHNA 2020. This ensures the basis for assessing affordability (in particular the needs of those households that fall into the “rent/buy” gap) and therefore the suitability of FHs in Thanet, is consistent with the methodology used in this earlier report.

- 5.18 As indicated by LHNA 2020, there are a number of households in Thanet that fall within the “rent/buy” gap and are being excluded from the owner-occupied sector. By applying the FH discount to the OMV of new build homes, this report has shown that the FH policy will provide households in the “rent/buy” gap with an affordable route to homeownership.
- 5.19 That said, the evidence gathered indicates substantial variations in the price levels between the different sub-areas in Thanet. This suggests households in different parts of the District may experience different affordability issues depending on where they live (or are seeking to live). This may be factored into where the Council decides to seek FH.
- 5.20 Following the NPPG, once a minimum of 25% of First Homes has been accounted for, social rent products should be delivered in the same percentage as set out in the Local Plan. This means that only other forms of intermediate products (as opposed to social rent) should be reduced to allow for First Homes.
- 5.21 However, to ensure that households with lower income levels are able to access AHO products, Shared Ownership should be retained in the affordable housing mix.

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