



Guernsey housing market review

States of Guernsey

August 2017

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Private and confidential

23 August 2017

The Committee for the Environment and Infrastructure
Sir Charles Frossard House,
La Charroterie,
St Peter Port,
Guernsey,
GY1 1FH

Dear Sirs

Guernsey Housing Market Review

In accordance with our signed engagement dated 12 October 2016 and its attachments (the 'Engagement Letter'), we enclose a copy of our final report on the Guernsey Housing Market Review.

As stated in our Engagement Letter, you have agreed that this final written report supersedes all previous oral, draft or interim advice, reports and presentations, and that no reliance will be placed by you on any such oral, draft or interim advice, reports or presentations other than at your own risk. The agreed scope of our work is detailed in the introduction.

Our report is for the benefit and purpose as outlined in our Engagement Letter. We understand that you may wish to make our report publically available. We will consent to it being made public on the basis that it is reproduced in its entirety. Our report should not be regarded as suitable to be used or relied on by any parties beyond the context and scope for which it was prepared.

The scope of work for this report has been agreed by the addressees and to the fullest extent permitted by law we will not accept responsibility or liability to any other party (including the addressees' legal and other professional advisers) in respect of our work or the report.

Yours faithfully

KPMG Channel Islands Limited

KPMG Channel Islands Limited

Important notice:

Our work commenced on 12 October 2016 and our fieldwork was completed on 7 June 2017. This report is based on factors and information up to that date. We have not undertaken to update our report for events or circumstances arising after that date. Any impact of future changes, including those related to economic, fiscal, and social policies, population statistics and projections have not been considered unless specifically noted within the report. Factual accuracy feedback was received up to 21 August 2017.

In preparing our report, our primary source has been internal statistical information provided to us by SoG. We do not accept responsibility for such information which remains the responsibility of SoG. Details of our principal information sources are set out within the document and we have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work in accordance with the terms of our Engagement Letter. We have not, however, sought to establish the reliability of the sources by reference to other evidence. This engagement is not an assurance engagement conducted in accordance with any generally accepted assurance standards and consequently no assurance opinion is expressed.

The numerical data presented in our report may include minor rounding differences compared with other balances presented throughout this report.

The contents of our report have been reviewed by SoG. Who have confirmed in writing the factual accuracy of this report.

Introduction

We are pleased to present our report on the Guernsey local housing market.

Part 1 of the report provides an analysis of the local housing stock in Guernsey together with the supply and demand factors which influence it.

Part 2 covers our analysis and recommendations which are then summarised in the Executive Summary.

The Executive Summary also includes a housing targets model on page 20.

Key scope items

Our work focused on Guernsey's local housing Market. The open market has been specifically excluded from our scope.

[A summary of our scope is outlined below:](#)

- Predict current and future demand for housing, including Affordable housing;
- Subdivide the proposed strategic housing target into Affordable housing and private housing;
- Investigate price trends in the local market for residential property;
- Report on factors influencing the prices of houses;
- Conduct qualitative and quantitative research to identify financial and nonfinancial barriers to ownership with particular reference to first time buyers;
- Explain the methods of financing property purchase used by 'average' households;
- Review private sector rental costs, assess their affordability and their relationship to other sectors of the housing market;
- Examine the various options available for Government intervention in the housing market including what effect the various measures may have on housing affordability and housing availability.

Key workstreams

Our approach has been driven by three areas: extensive consultation with industry stakeholders, detailed analysis of the available data and surveying FTBs.

Our consultation with industry included representatives of: the GHA, the Strategic Development Partnership, the banking sector, the SoG (planning, ESS and E&I Committees), estate agencies, law firms, housing developers, mortgage brokers, the Co-op, the GBTEA, the GPRLA, the GFSC, the Construction Industry forum, construction firms, the G4 and local surveyors.

We analysed census data, population and demographic projections, and Affordable housing waiting lists in determining housing targets.

Our FTB survey, marketed through a number of distribution channels including social media, received over 100 responses.

We would like to thank all those who have taken part and supported this important project.

Introduction

Sources of information

The sources of information used are noted, wherever possible, in the report. We have not sought to establish the reliability of these sources by reference to evidence independent of the 3rd party source. We have, however, reviewed the information produced and have satisfied ourselves, so far as possible, that the information presented is consistent with other information obtained by us during the course of our work.

Key sources of information include:

- Data provided by SoG;
- SoG publically available information;
- Discussions with industry stakeholders;
- Desk top research;
- KPMG FTB survey.

Limitations of data

We draw your attention to the limitations in the information available to us. Our sources of data have been limited to those stated above. We have highlighted key data limitations within the report and where appropriate provided recommendations to improve the collection of this this data.

Limited available data on land prices, construction costs, development financing costs, FTB numbers and developer margins has limited the analysis we have been able to perform.

Where possible we have benchmarked Guernsey analysis against other jurisdictions. In many cases, directly comparable data is not available or economic, fiscal, cultural or market differences exist and hence caution must be taken in interpreting the results.

The many factors affecting the housing market, in particular pricing and transactions, mean that isolating impacts of specific factors or policies is often not possible or might yield inaccurate results. It is also difficult to accurately predict the future impact of individual policies.

All housing markets have varied characteristics and hence individual policies may cause differing results. We have not provided theoretical modelling of policy impacts within the report where the outcome is likely to be inaccurate as this may be harmful to the market. Where appropriate, our recommendations have indicated the likely impacts on pricing and market activity.

Within Part 1 of the report, we have identified key factors impacting house prices and explained the historic movement in pricing in Guernsey. Some factors will be unique to Guernsey and other factors will influence pricing in different ways to other jurisdictions, dependent upon the current state of each market. Within the report, we have used Jersey and the UK as benchmark jurisdictions; however Part 1 demonstrates that many of the key factors in these jurisdictions have moved in contrasting ways to Guernsey over recent years and hence using these markets to gauge future pricing is highly likely to lead to inaccurate results. It should also be noted that there is a great deal of uncertainty around many of these factors and some, particularly certain macroeconomic factors such as interest rates, may be less controllable in Guernsey than in the UK.



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Executive Summary

Executive Summary

Background

The local housing market in Guernsey

The market within Guernsey is characterised by a diverse range of properties, comparatively higher pricing and poorer affordability than many other jurisdictions.

Guernsey does not appear to suffer from some of the key challenges facing other countries, such as significant shortages in supply or a high presence of homelessness — nevertheless there are still challenges requiring ongoing attention to ensure that the market operates as efficiently as possible.

Housing stock

Guernsey's total housing stock has increased from 24,175 units in 2010 to 25,310 units in 2016. Owner occupied properties have remained constant at approximately 15,000 units over this period in contrast to rental properties which have seen growth of 897 units to 6,982 units. The proportion of owner occupied properties has reduced to 60% of total stock from 62% in 2010.

Housing stock has increased by approximately 1,100 units since 2010 during which time there has been population growth of just 0.3%. We believe therefore that utilisation of these additional properties is largely explained by the reduction in average household size from approximately 2.4 to 2.3 people per household over the same period.

The provision of Affordable housing has stayed consistent for many years at around 10% of stock, and recent increased supply within the rental market has contributed to reduced private rental prices and demand for Affordable housing tenures.

Since the establishment of the GHA in 2002, Affordable housing developments have narrowed the gap between Affordable housing demand and supply to its lowest level in recent years. Waiting lists across the Affordable housing tenures as at the end of Q1 2017 had fallen to 281 households from a peak of 649 in 2011.

Private sector development was limited in 2016 with an additional 8 units in contrast to the 35 constructed by the GHA. Additionally, private sector development over recent years has not always led to the types of dwelling most needed by the island. A limited supply of available land and competition from developers can cause a bias of developments away from market need towards higher value developments.

Local market house prices

House prices in Guernsey have been historically higher than the UK (at all quartiles) growing at a compound average of approximately 8% per annum since 1981 — whilst the growth rate has slowed in recent years, if an 8% growth rate was applied to current median prices, it would indicate a growth of £33,000 per annum (which is in excess of Guernsey's latest median earnings of approximately £32,000).

However, there has been volatility since the global financial crisis including a meaningful fall in prices in 2015. A worsening in the lower quartile affordability ratio, a tightening of available credit in the island and an associated lack of confidence in the market generally led to a decline in the volume of transactions from 2011 onwards (36% fall from 2011 to 2015) and a fall in house prices from their peak in 2014.

The experience of falling transactions and house prices has had a knock on effect with developers deferring investment into new developments, further tightening of credit availability (both to developers and mortgage bonds to purchasers), and FTBs and purchasers at other levels of the market deferring a move in anticipation of further price falls and risk of negative equity.

Executive Summary

Background (continued)

Reduced confidence over a prolonged period can lead to a locked market, where people become trapped in properties no longer appropriate to their needs.

Despite the price falls seen since 2015, comparatively high ownership prices and rental prices still exist, impacting on the attractiveness of the island to migrants in contrasting ways. High pricing might indicate an attractive place to live with higher median earnings which can help differentiate the island for upper quartile earning workers such as in the finance sector. In contrast, lower quartile and median earning workers may find the cost too high to locate here — this may be particularly true for key workers looking to move to the island and it may also impact on those locally who may wish to enter such occupations.

Relatively high house values have worsened Guernsey's affordability ratios which have compared unfavourably to other jurisdictions over a prolonged period. However, despite the recent volatility, the market appears to be able to function at higher pricing levels — our affordability analysis indicates that the 2005 lower quartile affordability ratio was in line with that in 2015. Prior to the financial crisis, at similar affordability ratios to today, transactions levels were running on average at 940 per year which represented a turnover of 3.8-4.8% of total stock.

We are heartened by the recent pickup in market transactions and the introduction of a new lender to the market.

Executive Summary

Recommendations

We have assessed a number of policy options and recommendations for addressing the issues affecting the local housing market within Part 2 of this report which we have summarised below. Other options within this report may become applicable as conditions change or as SoG refine their core vision and strategy for the local housing market. It is important to keep a flexible and responsive approach to match policy changes to changes in market conditions.

Areas of focus

We have identified 6 areas of focus, as follows:

- a) Credit provision and a highly concentrated mortgage market
- b) Affordability for FTBs
- c) Provision of elderly tenures
- d) Provision of key worker housing
- e) Government support to the housing market
- f) Ongoing monitoring of housing targets and KPIs

Detailed analysis on the above 6 areas of focus is provided in Part 2 (sections a to f) of this report.

Executive Summary

Recommendations (continued)

a) Credit provision and a highly concentrated mortgage market;

An ongoing supply of mortgage credit is critical to ensuring that those who wish to acquire a home can obtain the financing required. There have been periods in Guernsey where there has been a contraction of credit availability, driven principally by a fall in the number of lenders as well as a tightening of banks' lending criteria. The reduced lending capacity was a factor in falling transaction volumes after 2013 to under 3% per annum of local market stock.

Our analysis shows that in 2016, Guernsey reached a highly concentrated position of lenders. Concentration on a few lenders has led to increased systemic risk in the market and concentration risk to the active lenders. If one of the existing main lenders exited there would be significant pressure on the remaining lenders which, if not resolved, might risk a decline in credit availability and subsequent transaction volumes.

It is important to increase and diversify the availability of mortgage credit in Guernsey, both to reduce systemic risk and to provide more choice by allowing greater specialism and variety of products. This could be achieved through increased lending from the wider population of existing lenders as well as attracting new mortgage providers

Our analysis suggests that an additional £20m of credit from new lenders, or those operating at a lower market share, is the minimum amount needed to move away from a highly concentrated marketplace of lenders.

Recommendations

We recommend the following:

- A working party should be formed including representatives from government, the AGB and the GFSC to regularly monitor the mortgage market
- A shortlist of potential new lenders should be approached to understand better their appetite and the barriers they face
- Ongoing dialogue with existing lenders to keep abreast of their appetite for lending and to understand the challenges they face

Executive Summary

Recommendations (continued)

b) Affordability for FTBs;

New purchasers are critical to unlocking the housing market and driving up the volume of transactions. The nature of the housing ladder dictates that new purchasers must be active to enable second time buyers to move and to ensure the flow of transactions throughout the market.

As FTBs can act as a key stimulant to the market, any assistance provided is likely to benefit the wider market and its stakeholders within the short term.

Our analysis indicates that affordability ratios are worst at the lower market quartile which is likely to adversely affect FTBs. FTBs are also likely to suffer higher mortgage interest rates driven by higher LTVs.

The affordability levels at the lower quartile have fluctuated at around the 15 times level principally driven by property prices at the lower quartile holding their values.

A challenge for FTBs of relatively high prices at the lower quartile is the level of deposit required – typically a deposit of 10% and transaction cost up to 4%. In contrast, our survey suggested the ongoing affordability of a mortgage currently appears within reach for many. Market intervention currently occurs through the provision of mortgage interest relief which helps further improve the ongoing affordability of a mortgage, however does not assist FTBs in servicing transaction costs and deposits. We understand that mortgage interest relief is being phased out by 2025. Historically, SoG also administered loans for FTBs, most recently under the States Home Loans Scheme, in operation from 1991. The maximum loan available through the SHLS was set at £130,000 in 2000. As prices rose towards the end of the last decade, a dwindling number of households applied for the scheme and it was closed in 2010.

We have considered the following options to assist FTBs in the current market:

- HTB schemes (loan/savings/guarantee)
- GHA FTB PO scheme
- Changes to Document duty and Bond fees
- Encourage FTB Housing
- Provision of impartial advice to FTBs

Help to Buy

Our analysis considered various derivations of a HTB scheme, either through a deposit loan, guarantee or savings arrangement.

Whilst it is not possible to accurately model the expected impact on pricing from the introduction of an HTB scheme for Guernsey (due to uncertainty over the many factors which impact house prices), it is unlikely to improve affordability ratios for future FTBs. HTBs can act as a stimulant to demand and are likely to be inflationary if launched without an appropriate supply side policy.

High LTVs are a likely outcome of a HTB scheme and can increase the risk of negative equity for homeowners. In such circumstances the government will likely bear the greatest credit risk as to the recovery of amounts it has funded (or be called on for its guarantees) on any HTB scheme.

A key aspect of all of the Help to Buy schemes is that they will require acceptance and participation by lenders on the island. Given the current restricted supply of lenders within the Guernsey market, it may be unlikely that banks are willing to participate within any scheme.

Executive Summary

Recommendations (continued)

In the UK, where a number of HTB schemes have been in operation, there are concerns over how the schemes will eventually be withdrawn and the longer term impact this may have on the market. A variant of the equity loan scheme was used in Jersey to help stimulate the housing market when it was in decline and helped a small population of FTBs in 2013. The limited population size (51 households) mitigated the withdrawal risks facing the UK market. Since 2013, the Jersey Housing Market Activity Index has grown continuously demonstrating an increase in transaction volume. Guernsey has seen a 26% increase in transactions in Q1 2017 on 2016 and full year 2016 saw a 18% increase in transactions on 2015. Thus any stimulation created by a HTB scheme may be less pronounced than occurred in Jersey.

Under current market conditions, we do not believe that a HTB scheme would produce long term benefits for Guernsey – caution should also be exercised with suggesting a HTB scheme as this might unsettle a housing market which has recently been seeing improved conditions through increased transaction volumes.

Recommendations

It is important to balance demand side measures with supply side measures in order to limit any inflationary impacts.

There are a number of measures which could be used to help FTBs.

GHA FTB PO scheme

There is a segment of FTBs who could afford the ongoing costs of a mortgage, but have no financial support from family and will be unable to save the transaction costs and deposit required. A secondary GHA PO scheme focused on FTBs and designed to incentivise stair-casing to 100% over a defined period, might help this segment. Provided the criteria successfully targets those who are unable to access the private market, there should be minimal initial impact on demand in the private market. If the scheme operates successfully, it may stimulate demand for the private market in the future as those who were previously unable to enter the private market can now transfer from a GHA property.

We recommend:

- Work with the GHA to design criteria for a secondary GHA scheme which allows staircasing to 100% and incentivises FTBs to move onto the private market within a defined period

Executive Summary

Recommendations (continued)

Changes to Document duty for FTBs

Mortgage interest relief already assists all homeowners with mortgages, although it is rarely factored into affordability calculations by the lenders. This relief will be phased out by 2025.

A flexible measure to stimulate the FTB market might be to remove Document duty for that group. This may be undertaken temporarily to immediately bolster demand, but performed over a longer stated period may stimulate the supply side of FTB properties by developers. In contrast to some HTB schemes there is no ongoing commitment of government capital, is likely easier to administer and is not dependent upon support from the banking sector. Given FTBs will have to fund a full deposit, there is less risk of negative equity should house prices fall.

We recommend

- Consider removal of Document duty (and bond fees) for FTBs
- Consider setting maximum thresholds for relief
- Consider the timeframe that the relief will remain in place
- Design a registration process to determine eligible FTBs

Encourage FTB Housing

Our analysis below shows the average price of new build homes that have been sold since Q1 2015 was £439k with only 6% of sales being priced at under £250k. A lack of true FTB developments causes a high lower quartile price and a poorer affordability ratio.

Encouraging FTB home developments is only likely to be feasible if action is taken through the planning system. Planning conditions or zoning restrictions can encourage the development of FTB property.

We recommend:

- Identify areas of land suitable for FTB housing and apply relevant zoning or planning conditions
- Define criteria for eligible FTBs

Executive Summary

Recommendations (continued)

Provision of impartial advice to FTBs

Provision of impartial advice should help FTBs better understand the buying process in Guernsey and help them plan better for the required savings. This might include information on the available lenders, mortgage brokers, the costs associated with a property purchase, the GHA scheme and the buying process itself. Information is currently provided by market participants but feedback from FTBs suggests more independent advice could be provided to give a complete picture, particularly during the early stages of the process and prior to engagement with advisors.

We recommend:

- Produce literature for FTBs to explain the property buying process and options
- Consider holding a FTB property event to help educate FTBs and promote the schemes available under GHA

Executive Summary

Recommendations (continued)

c) Provision of elderly tenures;

Understanding the projected demographic changes within the island's population enables stakeholders to better plan for future housing requirements. Demographic projections for Guernsey indicate a rapid increase in the over 65 age category, however there has been limited success in increasing supply within the elderly tenures. Currently, only 2% of over 55s live in dedicated over 55s housing.

Without sufficient choice of over 55s dedicated housing tenures, individuals in the 55-80 age bracket may end up living in accommodation that is unsuitable for their needs. They may continue to live in larger properties which become difficult and expensive to maintain, restricting the availability of homes for growing families. There are benefits to individuals from the elderly living in over 55s dedicated housing including less time spent in hospital, lower housing costs (such as energy and maintenance bills), reduced loneliness and greater independence. Benefits to government can include reduced expenditure on health and social care.

As over 55s downsize they 'free up' larger homes that may be in demand to assist with the allocation and overcrowding issues highlighted previously.

Recommendations

We recommend:

- Construct an accurate waiting list for over 55s dedicated housing tenures to influence development
- Ongoing dialogue with developers to understand the challenges they face
- Support over 55s dedicated housing tenures through the planning process
- Consider assistance to those wishing to move into more dedicated units. This might include providing Document duty reliefs and assisting with physically moving property

Executive Summary

Recommendations (continued)

d) Provision of key worker housing

As we have shown on page 65 the affordability of housing is difficult for lower income groups – this may impact the ability for SoG to recruit and retain key workers, such as teachers and nurses.

Currently there are 252 units offered at reduced rents to key workers in Guernsey. Of these, 157 are owned by the SoG, 19 are leased from the GHA, and 76 are leased from private landlords (although this number has fallen over the past 5 years). We understand that private rental properties are leased by SoG at full market rent and sublet to key workers at a discount of up to 30% through a SoG subsidy. In addition, there are key workers who receive rent allowance in the private sector. Provision of key worker housing through these means may provide flexibility if not necessarily the most cost effective way of delivery. We understand the GHA is hoping to build 22 key worker units, however, based on the current number of units leased from private landlords, this might seem insufficient.

To reduce the cost of delivering key worker housing, SoG might consider building additional dedicated key worker accommodation – likely beneficial in attracting new recruits alongside improving affordability for SoG. As we have noted the typical developer margin for the private sector is approximately 20% in Guernsey. SoG sponsoring the development of dedicated key worker accommodation directly by foregoing some of the developer margin should allow savings to be passed on to key workers through discounted rentals. Land currently owned by SoG could also be released at a discount to market value.

An alternative which would not need direct public funding is to provide a long term guarantee of occupancy and rental rates to the private sector to develop dedicated key worker housing units on its behalf. The reduction in risk may reduce developer margins as well as attract lower cost institutional finance. This reduction in yield should help underpin demand, ensuring that the likelihood of the guarantee being called is reduced.

Recommendations

A separate analysis will need to be performed by SoG to

- Assess the current cost of support given to key workers for accommodation
- More tightly define who comprises key workers in Guernsey – there is a general understanding within the SoG that it principally covers teachers and nurses but this needs codifying
- Assess future needs for key worker accommodation in Guernsey and reconcile this to GHA intentions for development
- If desirable, liaise with the private sector to better understand their appetite for developing dedicated key worker accommodation

Executive Summary

Recommendations (continued)

e) Government support to the housing market

Sustainability of government support is a key aspect of both housing policy and fiscal approach. Detailed analysis of the current, and potential future, costs of policy approaches should be undertaken in order to assess whether a policy approach is consistent with the long term strategic objectives of Housing and SoG more generally.

With ageing demographics, the composition of Guernsey's population is changing and with it are the types of homes required. In addition, the increases in cost of both rental and owner occupied tenures over the last 30 years may have reduced the capacity of individuals to save for retirement. Understanding the likely cost to the public purse as a result of the ongoing changes in the market is central to policy approach.

We are not aware of any comprehensive analysis currently performed to estimate the total cost of government intervention to the housing market. Current analysis does not integrate all of the current and estimated future costs and revenues of policy decisions.

The composition of Guernsey's population will change over the coming decades, with older individuals retiring out of the workforce and requiring more specialised housing. This may lead to falls in tax revenues against increases in government expenditure on housing. There is a risk of greater pressure on the dependency ratio. In order to accurately assess the impact of any policy intervention on the market and the sustainability of its impact on public finances, a detailed analysis and estimate of future cost should be undertaken.

Recommendations

We recommend:

- Compile a complete list of areas of government intervention related to the housing market (both revenue and expenditure aspects)
- Calculate the current financial impact of this intervention
- Estimate the future financial impact of government support when considering existing and future policy options

Executive Summary

Recommendations (continued)

f) Ongoing monitoring of housing targets and KPIs;

Range of KPIs

SoG collects extensive data on the housing market which is used to guide policy decisions, however this may not cover a broad enough range of data points. We have highlighted additional areas within this report that may require additional focus going forward.

Timely data

Whilst the demand side of the market can move rapidly in response to a variety of macroeconomic and demographic factors there are constraints, particularly on the supply side, that may lead to a time lag in policy responses. For example previous housing targets, produced every five years have been used to compute additional homes needed each year. This can mean that a housing target based on 2011 data would be used to drive planning decisions in 2015.

Recommendations

We recommend:

- Collect and, where appropriate, publish additional KPI data
- Consider the key inputs used to inform the housing targets model with the housing targets and compare against the supply of additional units of different tenures to identify any likely gaps

Executive Summary

Developing a housing target

As part of our scope of work, and based on a number of assumptions agreed with the States of Guernsey, we have developed a model for computing the additional housing requirement for 2021 split between Affordable and Private categories.

In summary we took the number of homes in 2014 using 2014 census data (the most recent and complete data set available) and considered the impact of:

- Population change – we used SoG projections of natural population growth (birth and death rates) of +0.6% over this period
- Demographics – we used a model to describe household formation behaviour. This was applied to the computed population in 2021 to calculate a range of additional housing requirements
- Migration – SoG provided two migration scenarios of +100 and +200 net migration per annum

The 2014 Census data suggests that 5.8% of Guernsey’s local housing market was overcrowded in 2014. This equates to just under 1,300 households. We note that there were enough houses of appropriate sizes in Guernsey to eliminate overcrowding (ie there are sufficient bedrooms in Guernsey to house the population without overcrowding, with over 2,500 private, owner-occupied households that have at least 2 spare bedrooms).

Our housing targets analysis is not designed to address this overcrowding but other recommendations in this report should help to alleviate it.

The resulting housing targets for 2021 were then split between Affordable and Private target stock by considering the historical relationship between total housing stock and Affordable stock, as well as the existing demand for Affordable homes. For the purpose of this analysis, cognisant of falling waiting lists and a cheaper private rental market, we have assumed that the waiting list for Affordable homes be cleared by 40% to 60%. Should actual government policy decide that an alternative target reduction be used then the resulting analysis will change.

Additional Housing Units required by tenure and bedroom 2014 to 2021

Bedrooms	Total requirement		Affordable requirement		Private requirement	
	Min	Max	Min	Max	Min	Max
1	203	277	116	167	88	110
2	238	332	65	94	173	238
3	189	278	53	77	136	201
4	55	85	5	7	49	77
5+	13	23	0	0	13	23
	698	995	239	345	459	649

Source: KPMG Analysis.

Executive Summary

Developing a housing target (continued)

We then calculated the total requirements for Affordable and Private housing for 2017 to 2021 by taking into account changes in demand for Affordable homes, and additional homes built, between 2014 and 2016. We have further calculated the split of Affordable housing by bedroom size between 2017 and 2021 but this has not been possible for Private housing due to unavailability of data.

We recommend that data recording the net change in private units by bedroom is maintained on an ongoing basis and integrated with real time monitoring of progress toward housing targets (see later in this report).

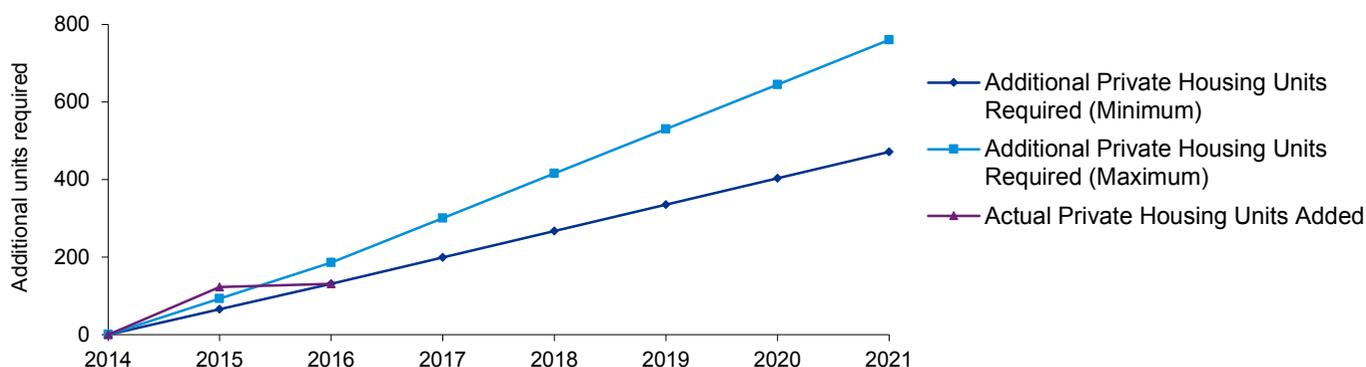
We present below the actual build rate for private and Affordable homes, plotted against the build rates suggested by our analysis. Note that the projections are split into two periods. The period 2014 to 2016 shows the actual building rate plotted against the additional units required per year based on projections from 2014 – 2021. The period from 2017 to 2021 has been updated for changes in the waiting lists for Affordable housing and for new units added since the base year, and shows the target building rates required to meet the 2021 housing target.

Additional Affordable Housing Units required by bedroom 2017 to 2021

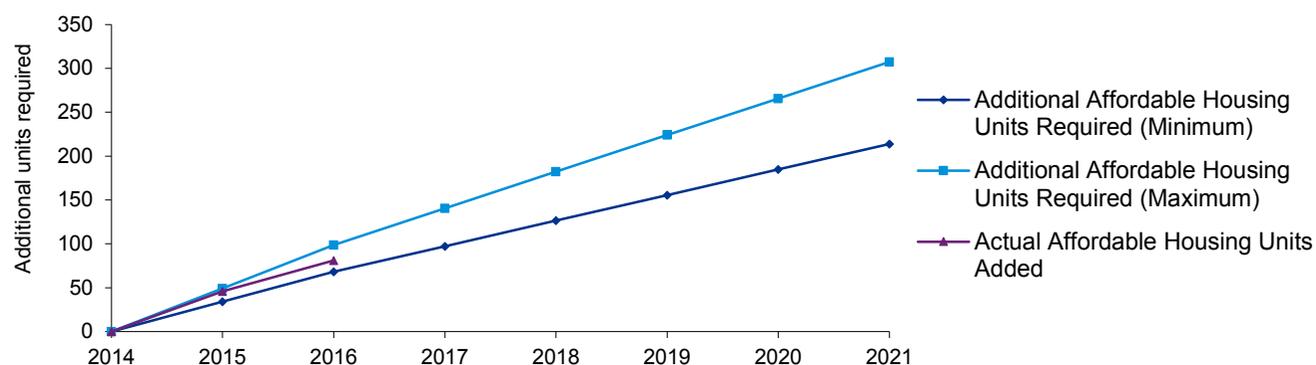
Bedrooms	Min	Max
1	71	101
2	40	57
3	32	47
4	3	4
5+	0	0
Total	146	209

Source: KPMG Analysis.

Private housing additional units required (2014 to 2021)



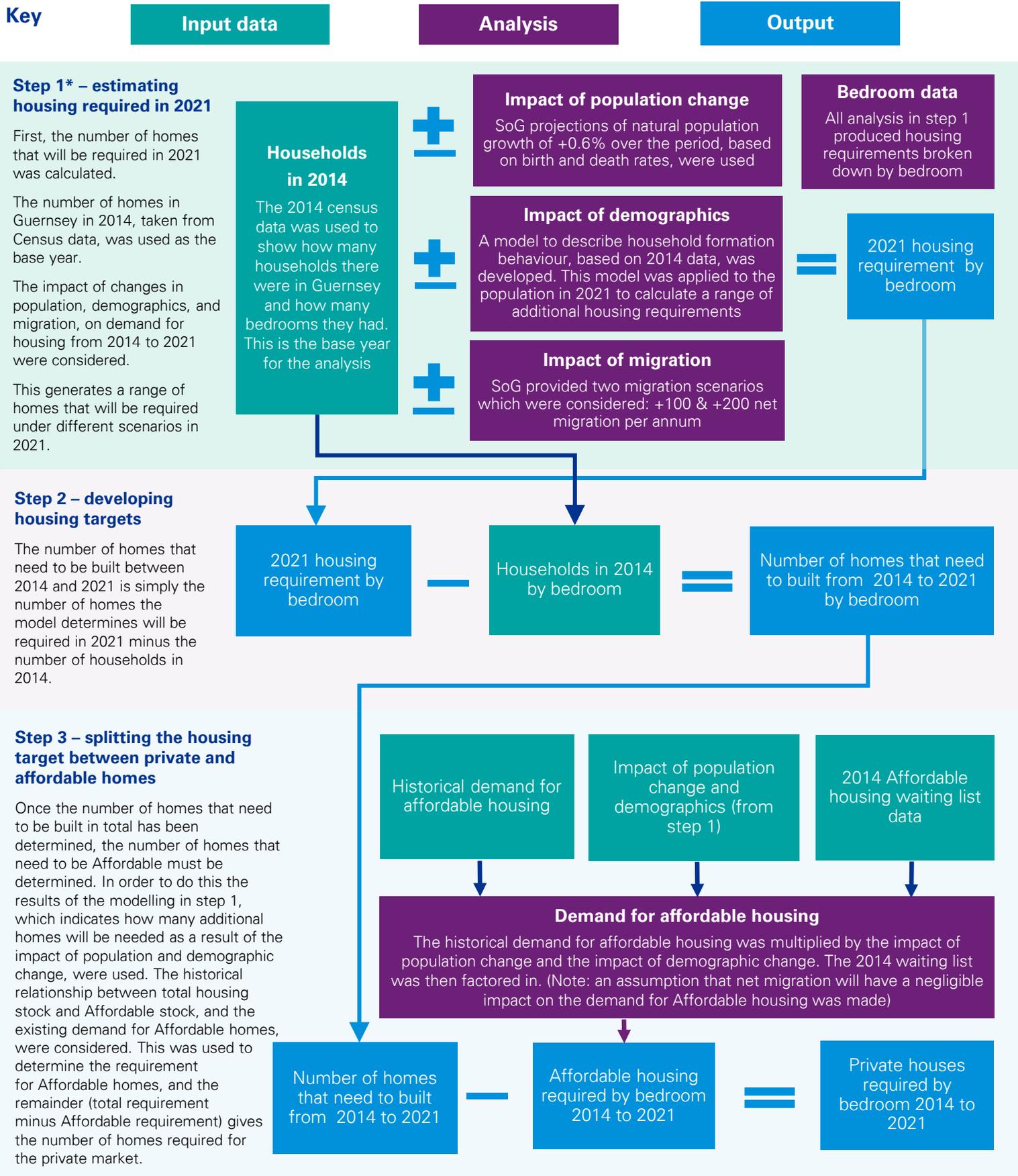
Affordable housing units required (2014 to 2021)



Source: KPMG Analysis.

Executive Summary

Developing a housing target (continued)



Executive Summary

Developing a housing target (continued)

Step 1

Summary of total housing requirement from 2014 to 2021

Effect	Additional homes required
Impact of population change	150
Impact of demographic Change (after population change)	301 to 350
Impact of migration	247 to 495
Total	698 to 995

Step 2

Number of homes that need to be built from 2014 to 2021 by bedroom

Bedrooms	Min	Max
1	203	277
2	238	332
3	189	278
4	55	85
5+	13	23
	698	995

Step 3

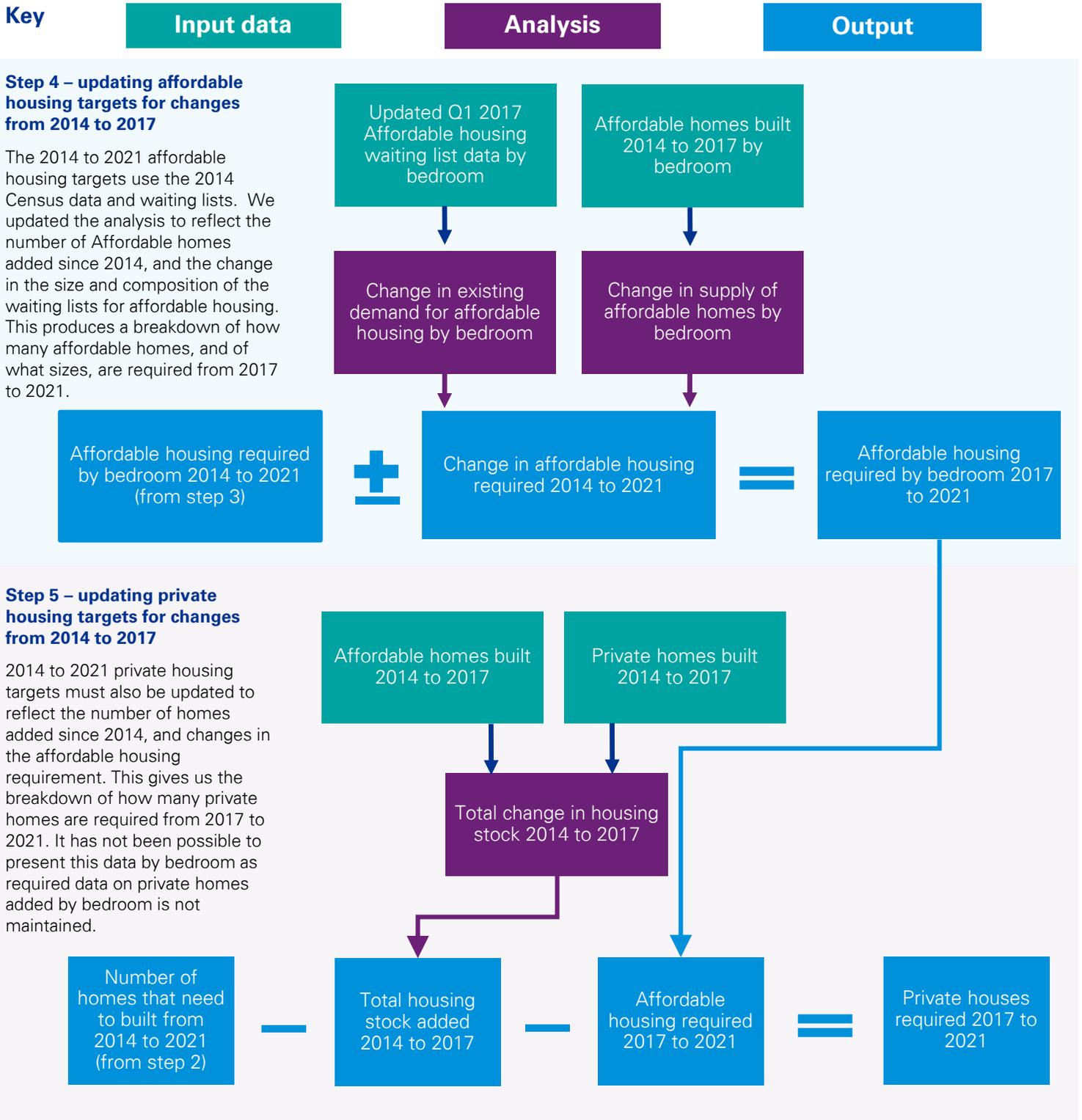
Affordable housing required by bedroom 2014 to 2021

Private houses required by bedroom 2014 to 2021

Bedrooms	Min	Max	Min	Max
1	116	167	87	110
2	65	94	173	238
3	53	77	136	201
4	5	7	50	78
5+	0	0	13	23
	239	345	459	650

Executive Summary

Developing a housing target (continued)



*** Note – overcrowding and underutilisation**

The 2014 Census data suggests that 5.8% of Guernsey’s local housing market was overcrowded in 2014. This equates to just under 1,300 households. We note that there were enough houses of appropriate sizes in Guernsey to eliminate overcrowding (ie there are sufficient bedrooms in Guernsey to house the population without overcrowding, with over 2,500 private, owner-occupied households that have at least 2 spare bedrooms).

Our housing targets analysis is not designed to address this overcrowding but other recommendations in this report should help to alleviate it as shown on page 26.

Executive Summary

Developing a housing target (continued)

Step 4

Affordable housing required 2017 - 2021		
Effect	Housing Requirement	
	Minimum	Maximum
Impact of population change	11	12
Impact of demographic Change (after population change)	23	28
Impact of migration	0	0
Existing Demand (Waiting Lists)	112	169
Total	146	209

Step 5

	Total requirement	
	Min	Max
Additional units required 2017 - 2021	486	783

	Affordable housing required 2017 -2021		Private houses required 2017 - 2021	
	Min	Max	Min	Max
Additional units required 2017 - 2021	146	209	340	574

Additional Affordable Housing Units required by bedroom. 2017 - 2021

Bedrooms	Min	Max
1	71	101
2	40	57
3	32	47
4	3	4
5+	0	0
Total	146	209

Executive Summary

Developing a housing target (continued)

Overcrowding and underutilisation

Our housing target analysis focused on expected trends between 2014 and 2021. In order to highlight whether there was a shortfall in housing in 2014, we considered the likelihood of overcrowding and underutilisation of housing stock.

Overcrowding is where too many people live in a house too small to accommodate them. Generally, it is accepted that a couple should not have to share a room with other adults, children should not have to share a room with their parents, and that brothers and sisters above a certain age should have a room each. The dataset does not identify the relationship between adults in the same house or the gender of children so we use a less strict definition of overcrowding than the UK DCLG.

Households with less than the minimum number of bedrooms are deemed overcrowded. For example, in a household of two adults (parents) and two children under ten, the minimum room requirement would be two bedrooms. A smaller housing unit would result in the household being overcrowded.

The data suggest that 5.8% of Guernsey's local housing market was overcrowded in 2014. This equates to just under 1,300 households.

We have conducted a separate piece of analysis on the 2014 census data to assess the degree of underutilisation by identifying homes where there are at least 2 spare bedrooms.

Households with at least two bedrooms more than the number of occupants have been classified as underutilised.

The data suggest that 10% of Guernsey households had at least 2 spare bedrooms in 2014. This equates to just over 2,500 households.

Seemingly there is a sufficient stock of rooms in Guernsey houses to theoretically eliminate overcrowding. The challenge is therefore one of allocation: when left to the market, the allocation of people to houses has resulted in overcrowding. This is consistent with our interview results which suggested that the lower transaction volumes (as discussed later in the report) have contributed to the allocation challenge.

Increasing the volume of transactions and assisting those in underutilised households who wish to move to more appropriate accommodation might help alleviate this issue. The principal recommendations which should assist with this include:

- Increasing lending from the wider population of existing lenders as well as attracting new mortgage providers
- Removing document duty (and bond fees) for FTBs
- Supporting elderly housing tenures

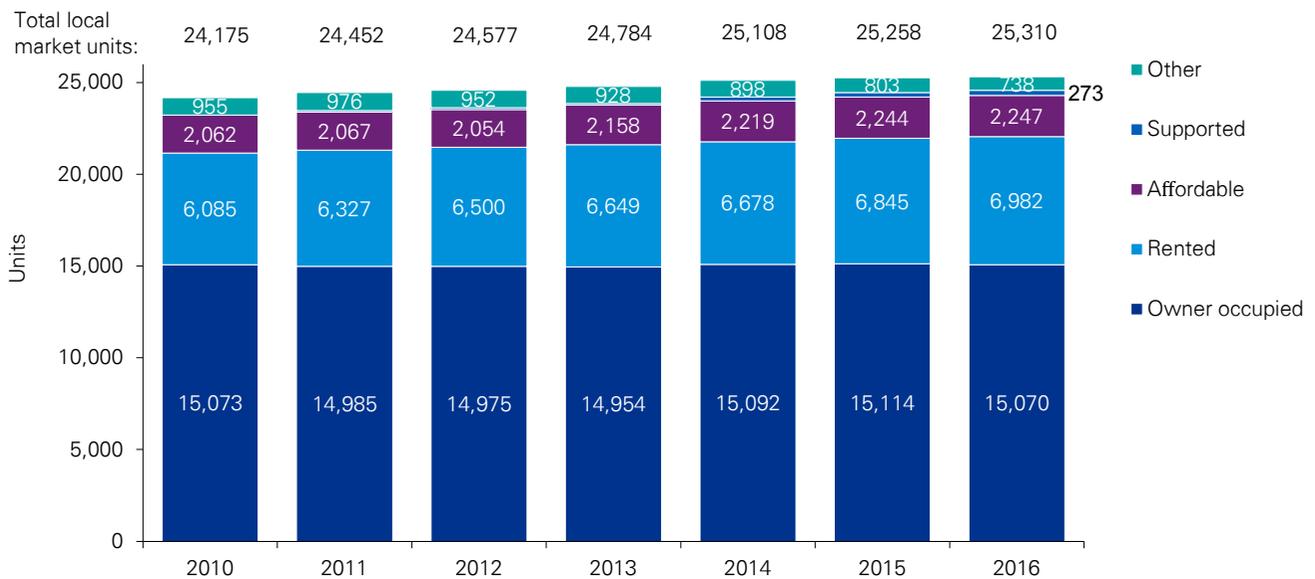
Part 1
Market
fundamentals



Housing stock

The total number of local market units has increased by 1,135 since 2010, principally represented by an increase in rental units of 897, an increase in Affordable housing units of 185 and an additional 273 Supported Homes. There has been a reduction in the Other category of 217 units during this period. The number of owner occupied units has remained stable since 2010.

Number of local market households by tenure (since 2010)

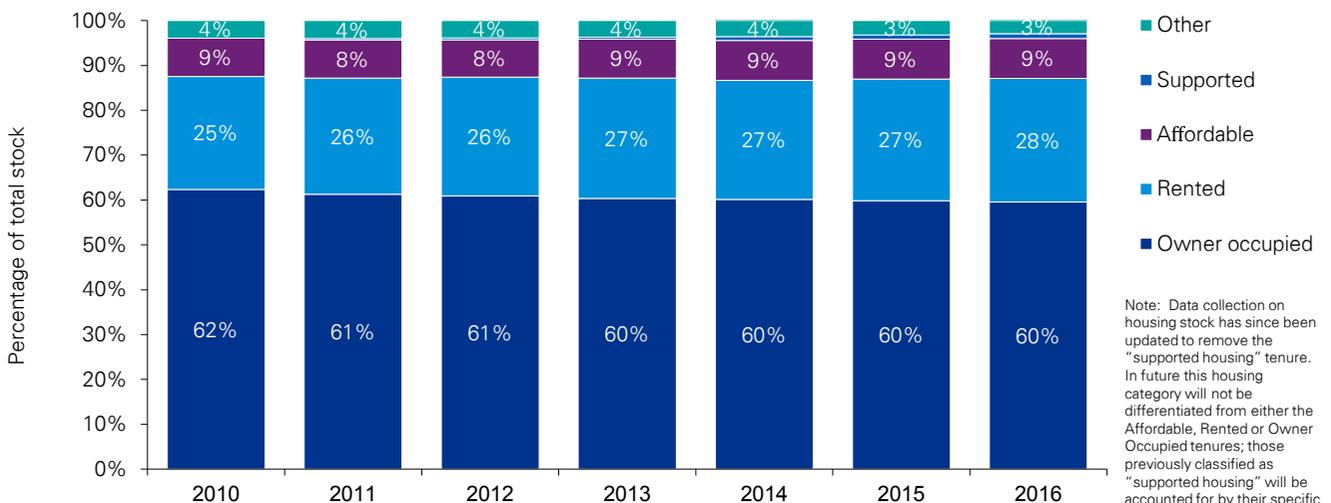


Source: Guernsey Annual Housing Stock Bulletin(s).

Note: The Other category includes self-catering, staff accommodation and units that are known to be vacant.

Whilst the number of Affordable housing or Supported units has increased, their proportion has remained at 9-10% of total local market units since 2010 and over a longer time horizon (see overleaf).

Distribution of local market households by tenure (since 2010)



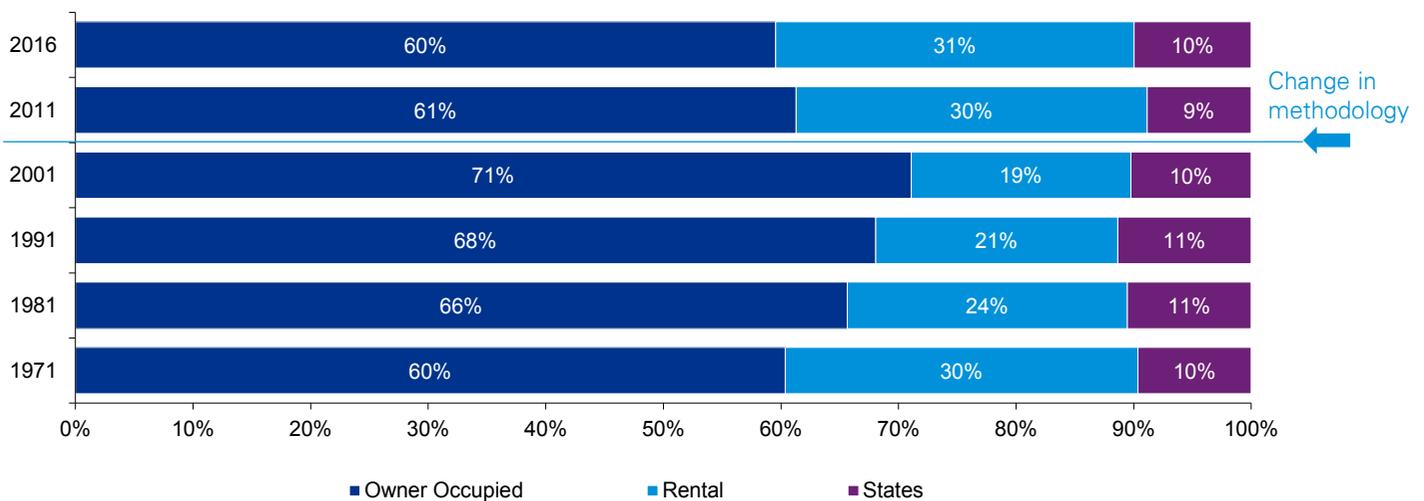
Source: Guernsey Annual Housing Stock Bulletin(s).

Note: Data collection on housing stock has since been updated to remove the "supported housing" tenure. In future this housing category will not be differentiated from either the Affordable, Rented or Owner Occupied tenures; those previously classified as "supported housing" will be accounted for by their specific tenure. See Glossary of Terms for more detail.

Housing stock

From 1971 to 2001 Guernsey experienced a trend of increasing home ownership, with 10% of total local stock moving from the rental to owner occupied tenures. This period also saw growth within the finance sector on the island combined with relatively affordable house prices when compared with current affordability ratios. As prices have risen this trend has reversed, particularly since the 2004 Parr report, with an increased focus on the importance of the rental market. The distribution of tenures in 2016 is now very similar to those found in 1971, although it should be noted that the figures are based on different data sources and methodologies.

Distribution of homes by tenure (since 1971)



Source: Guernsey Annual Housing Stock Bulletin(s), Census Data.

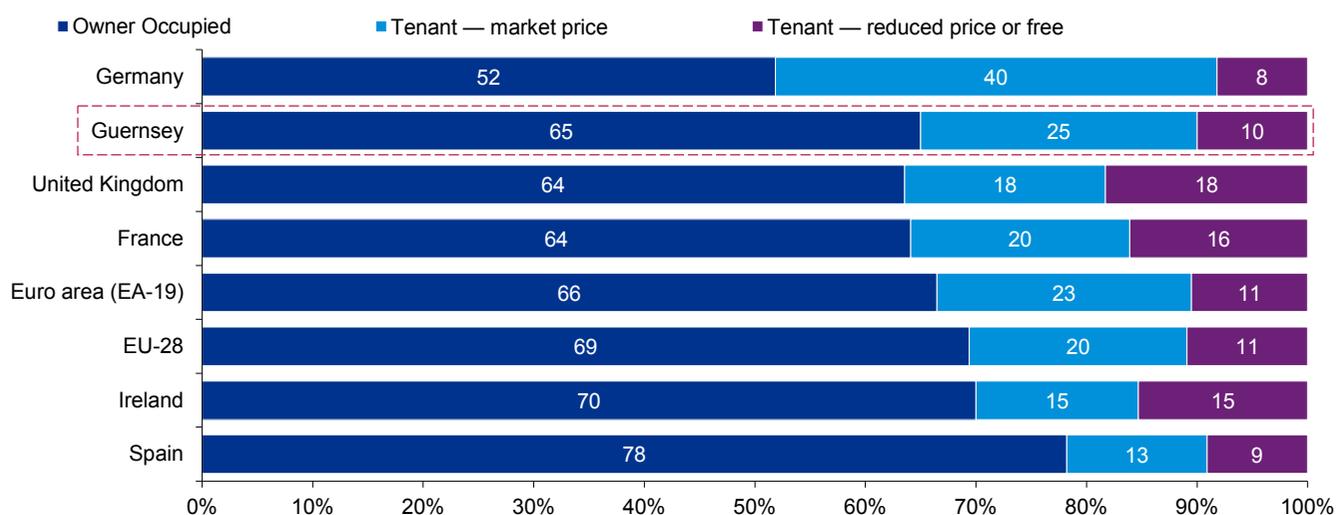
Note: On the above chart census data has been used prior to 2011, this data is not directly comparable to the 2011 and 2016 data but is the best data available and illustrates the trends described.

Housing stock

Relative to the EU 28 average, Guernsey has a slightly lower proportion of the population living in the owner occupied tenure. Other persons who either cannot afford, or do not wish, to purchase property in the local market have entered the tenant market at either private market rates or reduced rates through Affordable housing.

Guernsey has a low proportion of people in Affordable housing (termed reduced price or free tenures per international benchmark data in the chart below) despite the worse affordability ratios (as shown on page 54). Care should be taken in direct comparisons due to differing benefit systems between European countries, however, low unemployment and higher average earnings levels in Guernsey contribute to reduced demand for Affordable housing tenures which has remained relatively constant over the medium term.

Distribution of population by tenure – international benchmarks



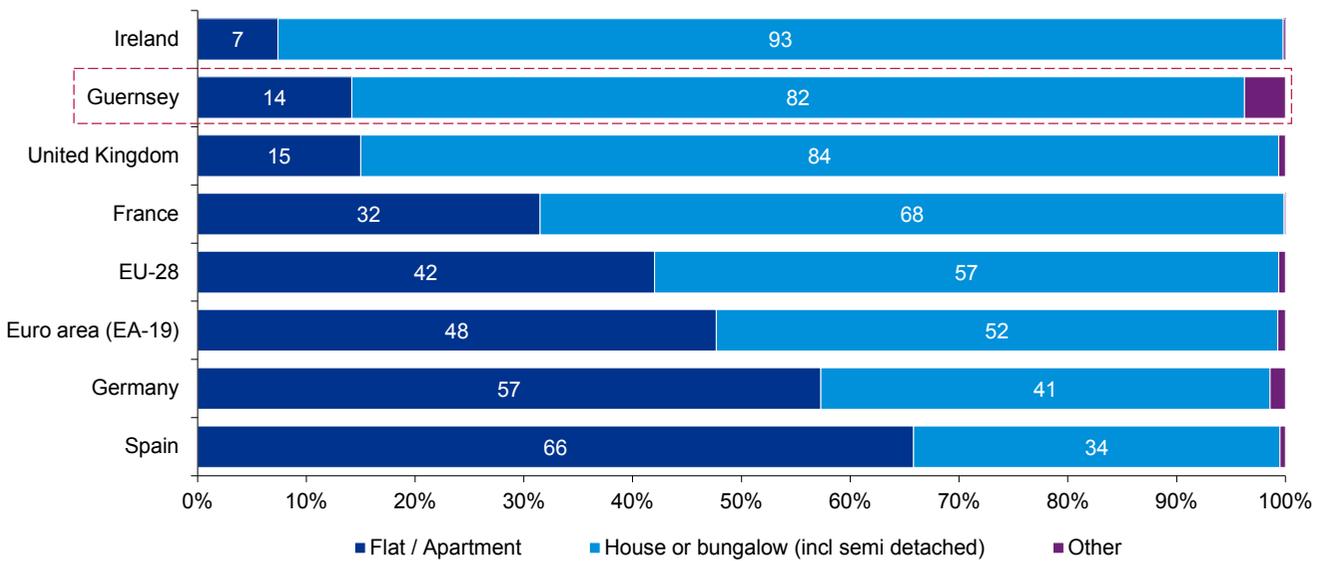
Source: Guernsey Annual Housing Bulletin, Eurostat (EC).

Note: Categories have been taken from Eurostat data and data for Guernsey has been evaluated to conform as closely as possible to these categories

Housing stock

Guernsey has a lower proportion of flats than most of Europe, including the UK.

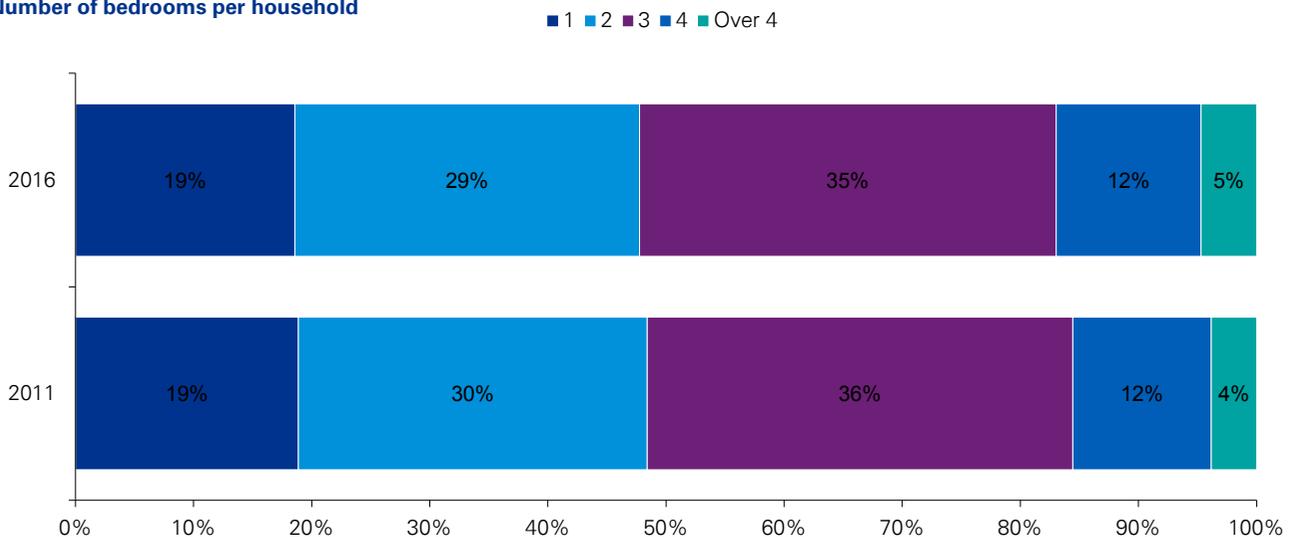
Housing stock comparison, flats/apartments vs house/bungalow



Source: Guernsey Annual Housing Bulletin, Eurostat (EC).

The split of stock by number of bedrooms has stayed relatively consistent since 2011 with approximately 50% of the stock at 1 or 2 bedrooms and the largest segment being 3 bedroom properties.

Number of bedrooms per household



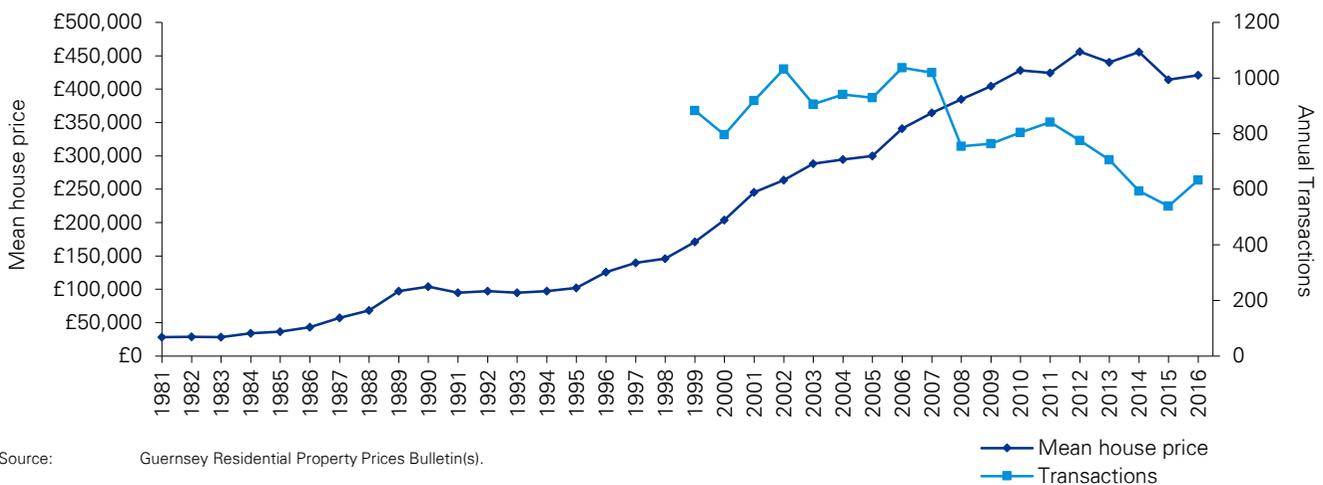
Source: Guernsey Annual Housing Bulletin, Guernsey Census Data

Housing stock – private

Mean house prices have increased by around 8% per annum in nominal terms since 1981 as Guernsey's population has risen and average household size has decreased (see page 49).

Transactions data from 1999 suggests that the average level of transactions, until the financial crisis in 2007, was approximately 940 per year (representing 3.8-4.8% of local stock). This was a period of heightened activity for the housing market, and also saw steady price appreciation.

Mean Guernsey house prices and annual transactions

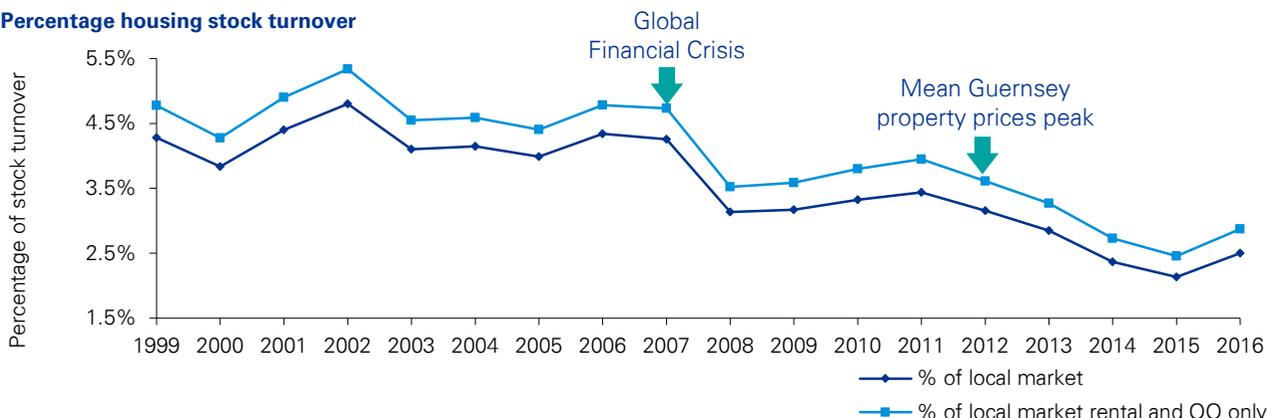


Source: Guernsey Residential Property Prices Bulletin(s).

After 2007 the global economy slowed, putting pressure on credit providers and confidence. Transaction volumes in Guernsey sharply fell before a steady recovery prior to further falls after 2011 to 2015. Our interview feedback suggests that investors continued to enter the buy-to-let market in a search for higher yielding investments which contributed to a continued increase in mean prices until a peak in 2012. This is supported by the increase in rental stock over this period shown on page 35.

Price falls since 2014 have coincided with a further decrease in transaction volumes (to under 3% per annum of local market stock) over the last three years. These lower transaction volumes appear symptomatic of a lack of confidence in the market and create allocation issues where individuals who would otherwise transact are not able to do so.

Percentage housing stock turnover

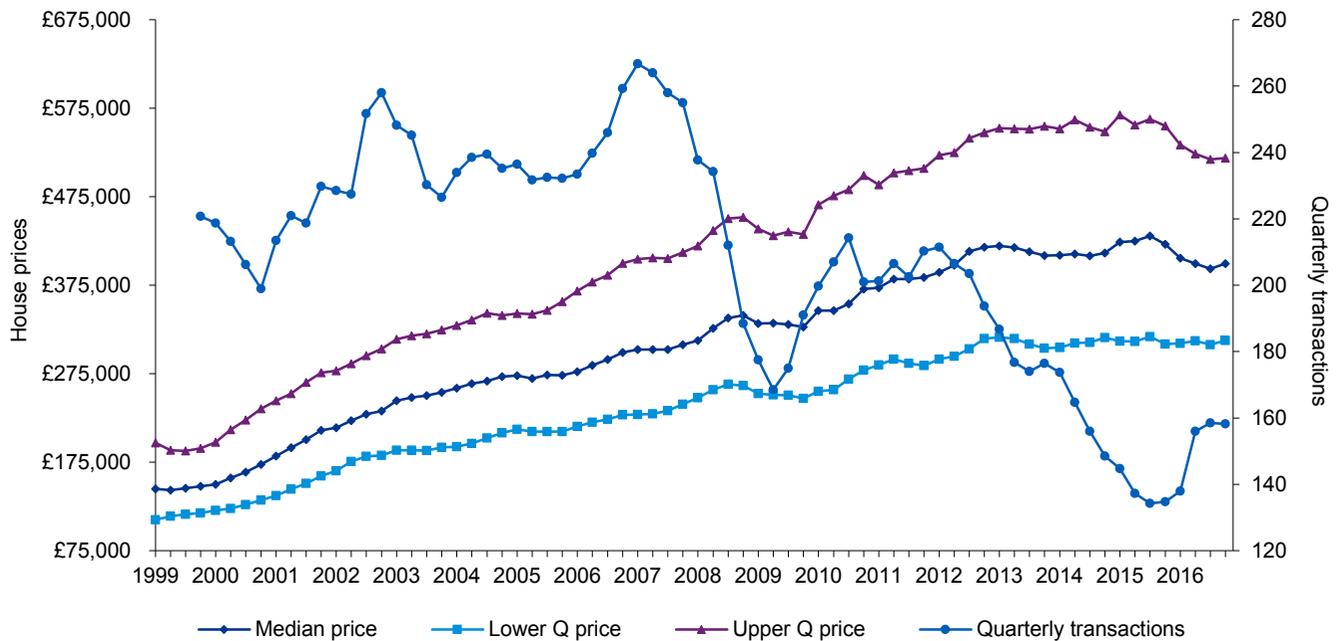


Source: Guernsey Residential Property Prices Bulletin(s), Guernsey Annual Housing Bulletin(s), Census Data.

Housing stock – private

We note that quarterly house price trends for Guernsey are based on a low number of transactions. It is likely that an inconsistent population of properties will be transacted from quarter to quarter – consequently the trends identified may not be fully representative of the Guernsey market and should be interpreted with caution. To help address this we have presented four quarter rolling averages of transactions and house prices broken down by quartile. This time series data will lag the market slightly but aims to reveal longer term trends in a more accurate fashion.

Four quarter rolling averages - Upper quartile, Median, and Lower Quartile House prices vs transactions



Source: Guernsey Residential Property Prices Bulletin(s).

Housing stock – private

The annual mean price movements on page 32 did not show any fall following the global financial crisis in 2007/8, however the more granular quarterly data suggests that Guernsey experienced a limited price fall following the financial crisis, but that prices quickly recovered. This contrasts with other jurisdictions, such as Jersey, where price falls were more pronounced and lasted for a far longer period.

Since 2012 a pattern, similar to that experienced following the financial crisis, has emerged. Transaction volumes declined and, correspondingly, house prices stopped rising for the first multiyear period since the 1980s. House prices remained broadly stable from 2012 to 2014 whilst transaction volumes fell further, and it was only after several years of falling transaction volumes that prices started to again fall. Concurrently liquidity within the market decreased significantly after 2013 driven by a reduction of lenders in the local market as shown on page 57 which has made it more difficult for potential purchasers to find funding solutions, exacerbating the downturn.

Lower quartile prices appear to have remained more resilient than upper quartile or median prices, as reflected in the narrowing spread between upper and lower quartile prices. This has led to increased convergence between quartiles by the end of 2016. This may indicate that demand for homes around the lower quartile (largely small houses and flats) is still strong and that the impact of the GHA's entry into the market since 2002 has been limited on demand and pricing of the lower quartile.

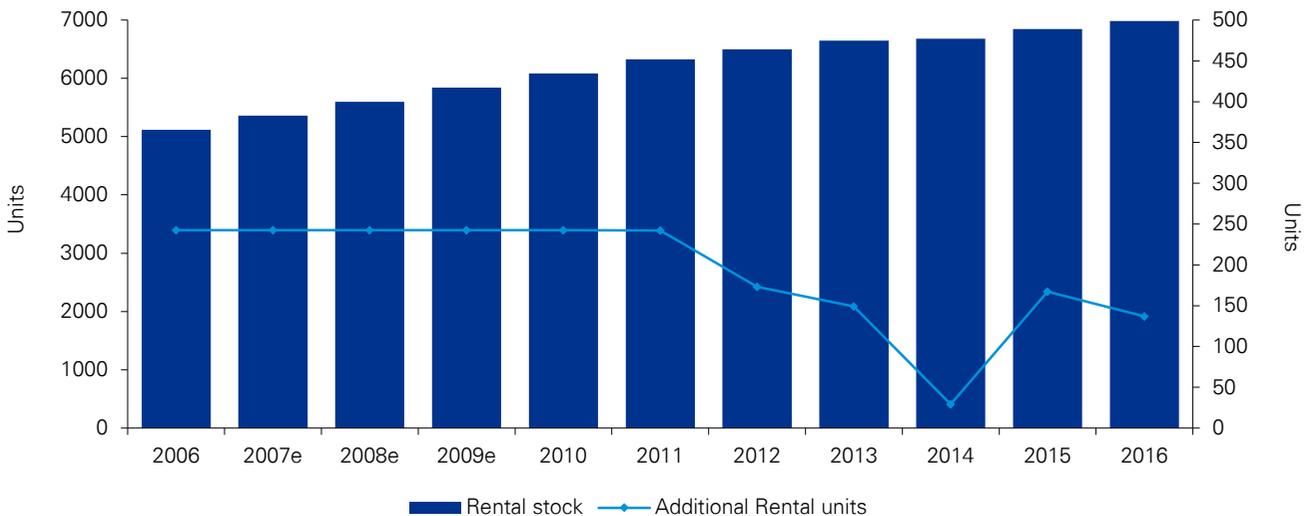
Transaction volumes in 2016 began to recover (18% increase on 2015) and although they remain at a low level compared to pre financial crisis, they appear to be trending upwards which is encouraging.



Housing stock – rental

As previously noted, the increase in the number of total local market units since 2006 has been driven primarily by the addition of rental properties, likely purchased as an investment. The increasing importance of the rental market is likely attributable to further increases in house prices (helped by the growth in buy to let), and tightened credit terms, making it less affordable to buy property. This causes a displacement effect where individuals that would have previously purchased their own home are now renting for longer before purchase, or are remaining in rented accommodation for a longer period. An interesting observation is the reasonably high number of rental units added in 2015 (167), against the record low number of transactions within that year (539), which anecdotally may indicate that unsold new build units were being transferred into the rental market.

Rental stock and additional rental units



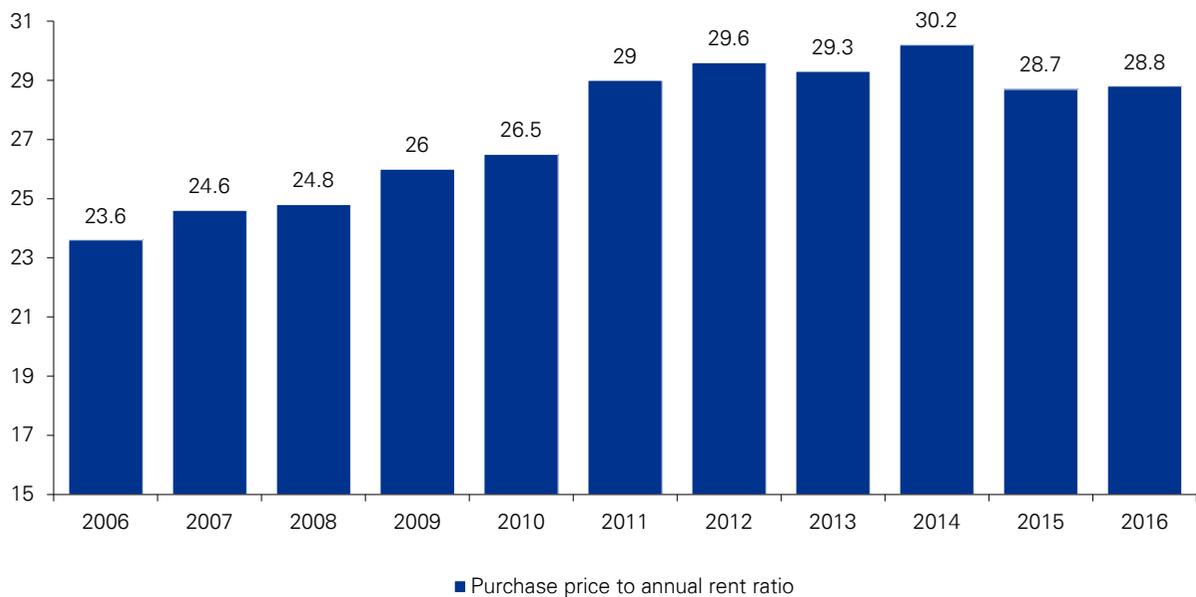
Source: Guernsey Annual Housing Bulletin, Guernsey Census Data, KPMG estimates.

Source: Guernsey Supplementary Property Bulletin(s).

Housing stock – rental

The relationship between purchase prices and rental costs is shown in the “purchase price to annual rent ratio” below, which expresses house prices as a multiple of annual rents, and through the rental index which tracks rental prices. The purchase price to annual rent ratio increased from 2006 to a peak in 2014. Interest rates fell rapidly following the financial crisis and have remained at historically low levels. Lower interest rates have typically reduced mortgage payments. It is likely that part of the increase in the price to annual rent ratio may be attributable to lower interest rates supporting an increase in house prices. The fall in 2015 and 2016 is due to falling house prices.

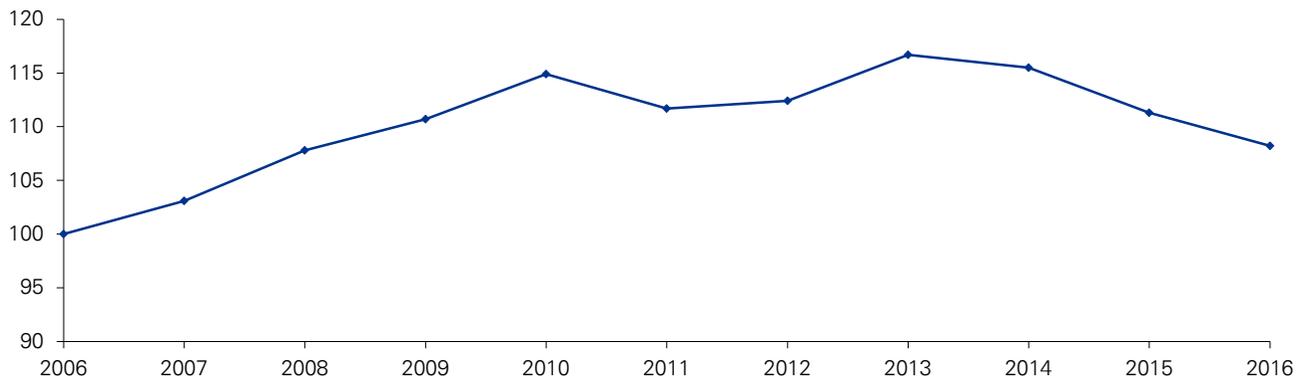
Purchase price to annual rent ratio



Source: Guernsey Supplementary Property Bulletin(s).

Housing stock – rental

Rental Index



Source: Guernsey Supplementary Property Bulletin(s). Rental Index

The rental index tracks the movement in rental prices over time. The cost of renting is high in Guernsey when compared with other areas of the UK, although rental prices have been falling since their peak in 2013. Unlike the owner occupied tenure, where the overall stock of units has remained stable for many years, the number of rental units increased as rental prices rose.

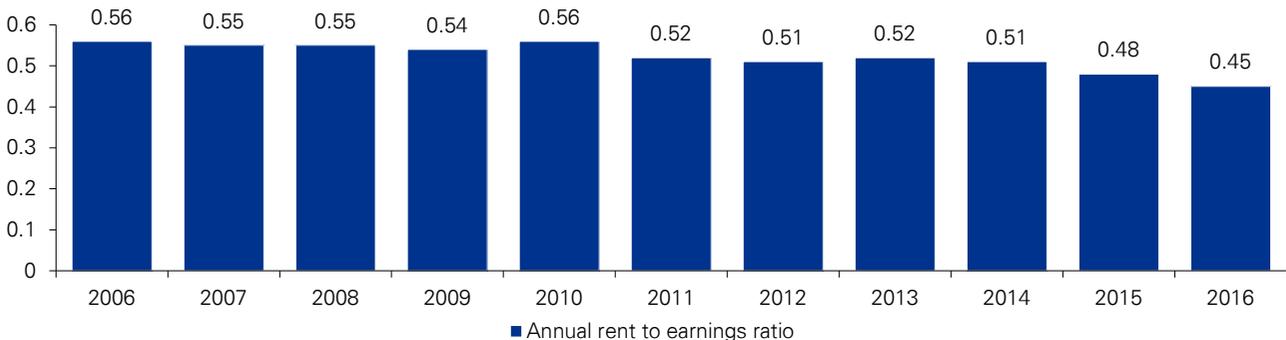
This decrease in rental cost has been paired with broadly stable private earnings over the past 5 years, and has resulted in a fall in the rent to earnings ratio (a measure of how affordable annual rents are when compared with median earnings). From a peak of 0.56 in 2010 the ratio now stands at 0.45, a 20% decrease.

Median rental costs by region (£)

Region	1 bed	2 bed	3 bed	4 bed
London	1,275	1,500	1,800	2,593
Guernsey	850	1,275	1,775	2,150
South East	675	850	1,025	1,700
East	595	700	825	1,295
England	575	625	715	1,275
South West	525	650	795	1,250
West Midlands	475	575	650	950
North West	425	520	600	875
East Midlands	425	525	625	875
Yorkshire	420	495	565	875
North East	400	450	549	795

Source: SoG data, ONS

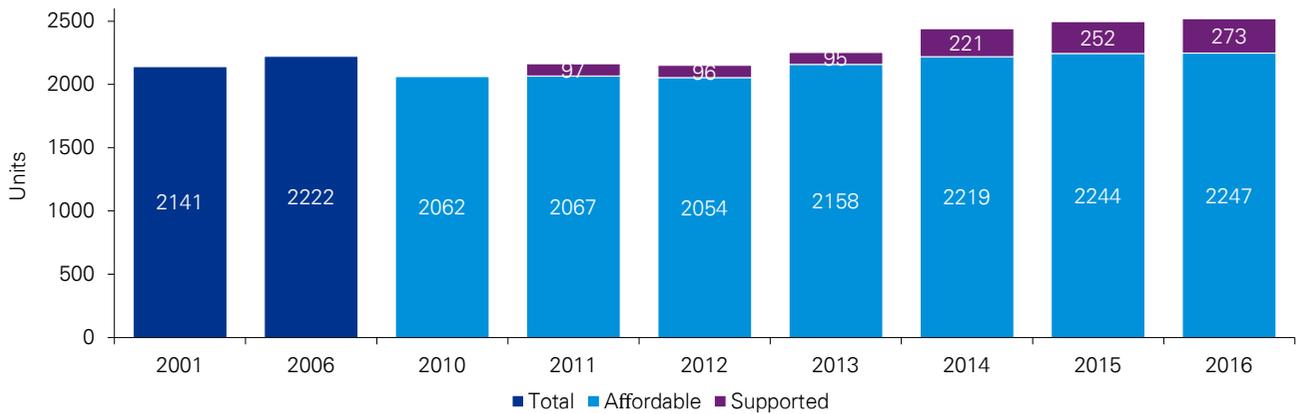
Rent to earnings ratio



Source: Guernsey Supplementary Property Bulletin(s).

Housing stock – Affordable housing

Profile of Affordable housing stock since 2001



Source: Guernsey Annual Housing Stock Bulletin(s), Census Data.

As noted earlier, there has been an increase of 458 units of Affordable and supported housing categories since 2010, even if its proportion to total local market units has remained stable at approximately 10% (since 1971).

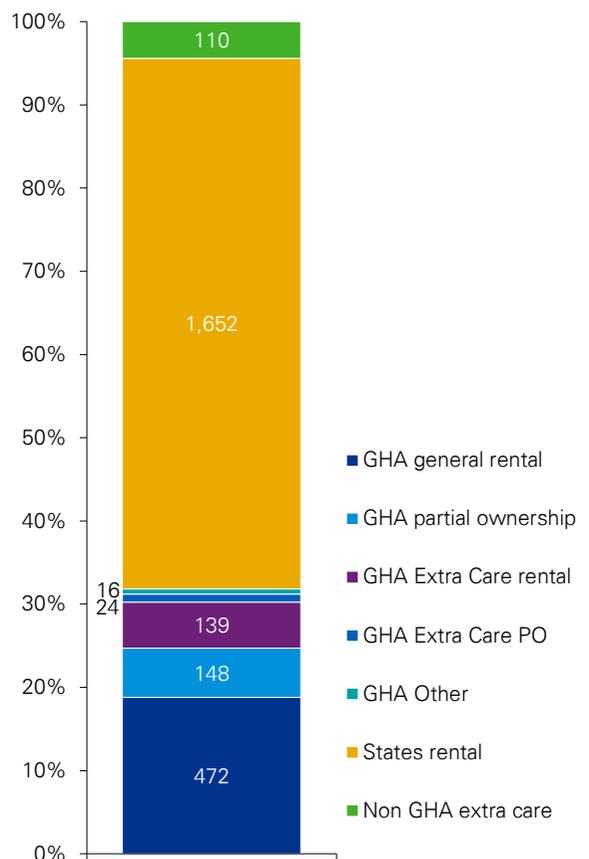
Socialised housing on the island was historically operated by the SoG until 2002 when the GHA was formed. By Q1 2017, the GHA operated over 30% of total Affordable housing and supported stock (799 units). The GHA operates partial ownership, general needs rental, and extra care properties and maintains its own waiting lists for general needs rental and partial ownership schemes, which are currently distinct from SoG Rental waiting lists. SoG operates 1,652 rental units.

SoG rental properties are typically provided at a discount to market rates, and the majority of tenants within these rental properties are eligible for benefit in the form of rent rebates¹. A number of GHA social rental tenants are also currently eligible for a rent rebate as they are nominated tenants from Housing’s social rental waiting list.

Over the past five years the GHA have begun to operate additional supported housing, and extra care properties targeted at individuals who require housing that is tailored to their specific needs.

UK housing associations are regulated by the Homes and Communities Agency’s Regulation Committee. The GHA is jointly regulated by the Committee for Employment and Social Security and the Policy and Resources Committee.

Detailed breakdown of Q1 2017 Affordable, supported, and extra care housing stock



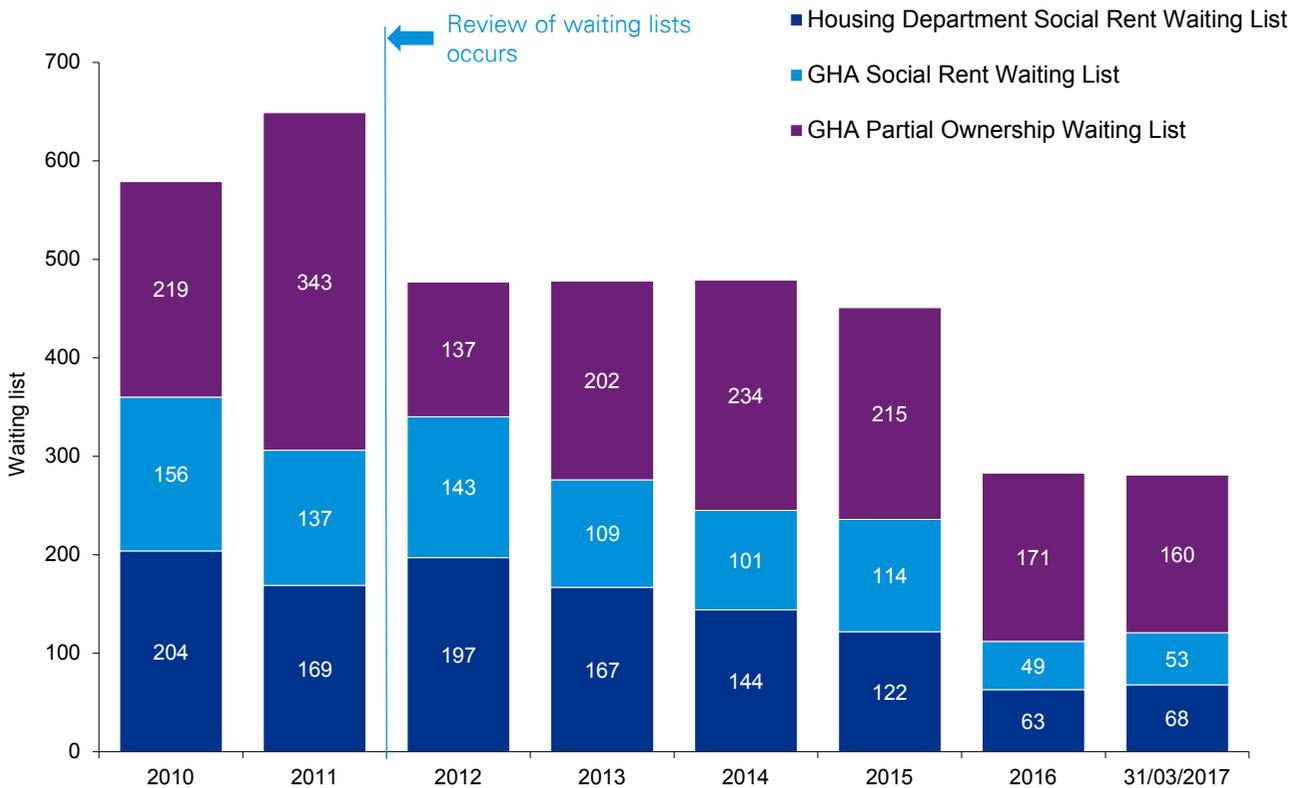
Source: Guernsey Annual Housing Stock Bulletin(s), States of Guernsey and Guernsey Housing Association Data.

1 – The rent rebate scheme is currently in operation but SoG have agreed that rent rebates will cease to exist under the Income Support Scheme

Housing stock – Affordable housing

Waiting lists are maintained for both Housing’s and GHA’s rental tenures, and the GHA’s partial ownership scheme. The trend and composition of these waiting lists is shown below. A review of the waiting lists occurred in 2012 following which there was a material reduction, in particular, from the GHA’s partial ownership waiting list.

Waiting list progression over time



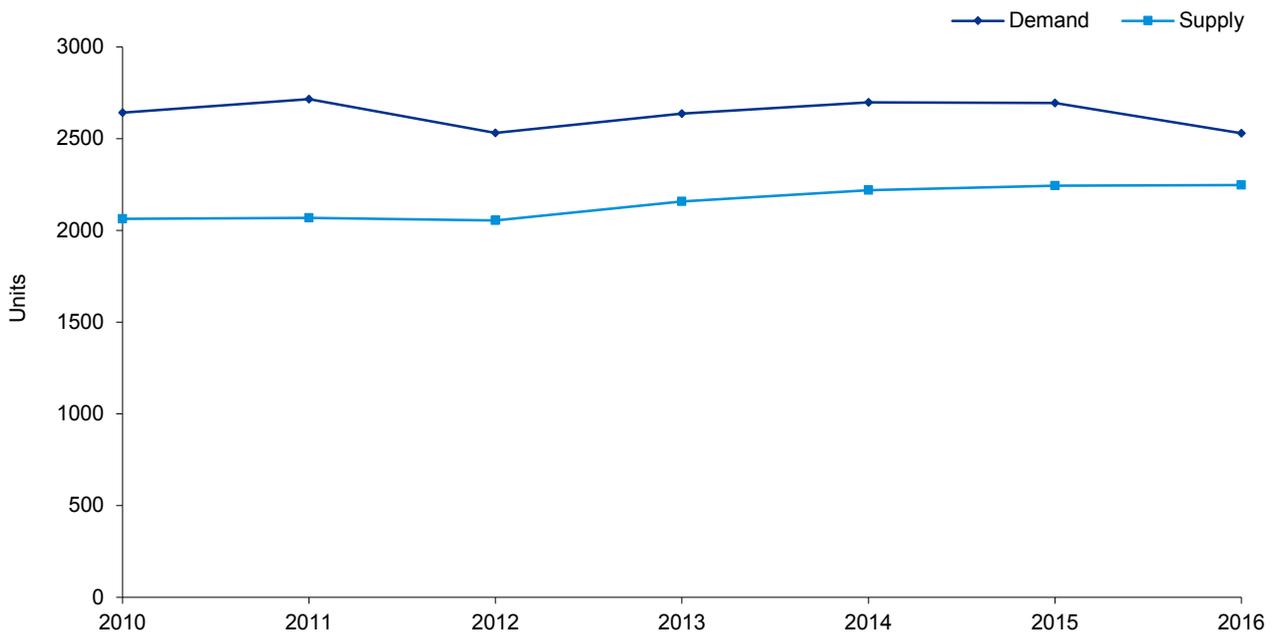
Source: SoG data

Housing stock – Affordable housing

There has been a fall in the number of households on these waiting lists over the period 2014 to date. This trend is most pronounced in the waiting lists for Housing and GHA rental properties. The main drivers for this fall are an increase in the stock of Affordable housing, improving rental affordability (as measured by the fall in the rent to earnings ratio), and lower house prices.

Total demand for Affordable housing can be measured by taking the total number of existing, occupied, Affordable households and adding to this figure the waiting lists for the same. Below we present total demand for and total supply of Affordable housing in Guernsey. As waiting lists have fallen the gap between supply and demand has narrowed.

Affordable housing supply and demand



Source: SoG data, KPMG analysis.



Supply and demand

Part 1 – Market fundamentals

Supply side factors

Set out below are the key supply side factors affecting the local housing market which have been considered on the following pages.



Supply side factors

Land

Land as a primary input into house building is in limited supply in Guernsey.

There is no formal land registry in Guernsey and information on land ownership and land prices is not centrally maintained. The 2012 Use of Planning Covenants in the Delivery of Affordable Housing in Guernsey report estimated that landowners in Guernsey would expect to achieve no less than £3 million per hectare or £1.25 million per acre.

A limited supply of available land to develop on and competition from developers using the residual land value calculation (see next page) can cause a bias of developments away from market need and towards higher value developments, pushing up land values. Conditions on land, or the use of planning covenants recently introduced in Guernsey through the IDP, can influence the types of housing developed, for example to Affordable housing, and help depress the value of the land.

The GHA have been the most active developer in Guernsey recently, benefitting from SoG granted land and developing 214 units since 2014. GHA are less likely to be affected by the fall in house prices as their Affordable housing developments are less reliant on the value of the private market. We understand that land availability is the most pressing issue facing the GHA for further Affordable housing developments.



Supply side factors

Residual land value calculation

The price of development land is based on the sales value of the properties that can be built on it. Typically, and unlike other markets, the price new homes fetch is largely determined by the market in existing homes. Where the price of homes is declining, as has happened in Guernsey in recent years, there will likely be a reduction to the value and viability of new developments which can lead to a stalling in property development as well as unutilised planning permission.

Different types of development for land use will influence its value. For example, a development of luxury apartments is likely to lead to a higher residual land value offer than a development of similar sized units of FTB flats.

Those in property development have to estimate the 'correct' price for a piece of land using what is known as the 'residual land value' calculation.

Land prices are set through competition



At its simplest, this method works backwards from the end of the development process. The developer starts with the number of homes they expect to fit on the site, and what they expect to sell them for to give a total scheme value. They then subtract how much it will cost to build them and their own profit. The remainder is the residual land value — the price they can offer the landowner. Developers will typically make offers based on the same method but with varying assumptions on the risks associated with the development. In a competitive market, the land owner will typically accept the highest offer for their land. Once the land is purchased, the landowner typically has no further risk.

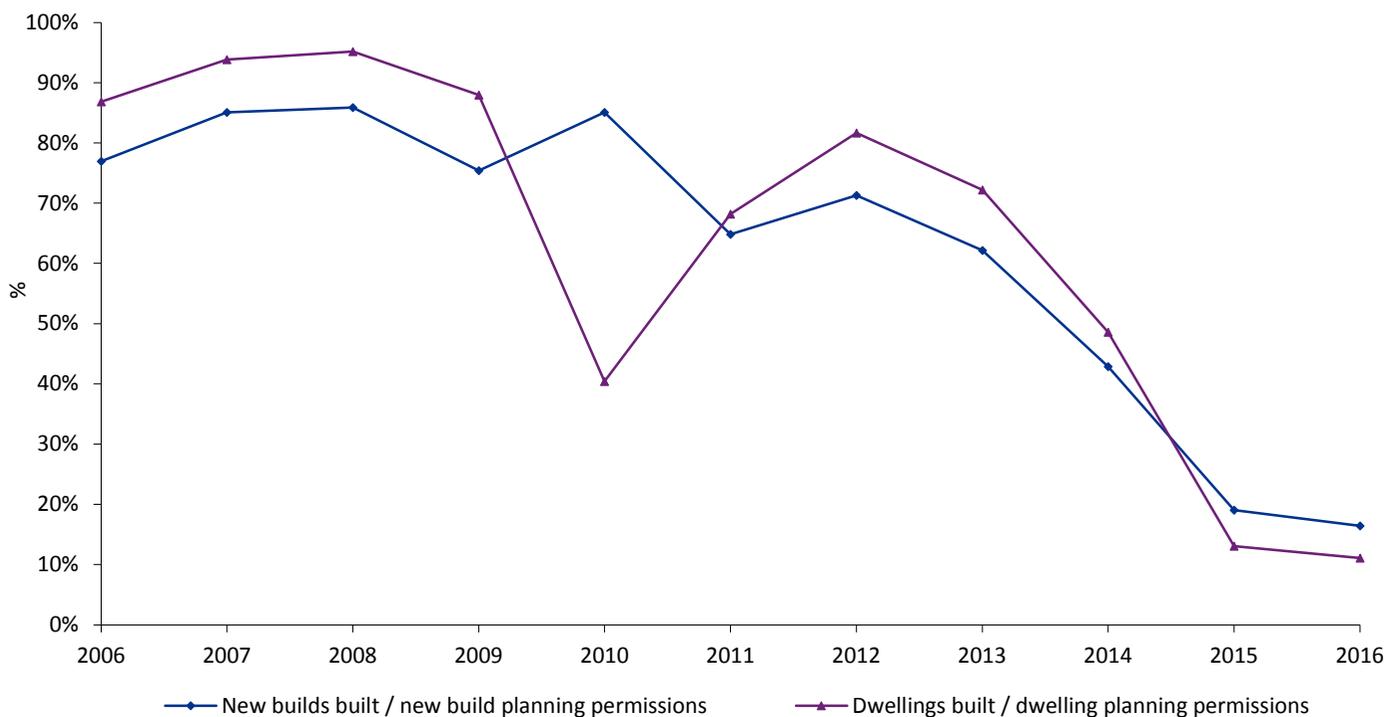
Supply side factors

Planning, development and credit provision

The planning process can impact both the number and type of homes that are developed through the supply chain. Historically we understand that planners have not had much flexibility or influence over the mix of type of housing being developed and their focus was to ensure an effective 2-year pipeline supply was in place to meet the SoG agreed strategic housing target. This was informed by the Housing Needs Survey. We understand that through the recent changes to the planning policy framework brought about by the adoption of the Island Development Plan 2016, planners have more influence on the type, size and tenure of housing developments to meets the Island needs.

The chart below shows the rapid decline in granted permissions being developed. After 1 year of being granted planning permission approximately an eighth of permissions for residential development are taken up, after 2 years approximately a quarter of permissions are taken up and after 3 years over a third of permissions are taken up. These trends are considerably lower than observed in the past, which may be a reflection of the state of the housing market.

% of planning permissions constructed - new builds and all dwellings



Source: States of Guernsey Planning Service — Housing Monitoring Report (note 2016 data is to end Q2).

Supply side factors

The main drivers for the decline in development over recent years are the falling transaction volumes and house prices. The time taken between initial project planning and commencing a build mean that some developments which were projected to be profitable at the time of modelling may no longer be financially attractive. Falls in house prices leave land owners and developers with assets which cannot be developed at a sufficient margin over the price paid for them. Developers then have a choice between trying to sell the site, potentially at a loss, or waiting for prices to recover. In recent cycles, the evidence is that market participants choose the latter strategy wherever possible. Even slight falls in house prices can cause house building to stall, as developers wait for margins to recover. Such stalled sites may or may not be entirely uneconomic to develop under current conditions — it may simply be that their owners have calculated that better returns can be made by delaying development. The impact on land values is even more accentuated. These calculations are driven as much by the investment strategies of the owners and the specific financing arrangements of the site as by general development market conditions.

We understand that expected margins within the development sector are around 20%. In Guernsey, we understand developer margins have decreased from as high as 35% in previous years to below 20% under current conditions. The fall in margins has been partly driven by land bought historically at higher prices. An expected margin below 20% leads to issues with the viability of potential developments. Banks typically require a margin of this quantum to agree lending and the number of banks providing finance to developers in Guernsey has fallen in recent years.

We understand that the majority of recent private developments have been funded through alternative sources such as private investor funding, thus restricting competition to those who have access to such finance. Banks have tightened their lending criteria since the global financial crisis and now will lend at a typical 60:40 loan to cost ratio. This requires developers to fund 40% of the development cost upfront, prior to obtaining bank funding, likely restricting the opportunity to commence further developments until all units on their previous site have been sold. The fall in transactions since 2014 has further limited developer's capability in this regard.

Construction

Construction costs in Guernsey are higher than the UK, predominantly due to the cost of materials. A lack of economies of scale, shipping costs, higher labour costs, a lack of competition locally in certain materials and between builders and contractors are factors as to why build costs in Guernsey are estimated to be 30-40% higher than in the UK. The latest available figures identified in 'The Use of Planning Covenants in the Delivery of Affordable Housing in Guernsey- October 2015 Update' estimated construction costs for a lower tertile property in 2015 at £2,400/m². The 2015 Turner and Townsend International Construction market survey estimated an individual detached/terrace style house medium standard residential build in London at £1,600/m². Building costs may increase in the UK due to the current exchange rate and this will ultimately flow through into the Guernsey market.

The construction industry has contracted as a fall in private housing developments has coincided with a lack of significant SoG infrastructure projects. Employment numbers within the industry have fallen continually since 2015. Within the housing market, GHA has been a significant tenderer over recent years using local construction firms to assist with their developments.

Supply side factors

Housing stock

The high cost elements noted within the Guernsey supply chain trends towards a higher cost of developing housing in Guernsey. This has recently led to more developments towards the higher value and luxury end. A number of these units remain unsold and there are examples of them transferring to the rental market.

Any land which is not covered by restricted use covenants is unlikely to be promoted towards lower cost housing, hence there have been relatively few developments aimed exclusively at the FTB. This can be seen clearly in the price of new build homes shown on page 79.

These factors contribute to a relatively high lower quartile price and corresponding affordability metrics in comparison to other markets.

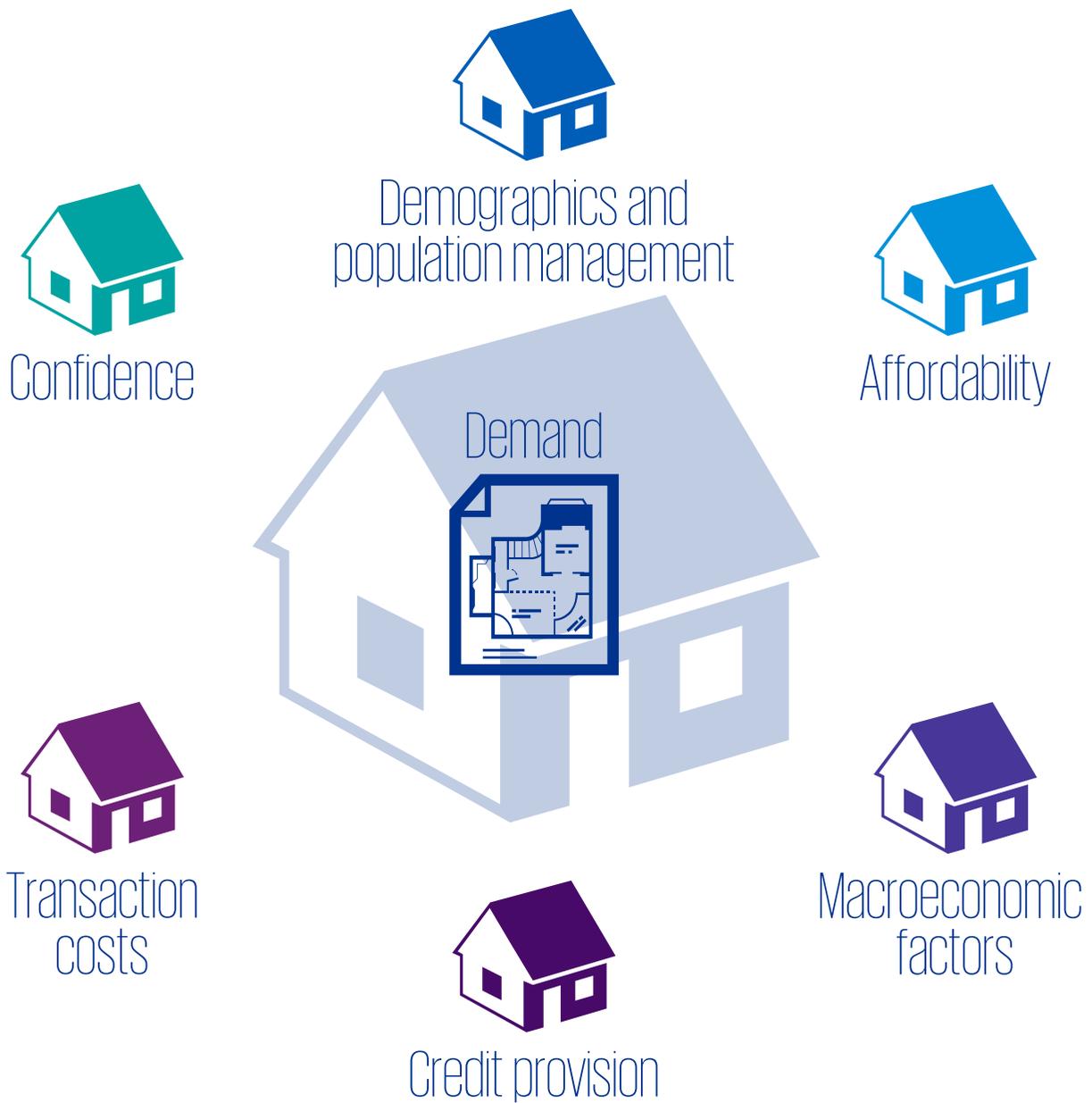
Recent changes to the planning policy framework with the adoption of the IDP 2016 should allow greater flexibility to planners to better influence future developments according to the island's needs.

Through our work we have not identified a significant overall shortage of housing within the local market. However, the reduction in the volume of transactions has led to a partially locked market. Some homeowners may be stuck within their current property (which may no longer be appropriate) unable to sell, as FTBs have struggled to enter the market.

Interviewees and survey participants were asked their opinions of the quality of the housing stock within Guernsey. The quality of older properties was deemed to vary, particularly as these were built prior to building regulations being introduced. Older properties can be more difficult to maintain, particularly for elderly residents and buyers are unlikely to be able to obtain a mortgage on those falling into disrepair. Rebuild of older properties is a potential solution to improving the overall quality of stock, although can be a costly exercise. The quality of new builds was generally deemed to be of a higher standard.

Demand side factors

Set out below are the key demand side factors affecting the local housing market which have been considered on the following pages.

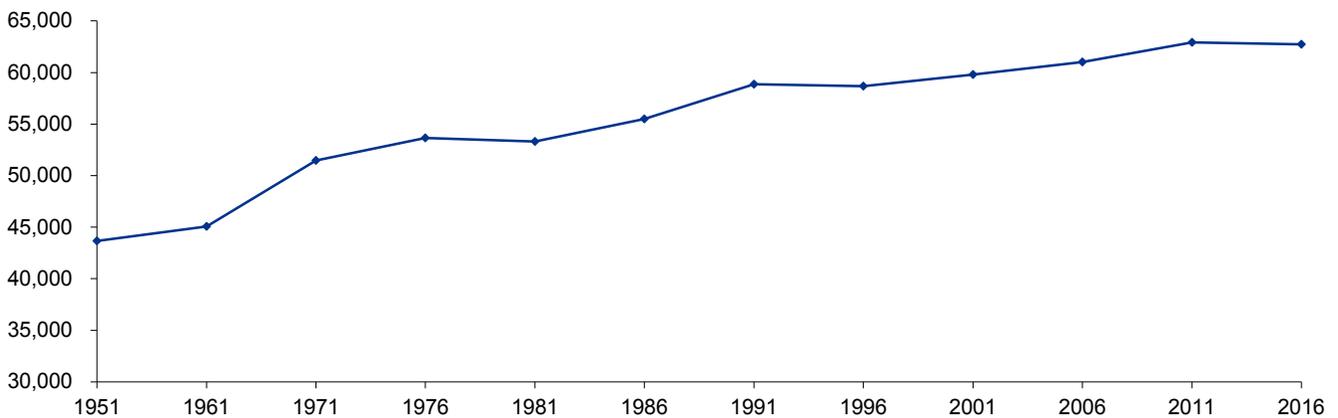


Demand side factors

Demographics and population management

Guernsey population size and average household numbers are important constituents for housing demand and the required tenures and sizes of properties.

Guernsey population



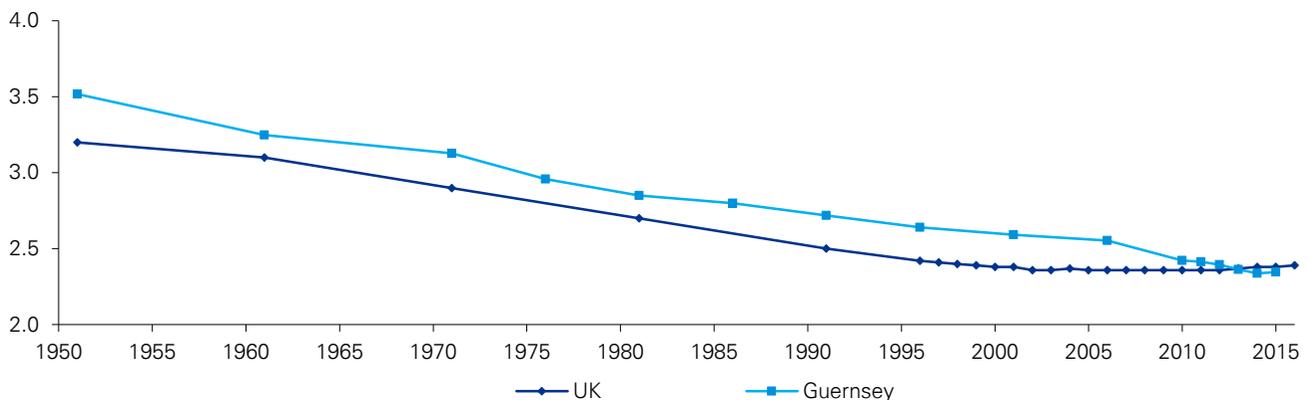
Source: Guernsey Census(es), Guernsey Population, Employment and Earnings Bulletin(s).

There has been a 7% increase in Guernsey’s population since 1991 compared to a 23% increase in the number of local market households over the same period. The current population size is broadly consistent with 2010 yet the housing stock has increased by 1,135 units.

Average household size has fallen from 3.5 in 1951 to 2.3 in 2015. Since 2010, it has fallen from 2.4 to 2.3 – we have estimated that a 0.1 fall in average household size would have led to an increase in demand of 1,100 units compared to the actual increase of total units of 1,135 since 2010.

It is unclear at this stage as to how the Population Management (Guernsey) Law, 2016, will impact the size of the population and consequently future demand for local market properties.

Average household size

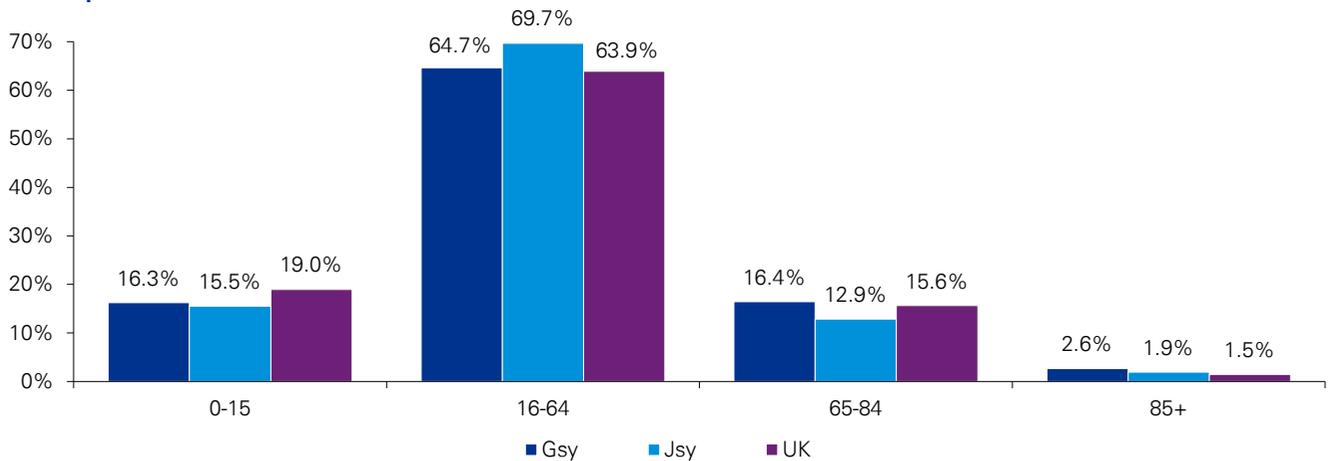


Source: ONS, States of Guernsey Data.

Demand side factors

Understanding demographic trends is critical to planning for future tenures of housing as different age profiles of the population have different housing requirements. A key age profile trend over recent years within Guernsey has been the increase in the over 65 category. Guernsey has a higher proportion of over 65s in comparison to the UK and Jersey and hence housing policies will need to be partly driven by this demographic change to ensure that there is sufficient provision of housing for the elderly.

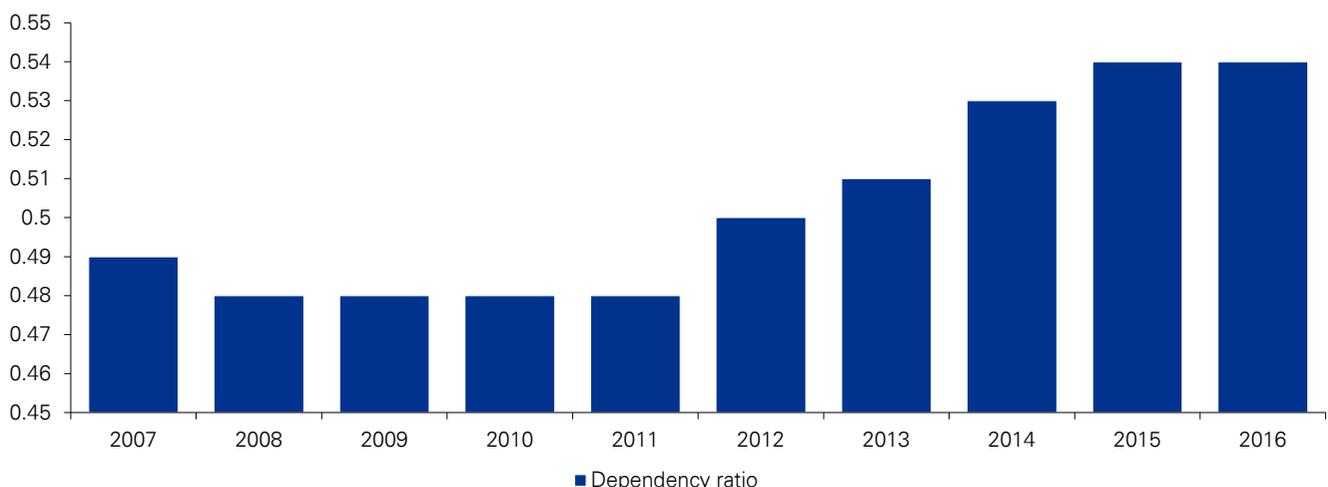
2015 Population Distribution



Source: ONS, UK GAD data, States of Guernsey Data, States of Jersey.

The changing demographic is also influencing the dependency ratio which has increased from 0.48 to 0.54 since 2010. This is the ratio of the non-working age population (either below the minimum school leaving age or above the age of retirement), to the working age population. Attempts to control the dependency ratio will likely require an increased working population. If this leads to an increase in population then the additional demand will need to be factored into housing target analysis.

Guernsey dependency ratio



Source: States of Guernsey Data.

Demand side factors

Macroeconomic factors

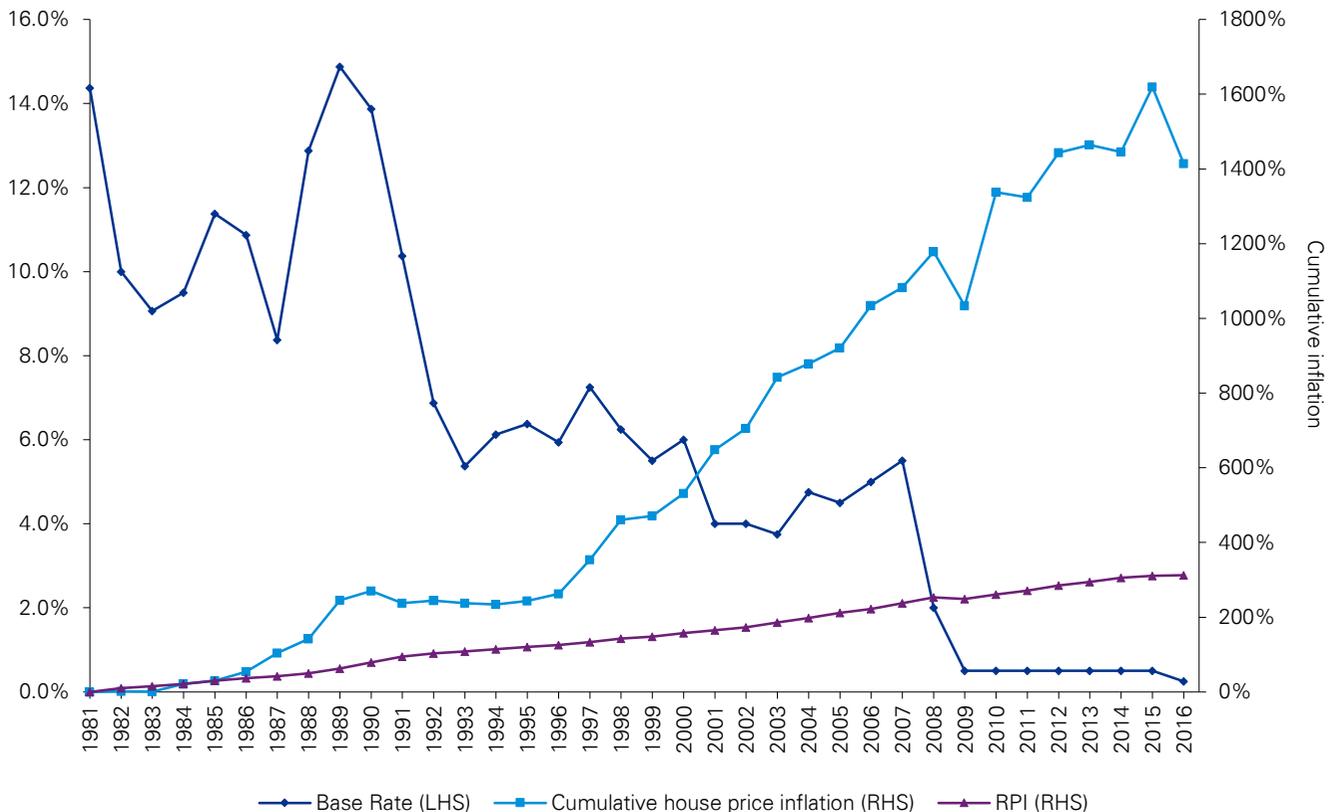
A range of macroeconomic factors impacts the demand for housing.

An inverse relationship exists between interest rates and house prices – as can be seen below, as interest rates have fallen so Guernsey’s house prices have risen. This is likely due to the improved ongoing affordability of servicing mortgages.

As Guernsey has no central bank, it should be further noted that Guernsey has limited control over base rates.

Cumulative inflation is also highlighted on the below chart to help demonstrate how house price inflation (approximately 8% per annum) has significantly outpaced RPI (approximately 2% per annum).

Bank of England base rate (LHS), Guernsey House prices and Guernsey RPI (RHS)

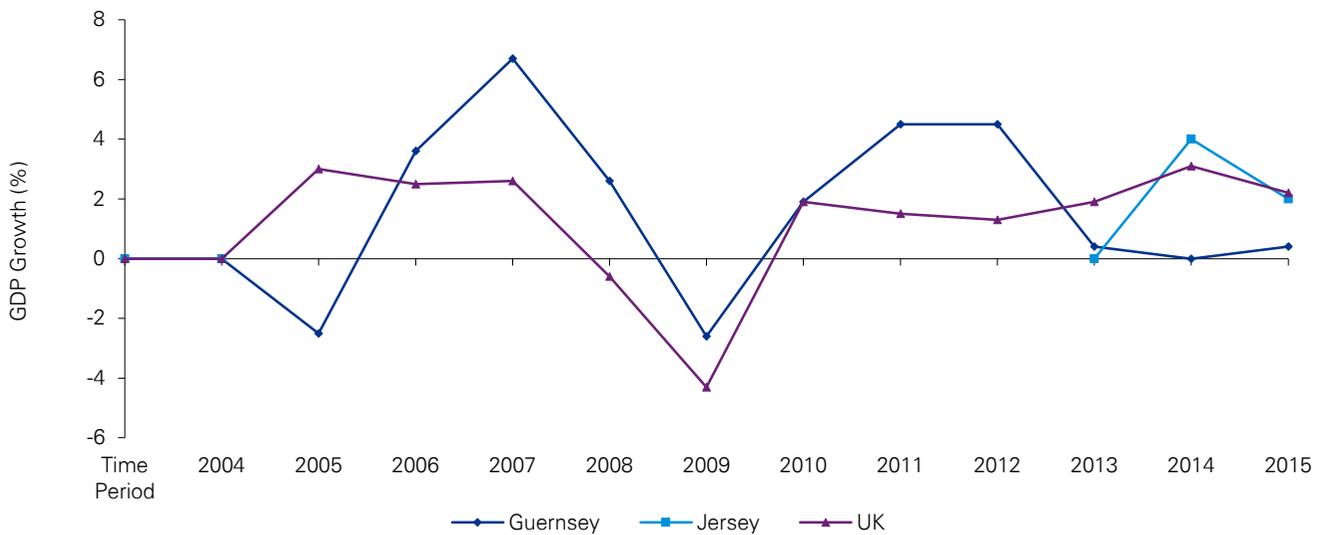


Source: States of Guernsey, Bank of England.

Demand side factors

Since 2012 Guernsey, in contrast to the UK and Jersey, has seen little or no GDP growth. It is important for GDP to grow in any jurisdiction in order to stimulate confidence and the demand for houses.

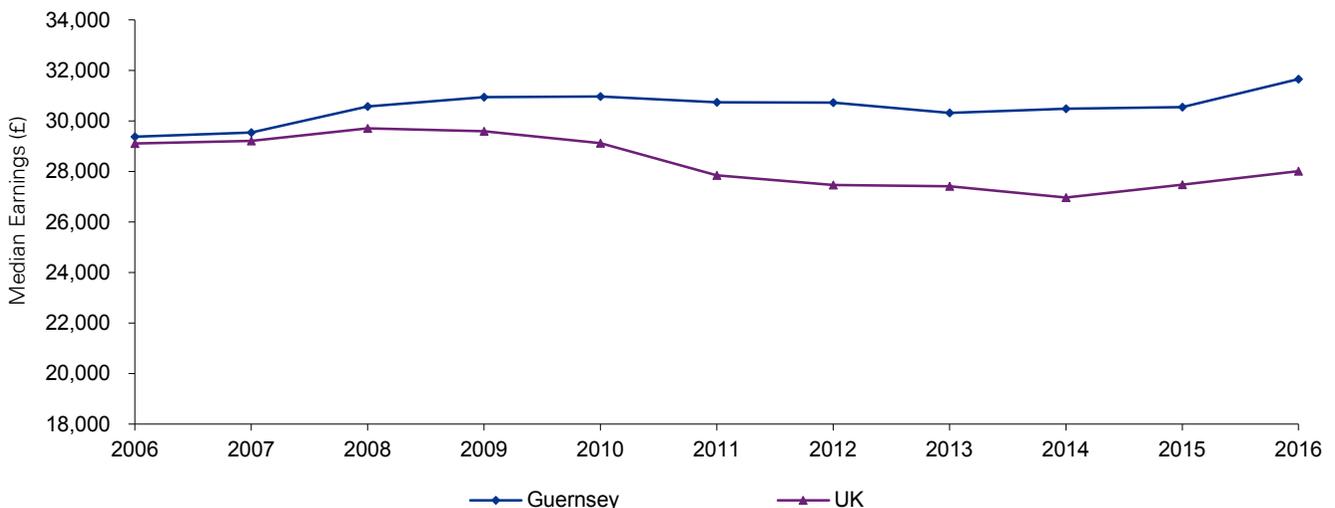
GDP Growth 2005-2015



Source: States of Guernsey data, ONS, States of Jersey data.
 Note: Comparable data for Jersey is only available for the periods shown above

Similar to GDP, strong earnings growth can lead to improved confidence within the market and increased demand. Increased disposable income may lead to FTBs entering the market and enable homeowners to move up the property ladder. Guernsey has seen a slight improvement in median earnings since 2013.

Median Earnings 2005-2016 (2016 prices)

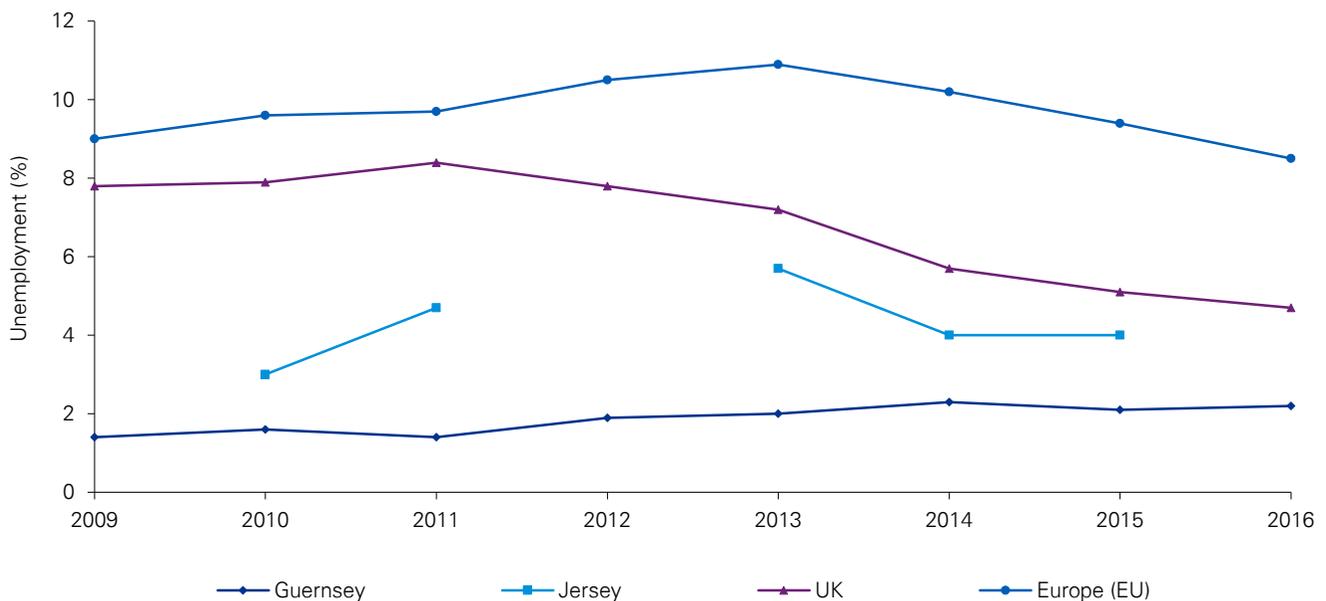


Source: States of Guernsey data, ONS.
 Note: Methodologies used to calculate earnings vary across jurisdictions

Demand side factors

Guernsey’s unemployment rate continues to be substantially lower than Jersey, the UK and Europe. Were unemployment to materially increase then this might adversely impact property prices and increase the requirement for Affordable housing.

Unemployment in Guernsey, Jersey, UK and Europe



Source: States of Guernsey data, ONS, States of Jersey data, Eurostat.
 Note: Comparable data for Jersey is only available for the periods shown above

Demand side factors

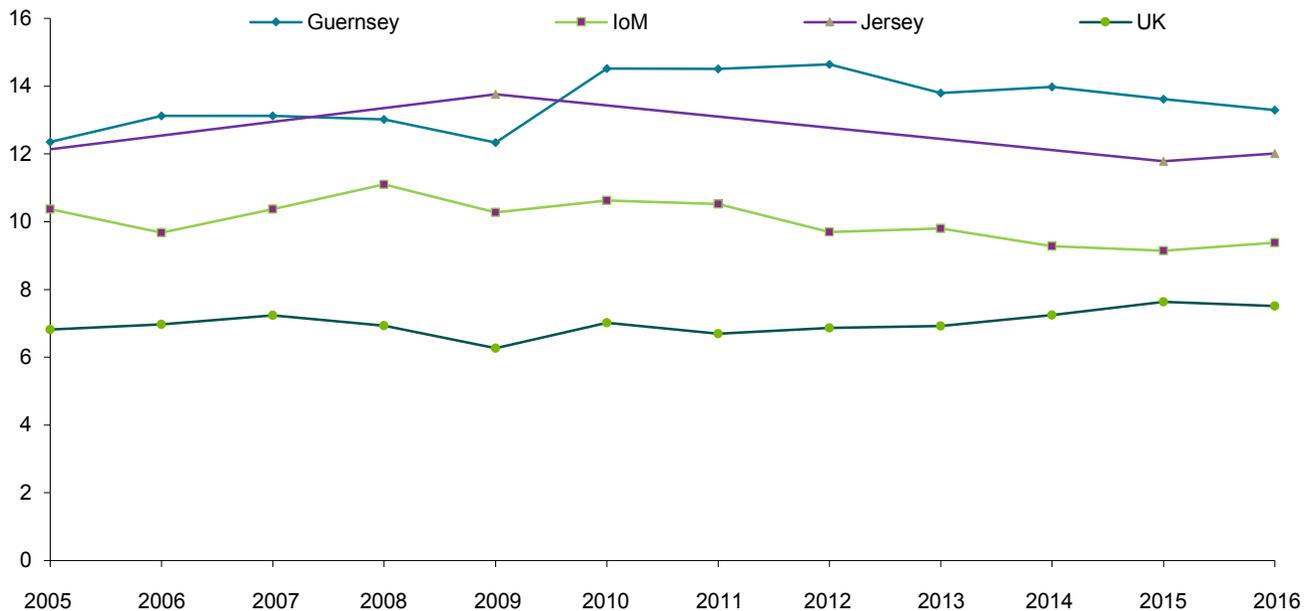
Affordability

Guernsey has historically had poorer affordability ratios in comparison to other jurisdictions. An attractive place to live, a strong appetite to own property, higher median earnings, a less punitive tax system and low unemployment are some of the key factors which support house prices.

The chart below shows how the median Guernsey affordability ratio was above UK, Jersey and Isle of Man as at the end of 2016, although it has reduced from its peak of 15 times in 2012 to 13 times at the end of 2016. Comparisons against other jurisdictions need to be carefully considered as the analysis is based on gross earnings and hence does not take into account tax systems (including the provision of mortgage interest relief within Guernsey) and cost of living which will vary across different income levels in different jurisdictions.

The low level of default rates in the market suggests that although comparatively high, Guernsey residents are able to service mortgages at the current level of affordability.

Median house prices vs Median earnings - affordability ratios



Source: States of Guernsey data, ONS, States of Jersey data, IoM Economic Affairs Department.

Rental affordability has improved in recent years driven by an increase in supply. The increasing stock of rental properties as a proportion of total stock suggests a larger proportion of the population are unable to access the owner occupied market, particularly due to the high transaction costs and deposits required. An inability to access the owner occupied market may become a driver for young persons to build careers in alternative jurisdictions.

Demand side factors

Transaction costs

We set out below a comparator analysis of transaction costs against Jersey and the UK. Although not perceived to be the key barrier to home ownership, saving sufficient capital for transaction costs as well as deposits can be challenging for FTBs.

For the purposes of analysis, we have included the following as transactions costs:

- Document duty (or equivalent in UK and Jersey);
- Bond Fee;
- Greffe Fee;
- Survey/Valuation fee — we have assumed £1,000 to cover a homebuy report to be accepted by the lender;
- Legal fees (conveyancing and other legal costs);
- Local search (Jersey);
- Housing Consent (Jersey);
- Immunity certificate (Guernsey);

(Note the data does not consider mortgage arrangement fees which are unlikely to vary significantly across jurisdictions). The full calculations and assumptions are outlined in Appendix II.

The table below demonstrates the estimated transaction costs for acquiring property at different prices across Guernsey, Jersey and the UK.

	£250,000		£300,000		£500,000		£800,000	
Guernsey	3.60%	£8,998	3.72%	£11,160	3.91%	£19,560	4.09%	£32,710
Jersey - First Time Buyer	1.48%	£3,705	1.38%	£4,130	n/a	n/a	n/a	n/a
Jersey	2.48%	£6,205	2.71%	£8,130	2.67%	£13,330	2.90%	£23,180
UK	1.85%	£4,613	2.47%	£7,412	3.48%	£17,412	4.08%	£32,648

The table shows the higher percentage of transaction costs faced by lower quartile purchasers in Guernsey. Both the UK and Jersey have more favourable stamp duty bandings for lower value properties.

At higher property prices, Guernsey transaction costs appears more consistent with the UK but still above Jersey.

More recently rates have been changed in the 2017 budget to a graduated system which reducing duties paid on properties for less than £800,000, and increasing those paid on properties above this value. This has been taken into account in our calculations.

Demand side factors

Credit provision

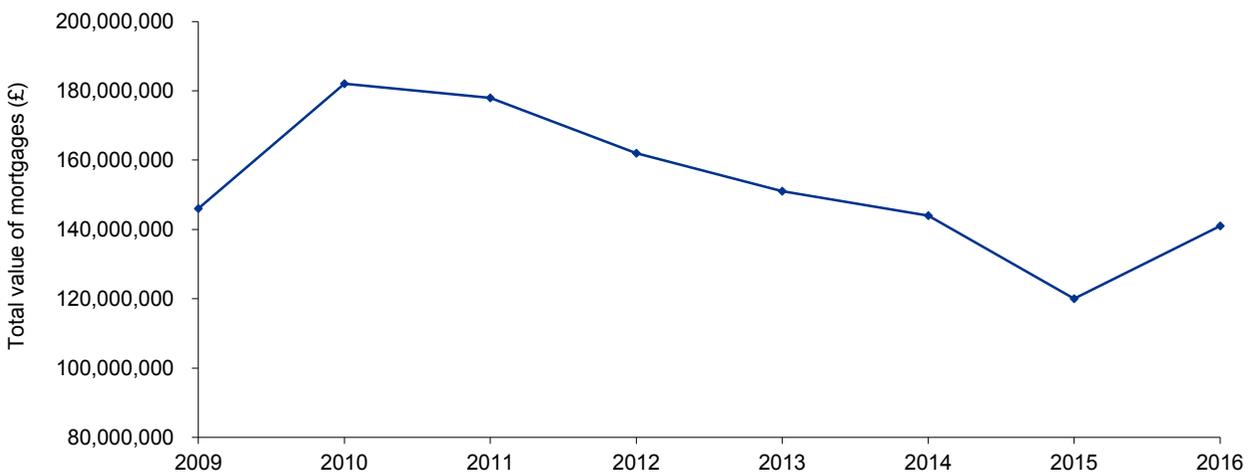
An ongoing supply of mortgage credit is critical to ensuring that those who wish to acquire a home can obtain the financing required.

Substantially the core method of financing property purchasers by consumers in Guernsey is through a bank or building society mortgage. The MMR introduced strict lending criteria and hence new customers are fully vetted and their affordability stress tested to cover a significant increase in interest rates (up to 7% in many cases). This will add some protection to the lending market, given the risk of historically low interest rates rising.

Lengths of mortgages can be offered up to 30 years, although lenders may restrict this in times of high market concentration in order to toughen affordability and reduce exposure.

The chart below shows the lender share of new property purchase bonds in the local market since 2009. Total lending fell from its peak in 2010 at £180m to £120m in 2015 before a slight recovery in 2016.

Total mortgage market lending 2009 - 2016



Source: SoG data, KPMG analysis

Demand side factors

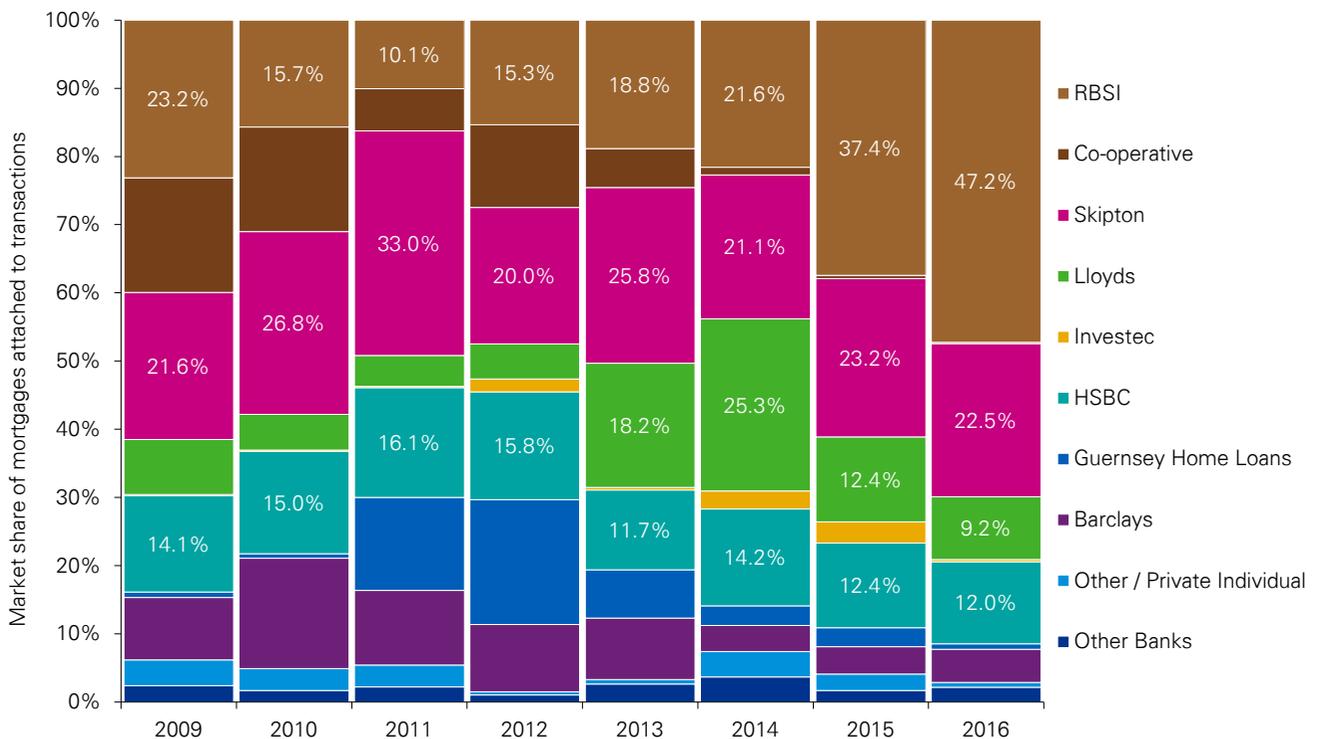
The chart below shows the lender share of new property purchase bonds in the local market since 2009. Until 2013, there were up to seven lenders active each year who held over 5% market share, with a total value of bonds worth £162 million.

In 2013, the Co-op and Guernsey Home Loans reduced lending substantially as they prepared to exit the market, leading to falls in both the value of bonds offered (£120 million in 2015) and number of transactions (539 in 2015).

Concurrently, there were significant changes impacting UK lenders who operate in the market particularly through the 2014 Mortgage Market Review (MMR). This tightening of lending regulations increased underwriting requirements and may have led to further reductions in lending capacity for existing lenders.

These trends continued until 2016 and the concentration of market share for the two main lenders (Skipton and RBSI) increased to approximately 70%.

Guernsey Mortgage Market Share by value



Source: States of Guernsey Data, KPMG analysis.

Demand side factors

Market Confidence

Confidence is a critical factor underpinning the market on both the supply and demand side. A lack of confidence was a likely factor in the fall in transaction volumes up until 2015. Although there is no evidence of rapid increases in unemployment or reductions in average earnings, there was uncertainty in economic outlook and little GDP growth over this period which would have adversely impacted confidence.

A fall in confidence, particularly if leading to a fall in prices, affects both supply and demand and can lead to a spiralling downward effect. Developers are less likely to be active if unsure as to expected valuations and unable to find funding. Investors will look to alternative assets classes and banks will tighten lending, thus restricting liquidity to the supply side.

On the demand side, banks will be less confident in issuing higher LTVs (noting that a fall in pricing may potentially push new homeowners into a negative equity position), restricting the number of FTBs entering the market and homeowners will likely sit tight.

The recent increase in transactions during 2016 and 2017 is reassuring, although still below long term averages. Government finances have returned to surplus indicating an improved fiscal position, the 2015 decline in house prices appears to have flattened and we have noted a new lender entering the market. These factors indicate that confidence may be returning to the market.





Part 2

Key focus areas and recommendations



Key focus areas

We have identified a number of focus areas for the local market outlined in more detail on the following pages along with an assessment of potential solutions.

- a) Credit provision and a highly concentrated mortgage market
- b) Affordability for FTBs
- c) Provision of elderly tenures
- d) Provision of key worker housing
- e) Government support to the housing market
- f) Ongoing monitoring of housing targets and KPIs

Evaluation of policies

We have outlined the advantages and disadvantages of a number of policy options to help mitigate the challenges facing the market. Caution must be taken to understand the unintended implications of any policy outcome and many of the options should not be undertaken in isolation. Instead the options may be viewed as a series of levers that can be activated as economic conditions dictate. Where possible we have added commentary around these points. Care should be taken as to how any potential policies are communicated publically as the expectation of intervention may lead to a change in stakeholder behaviour.

Positive factors

Negative factors

Impact on pricing and supply in the Guernsey market

Key focus areas

(a) Credit provision and a highly concentrated mortgage market

Summary of issue and implications for the local market

An ongoing supply of mortgage credit is critical to ensuring that those who wish to acquire a home can obtain the financing required. As can be seen from pages 56 and 57, there have been periods where there has been a contraction of credit availability, driven principally by a fall in the number of lenders as well as a tightening of banks' lending criteria. The reduced lending capacity was a factor in falling transaction volumes after 2013 to under 3% per annum of local market stock.

The Herfindahl-Hirschman index below is a useful tool for monitoring concentration risk for existing lenders. The Index shows that in 2016, Guernsey reached a highly concentrated position.

Concentration on a few lenders has led to increased systemic risk in the market and concentration risk to the active lenders. If one of the existing main lenders exited there would be significant pressure on the remaining lenders which, if not resolved, might risk a decline in credit availability and subsequent transaction volumes.

Guernsey Credit market concentration — Herfindahl-Hirschman Index



Source: SoG data, KPMG Analysis.

Note: The HHI index is calculated as the sum of the squares of all market participants' market shares. This tool is used by regulators to evaluate market concentration.

Key focus areas

(a) Credit provision and a highly concentrated mortgage market (continued)

It is important to increase and diversify the availability of mortgage credit in Guernsey, both to reduce systemic risk and to provide more choice by allowing greater specialism and variety of products. This could be achieved through increased lending from the wider population of existing lenders as well as attracting new mortgage providers. This should lead to further competition and better terms offered to customers, helping FTBs and those moving along the ladder, and increased development finance and banking services. The unlocking of the market will increase confidence on both the supply and demand side, boosting activity, development and the volume of transactions.

From our discussions with a number of existing lenders operating at a lower market share, we understand that there is a desire to increase lending capacity. However, challenges in resourcing, ongoing restructuring of banking business models following the financial crisis and tighter lending criteria following the MMR suggest that challenges for lending capacity from this source in Guernsey may continue. It will be important to monitor this closely going forward.

There are high setup costs for potential new lenders given Guernsey's relatively small population. We are aware that their application would require approval from both the UK and Guernsey regulators and that they would require a physical presence on island in order to offer mortgage interest relief to customers. It is difficult for new lenders to capture existing market share given the cost of Bond fees to customers for switching mortgage providers.

There are however benefits to lending in the island and we understand from our interviewees that Guernsey has exceptionally low default rates.



Key focus areas

(a) Credit provision and a highly concentrated mortgage market (continued)

We have modelled the impact of additional lending on concentration under three sensitivities as outlined below:

- Sensitivity 1: one new entrant lending £20m
- Sensitivity 2: two new entrants each lending £15m (total of £30m)
- Sensitivity 3: two existing lenders operating at a lower market share each lending an additional £20m (total of £40m)

We have then considered these 3 sensitivities for 2 market impact scenarios, represented by the following 2 charts. Scenario 1 represents an increase in total market capacity equal to the 3 sensitivities, whereas Scenario 2 assumes some capture of market share from other existing lenders and hence the increase in total market capacity will be less.

We estimate that, the introduction of one new provider lending a minimum of £20m per annum would allow the HH index to enter a moderately competitive market, thus reducing market concentration risk (Sensitivity 1). This is consistent under both Scenarios, although the impact is more marginal under Scenario 2.

The introduction of two new lenders, each lending £15m would further reduce concentration and is the most favourable sensitivity we have considered (Sensitivity 2).

Encouraging existing lenders operating at a lower market share to increase capacity is also desirable. In the absence of new lenders, if two of these existing lenders were to increase capacity each by £20m, the HH index would move into a moderately concentrated market (Sensitivity 3).

A focus on attracting new lenders as well as encouraging existing lenders operating at a lower market share to increase capacity is recommended.

Guernsey credit market concentration – Scenario 1



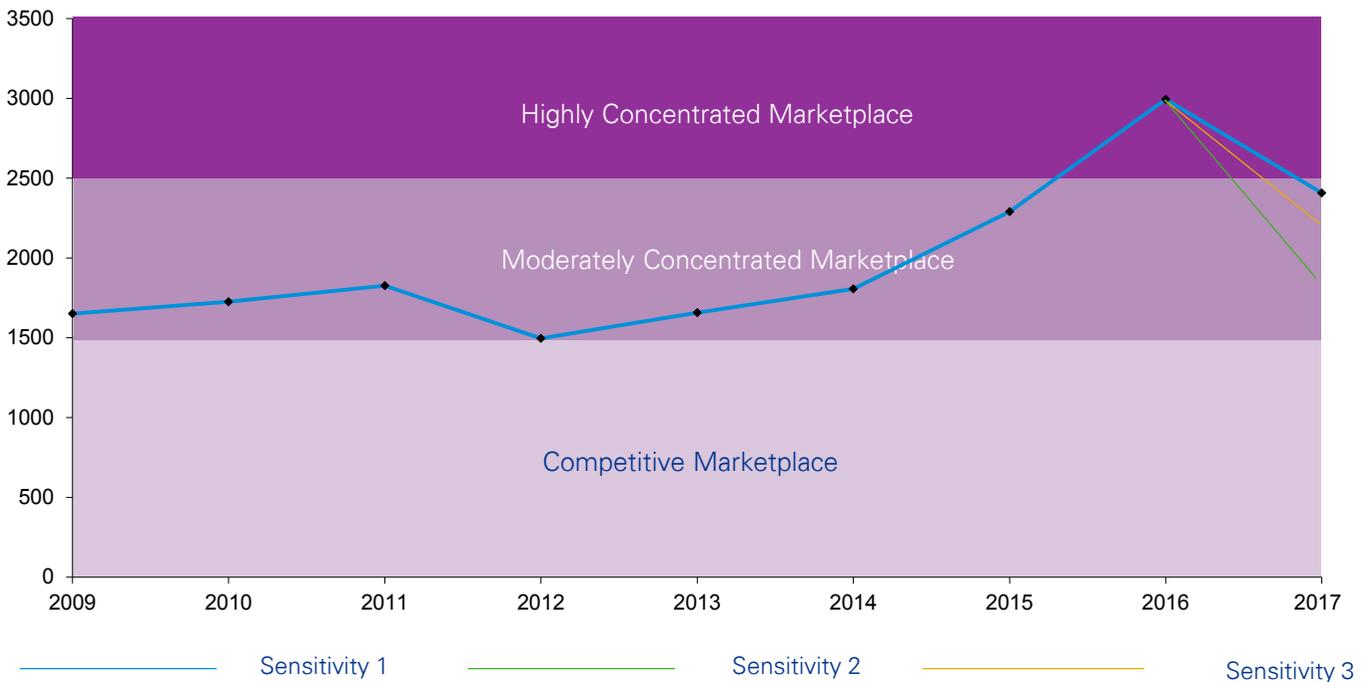
Source: SoG data, KPMG Analysis.

Note: A new lender has entered the market in 2017. The above analysis does not incorporate the impact of this new lender.

Key focus areas

(a) Credit provision and a highly concentrated mortgage market (continued)

Guernsey credit market concentration – Scenario 2



Source: SoG data, KPMG Analysis.

We recommend

- A working party should be formed including representatives from government, the AGB and the GFSC to regularly monitor the mortgage market
- A shortlist of potential new lenders should be approached to understand better their appetite and the barriers they face
- Ongoing dialogue with existing lenders to keep abreast of their appetite for lending and to understand the challenges they face

<ul style="list-style-type: none"> — Increased total lending capacity and volume of transactions; — Increased competition leads to more competitive borrower terms; — Increased funding for developers; — Better range of products targeted at specific tenures (FTBs/Elderly); — Decreased concentration risk for existing lenders (stability); — May encourage increased supply; — Mitigate systemic risk. 	<ul style="list-style-type: none"> — Requires dedicated time and effort from SoG/GFSC/other stakeholders; — Challenging to attract appropriate lenders to a small market — may require removal of barriers; — Requires active monitoring of credit market. 	<ul style="list-style-type: none"> — Will act as a stimulant in the market to impact both supply and demand side positively; — Unlikely to have a material impact on pricing unless lenders materially increase risk profile, i.e. towards 100%+ LTVs.

Key focus areas

(b) Affordability for FTBs

Summary of issue and implications for the local market

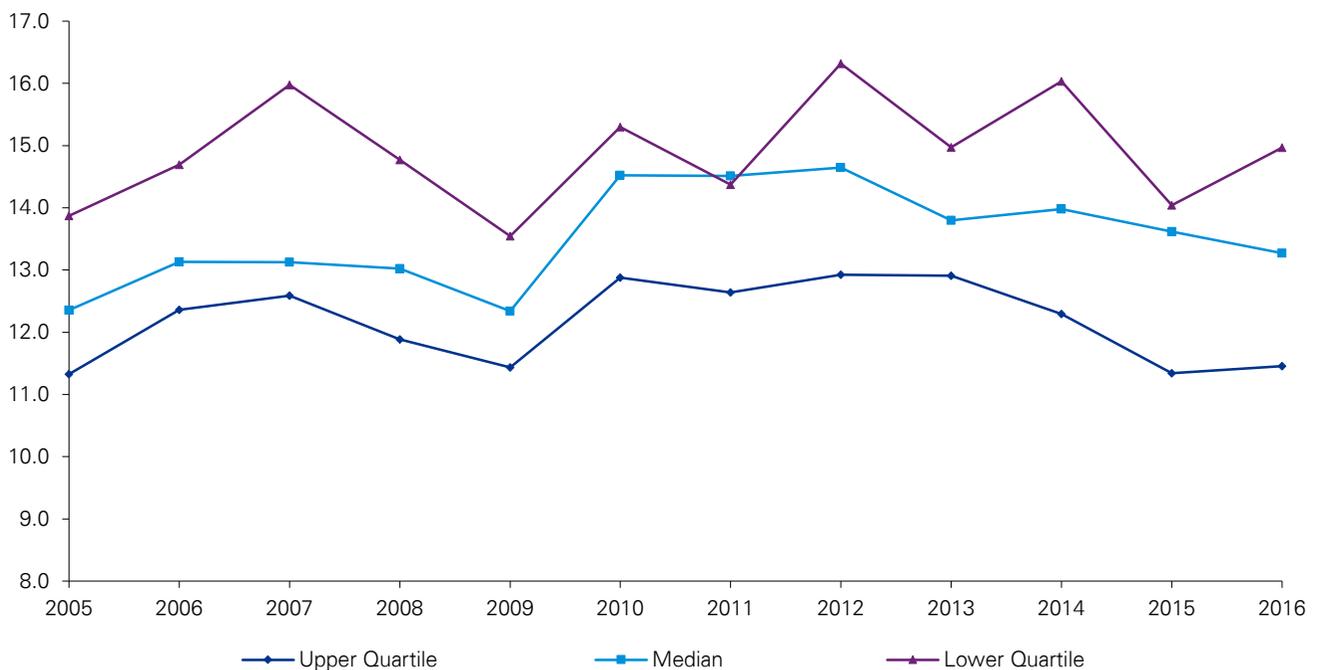
New purchasers are critical to unlocking the housing market and driving up the volume of transactions. The nature of the housing ladder dictates that new purchasers must be active to enable second time buyers to move and to ensure the flow of transactions throughout the market.

As FTBs can act as a key stimulant to the market, any assistance provided is likely to benefit the wider market and its stakeholders within the short term.

The following analysis indicates that affordability ratios are worst at the lower market quartile which is likely to adversely affect FTBs. FTBs are also likely to suffer higher mortgage interest rates driven by higher LTVs.

The affordability levels at lower quartile have fluctuated at around the 15 times level principally driven by property prices at the lower quartile holding their values.

Affordability multiple by quartile



Source: KPMG Analysis.

A challenge for FTBs of relatively high prices at the lower quartile is the level of deposit required – typically a deposit of 10% and transaction costs of up to 4%. In contrast, our survey suggested the ongoing affordability of a mortgage currently appears within reach for many. Market intervention currently occurs through the provision of mortgage interest relief which helps further improve the ongoing affordability of a mortgage, however does not assist FTBs in servicing transaction costs and deposits.

Key focus areas

(b) Affordability for FTBs (continued)

FTB survey

Our first time buyer survey was designed to help understand the key challenges of entering the ownership market in Guernsey. It targeted potential FTBs, i.e. those actively looking for property, and successful FTBs, i.e. those who have successfully acquired a property over the past three years. Based on the survey results, we have profiled a successful FTB on the following page.

Consistent with our market analysis and results from our interview process, saving for the initial transaction costs and deposit was stated as the key challenge to getting on the housing ladder for successful FTBs — under current interest rates, ongoing affordability of the mortgage is less of an issue and the percentage of net income spent on mortgage (36%) is consistent with the current rental costs of those renting. On average, the successful buyers purchased a £385,000 home which required total transaction costs and deposit of £53,000. The majority (74%) obtained financial support in the form of a gift from parents or other donors, averaging £32,000. This can be provided without the risk of incurring a tax charge within Guernsey, in contrast to other jurisdictions such as the UK. An advantage of living in Guernsey for those who have family here is the potential to live with parents whilst saving for a home — 62% of our survey respondents were living at home prior to acquiring a property and hence able to avoid paying full market rent. However, it still took on average almost 4 years to accrue the remaining savings required for the initial transaction costs and deposit.

The expectations of potential FTBs were largely in line with successful FTBs, except for the expected time to save for a property (2.4 years), being less likely to receive financial support (40%) and less likely to live at home (40%).

Other key findings include a majority citing the limited independent advice available for FTBs in Guernsey (58%), particularly at the early stage of the process, prior to being ready to approach brokers and banks.

The respondents were asked for their views on the GHA partial ownership scheme and its attractiveness to FTBs. The core reasons that the scheme was discounted by FTBs was the restriction to only acquire up to 80% equity in the property (and hence the step up to the private market would be challenging), the length of the waiting list, the limited choice over properties and being unaware of the scheme.

The respondents were asked their views on the available housing stock for FTBs. The most common issue identified related to the age of the available stock with many FTBs stating properties required extensive renovation and they were unable to obtain a mortgage on them. The respondents identified a lack of family starter homes and poor quality of stock as issues, particularly in homes available for less than £300,000.

Further detail on the survey results and the survey questionnaire are outlined in Appendix III.

Key focus areas

(b) Affordability for FTBs (continued)

Profile of a successful first time buyer in Guernsey

Living situation prior to buying a house



62% Living with parents



Average Price of first home



£385,000

Average deposit and transaction costs required



£53,000

Size of (potential) Financial support



£31,500

Average Savings required (after financial support)



£21,500

Time to save for transaction costs and deposit



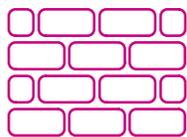
3.91 years

Annual saving rate required



£5,500

Financial support
74% received support



Biggest barrier to purchasing a house

Deposit and other costs

Percentage of net income spent on mortgage

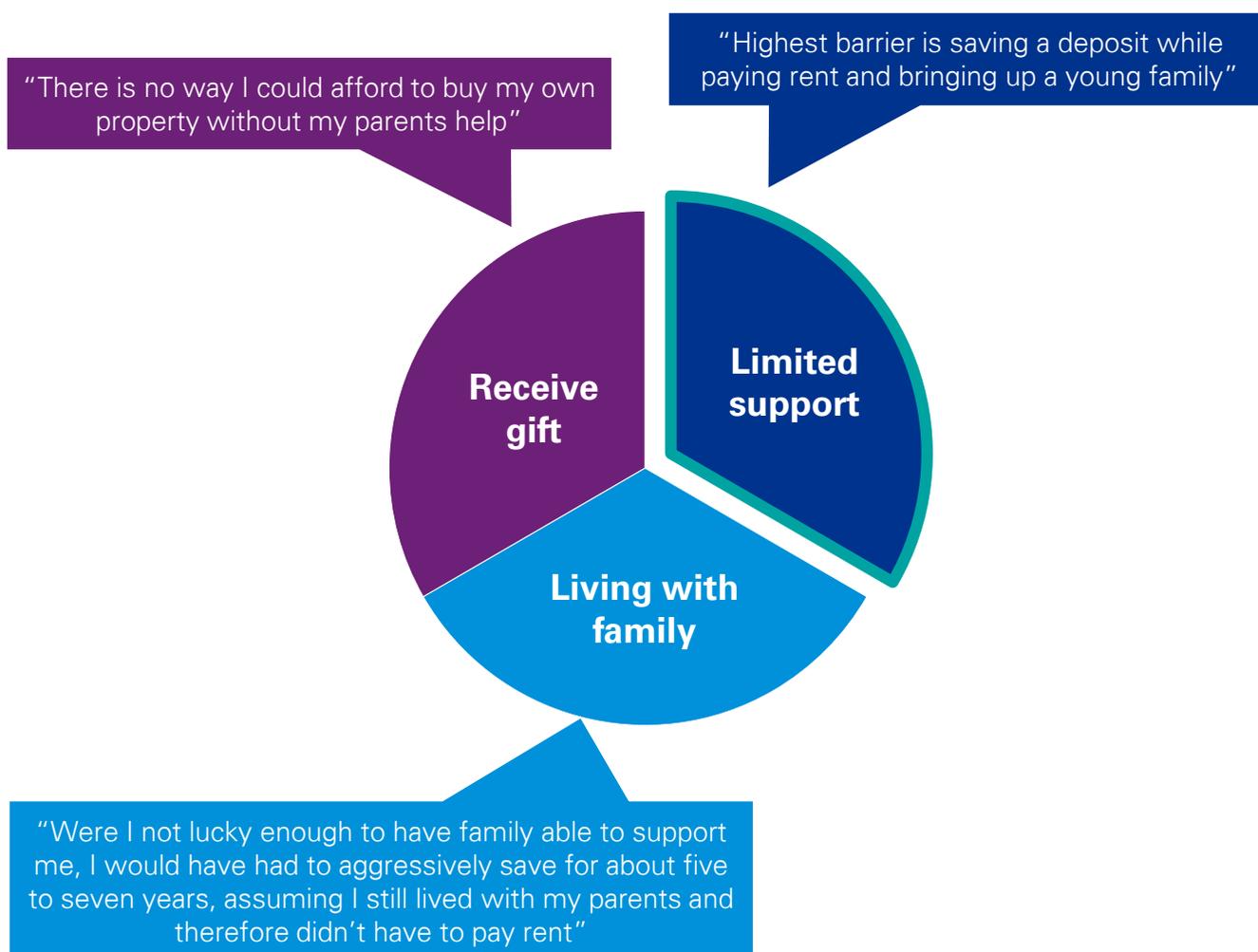


36%

Key focus areas

(b) Affordability for FTBs (continued)

In the graphic below, we have segmented the FTB market to help understand where assistance is most required:



The results suggest that, if FTBs are able to access a gift from parents, or are able to live at home and avoid paying rent (or both), then they are more likely to be able to buy a home, although it will take a considerable amount of time to accrue the remaining savings to cover transaction costs and the deposit. The limited support segment consists of FTBs who although may be able to afford a mortgage, are unlikely to be able to save the required transaction and deposit costs, particularly due to paying high rent. This segment should be the priority for any intervention within the market.

A "do nothing" approach towards FTBs is likely to limit the attractiveness to the younger generation of settling longer term in Guernsey, placing further pressures on the dependency ratio. Furthermore, should conditions for FTBs deteriorate, there is likely to be a knock on effect to total transaction volumes across the market.

Key focus areas

(b) Affordability for FTBs (continued)

Evaluation of options and impact on the local market

We have considered the following options to assist FTBs:

i.	HTB schemes (loan/savings/guarantee) – pages 70 to 75
ii.	GHA FTB PO scheme – page 76
iii.	Changes to Document duty and Bond fees - pages 77 to 78
iv.	Encourage FTB Housing - pages 79 to 81
v.	Summary of recommendations - pages 82 to 83

Key focus areas

(b) Affordability for FTBs (continued)

i. Help to buy schemes

The Help to Buy schemes aim to reduce the deposit level that FTBs require, usually to the equivalent of a 95% LTV (typical market offering is a maximum of 90% LTV). These schemes have been used extensively within the UK market following the financial crisis, when banks tightened their lending and higher LTV products were limited. The three typical methods for this, namely 1) savings, 2) loan and 3) guarantee are outlined on the following pages. A summary evaluation of HTB schemes in Guernsey is outlined on page 76.

HTB Savings scheme

1) Savings: SoG would pay a grant towards an individual's mortgage savings. For example, saver A pays £1,000 into their mortgage savings account and SoG would match up to 10%, or £100. SoG contribution could only be released to a lender on approval of the mortgage.

Of the three types of scheme, savings is the least likely to be acceptable within Guernsey due to the requirement of a guaranteed cash payment from SoG. It is likely to be inequitable to ask taxpayers to subsidise the purchase of an asset that is expected to appreciate in value over the long term for an individual's sole benefit. In the UK, the scheme is operated through an ISA, which does not exist in Guernsey.

- Enables FTBs to enter the owner occupied market;
- Increases transaction volumes which addresses the allocation issue (throughout the whole market);
- Can encourage new development of appropriate properties for the island.

- May be inflationary if not implemented with related supply policy;
- Banks unlikely to support;
- Government have to create an infrastructure to operate the scheme;
- Time lag significant;
- Inequitable to ask taxpayers to subsidise the purchase of an asset that is expected to appreciate in value over the long term for an individual's sole benefit;
- Will have a direct cashflow impact for SoG;
- Difficult to ensure help is directed to those who need it most and not those who could otherwise access the market;
- Reduced impact where 95% LTV operators exist within the market.

- May increase supply of new lower quartile homes;
- May be inflationary.

Key focus areas

(b) Affordability for FTBs (continued)

i. Help to buy schemes (continued)

HTB Loan scheme

- 1) Loan: SoG loans the saver the additional funds they need to make a deposit through an equity or traditional loan. For example saver C needs £20,000 for a deposit but has only saved £10,000. SoG would loan saver C the additional £10,000. This could be either through an equity loan (repaid on sale) or a repayment loan

The loan (equity or repayment) also has a cash flow impact, but it would be repaid through either a loan repayment plan or on sale of the property. Under this scenario (assuming similar criteria to the UK model), SoG may be exposed to any fall in the price of the property.

Case study

Jersey Deposit Loan Scheme (Jul 2013) — pilot

Introduced when the Jersey market was experiencing declining transaction volumes and a lack of confidence

Scheme:

Low interest loan towards purchasing a propriety where the:

- Buyer commits 5%, SoJ end up to 15% (as an interest free deposit);
- Mortgage remainder is financed by Skipton;

- Repayment must be made over 20 years on a monthly basis.

Impact:

- £2.5 million were granted in loans before it closed in 2014;
- 51 properties were purchased;
- Buyers indirectly incentivised to stay in the property for minimum 20 years to avoid paying interest on loan if the property is sold;
- Jersey market has shown stable growth and rise in transactions since the scheme was initiated.

- Enables FTBs to enter the owner occupied market;
- Increased transaction volumes which addresses allocation issue (throughout the whole market);
- Can encourage new development of appropriate properties for the island.

- May be inflationary if not implemented with related supply policy;
- Banks unlikely to support;
- Government have to create an infrastructure to operate the scheme;
- Time lag significant;
- Will have a cashflow impact for government
- Difficult to ensure help is directed to those who need it most and not those who could otherwise access the market;
- Reduced impact where 95% LTV operators exist within the market.
- SoG is likely to rank lower than banks on any default

- May increase supply of new lower quartile homes;
- May be inflationary.

Key focus areas

(b) Affordability for FTBs (continued)

i. Help to buy schemes (continued)

HTB Loan scheme

2) Loan: SoG loans the saver the additional funds they need to make a deposit through an equity or traditional loan. For example saver C needs £20,000 for a deposit but has only saved £10,000. SoG would loan saver C the additional £10,000. This could be either through an equity loan (repaid on sale) or a repayment loan.

The loan (equity or repayment) also has a cash flow impact, but it would be repaid through either a loan repayment plan or on sale of the property. Under this scenario (assuming similar criteria to the UK model), SoG may be exposed to any fall in the price of the property.

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- May increase supply of new lower quartile homes;
- May be inflationary.

Key focus areas

(b) Affordability for FTBs (continued)

i. Help to buy schemes (continued)

HTB Guarantee scheme

3) Guarantee: SoG would guarantee part of an initial deposit, but it would be loaned by a bank. For example, saver B needs £20,000 for a deposit but has only saved £10,000. The bank would loan saver B the additional £10,000 and the Government would guarantee it.

The guarantee scheme has no definite cash flow impact, hence it is likely to be the most politically acceptable. Under this scenario, SoG would face a contingent liability for the total of the amounts guaranteed (likely to be 5% of the value of the home per applicant). An advantage to this scheme is that it would be effectively run by the participating banks, reducing time and cost within SoG.

Case study

UK Help to Buy Mortgage Guarantee

Introduced in the UK market alongside a variety of other Help to Buy options.

Scheme:

Specifically designed for those who can afford mortgage repayments but are struggling to raise a deposit.

- Buyer commits 5% deposit;
- Government guarantees up to 15% to enable

effective LTV of 95% for buyer;

- Liability on the guarantee lasts for seven years if buyer defaults.

Impact:

- Scheme closed in December 2016 as a number of lenders were offering 95% LTV products;
- 100,000 households took up the scheme;
- Only two defaults to September 2016 costing £17,000 to UK government;
- Claimed by many to be inflationary.

- Enables FTBs to enter the owner occupied market;
- Increased transaction volumes which addresses the allocation issue (throughout the whole market);
- Can encourage new development of appropriate properties for the island;
- Limited infrastructure required for government;
- Allows government to cover a wider population of FTBs with limited financial impact.

- May be inflationary if not implemented with related supply policy;
- Banks unlikely to support (and would have to operate the scheme);
- Difficult to ensure help is directed to those who need it most and not those who could otherwise access the market;
- Reduced impact where 95% LTV operators exist within the market;
- SoG is likely to rank lower than banks on any default.

- May increase supply of new lower quartile homes;
- May be inflationary.

Key focus areas

(b) Affordability for FTBs (continued)

i. Help to buy schemes (continued)

Evaluation of HTB schemes

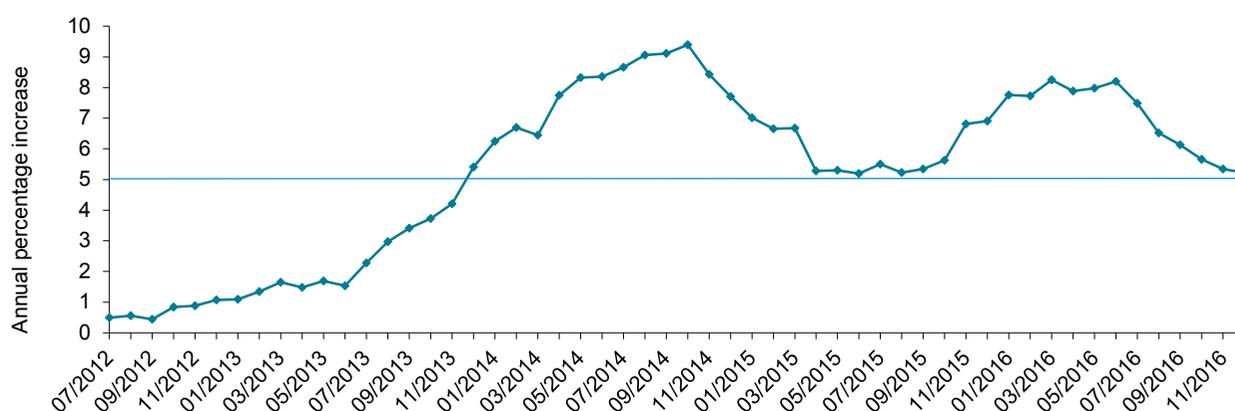
A HTB scheme has 3 core purposes:

- Assisting current FTBs enter the market (for example, by helping reduce their deposit requirement to 5%)
- Helping to stimulate transactions through the whole market
- Stimulating housebuilding by encouraging developers to build more homes

Within the UK market, the schemes were introduced in conjunction with a series of other measures at a time where the supply of higher LTV mortgages (above 75%) had reduced following the global financial crisis.

Isolating the impact of HTB within locations where it has been introduced is challenging and results should be treated with caution. The chart below shows the annual percentage change in house prices since the introduction of the first HTB schemes within the UK. Average house price growth has been above 5% per annum between the end of 2013 and 2016 and affordability ratios have risen from 7 to 8 times.

UK average house prices since HTB



Source: ONS

There has been much debate on how successful the HTB schemes have been in achieving their stated objectives, with different research papers drawing contrasting conclusions. The 2015 Shelter report 'How much help is Help to Buy?' concluded that the HTB schemes had helped a small number of people to buy, at the expense of worsening the overall affordability crisis for everyone else. The 2015 independent 'Evaluation of the UK Help to Buy Equity Loan scheme' concluded that the evidence that it led to a house price boom is weak, although 57% of those who signed up for the scheme said they could have afforded to buy without access to the scheme. Additionally, almost 20% of properties bought through the scheme were not by FTBs. There has been no independent evaluation of the Help to Buy savings scheme or Guarantee scheme within the UK. As at 30 September 2016, there has only been two defaults on the UK HTB Guarantee scheme against a total uptake of over 100,000 households, costing the UK government £17,000.

Key focus areas

(b) Affordability for FTBs (continued)

i. Help to buy schemes (continued)

HTB within the Guernsey market

Whilst it is not possible to accurately model the expected impact on pricing from the introduction of an HTB scheme for Guernsey (due to uncertainty over the many factors which impact house prices), it is unlikely to improve affordability ratios for future FTBs. HTBs can act as a stimulant to demand and are likely to be inflationary if launched without an appropriate supply side policy.

High LTVs are a likely outcome of a HTB scheme and can increase the risk of negative equity for homeowners. In such circumstances the government will likely have the greatest credit risk as to the recovery of amounts it has funded (or be called on for its guarantees) on any HTB scheme.

A key aspect of all of the Help to Buy schemes is that they will require acceptance and participation by lenders on the island. Given the current restricted supply of lenders within the Guernsey market, it may be unlikely that banks are willing to participate within any scheme.

There are concerns over how the schemes will eventually be withdrawn in the UK and the longer term impact this may have on the market. A variant of the equity loan scheme was used in Jersey to help stimulate the housing market when it was in decline and helped a small population of FTBs in 2013. The limited population size (51 households) mitigated the withdrawal risks facing the UK market. Since 2013, the Jersey Housing Market Activity Index has grown continuously demonstrating an increase in transaction volume. Guernsey has seen a 26% increase in transactions in Q1 2017 on 2016 and full year 2016 saw a 18% increase in transactions on 2015. Thus any stimulation created by a HTB scheme is likely to be less pronounced than occurred in Jersey.

Under current market conditions, we do not believe that a HTB scheme would produce long term benefits for Guernsey – caution should also be exercised with suggesting a HTB scheme as this might unsettle a housing market which has recently been seeing improved conditions through increased transaction volumes.

Key focus areas

(b) Affordability for FTBs (continued)

ii. GHA FTB PO scheme

The GHA currently offer a partial ownership scheme which enables those who cannot afford to access the private housing market an opportunity of owning up to 80% equity of a house, whilst paying discounted rent on the remaining equity share. Although the current scheme offers an excellent gateway for some households to own equity, we understand that staircasing is limited with over 80% of 172 Partial Ownership households owning 50% of their property or less as at 30 September 2016. In addition, there have only been 14 movers onto the private housing market over the life of the scheme. Feedback from our FTBs survey suggests that the scheme, in its current form, is not attractive to those who would like to use it as a stepping stone onto the private market.

One advantage of the PO scheme for acquirers is that it requires minimal upfront transaction costs. No Document duty is payable and currently acquirers can obtain a 100% mortgage on their equity share, thus not requiring a significant deposit. Based on our segmentation of the FTB market, a secondary PO scheme could be designed to help those who may be able to afford the ongoing costs of a mortgage but, with limited or no family support, will be unable to save the transaction costs and deposit required.

Any scheme of this nature would need incentives built in to ensure staircasing and the potential for a FTB to own 100% of the property, thus enabling easier access to the private market. The scheme should be designed to encourage FTBs to move off the PO scheme within a specified time period, thus freeing up property for the next generation. The removal of discounted rent on the remaining equity share and/or the charging of Document duty after a certain period of ownership could be used to encourage this.

Provided the criteria successfully targets those who are unable to access the private market, there should be minimal impact on demand in the private market. The introduction of this secondary scheme will stimulate supply of appropriate properties.

- Gives FTBs a route to enter the owner occupied market;
- Increased transaction volumes which addresses the allocation issue (throughout the whole market).

- FTBs must be encouraged to move onto private market within a time window to make the scheme effective;
- May create tension with current partial ownership scheme hence a secondary scheme is advised;
- Difficult to ensure help is directed to those who need it most and not those who could otherwise access the market.

- Unlikely to impact pricing significantly as aimed at households unable to access the private market due to the high transaction costs;
- Developing FTB PO units increases the supply of homes targeted at FTBs.

Key focus areas

(b) Affordability for FTBs (continued)

iii. Changes to Document duty and Bond fees for FTBs

Adjustments to Document duty can be a useful tool in influencing behaviours for certain segments of the market. In the Guernsey market, relief could be given to FTBs to assist with total transaction costs.

On page 55, we highlight the higher Document duty costs and Bond fees facing FTBs in Guernsey relative to the UK and Jersey.

Removal of Document duty and bond fees for FTBs could save FTBs up to 20% of their required transaction costs and deposit, significantly reducing the time taken to accumulate the savings.

For example, per our FTB survey, the average FTB property price was £385k, requiring average total transaction costs and deposit of £53k. Under this scenario, removing Document duty and bond fees could save a FTB up to £12k (23% of their required savings for transaction costs and deposit).

The resulting increase in transactions throughout the market should compensate government for the initial loss in Document duty and bond fees. Focusing on Document duty and assuming that 25% of transactions are at the FTB level, the table below demonstrates that it would only require a 9% increase in total market transaction volume (excluding FTB transactions) to compensate for the relief given to FTBs. The methodology and assumptions are shown in Appendix IV.

	2014	2015
Total Market Transactions (A)	594	539
Total market Document duty (B)	13,099,000	12,260,000
Average Document duty excluding FTBs (F = (B-E)/(A-C))	26,270	27,194
FTB total market transactions (25%) (C = A*25%)	149	135
Average FTB Document duty (D)	9,400	9,400
Total FTB Document duty (E = C*D)	1,395,900	1,266,650
Transaction increase required (G = E/F)	53	47
Percentage increase in transactions required (H = (G/A)*100)	9%	9%

Note: The table above assumes FTBs acquire on average a £385,000 house (Document duty of £9,400), whilst assuming 25% of all market transactions relate to FTBs. We were then able to calculate the average Document duty of the market excluding FTBs. This allowed us to assess the required market movement to compensate SoG for the elimination or reduction of Document duty for FTBs

Key focus areas

(b) Affordability for FTBs (continued)

iii. Changes to Document duty and Bond fees for FTBs (continued)

Removal of Document duty and bond fees is likely to increase demand from FTBs and transaction volumes through the market. The increased demand is likely to lead to inflationary pressure, although we would expect this to be less pronounced than through a HTB scheme as the relief given to buyers is at a maximum of 2.75% (as opposed to a typical injection of 5% capital through guarantee or lending on a HTB mechanism). Restricting the relief to FTBs will enable them to have a competitive advantage over potential buy-to-let investors. This will require the introduction of a registration process, similar to Jersey, which will enable SoG to determine eligible FTBs.

A more permanent adjustment to reduce Document duty (i.e. commitment for 5 years) may also encourage developers to focus on these tenures and increase supply, thus limiting any potential inflationary impacts.

Document duty change is likely to be a blunt tool unless other market factors are functioning appropriately. For example, the 2013/4 temporary decrease on the proportion of property values less than £250,000 (to 1%) and between £250,000 to £400,000 (to 2%) had minimal impact as the market was facing a decline in credit availability and confidence at this time. To be able to influence the market effectively, a more pronounced adjustment may be required.

<ul style="list-style-type: none"> — Influence demand in certain areas of the market, notably for FTBs; — Increase transaction volumes; — Addresses allocation issues; — Flexible and relatively simple to adjust. 	<ul style="list-style-type: none"> — Impact can be limited if only minor changes are made; — Recently amended hence there may be resistance to further changes; — Could be open to abuse if not managed effectively. 	<ul style="list-style-type: none"> — Unlikely to have significant impact on pricing; — An increase in transaction volumes is likely to lead to increased confidence in the developer market and thus increased supply.

Key focus areas

(b) Affordability for FTBs (continued)

iv. Encourage FTB housing

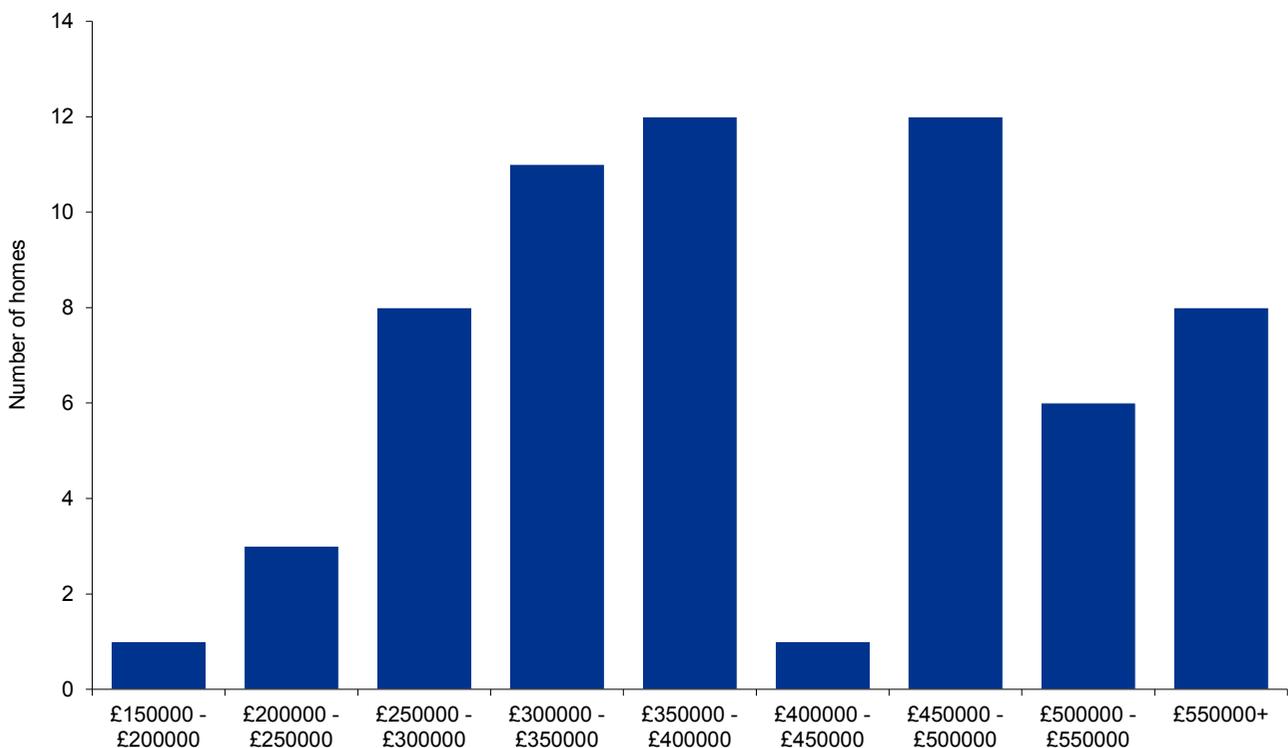
Macroeconomic factors and the competition for land have all contributed to a supply for higher end apartments, larger and higher specification than typical lower quartile housing.

The analysis below shows newly built homes sold since Q1 2015. The average price of new builds was £439k and the average price of apartments totalled £402k. Sales of properties under £250k only contributed 4 of the total 63 sales (6%).

	Average new build sales price 2015 - Q1 2017 (realty only)
Apartment	£401,532
Bungalow	£517,278
House	£410,563
Total new build sales market	£439,075

Source: SoG data, KPMG Analysis.

Sale price (realty only) of new builds Q12015 - Q1 2017 inclusive



Source: SoG data, KPMG Analysis.

Key focus areas

(b) Affordability for FTBs (continued)

iv. Encourage FTB housing (continued)

Starter Homes Initiative

The initiative was announced in the UK in 2014 with the intention of encouraging an increased supply of Starter Homes by exempting house builders from certain planning costs and levies. The core benefits of the Starter Homes initiative include encouraging the development of suitable properties for FTBs and enabling certain FTBs to access the owner occupied market at a discounted price.

The intention of the initiative is for new homes to be made available at a discount, for example, at 80% of the market price. These homes would then have to be sold on at a future date also at 80% of the market price at that time. For example, if a home has a market value of £240,000 then under the initiative this home would be purchased at 80% of this value (£192,000). If, five years later, the home-owners wish to sell, and the market price of the home is still £240,000, then the home can be sold for 80% of market value (£192,000). If the market value were to increase to £300k, then the home can be sold for £240k. If the market value were to fall to £180k, the home can be sold for £144k.

Although the initiative can be a solution for helping FTBs access the market, a key challenge is whether FTBs would subsequently be able to make the financial jump to the private market.

The scheme has been discussed in the UK, however there is insufficient evidence to determine the impact for Guernsey.

Zoning or conditions on land

Within the Guernsey market, specific zoning or conditions could be used to achieve the same benefits targeted by the UK Starter Homes Initiative. A Guernsey initiative could be delivered by the private market and could assist some FTBs who do not qualify for the partial ownership scheme (or secondary PO scheme).

Case study

Jersey Home Buy Programme (Sep 2008)

Scheme:

Qualifying FTBs can purchase properties for 65% of their market value. If the FTB sells the property to another FTB they will charge the full market price but retain only 65% of the proceeds whilst giving back the 35% to SoJ. Qualifying FTBs must have a gross family income of between £20,000 to £60,000 per

annum.

Impact:

- The scheme was planned for 65 homes but only 46 homes went ahead.
- There were several legal oversights in the programme which left it open to criticism.
- Limited movers off the scheme to the private market.

Key focus areas

(b) Affordability for FTBs (continued)

iv. Encourage FTB housing (continued)

Planning conditions or zoning restrictions can encourage the development of FTB property. This would require a FTB waiting list and clearly defined criteria to ensure it benefits those who need it most. Key criteria that may be considered include:

- Household income cap
- Age restrictions
- Minimum mortgage requirements (for example the UK scheme requires a minimum 25% mortgage)
- Restrictions on letting
- Quality standards for house builders
- Initial unit pricing
- Scheme time period
- Resale conditions

It is important the units can be resold to FTBs to benefit future generations, whilst assisting the initial purchasers in getting onto the full market. In a 20 year scheme, a tapering mechanism could be used to unwind the discount over the period. For example, if the initial FTB acquires at a 20% discount, they could be offered the option to sell the property at a 15% discount to market value within a defined time period (i.e between 3 and 7 years). This will help encourage initial purchasers to move onto the private market whilst still keeping a discounted property available for a new FTB.

It is extremely difficult to predict the exact number of additional units that may be required in the lower end FTB segment. It should be noted that there are developments of significant size with active planning permission that may provide appropriate units of this type; the likelihood of these projects reaching completion should be monitored.

<ul style="list-style-type: none"> — Helps FTBs onto the market; — Supports an area of the market which is lacking in new builds; — May promote development and construction industries. 	<ul style="list-style-type: none"> — Unlikely to be delivered without zoning or conditions on land; — May be attractive to investors who compete with FTBs if not specifically controlled. 	<ul style="list-style-type: none"> — Likely to reduce lower quartile pricing; — Increases availability for FTBs.

Key focus areas

(b) Affordability for FTBs (continued)

v. Summary of recommendations

Assistance provided to FTBs is likely to stimulate transaction volumes, benefiting all homeowners. It is important to balance demand side measures with supply side measures in order to limit any inflationary impacts.

Proposed measures to assist FTBs

There are a number of measures which could be used to help FTBs.

GHA FTB PO scheme

There is a segment of FTBs who could afford the ongoing costs of a mortgage, but have no financial support from family and will be unable to save the transaction costs and deposit required. A secondary GHA PO scheme focused on FTBs and designed to incentivise stair-casing to 100% over a defined period, might help this segment. Provided the criteria successfully targets those who are unable to access the private market, there should be minimal initial impact on demand in the private market. If the scheme operates successfully, it may stimulate demand for the private market in the future as those who were previously unable to enter the private market can now transfer from a GHA property.

We recommend:

- Work with the GHA to design criteria for a secondary GHA scheme which allows staircasing to 100% and incentivises FTBs to move onto the private market within a defined period

Changes to Document duty and Bond fees

Mortgage interest relief already assists all homeowners with mortgages, although it is rarely factored into affordability calculations by the lenders. As noted earlier in this report, SoG is phasing out mortgage interest relief by 2025.

A flexible measure to stimulate the FTB market might be to remove Document duty for that group. This may be undertaken temporarily to immediately bolster demand, but performed over a longer stated period may stimulate the supply side of FTB properties by developers. In contrast to some HTB schemes there is no ongoing commitment of government capital, it is likely easier to administer and is not dependent upon support from the banking sector. Given FTBs will have to fund a full deposit, there is less risk of negative equity should house prices fall.

We recommend

- Consider removal of Document duty (and bond fees) for FTBs
- Consider setting maximum thresholds for relief
- Consider the timeframe that the relief will remain in place
- Design a registration process to determine eligible FTBs

Key focus areas

(b) Affordability for FTBs (continued)

v. Summary of recommendations (continued)

Encourage FTB Housing

Encouraging FTB developments is only likely to be feasible if action is taken through the planning system and land is either zoned or approved with relevant conditions. Such developments are also likely to help improve lower quartile affordability.

We recommend:

- Define criteria for the scheme including eligibility, price conditions and mechanisms for owners to sell their property on
- Identify areas of land suitable for FTB housing and apply relevant planning conditions
- Test run on a limited scale (e.g 15 units initially)

Provision of impartial advice to FTBs

Provision of impartial advice should help FTBs better understand the buying process in Guernsey and help them plan better for the required savings. This might include information on the available lenders, mortgage brokers, the costs associated with a property purchase, the GHA scheme and the buying process itself. Information is currently provided by market participants but feedback from FTBs suggests more independent advice could be provided to give a complete picture, particularly during the early stages of the process and prior to engagement with advisors.

We recommend

- Produce literature for FTBs to explain the property buying process and options
- Consider holding a FTB property event to help educate FTBs and promote the schemes available under GHA

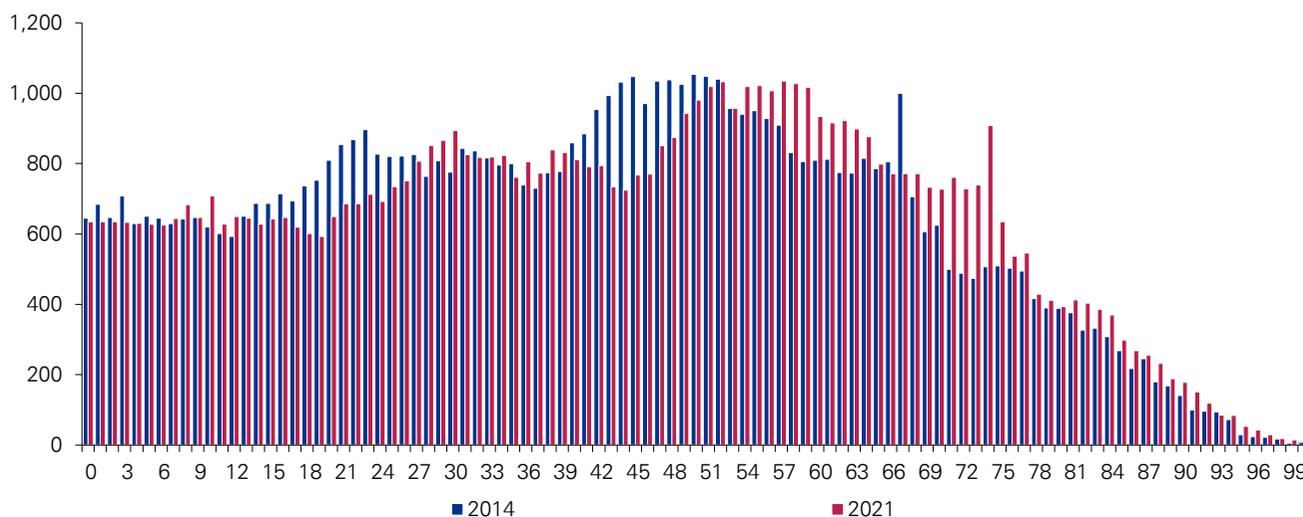
Key focus areas

c) Provision of elderly tenures

Summary of issue and implications for the local market

A key driver of demand for houses of different sizes and tenures are the demographic changes Guernsey has experienced. As shown on page 50, our population has a higher proportion of over 65s than both the UK and Jersey. This is further supported by the demographic projections up to 2021 which show a significant increase in the number of over 65s by 2021.

Figure 5: Age Distribution in Guernsey (2014 versus 2021)



Source: States of Guernsey Data.

It has been estimated by a 2011 Housing LIN report that 17% of over 60s in the U.S live in dedicated retirement housing. In Australia and New Zealand, the estimate is 13%. A Knight Frank UK retirement survey for over 55s in 2014 suggested that a quarter of respondents would look to move into some form of retirement housing in the future (including retirement villages, extra care and assisted living, sheltered retirement and over 55 developments, but excluding care homes). We are not aware of any similar recent surveys that have been undertaken in Guernsey, or any detailed waiting lists that are maintained for over 55s who require more dedicated types of housing. We have defined over 55s dedicated housing to include private rented 55+, private owner occupied 55+, private rented specialised care 55+ and affordable rented 55+.

Key focus areas

c) Provision of elderly tenures (continued)

The table shows 445 people living in over 55s dedicated housing in Guernsey in 2016. There is also likely to be a number of over 55s living in Sheltered accommodation and Affordable extra care.

There were 20,128 over 55s living in Guernsey as at March 2016. Approximately 2% of over 55s are living in over 55s dedicated housing (3% if Sheltered and Affordable extra care are included in total) which appears low in comparison to the benchmarks noted previously.

Cultural differences mean that any Guernsey survey is likely to yield different results, hence demand for these tenures in Guernsey needs to be assessed via an application system and waiting lists need to be established to accurately assess the level of demand for each type of supported tenure.

Residents living in over 55s dedicated housing	
Housing type	Residents
Private rented 55+	351
Private owner occupied 55+	16
Private rented specialised extra care 55+	46
Private owner occupied specialised extra care 55+	4
Affordable rented 55+	28
Total dedicated 55+	445
Affordable extra care	109
Private sheltered	28
Affordable sheltered	57
Total sheltered and Affordable extra care	194
Total	639

Source: States of Guernsey Data.

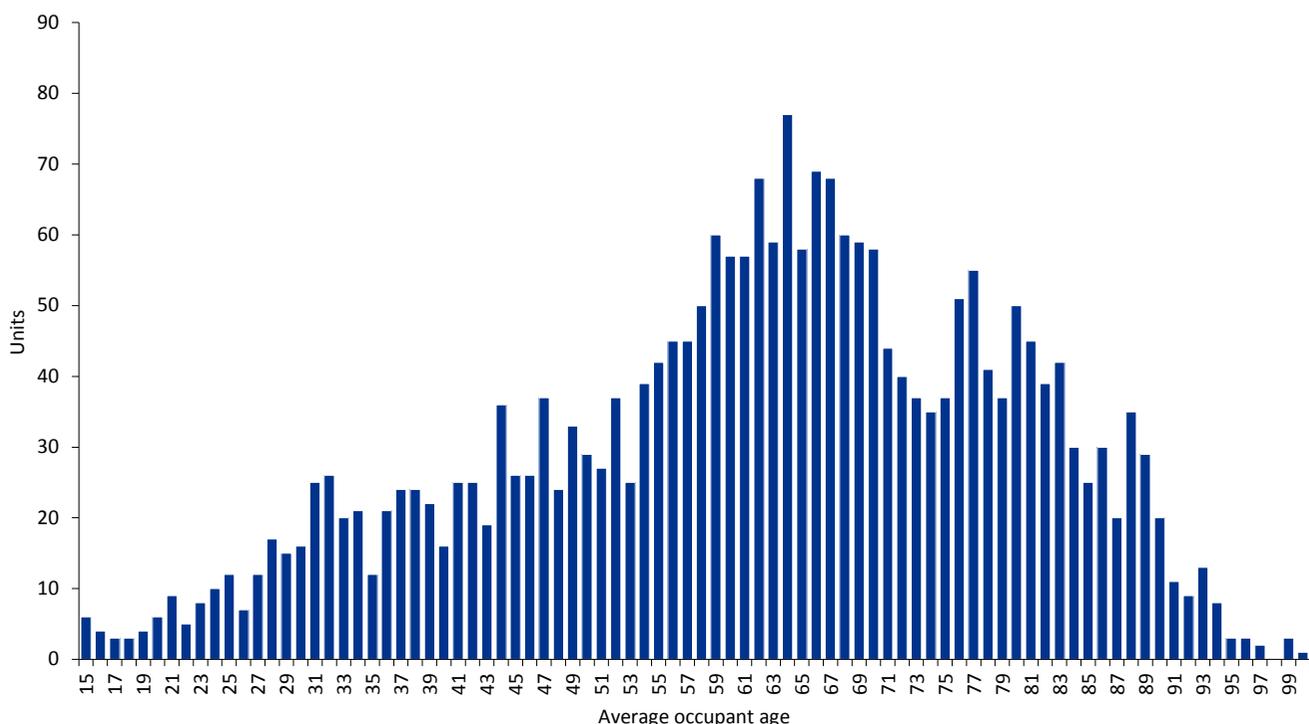
Note: Sheltered and Affordable extra care are likely to include over 55 residents but are not restricted to this age bracket

As the population ages, so the composition of housing stock required will also need to incorporate more specialised needs for this demographic. There will likely be an increase in demand for smaller, more manageable units, and units offering support.

Key focus areas

c) Provision of elderly tenures (continued)

Distribution of owner-occupied properties with two or more spare bedroom by average occupant age



Source: States of Guernsey Data.

We have analysed above households with at least two bedrooms more than the number of occupants to understand the level of underoccupancy at different age ranges.

We estimate that 2,500 owner occupied properties have 2 or more spare bedrooms (17% of total owner occupied stock). Of these, 69% are occupied by over 55s and 52% are occupied by over 65s.

Without sufficient choice of over 55s dedicated housing tenures, individuals in the 55-80 age bracket may end up living in accommodation that is unsuitable for their needs. They may continue to live in larger properties which become difficult and expensive to maintain, restricting the availability of homes for growing families. Additionally, studies in the UK such as 'The Value of Sheltered Housing' commissioned by the National Housing Federation have suggested there are benefits to individuals from the elderly living in sheltered housing accommodation including less time spent in hospital, lower housing costs (such as energy and maintenance bills), reduced loneliness and greater independence. Benefits to government can include reduced expenditure on health and social care.

As over 55s downsize they 'free up' larger homes that may be in demand to assist with the allocation and overcrowding issues highlighted previously.

Key focus areas

c) Provision of elderly tenures (continued)

Summary of recommendations and expected impact on the local market

To incentivise over 55s who feel more dedicated housing is more appropriate but feel the barriers to moving home are too great, there are a number of options available to encourage movement. For example, Document duty could be reduced for those moving into a more dedicated tenure or assistance could be provided with physically moving property (for example by subsidising or facilitating removal).

We recommend:

- Construct an accurate waiting list for over 55s dedicated housing tenures to influence development
- Ongoing dialogue with developers to understand the challenges they face
- Support over 55s dedicated housing tenures through the planning process
- Consider assistance to those wishing to move into more dedicated units. This might include providing Document duty reliefs and assisting with physically moving property

We have estimated the housing stock that may be released from building an over 55s dedicated housing development as shown in the following table.

This shows that building a 20 unit over 55s dedicated housing development targeted at current home owner over the age of 55 could release 9 three bed properties, 8 four bed properties and 3 five bed property into the market, i.e a 20 unit development (totalling 20 bedrooms) can release housing stock totalling 74 bedrooms into the wider market.

The methodology used to perform this analysis is outlined in appendix V.

Release of wider housing stock through an over 55s dedicated housing development

Bedrooms →	3	4	5	6	Total
20 unit development					
Units released	9	8	3	0	20
Bedrooms released	27	32	15	0	74
40 unit development					
Units released	18	16	5	1	40
Bedrooms released	54	64	25	6	149

Source: SoG data, KPMG Analysis.

Note: The above analysis is based on underutilised households (ie those where the number of bedrooms in property exceeds the number of occupants by at least two

Key focus areas

c) Provision of elderly tenures (continued)

<ul style="list-style-type: none">— Ensures elderly individuals have access to appropriate housing solutions;— Prevents oversupply of specific types of homes;— Helps free up existing properties;— May promote development and construction industries;— Can ensure older people have access to the appropriate level of care and support;— Private sector provision may lead to less reliance on the States to provide subsidised care.	<ul style="list-style-type: none">— May be relatively costly to maintain application systems, waiting lists, and housing targets. However this will be offset by increased revenue from higher transaction volumes.	<ul style="list-style-type: none">— Likely to increase supply of larger properties in the owner occupied market;— Unlikely to have a significant impact on pricing.
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Key focus areas

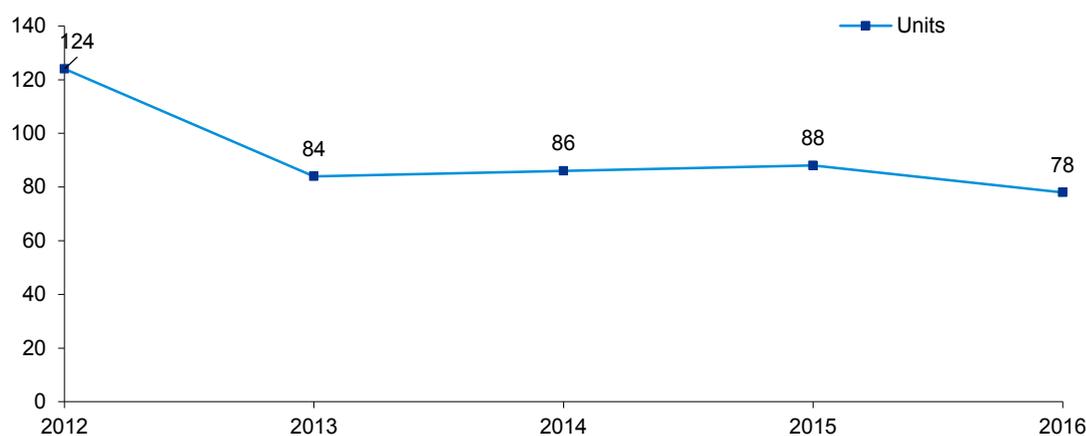
d) Provision of key worker housing

Summary of issue and implications for the local market

As we have shown on page 65 the affordability of housing is difficult for lower income groups – this may impact the ability for SoG to recruit and retain key workers, such as teachers and nurses.

Currently there are 252 units offered at reduced rents to key workers in Guernsey. Of these, 157 are owned by the SoG, 19 are leased from the GHA, and 76 are leased from private landlords (this has fallen over the past 5 years as can be seen in the chart below). We understand that private rental properties are leased by SoG at full market rent and sublet to key workers at a discount of up to 30% through a SoG subsidy. In addition, there are key workers who receive rent allowance in the private sector.

Key worker units rented from private landlords



Source: SoG data, KPMG Analysis.

Provision of key worker housing through these means may provide flexibility if not necessarily the most cost effective way of delivery. We understand that the GHA is hoping to build 22 key worker units, however, based on the current number of units leased from private landlords, this might seem insufficient.

To reduce the cost of delivering key worker housing, SoG might consider building additional dedicated key worker accommodation – likely beneficial in attracting new recruits alongside improving affordability for SoG. As we have noted the typical developer margin for the private sector is approximately 20% in Guernsey. SoG sponsoring the development of dedicated key worker accommodation directly by foregoing some of the developer margin should allow savings to be passed on to key workers through discounted rentals. Land currently owned by SoG, could also be released at a discount to market value.

An alternative which would not need direct public funding is to provide a long term guarantee of occupancy and rental rates to the private sector to develop dedicated key worker housing units on its behalf. The reduction in risk may reduce developer margins as well as attract lower cost institutional finance. This reduction in yield should help underpin demand, ensuring that the likelihood of the guarantee being called is reduced.

Key focus areas

d) Provision of key worker housing (continued)

Summary of recommendations and expected impact on the local market

A separate analysis will need to be performed by SoG to

- Assess the current cost of support given to key workers for accommodation
- More tightly define who comprises key workers in Guernsey – there is a general understanding within SoG that it principally covers teachers and nurses but this needs codifying
- Assess future needs for key worker accommodation in Guernsey and reconcile this to GHA intentions for development
- If desirable, liaise with the private sector to better understand their appetite for developing dedicated key worker accommodation

<ul style="list-style-type: none"> — Targets housing where there is an accentuated affordability issue; — Lower cost method of supplying key worker housing; — Added benefits in attracting employees; — Ability to expand outside of key worker to wider employer sponsored housing; — Guarantees create the discount and do not require funding; — Guarantee unlikely to be called given the discount and ability to offer to wider market; — Ability to use for new build or existing stock. 	<ul style="list-style-type: none"> — Need to ensure stock is appropriate for the demand from staff; — Market needs educating on the model; — Would need a mechanism to administer to prevent system abuse. 	<ul style="list-style-type: none"> — Improves affordability for essential workers required by the island; — Unlikely to significantly impact pricing in the owner occupied market.
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Key focus areas

e) Government support to the housing market

Summary of issue and implications for the local market

Sustainability of government support is a key aspect of both housing policy and fiscal approach. Detailed analysis of the current, and potential future, costs of policy approaches should be undertaken in order to assess whether a policy approach is consistent with the long term strategic objectives of Housing and SoG more generally.

With ageing demographics, the composition of Guernsey's population is changing and with it are the types of homes required. In addition, the increases in cost of both rental and owner occupied tenures over the last 30 years may have reduced the capacity of individuals to save for retirement. Understanding the likely cost to the public purse as a result of the ongoing changes in the market is central to policy approach.

We are not aware of any comprehensive analysis currently performed to estimate the total cost of government intervention to the housing market. Current analysis does not integrate all of the current and estimated future costs of policy decisions. These costs include, but may not be limited to:

- grants to the GHA (both financial grants and gifts of land)
- maintenance and administration of Housing rental properties
- maintenance and administration of properties operated by other States committees
- mortgage interest relief
- the rent rebate scheme offered to tenants of Affordable housing properties
- the costs of supporting individuals on the Affordable housing waiting lists and in the private market, and other costs associated with housing (strategy and administration, for example)
- potential future indirect costs related to, for example, private individuals who may not be able to save for retirement due to the high cost of rental and who may require support via the benefit system in retirement

These costs must be considered in light of the potential revenues arising from rental income, income to SoG on loans made to the GHA, Document duty fees and housing licence fees.

The composition of Guernsey's population will change over the coming decades, with older individuals retiring out of the workforce and requiring more specialised housing. This may lead to falls in tax revenues against increases in government expenditure on housing. There is a risk of greater pressure on the dependency ratio. In order to accurately assess the impact of any policy intervention on the market and the sustainability of its impact on public finances, a detailed analysis and estimate of future cost should be undertaken.

Key focus areas

e) Government support to the housing market (continued)

Recommendations and expected impact

We recommend:

- Compile a complete list of areas of government intervention related to the housing market (both revenue and expenditure aspects)
- Calculate the current financial impact of this intervention
- Estimate the future financial impact of government support when considering existing and future policy options



- Better policy decision making;
- Improved fiscal prudence.



- Costs associated with data collection, modelling and maintenance (although this may 'pay for itself' by avoiding policy approaches that lead to short term gains, but long term losses;
- Difficult to accurately predict future outcomes.



Key focus areas

f) Ongoing monitoring of housing targets and KPIs

Summary of issue and implications for the local market

Range of KPIs

SoG collects extensive data on the housing market used to guide policy decisions, however this may not cover a broad enough range of data points. We have highlighted additional areas within this report that may require additional focus going forward.

Timely data

Whilst the demand side of the market can move rapidly in response to a variety of macroeconomic and demographic factors there are constraints, particularly on the supply side, that may lead to a time lag in policy responses. For example previous housing targets, produced every five years have been used to compute additional homes needed each year. This can mean that a housing target based on 2011 data would be used to drive planning decisions in 2015.

Summary of recommendations and expected impact

Range of KPIs

We have identified the following additional KPIs and data points that should be monitored:

- new builds by bedroom – data on how many private market homes have been added / removed will be required in order to monitor housing targets
- credit markets – data on concentration and total volume in the lending market, both in terms of new mortgages and the size of existing lending books, will better equip SoG to address risks present in the credit market
- land ownership - data on the distribution of land ownership and transactions will enable SoG to accurately monitor the price of land in Guernsey, and identify any incidences of land banking. This could be performed through a land registry
- Waiting lists for over 55s dedicated housing
- The net change in population from local market licences following the introduction of the Population Management (Guernsey) Law, 2016
- Individuals in private housing who receive a housing specific benefit to identify whether they should be included on Affordable housing waiting lists and reflected in housing targets

In addition to those highlighted above, SoG should work with key stakeholders to identify any further data analysis that could be published to facilitate better decision making in the development and credit markets.

Key focus areas

f) Ongoing monitoring of housing targets and KPIs (continued)

Timely data

The key inputs used to inform the housing targets model should be considered with the housing targets and compared against the supply of additional units of different tenures to identify any likely gaps – a more timely and accurate understanding of this should help inform policy makers to flex their response. The output from this should be shared wherever practicable with wider stakeholders to ensure a coordinated response between public and private sectors.

Of the key inputs net migration, the Affordable housing waiting lists, and building completion rates should be monitored more closely and regularly given that they may change more quickly than natural population change (determined by birth and death rates) and demographic behaviour (how people organise themselves into homes).

We recommend:

- Collect and, where appropriate, publish additional KPI data
- Consider the key inputs used to inform the housing targets model with the housing targets and compare against the supply of additional units of different tenures to identify any likely gaps

- Better policy decision making;
- Better private sector decision making;
- Partial mitigation of risks associated with policy.

- Costs associated with data collection and dissemination.



Appendices



Glossary

£	Pound Sterling
2004 Parr Report	A report on improving the quality and affordability of private rental accommodation in Guernsey
Affordability Ratio	A measure of the population's ability to purchase a house indexed to the population's income. The affordability ratio is calculated by dividing house prices by annual earnings
Affordable housing	Accommodation provided by the States of Guernsey and the Guernsey Housing Association, where the allocation criteria are based primarily on household incomes or specific housing needs. In includes social rented and partially owned units.
Affordable housing demand	Demand for Affordable housing is comprised of those households living in Affordable housing and those on waiting lists for Affordable housing
AGB	Association of Guernsey Banks
c	Circa
e	Estimate
E&I	Committee for the Environment and Infrastructure
ESS	Committee for Employment and Social Security
FTB	First Time Buyers
G4	A collective of Guernsey business groups: (The Chamber of Commerce, Confederation of Guernsey Industry, Institute of Directors and Guernsey International Business Association)
GBTEA	Guernsey Building Trades Employers Association
GDP	Gross Domestic Product
GFSC	Guernsey Financial Services Commission
GHA	Guernsey Housing Association
Government	The States of Guernsey
GPRLA	Guernsey Private Residential Landlords Association
Housing Needs Survey	Surveys commissioned by SoG and conducted by ORS every 5 years to examine the current and future housing requirements and needs in Guernsey to inform future housing policies.
HTB	Help to Buy
IDP	Island Development Plan
ISA	Individual saving account
k	Thousands
Key Workers	An employee who provides a vital service to the island
KPI	Key performance indicator
LTV	Loan to value
m	Million
m2	Square meters
MMR	The Financial Conduct Authority's Mortgage market review which came into force in April 2014 impacting UK mortgage lenders
OO	Owner occupied
ORS	Opinion Research Services
PO	Partial ownership – a tenure designed to make home ownership more affordable to local first time buyers who would otherwise be unable to purchase their own home. Under the current scheme managed by the GHA purchasers buy a percentage of the property, between 40% and 80% of the home. The remainder of the value (equity), of the home is held by the GHA on which discounted rent is charged
Q	Quarter

Glossary (continued)

Rental Index	An index based on the change in the average rental cost of properties by number of bedrooms, weighted by the distribution of housing stock in Guernsey
RPI	Retail price index
SoG	The States of Guernsey
SoJ	The States of Jersey
Supported housing	Within this report, the term “supported housing” has been used to covered sheltered and extra care accommodation provided by the States, the Guernsey Housing Association, and other housing associations, where the allocation criteria are based primarily on care needs. It includes social rented, partially owned, private rented and owner occupied units. However, the term “supported housing” is no longer used as a separate housing classification by the States of Guernsey. The term “sheltered housing” has replaced “supported housing”. When reporting statistics on housing stock tenures in the future any units providing sheltered housing will be classified by its specific tenure i.e. affordable housing, private rental or private ownership. All extra care units will be classified as affordable housing. This is in line with the definition set out in Guernsey’s Land Planning and Development (Planning Covenants) Ordinance 2011
Transaction costs	All direct costs of buying a home (excluding deposit)
UK	United Kingdom
UK DCLG	Department for Communities and Local Government in the UK

Transaction costs

Expected Transaction costs for acquiring property at different prices across Guernsey, Jersey and the UK

We have collated the transaction costs needed to buy a house in Guernsey, Jersey and the UK for house values of £250,000, £300,000, £500,000 and £800,000.

	Guernsey	Jersey - First Time Buyer*	Jersey	UK
House Value (A)	£250,000	£250,000	£250,000	£250,000
Document duty	£5,000			
Greffe/Land Registry fees	£240			£140
Legal fees	£1,000	£1,000	£1,000	£925
Bond fee	£1,688			
Valuation Fee	£1,000	£1,000	£1,000	£1,000
Local Search / Enquiry Fee		£330	£330	
Housing Consent/Immunity Certificate	£70	£70	£70	
Stamp Duty		£1,305	£3,805	£2,500
Electronic Transfer Fee				£48
Total Cost of Transaction Fees (B)	£8,998	£3,705	£6,205	£4,613
Transaction Costs as a % of House Value (B/A)	3.60%	1.48%	2.48%	1.85%

	Guernsey	Jersey - First Time Buyer*	Jersey	UK
House Value (A)	£300,000	£300,000	£300,000	£300,000
Document duty	£6,625			
Greffe/Land Registry fees	£240			£140
Legal fees	£1,200	£1,200	£1,200	£1,225
Bond fee	£2,025			
Valuation Fee	£1,000	£1,000	£1,000	£1,000
Local Search / Enquiry Fee		£330	£330	
Housing Consent/Immunity Certificate	£70	£70	£70	
Stamp Duty		£1,530	£5,530	£5,000
Electronic Transfer Fee				£48
Total Cost of Transaction Fees (B)	£11,160	£4,130	£8,130	£7,412
Transaction Costs as a % of House Value (B/A)	3.72%	1.38%	2.71%	2.47%

* a first-time buyer in Jersey, buying a property under £450,000, will pay a reduced amount of stamp duty, as well as also pay a reduced amount of land transaction tax if they were buying a share transfer property. Verification is made through the public registry

Transaction costs (continued)

	Guernsey	Jersey	UK
House Value (A)	£500,000	£500,000	£500,000
Document duty	£13,375		
Greffe/Land Registry fees	£240		£140
Legal fees	£1,500	£1,500	£1,225
Bond fee	£3,375		
Valuation Fee	£1,000	£1,000	£1,000
Local Search / Enquiry Fee		£330	
Housing Consent/Immunity Certificate	£70	£70	
Stamp Duty		£10,430	£15,000
Electronic Transfer Fee			£48
Total Cost of Transaction Fees (B)	£19,560	£13,330	£17,412
Transaction Costs as a % of House Value (B/A)	3.91%	2.67%	3.48%

	Guernsey	Jersey	UK
House Value (A)	£800,000	£800,000	£800,000
Document duty	£24,000		
Greffe/Land Registry fees	£240		£140
Legal fees	£2,000	£2,000	£1,460
Bond fee	£5,400		
Valuation Fee	£1,000	£1,000	£1,000
Local Search / Enquiry Fee		£330	
Housing Consent/Immunity Certificate	£70	£70	
Stamp Duty		£19,780	£30,000
Electronic Transfer Fee			£48
Total Cost of Transaction Fees (B)	£32,710	£23,180	£32,648
Transaction Costs as a % of House Value (B/A)	4.09%	2.90%	4.08%

Transaction costs – Key assumptions

Guernsey Document duty

Document duty Rate	Property value
2.00%	up to £250,000
3.25%	£250,001 to £400,000
3.50%	£400,001 to £750,000
3.75%	£750,001 to £1,000,000

UK Stamp duty

Stamp duty rate	Property Value
0%	up to £125,00
2%	£125,001 - £250,000
5%	£251,000 - £925,00
10%	£925,001 - £1.5m
12%	Over £1.5m

Please note that Document duty and Stamp duty Rate only applies only to that part of the property price that falls within each band.

Jersey Document duty

Jersey Document duty for FTBs and other buyers was calculated using the Benest & Syvret Stamp duty calculator at <http://www.benestisyvret.com/your-home/jersey-stamp-and-mortgage-calculator>.

Grefe Fees and Land Registry Fees

The Grefe Fee applicable in Guernsey is £240 across all house values. Land Registry Fee applicable in the UK is £140 across all house values.

Transaction costs – Key assumptions (continued)

Legal fees

Legal fees	£250,000	£300,000	£500,000	£800,000
Guernsey	0.40%	0.40%	0.30%	0.25%
Jersey first time buyer	0.40%	0.40%	0.30%	0.25%
Jersey	0.40%	0.40%	0.30%	0.25%

UK legal fees were calculated using the Which first time buyers guide at <http://www.which.co.uk/money/mortgages-and-property/first-time-buyers/guides/buying-a-home/the-cost-of-buying-a-house> and were inflated £800,000 to give a representative value for the legal fee.

Bond fee

Bond fee is only applicable in Guernsey and is calculated at 0.75% of the bond value, assuming a 90% LTV.

Valuation fee

We have assumed a homebuy report across all jurisdictions costs £1,000.

Local search/enquiry fee

Local search/enquiry fee in Jersey and is £330 across all house values.

Housing consent/immunity certificate

Housing consent/immunity certificate applicable in Jersey and Guernsey is £70 across all house values.

Electronic Transfer Fee

Electronic transfer fee applicable in the UK is £48 across all house values.

FTBs questionnaire results

We issued a survey targeted at individuals who are either looking to buy their first property ("Potential") or recently purchased one privately in the past 3 years ("Successful") to better understand some of the key challenges for FTBs.

115 respondents completed the questionnaire split between 71 Potential and 44 Successful.

Living situation

	What is your current living situation? (Potential)	What was your living situation prior to purchasing your first property? (Successful)
Living with family	50%	63%
Living with friends	8%	5%
Living on my own	8%	2%
Living with spouse / partner	34%	26%
Living in social housing	0%	2%
Living in special accommodation (i.e. nursing accommodation)	0%	2%

Price range of properties

	What is the price range of the property you are seeking to purchase? (Potential)	What was the purchase price of your property? (Successful)
Less than £200k	1%	0%
£201k - £300k	41%	21%
£301k - £400k	41%	34%
£401k - £500k	13%	33%
£501k +	4%	12%

FTBs questionnaire results (continued)

Time taken to save for transaction cost and deposits

How long do you expect it to take to save the amount required to pay the transaction costs and deposit? (Potential)	
No waiting time (already have sufficient funds)	26%
Less than 2 years	3%
Two to three years	36%
3 - 5 years	19%
5+ years	16%

How long did it take for you to save the transaction costs and deposit for your first property? (Successful)	
No waiting time (already had sufficient funds)	14%
less than 1 year	5%
2 years	2%
3 years	23%
3 - 5 years	26%
5 + years	30%

FTBs questionnaire results (continued)

Percentage of financial support received

	Will you be obtaining financial support? (Potential)	Did you receive financial support? (Successful)
Yes (repay)	16%	24%
Yes (additional security)	3%	10%
Yes (gift)	21%	40%
No financial support	60%	26%

Amount of financial support received

	If you are expecting to receive financial support, how much do you expect to receive? (Potential)	If you obtained financial support how much did you obtain? (Successful)
N/A	60%	26%
Up to £10k	6%	12%
£11k to £15k	11%	7%
£16k to £20k	7%	17%
£20k +	16%	38%

FTBs questionnaire results (continued)

Percentage of income spent on rent or mortgage

	If you are currently renting what proportion of your net income do you spend on rent? (Potential)	If you have a mortgage what proportion of your household net income goes to paying it? (Successful)
11% to 15%	9%	2%
16% to 20%	7%	7%
21% to 25%	25%	11%
26% to 30%	16%	16%
31% to 35%	5%	7%
36% to 40%	11%	21%
41% to 45%	7%	16%
46% to 50%	9%	9%
51% and over	11%	11%

Availability of advice for FTBs

	Please comment on whether you received good advice during the process of purchasing your first property? (Successful)
Positive	78%
Neutral	11%
Negative	11%

	Please comment on whether you feel that there is enough suitable advice to first time buyers? (Potential)	Please comment on whether you feel that there is enough suitable advice to first time buyers? (Successful)
Positive	16%	29%
Neutral	26%	39%
Negative	58%	32%

FTBs questionnaire results

Survey questions for potential homeowners

No.	Question
Q01	Are you currently looking to potentially purchase your first property?
Q02	Have you successfully purchased your first property within the last 3 years?
Q03	Are you male or female?
Q04	Please select from the options below the one that best describes the sector in which you work
Q05	Are you a Guernsey local resident (either a qualified resident or licence holder)?
Q06	How long have you lived in Guernsey?
Q07	How old are you?
Q08	Are you seeking to purchase a property with another person?
Q09	What is your current living situation? — Living on my own — Living with friends — Living with family — Living in special accommodation (i.e. nursing accommodation) — Living in social housing — Living with spouse/partner
Q10	How long have you been actively seeking to buy a property?
Q11	When do you believe you will be in the right financial position to be able to acquire a property? — Less than 3 years — 3 – 5 years — 5+ years
Q12	What is the main reason why you wanted to own a home?
Q13	Do you view the current housing stock in Guernsey as high quality?
Q14	If no, please explain why. If yes, please put "N/a" in the answer box
Q15	What is the price range of the property you are seeking to purchase?

FTBs questionnaire results

Survey questions for potential homeowners

Q16	Do you regard the ongoing affordability of a mortgage or the initial transaction cost (including deposit, legal fees and Document duty) to be the higher barrier to acquiring a property?
Q17	How much do you expect to pay for the total transaction costs (e.g. deposit, legal fees etc.)? — Less than £10k — £11k - £20k — £21k - £30k — £31k - £50k — £41K+
Q18	Will you obtain financial support? — Yes (gift) — Yes (repay) — Yes (additional security) — No financial support
Q19	If you are expecting to receive financial support, how much do you expect to receive?
Q20	How long do you expect it to take to save the amount required to pay the transaction costs? — No waiting time (already have sufficient funds) — Less than 3 years — 3 – 5 years — 5+ years
Q21	Have you attempted to purchase a home in the past?
Q22	If yes, what was the reason the purchase was not successful? If no, please put "N/a" in the answer box.
Q23	The Guernsey Housing Association operates a partial ownership scheme, have you considered applying for this scheme?
Q24	If yes, please explain why? If no, please explain why
Q25	What size of property are you seeking to purchase? — 1 bed — 2 bed — 3 bed — 4 bed — 5 bed and over
Q26	How long do you expect to live in your first property?
Q27	How many properties do you expect to view before purchasing your first property?

FTBs questionnaire results

Survey questions for potential homeowners

Q28	<p>If you are currently renting what proportion of your net income do you spend on rent?</p> <ul style="list-style-type: none"> — Less than 10% — 11% to 15% — 16% to 20% — 21% to 25% — 26% to 30% — 31% to 35% — 36% to 40% — 41% to 45% — 46% to 50% — 51% and over — Not applicable
Q29	<p>Please comment on whether you feel that there is enough suitable advice to first time buyers?</p>
Q30	<p>A number of schemes have been introduced by governments in other jurisdictions to help first time buyers get onto the housing ladder. Below are descriptions of three such policies. Please indicate which, if any, you would consider / would have considered participating in when purchasing your first home (you can choose more than one answer).</p> <ul style="list-style-type: none"> — Help to buy — Starter homes initiative — Shared ownership scheme
Q31	<p>What are the barriers that you have to overcome to acquire your first property?</p>
Q32	<p>Out of the barriers stated above, which do you consider to be the most prominent?</p>

FTBs questionnaire results

Survey questions for successful homeowners

No.	Question
Q01	Are you currently looking to potentially purchase your first property?
Q02	Have you successfully purchased your first property within the last 3 years?
Q03	Are you male or female?
Q04	Please select from the options below the one that best describes the sector in which you work
Q05	Are you a Guernsey local resident?
Q06	How long have you lived in Guernsey?
Q07	How old are you?
Q08	Did you purchase your first home with a spouse / partner?
Q09	What was your living situation prior to purchasing your first property: Living on my own — Living with friends — Living with family — Living in special accommodation (i.e. nursing accommodation) — Living in social housing — Living with spouse / partner
Q10	How long did it take for you to save the transaction costs for your first property?
Q11	Do you aspire to move up the property ladder?
Q12	If yes, when?
Q13	If you intend to move up the property ladder what is the key challenge to moving up?
Q14	From the houses you viewed prior to purchase, did you have an issue with the level of quality?
Q15	If yes, please explain why. If no, put "N/a" in the answer box.
Q17	Do you regard the ongoing affordability of a mortgage or the initial transaction cost (including deposit, legal fees and Document duty) to be the higher barrier to acquiring a property?

FTBs questionnaire results

Survey questions for successful homeowners

No.	Question
Q18	Approximately what were the total transaction costs for purchasing your first property? — Less than £10k — £11k - £20k — £21k - £30k — £31k - £40k — £41k+
Q19	Did you receive assistance from a family member or benefactor to reach the minimum deposit required? — Yes (gift) — Yes (repay) — Yes (additional security) — No financial support
Q20	If you obtained financial support how much did you obtain?
Q21	How long did you expect it to take to save the amount required to pay the transaction costs? — No waiting time (already had sufficient funds) — Less than 3 years — 3 - 5 years — 5 + years
Q22	Have you tried and failed to purchase a property in the past?
Q23	If yes, what was the reason the purchase was not successful? If no, please put "N/a" in the answer box
Q24	Did you consider the Guernsey Housing Association scheme?
Q25	If yes, why did you not use the Guernsey Housing Association scheme?
Q26	What size is your current property? — 1 bed — 2 bed — 3 bed — 4 bed — 5 bed and over
Q27	How long do you expect to live in your first property?
Q28	How many properties did you view before buying?

FTBs questionnaire results

Survey questions for successful homeowners

No.	Question
Q29	<p>If you have a mortgage what proportion of your household net income goes to paying it?</p> <ul style="list-style-type: none"> — Less than 10% — 11% to 15% — 16% to 20% — 21% to 25% — 26% to 30% — 31% to 35% — 36% to 40% — 41% to 45% — 46% to 50% — 51% and over — Not applicable
Q30	<p>A number of schemes have been introduced by governments in other jurisdictions to help first time buyers get onto the housing ladder. Below are descriptions of three such policies. Please indicate which, if any, you would consider / would have considered participating in when purchasing your first home (you can choose more than one answer).</p> <ul style="list-style-type: none"> — Help to buy — Starter-home initiative — Shared ownership scheme
Q31	<p>Please comment on whether you feel that there is enough suitable advice to first time buyers?</p>
Q32	<p>Please comment on whether you received good advice during the process of purchasing your first property?</p>
Q33	<p>What barriers did you have to overcome to acquire your first property?</p>

FTB Document duty relief

Encourage FTB housing

We have analysed the increase in volume of transactions required for SoG to be compensated by providing FTB Document duty relief.

The table below shows that eliminating the Document duty for FTBs in 2014 and 2015 would require transactions for the rest of the market to increase by 9% to compensate SoG for the associated cost. This is reduced to only a 4% increase if the Document duty were to be halved instead of eliminated for FTBs.

Assumptions

The table below assumes FTBs acquire on average a £385,000 house (Document duty of £9,400), whilst assuming 25% of all market transactions relate to FTBs.

We were then able to calculate the average Document duty of the market excluding FTBs. This allowed us to assess the required market movement to compensate SoG for the elimination or reduction of Document duty for FTBs.

	2014	2015	2015 1/2 Duty
Total Market Transactions (A)	594	539	539
Total market Document duty (B)	13,099,000	12,260,000	12,260,000
Average Document duty excluding FTBs (lower quartile) (F = (B-E)/(A-C))	26,270	27,194	28,761
Lower quartile = 25% total market transactions (C = A*25%)	149	135	135
Average FTB Document duty (D)	9,400	9,400	4,700
Total FTB Document duty (loss) (E = C*D)	1,395,900	1,266,650	633,325
Transaction increase required (G = E/F)	53	47	22
Percentage increase in transactions required (H = (G/A)*100)	9%	9%	4%

Source: SoG Document duty figures & KPMG Analysis

Provision of elderly tenures

Potential housing released as a result of developing over 55s dedicated housing

We analysed the potential impact on the existing housing stock of developing additional over 55s dedicated housing. For the purposes of this analysis, we have assumed that the development units are taken up by over 55s currently residing in underoccupied households.

Households with an average age of over 55 (from the 2014 census data) were filtered to include only those where the number of bedrooms in the household exceeded the number of occupants by at least two. For example, a couple living in a 3 bed house would be excluded, but a couple living in a property with at least four bedrooms would be included.

The proportion of the remaining underoccupied homes by size is shown below:

Bedrooms →	3	4	5	6
% of underoccupied households	45%	41%	11%	2%

Based on these percentages we then simulated the effect of 20 underoccupied households moving from their larger properties into smaller units in an over 55s dedicated housing development. The resulting release in the existing housing stock is shown below:

Release of wider housing stock through an over 55s dedicated housing development

Bedrooms →	3	4	5	6	Total
20 unit development					
Units released	9	8	3	0	20
Bedrooms released	27	32	15	0	74
40 unit development					
Units released	18	16	5	1	40
Bedrooms released	54	64	25	6	149

Source: Census data, KPMG analysis

Estimating the tax take on purchase vs buy-to-let

Estimating tax take

We have analysed the likely differences in tax take for SoG between an owner occupied purchaser and a buy to let investor under two scenarios. We estimate that there is an increased annual tax take available for government from a buy to let investor as opposed to an owner occupied household of approximately £2,600 for a £300k property and £4,500 for a £500k property. The detailed calculations are outlined below.

Scenario A

The cost of the property is £300k and the mortgage provided is at 90% (i.e. £270k). The net rental income is £1,275 per month and we have assumed that the property is let furnished and, therefore, SRA is available at 15%.

Document duty will be payable in any case, calculated as follows:

Document duty	
£250,000 @ 2%	5,000
£50,000 @ 3.25%	1,625
Total	6,625

We have detailed below the annual income tax charge/credit as a result of holding the property for personal use/ buy to let:

Property for personal use	
Mortgage interest payable (£270k @ 3%)	8,100
Income tax relief (£8,100 @ 20%)	(1,620)
Annual income tax charge/(credit)	(1,620)

Buy to let	
Rental income (£1,275 p/month)	15,300
SRA @ 15%	(2,295)
Net rental	13,005
Tax liability on rental income (£13,005 @ 20%)	2,601
Income tax relief on mortgage interest (£8,100 @ 20%)	(1,620)
Annual income tax charge/(credit)	981

Estimating the tax take on purchase vs buy-to-let

Scenario B

The cost of the property is £500k and the mortgage provided is at 90% (i.e. £450k) for properties held personally and 60% (i.e. £300k) for buy to let properties. The net rental income is £1,775 per month. We have assumed that the property is let furnished and, therefore, SRA is available at 15%.

Document duty will be payable in any case, calculated as follows:

Document duty	
£250,000 @ 2%	5,000
£150,000 @ 3.25%	4,875
£100,000 @ 3.5%	3,500
Total	13,375

We have detailed below the annual income tax charge/ credit as a result of holding the property for personal use/ buy to let:

Property for personal use	
Mortgage interest payable (£450k @ 3%)	13,500
Income tax relief (£13,500 @ 20%)	(2,700)
Annual income tax charge/(credit)	(2,700)

Buy to let	
Rental income (£1,775 p/month)	21,300
SRA @ 15%	(3,195)
Net rental	18,105
Tax liability on rental income (£18,105 @ 20%)	3,621
Income tax relief on mortgage interest (300k @ 3%)*20%	(1,800)
Annual income tax charge/(credit)	1,821



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